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The Impact of CSR on Company Financial Performance Using Company Size as a Moderator

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Abstract

State governance with sustainable development goals cannot be separated from the SDGs. SDGs are goals, targets and indicators that have been agreed upon by countries associated with the United Nation to determine a country's political agenda and policies. This will have an impact on every activity in the country, including the economic sector. The running of a country's economy is closely related to the banking industry which manages the flow of funds from the public, so its role in everyday life is very important. As a form of commitment to implementing sustainable economic development, from now on every bank must implement CSR to improving the quality of life and a beneficial environment. The wider CSR activities carried out by banks will indirectly have an impact on the company's customers image so that it can encourage improvements in the banking financial performance. Improving financial performance also influences the preparation of good corporate governance or is known as a moderating factor. This research aims to analyze the influence of CSR on company performance with the moderating role of firm size. Data analysis will use multiple linear regression. This research will use data obtained from the banking industry in Indonesia in the 2018-2022 time period.

Keywords

Corporate Governance, CSR, Financial Performance, SDGs

1. Introduction

The UN's Sustainable Development Goals (SDGs) are a roadmap for countries to build a better future. These 17 goals require all countries to create laws and policies that promote sustainability. This will affect all businesses, especially in economic and financial sectors. Companies need to integrate SDGs into their operations to ensure long-term success. Reporting on their efforts in social, environmental, and economic areas is crucial for them to function (Ikpor et al., 2022)

Banks play a key role in achieving SDGs. Their goals for sustainability align with the SDGs, focusing on both corporate sustainability and funding sustainable investments. While maximizing profits is a core banking function, promoting social and environmental well-being alongside economic growth is crucial for sustainable development. The sustainability goals contained in the SDGs are in line with the goals of banking, by achieving corporate sustainability to providing funds for various investments (Avrampou, 2019). In its business activities, the banking sector takes and provides money with the principle of maximizing profits. Therefore, the banking sector is an important sector in economic growth which includes social and environmental aspects which contribute to sustainable development goals (Iqbal & Nosheen, 2023). Banks that implement sustainable practices can increase their profitability because company sustainability is very important for the company's success in surviving amidst a lot of competition (Tawfik et al., 2021). This can be interpreted that implementing sustainable practices can affect the company's financial performance.

The aspect of sustainability in a company is known as Corporate Social Responsibility (CSR). A study conducted by Saleh (2011) concluded that CSR implementation has a significant and positive effect on a company's financial performance. The better CSR is carried out, the better the company's financial performance. CSR functions as a bridge between local and international regulatory frameworks to mitigate potential risks and as a proactive action, not only for the interests of stakeholders but also for stakeholders in business practices (Widagdo et al., 2021). However, in this research a gap was found. The research by Kusumawati et al. (2022) found that CSR did not have a significant effect on the financial performance of manufacturing companies in Indonesia. This research aims to re-examine the relationship between CSR and financial performance. It focuses on the banking sector in Indonesia and considers corporate governance as a factor influencing this connection. The study uses case studies of companies listed on the Indonesia Stock Exchange between 2018 and 2022. The text highlights additional considerations.

2. Literature Review

Environmental, Social, and Governance (ESG) consists of 3 factors used by companies in measuring CSR performance. CSR covers environmental sustainability and governance within a company, not just the company's participation in the social environment (Stuart et al., 2021). As awareness of environmental sustainability management increases, the existence of CSR becomes increasingly urgent in companies (Cho et al., 2019). In recent years, CSR has become an activity that must be carried out by a company so that CSR is considered an important business strategy. High CSR also influences the investments made by investors, so that CSR will have an impact on the company's financial performance. This is a concern for managers and practitioners (Hunjra, 2018).

The concept of sustainable development refers to the protection and preservation of society and the environment for future generations while maximizing market capitalization objectives. Although awareness of corporate sustainable development

is increasing, there are still questions about how to measure corporate performance through sustainable development, especially for financial performance. Although there are many indicators for measuring financial performance, the most commonly used indicators in research studies can be divided into two main categories: (a) short-term indicators related to book-to-market ratios and profitability factors, and (b) long-term indicators which is related to the market value factor is also called the asset growth factor.

CSR is receiving increasing attention, especially in developing countries. Experts have demonstrated the impact of CSR disclosure on company performance worldwide, including marketing and sales aspects that indirectly contribute to financial performance. A comprehensive analysis of 450 small and medium enterprises (SMEs) in Pakistan conducted by Waheed & Yang (2019) found that the impact of external CSR deployment on marketing and sales performance was much greater than internal CSR deployment. Brogi & Lagasio (2019) based on MSCI ESG KLD STATS data from 2000 to 2016, measured by environmental, social, and governance (ESG) coverage and ROA, for a large sample of US listed companies. Significant differences emerge between industrial companies and financial intermediaries.

Hou (2019) investigated the relationship between CSR and FP in Taiwan. The study found that socially responsible companies can achieve better financial results compared to companies without CSR initiatives. The research results show that in non-electronic industries, board ownership has a significant positive impact on the relationship between CSR and FP, whereas in the case of family businesses, board ownership has a negative impact on this relationship. Hussain et al. (2018) considered various practical and substantive manifestations with CFP. The authors analyzed demand reports from the 100 best-performing companies in the United States and found fragmented results, with weak relationships and somewhat contradictory relationships between the various dimensions and subdimensions of measured desire performance.

Stakeholders may view CSR as a way to manage profits, while smaller companies might struggle to implement CSR due to limited resources. Company size may also play a role, with larger companies disclosing more CSR information and potentially experiencing a stronger link between CSR and financial performance. Preuss (2010) in Sánchez-Infante Hernández et al. (2020) stated that micro and small businesses usually allocate few resources to implement CSR due to a lack of systematization in CSR practices. Then Wang et al. (2018) found that company size moderates the effect of sustainable supply chain management on economic performance. Therefore, larger companies disclose more CSR information to the public, to legitimize their existence (Ghazali, (2007). This is proven in research conducted by Sánchez-Infante Hernández et al. (2020) which resulted in the conclusion that the influence of CSR on economic performance in MSMEs in Spain is moderated by company size, where the larger the company size, the stronger the relationship between CSR and economic performance.

H1: How does CSR influence financial performance?

H2: How do Firm Size moderating variables influence CSR and financial performance?

3. Methods

This study is a quantitative study based on published data collected from the annual reports of the sample companies listed below. It tests hypotheses regarding the relationship between CSR, Firm Size, and FP. The population of this study is financial sector of banking listed on Indonesia Stock Exchange during 2018-2022. The purpose of this research is to test and identify variable X, namely CSR; variable Y, financial performance; and variable Z, namely Firm Size. To test the moderating

influence of firm size on the relationship between CSR and FP, we use moderated regression analysis.

This study uses purposive sampling, criteria that companies must meet to be sampled in this study, specifically (1) companies in the banking industry listed on IDX in 2018-2022, (2) companies publish annual reports, (3) companies carry out comprehensive CSR in the period 2018-2022 and (4) companies are still profitable, which can be seen in the positive value of ROA. The final sample includes 12 firms with a total of 60 observations. Companies not included in the sample are those that do not publish CSR scores in their annual reports. Data were collected from the Bloomberg Database.

In this research, financial performance is used as an independent variable. Referring to (Chakroun et al., 2020) financial performance is measured by ROA, ROE, and Tobins' Q. In terms of future market value, the Maris and Tobin Q ratios are becoming increasingly popular as excellent tools for assessing long-term PF. The former is the sum of the market value of equity and the book value of equity, while the latter is calculated as the market value of equity plus the book value of debt over the book value of total debt assets. The Mullis and Tobin Q ratios can provide insight into future CFP because they reflect the market's assessment of potential returns as reflected in the stock price.

Corporate Social Responsibility (CSR) is an independent variable in this research. This CSR variable is calculated from the equally weighted average of each company's environmental and social scores each year. Moderation effects by definition, occur when the strength of the relationship between the dependent and independent variables is influenced by other independent variables (Hair et al., 1999). Firm size as a variable that moderates the relationship between the influence of CSR on FP. Firm size is measured by the natural logarithm of total assets. Size was chosen as a moderating variable because, based on the literature, this factor may have a greater influence on business outcomes.

To control other influences, this research uses control variables such as CG, ROA, and LEV. Corporate governance (CG) refers to the way rules, practices and processes are used to manage a company and plays an important role in corporate governance. Good corporate governance effectively aligns the interests of managers with shareholders and reduces agency costs (Lu & Khan, 2023). In previous financial crises, FPs were also impacted by corporate governance (Ferrero-Ferrero et al., 2012). Good corporate governance led to an increase in FP before and during the 2008 financial crisis (Kowalewski, 2016). Therefore, this study use score of corporate governance as a benchmark for corporate governance. ROA is useful metrics that can reflect the level of profitability the company achieved in the previous accounting period. ROA is measured as pretax income divided by a total asset, Leverage (LEV) is measured by total debt divided by total equity and is included as a control variable because companies have a debt-to-equity ratio. higher is more efficient in reducing company taxes, ROA is measured from EBT divided by total assets.

4. Result and Discussion

In this research, the variables X, Y and Z are, financial performance (Y), CSR (X), and firm size (Z). This study aims to examine the influence of CSR on corporate FP and the moderating role of firm size in this relationship.

$$FP = \beta_0 + \beta_1 CSR_{it} + \beta_2 ROA_{it} + \beta_3 LEV_{it} + \varepsilon_{it} \quad \text{Model 1}$$

Then to test the moderating role of firm size on CSR and FP, namely with the following equation:

$$FP = \beta_0 + \beta_1 CSR_{it} + \beta_2 Size_{it} + \beta_3 CSR * Size_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \epsilon_{it} \quad \text{Model 2}$$

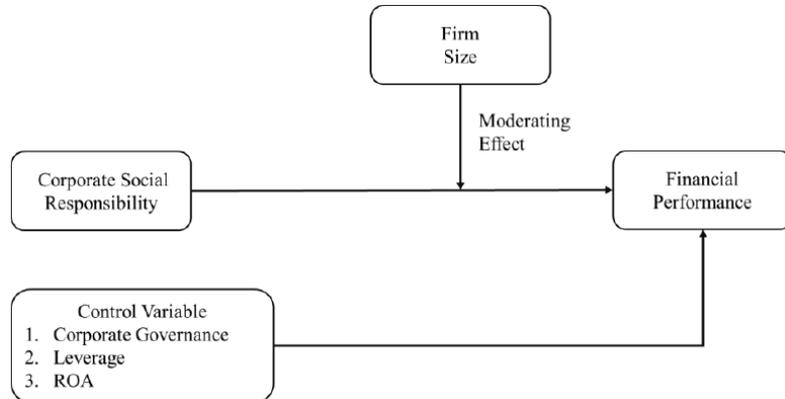


Figure 1. Research Framework

Data analysis was carried out using a multivariate regression analysis method using the CG variable as a moderating variable between the relationship between CSR and FP. The software used in data analysis is IBM SPSS Statistics version 26.

Table 1. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
FP	.89	2.28	2.28	.24627
CSR	8.69	43.10	43.10	9.70748
SIZE	3.63	7.60	7.60	.99730
CG	60.18	90.85	90.85	8.94168
ROA	.07	3.28	3.28	.86516
LEV	4.66	250.45	250.45	54.27402

Sample of financial sector companies listed on the IDX in 2018 - 2022. Displays mean, min, max and standard deviation. CSR shows mean of 26,2817 with a standard deviation 9,707, with a minimum value of 8.69 and a maximum value of 43.10. then the mean of FP is 1,1168 with a standard deviation 0,24627 with minimum and maximum values are 0,89 and 2,28. Firm size shows mean value of 5.8605 and a standard deviation 0,997. CG with means 79,5450, ROA means 1,5597 and means of leverage is 67.1833.

Table 2. Multicollinearity Test

Variables	Tolerance	VIF
CSR	.364	2.750
CG	.298	3.361
ROA	.571	1.752
LEV	.705	1.418
SIZE	.385	2.596

Based on Table 2, a VIF value from each variable is less than 10 so that according to Gujarati (2003) this value is acceptable. Therefore, tolerance values between our variables are all lower than 1. It can be ensured that there is no multicollinearity between model variables in this study. We can conclude that the correlation between explanatory variables introduced at different levels of the empirical model can be considered acceptable.

Table 3. Goodness of Fit Test

R Square	F	Sig.
.407	9.454	0.000
.510	9.204	0.000

R Square or coefficient of determination is one measure used to test the quality of a regression line equation by providing an overview of the suitability of the independent variable in predicting the dependent variable (Gujarati, 2003). Based on Table 3, model 2 has a larger R Square value than model 1 so it can be interpreted that the independent variable in model 2 can predict the dependent variable by 51%. In the F test, the F value obtained in model 2 is 9.204 with a significance value of 0.000, so that at the significance level $\alpha=5\%$ the independent, moderation and control variables simultaneously influence the dependent variable, financial performance.

Table 4. Hypothesis Testing

Variables	Model 1			Model 2		
	Coeff	t	Sig	Coeff	t	Sig
CSR	.095	1.267	.211	-1.097	-2.403	.020
CG	-.545	-2.019	.048	-.662	-2.435	.018
ROA	.084	3.035	.004	.054	1.740	.088
LEV	-.090	-3.792	.000	-.084	-3.503	.001
SIZE				-1.752	-2.047	.046
CSR*SIZE				.667	2.524	.015

CSR has no effect on financial performance as indicated by a significance value of 0.211 which is greater than $\alpha 5\%$ with a coefficient of 0.095. It is showing that CSR has no effect on improving the company's financial performance. On the CG variable shows that CG has a significant negative effect with a significance value of 0.048 ($\alpha 5\%$) which means that an increase in the score on CG does not indicate an increase in FP. Then for ROA and Leverage as control variables there is a significant positive effect on ROA with a significance value of 0.004 ($\alpha 5\%$), then Leverage has a negative significant effect with a significance value of 0.000 ($\alpha 5\%$). There are shows that the control variable has an influence on the dependent variable. Moderating effect of firm size based on hypothesis 2 that firm size is possible to moderate the relationship between CSR and FP. Moderation variable as CSR*Size are positive and significant with 0.015 significant at $\alpha 5\%$. Therefore, H2 is supported.

5. Conclusion

CSR is important for companies to gain legitimacy. For multinational companies, the interaction of various factors complicates the relationship between CSR and FP, and CSR plays an important role in determining FP. Firm size can influence the CSR performance of companies. For example, if the level of CSR is low, then FP will increase as the level of CSR increases, but if the level of CSR is high, FP may decrease. In addition, CSR has no effect on financial performance and firm size has a significant moderating effect on the relationship between CSR and FP. Therefore, companies with high firm size have the potential to gain large profits. Referring to the complexity of this relationship, companies must consider their specific competencies in implementing CSR. These factors can influence each company's CSR performance towards FP. This study shows that companies with higher firm size need to focus more on CSR impacts and take advantage of available benefits. Shareholder management is considered an important factor in project management,

and stakeholder theory emphasizes the importance of implementing CSR to meet stakeholder requirements regarding broader corporate social actions. Involvement in CSR activities allow multinational companies to strengthen their relationships with stakeholders. Therefore, company managers must pay attention to CSR efforts that focus on stakeholders and ensure a balance between internal and external stakeholders.

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