Literature Review: The Effect of Corporate Social Responsibility (CSR) Reporting on Company Financial Performance

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ABSTRACT

This research aims to provide additional knowledge regarding whether Corporate Social Responsibility (CSR) reporting influences a company's financial performance. This research uses qualitative research with data collection methods through literature study. Triple Bottom Line Theory and Financial Performance are used in analyzing this article. The findings show that Corporate Social Responsibility influences the company's financial performance by looking at the profitability ratio.

Keywords: Corporate Social Responsibility; Financial performance

INTRODUCTION

Corporate Social Responsibility(CSR) is one of the important details that is now a priority in reporting, especially by companies that have a direct relationship with the environment. CSR is a form of responsible action for the environment around which the company is built, both in terms of social, economic and environmental aspects around the company by carrying out programs and activities to improve the welfare of the community around which the company is founded.(Kurnia et al., nd). In its development, CSR reporting has emerged due to the community's sensitivity to the surrounding environment which has utilized that environment. The history of CSR starts from the 18th century. A textile entrepreneur in England, named Robert Owen, introduced the concept of corporate social responsibility which was inspired by the principles of humanism and social justice(Salsabila, 2023). In Indonesia, CSR reporting has also been regulated in statutory regulations that have been in effect since 2007. Law Number 40 of 2007 concerning Limited Liability Companies which was passed by the DPR on 20 July 2007 marks a new chapter in CSR regulation in this country.(Arifudin, 2008).

Financial performance is one of the elements in a company which is a benchmark for whether a company has carried out its performance in accordance with applicable regulations properly or not.Company performance is a description of the financial condition of a company which is analyzed using financial analysis tools, so that it can be known about the good and bad financial condition of a company which reflects work performance in a certain period.(Anggraeni et al., 2020). Every company must have a goal of obtaining and increasing profits. Therefore, financial performance is important in providing an overview to stakeholders. When a company's profits decrease, it can be analyzed what factors influence this by looking at the results of analyzing the company's financial performance. As forFluctuations in financial performance can be caused by predictable factors such as falling sales and slowing credit growth or unpredictable factors such as the emergence of a pandemic due to Covid-19(Putri & Rosdiana, 2021).

In practice, financial performance is not only seen from the company's assets but in more detail, namely from its financial reports. The most important factor in being able to see the performance of a company lies in its financial elements, because from these elements you can also evaluate whether the policies adopted by a company are appropriate or not, considering that the problems are so complex that they can cause bankruptcy because many companies end up going out of business due to financial factors. which is unhealthy(Anggraeni et al., 2020).

There are several interesting things that are of concern in this discussion about CSR, namely whether CSR can have a positive impact on a company or can it even become a burden for a company. Therefore, this research will discuss the influence of CSR on companies in the context of the company's financial performance and look at the context of financial performance through profitability ratios.

LITERATURE

Triple Bottom Line Theory

The Triple Bottom Line was first popularized by Elkington in 1997, he explained this theory as follows:

"Triple bottom line is reporting that provides information about the economic, environmental and social performance of an entity"(Deegan, 2014).

*Triple Bottom Line*is the concept of measuring the performance of a business by taking into account economic performance measures in the form of profit (Profit), measures of social concern (People), and environmental preservation (Planet)(Kahfi et al., nd).This theory leads to public sensitivity to environmental damage caused by company activities. This Triple Bottom Line is related to Corporate Social Responsibility (CSR) because it is a form of corporate sustainability in reporting its social responsibilities. According to(Ratna & Hasanah, 2019), There are someThe theory underlying Social and Environmental Responsibility is used to explain the trend in disclosure of Corporate Social Responsibility, namely:

1. Stakeholder Theory.
2. Legitimacy Theory.
3. Social Contract Theory (Social Contract Theory)
4. Triple Bottom Line Theory

In Indonesia itself, many companies have implemented the Triple Bottom Line. There are several examples of the application of this theory, namely as follows:

1. People: Many companies in Indonesia employ people from around the company.PT Pertamina Niaga Fuel Terminal Palopo pays attention to social responsibility and the surrounding environment affected by the company's activities. The community population in Karangan village is ±90% working for PT Pertamina(Kahfi et al., nd).
2. Planet: Many companies are innovating their products by modifying their packaging materials with more environmentally friendly materials. The Coca Cola Company

hasinnovate in packaging materials, such as vegetable raw materials that replace petrochemical raw materials(Pandin et al., 2023).

Financial performance

Financial performance is a paradigm that reflects the achievements made by a company to see how efficient and effective it is in obtaining profits and operating a business in a certain period.(Putri & Rosdiana, 2021). There are several ways to view the financial performance of a company, one of which is by analyzing the company's financial reports. The company's financial performance can be measured using financial ratios, namely liquidity ratios, solvency ratios, activity ratios and profitability ratios(Anggraeni et al., 2020).

In this research, the focus will be to look at the company's financial performance with profitability ratios. According to(Arsita, 2021). The formula for the profitability ratio is as follows:

- Profitability Ratio
  a. *Net Profit Margin*
  $$NPM = \frac{\text{Laba Setelah Bunga dan Pajak}}{\text{Penjualan}} \text{X } 100\%$$

  b. *Gross Profit Margin*
  $$GPM = \frac{\text{Laba Kotor}}{\text{Penjualan}} \text{X } 100\%$$

  c. *Return On Investment*
  $$ROI = \frac{\text{Laba Setelah Bunga dan Pajak}}{\text{Total Aktiva}} \text{X } 100\%$$

  d. *Return On Equity*
  $$ROE = \frac{\text{Laba Setelah Bunga dan Pajak}}{\text{Ekuitas}} \text{X } 100\%$$

  e. *Earnings per Share*
  $$EPS = \frac{\text{Laba Saham Biasa}}{\text{Saham Biasa yang Beredar}} \text{X } 100\%$$

METHOD

This article uses qualitative methods and uses literature study as the research design. In this study, we will review the results of 10 articles to be analyzed as a formula for determining how CSR reporting influences a company's financial performance. In addition, the descriptive data processing analysis applied in this study was used to achieve integrated and methodical research and discussion results.

FINDINGS AND DISCUSSION

This research examines 10 journal articles to gain an in-depth understanding of the influence of CSR reporting on company financial performance.

Table1Literature Review Journal

No	Researcher Name	Method	Results
1	(Noor & Srimindarti, 2022)	Quantitative, Purposive Sampling	The results of this research found that CSR implementation had no effect on the company's financial performance
2	(Faisal & Syafruddin, 2020)	Quantative, Purposive Sampling	The results of this research show that CSR has a positive effect on financial performance
3	(Zalukhu & Afrilianto Manalu, 2020)	Quantitative, Purposive Sampling	The results of this research indicate that Corporate Social Responsibility (CSR) does not have a significant effect on financial performance.
4	(Akbar & Dewayanto, 2022)	Quantitative, Purposive Sampling	The results of this research show that CSR has a positive effect on financial performance.
5	(Butar et al., 2024)	Quantitative, Purposive Sampling	The results of this research show that CSR has a positive effect on financial performance.
6	(Putri & Rosdiana, 2021)	Quantitative, Simple Regression Analysis	The results of this research indicate that disclosure of Corporate Social Responsibility has no effect on the Company's financial performance during the Covid-19 Pandemic
7	(Luh & Werastuti, 2020)	Quantitative, Purposive Sampling	The results of this research show that social performance

			and CSR influence financial performance
8	(Nugraha, 2014)	Quantitative, Purposive Sampling	Based on the results of the analysis carried out, the results obtained show that corporate social responsibility has a positive effect on ROE but has no effect on ROE.
9	(Sa'adah & Sudiarto, 2022)	Quantitative, Purposive Sampling	The results of the analysis show that CSR has a significant positive effect on the company's financial performance.
10	(Kamodi et al., 2022)	Quantitative	The research results found that the Corporate Social Responsibility (CSR) variable had a positive effect on Return on Assets (ROA) and Return on Equity (ROE)

Source: Processed by Researchers, 2024

From the analysis of the articles above, several things can be discussed:

1. Corporate Social Responsibility reporting influences financial performance

   There are 7 articles above which suggest that CSR reporting influences a company's financial performance. one of them complied(Butar et al., 2024)Corporate Social Responsibility has a positive and significant effect on Return On Assets. This means that the higher the Corporate Social Responsibility, the Return On Assets will increase. Corporate Social Responsibility has a positive and significant effect on Return On Equity. This means that the higher the Corporate Social Responsibility, the higher the Return On Equity. Corporate Social Responsibility has a positive and significant effect on Earning Per Share. This means that the higher the Corporate Social Responsibility (CSR), the higher the Earning Per Share (EPS).

2. Corporate Social Responsibility reporting has no effect on financial performance.

   There are 3 articles which argue that CSR reporting has no effect on a company's financial performance. One of them complied(Noor & Srimindarti, 2022)CSR has no influence on the company's financial performance. This is because CSR activities carried out by companies cannot have a direct impact on the profits that the company will earn. CSR can be seen as an obligation as a publicly traded company operating in the Indonesian government area.

CONCLUSION

So from the presentation of the results above it can be concluded that Corporate Social Responsibility influences financial performance in terms of profitability ratios, because a company will get a positive image from the surrounding community if it has provided social responsibility, thereby causing an increase in sales which in turn will increase the company's profits. But this conclusion cannot be generalized to various circumstances. There are several circumstances that show that Corporate Social Responsibility has no effect on financial performance, namely the Covid-19 situation which has a different impact on each company.

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