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Analysis Global of The Effect of Corporate Social Responsibility on Financial Performance

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Abstract: This study investigates the effect of CSR on corporate financial performance globally. Data is drawn from various countries to provide a broader picture. Meta analysis was used to collect data from various online sources mainly from Google Scholar. The research results from seven indexed international journals showed mixed findings. Some journals show a positive relationship between CSR and financial performance, while others highlight a negative impact, especially in the short term. Factors such as firm size, industry, and geographical location moderate the relationship. The discussion outlines the importance of CSR in a global context, relevant theories, and challenges in this research. In conclusion, firms are advised to integrate CSR in their various business strategies to improve financial performance, although it requires further research to confirm the causal relationship.

Keywords: Corporate Social Responsibility, Financial Performance, Return on Assets, Return on Equity, Business Strategy, Social and Environmental Impact.

Introduction

Companies not only need investors to grow their business, but they also need good relationships with various groups. Implementing corporate social responsibility, or CSR, is one approach that can be used. In the global business world, corporate social responsibility, or CSR, has been on the rise in recent years (Gillan, 2021; Zhou, 2022). CSR is the idea that companies are responsible for the social and environmental impacts caused by their activities, such as pollution, waste, and safety issues. CSR can also be defined as a concept in which companies focus not only on financial returns, but also consider the social and environmental impacts of their business activities (Huang, 2021; Khan, 2021).

With the implementation of CSR in companies, they can improve business performance because investors prefer to invest in businesses that carry out CSR activities. So that organizations that implement CSR activities can be superior to other companies (Demers, 2021; Nirino, 2021).

However, with increasing public awareness about social and environmental issues, many companies in the world are facing increasing pressure from stakeholders to adopt Corporate Social Responsibility (CSR) practices (Ali, 2020; Arayssi, 2020; Broadstock, 2020).

Stakeholders such as investors, consumers, governments and non-governmental organizations, are trying to demand transparency and corporate responsibility. Therefore, companies must balance their business interests with social demands to remain competitive and sustainable (Okafor, 2021; Úbeda-García, 2021).

The implementation of Corporate Social Responsibility (CSR) in companies is believed to affect the company's financial performance (Barauskaite, 2021; Vishwanathan, 2020). In terms of finance, the policies and actions of a business reflect its performance. This is shown in return on investment, assets, net profit margin, equity and more (Alareeni, 2020; Boubaker, 2020). Some researchers argue that CSR can increase public trust, attract investors and increase customer loyalty, which in turn can improve financial performance (Bartolacci, 2020; Javed, 2020). However, on the other hand, some researchers also argue that the implementation of Corporate Social Responsibility (CSR) can incur additional costs for companies that reduce short-term profits (Awaysheh, 2020; Chege, 2020).

This study aims to conduct a global analysis of the effects of CSR on corporate financial performance by taking data from various countries. It is expected to make a significant contribution to the research on CSR and financial performance, and help companies around the world to make more informed decisions in implementing CSR (Corporate Social Responsibility) practices. Through this global analysis, it is expected to find practical implications that can be applied by companies in various countries to improve their financial performance through effective and sustainable CSR (Corporate Social Responsibility) implementation.

Research Method

The method we use in writing this literature review article uses a descriptive qualitative method that involves a literature review or can be called library research. The data sources we use come from a variety of online sources, the main data source we use is Google Scholar which we use to find several international journal sources that have been indexed by corpenicus, scopus, ebsco, doaj, elsevier, and so on. In addition, we also use platforms such as Mendeley and other online applications to find research journal sources.

Of the twenty indexed international journals that we found, we only took seven titles of indexed international journals that we would use as research sources. In this process, we ensured that the sources we selected met the criteria and standards relevant to our research topic and were of reliable quality.

Result and Discussion

From the various studies reviewed in various countries, it can be concluded that the impact of CSR on corporate financial performance is different. Some studies show that CSR has a positive impact on corporate financial performance, such as increased value-added capital (VAM), net profitability (PM), and better corporate reputation. Effective CSR implementation often helps companies enhance a positive image in the eyes of punliks and investors, which in turn can strengthen the company's market position and competitiveness. Companies can build better relationships with communities and other stakeholders, which can support operational stability and business sustainability.

CSR can also help in more efficient asset management and provide tax benefits. Companies that are active in CSR activities often receive tax incentives from the government, which can reduce their tax burden and increase net income. In addition, companies that engage in CSR tend to be more efficient in their use of resources as they adopt sustainable practices that can reduce operational costs. For example, waste management programs or the use of renewable energy can reduce company expenses in the long run.

However, other studies have found that CSR can place a financial burden on companies, causing a negative relationship with financial indicators such as ROS and ROE. In some cases, the costs incurred for CSR programs can be so large that they reduce profit margins. These costs include donations, investments in green technology, and other social initiatives that require significant resources. Therefore, companies that cannot manage CSR costs well may experience a decline in financial performance.

There are also studies that have found that the presence of CSR in a company has no significant effect or has a neutral impact on some aspects of financial performance, such as profit margins and Return On Assets (ROA). This suggests that the benefits of CSR are not always directly measurable in the short term. The impact of CSR may be more visible in the long term through increased customer loyalty, employee satisfaction, and better relationships with stakeholders. In addition, the effectiveness of CSR depends largely on how the program is designed and implemented according to the company and industry context.

The relationship between CSR and a company's financial performance is highly contextual, influenced by internal factors such as company strategy, company resources, and the specific needs of stakeholders or shareholders. The impact of Corporate Social Responsibility (CSR) also varies greatly based on the type of company and the company's operating environment, where the application of Corporate Social Responsibility (CSR) in one sector is not effective in another sector. In addition, CSR impacts on communities, the environment, employees and customers vary. For example, a company's CSR implementation may have a beneficial and significant impact on the community or organization, but a negative impact on the environment.

The managerial implications of these findings suggest that although many decisions to implement Corporate Social Responsibility are based on corporate values and beliefs, there are strong economic reasons to invest in Corporate Social Responsibility (CSR), especially through investments that can increase long-term profitability. The successful implementation of Corporate Social Responsibility relies heavily on good management and a deep understanding of the needs of stakeholders or shareholders. Therefore, companies must carefully own their Corporate Social Responsibility (CSR) programs and ensure that they are in line with business objectives and stakeholder needs.

Effective communication about social and corporate objectives is essential to build trust and enhance reputation. Although the benefits of Corporate Social Responsibility (CSR) are not immediately apparent, investments in CSR can provide long-term benefits through enhanced reputation and better relationships with stakeholders. So, overall, although the impact of CSR on financial performance is not always positive or immediately visible, CSR is still an important strategy for the long term so that it also provides long-term benefits for the company.

Disccusion

CSR has become a major topic in modern business discussions. CSR refers to a company's efforts to conduct business ethically and help the economy grow while improving the quality of life of communities and employees. In recent decades, CSR has evolved from a voluntary concept to an essential element in the business strategies of major corporations around the world. Companies are not only viewed on the basis of their financial returns, but also on the basis of their social and environmental impact.

One of the main reasons why CSR is gaining attention is its potential to improve a company's financial performance. Various studies have shown that investing in CSR can improve a company's reputation, which in turn makes customers more loyal and attracts investors. For example, companies with strong CSR programs tend to have higher ROA and ROE. This shows that CSR is not only a marketing tool, but also a business strategy that can increase profitability.

However, the positive impact of CSR on financial performance is not always consistent. Some studies show that CSR can be a financial burden, especially in the short term. Johnson (2019) reported that companies in the manufacturing sector experienced a decline in profit margins due to the high cost of implementing CSR programs. This highlights that while CSR can provide long-term benefits, the initial investment required can reduce company profits in the short term.

Firm size also moderates the impact of CSR on financial performance. Large firms tend to benefit more from CSR compared to small firms as they have sufficient resources to manage and report on these initiatives. Large firms are also more likely to gain media and public attention, which can amplify the positive impact of their CSR initiatives. On the other hand, small companies may face challenges in allocating sufficient resources to CSR programs without compromising their core operations.

The type of industry also affects the impact of CSR. For example, technology and service companies may be more impacted by CSR than companies in the manufacturing or mining sectors. More consumer-focused industries are often more exposed to public opinion, so CSR initiatives can more directly affect their reputation and financial performance. In contrast, heavy industries that are more B2B-focused may not see the same impact as their customers pay less attention to CSR practices.

Geographic location is also an important factor in the relationship between CSR and financial performance. Companies operating in countries with strict environmental and social regulations tend to see greater benefits from CSR initiatives. In these countries, CSR can help companies reduce regulatory risk and attract customers who are more concerned about environmental issues. In contrast, in countries with looser regulations, the benefits of CSR may be less pronounced because the external pressure on companies to invest in CSR is not as strong.

Stakeholder theory provides a useful framework for understanding why and how CSR can improve financial performance. This theory states that companies that prioritize the interests of all stakeholders-customers, employees, suppliers, local communities, and the environment-will be more successful in the long run. By effectively managing relationships with various stakeholders, companies can create sustainable value and reduce risk.

However, agency theory highlights potential conflicts between managers and shareholders regarding the allocation of resources to CSR. According to this theory, managers may allocate resources to CSR initiatives that they believe will enhance their reputation and career, even though shareholders may be more focused on short-term gains. This conflict may reduce the effectiveness of CSR if not managed properly.

Company management should view CSR as a strategic investment capable of increasing the value of the company in the long term, not just as a cost. Companies that successfully integrate CSR into their business strategy often see improvements in customer loyalty, operational efficiency, and access to capital. Effective CSR implementation requires a planned and holistic approach, including stakeholder engagement and transparency in reporting.

In addition, companies should tailor their CSR programs to the needs and characteristics of their industry and market to maximize benefits. For example, technology companies may focus more on sustainable innovation and the environmental impact of their products, while companies in the food and beverage sector may focus more on sustainable agricultural practices and consumer health.

However, there are some shortcomings in this study. The analysis is based on existing literature, which may not cover all relevant aspects related to CSR and financial performance. Many of the studies used in this literature may have geographical or industry bias, which may affect the generalizability of the findings.

To address these limitations, additional empirical research with more extensive long-term data and more sophisticated analytical methods, such as panel data analysis, would be very useful. This approach would help explore the long-term dynamics of the relationship between CSR and financial performance and understand the factors that influence it.

Overall, while there is evidence to support that CSR can have a positive impact on firms' financial performance, this impact is not uniform and is highly dependent on contextual factors such as firm size, industry type, and geographic location. Therefore, companies are advised to continue developing and integrating CSR practices in their business strategies to achieve long-term sustainability and improve financial performance.

In a global context, it is important for companies to consider cultural differences, regulations and stakeholder expectations in various markets. Multinational companies should develop flexible and adaptive CSR strategies to address challenges and capitalize on opportunities in different locations. For example, in developing countries, companies may need to focus on social issues such as education and health, while in developed countries, the focus may be more on the environment and sustainability.

How CSR fits into a company's culture and how committed top management is is critical to its success. Companies that have strong leadership on CSR are often better able to implement effective and sustainable programs. In addition, engaging employees in CSR initiatives can increase employee motivation and loyalty, which in turn can improve productivity and financial performance.

Ultimately, CSR success is not only measured by improved financial performance, but also by positive social and environmental impacts. Companies that are successful in CSR typically also see improvements in relationships with local communities, reductions in environmental footprint, and improvements in employee well-being. As such, CSR can be a powerful tool for achieving sustainability and corporate responsibility in a broader sense.

The results of this study confirm that CSR can provide a competitive advantage for companies, but it requires a strategic and planned approach. Companies that ignore CSR may face reputational risks, loss of customers, and increased regulatory pressure. In contrast, companies that invest in CSR in a thoughtful way may see improvements in financial performance and sustainable reputation.

In addition to its direct influence on financial performance, CSR also plays an important role in building strong relationships with stakeholders. Through exhibiting a dedication to social responsibility, companies can increase trust and loyalty from customers, employees and business partners. This can result in broader positive effects, such as increasing the company's competitiveness in a global market that is increasingly aware of social and environmental issues. Thus, companies that strategically invest in CSR not only improve their image but also strengthen relationships with all parties concerned.

In addition, companies that adopt CSR often see improvements in innovation and operational efficiency. CSR programs that focus on sustainability, for example, can encourage companies to find new ways to reduce waste, save energy, and use resources more efficiently. Such innovations reduce operational costs and can open up new markets and increase the added value of products or services offered by the company.

It is also important to note that CSR can help companies manage risk better. In an increasingly complex and uncertain business world, companies that are proactive in addressing social and environmental issues are likely to be better prepared for regulatory changes and incorporating CSR into their business strategy can be an important mechanism for mitigating risk and ensuring long-term sustainability.

On the other hand, there are also challenges that companies face in implementing CSR. One of the main challenges is the high initial cost of developing and running a CSR program. Many companies, especially smaller ones, may find it difficult to allocate sufficient resources without compromising their core operations. Therefore, it is important for companies to design CSR programs that fit their financial capacity and ensure that investments in CSR are in line with long-term business goals.

While CSR has the potential to improve financial performance and provide a range of other benefits, its successful implementation is highly dependent on a variety of contextual factors. Companies need to understand and adapt their CSR practices based on their size, industry, geographic location, and the specific needs of their stakeholders. With a strategic and planned approach, CSR can be a powerful tool to achieve competitive advantage and long-term corporate sustainability. The results of this study emphasize the importance of integrating CSR into business strategy to create sustainable value for the company and society at large.

Conclusion

This study examines the relationship between CSR and global business performance. The results show that CSR can improve corporate reputation, customer loyalty and operational efficiency. However, these impacts vary depending on various factors, such as business size, industry type and geographic location.

Some studies suggest a positive relationship between CSR and financial performance, especially in the long run. Companies with effective CSR programs tend to have higher ROA and ROE. Additional benefits include increased customer loyalty and regulatory and social risks. Conversely, some researchers have found that CSR can be a financial burden in the short term, especially in low-profit sectors or small companies.

This study has some limitations, mainly related to geographical or industry bias in the reviewed literature. Therefore, more extensive longitudinal data and more sophisticated analytical methods are needed to confirm these findings and understand the long-term dynamics of the relationship between CSR and financial performance.

Overall, while there is evidence that CSR has a positive impact on firm financial performance, this impact is highly dependent on contextual factors. Companies are advised to continue developing and integrating CSR practices in their business strategies to achieve long-term sustainability and improve financial performance. The success of CSR is not only measured by improved financial performance, but also by positive social and environmental impacts, making it a powerful tool to achieve sustainability and corporate responsibility in a broader sense.

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