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Analyzing the Impact of Corporate Social Responsibility on Corporate Financial PerformanceBefore and During the COVID-19 Pandemic

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ABSTRACT: This article investigates the influence of Corporate Social Responsibility on Corporate Financial Performance in the context of economic crisis, particularly in the manufacturing sector in Indonesia. The aim of this article is to fill this knowledge gap by exploring CSR reporting practices of companies in Indonesia before and during COVID-19. Findings indicate that during the crisis, companies tend to increase their CSR disclosures to gain legitimacy and influence public perception. By comparing CSR practices before and during the COVID-19 pandemic, this study provides a deeper understanding of CSR reporting dynamics during economic crises and highlights the importance of context-specific approaches.

Keywords - Corporate Social Responsibility, Corporate Financial Performance, COVID-19

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1. INTRODUCTION

COVID-19 is a viral disease also understood as the coronavirus pandemic that has compelled the world to reconsider business strategies to address the challenges posed by COVID-19. In the context of the COVID-19 pandemic in Indonesia, Corporate Social Responsibility (CSR) practices can also impact the financial performance of manufacturing companies. Although initially there may be increased costs associated with implementing health protocols and providing assistance to affected communities, in the long term, engagement in CSR can contribute positively to the financial performance of companies.

Studies have shown that companies actively involved in CSR tend to have a better reputation in the eyes of consumers and investors. By engaging in CSR activities integrated with responses to the COVID-19 pandemic, companies can strengthen their image as entities concerned with the needs and welfare of society. This can enhance consumer trust in the company's brand, which in turn can lead to increased sales and marketshare.

Companies perceived as socially and environmentally responsible tend to be more valued by investorswith long-term focus, which can create added value for company stocks and improve the company's access to capital. Thus, although CSR practices may require significant initial investment, good engagement in CSR can yield positive long-term results, including in terms of financial performance.

Financial performance provides an overview of a company's financial condition and its ability to generate value for stakeholders. Investor perceptions in making investment decisions are often influenced by factors such as leverage, company size, and age. Leverage, which is the debt-to-equity ratio, is one important factor, as high levels of debt can increase risk for the company. Additionally, company size and age can also be considerations, as larger and more established companies may be perceived as more stable and have higher growth potential. Therefore, a good understanding of these factors can help investors make better investment decisions. (Guadano

& Pedroza, 2018).

Over the past decade, much research has been conducted on corporate social responsibility (CSR) andthe circular economy. However, the main research gap that needs to be filled is how CSR can play a key role in engaging stakeholders such as consumers in the COVID-19 era. Based on stakeholder theory, this research seeks to investigate the impact of CSR on CFP. Research on CSR during crises in Indonesia can provide a different perspective on how CSR is implemented and reported, especially during crises. This is the main motivation behind this research, with an effort to provide a more detailed overview compared to previous research.
One alternative used to measure financial performance is by using Tobin's Q developed by Professor Tobin (Guadano & Pedroza, 2018). This ratio is a valuable concept as it represents the current financial market'sestimate of the return on invested funds. Tobin's Q is also often used as an indicator to evaluate a company's value. This is because the ratio provides an indication of how efficiently the company uses its assets to generatevalue in the financial market. In addition to Tobin's Q, Return on Assets (ROA) is also a commonly used methodto evaluate a company's financial performance. ROA measures the company's ability to generate profit from itsassets, which is an important indicator in assessing the efficiency of the company's asset utilization. Thus, both Tobin's Q and ROA are important tools in analyzing financial performance and company value.

2. LITERATURE RIVIEW AND HYPOTHESES

Corporate financial performance is described as the ability of a company to achieve set goals, such as revenue growth, profitability, and value for shareholders. One common method used to measure corporate performance is Tobin's Q, developed by Professor Tobin (Guadano & Pedroza, 2018). Tobin's Q is a ratio that provides insight into how well the financial market values a company's investment and the potential return on invested capital. This ratio is significant because it indicates how efficiently a company utilizes resources and generates added value for shareholders.

2.1 : Differences Corporate Finacial Performance (CFP) before and during Covid-19

Before the pandemic, companies operated in a relatively stable economic condition, with revenue andnet profit reflecting the market situation at that time. However, during Covid-19, market conditions became unstable, affecting various elements of company financial performance. Company revenue and net profit may have experienced significant declines due to the pandemic's impact, especially in sectors heavily affected such as tourism, hospitality, and related sectors. Company liquidity and cash flow may also face pressure, forcing companies to adjust their financial strategies to maintain financial stability. Capital structure may undergo changes, with efforts to manage debt burdens and increased financial risks.

During the Covid-19 period, stakeholder theory emphasizes the importance of companies managing the impact of their decisions on various stakeholders amidst economic and social uncertainty. Meanwhile, according to signal theory, companies may need to use stronger signals to maintain market confidence amidst uncertainty. Companies may use changes in Tobin's Q and ROA as signals of their ability to withstand and recover from the impacts of Covid-19, as well as their ability to manage risks and leverage new opportunities. In terms of market value and market capitalization, fluctuations may occur in response to market and economic uncertainty during the pandemic. Additionally, companies' operational efficiency may be affected, requiring cost-saving efforts and operational restructuring to maintain stability and sustainability.

H1a: There is a difference in Company Financial Performance (CFP) with Tobin's Q proxy before Covid-19 and During Covid-19.

H1b: There is a difference in Company Financial Performance (CFP) with Tobin's Q proxy during Covid-19 and During Covid-19.

2.2 : Differences Corporate Social Responsibility (CSR) disclosure on Corporate Financial Performance before and during Covid-19

Companies that have implemented CSR approaches before the pandemic may have a greater competitive advantage and may achieve better stock price performance than their competitors (Arevalo & Aravind, 2010). The view that crises are opportunities to enhance visibility through CSR can influence the focus of company activities (Nawangsari, 2021). During crises, companies tend to reallocate CSR budgets for cost efficiency (Broadstock et al., 2020). Studies show a decrease in CSR expenditure during the COVID-19 pandemic (Suhita, 2022). Company behavior patterns during crises can be categorized as proactive or defensive (Arevalo & Aravind, 2010). Research supports differences in CSR disclosures before and during Covid-19 (Nawangsari, 2021). The research hypotheses state:

H2a: There is a difference in the breadth of Corporate Social Responsibility (CSR) disclosure before and during Covid-19.

H2b: There is a difference in the breadth of Corporate Social Responsibility (CSR) disclosure before and during Covid-19.

2.3 : The Effect of Corporate Social Responsibility on Company Value on Corporate Financial Performance

Stakeholder theory is a strategic management concept aimed at assisting corporations in maintaining their relationships with external parties and developing competitive advantages (Cornell & Shapiro, 1987; Freeman, 1984). Stakeholder theory asserts that the sustainability and success of a company depend on meeting the economic and non-economic needs of stakeholders through Corporate Social Responsibility (CSR) (Pirsch, Gupta, & Grau, 2007). Based on stakeholder theory, the implementation of Corporate Social Responsibility (CSR) can enhance company revenue and cost efficiency. Research indicates that companies with strong CSR commitments tend to have better financial performance and higher market value (Kabir & Thai, 2017; Anita & Amalia, 2021; Barauskaite & Streimikiene, 2020; Julialevi & Ramadhanti, 2021; and Silaban & Harefa, 2020). However, there are also arguments that too much focus on CSR can result in inefficient resource allocation. Overall, research supports the hypothesis that CSR positively influences company financial performance. The hypotheses are formulated as follows:

H1a: CSR has a positive impact on Company Financial Performance (CFP) with Tobin's Q. H1b: CSR has a positive impact on Company Financial Performance (CFP) with ROA.

Control Variables

This study utilizes several control variables expected to elucidate the correlation between independent and dependent variables. Some research incorporates control variables such as debt ratio, company size, and company age. The debt ratio provides insights into a company's financial leverage, while company size is considered because it can influence the company's access to resources and market strength. Additionally, company age is taken into account as it reflects the level of experience, stability, and growth potential of the company. By incorporating these variables as controls, the study can isolate the effects of the independent variables without being influenced by factors related to capital structure, operational scale, company history, and development.

3. RESEARCH METHODS AND SAMPLES

3.1 Regression Model

Model 1 tests the correlation between social responsibility and financial performance, with control variables including leverage, company size, and company age, as well as a dummy variable representing the COVID-19 crisis condition. The Tobin's Q value, denoted as Qit, represents the performance of company i in period t, leverage ratio with DARit, company size (SIZEit) with the natural logarithm of total assets, and companyage (AGEit). The dummy variable uses a value of 1 to indicate the condition during COVID-19, while a value of 0 indicates the condition before COVID-19.

Model 1: $TBQit = \alpha + b1CSR\ it + b2DARit + b3SIZEit + b4AGEit + DCEit + ei$(1)

Model 2 tests the correlation between social responsibility and financial performance, with the Return on Assets (ROAit) value as a proxy for the performance of company i in period t.

Model 2: $ROAit = \alpha + b1CSR\ it + b2DARit + b3SIZEit + b4AGEit + DCEit + ei$(2)

3.2. Research Sample

This research was conducted on the manufacturing sector of companies, excluding the health sector, listed on the Indonesia Stock Exchange for the period 2018-2022. The sampling technique used was purposive sampling. Selected companies did not undergo corporate actions (delisting, merger, or acquisition) during the research period. A total of 109 observation data of company financial reports were obtained from www.idx.co.id.

4. RESULTS AND DISCUSSION

4.1. Descriptive Statistics

Descriptive statistics of variables can be seen in Table 1. The table presents a summary of statistics foreach variable used in this study. The average Tobin's Q, which measures the company's market value relative toits book value, is 1.232. ROA, representing the company's profitability ratio, has an average of 0.054. CSR, indicating the level of company involvement in social responsibility, has an average of 0.257. Additionally, leverage, reflecting the company's debt level relative to its equity, has an average of 0.416. Company size, measured by total assets on a logarithmic scale, has an average of 28.512. Meanwhile, company age, indicatingthe length of time the company has been operating since its establishment, has an average of 40 years. Other statistics such as minimum value, maximum value, and standard deviation are also available in Table 1.

Table 1 : Descriptive Statistics of Variables

	N	Minimum	Maximum	Mean	Std. Deviation
Tobins	**545**	**0.12**	**7.11**	**1.232**	**0.797**
ROA	**545**	**-0.31**	**0.47**	**0.054**	**0.082**
CSR	**545**	**0.01**	**0.62**	**0.123**	**0.123**
DAR	**545**	**0.06**	**0.92**	**0.175**	**0.175**
LnSIZE	**545**	**25.31**	**32.51**	**28.51**	**1.417**
AGE	**545**	**13**	**78**	**40.79**	**10.37**
Valid N (listwise)	**545**				

Table 2 : Pooling Data for Regression Analysis

Variabel	Model 1 (TBQ)	Model 2 (ROA)
CSR	0.881	0.002
Control Variable		
DAR	0.000	0.000
LnSIZE	0.971	0.125
AGE	0.099	0.961
Dummy Variable		
EC	0.122	0.000
Constant	0.300	-0.022
F statistic	3.824	9.694
Adj. R Squared	0.025	0.074
Durbin Watson	1.999	2.394

Model 1 indicates that the influence of Corporate Social Responsibility (CSR) on financial performance, with Tobin's Q as a proxy, is not significant. This suggests that in assessing company performance in the capital market, CSR activities, which encompass a company's social responsibility towards society and the environment, are not a major factor considered by investors. This is consistent with previous research findings that CSR does not significantly affect financial performance (Astuti et al., 2018; Rahmantio et al., 2018). Before the COVID-19 pandemic, the impact of CSR on financial performance with Tobin's Q as a proxy was likely not significant. Stakeholder theory posits that companies have responsibilities to various parties, but in a market-based approach, CSR factors may not be directly considered in assessing company value. Market focus is more on financial factors and company growth.

However, Model 2 shows that during the COVID-19 pandemic, the importance of CSR increased in meeting stakeholders' expectations and needs. Research results indicate that the influence of CSR on financial performance, with Return on Assets (ROA) as a proxy, is significantly positive. In an accounting-based approach, extensive CSR disclosure can serve as a positive signal to investors about management quality and business sustainability. In this context, investors using fundamental analysis methods tend to consider CSR factors in evaluating their investment potential. This finding is consistent with previous research results (Kabir & Thai, 2017; Anita & Amalia, 2021; Barauskaite & Streimikiene, 2020; Julialevi & Ramadhanti, 2021; Silaban & Harefa, 2020).

Models (1 and 2) consistently state that leverage affects CFP. The research findings in Model 1 suggest that leverage influences company performance using Tobin's Q as a proxy. This indicates that the company's debt-to-asset ratio compared to its assets is an important consideration for investors, affecting financial performance in the market. This finding is confirmed by the existing variation in Debt to Asset Ratio (DAR) ratios, from very low to very high, in line with signaling theory, which states that capital structure affects company value. Wise leverage use is considered a positive signal of management quality and confidence in the company's future. Meanwhile, in Model 2, the influence of leverage on company performance using ROA as a proxy shows that the previous period's debt-to-asset ratio affects the company's financial effectiveness and leads to profit decline. High debt levels can increase interest expenses, which in turn can reduce the company's operational profit even though it may provide tax savings. According to stakeholder theory, high leverage can limit access to additional capital and incur high interest costs.

Models (1 and 2) consistently state that company size, measured by its asset amount, does not significantly affect financial performance, either Tobin's Q or ROA. Investors do not view company size as a major factor in evaluating financial performance. Signaling theory suggests that company size is not always an indicator of future performance. Instead, effective management may be more important, which does not always correlate with company size. Although large companies are more trusted and perceived to have easier access to funds, small companies with efficient management can also achieve good financial performance. This finding is consistent with some previous studies (Guadano & Pedroza, 2018), but contradicts other research that considers company size important for

investors.
Models (1 and 2) indicate that company age does not impact financial performance, using Tobin's Q orROA as proxies. This suggests that company age does not affect market value or operational performance. Stakeholder theory highlights the importance of effective management in meeting stakeholder needs. Companyage may not always reflect management quality, as new companies can have efficient and innovative management. On the other hand, signaling theory emphasizes that company age does not always reflect quality or financial performance. A new company can have effective management and strategies, while an old company may experience internal issues affecting financial performance.

5. CONCLUSION

This study aims to explore the influence of CSR, leverage, company size, and company age on CorporateFinancial Performance (CFP) in the manufacturing sector during the period 2018–2022. The research results indicate that the influence of CSR is not evident in financial performance when using Tobin's Q as a proxy, but there is a significant effect on financial performance when using Return on Assets (ROA) as a proxy. The market-based approach may not be the primary focus for investors in investment decision-making, where investors tendto pay more attention to factors such as revenue, net income, and company growth. However, in the accounting-based approach, CSR disclosure can influence investors' perceptions of the company's financial performance. Comprehensive disclosure can provide a more comprehensive picture of how the company manages social, environmental, and governance risks, which can affect the company's value in the market. Leverage has been shown to have an impact on the financial performance of companies. High leverage levels can result in a positive response from investors, often accompanied by an increase in the company's value. However, company size and company age do not have a significant influence on CFP. The size of the company may not be the determining factor in determining the company's value, which will then influence investor decisions.

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