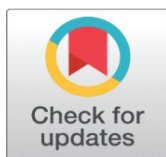# THE EFFECT OF CSR AND LEVERAGE ON FINANCIAL PERFORMANCE IN MANUFACTURING COMPANIES OF INDONESIA

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ABSTRACT

The primary goal of this research is to ascertain the effects of corporate social responsibility and financial leverage on the financial performance of 38 Indonesia Stock Exchange-listed manufacturing companies for three years (2019-2021). This study utilizes two independent variables, which are corporate social responsibility and financial leverage as assessed by the debt equity ratio (DER) in analyzing their impact on financial performance metrics like return on equity (ROE), return on assets (ROA), and earnings per share (EPS). Secondary data was gathered from the financial reports (comprehensive income statements and financial position statements) of chosen companies listed from the Indonesian Stock Exchange (IDX). Descriptive statistical tests, multiple linear regression tests and hypothesis testing were utilized to examine the research data. The analysis results reveal that Corporate social responsibility and leverage have a significant and favorable effect, as assessed by the debt-to-equity ratio on the financial performance of 38 companies.

Keywords: Corporate Social Responsibility, Leverage, Financial Performance

1. INTRODUCTION

The issue of environmental problems currently has become the spotlight of the world community which is interesting to discuss. Environmental pollution in Indonesia, which is getting worse, is the impact of environmental management that is not in accordance with what has been stipulated. Some companies still have not thought about the social impacts arising from industrial practices that use advanced technology and hazardous chemicals. Among them are when obtaining raw materials, production processes, and production results which have the effect of causing environmental pollution such as air, water, waste pollution and so on.

Corporate Social Responsibility is a sort of corporate social responsibility application to society and the environment. The corporation prioritizes its objective of generating the best potential profit through Corporate Social Responsibility, but also covers financial, social, and other environmental factors. The Corporate Social Responsibility program is an investment in the development and long-term viability of the company, and it is no longer viewed as an expense, but as a means of making profit.

Kabir and Chowdhury (2022) revealed a favourable relationship between Corporate Social Responsibility and financial performance with exceptions Manufacturer Maturity (MAT) and Earning per Share in previous studies. This research also discovered that the previous year of *Corporate Social Responsibility* has an effect on the research year's spending on Corporate Social Responsibility due to expenses of *Corporate Social Responsibility* registered manufacturers in Bangladesh adhere to the process *autoregresif* first order.

Leverage as part of the corporate's fundamental financial performance and demonstrates the corporate's ability to manage the source of funds, either from debt or from assets held by the corporation. A research done by Sarwar et al. (2022) reveals that Corporate Social Responsibility has a positive influences on profitability and overall financial performance which is influenced by one of them, namely leverage. Several successful studies prove a positive relationship between leverage with other company values, namely those carried out by Firda and Efriadi (2020), as well as research conducted by Anita and Dini (2021). However, different study carried out by Irfandani et al. (2017) showed different outcomes.

According to the findings of Wu et al. (2020) study, fulfilling Corporate Social Responsibility is a win-win scenario that supports not only social development but also allows firms to reap economic advantages. Second, *leverage* plays a role as one that affects a company's financial performance.

Regarding the discussion of the background and the conditions underlying it, the researcher conducted a study entitled **"The Influence of Corporate Social Responsibility and Leverage Against the Financial Performance of Manufacturing Companies Listed on the Indonesia Stock Exchange"** The novelty in this study is by adding the *return on equity* (ROE) and *earning per share* (EPS) as an additional variable and not discussed corporate governance.

This study utilizes a combination variable with reference to the previous studies. This research focuses on manufacturing companies. This is because a manufacturing company is one that processes raw materials to turn them into marketable commodities by utilizing multiple sources of raw materials, production processes, and technology. Besides that, manufacturing companies cannot be separated from society as their external environment. Therefore, It can be concluded that manufacturing companies are closely related to social and environmental aspects or in the sense that firms are needed to make disclosures of *Corporate social responsibility* is mandated under Article 74 of the Limited Liability Company Law (UU Perseroan Terbatas) No. 40 of 2007.

2. MATERIALS AND METHODS
2.1. METHODS

This study employs descriptive quantitative research methodologies using the Secondary Data Analysis (ADS) methodology. A technique that uses secondary data as the primary data source is ADS. The question in secondary data is used by employing a suitable statistical test procedure to extract the necessary data deriving

from a body of material or mature data collected at specific institutions or organizations (for example, BPS, IDX departments, or educational institutions), which is then processed objectively and systematically.

To simplify the procedure for evaluating research findings, the hypothesis testing research design was employed to examine the effect of the independent variables, *CSR, and Leverage* (DER) to the dependent variable, *Financial Performance* which is measured using ROA ROE and EPS.

2.2. DATA SOURCE AND PERIOD

The data utilized in this research is panel data, a blend of cross-sectional and time series data on the Indonesian manufacturing sector quoted on the IDX during 2017 to 2021. In this study, it consists of 2 (two) variables, which are the dependent variable and the independent variable.

The variables and measurements used in this research intend to examine the link among the independent variables and the dependent variable, each of which is measured as follows:

Table 1

Table 1 Measurement Variables				
Jenis Variable	**Nama Variabel**	**Simbol**	**Definisi VariabelOperasional**	**Referensi**
Variabel Dependen	Return on Equity	ROE	$ROE = \frac{NOPAT\ (Net\ operating\ profit\ after\ tax)}{Equintities} \times 100\%$	M. AdnanKabir (2022)
	Return on Asset	ROA	$ROA = \frac{NOPAT}{Total\ Assets} \times 100\%$	M. AdnanKabir (2022)
	Earning Per Share	EPS	$EPS = \frac{NOPAT - dividend}{Total\ of\ all\ stock}$	M. AdnanKabir (2022)
Variabel Dependen	Leverage	DER	$Debt\ to\ Equity\ Ratio = \frac{Total\ Hutang\ (Debt)}{Total\ Modal\ (Equity)} \times 100\%$	Ofulue, Igbodo(2022)
Variabel Dependen	Coorporate Social Responsibility	CSR	Total of charitable contributions/ Total profit before tax	Co Thi Huyen Dinh (2022)

2.3. DATA PROCESSING METHOD

Probability Sampling is the sampling method utilized in this research. It is a sampling strategy that provides equal chances for each component (participant) of the population to be chosen as a participant. The companies in the manufacturing sector quoted on the Indonesia Stock Exchange for 3 years (2019-2021) Bursa Efek Indonesia. (n.d.) are the sample of this research. Data samples were chosen using the following criteria:

1) Companies in the manufacturing sector quoted on the Indonesia Stock Exchange for the 2019- 2021 timeframe.
2) Availability of company financial reports
3) Availability of data related to measurement of each variable used.

The method of data collecting utilized a secondary data collection method where the data obtained is taken from sources that have published the data. The data source of the research was acquired from the website of the IDX (https://www.idx.co.id/) Bursa Efek Indonesia. (n.d.) and the website within each company that was sampled.

3. RESULTS AND DISCUSSIONS
3.1. DESCRIPTION OF RESEARCH DATA

The data utilized in this research is secondary. Financial reports and annual reports for manufacturing sector firms quoted on the Indonesia Stock Exchange between 2019 and 2021 were collected from the IDX's official website, www.idx.co.id, and the company's official website. This study's population consists of Indonesian industrial companies. A study sample of 101 manufacturing companies were registered on the Indonesia Stock Exchange using the purposive sampling approach for 2019-2021 which met certain criteria.

Descriptive statistics is a data processing method utilized to offer an overview or explanation of data based on the minimum, maximum, average (mean), and standard deviation. The maximum value and minimum value are used to see the highest and lowest value of each variable. The mean value is used to see the middle value of each variable. The standard deviation value is used to see the homogeneity value of each variable. Descriptive statistics use a statistical approach for each variable to describe data, namely CSR, DER, ROE, ROA and EPS.

The dependent variables in this research are ROA, ROE and EPS, the independent variables are CSR, DER. Table 2 shows the findings of the descriptive statistical analysis.

Table 2

Table 2 Results of Descriptive Statistical Analysis					
Variable	Obs	Mean	Max	Min	std. Deviation
ROE	190	-0.002948	1.454.829	-2.136.374	1.570.034
ROA	190	0.075150	0.865828	-0.187963	0.113019
EPS	190	1.286.648	2.178.968	-2.670.481	3.044.523
DER	190	1.893.391	1.445.462	-2.127.341	1.051.707
CSR	190	7.008.314	1.152.290	1.009.636	2.348.890

Source Output e-views 11

The findings of the descriptive statistical data table above demonstrate that the ROA variable in manufacturing sector companies in Indonesia has an average value of 0.075150, the maximum value is equal to 0.865828, while the minimum value is -0.187963, with a standard deviation of 0.113019.

The findings of the descriptive statistical data table above demonstrate that the ROE variable in manufacturing sector companies in Indonesia has an average value of -0.005062, the maximum value is 1,454,829, while the minimum value is -2,136,374, with a standard deviation of 1,570,034.

The findings of the descriptive statistical data table above demonstrate that the EPS variable in manufacturing sector companies in Indonesia has an average value of 1,286,648, the maximum value is equal to 2,178,968, while the minimum value is -2,670,481, with a standard deviation of 3.044.523.

The findings of the descriptive statistical data table above demonstrate that DER variable in manufacturing sector companies in Indonesia has an average value of 1,893,391, the maximum value is equal to 1,445,462, while the minimum value is -2,127,341, with a standard deviation of 1.051.707.

The findings of the table of descriptive statistical data above demonstrate that the CSR variable in manufacturing sector companies in Indonesia has an average value of 7,008,314, the maximum value is equal to 1,152,290 as for the minimum value of 1,009,636, with a standard deviation of 2.348.890.

3.2. DATA ANALYSIS

Multiple regression tests were used to analyze the data for this research, which used panel data. There are three models that may be employed in panel data research: *the common effect model*, *the random effect mode*, and *the fixed effect model*. Before carrying out the regression test, a regression model test is performed. This study's findings of the regression model test in this study are using the random effect model. The multiple regression test seeks to determine whether or not there is an influence of CSR and DER on ROE, ROA, and EPS with the control variable BS. The results of processing multiple regression statistics produce a regression model equation, which are:

Regression Equation for Model 1:

ROEit = -0.068864 + 0.050975 CSRit – 0.153867 DERit

Regression Equation for Model 2:

ROAit = -0.010250 + 0.012612 CSRit -0.001577 DERit

Regression Equation for Model 3:

EPSit = 520.2761 - 55.73344 CSRit - 0.535510 DERit

Table 3

Table 3 Results of Regression Analysis Model 1				
Model 1 **Fixed Effects Model** **Variabel Dependent: Return on Equity**				
Variables	**Coefficient**	**Prob.**	**Hypothesis**	**Conclusion**
C	-0.068864	0.6699		
CSR	0.050975	0.0276	Ha Accepted	Significant Influence
Debt to Equity Ratio	-0.153867	0.0000	Ha Accepted	Significant Influence

Source Output e-views 12

According to Table 3 above, some of the test results can be viewed as follows:

Testing CSR Variables on ROE Variables Based on Table 4, the probability value is obtained *one tailed* of 0.0276 with a coefficient of 0.050975. The CSR coefficient

shows a positive result. The probability value is less than 0.05 so it may be said that t has a significant effect between the CSR variable and ROE variables.

Testing the DER Variable on the ROE Variable Based on Table 9, the probability value is obtained *one tailed* of 0.000 with a coefficient of -0.153867 The DER coefficient shows a negative result. The probability value is lower than 0.05, we may conclude that it has a significant influence between the DER variable and the ROE variable.

This t statistical test is employed to examine how much influence the independent variables have in describing the dependent variable. Testing the statistical hypothesis is done by looking at the probability value on the analysis results using Eviews 12. A significance level of 0.05 (α = 5%) can also be used for hypothesis testing. The hypothesis is accepted or rejected based on the following criteria: if the probability value is > 0.05, the hypothesis is rejectable (the regression coefficient is not significant). This implies that the independent factors have a limited impact on the dependent variable. The hypothesis is acceptable if the probability ≤ 0.05. (Significant regression coefficient). This implies that the independent variable has some impact on the dependent variable.

Table 4

Table 4 Results of Regression Analysis Model 1				
Model 1 Fixed Effects Model Variable Dependent: Return on Equity				
Variables	Coefficient	Prob.	Hypothesis	Conclusion
C	-0.068864	0.6699		
CSR	0.050975	0.0276	Ha Accepted	Significant Influence
Debt to Equity Ratio	-0.153867	0.0000	Ha Accepted	Significant Influence

Source Output e-views 12

According to Table 4 above, some of the test results can be viewed as follows: Testing CSR Variables on ROE Variables Based on Table 5, the probability value is obtained one tailed of 0.0276 with a coefficient of 0.050975. The CSR coefficient shows a positive result. The probability value is less than 0.05 so it may be said that t has a significant effect between the CSR variable and the ROE variable. DER Variable Testing of ROE Variables Based on Table 9, the probability value is obtained one tailed of 0.000 with a coefficient of -0.153867 The DER coefficient shows a negative result. The probability value is lower than 0.05 so it may be said that t has a significant influence among the DER variable and the ROE variable.

Table 5

Table 5 Results of Regression Analysis Model 2				
Model 2 Random Effects Model Variabel Dependent: Return on Assets				
Variables	Coefficient	Prob.	Hypothesis	Conclusion
C	-0.010250	0.7551		
CSR	0.012612	0.0047	Ha Accepted	Significant Influence

Debt to Equity Ratio	-0.001577	0.0276	Ha Accepted	Significant Influence

Source Output e-views 12

Based on Table 5 above, some of the test results can be seen as follows: Testing CSR Variables on ROA Variables Based on Table 5, the probability value is obtained one tailed of 0.0047 with a coefficient of 0.012612. The CSR coefficient shows a positive result. The probability value is less than 0.05 so it can be said that t has a significant effect between the CSR variable and the ROA variable. DER Variable Testing of ROA Variables Based on Table 9, the probability value is obtained one tailed of 0.0276 with a coefficient of -0.001577 The DER coefficient shows a negative result. The probability value is lower than 0.05 so it may be said that t has a significant influence among the DER variable and the ROA variable.

Table 6

Table 6 Results of Regression Analysis Model 3				
Model 3 **Fixed Effects Model** **Variable Dependent: Earning per Share**				
Variables	**Coefficient**	**Prob.**	**Hypothesis**	**Conclusion**
C	520.2761	0.0000		
CSR	-55.73344	0.0000	Ha Accepted	Significant Influence
Debt to Equity Ratio	-0.535510	0.0000	Ha Accepted	Significant Influence

Source Output e-views 12

Based on Table 6 above, some of the test results can be seen as follows: Testing CSR Variables on EPS Variables Based on Table 7, the probability value is obtained one tailed of 0.0000 with a coefficient of -55.73344. The CSR coefficient shows a negative result. The probability value is less than 0.05 so that it may be said that t has a significant effect between the CSR variable and the EPS variable. DER Variable Testing of EPS Variables. Based on Table 9, the probability value is obtained one tailed of 0.0000 with a coefficient of -0.535510 The DER coefficient shows a negative result. The probability value is lower than 0.05 so it may be said that t has a significant influence between the DER variable and the EPS variable.

3.3. DISCUSSION AND RESEARCH RESULTS

H1: There is an influence Corporate Social Responsibility (CSR) on Financial Performance

H2: There is an influence Leverage (DER) on Financial Performance

4. CONCLUSIONS AND RECOMMENDATION
4.1. CONCLUSIONS

Based on the findings of study conducted to examine the effect of risk management as evaluated by (CSR, DER, ROE, ROA, and EPS) on company financial

performance in the manufacturing sector in Indonesia with the control variable manufacturing size, the following are some possible outcomes:

1) Risk Management as measured by Coorporate Social Responsibility (CSR) has a significant and favourable influence on financial performance as evaluated by ROE, ROA, and EPS.

2) Risk Management as measured by Debt-to-Equity Ratio (DER) has a significant and favourable influence on financial performance as evaluated by by ROE, ROA and EPS.

4.2. RECOMMENDATION

According to the findings of the research and discussion along with the difficulties that have been put forward by the researchers, recommendations that can be suggested for further research are:

1) Future researchers should be allowed to add or use additional dependent variables so that other variables which can affect risk management are revealed, such as DAR.

2) It is believed that future researchers will have to be able to add samples in the form of companies from the index, type of business or other sectors.

3) Future researchers will be challenged to examine the consequences of the risk of distributing CSR, the value of debt, and the size of manufacturing companies on financial performance more specifically, namely general manufacturing companies in certain sectors.

CONFLICT OF INTERESTS

None.

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