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The Impact of CSR & Financial Distress on Sri-Kehati Index Performance

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Abstract:

This present study aims to determine the effect of corporate social responsibility (CSR) disclosure and financial distress on the financial performance of companies listed on the Sri Kehati index for the 2017-2021 period. To this end, a research sample consisting of 27 companies with a total of 135 observations was selected purposively, with secondary data presented in the financial statements and sustainability reports of each company gathered for hypothesis testing. Subsequently, multiple regression tests on panel data were conducted using Eviews 12. The results revealed that CSR, financial distress, leverage, and company size all significantly influenced financial performance. In particular, CSR was found to have a positive influence on ROE and ROA but a negative influence on Tobin's Q. In contrast, financial distress did not affect ROE but had a positive effect on ROA and Tobin's Q. Furthermore, leverage and company size as control variables did not affect ROA and Tobin's Q, with leverage negatively affecting ROE. In contrast, company size did not affect ROE.

Keywords: CSR, financial distress, return on equity, return on asset, Tobin's q, leverage, company size

1. Introduction

Human beings never stop pursuing progress. The rapid development of technology that contributes to improving the world economy is faced with many opportunities and challenges (Li et al., 2021). Weather changes worldwide have been in the spotlight in recent years. The already uncertain climate, several natural disasters that have never happened before, to the increasingly massive exploitation of Natural Resources make many events that harm the wider community. Seeing this situation, regulators from all over the world are increasingly paying attention to the implementation of corporate environmental governance and social responsibility. (Zhou et al., 2022)

As environmental responsibility issues have arisen and rapidly spread in recent times, corporate social responsibility (CSR) disclosures have become more common. Furthermore, the emergence of social enterprise has been ever-growing and has become increasingly important in today's society. Society now expects companies to manufacture goods and services and fulfill a more meaningful and beneficial role in society rather than just focusing on achieving profit. (Cho et al., 2019)

In recent decades, Corporate Social Responsibility has increasingly been viewed and studied by both practitioners and researchers as a strategic priority for companies. To implement this concept, companies are investing plenty of resources into activities related to social responsibility, such as reducing environmental pollution and energy and water consumption (Zheng et al., 2019). CSR has become a standard practice in the corporate world and is seen as a way to advance human development by engaging in activities that have social, economic, and environmental benefits (Cherian et al., 2019). Furthermore, Corporate Social Responsibility is also seen as a strategic approach for a company to improve its reputation and competitiveness, as well as providing other benefits such as risk management, cost savings, access to capital, customer relationships, human resource management, and the ability to innovate. Additionally, by engaging in CSR activities, companies can demonstrate their commitment to social and environmental responsibility, which is especially important in today's climate when the crisis erodes consumers' trust and confidence in businesses. (Cherian et al., 2019)

The issue of corporate social responsibility is one of the fastest-growing and talked about trends among investors, creditors, financial analysts, and corporate leaders. Investors and creditors assess financial performance to obtain the

maximum possible profit and consider how the company supports environmental sustainability, social stability, and the country's economy. Corporations from around the world are also prioritizing strategy due to the increasing demand for transparency and sustainability in the business world (Naeem & Çankaya, 2022). Companies are asked to set aside their budgets to focus on supporting elements within CSR.

The growing threat of global warming and climate change is one of the major concerns of the 21st century. Business organizations are expected to maintain an ecological and typical socio-cultural balance. Governments and regulators around the world have enacted laws and regulations to ensure environmental sustainability (Naeem & Çankaya, 2022). The implications of environmental sustainability are closely related to the use of nature. Many mining materials are stored in the bowels of the earth, where the company directly extracts gold, oil, coal, silver, nickel, and other mining products. In addition, the disposal of the company's waste into nature, such as rivers and seas, leaves many problems with the environment and the surrounding human life.

The company causes serious environmental damage. The government and various regulatory bodies have enacted laws and regulations to ensure environmental sustainability. Growing concerns about climate sustainability around the world are putting pressure on companies in various sectors to make their businesses include activities related to sustainability and social responsibility in addition to normal operations. Companies also report on their social responsibility initiatives and sustainability strategies, following laws and regulations to legitimize them (Zhou et al., 2022). This research will discuss how CSR affects company performance, calculated from the rate of Return on Equity (ROE), Return on Asset (ROA), and the company's projected market value through Tobin's Q.

Financial Distress is the second dependent variable to be studied in this study. Financial difficulties are one of the most common causes of a company's bankruptcy. In contrast to the decline in ordinary income, losses caused by financial difficulties can be large enough to affect the smooth running of the business. Financial challenges occur when the company cannot fulfill its financial obligations to its credit (Zheng et al., 2019).

Financial difficulties are often caused by poor economic structure and financial risks to the company. This can be caused by a lack of capital structure so that the company cannot continue its operational activities, the absence of credit control, and the emergence of high debt interest due to the lack of business planning. (Wu et al., 2020)

Researchers use leverage and company size as control variables in examining their relationship to financial performance. Leverage is calculated as the total amount of debt to equity. It is a control variable because company leaders tend to provide more CSR information when leverage increases (Naeem & Çankaya, 2022). The company needs various funding for its operations, so the CSR score is considered one of the supporting indicators for investors to buy the company's shares. A good CSR score shows the company's concern for environmental, social, and governance issues. Leverage has been used in previous studies (Zhou et al., 2022) (Abdi et al., 2022) to find out how CSR disclosures affect when measured by leverage value as a control variable.

The size of the company is measured by calculating the natural logarithm of the total assets of each company under study. Total assets are obtained from audited financial statements. The size of the company includes all resources that can maximize its operations so that it is relevant to sustainability. (Abdi et al., 2022)

Financial performance is an independent variable that researchers use. It is a return on assets (ROA) before tax, one of the most popular and widely used metrics based on accounting principles. It is often used to report on the operational performance and profitability of a company. (Naeem & Çankaya, 2022) Previous researchers have widely studied ROA to find its link to CSR disclosure in companies (Pulino et al., 2022) (Ghardallou, 2022) (Okafor et al., 2021). Return on Equity is a profitability ratio that describes the amount of income compared to the amount of investor capital in a company. Previous research (Domanović, 2021) (Okafor et al., 2021) (Ghardallou, 2022) has investigated how the influence of CSR performance in influencing the company's financial performance.

Tobin's Q is a widely used and popular market-based measure for determining the current market value of livestock, which was used as a dependent variable in this study. In general, Tobin's Q is expressed as the ratio of a company's market value to the total value of a company's tangible assets. It shows the financial position of the company's tangible assets in the current market (Naeem & Çankaya, 2022). Tobin's Q has been used in similar studies by (la Torre et al., 2021) (Zhou et al., 2022) (Sandberg et al., 2022) to study how CSR performance affects market value creation. In this study, researchers used Tobin's Q as a basis for calculations to represent market value.

Indonesian capital markets have seen the emergence of two stock indices, Sri-Kehati and IDX ESG Leaders, which indicate green investment. Sri-Kehati has been in existence since 2009, and both indices list companies that are actively involved in environmental protection, maintaining positive social relationships with stakeholders, and upholding good corporate governance. The performance of these two indices has been very encouraging compared to the other leading indices, namely IHGS and LQ45. (Trisnowati et al., 2022)

Several studies have been conducted on the impact of CSR activities on the financial performance of companies in various industries, reporting negative, positive, and insignificant results. It is a value-added analysis used to determine the value and economic impact of a company's CSR activities and strategies operating in an environmentally sensitive industry, especially in the mining industry. Therefore, this study aims to determine how energy and utility companies' performance and CSR initiatives affect their market value and financial performance. (Naeem & Çankaya, 2022)

Some previous studies have shown that CSR performance is significantly correlated with financial performance in the electrical energy and banking industries. The regression analysis results indicate that CSR activities positively and significantly affect a company's profitability but can negatively influence the company's market value. It is clear that CSR performance has a substantial impact on a company's financial performance. However, the analysis also shows that CSR activities can have a detrimental effect on the company's market value. (Naeem & Çankaya, 2022)

The purpose of this research is to examine the influence of Corporate Social Responsibility (CSR) and Financial Distress on the financial performance, operational performance, and market value of corporations listed on the Sri-Kehati index and Indonesia Stock Exchange (IDX) over the period of 2017-2021.

2. Literature Review

2.1. Research Framework

Social responsibility initiatives do not automatically bring financial benefits to the organization. Any help obtained will depend on the consumer's assessment of the enterprise according to the company rather than just the action. The concept of social responsibility also requires organizations to provide a safe work environment that respects diversity and ethically promotes the equitable distribution of corporate profits in society (Zulfiqar et al., 2019). The challenge for most companies is to find a balance that works for all parties with interests in the company. CSR argues that a company can only be socially responsible through its power to satisfy shareholders and investors (Okafor et al., 2021).

Corporations frequently engage in social responsibility initiatives as they are in line with the company's mission of long-term sustainability, not only emphasizing profit maximization. A study done by Giannarakis et al. (2016) that studied 104 U.S. companies listed on the S&P 500 Index in nine significant industries between 2009 and 2013 discovered that involvement in social responsibility activities had a positive effect on the financial performance of the companies.

According to Buallay (2019), in his assessment, environmental responsibility affects financial performance. A company's financial performance is created more from the publication of information about the company's commitment to the environment. This means that stakeholders are aware of environmental practices and consider them a critical factor in their investment decisions for better company performance.

The existence of environmental awareness shows the performance and image of the company that is environmentally responsible, which can improve stakeholder assessment. Investors are more interested in companies with a good impression and gain the public's trust that they have acted well towards the environment by using natural resources in production and processes more efficiently. The interest from these investors indirectly increases their desire to invest in expanding the company's market value (Behl et al., 2022). This is in line with the research of Yoon et al. (2018), which states that corporate social responsibility affects the company's market value.

Financial distress is also one of the factors that can affect the company's performance. Financial distress can cause problems with a company's profitability through reduced cash flow and a decrease in revenue or operating profit. It is estimated that the company's current financial distress will have a significant negative impact on its operations, potentially leading to short-term bankruptcy and reducing its ability to manage working capital and increase its debt (Kimathi & Mungai, 2018).

The term environmental responsibility can be better understood by stakeholder theory which states that a company is not only owned by one party (owner or shareholder) but must be viewed considering the diversity of parties involved in it. Therefore, the company's goal is to maximize financial benefits for shareholders and create value for all stakeholders, such as employees, customers, the surrounding community, and all other resources. According to stakeholder theory, stakeholders direct companies to create sustainable wealth. Following this thinking, the company publicly publishes information about its economic and non-economic activities. The disclosure of such information reduces information asymmetry between stakeholders, thereby increasing investors' confidence (Naeem & Çankaya, 2022).

In addition to social responsibility and financial distress, control variables are considered to affect company performance. The control variables refer to (Naeem & Çankaya, 2022), namely using leverage and company size. Leverage can positively impact a company's financial performance if the investment generates a good return. Still, it can negatively impact the company's financial performance if the investment does not yield sufficient returns (Imeokparia et al., 2021). As for the size of the company, the size of the company affects financial performance. Larger companies can generate higher returns because they have the advantage of economies of scale, meaning that companies have more significant assets. Companies with many assets have easier access to capital markets and greater flexibility than small companies (Naeem & Çankaya, 2022).

Therefore, based on the explanation above, the conceptual framework in this study is described as follows:

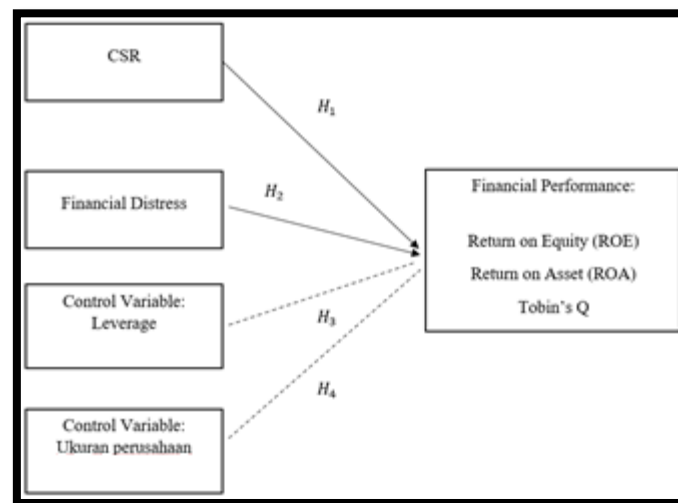


Figure 1: Conceptual Outline Chart

2.2. Hypothesis Development

2.2.1. The Effect of CSR on Company Performance

From a theoretical standpoint, the social impact hypothesis contends that companies can enhance their financial success by satisfying the requirements of those with a vested interest in their operations. An illustration of this is that concentrating on the requirements of employees can improve their output and bolster the company's reputation and trustworthiness, which in turn, can give the company a competitive edge. Therefore, the advantages of social involvement are more significant than the expenditures associated with it, and sustainable growth objectives are accomplished, thus increasing the company's value (Ghardallou & Alessa, 2022).

The research conducted by Ting et al. (2020) examined the association between corporate social performance and company performance through the use of a sample of 1,317 emerging market companies and 3,569 developed market companies, and the results indicated that corporate social performance does have an effect on company performance.

- H_1 : CSR affects company performance

2.2.2. The Effect of Financial Distress on Company Performance

Business leaders have come to understand the significance of financial hardships due to the financial crisis, which ultimately leads to companies being exposed to financial risks arising from inadequate economic structures. Moreover, the financial crisis, being an external factor, further amplifies this effect, as evidenced by the inverse relationship between the financial crisis and the success of the company (Wu et al., 2020b).

In line with the results of the study conducted by Tan (2012) and Wu et al. (2020), it is stated that financial distress negatively affects the company's performance.

- H_2 : Financial Distress affects the company's performance

2.2.3. Effect of Leverage and Company Size on Company Performance

Ghardallou (2022b) discovered that the size of a company positively impacts performance, while leverage leads to a negative outcome. Additionally, the research conducted by Beck et al. (2018) showed a strong, positive association between CSR activities and financial achievement in Australia, Hong Kong, and the United Kingdom, even while controlling for CSR performance, company size, industry-level fixed effects, and economic hazard.

- H_3 : Leverage affects the company's performance
- H_4 : Company size affects the company's performance

3. Research Method

3.1. Data Collection

For data collection in this research, techniques of secondary data collection were employed, whereby the data were obtained indirectly from the Indonesia Stock Exchange's (www.idx.co.id) site and the websites of the companies that were the object of the study, and the data collected included information on those companies listed on the Indonesia Stock Exchange (IDX) that were included in the SRI-KEHATI Index within the period of 2017 to 2021.

3.2. Sampling Method

This study uses a sampling technique carried out by purposive sampling, namely a sample determination technique according to specific criteria. A total sample of 27 companies entered the Index sri-kehati for five years, namely from 2017 to 2021, bringing the total observations to 135 research objects. The analysis technique used is multiple linear regression panel data consisting of three models:

- The standard effect model

- Fixed effect model
- Random effect model

The Data were analyzed using E-Views 12 software. Multiple linear regression panel data were used because this study aimed to test the effect of SCV being a proxy of Corporate Social Responsibility & Financial Distress measured by Altman Z Score, along with Lev & Size as a control variable, on ROI, ROA & TQ which is a measure of company performance in the sri-kehati index from 2017 to 2021. All the variables mentioned above are practically summarized and presented as follows:

Variable Type	Variable Name	Proxy	Symbol	Definition of Operational Variability	Basic
Dependent Variables	Company Performance	Profitability	ROE	(Net Income Available To Shareholders/Total Equity) x 100%	(Naeem & Çankaya, 2022)
		Operational profitability	ROA	$\frac{\text{Earning Before Tax}}{\text{Total Assets}} \times 100\%$	(Naeem & Çankaya, 2022)
		Market Value	TQ	$\frac{\text{Total Market Capitalization of the Company}}{\text{Total Assets}}$	(Naeem & Çankaya, 2022)
Independent Variable	CSR	Social Contribution Value Per Share	SCV	$\frac{\text{EPS} + (\text{Total Tax} + \text{Staff Expenditure} + \text{Interest} + \text{Public Welfare Payout} - \text{Social Cost})}{\text{Total Equity}}$	(Feng et al., 2018)
	Financial Distress	-	Z	Manufacturing Company : $Z = 0.717X1 + 0.847X2 + 3.107X3 + 0.42X4 + 0.998X5$ Non-Manufacturing Company : $Z = 6.56X1 + 3.26X2 + 6.72X3 + 0.42X4 + 1,054X5$ $X1 = \frac{\text{Working Capital}}{\text{Total Aset}}$ $X2 = \frac{\text{Retained Earning}}{\text{Total Assets}}$ $X3 = \frac{\text{EBIT}}{\text{Total Assets}}$ $X4 = \frac{\text{Total Market Value of Ordinary \& Prefer}}{\text{The Book Value of Debt}}$ $X5 = \frac{\text{Total Sales Revenue}}{\text{Total Aset}}$	(Wu et al., 2020)
Control Variable	Leverage	-	Lev	$\frac{\text{Total Debt}}{\text{Total Equity}}$	(Naeem & Çankaya, 2022)
	Company Size	-	Size	$\ln(\text{Total Aset})$	(Naeem & Çankaya, 2022)

Table 1: Variables & Measurements

3.3. Panel Regression Method Selection

The selection of the best panel model from the multiple linear regression models was conducted by performing the Chow test, the Hausman test, and the Lagrange multiplier test (LM test), and the best panel model was chosen based on the criteria and indicators obtained from the results of each test, which were evaluated through a series of steps.

Chow Test				
Effects Test	Model	Prob.	Hypothesis	Conclusion
Cross-Section Chi-Square	Model 1 (Return on Equity)	0.0000	Ha Accepted	Fixed Effects Model
	Model 2 (Return on Assets)	0.0000	Ha Accepted	Fixed Effects Model
	Model 3 (Tobins'Q)	0.0000	Ha Accepted	Fixed Effects Model

Table 2: Chow Test Results

The results from table 2 indicate that the value of Prob. Cross-Section Chi-Square for all three models (Model 1, Model 2, and Model 3) is less than 0.05, which implies that the null hypothesis is accepted, and thus it can be deduced that the Fixed Effects Model is the best model selected.

Hausman Test				
Effects Test	Model	Prob.	Hypothesis	Conclusion
Cross-Section Random	Model 1 (Return on Equity)	0.1857	Ha Rejected	Random Effects Model
	Model 2 (Return on Assets)	0.1597	Ha Rejected	Random Effects Model
	Model 3 (Tobins'Q)	0.0265	Ha Rejected	Fixed Effects Model

Table 3: Hausman Test Results

The results of table 3 indicated that the value of the Prob. Cross-Section Random model 2 of 0.1857 was greater than 0.05, which meant that the null hypothesis was rejected and the best model selected was the Random Effects Model. On the other hand, the value of the Prob. Cross-Section Random model 3 of 0.0265 was less than 0.05. Thus, the null hypothesis was accepted, and the best model selected was the Fixed Effects Model.

Lagrange Multiplier Test				
Effects Test	Model	Prob.	Hypothesis	Conclusion
Cross-Section One-Sided	Model 1 (Return on Equity)	0.0000	Ha Accepted	Random Effects Model
	Model 2 (Return on Assets)	0.0000	Ha Accepted	Random Effects Model

Table 4: Lagrange Multiplier Test Results

The results of table 4 show that the Prob. Cross-Section One-Sided model 1 and model 2 values of 0.0000 are both less than 0.05, which means that the null hypothesis (Ha) is accepted. Therefore, it can be concluded that the best model selected is the Random Effects Model.

Coefficient of Determination		
Testing	Model	Value
Adjusted R-Squared	Model 1 (Return on Equity)	0.2402
	Model 2 (Return on Assets)	0.3964
	Model 3 (Tobins'Q)	0.6795

Table 5: Goodness of Fit Test Results

Examining the test results as shown in table 5, it can be observed that the Adjusted R-Squared values in models 1, 2, and 3 are 0.2402 or 24.02%, 0.3964 or 39.64%, and 0.6795 or 67.95%, respectively, indicating that all of the independent variables in each model can explain a certain percentage of the dependent variables, with other variables outside the model accounting for the rest. Specifically, the independent variables in model 1 can explain 24.02% of the dependent variables, with the remaining 75.98% being accounted for by other variables outside the model. In model 2, the independent variables can explain 39.64% of the dependent variables, with the remaining 60.36% being accounted for by other variables outside the model. In model 3, the independent variables can explain 67.95% of the dependent variables, with the remaining 32.05% being accounted for by other variables outside the model.

Simulant Test (F-Test)				
Effects Test	Model	Prob.	Hypothesis	Conclusion
Prob. (F-Statistic)	Model 1 (Return on Equity)	0.0000	Ha Accepted	Having Significant Effect
	Model 2 (Return on Assets)	0.0000	Ha Accepted	Having Significant Effect
	Model 3 (Tobins'Q)	0.0000	Ha Accepted	Having Significant Effect

Table 6: Hasil Uji Serentak (F-test)

Based on the test results, as shown in table 6, it can be concluded that all independent variables significantly affect dependent variables, as the value of Prob (F-Statistic) in all three models is $0.0000 < 0.05$, thus Ha being accepted in each case.

4. Result and Discussion

4.1. Descriptive Statistics Result

The results of the descriptive analysis of statistics on 27 Index companies – Sri Kehati from 2017 to 2021 used in this study which has been adjusted to the sampling criteria, are presented in table 7.

Variable	N	Mean	Max	Min	Std. dev
ROE	135	0.131309	1.450882	-0.812644	0.263847
ROA	135	0.069836	0.597637	-0.089562	0.105881
TQ	135	0.942839	13.65510	0.049300	1.680124
SCV	135	326.6637	3.084.639	-677.3007	538.1130
Distress	135	7.771373	79.80130	0.508400	12.38005
LEV	135	2.777615	17.07140	0.090589	2.910674
Size	135	18.02172	21.26880	14.96550	1.581793

Table 7: Results of Descriptive Statistical Analysis

The average variable values of the study were 0.131309, 0.069836 & 0.942839 of ROE, ROA & TQ, respectively. For variable SCV, the value ranges from -667.3007 to 538.1130 with an average value of 326.6637, and the variable Distress ranges from 0.508400 to 12.38005 with an average value of 7.771373, from the average Z-score used as a proxy Distress is above the company standard said to be safe from bankruptcy, which is above 2.99.

4.2. Regression Analysis Results

The results of processing multiple regression statistics according to tables 8, 9 & 10 from a total of 135 research objects and producing regression model equations, namely:

4.2.1. Model 1 Regression Equation

$$ROE_{it} = 0,082343 + 0,000171SCV_{it} + 0,004543DISTRESS_{it} - 0,015680LEV_{it} + 0.0000753SIZE_{it}$$

Model 1 Random Effects Model Variable Dependent: Return on Equity				
Variables	Coefficient	Prob.	Hypothesis	Conclusion
C	0.082343	0.8821		
SCV	0.000171	0.0000	Ha Accepted	Have Significant Effect
Distress	0.004543	0.1302	Ha Rejected	No Effect
LEV	-0.015680	0.0336	Ha Accepted	Have Significant Effect
SIZE	7.53E-05	0.9981	Ha Rejected	No Effect

Table 8: Model 1

4.2.2. Model 2 Regression Equation

$$ROA_{it} = 0,336476 + 0,0000836SCV_{it} + 0,002236DISTRESS_{it} - 0,002357LEV_{it} - 0.016912SIZE_{it}$$

Model 2 Random Effects Model Variable Dependent: Return on Assets				
Variables	Coefficient	Prob.	Hypothesis	Conclusion
C	0.336476	0.1166		
CSR	8.36E-05	0	Ha Accepted	Have Significant Effect
Distress	0.002236	0.0386	Ha Accepted	Have Significant Effect
Leverage	-0.00236	0.3195	Ha Rejected	No Effect
Size	-0.01691	0.1545	Ha Rejected	No Effect

Table 9: Model 2

4.2.3. Model 3 Regression Equation

$$Tq_{it} = -1,437461 - 0,001545SCV_{it} + 0,068285DISTRESS_{it} - 0,033484LEV_{it} + 0,135795SIZE_{it}$$

Model 3 Fixed Effects Model Variable Dependent: Tobins'Q				
Variables	Coefficient	Prob.	Hypothesis	Conclusion
C	-1.43746	0.873		
CSR	-0.00155	0.0294	Ha Accepted	Have Significant Effect
Distress	0.068285	0.0488	Ha Accepted	Have Significant Effect
Leverage	-0.03348	0.4109	Ha Rejected	No Effect
Size	0.135795	0.7858	Ha Rejected	No Effect

Table 10: Model 3

5. Discussion

The analysis results show that CSR disclosures in the company affect the three financial performance indicators studied based on the table above. The relationship between CSR and the company's profits from its capital and its assets has a positive relationship which means that the higher the company carries out programs related to environmental and social aspects, the higher the ROE and ROA values. This is in line with the research conducted by (Szegedi et al., 2020) stated that the banking sector is participatory in CSR practices and routinely discloses it in continuous reports, which has led to an improvement in their accounting-based economic performance, namely ROE and ROA. The research conducted was on the banking sector in Pakistan.

Financial Distress has a significant positive effect on financial performance. Financial Distress has a positive impact on the company's profits obtained from its assets. Also, it positively impacts the value of Tobin's Q. This explains that the higher the financial distress number, the higher the ROA figure obtained by the company and the higher Tobin's Q number. Financial Distress is a value calculated from the scopes in the form of working capital, retained earnings, the total value of ordinary and preferred shares, and total sales revenue. Research that examines financial distress variables with financial performance is revealed by (Wu et al., 2020b), which researches companies listed on exchanges in China. A sample of 1445 observations from manufacturing companies between 2013 and 2018 was taken, which was obtained by matching the China Stock Market & Accounting Research Database (CSMAR) and Ranking CSR Ratings (RKS) and then running regression models. The results of the study found that there is a negative relationship between financial distress and financial performance.

According to table 8, the higher the leverage, the lower the return on equity (ROE) generated by the company's capital. This implies that the proportion of capital derived from debt will significantly diminish the profit generated from the equity itself. This finding from the research conducted is in line with what Ghardallou (2022) observed through their study, which sampled 34 public companies in Saudi Arabia from 2015 to 2020 and collected data on financial, accounting, and sustainability variables from Bloomberg's database and the annual reports of these companies, and found a negative relationship between leverage and financial performance.

Research has found that the size of the company does not necessarily have an impact on financial performance, as evidenced by ratios such as Return on Equity (ROE) and Return on Assets (ROA), and Tobin's Q. This finding is in contrast to the study conducted by Cho et al. (2019), which analyzed the effect of size on the financial performance of 191 Korean companies listed on the Korea Exchange and determined that the larger the company size, the better the financial performance as measured by ROA, company growth, and Tobin's Q.

6. Conclusion

The results of research conducted to assess the impact of Corporate Social Responsibility (CSR) and financial distress on financial performance, with leverage and company size as control variables, have led to the conclusion that all four variables significantly influence economic performance. Specifically, CSR has a positive effect on Return on Equity (ROE) and Return on Assets (ROA). However, it has a negative impact on Tobin's Q. At the same time, financial distress does not affect ROE but has a positive effect on both ROA and Tobin's Q. Leverage harms ROE. However, there is no effect on either ROA or Tobin's Q, and company size does not impact any of the three financial performance measurements of ROA, ROE, and Tobin's Q.

There are several implications of this research. Firstly it is a consideration for management so that the presentation of sustainability reports is further improved. Then provide motivation and attention to pay attention to social responsibility within the company. The second provides information for investors to assess the company's performance from CSR disclosures and how it manages its financial structure as a basis for allocating funds to the company.

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