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Influence of CSR on Financial Performance with Non-Financial Aspects as Moderator

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ABSTRACT

This research examined the influence of Corporate Social Responsibility (CSR) on financial performance, moderated by non-financial aspects such as institutional pressure, environmental pressure, and governance. A sample of 32 manufacturing and mining companies listed on the Indonesia Stock Exchange (IDX) from 2015-2022, with 256 observations, was analyzed using the Generalized Least Square (GLS) method. The findings revealed that CSR positively impacts financial performance, aligning with legitimacy and stakeholder theories. Institutional pressure strengthened the positive relationship between CSR and financial performance. Conversely, environmental and governance pressures, particularly diversity in educational backgrounds, weakened this relationship. These results highlight the importance of CSR in enhancing financial outcomes and underline the moderating role of external pressures. The study suggests stricter CSR regulations in developing countries to ensure effective social responsibility practices, providing valuable insights for policymakers and organizations in balancing financial goals with social accountability.

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1. INTRODUCTION

Corporate social responsibility (CSR) states that companies are obligated to act in the best interests of stakeholders, including consumers, employees, shareholders, communities, and the environment. This responsibility covers various aspects of operations, including issues impacting the environment such as pollution, waste, and product and labor safety (Ghosh et al., 2019); (Miller & Akdere, 2019); (Chatterjee et al., 2022). CSR activities are increasingly attracting the attention of investors, customers, suppliers, employees, and governments around the world (Kabir & Thai, 2017). The importance of the activities has become an annual agenda for companies (Servaes & Tamayo, 2017). (Servaes & Tamayo, 2013); (Kaur & Singh, 2019).

In Indonesia, attention to CSR has increased due to the persistence of environmental cases arising from the impact of operations. For example, the waste case of PT Kimu Sukses Abadi (KSA) engaged in printing cartons and boxes, and the alleged nickel pollution by PT Harita (HALSEL, 2022). To mitigate the impact of environmental pollution, the government has issued regulations regarding waste management at the time of establishment permit and during operations. In Indonesia, regulations related to the implementation of CSR continue to evolve. Initially, companies were required to spend funds on social activities as stipulated in Law Number 40/2007 on Limited Liability Companies (PT). The regulations related to sustainability reports were also established in the Financial Services Authority Regulation Number 51 /POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies (Financial Services Authority, 2017).

Research on the relationship between CSR and financial performance has been conducted in Indonesia and globally, but the findings are inconsistent. Some research show a positive influence between CSR and financial performance (Mishra & Suar, 2010). (Mishra & Suar, 2010); (Raiyani & R, 2019); (Kabir & Thai, 2017); (Nguyen et al., 2018), ; (Awaysheh et al., 2020); (Long et al., 2020); (Okafor et al., 2021); (Oktamayuni, 2021). Further research is required since some results reported negative (Lioui & Sharma, 2012); (T. Wang & Bansal, 2012); (Rutledge et al., 2014); (Folajin et al., 2014); (Y. C. Chen et al., 2018); (Ben Saad & Belkacem, 2022) or no influence (Mulyadi & Anwar, 2012); (Sekhon & Kathuria, 2019); (Kemal & Eyupoglu, 2020). In addition, (Javed et al., 2016) considered the existence of contingency variables in analyzing the relationship between environmental performance, financial performance, and social responsibility. Contingency theory explains the determinants of corporate effectiveness, which include profit, customer satisfaction, as well as a combination of non-financial and financial measures (Ghofar & Islam S, 2015).

Contingencies comprise external and internal attributes, such as environmental conditions (Venkatraman & Ramanujam, 1986); (Geiger et al., 2006), organizational environment (Hofer & Schendel, 1978), and managerial characteristics (Gupta & Govindarajan, 1984). External attributes may include institutional pressures, which consist of the obligation to comply with laws, regulations, and social and ethical obligations (Epstein & Roy, 2003) (Epstein & Roy, 2003); (Tolmie et al., 2020); Jha and Aggrawal, 2020; (Jahid et al., 2023). The environment also includes efforts to implement CSR under conditions of uncertainty, such as the situation caused by COVID-19 (Golubeva, 2021); (Kim, 2023). Contingency factors related to managerial characteristics can be described through diversity in top management, which is part of corporate governance (Ganescu, 2012); (El-Bassiouny & El-Bassiouny, 2019).

Research conducted by (Kabir & Thai, 2017) used data on the main exchanges of Vietnam, namely the Ho Chi Minh Stock Exchange (HOSE) and the Hanoi Stock Exchange (HNX). A total of 524 companies were obtained with 1,960 unbalanced observations by using purposive sampling. The regression results show that CSR activities have a positive influence on financial performance. Corporate governance features, such as foreign ownership, board size, and board independence, strengthen the positive relationship between CSR and financial performance. However, no similar impact of government ownership was reported. (Ben Saad & Belkacem, 2022) conducted research with a sample of French companies listed during the period 2006 to 2017. The final sample included 87 companies or 1,044 observations and the results reported that CSR had a significant positive relationship with financial performance. Research by (Ben Saad & Belkacem, 2022) showed evidence that the relationship between CSR and financial performance was mediated through the capital structure channel. In addition, (Rutledge et al., 2014) used data from the top 64 CASS state-owned companies for the period 2010-2011 in China. This research found a significant negative relationship between CSR performance and financial performance. Another research carried out by (Kristiani.L.A & Werastuti.D.Y, 2020) used data on service sector companies listed on the Indonesia Stock Exchange (IDX). Purposive sampling was adopted with a total sample of 9 non-financial service companies during the 2014-2018 period. The results showed that environmental and social performance had a positive influence on financial performance. Good Corporate Governance (GCG) strengthened the positive influence of environmental performance on financial performance. For social performance, GCG weakens the influence of social performance on financial performance. According to (Kristiani.L.A & Werastuti.D.Y, 2020), return on equity (ROE) is used as a measure of financial performance, while corporate governance uses a governance score.

The relationship between CSR and financial performance is inconsistent. Some research considered contingency variables, but others used moderating variables related to size of companies (Javed et al., 2016). Kaur and Singh (2021) suggested the adoption of non-financial aspects in analyzing the relationship between social performance and financial performance. Kristiani and Werastuti (2020) considered governance moderating variables limited to institutional ownership with non-financial service companies recorded on the IDX as a sample. Therefore, this research aims to identify and analyze moderating variables related to non-financial aspects. The variables consist of institutional, environmental, and governance pressure proxied by the presence of government regulations, COVID-19 conditions, and diversity of the board of directors.

This research provides several significant contributions in terms of methodology and conceptual. First, the results show empirical evidence of CSR on financial performance by considering non-financial aspects including institutional pressure, environmental pressure, and governance as moderating variables. Second, a new measurement of institutional pressure related to the implementation of government regulations is offered. This is carried out by analyzing the number of regulations issued related to the implementation of CSR in the manufacturing and mining sectors using secondary data. Some previous research that examined the influence of institutional pressure on CSR implementation used questionnaires to assess compliance with government regulations (Jha and Aggrawal, 2020; (P et al., 2020). However, the influence of binding regulations in strengthening CSR implementation cannot be determined by relying solely on questionnaires.

The structure of the discussion starts with an introduction describing CSR-related issues, and previous research on performance. Subsequently, this research presents relevant literature and hypothesis development, followed by the analysis stage and results.

Conclusions, implications of the results, limitations, and recommendations for future research are discussed.

Theoretical Framework

According to (Guthrie et al., 2007), corporate legitimacy is a condition in which the value system is consistent with a broader social value system owned by the surrounding community. In the view of stakeholders, corporate legitimacy can be built through integrity in the implementation of business ethics and increased CSR (Sriviana & Asyik, 2013). Stakeholder theory shows that the survival of companies is heavily reliant on the support of their stakeholders. This support can be obtained through the daily operations of companies. CSR disclosure can reflect the ability to establish good relationships with stakeholders. Therefore, the more extensive CSR disclosure, the better the support obtained (Brouwers et al., 2014). Contingency theory states that organizational effectiveness is influenced by characteristics appropriate to certain situations. The variables moderating the impact on organizational performance are known as contingencies (Donaldson, 2001). (Husted, 2000) and Ganesu (2012) explained that contingency variables in CSR implementation could include internal and external factors, such as business model, organizational culture, leadership, management quality, cultural diversity, and regulation. The institutional theory showed that regulations and laws in a country could force companies to conduct CSR activities (Golrida et al, 2020). The balance between strategy and context, including the diverse characteristics of the board of directors, can have a positive influence on performance under contingency theory. The uniqueness of the individuals facilitates the access to valuable resources. A diverse Top Management Team (TMT) contains wide range of information, skills, knowledge, and relationships, resulting in more informed decisions and better-implemented strategies. This can improve firm performance and resource-dependent theory.

The Influence of CSR (Corporate Social Responsibility) on Financial Performance

CSR refers to a strategy used to improve financial performance (Y. Wang et al., 2020); (Bashir, 2022). Based on stakeholder theory, CSR allows companies to build good relationships with different parties, such as consumers, employees, government, and society (Dmytriyev et al., 2021). By investing in CSR, companies can improve reputation and customer loyalty to drive sales and reduce business risks. CSR can also affect financial performance indirectly through increased employee motivation and productivity since employees tend to be more motivated to work in companies that care about social and environmental welfare (Kaur and shingh, 2021). Several previous research showed the positive influence of CSR and financial performance (Natalia, 2014); (Long et al., 2020); Okafor et al, 2021; Waaqiah et al, 2021).

H1: Corporate social responsibility has a positive influence on company financial performance

The Influence of Institutional Pressure on Moderating the relationship between Corporate Social Responsibility and Financial Performance

The institutional theory states that various forces affect organizations to adopt CSR practices (Fernando & Lawrence, 2014). Regulations and laws established in a country force companies to perform CSR activities (Golrida et al., 2022). Kaur and Singh (2021) explained that companies conducted activities related to CSR to fulfill the obligations set by regulations. (Scott, 2008) described the development of institutional theory to understand the influence of organizations on social, cultural, and political pressures. The issuance of

policies or regulations that require companies to implement CSR creates incentives to comply with applicable norms and maintain legitimacy. Mandatory CSR provisions have increased public trust and made organizations more responsive to philanthropic, legal, ethical, and economic responsibilities (Sharma & Singh, 2022). Considering institutional pressure, companies that comply with CSR regulations may gain more trust from stakeholders, potentially improving financial performance. Conversely, companies may face sanctions or reputational damage, which can negatively impact financial performance. (Pasamar et al., 2023) explained that the stakeholders mostly influencing the implementation of environmental practices were various government agencies. Legislation authorizes agencies to promulgate and enforce regulations, a form of coercive power. Government, peers, and the media are important institutional pressures on the adoption of CSR in India (Jha & Aggrawal, 2020).

H2 : Institutional pressure strengthens the positive influence of corporate social responsibility on financial performance.

The Influence of Environmental Pressure in Moderating the Relationship between Corporate Social Responsibility and Financial Performance

Environmental pressures due to COVID-19 pose significant challenges to operation of companies in terms of adjusting CSR strategies. During the pandemic, companies are faced with a global health crisis, supply chain disruptions, and economic uncertainty (Siahaan, 2020; Lateef and Akinsolure, 2021); (Djanegara et al., 2022). The pandemic is causing economic and financial hardship for companies in making difficult decisions regarding social and ethical behavior (Mahoney et al., 2024). In this situation, companies that can carry out CSR tend to gain a positive image to increase consumer loyalty, mitigate reputational risks, and operational efficiency. CSR performance and disclosure increased after the pandemic in the total aspect as well as the social, governance, and environmental dimensions. The relationship between CSR and financial performance will be stronger under conditions of high environmental pressure due to the pandemic and non-pandemic policy changes. CSR can be a strategic instrument in dealing with uncertainty, reducing the cost of regulatory compliance, and strengthening the relationship with stakeholders. The results showed that CSR activities were carried out quickly and systematically (Kim, 2022) since the COVID -19 pandemic negatively affected performance (Shen et al., 2020). (Shen et al., 2020), Djanegara et al, 2022). In addition, (Choi et al., 2023) found that CSR activities for suppliers positively influenced value of companies.

H3: Environmental pressure weakens the positive influence of corporate social responsibility on financial performance.

The Influence of Diversity of Directors' Educational Background in Moderating the Relationship between Corporate Social Responsibility and Financial Performance

In corporate governance structure, the educational background of the board of directors plays an important role in determining the direction of CSR strategy. For example, directors with diverse educational backgrounds from management, accounting, economics, law, or environmental science, tend to integrate various perspectives and expertise in the formulation and implementation of CSR policies. Diversity in backgrounds and education levels is associated with increased information and knowledge in the team (Williams & O'Reilly III, 1998). This enables companies to respond to social and environmental challenges more comprehensively and innovatively. In addition, diversity in educational backgrounds is needed to enhance problem-solving and decision-making capabilities in a dynamic industry environment (Díaz-Fernándá, 1998) (Finkelstein & Hambrick, 1996).

Directors with diverse educational backgrounds can improve the quality of strategic decision-making related to CSR. In this context, CSR programs fulfill social responsibilities and support financial goals. Synergies between CSR and business strategy can be identified to reduce risks and improve the reputation of companies. The relationship is more positive in companies that have directors with diverse educational backgrounds. The diversity at the board level can enrich perspectives in CSR management to amplify the positive influence of CSR on corporate financial performance. Meanwhile, (Boadi & Osarfo, 2019) showed a positive influence between educational diversity and performance.

H4: Diversity of directors' educational backgrounds strengthens the positive influence of corporate social responsibility on financial performance..

2. METHODOLOGY

Population and Sample

The population used are mining and manufacturing companies listed on the IDX in the 2015-2022 period. Purposive sampling is used and the criteria set to determine the sample include mining and manufacturing companies listed on the IDX during the 2015 period. These companies remained listed until 2022, publishing annual and financial reports from 2015 to 2022. Information related to environmental performance and social responsibility is obtained from annual reports, websites or sustainability reporting, and PROPER ratings issued by the KLHK (Ministry of Environment and Forestry of Indonesia). Based on the sample selection results, 32 companies that meet the criteria are obtained and listed on the IDX, with a total of 256 observations. This research uses data from annual reports, sustainability reporting, and PROPER ratings published by the KLHK.

Research Model

The research model for hypothesis testing uses the hierarchy model shown in models 1 2 and 3. The model is under the equation formulated by Khabir and Thai (2017) and Sutarti et al (2021).

Research model 1 is used to answer H1, which examines the influence of CSR on financial performance.

$$ROA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_x Control_{it} + \epsilon_{it} \dots \dots \dots (1)$$

Research models 2 and 3 were used for testing hypotheses H2, H3 and H4:

$$ROA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 TL_{it} + \beta_3 TL_{it} + \beta_4 DIV_LBP_{it} + \beta_x Control_{it} + \epsilon_{it} \dots \dots \dots (2)$$

$$ROA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 TL_{it} + \beta_3 TL_{it} + \beta_4 DIV_LBP_{it} + \beta_5 CSR*TL_{it} + \beta_6 CSR*TL_{it} + \beta_7 CSR*LBP_{it} + \beta_x Control_{it} + \epsilon_{it} \dots \dots \dots (3)$$

Description:

ROA_{it} is financial performance as measured by return on asset.

CSR_{it} is the responsibility of companies i in year t.

TLit is the institutional pressure of companies i in year t.

TLit is the environmental pressure of companies i in year t.

DIV_LBP is the diversity of the educational background of the members of the board of directors of companies i in year t.

Variable Definition and Measurement

The dependent and independent variables are financial performance and CSR, respectively. Meanwhile, moderating variables consist of Institutional Pressure (TI), Environmental Pressure (TL), and Governance proxied by the Diversity of Directors' Educational background (DIV_LBP). The control variables used include environmental performance, gender diversity, diversity of education levels, and size of companies.

In this research, ROA (Return on Asset) is employed as a measure of financial performance. ROA is defined as operating income divided by total assets (Khabir and Thai, 2017; Saad and Belkacem, 2022).

CSR serves as the independent variable and the related information is collected from annual reports. The implementation of CSR activities is directly proportional to information disclosure (Clarkson et al., 2008); (Khabir and Thai, 2017). In this research, CSR is measured using the GRI index by giving a score of 1 for disclosed items and 0 if not disclosed, then summing the items with a value of 1. The formula used includes $CSRI_j = \sum X_{ij} / N$, $CSRI_j$ = Corporate social responsibility index of companies j, $\sum X_{ij}$ = Number of items disclosed by companies j, N = Total number of items.

The moderating variables consist of Institutional Pressure (TI), Environmental Pressure (TL), and Governance proxied by the diversity of directors' educational backgrounds. Institutional Pressure (IT) focused on the influence of laws enforced on environmental practices and CSR using the number of regulations set by the government on manufacturing and mining companies. Jha and Aggrawal (2019) used a questioner to determine the impact of government regulations on CSR implementation. Pasamar et al. (2023) also adopted a questioner on the existence of laws/regulations in the implementation of sustainability (TBL) with a Likert scale. Abnormal environmental conditions refer to the pressure faced by companies during the COVID-19 period. A dummy variable is used to represent the pandemic, with a value of 1 and 0 indicating COVID-19 and non-COVID-19 periods, respectively (Shen et al., 2020; Djanegara et al., 2022). Previous research showed that CSR activities carried out by companies were conducted quickly and systematically (Kim, 2022). The diversity of educational specialization backgrounds shows the scientific fields obtained through formal education, as well as specialization backgrounds from the highest level of education (S1, S2, or S3) using the Blau Index. Educational specialization backgrounds are categorized into economics and business, law, engineering, science, and others (Carpenter, 2002); (Diaz Fernandez et al. 2014); (Sutarti et al., 2019).

The control variables considered include board diversity in terms of gender, age, education level, environmental performance, and size of companies. Previous research suggested that the diversity of the Top Management Team (TMT), particularly the board of directors, affected organizational strategy and performance (Wiersema & BANTEL, 1992); (Kilduff et al., 2000); (Olson et al., 2006). In Indonesia, the evaluation of the environmental

performance of national-scale companies was carried out through PROPER program by the Environmental Impact Management Agency (Bapedal). According to (Sarumpaet, 2005), environmental performance positively influence financial performance. In this research, environmental performance is measured based on PROPER rating achievements, which are announced annually by the Ministry of Environment. PROPER ratings are categorized into five colors, namely Gold, Green, Blue, Red, and Black. The assessment is achieved by scoring, where gold and black get the highest and lowest scores of 5 and 1, respectively. The size of companies is measured by the logarithm of total assets to engage in CSR activities. This variable is measured through the log of total assets (Khabir & Thai, 2017); (Djanegara et al., 2022); (Sutarti et al., 2021).

Methods of Analysis

Data analysis model used to test the direct influence is multiple linear regression analysis with panel data. This quantitative test uses econometric tools in the form of STATA software version 13. The research data is carried out with panel data processing using pooled least square, fixed effect method, and random effect model based on the best selection test. The classic assumption test for multicollinearity uses the VIF (Variance Inflation Factor) test, and the mean score above 10 shows multicollinearity. Based on the test, there is multicollinearity for several variables. Multicollinearity violations in this research were treated by centering.

3. RESULT AND DISCUSSION

Table 1 explains the descriptive statistics for the variables employed in explaining the impact of CSR on financial performance with non-financial aspects as moderating variables. The variables used are CSR, Institutional Pressure, Environmental Pressure, Diversity of the educational background of directors and financial performance (ROA).

Table 1. Descriptive Statistics of Overall Observations

No .	Variables	Sample Company	Observation	Mean (π)	Stdev (σ)	Min	Med	Max
Dependent variable								
1	ROA	32	256	0.033	0.093	-0.470	0.03	0.67
Independent variable								
2	CSR	32	256	0.036	0.249	0.050	0.32	0.97
Moderating variable								
3	TI	32	256	5.375	1.802	3	4.5	8
4	TL	32	256	0.469	0.5	0	0	1
5	DIV_LBP	32	256	0.618	0.171	0	0.64	1
Control variable								
6	DIV_GEN	32	256	0.135	0.171	0	0	0.5
7	DIV_AGE	32	256	41.480	50.787	2.42	12.9	188.02
8	DIV_TP	32	256	0.333	0.200	0	0.38	0.76
10	KL	32	256	3.468	0.750	2	3	5
11	LOGASET	32	256	11.740	1.959	6.74	12.275	14.62

ROA: Corporate performance Return on Asset from Profit divided by total assets; CSR using the GRI index; Institutional Pressure (TI): using the number of regulations/regulations set by the government related to CSR and the environment; Environmental Pressure (TL): using a dummy variable covid period worth 1; DIV_LBP: educational background/educational specialization of Directors; DIV_GEN: gender of directors; DIV_USIA: age of Directors in the coefficient of variation; DIV_TP: diversity of education levels of Directors; KL: Environmental performance measured by PROPER; LOGASET: Logarithm of assets.

From the descriptive statistics, the financial performance variable based on ROA has a mean of 0.033 and a median of 0.03. Therefore, most companies listed on the IDX have positive net income. Based on sample data consisting of 32 companies, 53%, and 0.47% have positive and negative ROA values, respectively. The standard deviation of 0.093 indicates a modest variation in ROA. This research reports that CSR is an independent variable with a mean of 0.36. The disclosure of sustainability reports based on GRI in companies recorded on the IDX is low. The standard deviation value of 0.249 shows considerable variation in the value of CSR.

The three moderating variables include Institutional Pressure (TI), Environmental Pressure (TL), and governance proxied by Director Educational Background (LBP). Based on Table 1, institutional pressure has a mean of 5.375. The standard deviation value of 1.802 shows considerable variation from annual implementation, indicating the addition of regulations. Environmental pressure (TL) has a mean of 0.46 with a standard deviation of 0.5 showing considerable variation. The diversity of directors related to educational background (IBLBKI) has a mean of 0.618. This shows that the level of diversity of educational backgrounds in sample companies tends to be different. The standard deviation of 0.171 reports considerable variation in the value of educational background diversity (DIV_LBP).

Table 2. Correlation of CSR and Performance Research Variables and Moderation

Variables	1	2	3	4	5	6	7	8	9	10
1. ROA	1									
2. CSR	0.247 ***	1								
3. TI	-0.060 ***	-0.422 ***	1							
4. TL	0.104 *	0.269 ***	0.222 ***	1						
5. DIV_LBP	-0.041	-0.121 **	0.101 **	-0.082	1					
6. DIV_GEN	0.032	0.310 ***	-0.195 ***	0.098	0.155 ***	1				
7. DIV_AGE	-0.050	-0.176 ***	0.217 ***	-0.100 *	0.237 ***	0.057	1			
8. DIV_TP	-0.041	-0.046	-0.069	0.017	-0.01	0.020	0.153 **	1		
9. KL	-0.004	-0.069	0.411 ***	-0.013	0.037	-0.187 ***	0.245 ***	0.123 **	1	
10. Log_Aset	0.037	0.251 ***	-0.441 ***	0.037	0.097	0.133 **	-0.27 ***5	-0.176 **	-0.189 **	1

* p<0.1, ** p<0.05, *** p<0.001

ROA: Corporate performance Return on Asset from Profit divided by total assets; CSR using the GRI index; Institutional Pressure (TI): using the number of regulations/regulations set by the government related to CSR and the environment; Environmental Pressure (TL): using a dummy variable covid period worth 1; DIV_LBP: educational background/educational specialization of Directors; DIV_GEN: gender of directors; DIV_USIA: age of Directors in the coefficient of variation; DIV_TP: diversity of education levels of Directors; KL: Environmental performance measured by PROPER; LOGASET: Logarithm of assets.

Data source: Processed secondary data

According to the correlation test, CSR variable has a significant positive correlation with financial performance. Institutional pressure, environmental pressure, and educational background have a weak correlation with financial performance but possess a significant correlation with CSR.

H1 shows the influence of CSR on financial performance (ROA). The results of the investigation of the model report the coefficient value of CSR variable and performance (ROA) of 0.102 with *p-value* of 0.000 (*p-value* < 0.01), hence, H1 is accepted. The significant influence of CSR with a positive direction on ROA indicates that CSR activities have a positive influence on financial performance (ROA). Previous research conducted by (Natalia, 2014; Long and Song, 2020; Okafor et al, 2021; Waaqiah et al, 2021) proved the positive influence of social responsibility on financial performance. Therefore, the results supported legitimacy and stakeholder theories, which emphasized the important role of CSR in improving public perception and maintaining good relationships. According to legitimacy theory, companies have a responsibility to fulfill expectations and obtain a "social license" to continue operating. CSR implementation shows commitment to social and environmental interests. By meeting the expectations of society and stakeholders, companies can enhance positive image to create a competitive advantage. This improved positive image contributes to improved financial performance, as reflected in higher ROA. CSR strengthens relationships with society and lowers the risk of social conflicts detrimental to the operations of companies. Stakeholder theory emphasizes that companies are responsible to shareholders, including employees, customers, local communities, and governments. Companies are expected to run relevant and effective CSR programs to fulfill the needs and interests of stakeholders. This increases customer loyalty, strengthens community relationships, and creates a better working environment for employees. For example, companies that include CSR in business practices tend to have a good reputation. This attracts more loyal customers, increases sales, and reduces operating costs due to harmonious relationships with stakeholders.

In H2, institutional pressure strengthens the positive influence of CSR on financial performance (ROA). There is an increase in R^2 from model 2 to 3 by 5.34%, and the interaction coefficient value between institutional pressure and CSR variables ($TI \times CSR$) on performance (ROA) is 0.033 with *p-value* 0.041 (*p-value* < 0.05) since H2 is accepted. The regression analysis results show that institutional pressure proxied by the number of regulations set by the government enhances the positive influence of CSR on financial performance. According to research conducted by Golrida and Saraswati (2020), regulations and laws force companies to carry out CSR activities. In a research carried out by Jahid et al. (2023), regression analysis results and neo-institutional theory showed that CSR reporting was significantly and positively related to the institutional environment. Neo-institutional theory states that companies tend to adopt practices expected by the external environment to gain legitimacy. Therefore, government regulations promoting CSR can be considered as a form of institutional pressure to create new norms or rules. The compliance of companies with regulations set by the government and competent authorities improves reputation and social legitimacy. Companies actively complying with CSR regulations can easily gain the trust of investors, customers, and stakeholders to improve financial performance. Therefore, the regulations supporting CSR are directly proportional to the institutional pressure of implementing CSR. In this context, CSR is a moral or social obligation, as well as a business strategy in line with the financial interests of companies in the long run. This research contributes to regulators by providing empirical evidence of the importance of policies and regulations set by the government in supporting the implementation of CSR. The implementation of regulations requiring companies to implement CSR and comply with regulations issued by the government is supported.

H3 shows that environmental pressure weakens the positive influence of CSR on financial performance (ROA). There is an increase in R^2 from Models 2 to 3 by 5.34%, and the interaction coefficient value is -0.079 with *p-value* of 0.040 (*p-value* < 0.05) since H3 is accepted. The regression analysis results show that environmental pressure, proxied by the existence of an uncertain situation weakens the positive influence of CSR on financial performance. The results align with

Shen et al. (2020) and Djanegara et al (2021), where the COVID-19 situation has an impact on reducing performance. Even though CSR activities increased, the COVID crisis put pressure on organizations to continue obligations (Shing and Sharma,2024).

Table 3. Results of Regression Models 1, 2, and 3 (Hypothesis 1, 2, 3, and 4)

Description	Predict	Var. Dep: PERF= ROA		
		Model 1	Model 2	Model 3
Independent Variable		Coef. (Prob t-stat)		
CSR	+	0.102 (0.000***)	0.111 (0.000***)	0.215 (0.041**)
Moderating Variable				
TI	+		0.042 (0.220)	-0.009 (0.169)
TL	-		0.003 (0.408)	0.035 (0.05**)
DIV_LBP	+		0.050 (0.106)	0.233 (0.000***)
Interaction				
CSR*TI	+			0.033 (0.041**)
CSR*TL	-			-0.079 (0.040**)
CSR*DIV_LBP	+			-0.396 (0.001***)
Control Variable				
DIV_GEN	+/-	-0.007 (0.422)	-0.017 (0.336)	-0.002 (0.482)
DIV_AGE	+/-	-0.097 (0.476)	-0.001 (0.438)	--0.001 (0.286)
DIV_TP		-0.058 (0.040**)	-0.497 (0.077*)	-0.054 (0.059)
KL		-0.002 (0.393)	-0.006 (0.294)	-0.009 (0.186)
Log_Assets		-0.003 (0.260)	-0.022 (0.324)	-0.002 (0.316)
Cons		0.059 (0.193)	0.002 (0.491)	-0.036 (0.339)
N		256	256	256
R ²		6.05%	9.75%	15.09%
R ² Change		6.05%	3.70%	5.34%
Chi2		15.02**	17.90**	32.68***

***, **, * Significance at the 1%, 5%, 10%, levels

ROA: Corporate performance Return on Asset from Profit divided by total assets; CSR using the GRI index; Institutional Pressure (TI): using the number of regulations/regulations set by the government related to CSR and the environment; Environmental Pressure (TL): using a dummy variable covid period worth 1; DIV_LBP:

educational background / educational specialization of Directors; DIV_GEN: gender of directors; DIV_USIA: age of Directors in the coefficient of variation; DIV_TP: diversity of education levels of Directors; KL: Environmental performance measured by PROPER; LOGASET: Logarithm of assets.

To generate sustainable shareholder value, many companies had to change corporate strategies to respond to the COVID-19 pandemic (George, 2020). Some initiated philanthropic activities as an opportunity to stand out from competitors and increase goodwill among employees, customers, and society (H. Chen et al., 2022). To save consumers from price squeeze, product prices were reduced as a proactive measure (Schwartz & Kay, 2023). However, COVID-19 condition can reduce the positive influence of CSR on financial performance since CSR activities require funds. The level of cost sustained increased due to the increase in CSR activities, such as donating health aid, providing financial support for affected communities, or funding social programs. In difficult economic conditions, these expenses increase financial stress. Instead of having a direct positive influence on financial performance, increased CSR activities may become a burden for reducing profits or increasing liquidity pressures. Increased CSR activities during the pandemic may be a response to social or governmental pressure. However, the efficiency and effectiveness of CSR in improving financial performance are reduced when CSR activities are carried out to meet external demands without careful planning and balance with business strategy.

Hypothesis 4 examines the influence of the educational diversity of the board of directors, as a component of corporate governance, in moderating the relationship between CSR and financial performance. According to Table III, there is an increase in R^2 from Models 2 to 3 by 5.34% with an interaction coefficient value of -0.396, CSR variable (DIV_LBP*CSR) on performance (ROA) of -0.079, and p -value 0.001 (p -value < 0.01) since H3 is rejected. The regression analysis shows that governance proxied by educational background diminishes the positive influence of CSR on financial performance. (Knight et al., 1999) found that educational diversity is negatively associated with decision-making consensus in TMT. Diversity can improve the level of discomfort and conflict, decreasing social integration in the team (Elsaid, 2012). This creates a variety of perspectives and priorities in decision-making. Based on *resource dependence theory*, demographically and cognitively diverse directors are expected to support capabilities because the boards have better access to information and networks (Bryant & Davis, 2012). In the context of CSR, these different views may lead to a misbalance in CSR implementation strategies. For example, directors with a financial education background focus more on efficiency and cost control. Meanwhile, directors with a social or environmental background may promote greater investment in CSR. This disagreement can lead to ineffective or unfocused initiatives, weakening the positive influence of CSR on financial performance. The different understandings of CSR can lead to lengthy debates or confusion in the implementation of strategies. Therefore, initiatives may become less organized, focused, or not run as planned, lowering positive influence on financial performance.

4. CONCLUSION

In conclusion, this research aimed to examine the influence of CSR on performance, with non-financial aspects as moderating. The non-financial aspect variables consisted of institutional pressure, environmental pressure, and governance proxied by the diversity of the educational background of directors. The findings indicated that (i) CSR positively influenced financial performance. These findings provided an understanding that high CSR activities improved financial performance, supporting legitimacy and stakeholder theories. (ii) Institutional pressure strengthened the positive influence of CSR on improving financial performance, (iii) Environmental pressure weakened the positive influence of CSR on improving financial performance, as well as (iv) Corporate governance proxied by the

diversity of directors' educational background weakened the positive influence of CSR on improving financial performance.

Concerning the implications, the results provided an understanding that CSR activities carried out by companies could improve financial performance by increasing stakeholder confidence. In addition, this research could provide an understanding to companies regarding the importance of managing CSR expenditure strategies under financial conditions during times of environmental uncertainty. This was because improper management of CSR activities during times of unstable environmental pressures reduced financial performance. In addition, companies also need to properly coordinate diversity at the director level to support the successful implementation of CSR and ensure balance in strategies among directors, regardless of educational background. Companies must develop a clear and mutually agreed CSR framework or policy to avoid divisions or conflicts of priorities with the capacity to reduce the effectiveness of CSR in supporting financial performance. Regulators need to enforce CSR-related regulations to implement social and environmental responsibility programs with measurable and real impact. This can strengthen incentives for companies to carry out CSR consistently, because of strong institutional support. Regulators can consider providing tax incentives or subsidies to companies that successfully conduct CSR with a significant impact on the environment and society, specifically during crisis conditions such as a pandemic. Companies will be more encouraged to continue practicing CSR despite external challenges such as environmental pressures or pandemics by providing incentives. Investors need to pay attention to the commitment of companies as an indicator of assessing long-term prospects. Companies with consistent execution of CSR tend to have a better reputation, strong customer loyalty, and lower risk. This improves financial performance and provides positive returns for investors.

In the context of the limitations, only samples of mining and manufacturing companies listed on the IDX were used. Future research could include data from other sectors and cross-country samples to obtain more generalized results. This research developed a measurement of the number of government regulations related to CSR and the environment generalized to all types of companies. Future analyses could specify the type of rules for each type of industry and sector. The results reduced performance since the influence of CSR on financial performance was only measured when analyzing the moderating variable of environmental pressure proxied by COVID-19 conditions. Therefore, further research could be carried out to measure the impact on the value of companies.

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