International Journal of Accounting and Management Research

E-ISSN : 2721-1126, P-ISSN : 2721-1118
Available online at:
https://ejournal.itbwigalumajang.ac.id/index.php/ijamr

The Role of Corporate Social Responsibility and Environmental Performance on the Company's Financial Performance

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ARTICLE INFO

Date of entry:
27 August 2025
Revision Date:
5 September 2025
Date Received:
8 September 2025

ABSTRACT

This research aims to test and analyze the influence of corporate social responsibility and environmental performance on the company's financial performance. This type of research is a descriptive quantitative research and uses secondary data. The population of this study is manufacturing companies that meet the requirements and operate from 2021 to 2023 The research sampling technique was carried out by purposive sampling method. The manufacturing companies that were the research sample that met the criteria amounted to 25 companies in a 3-year period. This study used multiple linear regression analysis and hypothesis testing. The results of this research hypothesis test show that corporate social responsibility has a positive effect on financial performance, where the company has managed the effectiveness of its resources well. And environmental performance also has a significant effect on the company's financial performance.

Keywords: Corporate Social Responsibility, Environmental Performance and Financial Performance.

Cite this as: Yulianti, A., Paramita, R. W. D., Ana, S. R., Jualiasari, D., & Sochib, S. (2025). The Role of Corporate Social Responsibility and Environmental Performance on the Company's Financial Performance. *International Journal of Accounting and Management Research*, 6(2), 44–51. https://doi.org/10.30741/ijamr.v6i2.1718

INTRODUCTION

In facing the era of globalization and business progress in the industrial sector at this time, of course there will be fierce competition between businesses. Therefore, companies are required to be able to innovate in carrying out their business activities. To improve company performance, all businesses must be able to take advantage of the maximum possible business potential. The measure of success of the financial performance of each company can be measured by the achievement in generating a profit. Financial performance is also used as a basis for stakeholders to make a decision about investing in terms of the company's capital. The excellence of a company's performance, especially from the financial aspect, is often illustrated by financial performance indicators, especially in terms of how well the company is able to generate profits (Meiyana A and Annisa M.N., 2018). In increasing the company's profits, management is not only focused on financial aspects but also must pay attention to environmental aspects to increase long-

E-ISSN : 2721-1126, P-ISSN : 2721-1118
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term resilience.
When it comes to environmental aspects, the community plays an important role in the company's operations. In the theory of legitimacy, it is important for a company to obtain formal approval or recognition from the community around the company to be able to continue its operational activities (Supadi & Sudana, 2018). The approval is usually conditional because the livelihood of the company's community is more or less influenced by the operational activities of the company itself. Environmental performance has a negative impact if it is poorly managed This usually leads to environmental damage that makes the company have to spend significant costs and will automatically affect the company's financial performance. On the other hand, good environmental management can increase operational efficiency and reduce environmental risks, which will certainly have a good impact on the company's financial performance.

Environmental problems must indeed be more of a concern than all parties. In Indonesia, the government has been working to encourage increased corporate responsibility for the environment since 2002. In that year, the government and the Ministry of Environment issued a policy called PROPER in order to develop the performance of an organization in environmental management. This PROPER policy assesses the environmental management carried out by a company and provides various color indicators for the final results of the environmental management activities.
In addition to PROPER, there is also Corporate Social Responsibility (CSR). The concept of CSR describes the company's aspects ranging from social aspects, environmental aspects, and financial aspects. The company's CSR program can be carried out through three pillars, namely profit, people, planet (3P). CSR programs have an impact on financial performance because when CSR programs are carried out by companies, such as occupational safety and health (K3) training for employees, health and education programs for the community, and clean water programs. This explains that the purpose of business is not only to make profits but also to prosper the community and preserve the environment (Suciwati, Pradnyan, and Ardina. 2016). Corporate Social Responsibility is one of the factors that has an impact on the company's financial performance. A socially and ecologically responsible business is one that is dedicated to driving sustainable economic growth through improving the environment and quality of life while benefiting the general public, the surrounding community, and the business itself. Overall, working conditions have the potential to negatively affect a company's revenue apart from the impact of corporate social responsibility.

Corporate Social Responsibility is a form of corporate responsibility for its operational activities that have an impact on the environment and the social environment. Companies that disclose Corporate Social Responsibility information in financial statements and annual reports show that the company has contributed to preserving the environment and maintaining social relationships. With the disclosure of this positive information, public trust can be increased. Investors are interested in investing in companies that have a good image in the eyes of the public and have concern for the environment. The disclosure of Corporate Social Responsibility information can make stakeholders motivated to identify activities and costs in carrying out social responsibility with the aim of improving the quality of the environment and the welfare of parties related to the company, The better the company's accountability to environmental sustainability, the better the company's image (Hariati and Rihatiningtyas, 2016)

Based on previous studies that produced diverse findings, this study will re-test the role of CSR and environmental performance on the company's financial performance.

METHODS

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This study uses a descriptive quantitative research methodology. Financial performance, environmental performance, and corporate social responsibility are the main topics of this research. The financial statements of companies that meet the requirements and operate from 2021 to 2023 are used as secondary data. The research sampling technique was selected using the purposive sampling technique from a population of 165 companies. The companies that were the research sample that met the criteria amounted to 25 companies in a 3-year period. This study used multiple linear regression analysis and hypothesis testing.

RESULTS AND DISCUSSION

a. Descriptive Analysis

Table 1. Descriptive Statistical Analysis Result

Descriptiv Statistic					
	N	Minimal	Maksimal	Mean	Std. Of Deviation
CSR	75	.0879	.5714	.300800	.1015694
Environmental Performance	75	3	5	3.35	.633
Financial Performance	75	.0012	25.3995	.745269	3.4364329
Valids N (list of wises)	75				

Source: SPSS Output, 2024 Based

On table 1, it can be seen:
1. CSRIj has a low value of 0.0879, a high value of 0.5714, an average of 0.300800, and a standard deviation of 0.1015694.
2. PROPER has a value of the lowest of 3 and the highest of 5. For the minimum value, almost all companies are ranked PROPER 3 from 2020-2022, while the maximum value of 5 is found in 2 companies.
3. *Return On Assets (ROA)* has a low value of 0.0012 and a high of 25.3995. In addition, the average financial performance is 0.745269 with a standard deviation above the average, which is 3.4364329.

b. Classic Assumption Test

1. Normality Test

Table 2. Normality Test Result

One-Sample Kolmogorov-Smirnov Test	
	Unstandardized Residual
N	75
Asymp. Sig. (2-tailed)	0,200

Source: SPSS Output, 2024

According to Table 2, the data is normally distributed because the Sig (2-tailed) value is 0.200, which is greater than 0.05. It meets the test requirement that the signal must be greater than 0.05.

2. Multicollinearity Test

Table 3. Multicolitarity Test

No	Variabel	Toleranc e	VIF	Conclusion
1	CSR	1,000	1,000	No Multicollinearity Occurs

2	Environmental Performance	1.000	1,000	No Multicollinearity Occurs

Source: SPSS Output, 2024

According to the results of the above test, the VIF CSR value is 1,000 and the environmental performance VIF value is 1,000, it can be seen that there is no evidence to show multicollinearity between independent variables because the VIF value indicates that < 10.

Meanwhile, the tolerance value in CSR is 1,000 and environmental performance is 1,000. The tolerance value of the independent variable results in > 0.1 which means that multicollinearity is not formed.

3. **Autocorrelation Test**

Table 4. Autocorrelation Test Results

D1	Du	Dw	4-d1	4-du	Conclusion 1,5709
	1,6802	**1,902**	**2,4291**	**2,3198**	No autocorrelation occurs

Sumber: *Output* SPSS, 2024

Table 4 shows the Durbin-Watson value of 1.902 obtained from the autocorrelation test. The results are 1.6802, 1.5709, and 2.3198 for du, 4-du, and dl, respectively. dU < dw < 4-dU = 1.6802 \ 1.902 < 2.3198 shows that there is no autocorrelation in linear regression models.

4. **Heteroscedasticity Test**

The results found that there was no apparent point pattern similar, which proves that there is no sign of heteroscedasticity in this form of regression.

Hypothesis Testing Result

1. **Multiple Linear Regression Test**

Table 5. Analysis of the Regresi Linier Berganda

No	Keterangan	Unstandardized Coeeficients
1	Konatant	-6.099
2	CSR	13.333
3	Environmental Performance	1.265

Source: SPSS Output, 2024

From the table above, the following equation is obtained:

$Y = -6{,}099 + 13{,}333\ X_1 + 1{,}265\ X_2 + e$

Based on the multiple linear regression table, the following equation is obtained:

1. The result of the constant in this study is -6.099 which means that the ROA value is -6.099 if the CSR variables and environmental performance are zero.
2. The value of the CSR variable coefficient of 13.333 shows that CSR increases by one unit, which means that the return on asset will tend to increase by 13.333 and vice versa.
3. The value of the environmental performance coefficient of 1.265 indicates that if environmental performance increases by one unit, the ROA will also increase and vice versa

2. **Coefficient of determination (R2)**

Table 6. Determination Coefficient Test Results (R2)

Mo el Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.458a	.210	.188	3.0961380

Source: SPSS Output, 2024

International Journal of ACCOUNTING AND MANAGEMENT RESEARCH
E-ISSN : 2721-1126, P-ISSN : 2721-1118
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It can be seen from the results of the calculation above that environmental performance and CSR variables each contributed 18.8%, while 81.2% was provided by other variables that were not included in the research model.

3. Uji F

Table 7. Result of the Simultaneous Significance Test (T Test)

ANOVA			
Model	**F**	**Sig**	**Conclusion**
Regression	9,580	0,000	Influential

Source: SPSS Output, 2024

The results showed that the significance level was 0.000, lower than the value of 0.05 (0.000 equals 0.05). This shows that environmental performance and CSR affect a company's financial performance simultaneously.

4. Uji T

Table 8 Result (t-test)

Coeffcients[a]			
Variabel	**T**	**Sig**	**Conclusion**
(Constant)	-3.596	.001	
CSR	3.762	.000	Significant Impact
Kinerja Lingkungan	2.226	.029	Significant Impact

Source: SPSS Output, 2024

It can be concluded as follows:

1) Corporate social responsibility has a significant impact on financial performance. Based on Table 8, CSR has a significance level of 0.000 < 0.05 or 0.000 < less than 0.05. As a result, H1 was approved, which shows that CSR influences financial success to some extent.
2) Environmental performance has a great influence on financial performance. Environmental performance has a significance level of 0.029 in Table 4.13, which is smaller than 0.05 (0.029 < 0.05). This means that H2 is accepted, which means that environmental performance has a partial influence on financial performance.

Discussion

The Influence *of Corporate Social Responsibility* on Financial Performance

The first hypothesis stating that corporate social responsibility (CSR) has a significant impact on financial performance is acceptable, as the results show a positive and meaningful influence of CSR on financial success. Financial performance reflects the company's ability to effectively utilize and manage its assets in generating profits, and CSR plays a crucial role in supporting this achievement. CSR activities are no longer viewed merely as additional costs or compliance requirements but rather as strategic investments that create both social and economic value. By engaging in CSR initiatives, companies contribute to social welfare, environmental preservation, and community development, which in turn foster stronger relationships with stakeholders and enhance the company's long-term financial sustainability.

This study reinforces the stakeholder theory, which emphasizes that businesses should not only prioritize shareholder interests but also consider the needs and expectations of various stakeholders, including customers, employees, local communities, and regulators. CSR activities communicated transparently demonstrate the company's commitment to social responsibility, thereby increasing stakeholder trust and legitimizing corporate actions. In this way, CSR serves as a bridge between corporate objectives and societal expectations, which ultimately strengthens the company's reputation and translates into improved financial outcomes.

The findings of this research are consistent with previous studies. Heryanto (2018) revealed that CSR has a positive effect on financial performance through its ability to enhance a company's image and public trust. Similarly, Wibowo and Faradiza (2020) found that CSR programs foster consumer loyalty, thereby increasing competitiveness and contributing to sustained financial performance. Brammer and Millington (2008) also showed that firms that actively invest in CSR tend to perform better financially in the long term, as their proactive engagement with stakeholders builds enduring trust and goodwill. These results are also supported by Margolis and Walsh (2003), who argued that companies integrating CSR into their strategy often experience superior financial performance due to reputational gains and reduced risks associated with social and environmental issues. From a practical perspective, the findings highlight the importance for managers and decision-makers to integrate CSR into core corporate strategy rather than treating it as peripheral philanthropy. Effective CSR initiatives not only enhance public perception but also generate tangible business benefits, such as increased consumer loyalty, greater employee satisfaction, stronger investor confidence, and reduced reputational risk. Therefore, companies should design CSR programs that align with stakeholder interests and corporate objectives, ensuring that these initiatives create measurable value for both society and the business.

Theoretically, this study strengthens the validity of stakeholder theory and legitimacy theory, both of which emphasize that businesses gain competitive advantage and sustainability when they operate in harmony with social expectations and demonstrate accountability to a broad set of stakeholders. Furthermore, the findings support the resource-based view (RBV), in which CSR can be considered a strategic intangible resource that contributes to long-term competitiveness and profitability. Thus, CSR is not only an ethical responsibility but also a strategic instrument for enhancing corporate financial performance in the face of dynamic business environments and growing societal demands.

The Influence of Environmental Performance on Financial Performance

The findings of this study show that a company's financial success is positively influenced by its environmental performance, thereby confirming the second hypothesis which states that environmental performance has a significant impact on financial outcomes. Companies that consistently demonstrate strong environmental performance not only signal efficiency in resource management and compliance with environmental regulations but also communicate long-term sustainability and corporate responsibility to stakeholders. This positive signal enhances investor confidence, strengthens consumer loyalty, and improves public perception, which together contribute to the overall improvement of financial performance. Strong environmental performance can also reduce operational risks, lower costs related to waste management and energy consumption, and create opportunities for innovation in green products and processes, all of which support long-term profitability.

This research corroborates the findings of Sulistiani and Fidiana (2018), who identified a positive correlation between a company's environmental performance and its financial results, emphasizing that environmental initiatives create added value for businesses. Earlier, Hart and Ahuja (1996) demonstrated that firms that improve their environmental management practices are able to reduce operating costs, minimize waste, and ultimately achieve higher profitability over time. Similarly, Clarkson et al. (2011) showed that environmentally responsible firms are perceived more favorably by stakeholders, leading to stronger investor support and higher firm valuation. These findings are also in line with Porter and van der Linde (1995), who argued that proactive environmental strategies can drive innovation and efficiency, transforming environmental responsibility into a source of competitive advantage. From a managerial perspective, the results suggest that companies should not view environmental performance merely as a compliance requirement but as an integral part of corporate strategy. Engaging in initiatives such as pollution prevention, waste reduction, energy efficiency, and sustainable resource utilization can strengthen competitiveness by lowering costs, improving operational efficiency, and appealing to environmentally conscious investors and customers. Firms that neglect environmental performance may face reputational risks, legal sanctions, and reduced market trust, while those that actively engage in sustainable practices are more likely to secure long-term business continuity and financial growth.

From a theoretical standpoint, the findings provide support for the natural resource-based view (NRBV), which argues that firms' capabilities in managing environmental resources can serve as unique and inimitable assets that generate sustained competitive advantage. This aligns with the view that environmental performance is not simply an external obligation but an internal capability that strengthens firm competitiveness. Moreover, the findings reinforce legitimacy theory by highlighting how strong environmental performance helps companies gain social acceptance and legitimacy, thereby ensuring continued access to critical resources such as capital, customers, and public support. In this way, environmental responsibility becomes both a driver of financial performance and a means of securing long-term organizational sustainability.

CONCLUSION

Based on the results of the research that has been conducted, several conclusions can be drawn as follows:

1) The test results showed a relationship between financial performance and corporate social responsibility. Companies that participate in CSR and conduct CSR disclosures can improve their financial performance by fostering positive public perception, building trust, generating consumer interest in their products, and attracting investors to invest.
2) The test results show that a company's financial success is influenced by environmental performance. Environmental performance is considered essential to the success of the company. Businesses that can achieve high environmental performance standards will be favored by investors and the general public. It is hoped that this positive reputation will attract more investors and increase sales turnover.

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