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The Effects of Corporate Social Responsibility on Firm Performance: The Moderating Roles of Firm Innovation Among Manufacturing Companies Listed on the Indonesia Stock Exchange

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ABSTRACT

This study aims to examine the effect of Corporate Social Responsibility (CSR) on firm performance with innovation as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange for the period 2016–2021. CSR is measured based on disclosure according to the Global Reporting Initiative (GRI) standards, while firm performance is assessed through Return on Assets (ROA). Firm innovation is measured using the ratio between R&D expenditure and total sales. Multiple regression analysis method is used to test three hypotheses. The results show that CSR has no significant effect on firm performance, but innovation has a positive and significant impact. When moderated by innovation, CSR positively affects firm performance, indicating that innovation strengthens the effectiveness of CSR. The control variable firm age is not significant, while size and firm growth positively influence firm performance. This study provides important insights into the relationship between CSR, innovation, and firm performance in the Indonesian manufacturing sector, as well as implications for executives, policy makers, and researchers in maximizing firm performance through the integration of CSR and innovation in developing countries

INTRODUCTION

The ideas regarding the role of Corporate Social Responsibility (CSR) have undergone a significant increase in recent decades, with the most recent ones discussing its impact on the long-term competitive advantage of companies (Berman, Wicks, Kotha, & Jones, 1999; Choi & Wang, 2009; Du, Bhattacharya, & Sen, 2011; Flammer, 2015; Waddock & Graves, 1997; Wang & Qian, 2011; Vishwanathan,

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Oosterhout, Heugens, Duran, & Essen, 2019; Saeidi, Sofian, Saeidi, Saeidi, & Saeidi, 2015). The concept of CSR which emerged and began to be widely implemented by companies in the world today began with the idea that their operational activities were influenced by the surrounding environment, so that their awareness of being responsible to the surrounding environment and to stakeholders emerged (Crane, Matten, & Spence, 2014; Sulkowski, Edwards, & Freeman, 2017).

CSR reflects the extent to which a company is actively involved in social initiatives in response to the diverse interests of its stakeholders (Carroll, 1979; Mattingly & Berman, 2006; McWilliams & Siegel, 2001; Wood, 1991; Jamali & Karam, 2016). CSR activities reflect the orientations of a company's stakeholders and often range from community outreach, cause-related marketing, employee wellness programs, to environmentally friendly manufacturing and procurement practices (Smith, 2003; Voegtlin & Greenwood, 2016).

Previous studies have tried to see and understand what is the background for companies to engage in CSR, although currently one of their strong reasons is regulations. CSR has a broad influence on corporate strategy and performance, so it is important to understand what factors drive corporate involvement in CSR (Brammer & Millington, 2008; Flammer, 2015). One of the strong reasons for them to carry out CSR activities is to promote and strengthen their reputation and social image (Godfrey, 2005; Kim, 2017) so that they can effectively differentiate themselves from other companies (McWilliams & Siegel, 2001; Fatma, Ruiz, Khan, & Rahman, 2020).

The success of companies through CSR activities has been proven by many studies. Previous studies have documented various business benefits of CSR, such as increasing product responses from consumers (Brown & Dacin, 1997; Du, Bhattacharya, & Sen, 2011), customer satisfaction (Luo & Bhattacharya, 2006), and brand evaluation during product loss crisis (Klein & Dawar, 2004; Islam, et al., 2021). Recent studies on branding have found that warmth and competence are two key dimensions of important brand evaluations and important company evaluations and that perceptions of brand warmth and perceptions of company warmth and competence influence consumer purchasing behavior and loyalty (Kervyn, Fiske, & Malone, 2012; Arikan & Güner, 2013).

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Consistent with this view, previous CSR studies have implicitly argued that CSR programs carried out by a company can increase customers' perceptions of warmth about the company (e.g., caring, trustworthy, having the best interests of the community at heart) and, as a result, generate various positive impacts such as customer loyalty (Du, Bhattacharya, & Sen, 2011; Klein & Dawar, 2004; Hur, Kim, & Woo, 2013). Current studies attempt to explore the influence of CSR on perceived warmth in order to explore its potential impact on firm competence, particularly in terms of innovation (Broadstock, Matousek, Meyer, & Tzeremes, 2020; Luo & Du, 2015).

As companies begin to engage in and pay greater attention to CSR and understand its importance, such accountability can become a business strategy (Bernal-Conesa, Nieto, & Briones-Peñalver, 2017; Reverte, Gómez-Melero, & Cegarra-Navarro, 2016). Business strategy is one of the main weapons for companies to compete in the market. Previous studies have also begun to pay greater attention to the factors that influence and what the influence of CSR is (Flammer & Kacperczyk, 2019; Surroca, Tribó, & Zahra, 2013).

Business strategy is one of the main weapons for companies to compete in the market. Previous studies have also begun to pay greater attention to the factors that influence CSR and what the influence of CSR is (Brammer & Millington, 2008; Harjoto & Laksmana, 2018). Several studies have shown that companies use CSR to improve their reputation and social image (Godfrey, 2005; Forcadell & Aracil, 2017) so that they are effectively differentiated from other companies. (McWilliams & Siegel, 2001). However, the other potential of the relationship between CSR and business strategy has not been thoroughly investigated. To understand this relationship further, we examine whether innovations undertaken by a firm can affect its involvement in CSR.

Innovation is one of the business strategies that is considered to be very important in improving a company's ability to compete. It is one of the key aspects of a company's competence since it allows the company to meet the changing needs of the market and is very important for the long-term profitability and survival of any company (Hauser, Tellis, & Griffin, 2006; Rajapathirana & Hui, 2018). It has been considered as a key factor determining the ability of companies to maintain their

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current competitive advantage (Brown & Eisenhardt, 1995; Miller, Fern, & Cardinal, 2007; Wadhwa & Kotha, 2006; Ferreira, Coelho, & Moutinho, 2020). The ability of companies to innovate helps them better respond to rapid and sudden environmental changes (Eisenhardt & Brown, 1999; Croitoru, 2012; Disanont & Khongmalai, 2020).

Every decision that concerns business strategy is an uncertain one; there is risk in every decision, and there is no guarantee that every decision will work as expected. Innovation is, by its very nature, very risky (Drucker, 1985; Kock, Gemünden, Salomo, & Schultz, 2011) and requires numerous specific investments for companies (Helfat, 1994). Stakeholders as investors will invest in companies that innovate with special assets, whose returns are highly uncertain. In addition, the innovation activities of companies are highly complex, and stakeholders may have little control over the process. The information asymmetry between the company and stakeholders becomes worse as the company engages in more innovation activities (Belloc, 2011; Diestre, Rajagopalan, & Dutta, 2014).

In this case, stakeholders may develop strong concerns about any transaction-specific investments with the focal firm. Therefore, before entering into a contract with a highly innovative firm, potential stakeholders, such as employees and suppliers, will consider whether the transaction-specific investments including human resources, skills/technology, equipment and facilities can generate sufficient returns for them. Because their investments are transaction-specific, it is too costly for stakeholders to terminate them once the contract with the firm has been made (Hart & Moore, 1998; Sarta, Durand, & Vergne, 2020).

If a firm is unsustainable, theoretically any transaction-specific investments will be wasted that stakeholders would prefer not to engage with the firm. Therefore, stakeholders face severe information asymmetry problems when they are dealing with highly innovative firms, but they are aware that innovative firms are competitive firms (Parida, Sjödin, & Reim, 2019). Therefore, this study tries to see innovation as a moderator between Corporate Social Responsibility and firm performance. The question of this study is how innovation in the industry either strengthens or weakens the effect of Corporate Social Responsibility on firm performance.

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The purpose of this study is to examine the effect of CSR on firm performance with firm innovation as the moderating variable and manufacturing companies in Indonesia as the samples. The research problem was approached by empirically proving the effect of innovation on the relationship between CSR and firm performance via statistical analysis tools, by discussing the statistical results, and by making conclusions based on the results of data processing and discussion. The novelty of this study provides evidence of the effect of innovation on the relationship between CSR and firm performance in Indonesia, a developing country that has just implemented CSR regulations for public companies. Second, this study expands the literature that has examined strategic management in developing countries and provides an overview of contemporary business competition. The roadmap of this study is also oriented towards research that leads to the topic of inclusive and sustainable governance.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy theory, the foundation of CSR practices, argues that organizations continually seek ways to ensure that their operations are within the boundaries and norms of the society (Deegan, 2002). In the context of CSR, companies seek to gain legitimacy from society through various social and environmental activities (Suchman, 1995).

Legitimacy is considered important for companies because the public's legitimacy towards the company is a strategic factor for the company's development in the future (O'Donovan, 2002). By carrying out CSR, companies strive to create harmony between the social values inherent in their activities and the behavioral norms that exist in the social system of society because they are part of that system (Dowling & Pfeffer, 1975).

Furthermore, in the context of developing countries such as Indonesia, government regulations that require public companies to implement CSR indicate that corporate legitimacy is obtained not only from the community but also through compliance with applicable regulations. Thus, legitimacy theory is relevant in

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explaining why companies in Indonesia listed on the Indonesia Stock Exchange (IDX) strive to fulfill CSR obligations to maintain their image and reputation.

In relation to firm performance, companies that have obtained legitimacy from the community are expected to improve their performance given the trust and support they receive from various stakeholders. By carrying out CSR activities that are in accordance with social expectations, companies are able to maintain harmonious relationships with stakeholders; this ultimately improves their performance. Legitimacy theory also helps explain why companies in developing countries, such as Indonesia, are increasingly focusing on CSR in response to social, political, and environmental pressures (Islam & Deegan, 2008).

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a concept that describes how companies are responsible for the social, economic, and environmental impacts of their activities (Carroll, 1979). CSR encompasses a wide range of activities, from environmental initiatives to social programs, designed to minimize the negative impacts and maximize the positive impacts of the company on the community (Carrol, 1991).

Previous research shows that CSR can provide various benefits for companies, such as better reputation, customer loyalty, and better relationships with stakeholders (Du, Bhattacharya, & Sen, 2011). In addition, CSR can also help companies differentiate themselves from competitors, especially in highly competitive industries (McWilliams & Siegel, 2001).

However, the impact of CSR on firm performance is not always positive. Several studies have found that CSR, if not implemented properly, can be a financial burden for companies (Friedman, 1970). Therefore, it is important for companies to consider how CSR can be integrated with their business strategy in order to provide maximum benefits.

Firm Performance

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Firm performance refers to the company's ability to achieve short-term and long-term goals and includes financial, operational, and strategic aspects. Firm performance can be measured through various indicators such as financial performance (profitability, ROA, ROE, and revenue growth), operational performance (efficiency, productivity), and non-financial aspects such as company reputation, employee satisfaction, and customer loyalty (Richard, Devinney, Yip, & Johnson, 2009).

The most common measure of firm performance is financial performance, which indicates how well a company generates returns for its shareholders. Some commonly used metrics are return on assets (ROA), return on equity (ROE), and net profit margin. In addition, Tobin's Q is also often used to measure market performance, which reflects the market value of a company compared to the value of its assets (Chakravarthy, 1986).

Firm Innovation

Firm innovation refers to the ability of companies to develop new products, services, or processes that can increase their competitiveness in the market (Schumpeter, 1934). Innovation is often considered as one of the key factors for the long-term success of companies because it enables them to meet changing customer needs and to cope with competitive pressures (Tidd & Bessant, 2018)

There has not been much research that discusses the role of innovations in moderating the relationship between CSR and firm performance, especially in Indonesia. (Anser, Zhang, & Kanwal, 2018) did not find the moderating effect of innovation between CSR and firm performance, but it might be different if the research was conducted in Indonesia. Innovative firms might be better able to leverage CSR initiatives to create more efficient or environmentally friendly products or processes, which could improve their financial performance and reputation (Luo & Bhattacharya, 2006). Nevertheless, unsuccessful innovations can exacerbate CSR-related risks, especially if the investment in innovation does not produce the expected results.

Hypothesis Development

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This study aims to examine the relationship between Corporate Social Responsibility (CSR), firm innovation, and firm performance in the context of manufacturing companies listed on the Indonesia Stock Exchange. The development of the hypothesis of this study was based on the Legitimacy Theory and the findings of Anser et al. (2018) supported by other relevant studies. The first hypothesis focuses on the relationship between CSR and firm performance. Anser et al. (2018) found a significant positive relationship between CSR and firm performance, which is in line with the Legitimacy Theory and previous studies. For example, Du et al. (2011) found that CSR can increase customer loyalty and positive product responses, while Luo and Bhattacharya (2006) demonstrated that CSR can increase customer satisfaction. In the context of developing countries, Jamali and Karam (2018) pointed out that CSR is increasingly considered an important factor in increasing legitimacy and firm performance. In Indonesia, where regulations on CSR for public companies have been enacted, compliance with CSR practices can help companies avoid legal and reputational risks and at the same time improve their performance. Based on these arguments, the first hypothesis was formulated as follows.

H1: Corporate Social Responsibility influences the performance of manufacturing companies listed on the Indonesia Stock Exchange.

The second hypothesis is related to the relationship between firm innovation and firm performance. Anser et al. (2018) found a positive direct relationship between innovation and firm performance. This finding is supported by many other studies. For example, Rajapathirana and Hui (2018) indicated that innovation enables firms to meet changing market needs and that it is critical to long-term profitability. Then, Ferreira et al. (2020) asserted that innovation is a key factor in maintaining a firm's competitive advantage. In the context of developing countries, Wadho and Chaudhry (2018) found that innovation contributes significantly to the performance of textile and apparel manufacturing firms in Pakistan. Given the importance of innovation in the manufacturing industry and its potential as a differentiating factor in the competitive market in Indonesia, the second hypothesis was formulated as follows.

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H2: Firm innovation influences the performance of manufacturing companies listed on the Indonesia Stock Exchange.

The third hypothesis addresses the role of innovation in the relationship between CSR and firm performance. Interestingly, Anser et al. (2018) did not find the moderating effect of innovation in the relationship between CSR and firm performance. However, other studies have shown different results. For example, Martinez-Conesa et al. (2017) found that innovation mediates the relationship between CSR and firm performance among SMEs in Spain. This difference in findings may be due to the use of different contexts, including the specific factors of countries or industries. Given that Indonesia is a developing country with unique characteristics in CSR regulation and manufacturing industry dynamics, it is important to examine the role of innovation in this context. Therefore, the third hypothesis was formulated as follows.

H3: Firm Innovation moderates the relationship between Corporate Social Responsibility and firm performance among manufacturing companies listed on the Indonesia Stock Exchange.

The testing of these hypotheses will provide valuable insights into how CSR and innovation affect firm performance in the context of the manufacturing industry in Indonesia. The results of this study are expected to provide important contributions to the literatures by expanding our understanding of the relationship between CSR, innovation, and firm performance in developing countries and by providing practical implications for managers and policy makers in Indonesia.

Roadmap of Research

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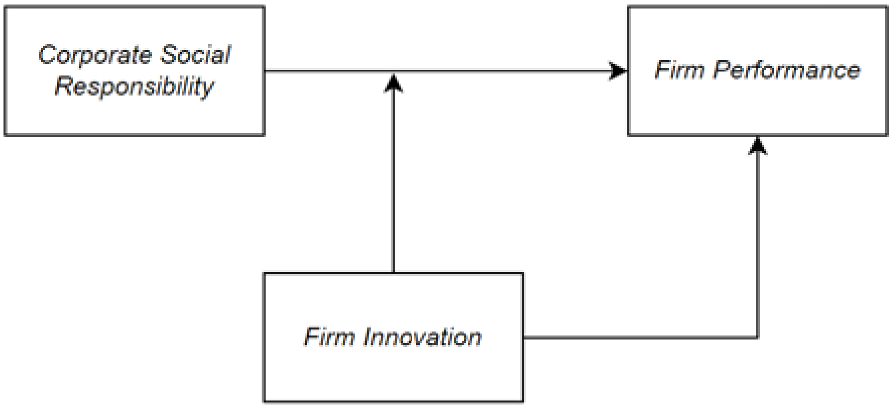

Fig. 1. Roadmap of research

METHODS

This research is a quantitative research that tests the hypothesis (Sekaran, 2003). Quantitative research, according to Sekaran (2003), is research that uses samples from a population, tests them using statistical tools, and draws conclusions. Here OLS regression was used to empirically prove the influence of innovation on the relationship between CSR and firm performance. The phenomena discussed in this study were built based on the Legitimacy Theory, which is used to explain the relationships between the variables built. The relationships were also supported by the findings of previous studies. The population consists of manufacturing companies listed on the Indonesia Stock Exchange (BEI) during the 2016-2021 period. This study uses secondary data, namely financial reports, company annual reports, and sustainability reports of the said companies and of the same period compiled into panel data, a combination of time-series and cross-sectional data. Then, the samples were selected using purposive technique in order to obtain samples that can represent the population. The criteria are (1) companies engaged in manufacturing industry listed on the IDX that publish annual reports for the 2016-2021 period, (2) companies whose reports contain the variables to be studied, (3) companies that have not been delisted during the observation period, and (4) companies that have posted their annual reports and sustainability reports during the 2016-2021 period on their official website. The independent variable of this study is CSR, while its dependent variable is firm performance, and the moderating variable is firm innovation. The control variables consist of firm size, firm age and firm growth.

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The operational variables used in this study are presented in the table below.

Table 1. Research variable

Firm-Specific Variables		Definition
No.	Dependent Variable: (Firm Performance)	
1	Return on Assets	Net income / Total Sales
	Independent Variable:	
2	Corporate Social Responsibility	The CSR disclosure score from the number disclosed items divided by the number of items listed on GRI
	Moderating Variable:	
3	Firm Innovation	R&D Expenses / Total Sales
	Control Variables:	
4	Firm Size	The natural logarithm of total assets
5	Firm Age	Number of years since the firm was listed
6	Firm Growth	Changes in total assets

The dependent variable of this research is firm performance as used in previous research. (Anser, Zhang, & Kanwal, 2018; Martinez-Conesa, Soto-Acosta, & Palacios-Manzano, 2017). Here Return on Assets (ROA) was used to measure firm performance. ROA is a common indicator used to measure a company's profitability and its efficiency in using assets.

The independent variable of this study is Corporate Social Responsibility which is measured using the CSR disclosure scores, which is the number of items disclosed by a company divided by the number of items according to GRI. This measurement has been done previously, that is by (Haniffa & Cooke, 2005). The use of GRI Standards as a reference ensures that CSR measurements cover comprehensive economic, environmental, and social aspects (Hedberg & Malmborg, 2003)

Firm innovation, the moderating variable, was measured using the ratio between Research and Development (R&D) expenditure and total sales, following the approach used by Anser, Zhang, and Kanwal (2018). This measure reflects the intensity of firm innovation and has been shown to be a valid proxy for innovation activity in various studies (Belderbos, Carree, & Lokshin, 2004).

This study uses control variables based on the research of Waddock and Graves (1997) and McWilliams and Siegel (2001). Control variables are used to reduce

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concerns arising from omitted variables that may affect firm performance. The control variables of this study are firm size, firm age, and firm growth. Firm size, measured using the natural logarithm of total assets, may affect performance because larger firms may have better economies of scale (Dang, Li, & Yang, 2018). Firm age, measured using the number of years since a company was listed on the stock exchange, was used as an indicator for a company's experience in running its business. Older companies tend to have better organization in terms of structure, processes, and systems (Alex, Segarra, & Teruel, 2013). Firm growth, measured using the percentage change in total assets from year to year, can reflect investment opportunities and future performance potential. (Demirgüç-Kunt & Maksimovic, 1998)

RESULTS

Descriptive Statistics Test

The main focus of this research is evaluating the influence of Corporate Social Responsibility (CSR) on firm performance, the dependent variable proxied by Return on Assets (ROA). CSR, the independent variable, is expected to affect the financial performance of the company. Then, firm age, firm size and firm growth were used as the control variables. The descriptive statistics are outlined in the table below.

Table 2. Descriptive Statistics

Variable	Mean	Min	Max	Standard Deviation
CSR	0.569	0.150	1.000	0.178
Firm Performance	0.051	-0.880	0.530	0.125
Firm Innovation	0.010	0.000	0.260	0.032
Firm Size	14.650	5.920	19.720	3.799
Firm Age	43.268	5.000	88.000	16.380
Firm Growth	0.080	-0.330	1.150	0.182

Source: Processed data, 2024

The results of the descriptive statistical test in table 4.1 indicate that CSR has a mean value of 0.569, ranging between 0.150 and 1.000, and the standard deviation score is 0.178. This shows significant variation in the implementation of CSR among the companies studied. The lowest CSR value is the one of PT Kalbe Farma Tbk. in

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2016, while the highest CSR value is the one of Perusahaan Gas Negara (Persero) Tbk. in 2021.

Firm Performance as the dependent variable was measured using ROA. The mean score of ROA in this study was 0.080, ranging from -0.330 to 1.150 and a standard deviation of 0.182. This shows a significant difference in the financial performance of the companies. Some companies show excellent performance, while others are less than optimal. For example, PT Sri Rejeki Isman Tbk. in 2021 had the lowest ROA, while PT Multi Bintang Indonesia Tbk. in 2017 had the highest ROA.

In this study, firm innovation functions as the moderating variable, either strengthening or weakening the relationship between CSR and firm performance. The average value of firm innovation is 0.010, ranging from 0.000 to 0.260, with the standard deviation of 0.032. Although the average value of innovation is low, there is significant variation between the companies. In 2016, PT Sampoerna Agro Tbk. had the lowest level of innovation, while PT Multi Bintang Indonesia Tbk in 2016-2021 and PT Darma Henwa Tbk in 2021 had the highest level of innovation. In addition to the moderating variable, this study includes control variables; they are firm size, firm age and firm growth.

Firm Size has an average value of 14,650, ranging from 5,920 to 19,720 and, and the standard deviation value of 3,799. This variation reflects significant differences in capacity among the companies. PT Merdeka Copper Gold Tbk is the smallest company in 2016, while PT Astra International Tbk is the largest company in 2021. Then, firm age has the mean value of 43.268, ranging from 5 to 88, and the standard deviation of 16.380. This variation shows a large difference in industry experience between companies. PT Merdeka Copper Gold Tbk. is the youngest company in 2016, while PT Unilever Indonesia Tbk. is the oldest company in 2021. The last control variable, Firm Growth, has the mean value of 0.080, ranging from -0.330 to 1.150, and the standard deviation of 0.182. This fluctuation in growth reflects significant differences in growth rates between companies. PT Sri Rejeki Isman Tbk in 2021 recorded the lowest growth, while PT Merdeka Copper Gold Tbk in 2018 showed the highest growth.

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By integrating CSR as an independent variable, firm performance as a dependent variable, firm innovation as a moderating variable, and firm size, firm age and firm growth as control variables, this study attempts to provide a deeper understanding of how CSR affects a company's financial performance and how additional factors may influence this relationship.

Direct Hypothesis Test

Table 3. Result of Direct Hypothesis Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
CSR -> Firm Performance	0.037	0.047	0.087	0.423	0.336
Firm Innovation -> Firm Performance	0.508	0.503	0.182	2.788	0.003**
Firm Age -> Firm Performance	0.024	0.019	0.096	0.248	0.402
Firm Growth -> Firm Performance	0.198	0.201	0.084	2.369	0.009**
Firm Size -> Firm Performance	0.175	0.171	0.061	2.87	0.002**
Note: *P < 0.05; **P < 0.01; ***P < 0.001					

Source: Processed data, 2024

In this study, multiple linear regression was used with the level of sig. of 5%, detailed in Table 4.2. Based on the table, this study finds that, first, there is no significant effect from Corporate Social Responsibility (CSR) to firm performance. Although CSR is expected to improve a company's financial performance, as measured by Return on Assets (ROA), this study did not find a significant impact of CSR on financial performance. Flammer (2015) found that the financial benefits of CSR may take longer to materialize and that they are more visible in the long term than in the short term. Furthermore, external factors such as the business environment and regulations also affect this relationship and could explain the rejection of the first hypothesis. Effective CSR does have the potential to improve a company's reputation and attract customers, as well as improve loyalty, which in turn can improve financial performance (Waddock & Graves, 1997). However, Aini and Hadiprajitno (2023)

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demonstrated that the positive impact of CSR on financial performance is not always significant, depending on how the programs are implemented and strategies are implemented by the companies.

Second, this study finds that firm innovation positively affects firm performance, supporting the second hypothesis. Innovation allows companies to improve their operational efficiency, introduce new products, and enable them to enter new markets; all of these contribute to improving their financial performance, as measured by Return on Assets (ROA). The results of Wadhwa & Kotha (2006) support this finding as they have shown that companies that innovate, either through external ventures or collaboration, tend to experience better financial performance. Innovation allows companies to more effectively respond to changes in the business environment, confirming the studies of Brown & Eisenhardt (1995) and Drucker (1985). In other words, innovation not only improves the efficiency and competitiveness of the company but also improves the reputation and satisfaction of stakeholders, which contributes to improving financial performance.

Regarding the control variables, firm age does not significantly affect firm performance. This may be due to the inability of older firms to adapt to changes in the business environment. Then, firm size positively impacts firm performance, because larger firms have resources and economies of scale that allow them to achieve higher efficiency. Finally, firm growth is also positively related to firm performance. Fast-growing firms can expand their markets and take advantage of new opportunities, which is ultimately followed by increased profitability as indicated by the ROA value.

Indirect Hypothesis Test

Table 4. Result of the Indirect Hypothesis Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (|O/STDEV|)	P Value
Moderation of CSR – Firm Innovation -> Firm Performance	0.542	0.548	0.186	2.919	0.002**
Note: *P < 0.05; **P < 0.01; ***P < 0.001					

Source: Processed data, 2024

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Based on Table 4, Corporate Social Responsibility (CSR) positively influences firm performance when moderated by firm innovation. Although CSR does not have a significant direct impact on firm performance as measured by Return on Assets (ROA), the effect of CSR becomes more pronounced and significant when the firms are involved in innovation activities. This means that innovation is a reinforcing factor in the relationship between CSR and firm performance. In this case, innovation enhances the effectiveness of CSR by enabling firms to translate their CSR efforts into better financial results. Firms with higher levels of innovation experience more significant performance improvements when they are also committed to CSR.

Legitimacy theory supports this finding by explaining that firms use CSR to build or strengthen their image in the eyes of the public and stakeholders, and they gain the social legitimacy needed to support their operational activities (Mattingly & Berman, 2006). However, CSR alone may not be enough to directly improve financial performance if it is not balanced with innovation that drives efficiency and the development of new products or services (Flammer, 2015). When companies combine CSR with innovation, they not only meet social expectations but also strengthen their overall competitiveness and performance. The studies of Brown & Dacin (1997) and Du, Bhattacharya & Sen (2011) demonstrate that effective CSR can improve a company's reputation and increase customer loyalty, but innovation allows companies to leverage CSR more effectively. Innovation provides more relevant and creative solutions, which strengthens the reputation of the companies in the eyes of stakeholders (Godfrey, 2005; McWilliams & Siegel, 2001). Thus, companies that are active in CSR and committed to innovation can reap greater benefits from their CSR efforts, ultimately enjoying improved firm performance.

CONCLUSIONS

This study presents empirical evidence about the influence of Corporate Social Responsibility (CSR) on firm performance with firm innovation as the moderating variable and manufacturing companies listed on the Indonesia Stock Exchange from 2016 to 2021 as the samples. The results indicate that the direct effect of CSR on firm performance is insignificant due to the diversion of firm resources from technological innovation to social initiatives and the influence of external factors such as the business

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environment and regulations. However, firm innovation significantly improves firm performance, supporting the hypothesis that innovation can improve efficiency and open up new opportunities that contribute to firm performance. Interestingly, CSR can positively affect firm performance when moderated by firm innovation, indicating that innovation strengthens the effectiveness of CSR in improving firm performance. The results of the analysis on the control variables indicate that firm age is insignificant in affecting firm performance, that firm size has a positive effect because larger firms have more resources, and firm growth is positively related to firm performance because rapid growth allows firms to take advantage of new opportunities.

SUGGESTION

Academics are suggested to further investigate how CSR, firm innovation, and firm performance are interrelated by considering other external and internal factors that may have an influence. The companies are suggested to balance the allocation of CSR and the allocation of technological innovation and to integrate them both to maximize the benefits of firm performance. Further research is suggested to use long-term analysis to understand the impact of duration of CSR and innovation on firm performance and to explore the differences of the impacts based on specific sectors or industries.

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