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IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CSR ACCOUNTING TREATMENT ON FINANCIAL PERFORMANCE OF MULTINATIONAL COMPANIES

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Abstract. This study explores the implementation of Corporate Social Responsibility (CSR) practices and their accounting treatment on the financial performance of multinational companies (MNCs). It investigates how MNCs incorporate CSR initiatives into their operations and how these initiatives are accounted for in financial reporting. The study analyzes the impact of CSR implementation and accounting treatment on various financial performance indicators of MNCs. The research aims to provide insights into the relationship between CSR practices, accounting treatment, and financial performance, contributing to the existing literature on CSR and corporate finance.

Keywords: Corporate Social Responsibility, CSR Implementation, Accounting Treatment, Financial Performance, Multinational Companies.

INTRODUCTION

In everyday life, economics is very necessary, especially to meet human needs. Therefore, economics is a very important science, because one of the progress of a

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country is determined by the state of the economy. This can be seen from the rapid development of the global economy, so that competition in the business world is getting tougher. One of the programs that can be carried out by companies to develop their companies at this time is the Corporate Social Responsibility (CSR) program, because CSR is closely related to the continuation of a company. As for the phenomenon or problem reported in beritasatu.com (2021) there is a case that occurred in a pharmaceutical company, namely PT Indofarma Tbk. Entering 2020, Indofarma's financial performance was under pressure again. The company recorded a sizable loss in the third quarter of 2020, namely Rp. 18.8 billion. in 2018 and 2019 in the same period, Indofarma also recorded losses, namely Rp. 35 billion and Rp. 34.8 billion. Not only that, the company also recorded a ratio of income to total assets or ROA of -1.69% and a ratio of income to total equity or ROE of -5.23% (Ivan and Sudjiman 2022).

CSR is the company's dedication to fostering sustainable economic growth by considering social accountability and highlighting the balance among economic, social, and environmental aspects (Murjana, et al 2021).CSR implemented in companies is not only to care about the environment but for stakeholders such as customers, creditors, employees, communities, and shareholders. With the existence of CSR in the company, it can make it easier to control the condition of the company and the surrounding environment whether it is in a good or bad condition. Therefore, management accounting is also needed to facilitate Corporate Social Responsibility. Management accounting is very helpful for businesses and companies, especially for managers to evaluate everything, especially in terms of decision making and establishing good management planning.

Management accounting can be seen as a field of accounting whose main objective is to present reports as costs for internal purposes to carry out the management process, including planning, organizing, directing, and managing. Specifically against controlling, identifying, analyzing, interpreting, and reporting information that assists managers in decision making. Recognition of the importance of engaging in CSR is a worldwide trend with an emphasis on giving priority to stakeholders. Where the advancement of information technology and market openness forces companies to be serious and open to paying attention to CSR (Murjana et al, 2021).The importance of companies to focus on the surrounding environment is for the continuation of the company.

"The concept of CSR was first introduced by Howard R. Bowen in 1953. Initially, CSR focused on 'philanthropic' activities, involving humanitarian efforts driven by universal norms and ethics to aid others and promote social equity. However, this concept has evolved into a strategy for enhancing the company's image (Murjana et al, 2021). CSR is an approach that supports sustainable development and provides economic, social, and environmental benefits for all business stakeholders. CSR can positively impact the company, as engaging in CSR activities can enhance public confidence in the company's products.

CSR activities that can enhance public trust in the company include addressing environmental damage caused by company operations. The implementation of CSR in Indonesia refers to the philosophy of community life, namely gotong-royong, thus the execution of CSR is a program that is very likely to be done.In Law Number 40 of 2007, CSR or Social and Environmental Responsibility is the A company's dedication to participating in long-term economic growth seeks to uplift living standards and the environment, benefiting the company, the local community, and society at large. CSR can fundamentally be implemented in every company. However, the challenges faced by one company differ from those encountered by others. One company that is interesting to look at is a manufacturing company in the goods and consumption industry sector of the pharmaceutical industry sub-sector. In accordance with the Law previously described, industrial goods and consumption companies are one of the companies whose operations involve nature and the surrounding environment. Industrial goods and consumption companies are required to carry out Social Responsibility and the environment around the community, because it involves natural resources and human resources. In addition to being responsible for the surrounding environment, CSR is also crucial for the company's financial performance. Companies are not only expected to be Socially Responsible to the surrounding environment, but also pay attention to the state of the company's financial performance itself. Financial performance is important because it is a factor for investors when deciding to partner with the company.

Good financial performance will affect the company's image (Putri, 2020). Financial performance in a company is an important part of increasing company profits. To be able to increase profits, companies must pay more attention to financial performance. According to (Julialevi and Ramadhanti, 2021) financial performance is an aspect of the company that is assessed by investors which reflects the company's performance. If investment decisions are the main consideration for investors, it will have high effect on the company's financial performance. The financial performance of a company is an important factor in assessing the overall performance of the company itself. Financial performance is means that the financial outcomes or achievements of a company, as reflected in its financial statements and reports, are directly related to its economic activities and operations. Changes in financial performance is determinable through examination of data and analyzing proportions in financial statements. The financial position of the company over a specific period, namely the performance of the financial sector, is measured and evaluated based on a numerical analysis of financial keys.

METHODS

A systematic literature review involves identifying, evaluating, and analyzing all existing research evidence to address specific research questions. The systematic literature review method entails identifying, evaluating, and interpreting all relevant findings related to interesting phenomena and pertinent questions.

RESULTS AND DISCUSSION

The implementation of CSR must be in accordance with the concept of triple bottom lines, which consists of profit, people and planet. In carrying out its activities, the company is able to generate profits, where the funds can later be used for CSR activities. CSR activities must also be able to enhance the well-being of the local community. In addition, CSR activities carried out by companies must also preserve the environment. Companies interact with individuals and the environment, prioritizing these relationships to attract customers, suppliers, employees, communities, and the surrounding environment. Additionally, they engage shareholders, investors, authorities, advocates, rivals, and other influenced parties (Jeje, 2017).

When a company discloses CSR activities and is carried out thoroughly, it will bring positive impacts to stakeholders and shareholders who have an interest in the company because it will make the information shared known to many parties about the performance of the company. This will create and foster a strong level of interest by stakeholders and shareholders. When consumers are able to accept the existence of the company and products or services from the company, it has a good impact so that it can generate large profits and ROE from the company. Research conducted by Danu Candra Indrawan (2017) states that according to the test results, it is evident that CSR variables positively impact the company's financial performance (ROE). Then research conducted by Mohamed Basuony (2014) states that CSR positively influences financial performance, bolstered by the observation that all CSR dimensions are significantly correlated with the company's financial results.

When investing in a company, investors usually utilize information obtained from the annual report to serve as a basis for consideration in making decisions to invest. CSR disclosures that are implemented will have an impact on providing freedom of disclosure made in the company's report which is a sign of a good signal that will be received by investors and will affect the level of investor confidence in the company to increase. If investor confidence in the company is considered high, investors will show a good response in the form of stock price movements that tend to increase. Research by Rosiana, Juliarsa and Sari (2013) shows that CSR disclosure has a positive and significant effect on firm value. Then there is research from Servaes & Tamayo (2013) showing the results that CSR affects firm value.

In addition to the importance of CSR, company management is mandated to have the responsibility of managing investor funds so as to provide benefits to them and seek sources of funds obtained from other investors to be able to develop the business they carry out. Annual reports can be used to attract investors to invest and invest their capital in the company. The report on the company's financial performance contains an overview of the company's financial status in a specific period. Assessment of financial performance can be done using financial ratio analysis tools such as profitability ratio analysis.

In modern economic conditions, companies tend to implement many social initiatives, this allows a substantial portion of a company's resources to be allocated through social reasons (Khoa, 2019). During the course of CSR programs, many companies have different views, needs and understandings of how they carry out social responsibility. Companies' perspectives on CSR-related issues vary, and companies also prioritize how they address the problems associated with implementing CSR programs.

Future CSR programs may also consider recent technological advances and their role as part of new business frameworks and strategies (Andrés, 2019). The use of technology in CSR activities is a challenge for companies to be able to go through competition not only in the scope of Indonesia, but also to compete with large companies in the world.

The results of several previous studies on CSR and corporate financial performance show discrepancies. Some studies, such as those conducted by Long, et al. (2020), Nguyen, et al. (2018), Okafor, et al. (2021), Salman Shabbir (2018), Rodriguez-Fernandez (2016), and Janamrung & Issarawornrawanich (2015), showed positive effects between CSR and financial performance. However, a study conducted by Shin, et al (2011) showed a negative relationship between CSR and financial performance. Other studies, such as those conducted by Kabir & Chowdhury (2022) and Hillman & Keim (2021), found no significant evidence of the effect of CSR on ROA. Similar findings were also revealed by Vásquez-Ordóñez et al. (2023), which showed that there is no influence between CSR and financial performance. In addition, previous studies have only examined the influence between these two variables, so further research is needed to deepen our understanding. In the context of an emerging economy, the role of audit quality is also very important to understand the influence between social responsibility and financial performance. Therefore, previous studies that only looked at the effect between the two variables should include empirical research on the role of audit quality.

The role of audit quality in supervision can help reduce agency problems in business group subsidiaries. Therefore, researchers will add this moderating variable in their research to provide a deeper understanding. There are various variables, such as the size of the public accounting firm, the industry in which the firm specializes, and audit fees that may have an impact on audit quality. According to the results of the study, BIG-4 KAP provides a more comprehensive evaluation, making it possible to identify misstatements (Francis, 2011). According to Francis (2011), the strong reputation of BIG-4 KAPs makes them considered superior in conducting audits compared to non-BIG-4 public audit firms. According to Francis (2011), auditors who have specialized expertise in a particular industry are more likely to achieve better results in detecting errors in financial statements.

Based on stakeholder theory, companies have obligations to all interested parties, including the government, society, the environment, political parties, and others, in addition to their shareholders. One way for companies to fulfill these obligations is through CSR initiatives. CSR initiatives can enhance a company's reputation in the eyes of its stakeholders. A good corporate reputation has benefits for the business. For example, a positive image improves consumer perceptions of the business, which in turn increases consumer engagement with the business. Better interaction with consumers corresponds to better financial success for the business. When a company's financial performance is strong, investor interest also arises, encouraging them to invest. Therefore, CSR is seen as a factor that can enhance the financial success of a company.

Research on the positive impact of CSR on corporate financial performance has been conducted by various groups. Studies by Laskar & Maji (2016) and Nguyen et al. (2018) show that CSR ratings and financial success in Asian firms have a positive relationship. These findings support previous research by Choi et al. (2010) which showed a positive correlation between charitable commitment, a measure used to quantify CSR, and corporate ROA in Korea. Research by Ramzan et al. (2021) found that CSR has a significant impact on the financial results of 20 commercial banks in Pakistan from 2008 to 2017. The results showed a strong relationship between the financial success of banks and CSR. This can be explained by the fact that banks spend on CSR initiatives to build strong relationships with their customers. RodriguezFernandez (2016) provides further insights based on his research in Spain, which shows a positive correlation between CSR and financial performance as seen from metrics such as ROA, ROE, and Tobin's Q.

According to agency theory, management is authorized to make decisions on behalf of the principal, who is usually the shareholder. Principals and agents have different levels of information, hence the problem of information asymmetry in agency theory. Therefore, it is assumed that the agent has more detailed information than the principal. One of the strategies used to overcome the information asymmetry problem is through auditing. With an audit, information that can be accessed by the principal is considered more accurate after going through the audit process. Quality audits must also be used to support the accuracy of information. Quality audits play an important role in reducing agency conflicts. It can improve the standard of strategic decision-making, especially those related to CSR. Information asymmetry between management and stakeholders in the agency results in agency costs, which drives the company's desire for auditors to demonstrate independence and stay away from opportunistic behavior. Research on the relationship between CSR and financial success, including the role of audit quality as a moderating factor, provides various points of view. One of the relevant studies is research conducted by Dakhli (2021) and other studies. This study shows that audit quality strengthens the relationship between CSR and financial success.

CONCLUSION

The implementation of Corporate Social Responsibility (CSR) must follow the concept of triple bottom lines that include profit, people, and planet. Companies are not only oriented towards generating profits, but also towards improving the welfare of society and preserving the environment. In carrying out CSR as a whole, companies can improve relationships with stakeholders and shareholders, which in turn can increase investor confidence and generate greater profits. However, research on the relationship between CSR and corporate financial performance shows mixed results. Some studies find a positive relationship between CSR and financial performance, while others show a negative or insignificant relationship. Audit quality also plays an important role as a moderating factor in the relationship between CSR and financial performance, which suggests that further research is needed to understand this dynamic in greater depth.

The importance of CSR lies not only in achieving corporate profits, but also in community welfare, environmental preservation, and strong relationships with stakeholders and shareholders. Comprehensive CSR disclosure can enhance corporate reputation and investor interest, which in turn can improve financial performance. However, research results regarding the relationship between CSR and corporate financial performance are mixed, and audit quality plays an important role as a moderating factor. Further research is needed to better understand the complex relationship between CSR, financial performance, and audit quality in the context of agency theory and stakeholder theory.

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