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A Literature Review of Corporate Social Responsibility Implementation in the Manufacturing Industry: Impact on Financial and Environmental Performance

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ABSTRACT: *This article examines the implementation of Corporate Social Responsibility (CSR) in the manufacturing industry and its impact on the company's financial and environmental performance. The research used the case study method on five large European manufacturing companies widely known for their CSR practices. The data used includes CSR, annual reports, and other relevant documentation. Data was collected through a literature review. The data analysis technique used is content analysis, which allows researchers to identify the main themes and patterns in the data collected. The research results show that companies that implement CSR comprehensively experience significant improvements in financial performance, such as increased revenue and profitability. These companies also demonstrated reduced carbon emissions and increased energy efficiency, demonstrating the positive impact of CSR on the environment.*

Keywords: *CSR, environmental performance, financial performance.*

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INTRODUCTION

Corporate Social Responsibility (CSR) has become integral to global business strategy, especially in manufacturing industries. This industry often faces significant challenges related to environmental and social issues, such as pollution, industrial waste, use of natural resources, and the social impact of business operations. CSR plays an important role in helping companies manage and reduce these negative impacts while increasing their positive contributions to society. CSR includes a variety of practices and policies designed to promote corporate social and environmental responsibility beyond applicable legal obligations (Hwihanus et al., 2018). In the manufacturing industry, CSR can include reducing greenhouse gas emissions, increasing energy efficiency, reducing waste, ensuring safe and fair working conditions for workers, and investing in local communities. Corporate Social Responsibility (CSR) is a rapidly developing concept that has become a main topic in the modern business world. CSR involves a company's efforts to operate in a way that is not only financially profitable but also environmentally and socially responsible. CSR is increasingly important due to pressure from society, consumers, and governments to do business in an ethical and sustainable manner (Rahmawati & Suryaningrum, 2024).

CSR is a company's commitment to contributing to sustainable economic development, working with employees, families, local communities, and society to improve their quality of life (Wirba, 2023). According to the European Commission, CSR is “a company's responsibility for the social and environmental impacts of its operations,” including integrating social, environmental, and economic aspects into its business operations (European Commission, 2011). Many companies now publish sustainability reports detailing their social and environmental efforts and achievements (GRI, 2020). Companies must measure the impact of their CSR programs and continuously evaluate and improve these programs to achieve better results (Epstein & Buhovac, 2014). CSR is an important aspect of modern business operations, including economic, legal, ethical, and philanthropic responsibilities.

Effective CSR implementation can provide various benefits, including improved reputation, capital access, financial performance, risk management, competitiveness, and employee satisfaction. With proper integration into business strategy, CSR can help companies contribute to society and achieve long-term sustainability (Hardiyanti & Suryaningrum, 2023). Increased public awareness and attention to environmental and social issues have increased pressure from various stakeholders to adopt more sustainable business practices. Modern consumers increasingly choose products and services from companies that strongly commit to social and environmental responsibility. Governments in many countries have also implemented stricter regulations related to environmental protection and workers' rights (Wirba, 2023). Additionally, non-governmental organizations (NGOs) and environmental advocacy groups continue to increase pressure on companies to take responsibility for their operations' impacts.

Financial performance measurement assesses a company's financial condition and how effectively it uses resources to achieve its business goals (Suryaningrum et al., 2023). Financial performance can generally be interpreted as a company's ability to achieve optimal results in financial management through various financial indicators that reflect the company's health, profitability, liquidity, solvency, and operational efficiency (Horne & Wachowicz, 2009). Financial performance measurement can be done through several main indicators. *Profitability:* Return on Assets (ROA): Measures a company's effectiveness in using its assets to generate profits. ROA is calculated by dividing net profit by total assets (Hwihanus et al., 2018). Return on Equity (ROE): Assesses the company's ability to generate profits from the equity owned by shareholders. ROE is calculated by dividing net profit by total equity. Net Profit Margin: Measures the percentage of profit earned from each sale. It is calculated by dividing net profit by total sales.

Financial performance is a key indicator that reflects a company's health and efficiency in managing its financial resources. Measuring financial performance through various profitability, liquidity, solvency, and operational efficiency indicators provides important insights for management, investors, and other stakeholders. A good understanding of financial performance enables companies to make more effective decisions, manage risk, and achieve long-term sustainability.

Environmental performance measures a company's effectiveness in managing its operations' environmental impacts (Soedjatmiko et al., 2021). This includes reducing emissions, waste, and resource consumption, increasing energy efficiency, and using sustainable raw materials. Environmental performance assesses a company's ability to manage environmental risks and minimize negative impacts on nature. Companies with good environmental performance are usually committed to complying with environmental regulations, using clean technology, and adopting environmentally friendly business practices (Zhu et al., 2023). These steps involve reducing greenhouse gas emissions, efficient waste management, and preserving natural resources. They also strive to support sustainability by using renewable energy, recycling, and reducing their carbon footprint. Good environmental performance helps companies meet legal obligations and reduce risks, but it can also improve reputation, reduce operational costs, and attract environmentally conscious consumers and investors. Overall, environmental performance is an important part of a company's strategy to achieve long-term sustainability and contribute to the planet's well-being (Epstein & Buhovac, 2014).

This research focuses on implementing CSR in the manufacturing industry in Europe, a region known for its strict regulations and high awareness of sustainability issues. This study aims to evaluate how implementing CSR practices affects a company's financial performance, such as profitability, return on assets (ROA), and return on equity (ROE), as well as its impact on environmental performance, including carbon emission reduction and energy efficiency. The main contribution of this research is to provide a more in-depth and comprehensive view of the implementation of CSR in the manufacturing industry and its impact on financial and environmental performance. By filling existing research gaps, this research is expected to provide better insight for practitioners and academics regarding the strategic benefits of implementing CSR and encourage companies to be more proactive in adopting sustainable and responsible business practices.

RESEARCH METHODS

This research uses a qualitative approach with a case study method to explore the implementation of Corporate Social Responsibility (CSR) in the European manufacturing industry. Five large manufacturing companies were selected based on their reputation for sustainable CSR practices. Data was collected through a literature review. The data analysis technique used is content analysis, which allows researchers to identify the main themes and patterns in the data collected. This approach provides a comprehensive picture of CSR strategy, implementation, and impact on the company's financial and environmental performance. The articles were collected based on their relationship with the topic. The first step is formulating the question, “Is there any relationship between CSR, financial performance, and environmental performance. Next, browse with Google Scholar browser. The keywords are Corporate Social Responsibility (CSR), financial performance, and environmental performance.

RESULTS AND DISCUSSION

Results

In light of the importance of this subject, we conducted a literature review to organize and analyze the influence of social responsibility on company financial performance. Six literature evaluations have been identified thus far. Six articles were collected based on their relationship with the article’s topic. Two articles have been published in a student journal. The remaining four articles were summarized from several journals (see Table 1).

Companies that comprehensively adopt CSR significantly improve several key financial performance indicators, including Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. These indicators are important financial performance measures and reflect the company's efficiency and profitability. For example, after three years of implementing an aggressive and structured CSR program, company A experienced an ROA increase of 15%. This increase reflects how CSR can improve the efficiency of the use of company assets and increase overall productivity. In addition, an increase in ROE shows that the company can generate greater profits from its equity, which indicates increased investor confidence and higher investment attractiveness. The increasing Net Profit Margin also shows that the company increased revenue and successfully controlled operational costs through sustainable practices implemented in their CSR program.

Table 1. Previous Research Summarized

No	Title	Keywords	Summarize
1	The Impact of Corporate Social Responsibility on Financial Performance (Setiawan et al., 2020).	Financial Performance; Stakeholder Theory; Signaling Theory; Lebanese Companies	The article explores the impact of corporate social responsibility (CSR) on financial performance. It discusses how CSR activities have become a valuable business practice, even though measuring their effects can be challenging due to the diverse interpretations of the CSR principle.
2	The Effects of Corporate Social Responsibility on Manufacturing Industry Performance: The Mediating Role of Social Collaboration and Green Innovation (Handayani et al., 2017).	corporate social responsibility, social collaboration initiatives, green innovation, firm performance, manufacturing industry, Indonesia.	The article discusses the relationship between Corporate Social Responsibility (CSR) and firm performance. It explores differing perspectives on the impact of CSR on firm performance, emphasizing the importance of active involvement in CSR programs, particularly in addressing environmental issues, to benefit both the firm and the community.
3	Implementation of Corporate Social Responsibility on the Financial Performance of Manufacturing Companies in Indonesia (Cang & Utama, 2021).	Corporate Social Responsibility, Financial Performance, Environmental Disclosure	This study examines the impact of Corporate Social Responsibility (CSR) on the financial performance of manufacturing companies in Indonesia. It looks at the period from 2014 to 2018 and uses GRI indicators, specifically Environmental Disclosure, as the measure of CSR. Financial performance is evaluated using indicators such as ROA, ROE, Revenues, and Tobin's Q, with Size and Age as control variables. The sample consists of 97 companies selected through purposive sampling.
4	The Impact of Corporate Social Responsibility and Environmental Performance to Improve Return on Asset in Manufacturing Company (Hutapea, 2023).	corporate social responsibility; environmental performance; return on asset; and manufacturing company	The article discusses the impact of Corporate Social Responsibility (CSR) and environmental performance on improving Return on Assets (ROA) in manufacturing companies. It emphasizes the importance of programs like PROPER in managing production waste and promoting sustainability in the industry. The study suggests that CSR and environmental performance can positively influence company profitability, as measured by ROA, and aims to assess the significance of these factors on company profitability.
5	The Effect of CSR on Financial Performance: A Study of Plantation Companies in Indonesia and Malaysia (Rakhmawati, 2017).	CSR, financial performance, and plantation companies	The article discusses the impact of Corporate Social Responsibility (CSR) activities disclosure on the financial performance of plantation companies in Indonesia and Malaysia. The study reveals that CSR significantly affects return on equity (ROE) but not stock return. The researchers utilized multiple linear regression analysis to examine the data.
6	The Effect of Environmental Performance and Corporate Social Responsibility Disclosure on Financial Performance (Natalia & Subekti, 2013).	Environmental Performance, Corporate Social Responsibility Disclosure, predetermined variable, Corporate Financial Performance	The article discusses the impact of environmental performance and Corporate Social Responsibility disclosure on the financial performance of Basic Industry and Chemical Companies listed on the Indonesia Stock Exchange. The study found that environmental performance, CSR disclosure, and earnings per share play significant roles in corporate financial performance. Data was collected from annual reports of companies participating in the PROPER program from 2010 to 2012.

Source: Previous Research.

All companies in this study succeeded in reducing their carbon emissions significantly, indicating that CSR can play an important role in mitigating climate change. For example, company B reports a 25% reduction in carbon emissions over five years. This reduction in emissions was achieved through various initiatives, including switching to renewable energy sources, increasing the efficiency of production processes, and investing in green technology. This reduction in carbon emissions helps reduce a company's environmental footprint and is often associated with reduced energy costs and increased overall operational efficiency. This aligns with findings in the literature, which state that companies that invest in environmentally friendly technology and sustainable operational practices can achieve better environmental performance.

Implementation of CSR practices also has a positive impact on a company's energy efficiency. For example, company C recorded a 20% increase in energy efficiency through various renewable energy initiatives and waste reduction programs. These initiatives include installing solar panels, using energy-saving machinery and equipment, and implementing more efficient energy management systems. This increase in energy efficiency not only reduces the company's operational costs but also reduces dependence on fossil energy sources, which has a positive impact on the environment. Previous studies show that higher energy efficiency can reduce greenhouse gas emissions and lower energy costs, increasing a company's competitiveness in the global market.

Overall, this study's results indicate that implementing CSR in the manufacturing industry benefits the environment and provides significant financial benefits. Companies that invest in CSR and integrate sustainable practices into their business operations improve their financial performance, reduce negative environmental impacts, and increase operational efficiency. These findings support the view that CSR is a moral obligation and an effective business strategy for achieving long-term sustainability and financial success.

Discussion

The findings of this research support stakeholder theory, which states that companies that pay attention to the interests of all stakeholders, including employees, customers, suppliers, local communities, and shareholders, will gain long-term benefits. Implementing CSR helps companies fulfill their social responsibilities and provides significant economic benefits. This aligns with research showing that CSR investment can improve a company's financial performance by increasing reputation and customer loyalty (Lestari et al., 2024).

One of the main findings is the importance of transparency in sustainability reporting. Companies that transparently report their CSR initiatives and results tend to build stronger trust with stakeholders. A well-crafted annual sustainability report provides clear and reliable information about a company's operations' social and environmental impacts. For example, Company D's transparent and detailed sustainability report received praise from various non-governmental organizations and the media. This praise positively impacts the company's image and increases consumer loyalty, as transparency and accountability in CSR can improve the company's reputation and customer loyalty. These results do not align with the results from Khan & Lockhart (2022). They indicate that CSR decoupling exists. CSR decoupling is a symbolic CSR where the company does not take into account the CSR activities seriously (Latif et al., 2023).

Additionally, companies that involve stakeholders in their CSR initiatives' planning and implementation process also tend to achieve better results. Active participation from stakeholders ensures that the company's CSR initiatives are relevant and effective in meeting society's needs and expectations. For example, Company E, involving local communities in social development programs, succeeded in improving relations with the community and reducing social conflict, ultimately improving the company's operations and reputation.

CONCLUSION

This research shows that implementing CSR in the manufacturing industry improves financial performance and helps companies reduce negative environmental impacts. These findings confirm that CSR is a profitable business strategy, providing long-term economic and environmental sustainability benefits. Therefore, this research recommends that manufacturing companies continue to improve their CSR efforts and report the results transparently to stakeholders. Steps such as detailed sustainability reporting, external audits, and engagement with local communities can strengthen CSR effectiveness and ensure a company's future sustainability. These findings imply the importance of integrating CSR as part of the main business strategy for managers and company leaders in the manufacturing industry. Companies need to see CSR as a social obligation and an opportunity to create added value for the company and society. By implementing CSR effectively, companies can increase competitiveness, build better stakeholder relationships, and ensure long-term business sustainability.

Although this study provides valuable insights, there are several limitations that should be noted. First, most of the literature reviewed comes from specific country contexts, so there may be differences in the implementation and impact of CSR in different countries or regions with different economic and regulatory conditions. Second, the selection of literature or articles depends on the writer's subjectivity, so there is the possibility of bias in concluding. Third, this research has not fully explored the long-term impact of implementing CSR, considering the many variables that influence a company's financial and environmental performance in the long term.

For future research, it is recommended to conduct more in-depth empirical studies with a focus on local or regional contexts to understand how CSR is implemented and its impact on company performance in various economic and regulatory conditions. Long-term research is also needed to evaluate the sustainable impact of implementing CSR on company performance more comprehensively. Additionally, future research should consider cultural and social factors that may influence the implementation and success of CSR programs in the manufacturing industry. Further research can also explore technological innovations and new approaches in implementing CSR that can increase program efficiency and effectiveness, as well as measure the social impact of CSR beyond financial and environmental performance, such as community welfare and local economic development.

Abbreviations

Corporate social responsibility (CSR), return on assets (ROA), and return on equity (ROE).

Authors' contribution

BMS, PRN, and BALN analyzed and interpreted the data, collected articles, and performed statistical data analysis. HWH supervised the research project and helped create the final manuscript.

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Conflicts of interest

The authors declare no competing interests.

Availability of data and materials

The data and materials should be easily accessed as in the references.

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