

## THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY ON COMPANY VALUE IN THE MANUFACTURING SECTOR

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### **Abstract**

The purpose of this study is to examine how corporate social responsibility, or CSR, affects the value of manufacturing companies. Corporate Social Responsibility (CSR) refers to an organization's pledge to uphold moral principles, facilitate sustainable economic growth, and enhance the well-being of its workforce and the local community. In the manufacturing sector, the implementation of CSR has its own challenges because the production process directly affects society and the environment. The impact of CSR on business performance is investigated in this study through a literature review methodology, especially in terms of improving reputation, consumer loyalty, operational efficiency, and risk management. The results of the analysis show that CSR has great potential to increase company value through improving reputation, operational efficiency, and reducing regulatory risk. However, the success of CSR depends on strategic integration with the company's core business. By integrating CSR into a long-term strategy, manufacturing companies can take advantage of competitive advantages that contribute to sustainable growth in company value.

**Keywords:** Role, Corporate Social Responsibility, Company Value, Manufacturing Sector

### **INTRODUCTION**

Corporate Social Responsibility (CSR) has evolved into an important strategic element in modern business practices. Initially, CSR was only seen as a voluntary philanthropic activity or corporate social responsibility. However,

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along with the development of the era and increasing public awareness of social and environmental issues, the concept of CSR has transformed into an integral component of a company's business strategy. CSR is no longer only seen as a moral obligation, but also as an instrument to improve a company's reputation, build customer loyalty, and, most importantly, increase the company's value (Suriani et al., 2023).

The role of CSR in increasing company value has been the focus of attention in various studies and literature. Company value, which is often measured through indicators such as stock price, return on assets (ROA), and market value added (MVA), reflects the overall performance and long-term sustainability of a company. According to research by Utami, E. S., & Hasan, M. (2021), The financial performance of a corporation and corporate social responsibility are positively correlated. CSR, with its approach involving social, environmental, and economic responsibility, can provide direct and indirect benefits to the company. Direct benefits include cost efficiencies through reduced waste and more efficient energy use, while indirect benefits include improved reputation and customer loyalty. However, while much of the literature supports the view that CSR positively contributes to firm value, there are also more skeptical views. Several studies, such as those conducted by Cherian et al., (2019), suggest that the positive impacts of CSR may take a long time to be seen, especially in the manufacturing sector which typically requires large investments in technology and sustainability programs. In this sector, CSR often involves efforts to reduce greenhouse gas emissions, manage industrial waste, and improve employee well-being and safety. These efforts can be a cost burden for companies in the short term, although in the long term, they are expected to provide significant added value.

The manufacturing sector, traditionally known to have a large impact on the environment due to emissions, pollution, and use of natural resources, faces major challenges in implementing CSR. Companies in this sector are often faced with a dilemma between maintaining production efficiency and adapting to environmental regulatory demands and societal expectations for more sustainable business practices. A study by Rinawiyanti et al., (2023) shows that manufacturing companies that successfully integrate CSR practices with their business strategies tend to experience increased company value. Those who are able to develop green technologies, reduce carbon emissions, and manage waste well are often able to increase their competitiveness in an increasingly environmentally conscious global market. In addition, changes in consumption trends also influence the importance of CSR in the manufacturing sector.

Today's consumers are increasingly selective in choosing products and tend to support companies that demonstrate a commitment to the environment and social responsibility. Research by Li et al., (2017) revealed that consumers are not only willing to pay more for products that are produced in a socially and environmentally responsible manner, but also show greater loyalty to brands that have a good reputation for CSR. In the manufacturing sector, this is both an opportunity and a challenge because companies must innovate and adapt their production processes to meet consumer expectations without sacrificing efficiency and profitability.

Meanwhile, government regulations and policies also play an important role in encouraging manufacturing companies to be more socially responsible. Many countries have imposed strict regulations regarding carbon emissions and waste management that manufacturing companies must comply with. In some developing countries, these regulations are also accompanied by incentives for companies that commit to CSR programs, such as tax reductions or easier access to green credit. For example, companies that adopt environmentally friendly technologies or invest in social projects in the surrounding community tend to receive greater support from the government and financial institutions. Literature reviews indicate that such policies can strengthen the relationship between CSR and increased company value (Handayani et al., 2017).

However, despite the abundant evidence on the benefits of CSR, research also shows that the effectiveness of CSR can vary depending on the characteristics of the company and the external environment (Sharma et al., 2021). For example, the size of the company, the scale of operations, and the type of products produced can affect how much impact CSR has on company value. In the manufacturing sector, large companies with more resources tend to be more able to implement comprehensive and effective CSR programs than small companies.

On the other hand, the market environment and regulations in each country also affect how much manufacturing companies can utilize CSR to increase company value. In countries with stricter regulations and consumers who are more aware of the importance of the environment, CSR can be a significant determinant of the success and sustainability of manufacturing companies. Based on this literature review, it can be concluded that CSR has great potential in increasing company value in the manufacturing sector, but its effectiveness is highly dependent on implementation strategies, regulatory support, and consumer perceptions. Thus, further research is needed to

explore in depth the factors that influence the success of CSR in increasing company value, especially in the manufacturing sector which has high complexity in production processes and regulations. This study aims to fill this gap by analyzing the role of CSR in increasing company value in the manufacturing sector and identifying supporting factors that mediate the relationship.

## **RESEARCH METHOD**

This study uses a literature review approach to explore and analyze the relationship between Corporate Social Responsibility (CSR) and firm value in the manufacturing sector. This method involves collecting, evaluating, and synthesizing secondary data from various academic sources, such as scientific journals, books, company annual reports, and publications from international institutions. The literature review allows researchers to understand the main concepts related to CSR and firm value and identify relevant previous empirical findings. The selected literature will focus on studies that analyze the impact of CSR on financial performance, reputation, and firm value, especially in the context of manufacturing companies.

The data obtained from various literatures are then critically analyzed to identify patterns, research gaps, and causal relationships between CSR implementation and firm value. This analysis aims to develop arguments that support the hypothesis that CSR has an important role in increasing firm value in the manufacturing sector. This literature review method was chosen because it allows researchers to evaluate a large number of existing studies, resulting in a comprehensive understanding of the topic being studied and providing a strong foundation for further research in the future.

## **RESULT AND DISCUSSION**

### **Understanding Corporate Social Responsibility**

The term "corporate social responsibility" (CSR) refers to the voluntary commitment made by businesses to act morally, support sustainable economic growth, and enhance the lives of their employees and the communities around them. CSR involves more than just achieving financial profit, but also focuses on the effects that the business operations of the company have on the environment and society. CSR is defined as "a company's commitment to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, the local community, and

society at large" by the World Business Council for Sustainable progress (WBCSD) (Maroun, 2020).

CSR has several main dimensions that include economic, social, and environmental responsibilities. First, economic responsibility relates to the company's obligation to generate profits and provide added value to shareholders and other stakeholders. This is the foundation of the company's existence because profit is the main goal of business activities. However, in the context of CSR, companies are expected to achieve these profits in ways that not only benefit shareholders but also contribute positively to society at large (Farooq et al., 2019).

Second, social responsibility includes how companies interact with employees, customers, and the surrounding community. Companies are expected to promote employee rights, provide decent working conditions, and play an active role in empowering the surrounding community through various social programs such as education, health, and skills training. A concrete example of the implementation of this social responsibility is the community development program in the areas where the company operates, which aims to improve the economic and social welfare of the community. Third, the environmental dimension in CSR refers to the company's efforts to manage its environmental impact. The manufacturing sector, for example, often produces emissions and waste that can damage the environment. Therefore, manufacturing companies that adopt CSR need to pay attention to energy use, waste management, and greenhouse gas emissions. Many companies today have begun to implement environmentally friendly initiatives, such as using renewable energy sources, reducing carbon emissions, and recycling waste. This not only helps reduce negative impacts on the environment, but can also improve the company's reputation and appeal to increasingly environmentally conscious consumers (Tilt, 2016).

CSR can also be seen as a form of ethical responsibility that companies have towards their stakeholders. Stakeholder theory, proposed by Latapí Agudelo et al., (2019) emphasizes that companies are accountable to all stakeholders, including employees, in addition to shareholders, consumers, local communities, suppliers, and the government. Thus, the implementation of CSR is not only about complying with applicable laws or regulations, but also includes proactive actions that go beyond legal obligations to meet the needs and expectations of stakeholders. Furthermore, CSR can be seen as a business strategy that can provide long-term benefits for companies. Porter and Kramer (2006) argue that CSR that is integrated with corporate strategy can create

"shared value", where companies not only create economic but also social value. Thus, companies that incorporate CSR into their business strategy can create a competitive advantage, because they are able to attract consumers who care about social and environmental issues, as well as reduce the risks associated with increasingly stringent environmental regulations. In addition, companies that are proactive in CSR tend to have a better reputation and stronger relationships with stakeholders, which can ultimately contribute to increasing the value of the company.

However, despite the many literatures and theories that support the importance of CSR, its implementation in business practice still faces challenges. Some companies may see CSR as an additional cost burden and the difficulty in measuring the direct impact of CSR on the company's profits may be the reason why some companies do not fully adopt it. Therefore, it is important for companies to have a clear understanding of CSR and how this practice can be integrated into business strategies to achieve long-term sustainability.

Overall, are accountable to all stakeholders, including employees, in addition to shareholders but a necessity for companies that want to maintain the sustainability and competitiveness of their businesses in the future.

### **Description of the Implementation of Corporate Social Responsibility in Manufacturing Companies**

The implementation of Corporate Social Responsibility (CSR) in manufacturing companies has its own characteristics and challenges compared to other sectors. Manufacturing companies are often faced with greater responsibility towards the environment and surrounding communities because their production processes have the potential to produce negative impacts such as greenhouse gas emissions, toxic waste, and high energy consumption (Latapí Agudelo et al., 2019). Therefore, the implementation of CSR in this sector is not only limited to social programs, but also includes efforts to minimize environmental impacts and improve employee welfare.

One of the main aspects of implementing CSR in manufacturing companies is environmental responsibility. Manufacturing companies often adopt technologies and practices that aim to reduce carbon emissions, minimize waste, and increase energy efficiency (Wang et al., 2016). For example, companies in the automotive industry have begun developing vehicles with environmentally friendly technology such as electric and hybrid cars to reduce carbon emissions. In addition, manufacturing companies in the

chemical and textile sectors have also invested in waste treatment technology to reduce the impact of water and soil pollution. Waste recycling programs are also part of CSR that is widely implemented by manufacturing companies to reduce dependence on non-renewable natural resources.

In addition to environmental responsibility, manufacturing companies also focus on social responsibility, especially related to the welfare of employees and the communities around them. According to Jali et al., (2017) manufacturing companies often have a large workforce, so CSR programs related to employee rights and decent working conditions are important. Some common programs include providing occupational health and safety facilities, skills training, and improving employee welfare through incentives and other welfare programs. In addition, companies also strive to have a favorable effect on the neighborhood, for example through local economic empowerment programs, skills training for local residents, or support for social infrastructure such as schools and health facilities. The implementation of CSR in manufacturing companies also often includes broader sustainability programs, such as initiatives to reduce carbon footprints and implement sustainable production principles. For example, several global manufacturing companies have set targets to achieve net zero emissions in the coming decades by using renewable energy and improving their operational efficiency. In addition, manufacturing companies also collaborate with their suppliers to ensure a sustainable supply chain that complies with strict environmental standards (Hedblom et al., 2019).

Some large manufacturing companies have even published annual CSR or sustainability reports that contain detailed information about their environmental and social initiatives. These reports not only include data on emission reduction or energy efficiency, but also on the positive impact of social programs and the company's contribution to society. By publishing such reports, companies not only demonstrate transparency but also strengthen their reputation and credibility in the eyes of consumers, investors, and the government.

Although many manufacturing companies have shown progress in implementing CSR, there are still challenges. One of the main challenges is the high cost of implementation, especially for green technologies and waste management initiatives that require large investments. Small or medium-sized manufacturing companies may not have enough resources to adopt CSR practices comprehensively. In addition, there is also difficulty in measuring the direct impact of CSR programs on company profits in the short term. Therefore,

some companies still tend to view CSR as an additional cost burden rather than a long-term investment.

However, the long-term benefits of implementing CSR in manufacturing companies cannot be ignored. Literature review shows that manufacturing companies that successfully integrate CSR into their business strategies tend to gain competitive advantages, both through increased loyalty of environmentally conscious consumers and through reduced risks associated with increasingly stringent environmental regulations (Ashrafi et al., 2020). Companies that demonstrate a high commitment to CSR also tend to have a better reputation, which in turn can increase the company's value and attractiveness to investors.

### **Analysis of the Influence of Corporate Social Responsibility on Company Value**

Corporate Social Responsibility (CSR) is becoming increasingly important in modern business strategies, especially in companies' efforts to increase company value. CSR encompasses a variety of programs that focus on social, environmental, and economic responsibility, and can affect company value through several mechanisms, including improved reputation, consumer loyalty, and operational efficiency. Empirical research shows that companies committed to CSR tend to have better financial performance and, ultimately, higher company value (Abdullah et al., 2019). However, the influence of CSR on company value is also influenced by various internal and external factors that require more in-depth analysis. One of the main ways CSR affects company value is through improved corporate reputation. Companies that are proactive in social and environmental programs often receive positive attention from the media, consumers, and investors. This good reputation can increase consumer trust in the company, which in turn drives increased sales and customer loyalty. A study by Sopian et al., (2018) showed that companies with a good reputation tend to have higher market valuations, because investors see them as stable entities with the potential to provide long-term profits. In addition, a good reputation can also protect a company from negative risks such as consumer boycotts or reputation crises caused by environmental or social issues.

In addition to the impact on reputation, CSR also affects company value through increased operational efficiency and risk reduction. For example, companies that adopt environmentally friendly practices, such as efficient waste management and the use of renewable energy, can reduce operational costs in the long run. In the manufacturing sector, emission reduction and

energy efficiency can be important factors that not only reduce costs but also minimize risks related to increasingly stringent environmental regulations. By reducing these risks, companies can stabilize their revenues and increase investor confidence, which ultimately increases company value.

CSR can also affect company value through employee engagement and loyalty. CSR programs that focus on employee welfare and development can increase workforce motivation and productivity. When employees feel appreciated and see their company contributing positively to society, they tend to show higher loyalty and commitment. A study by Adeneye, Y. B., & Ahmed, M. (2015) revealed that companies with a good CSR reputation tend to be easier to attract and retain high-quality talent. This can improve the company's operational effectiveness and, ultimately, create added value for the company.

However, although numerous research demonstrate the beneficial connection between CSR and corporate value, there are also opinions that suggest that the influence can be long-term and not always immediately visible. Several studies have stated that CSR programs require large investments, especially in sectors that require technological or operational changes, such as the manufacturing sector. This investment can be a burden for companies in the short term and may not be immediately visible in increased stock prices or other financial indicators.

Sulhan, M., & Pratomo, A. S. (2020) stated that companies with high CSR commitments often have to wait several years before they can see a positive impact on their financial performance. In addition, the effectiveness of CSR in increasing corporate value also depends on the extent to which companies can integrate CSR with their main business strategies. Laili, C. N., Djazuli, A., & Indrawati, N. K. (2019) introduced the concept of "shared value", where CSR integrated with business strategy can create benefits for the company and society at the same time. Companies that succeed in doing this not only gain reputational benefits but can also create new markets or increase market share through more sustainable products and services. For example, companies that develop environmentally friendly products can attract new market segments that care about sustainability. However, if CSR is only carried out as a philanthropic effort without integration with the company's core strategy, its impact on company value may not be as great as expected. External factors such as regulations and market conditions also influence how CSR impacts company value. In countries with strict environmental regulations and highly environmentally conscious consumers, CSR can be a key element in gaining social license to operate and avoiding legal sanctions. Conversely, in countries

with weak regulations or in markets where consumer awareness of CSR is low, the impact of CSR on company value may not be as great as in more developed markets. This suggests that CSR's effect on business value depends not only on the company's actions, but also on the market context and environment in which the company operates.

## **CONCLUSION**

Corporate Social Responsibility (CSR) plays an important role in increasing the value of companies in the manufacturing sector. Through the implementation of effective CSR programs, manufacturing companies can improve their reputation in the eyes of consumers, investors, and other stakeholders. This good reputation has the potential to increase consumer loyalty and investor confidence, which in turn can have a positive impact on the company's market value. By promoting programs that care about the environment and society, manufacturing companies not only fulfill their social responsibilities but also build a positive image that can drive long-term growth.

In addition, the implementation of CSR in the manufacturing sector can improve operational efficiency and reduce the risks associated with strict environmental regulations. CSR initiatives that focus on energy efficiency, waste management, and the use of environmentally friendly technologies can help companies reduce production costs and minimize negative impacts on the environment. This not only reduces the risk of government penalties or sanctions but can also increase the company's competitiveness in a market that is increasingly concerned with sustainability. Thus, CSR provides added value through increased efficiency that contributes directly to increasing company value.

However, although CSR has many benefits, its success depends on how well companies can integrate it with their core business strategies. CSR that is only carried out as a formality or philanthropic initiative without any connection to the company's strategic goals may not have a significant impact on the company's value. Therefore, manufacturing companies need to design and implement CSR programs that are aligned with their vision and mission to maximize the potential of CSR in increasing the company's value sustainably and in the long term.

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