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The Influence of Corporate Social Responsibility (CSR) and Environmental Social Governance (ESG) Disclosure on Profitability in Companies in the IDX ESG & IDX HIDIV20 Sector from 2020 to 2023

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ABSTRACT
This research aims to analyze and evaluate the effect of Corporate Social Responsibility (CSR) and Environmental Social Governance (ESG) disclosures on corporate profitability. The focus of this study is to identify how CSR and ESG practices disclosed by companies affect key profitability indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The object of research is companies listed on the Indonesia Stock Exchange, including IDX ESG Leaders Index (IDX ESG LID) and IDX High Dividend 20 (IDX HIDIV20) in 2020-2023; the sample is 25 companies. In this study, the analysis technique used was Structural Equation Modeling (SEM) PLS conducted using the WARP PLS (Weighted Autoregressive Distributed Lag PLS) method. The results showed that CSR disclosure has a positive and significant influence on corporate profitability, while ESG disclosure has a negative and significant influence. The study's implications suggest that CSR implementation can enhance financial performance, whereas ESG disclosure, despite offering long-term benefits, often requires significant initial investment, which can reduce short-term profitability.

Introduction

Profitability is one of the main indicators of company performance in the modern business world. In a global context, increasing pressure from consumers, regulators and other stakeholders on sustainability and social responsibility issues has forced companies to consider non-financial factors in determining their success. Global issues related to Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) are gaining increasing attention due to their profound impact on economic, social, and environmental sustainability (Torres et al., 2023). In the midst of climate change, environmental degradation, and increasing social inequality, CSR and ESG are now important elements in assessing the performance of a company, especially in terms of profitability.

Globally, an increasing number of countries are implementing stringent regulations on sustainability and corporate social responsibility. Corporations listed in IDX ESG and IDX HIDIV20 encounter significant challenges in meeting these standards. Evolving environmental regulations, growing consumer demand for sustainable products, and the imperative to minimize the social and environmental impacts of their operations have driven the broader adoption of CSR and ESG

practices. In many developed countries, for example, regulators are increasingly forcing companies to disclose comprehensive sustainability reports, which include relevant ESG aspects (Singhania & Saini, 2022).

Factors that influence the implementation of CSR and ESG in companies in the financial and non-financial sectors are very complex. One of them is the changing behavior of consumers who are increasingly paying attention to social and environmental issues in their purchasing decisions. (Bashar, 2020). Consumers today are not only interested in products and services but also in how these products are produced and whether they comply with ethical and sustainability standards. In addition, increasingly stringent government policies and regulations regarding carbon emissions, renewable energy use, and fair labor practices are also influencing ESG implementation around the world. For example, SEOJK Number 16/SEOJK.04/2021 in Indonesia requires companies to disclose their social responsibility in detail in their annual reports (Wiguna et al., 2023).

These factors have a direct impact on a company's financial performance. The implementation of CSR and ESG often requires significant investment in terms of costs and resources. However, despite the high costs, many studies indicate that companies that effectively implement CSR and ESG practices tend to achieve stronger financial outcomes over time (Rahayu & Paramita, 2023). This happens because companies committed to sustainability and social responsibility are usually more desirable to consumers, have a better reputation, and more easily gain access to capital at a lower cost (MacNeil & Esser, 2022).

However, the impact of CSR and ESG implementation on firm profitability is not always consistent. Some studies show a positive impact of CSR disclosure on firm profitability, such as an increase in Return on Assets (ROA) and Net Profit Margin (NPM). ESG disclosure sometimes has a negative impact. (Suyanto & Rahmawati, 2022). This inconsistency reflects the complexity of the relationship between CSR, ESG, and profitability. CSR is often associated with enhanced reputation and better relationships with consumers, while ESG, particularly in environmental aspects, can involve high costs for regulatory compliance (Yuliartanti & Handayani, 2023).

Corporate Social Responsibility (CSR) is a concept in which companies strive to achieve a balance between economic, social, and environmental interests in their operations. CSR encompasses multiple dimensions, including a company's responsibility towards workers, consumers, and society at large. One of the main aspects of CSR is sustainability, where companies are expected to reduce the negative impact of their operations on the environment (Bai et al., 2023). Environmental Social Governance (ESG), on the other hand, is a more comprehensive framework covering environmental, social, and corporate governance aspects. ESG focuses on how a company manages its risks related to these issues, with the aim of creating long-term value for shareholders and other stakeholders (Singh et al., 2019).

One of the reasons for differing research results is that previous studies often failed to carefully consider and misinterpreted the measurement standards for Corporate Social Responsibility (CSR), relying solely on philanthropic activities or financial indicators such as donation amounts and social program costs (Wiguna et al., 2023). In fact, proper CSR measurement should be conducted through a comprehensive Sustainability Report that aligns with SEOJK Number 16/SEOJK.04/2021.

Many complaints have arisen regarding CSR measurement standards, including limitations in assessing sustainable performance, challenges in collecting accurate data, and difficulties in determining appropriate metrics. Furthermore, low stakeholder engagement and high implementation costs are also common issues in applying CSR measurement standards.

There are numerous concerns surrounding the standards for measuring ESG (Environmental, Social, Governance). One major criticism is the inconsistency and lack of clarity in measuring ESG factors, making it difficult for companies and investors to compare ESG performance across firms. The lack of relevant and reliable data also poses challenges, leading to inaccurate ESG performance reporting. Additionally, there are concerns about 'greenwashing,' where some companies mislead the public about their sustainability efforts without concrete evidence of real improvements. The

complexity and high costs of implementing ESG standards are often a barrier, especially for companies that lack strong ESG initiatives (Singhania & Saini, 2022).

The lack of harmonized ESG standards across countries or industries results in discrepancies in reporting, making it difficult for investors to compare ESG performance. Insufficient transparency in reporting ESG-related practices further complicates investors' ability to assess the ESG risks companies face. Moreover, current ESG standards have yet to fully capture the real impact of corporate practices on the environment, society, and governance. Therefore, it is crucial to continuously improve and develop ESG measurement standards to provide more accurate, transparent, and meaningful information for companies, investors, and society (Zeng et al., 2022).

A solution to these challenges is to adopt the ESG Guidance Report 2.0 (2019) issued by NASDAQ (National Association of Securities Dealers) and use reporting periods from 2020 to 2023. The ESG Guidance Report 2.0 offers a more standardized and comprehensive framework for measuring and reporting ESG performance. By following this guidance, companies can prepare more consistent and transparent reports, reducing ambiguity and inconsistency in measuring ESG factors. Companies with strong ESG performance can benefit from improved reputation, customer loyalty, and access to capital. Integrating ESG analysis into profitability projections provides a more holistic view (Al-Issa et al., 2022; Saygili et al., 2022).

The uniqueness of this study is focuses on companies listed in the IDX ESG Leaders Index (IDX ESG LID) and IDX High Dividend 20 (IDX HIDIV20), which are considered to have the best ESG practices and provide high dividends to shareholders. This study examines how CSR and ESG disclosures affect firm profitability, Specifically, profitability is measured through financial ratios such as ROA, ROE, and NPM. While numerous studies have explored the relationship between CSR and financial performance, research that combines CSR with ESG within the context of companies listed on these two major indices remains relatively rare. In this study, profitability is assessed using the delta (change) between profitability in 2020 and 2023, reflecting the growth rate of profitability over this period. By utilizing updated data from 2020 to 2023, the study offers a more accurate depiction of the impact of CSR and ESG implementation in the post-pandemic era.

The novelty of this research lies in its integration of CSR and ESG practices to assess their combined impact on firm profitability, specifically focusing on companies within the IDX ESG Leaders Index and IDX High Dividend 20. Unlike previous studies that oftenexamined CSR and ESG in isolation, this research provides a comprehensive view by examining the interplay between these two frameworks. Moreover, the use of updated data from the post-pandemic period adds a unique perspective on how companies adapt their sustainability practices in response to changing global dynamics.

The urgency of this research lies in the increasing need for companies to adapt to changing regulations and stakeholder expectations regarding social responsibility and sustainability. In Indonesia, the government through the Financial Services Authority (OJK) has issued several regulations that require companies to disclose their CSR and ESG practices.

Several regulations implemented in Indonesia related to ESG (Environmental, Social, and Governance) aspects require companies to operate more transparently and responsibly. First, SEOJK No. 16/SEOJK.04/2021 on the Format and Content of Annual Reports for Issuers or Public Companies mandates that companies include ESG aspects in their annual reports. This regulation covers disclosures about CSR activities as well as the environmental, social, and governance impacts of the company. The main goal of this regulation is to enhance transparency and accountability, which in turn can improve the company's reputation.

Additionally, Otoritas Jasa Keuangan Regulation (POJK) No. 51/POJK.03/2017 on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies requires financial services institutions, issuers, and public companies to apply the principles of sustainable finance. They are also required to prepare sustainability reports that

disclose their ESG performance. POJK 51/2017 aims to promote more sustainable and responsible business practices, supporting long-term risk management and sustainable growth.

Another relevant regulation is Undang-Undang Nomor 40 Tahun 2007 concerning Perseroan Terbatas (UUPT), particularly Pasal 74, which stipulates that companies engaged in business activities related to natural resources are required to implement Corporate Social and Environmental Responsibility (CSR). This provision aims to ensure that companies contribute to societal welfare and environmental preservation. To provide further guidance on CSR implementation, Peraturan Pemerintah (PP) Nomor 47 Tahun 2012 on Social and Environmental Responsibility of Limited Liability Companies outlines the obligations for companies to plan, budget, and report their CSR programs in their annual reports. This regulation strengthens the implementation of Pasal 74 UUPT and ensures that corporate social and environmental responsibilities are carried out systematically and measurably.

Through these regulations, the Indonesian government emphasizes the importance of CSR and ESG disclosure in building corporate reputation and trust. Transparent disclosure and accountability not only enhance a company's reputation but also help mitigate risks associated with social and environmental issues, while potentially increasing corporate profitability (Soeprajitno et al., 2023).

Furthermore, an increasing number of investors are taking ESG factors into account in their investment decisions, putting companies that fail to implement sustainability practices at risk of losing access to capital. Therefore, this research is important to help companies understand how the implementation of CSR and ESG can affect their profitability, as well as provide guidance for companies looking to improve their financial performance through a more socially and environmentally responsible approach.

The purpose of this study is to analyze the effect of CSR and ESG disclosures on corporate profitability, specifically in terms of ROA, ROE, and NPM. This study will identify the extent to which CSR and ESG practices can improve corporate profitability, as well as assess the factors that may influence the relationship. As such, the results of this study are expected to make a significant contribution to the academic literature related to CSR, ESG, and corporate financial performance.

The benefits of this research can be felt by various parties, including academics, business practitioners, and policy makers. For academics, this research will provide a deeper understanding of the relationship between CSR, ESG, and corporate profitability, as well as provide new contributions to the literature related to sustainability and corporate management. For business practitioners, the results of this study can help companies design more effective CSR and ESG strategies to improve financial performance. For policy makers, this study can serve as a reference in formulating better regulations related to CSR and ESG disclosure, as well as encouraging companies to be more responsible in their operations.

Materials and Methods

This research employs a quantitative methodology with a descriptive approach to analyze the impact of Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) factors on the profitability of companies listed on the IDX ESG Leaders Index (IDX ESG LID) and IDX High Dividend 20 (IDX HIDIV20) during the period from 2020 to 2023.

The population in this study are all companies listed on the IDX ESG Leaders Index (IDX ESG LID) and IDX High Dividend 20 (IDX HIDIV20) in the 2020-2023 period. Based on the criteria set, the total population consists of 61 companies operating in various sectors, such as energy, finance, primary consumer goods, property, and technology. The sampling technique used is purposive sampling, where the sample is selected based on certain criteria relevant to this study. The sample selection criteria are companies that have complete data related to CSR and ESG reports for four consecutive years. Of the 61 companies in the population, 25 companies met these criteria and were sampled.

Table 1. List of IDX ESG Leaders Index (IDX ESG LID) & IDX High Dividend 20 (IDX HIDIV20) Companies Year 2020-2023

No.	Industry Type	Number of Companies
1.	Energy	7
2.	Financial	8
3.	Primary Consumer Goods	11
4.	Property & Construction	10
5.	Technology	9
6.	Basic Industry	6
7.	Secondary Consumer Goods	7
8.	Media	3
Total		61

Source: https://idx.co.id/id/data-pasar/data-saham/indeks-saham/

The research instrument used in this research is the unobserved observation technique, which utilizes secondary data. Data is taken from the company's financial statements and published sustainability reports. Data collection is done by analyzing officially published financial and sustainability reports. The instrument is designed to measure CSR and ESG disclosures and examine their impact on corporate profitability variables.

Data Collection Techniques is carried out through observation of published documents, especially annual financial reports and sustainability reports from companies that are the research sample. This data collection technique is a monitoring approach, where the data collected comes from publicly available secondary sources. These financial and sustainability reports were analyzed to identify information related to the implementation of CSR and ESG adopted by the companies.

To analyze the data that has been collected, this study uses the Partial Least Squares Structural Equation Modeling (PLS-SEM) method. This method is used because of its ability to analyze the relationship between latent variables that cannot be measured directly but can be measured through visible indicators. PLS-SEM was also chosen for its ability to handle data that is not normally distributed and its flexibility in handling models with many indicators and constructs.

The stages of PLS-SEM analysis include:

1. Weight Estimate: In the initial stage, PLS-SEM produces weight estimates that are utilized to construct component scores for latent variables.
2. Path Analysis: After the component scores are obtained, path analysis is performed to see the relationship between latent variables (structural model) and the relationship between indicators and latent variables (measurement model).
3. Outer Model (Measurement Model): Tests are conducted to evaluate the validity and reliability of the indicators used to measure latent variables. Convergent validity, discriminant validity, and composite reliability are employed to assess the quality of the measurement model.
4. Inner Model (Structural Model): The structural model was tested to assess the relationship between the latent variables, namely CSR, ESG, and firm profitability.

The results of this PLS-SEM analysis will be used to test the research hypothesis regarding the effect of CSR and ESG on company profitability as measured through three main indicators: Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM).

Variable Control In this study, the variables used include:

- Dependent Variable: Company profitability as measured by ROA, ROE, and NPM.
- Independent Variable: CSR and ESG disclosures by companies.

Results and Discussions

Measurement Model (Outer Model)

The following are equations and conversions and loading factors from the research results:

Model Measurement Equation:

- $CSR_i = \lambda_1 . PSK + \lambda_2 . IAK + \lambda_3 . PSE + \lambda_4 . PD + \lambda_5 . TKK + \lambda_6 . KK + \lambda_7 . VPI + \lambda_8 . LUB + \lambda_9 . TEP + e$
- $PRO_i = \lambda_1 . ROA + \lambda_2 . ROE + \lambda_3 . NPM + e$
- $ESG_i = \lambda_1 . ENV + \lambda_2 . SOC + \lambda_3 . GOV + e$

Information:

- PRO = Profitability.
- ROA = Return on Assets.
- ROE = Return on Equity.
- NPM = Net Profit Margin.
- CSR = Corporate Social Responsibility.
- PSK = Sustainability strategy explained.
- IAK = Ikhtisar aspek keberlanjutan (ekonomi, sosial, dan lingkungan hidup).
- PSE = Profil singkat Emiten atau Perusahaan Publik.
- PD = Explanation of the Board of Directors.
- TKK = Sustainability governance.
- KK = Sustainability performance.
- VPI = Written verification from an independent party.
- LUB = Feedback sheet for readers.
- TEP = Response of Issuers or Public Companies to the feedback of the previous year's report.
- ESG = Environmental Social Governance.
- ENV = Environmental.
- SOC = Social.
- GOV = Governance.
- e = Error.

Path Constructs using -Indicator loadings and cross-loadings; View combine loadings and cross-loadings

Table 2. Warp Pls -Indicator loadings and cross-loadings; View combine loadings and cross-loadings

	PRO	ESG	CSR	Type (As defined)	Standard Error	P Value
ROA	-0.947	0.048	0.01	Formative	0.042	<0.001
ROE	-0.936	-0.004	0.01	Formative	0.042	<0.001
NPM	-0.618	-0.067	-0.031	Formative	0.044	<0.001
ENV 2020	-0.254	-0.581	-0.044	Formative	0.044	<0.001
ENV 2021	-0.469	-0.619	-0.052	Formative	0.044	<0.001
ENV 2022	-0.471	-0.625	-0.056	Formative	0.044	<0.001
ENV 2023	-0.523	-0.55	-0.052	Formative	0.044	<0.001

	PRO	ESG	CSR	Type (As defined)	Standard Error	P Value
SOS 2020	0.25	-0.58	0.03	Formative	0.044	<0.001
SOS 2021	0.17	-0.611	0.054	Formative	0.044	<0.001
SOS 2022	0.254	-0.592	0.032	Formative	0.044	<0.001
SOS 2023	0.272	-0.543	0.049	Formative	0.044	<0.001
GOV 2020	0.226	-0.659	-0.011	Formative	0.043	<0.001
GOV 2021	0.155	-0.679	0.018	Formative	0.043	<0.001
GOV 2022	0.167	-0.681	0.003	Formative	0.043	<0.001
GOV 2023	0.15	-0.703	0.027	Formative	0.043	<0.001
PRO 2020	-0.023	0.047	-0.613	Formative	0.044	<0.001
PRO 2021	-0.107	0.064	-0.701	Formative	0.043	<0.001
PSK 2022	-0.105	0.063	-0.691	Formative	0.043	<0.001
PSK 2023	-0.106	0.065	-0.691	Formative	0.043	<0.001
IAK 2020	-0.018	0.025	-0.446	Formative	0.045	<0.001
IAK 2021	-0.073	0	-0.426	Formative	0.045	<0.001
IAK 2022	-0.124	0.004	-0.414	Formative	0.045	<0.001
IAK 2023	-0.071	0	-0.415	Formative	0.045	<0.001
PSE 2020	-0.102	0.036	-0.662	Formative	0.043	<0.001
PSE 2021	-0.11	0.047	-0.708	Formative	0.043	<0.001
PSE 2022	-0.111	0.051	-0.712	Formative	0.043	<0.001
PSE 2023	-0.11	0.052	-0.707	Formative	0.043	<0.001
TKK 2020	0.274	-0.012	-0.073	Formative	0.047	0.059
TKK 2021	-0.065	0.269	(-0.101)	Formative	0.047	0.016
KK 2020	0.22	-0.133	-0.063	Formative	0.047	0.089
KK 2021	0.016	0.187	(-0.129)	Formative	0.046	0.003
KK 2023	-0.065	0.269	(-0.101)	Formative	0.047	0.016
VPI 2020	0.441	-0.081	-0.227	Formative	0.046	<0.001
VPI 2021	0.531	0.01	-0.173	Formative	0.046	<0.001
VPI 2022	0.339	-0.005	-0.216	Formative	0.046	<0.001
VPI 2023	0.471	-0.055	-0.223	Formative	0.046	<0.001
LUB 2020	0.274	-0.125	-0.184	Formative	0.046	<0.001
LUB 2021	-0.151	-0.064	-0.008	Formative	0.047	0.436
LUB 2022	0.092	-0.211	-0.015	Formative	0.047	0.378
LUB 2023	-0.151	-0.064	-0.008	Formative	0.047	0.436
TEP 2020	0.549	-0.141	-0.111	Formative	0.046	0.009
TEP 2021	0.186	-0.237	-0.069	Formative	0.047	0.071
TEP 2022	0.599	-0.332	-0.209	Formative	0.046	<0.001
TEP 2023	-0.062	-0.288	-0.197	Formative	0.046	<0.001

Source: Data processed (2024)

Based on Table 2, which displays **loading factors** and **cross-loadings**, a brief explanation of the results is as follows:

Profitability (PRO):

- **ROA** (Return on Assets) shows highly negative **loading factors**, such as -0.947 (ROA 2020), indicating a strong negative correlation between ROA and the profitability construct.
- **ROE** (Return on Equity) also shows a strong negative correlation with **PRO**, such as -0.936 (ROE 2020), confirming a significant negative correlation.
- **NPM** (Net Profit Margin) has a weaker negative correlation than ROA and ROE, with values such as -0.618 (NPM 2020), but is still significant in the profitability construct.

ESG (Environmental, Social, Governance):

- **ENV** (Environmental) shows a negative correlation with **ESG**, with a value of -0.625 (ENV 2022), indicating that environmental disclosure has a negative impact on ESG.
- **SOC** (Social) also has a negative correlation with ESG, such as -0.580 (SOC 2020), signaling a negative contribution from social aspects.
- **GOV** (Governance) has a very strong negative correlation, with a value of -0.703 (GOV 2023), indicating a significant negative influence of corporate governance on ESG.

CSR (Corporate Social Responsibility):

- **PSK** (Explanation of Sustainability Strategy) shows strong negative **loading factors** (-0.613, PSK 2020), indicating a negative impact on CSR.
- **VPI** (Written Verification from Independent Parties) shows a strong negative correlation (-0.768, VPI 2020), indicating that independent verification has a significant impact on CSR.
- **LUB** (Feedback Sheet) shows a weaker negative correlation, and some p-values show insignificance, such as the p-value of 0.436 (LUB 2021), which indicates a weak contribution to CSR.
- **TEP** (Issuer Response to Feedback) has some significant values, such as -0.599 (TEP 2022), although there are insignificant values, such as -0.062 (TEP 2023).

In general, the loading factors show that the indicators are significantly related to the measured latent constructs, with strong negative correlations, especially in PRO and CSR. ROA and ROE indicators are good representations of the PRO construct, while ENV, SOC, and GOV are significantly related to the ESG construct. While most relationships are significant, there are some indicators, such as LUB and TEP elements, that have insignificant p-values, suggesting their contribution to the latent construct may be weak. From this explanation, we can conclude the measurement model equation as follows:

Table 3. Result of Path Constructs into Equations

No.	Variable	Indicator per year	Path Coef	Abs	Standard Error	Equation
1	PRO	ROA	-0.947	0.947	0.042	PRO = -0.947 ROA + 0.042 e
2	PRO	ROE	-0.936	0.936	0.042	PRO = -0.936 ROE + 0.042 e
3	PRO	NPM	-0.618	0.618	0.044	PRO = -0.618 NPM + 0.042 e
4	ESG	ENV 2020	-0.254	0.254	0.044	ESG = -0.254 ENV 2020 + 0.044 e
5	ESG	ENV 2021	-0.469	0.469	0.044	ESG = -0.469 ENV 2021 + 0.044 e
6	ESG	ENV 2022	-0.471	0.471	0.044	ESG = -0.471 ENV 2022 + 0.044 e
7	ESG	ENV 2023	-0.523	0.523	0.044	ESG = -0.523 ENV 2023 + 0.044 e
8	ESG	SOS 2020	0.250	0.25	0.044	ESG = 0.25 SOS 2020 + 0.044 e

No.	Variable	Indicator per year	Path Coef	Abs	Standard Error	Equation
9	ESG	SOS 2021	0.170	0.17	0.044	ESG = 0.17 SOS 2021 + 0.044 e
10	ESG	SOS 2022	0.254	0.254	0.044	ESG = 0.254 SOS 2022 + 0.044 e
11	ESG	SOS 2023	0.272	0.272	0.044	ESG = 0.272 SOS 2023 + 0.044 e
12	ESG	GOV 2020	0.226	0.226	0.043	ESG = 0.226 GOV 2020 + 0.043 e
13	ESG	GOV 2021	0.155	0.155	0.043	ESG = 0.155 GOV 2021 + 0.043 e
14	ESG	GOV 2022	0.167	0.167	0.043	ESG = 0.167 GOV 2022 + 0.043 e
15	ESG	GOV 2023	0.150	0.15	0.043	ESG = 0.15 GOV 2023 + 0.043 e
16	CSR	PRO 2020	-0.613	0.613	0.044	CSR = -0.613 PSK 2020 + 0.044 e
17	CSR	PRO 2021	-0.701	0.701	0.043	CSR = -0.701 PSK 2021 + 0.043 e
18	CSR	PSK 2022	-0.691	0.691	0.043	CSR = -0.691 PSK 2022 + 0.043 e
19	CSR	PSK 2023	-0.691	0.691	0.043	CSR = -0.691 PSK 2023 + 0.043 e
20	CSR	IAK 2020	-0.446	0.446	0.045	CSR = -0.446 IAK 2020 + 0.045 e
21	CSR	IAK 2021	-0.426	0.426	0.045	CSR = -0.426 IAK 2021 + 0.045 e
22	CSR	IAK 2022	-0.414	0.414	0.045	CSR = -0.414 IAK 2022 + 0.045 e
23	CSR	IAK 2023	-0.415	0.415	0.045	CSR = -0.415 IAK 2023 + 0.045 e
24	CSR	PSE 2020	-0.662	0.662	0.043	CSR = -0.662 PSE 2020 + 0.043 e
25	CSR	PSE 2021	-0.708	0.708	0.043	CSR = -0.708 PSE 2021 + 0.043 e
26	CSR	PSE 2022	-0.712	0.712	0.043	CSR = -0.712 PSE 2022 + 0.043 e
27	CSR	PSE 2023	-0.707	0.707	0.043	CSR = -0.707 PSE 2023 + 0.043 e
28	CSR	TKK 2020	-0.073	0.073	0.047	CSR = -0.073 TKK 2020 + 0.047 e
29	CSR	TKK 2021	-0.101	0.101	0.047	CSR = -0.101 TKK 2021 + 0.047 e
30	CSR	KK 2020	-0.063	0.063	0.047	CSR = -0.063 KK 2020 + 0.047 e
31	CSR	KK 2021	-0.129	0.129	0.046	CSR = -0.129 KK 2021 + 0.046 e
32	CSR	KK 2023	-0.101	0.101	0.047	CSR = -0.101 KK 2023 + 0.047 e
33	CSR	VPI 2020	-0.227	0.227	0.046	CSR = -0.227 VPI 2020 + 0.046 e
34	CSR	VPI 2021	-0.173	0.173	0.046	CSR = -0.173 VPI 2021 + 0.046 e
35	CSR	VPI 2022	-0.216	0.216	0.046	CSR = -0.216 VPI 2022 + 0.046 e
36	CSR	VPI 2023	-0.223	0.223	0.046	CSR = -0.223 VPI 2023 + 0.046 e
37	CSR	LUB 2020	-0.184	0.184	0.046	CSR = -0.184 LUB 2020 + 0.046 e
38	CSR	LUB 2021	-0.008	0.008	0.047	CSR = -0.008 LUB 2021 + 0.047 e
39	CSR	LUB 2022	-0.015	0.015	0.047	CSR = -0.015 LUB 2022 + 0.047 e
40	CSR	LUB 2023	-0.008	0.008	0.047	CSR = -0.008 LUB 2023 + 0.047 e
41	CSR	TEP 2020	-0.111	0.111	0.046	CSR = -0.111 TEP 2020 + 0.046 e
42	CSR	TEP 2021	-0.069	0.069	0.047	CSR = -0.069 TEP 2021 + 0.047 e
43	CSR	TEP 2022	-0.209	0.209	0.046	CSR = -0.209 TEP 2022 + 0.046 e
44	CSR	TEP 2023	-0.197	0.197	0.046	CSR = -0.197 TEP 2023 + 0.046 e

Source: Data processed (2024)

Structural Model (Inner Model)

Based on valid indicators to measure each latent construct, the results of the structural model analyzed using Partial Least Square (PLS) can be seen in Table 4.10 and Figure 3. These results show the strength of the relationship between constructs as well as the validity of the model's predictions of the measured dependent variable.

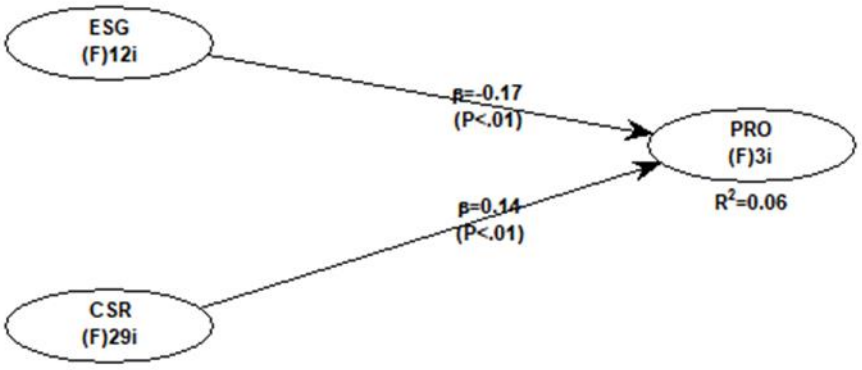

Figure 1. Warp PLS -Inner Model

The model equation can be determined to be:

Inner Model: $PRO_i = \beta_1 . CSR + \beta_2 . ESG + e$

Constructing a Path Diagram

Table 4. Path coefficients

Path coefficients			
	PRO	ESG	CSR
PRO		-0.167	0.14
ESG			
CSR			

Source: Data processed (2024)

Based on the information in Table 4. Path coefficients above, it is concluded:

CSR → PRO:

The path coefficient between Corporate Social Responsibility (CSR) and profitability (PRO) is 0.14, indicating a positive influence of CSR on profitability. With a coefficient of **0.14**, the effect of CSR on PRO is both positive and moderate. This suggests that an increase in CSR is associated with a rise in profitability, although the effect is not particularly strong.

ESG → PRO:

The path coefficient between ESG and profitability (PRO) is **-0.167**. This indicates that ESG has a negative influence on profitability. With a coefficient of -0.167, the effect of ESG on PRO is negative and slightly more significant than that of CSR. This means that an increase in ESG is associated with a decrease in profitability.

From the results, it can be seen that CSR has a moderate positive influence on profitability, while ESG has a stronger negative influence on profitability. The influence of ESG is more significant than that of CSR in terms of its impact on profitability.

Table 5. P Values

P Values			
	PRO	ESG	CSR
PRO		<0.001	0.001
ESG			
CSR			

Source: Data processed (2024)

Based on the information in Table 5 P Values above, it is concluded:

CSR → PRO (P-value = 0.001):

The P-value for the relationship between CSR and profitability (PRO) is **0.001**. This P-value is substantially below the conventional significance level of 0.05, indicating that the relationship between Corporate Social Responsibility (CSR) and profitability (PRO) is statistically significant. This suggests that the effect of CSR on PRO can be regarded as a significant result.

ESG → PRO (P-value = 0.001):

The P value for the relationship between ESG and profitability (PRO) is **0.001**. This P-value is also substantially below the significance level of 0.05, indicating that the relationship between Environmental, Social, and Governance (ESG) factors and profitability (PRO) is statistically significant. This implies that the effect of ESG on PRO is significant.

Conversion of Path Diagram to System of Equations

- **Inner Model:** $PRO_i = 0{,}014\ \beta_1$. CSR - $0.167\ \beta_2$. ESG + e

R-Square of each endogenous construct

Table 6. R Square and Chi Square

Metric	PRO	ESG	CSR
R-squared	0.057		
Adj. R-squared	0.053		
Composite reliable.	0.881	0.882	0.755
Cronbach's alpha	0.789	0.854	0.764
Avg. var. extrac.	0.718	0.385	0.167
Full collin. VIF	1.01	1.018	1.017
Q-squared	0.191		

Source: Data processed (2024)

R-Squared for PRO (0.057):

The R-squared value for the PRO construct is 0.057, which indicates that the CSR and ESG variables are only able to explain 5.7% of the variation in profitability (PRO). This indicates that the model has very low explanatory power for the profitability variable.

Adj. R-Squared for PRO (0.053):

The adjusted R-squared value of 0.053 indicates that after accounting for the number of variables in the model, the model has almost no significant predictive ability. This suggests that additional variables in the model do not substantially improve the predictive ability.

Composite Reliability:

The composite reliability values for PRO = 0.881, ESG = 0.882, and CSR = 0.755 are all above 0.7, indicating that the constructs have good reliability. This means that the indicators in the constructs consistently measure the intended construct.

Cronbach's Alpha:

The Cronbach's alpha values for PRO = 0.789, ESG = 0.854, and CSR = 0.764 indicate that the internal reliability of the constructs is good, with all values above the 0.7 threshold. This indicates good internal consistency in the measurement of these constructs.

Average Variance Extracted (AVE):

The AVE value for PRO = 0.718 indicates good convergent validity for this construct. However, the AVE values for ESG = 0.385 and CSR = 0.167 indicate that the convergent validity for both constructs is not strong, with CSR having a very low AVE value. This means that the ESG and CSR constructs may not fully represent the intended latent variables.

Full Collinearity VIF:

- PRO: 1.01
- ESG: 1,018
- CSR: 1,017

VIF values for all constructs indicate that there is no high collinearity problem in the model. This suggests that there is no significant linear relationship between the constructs in the model that could affect the results of the analysis.

Q-Squared:

The Q-squared value for PRO (0.191) indicates that the model has low predictive ability for the construct. This indicates that the model is not able to predict PRO values well.

Overall, the structural model shows that both CSR and ESG have a negative influence on profitability (PRO), but this influence is not statistically significant for ESG and barely significant for CSR. The very low R-squared values indicate that CSR and ESG are not strong predictors of profitability in this model. Although construct reliability is good, convergent validity for ESG and CSR needs to be improved to ensure better representation of the constructs.

Goodness of Fit Evaluation

Table 7. Goodness of Fit, Model Fit and Quality Indices

Model Fit and Quality Indices	Value	Criteria	Interpretation
Average path coefficient (APC)	0.154	P < 0.001	Significant
Average R-squared (ARS)	0.057	P = 0.056	Marginally Non-Significant
Average adjusted R-squared (AARS)	0.053	P = 0.066	Marginally Non-Significant
Average block VIF (AVIF)	1.041	Acceptable if <= 5, ideally <= 3.3	Acceptable

Average full collinearity VIF (AFVIF)	1.015	Acceptable if <= 5, ideally <= 3.3	Acceptable
Tenenhaus GoF (GoF)	0.155	Small >= 0.1, Medium >= 0.25, Large >= 0.36	Small
Sympson's paradox ratio (SPR)	1	Acceptable if >= 0.7, ideally = 1	Ideal
R-squared contribution ratio (RSCR)	1	Acceptable if >= 0.9, ideally = 1	Ideal
Statistical suppression ratio (SSR)	1	Acceptable if >= 0.7	Acceptable
Nonlinear bivariate causality direction ratio (NLBCDR)	0.5	Acceptable if >= 0.7	Not Acceptable

Source: Data processed (2024)

Based on table 7 Goodness of Fit Evaluation, the results are explained as follows:

- **Average Path Coefficient (APC):**
  The APC value of 0.154 with a P value of <0.001 indicates that the average path in this model is significant at the 1% confidence level. This indicates that there is a significant relationship between the variables in the model.
- **Average R-squared (ARS):**
  The ARS value of 0.057 with P = 0.056 is considered marginally non-significant at the 5% significance level. This indicates that the independent variables in the model are only able to explain a small portion of the variation in the dependent variable.
- **Average Adjusted R-squared (AARS):**
  The AARS value of 0.053 with P = 0.066 is also considered marginally non-significant, indicating that when taking into account the number of variables in the model, the model's ability to explain the dependent variable is still limited.
- **Average Block VIF (AVIF) and Average Full Collinearity VIF (AFVIF):**
  Both VIF values are at very low levels, 1.041 and 1.015 respectively. Since both of these values are below the accepted (<= 5) and even ideal (<= 3.3) thresholds, this indicates that multicollinearity is not a problem in this model. In other words, the independent variables are not strongly correlated with each other.
- **Tenenhaus GoF (GoF):**
  The GoF value of 0.155 indicates that the overall effect size of the model is in the small category, indicating that the model may be less powerful in explaining the relationships between variables.
- **Sympson's Paradox Ratio (SPR) and R-squared Contribution Ratio (RSCR):** Both of these values are equal to 1, indicating that the model is ideal in terms of avoiding Simpon's paradox and providing a significant R-squared contribution.
- **Statistical Suppression Ratio (SSR):** An SSR value of 1 indicates that the model is effective in reducing unwanted variability, which means that the model is good at controlling the influence of certain variables so that the results obtained are more accurate.
- **Nonlinear Bivariate Causality Direction Ratio (NLBCDR):** The NLBCDR value of 0.5 is below the acceptable threshold (>= 0.7), suggesting that the model may not fully capture the nonlinear direction of causality between variables.

Overall, the model has strengths in overcoming multicollinearity issues and shows good consistency of results. However, there are some weaknesses regarding the overall effect size and the ability to capture non-linear causality. Nonetheless, the significant paths indicate that there is an important relationship between the variables in the model. However, the effectiveness of the model in explaining variation in the dependent variable still requires further attention.

Hypothesis Testing (Resampling)

In testing the hypothesis described in the literature review above, it can be seen that the hypothesis is as follows:

- **H1: CSR has a positive and significant effect on Profitability.**

  Ho_1 : There is no effect of CSR Disclosure on Profitability.

  Ha_1 : There is an Effect of CSR Disclosure on Profitability.

  In this study, the results of hypothesis testing show that Corporate Social Responsibility (CSR) disclosure has a positive and significant influence on company profitability, with a significance level below 5%. The null hypothesis (Ho_1), which states that there is no effect of CSR disclosure on profitability, is rejected, while the alternative hypothesis (Ha_1), which states that there is a positive influence, is accepted. This indicates that the higher the level of CSR disclosure, the higher the profitability of the company.

  This finding is in line with the theory that CSR can increase firm profitability through several key mechanisms. First, strong CSR practices can improve the company's image and reputation, which in turn can increase attractiveness to consumers and investors and reduce reputational risk (Ningsih et al., 2022). Second, CSR can improve operational efficiency and risk management, which allows companies to reduce operating costs and ultimately improve profitability metrics such as Return on Assets and Net Profit Margin. (Li et al., 2023; Ridho et al., 2022; Sayidah & Nuurjannah, 2023). Third, CSR integrated with differentiation strategies can create a competitive advantage, which leads to an increase in Return on Equity. (Yusra, 2021).

  Theoretically, this finding also supports the view proposed by (Bowen Howard R., 1953) and (Carroll, 1999) on the importance of corporate social responsibility in business practices. According to Bowen, businesses must pursue policies and decisions that are not only economically beneficial but also aligned with prevailing social values. Carroll (1999) adds that CSR involves corporate responsibility for the social, environmental, and economic impacts of their activities and includes voluntary actions that aim to have a positive impact on society and the environment.

This research underscores the importance of CSR as an element of business strategy that not only fulfills social and ethical demands but also directly contributes to improving corporate profitability. As such, effective CSR implementation can be a powerful tool for companies to improve their financial performance while strengthening relationships with stakeholders.

- **H2: ESG has a positive and significant effect on Profitability.**

  Ho_2 : There is no effect of ESG Disclosure on Profitability.

  Ha_2 : There is an Effect of ESG Disclosure on Profitability.

The results showed that the null hypothesis (Ho_2), which states that there is no effect of ESG disclosure on profitability, is rejected, while the alternative hypothesis (Ha_2), which states that there is an effect of ESG disclosure on profitability, is accepted. However, interestingly, the effect was found to be negative yet significant. This means that although ESG has an influence on profitability, this influence actually decreases the profitability of the company.

This explanation can be linked to ESG theory which states that the integration of environmental, social, and governance factors in a company's operations has the potential to create long-term value through enhanced reputation, better risk management, and increased operational efficiency (Friede et al., 2015). However, research also indicates that implementing ESG practices can encounter challenges, such as the high costs associated with complying with stricter environmental and social standards, which may reduce profit margins in the short term.

In the context of ESG theory, this result can be interpreted as an indication that, although ESG practices are generally associated with enhanced reputation, operational efficiency, and competitiveness, ESG implementation that may require large initial investments or significant changes in a company's operations may negatively impact profitability in the short term. For example, efforts to reduce carbon emissions or increase transparency in governance may entail significant costs, which may ultimately reduce a company's profit margin.

In addition, ESG theory also states that investors and stakeholders are increasingly demanding transparency and sustainable practices from companies, which may force companies to adopt higher ESG standards albeit with financial consequences that may not be favorable in the short term. However, it is important to note that although the effect is negative, its significant nature suggests that ESG remains an important factor considered by the market and may influence investment decisions.

Guidelines issued by (Nasdaq, 2019) on ESG reporting emphasizes the importance of integrating ESG into business operations to meet global stakeholder expectations. As such, although the research results show a negative impact on profitability, companies need to consider the potential long-term benefits of ESG practices, including better risk management and the potential to attract investors who are more concerned about sustainability issues.

The result of this study also confirms that ESG implementation does not always directly enhance profitability; however, its influence on other areas, such as reputation and stakeholder relations, can provide significant added value for companies over an extended period. Thus, an effective ESG strategy should be regarded as a long-term investment that may require sacrificing short-term profitability for greater enduring benefits.

Conclusion

Based on the results of the research that has been done, there are several conclusions that can be drawn. First, Corporate Social Responsibility (CSR) has a moderate positive influence on profitability (PRO) with a path coefficient of 0.14. This suggests that an increase in CSR is associated with an increase in profitability, Although the effect is moderate, the statistical significance of this relationship is indicated by a P-value of 0.001, which is significantly below the 0.05 threshold, signaling that this relationship is statistically significant. Second, Environmental, Social, and Governance (ESG) has a negative influence on profitability with a path coefficient of -0.167, indicating that an increase in ESG is associated with a decrease in profitability. This effect is more significant

compared to CSR, supported by previous studies such as Gutiérrez-Ponce & Wibowo (2023), which showed that ESG disclosure has a negative relationship to profitability on dependent variables such as ROA, ROE, and Tobin's Q. However, the impact of each ESG pillar varies. The statistical significance of this relationship is also very high, with a P value of 0.001. Finally, the strength of the predictive model measured by the R-squared value of 0.057 shows that CSR and ESG are only able to explain 5.7% of the variation in profitability, indicating low explanatory power. In addition, the Tenenhaus GoF value of 0.155 indicates that the model is in a small category in terms of overall effect size, which means that the model may be less powerful in explaining the relationships between variables.

To prevent misinterpretations in the use of Dummy Coding, clear guidelines or rules should be established. This can be done by agreeing on definitions or criteria that determine whether certain information is considered disclosed or not. Setting explicit boundaries with precise definitions of what constitutes a disclosure aims to ensure more consistent and accurate data interpretation. This recommendation is especially important for future research to avoid ambiguity.

In terms of adjusting and selecting indicators, future researchers can evaluate the 9 CSR indicators and the indicators from the 3 ESG dimensions, assigning weights to indicate which indicators are more dominant. This allows researchers to focus on those indicators deemed to have a more significant impact in the study. By doing so, future research can better prioritize indicators that contribute most to the study's objectives, leading to more focused and relevant results.

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