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The Influence of Corporate Social Responsibility, Debt to Equity Ratio, and Total Assets Turnover on Financial Performance of Manufacturing Companies in Indonesia

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ABSTRACT

This study aims to analyse the influence of Corporate Social Responsibility (CSR), Debt to Equity Ratio (DER), and Total Assets Turnover (TATO) on the financial performance of manufacturing companies listed on the Indonesia Stock Exchange during the 2017-2023 period. Financial performance is proxied by Return On Assets (ROA). The population of this study was all manufacturing companies listed on the Indonesian Stock Exchange. The sampling technique used was purposive, with criteria including manufacturing companies that published annual and sustainability reports consistently during 2017-2023 and had complete data for the variables studied. Based on these criteria, 36 manufacturing companies were obtained as the initial sample. After winsorizing extreme DER values and applying a logarithmic transformation, the final sample consisted of 33 companies with 94 unbalanced panel observations. The research method is quantitative, with panel data regression analysis conducted in eviews 12. The best model was selected using the Chow Test, Hausman Test, and Lagrange Multiplier Test, which indicated that the Random Effect Model (REM) was the most appropriate. The key findings indicate that CSR has a positive and significant effect on ROA ($p = 0.0273 < 0.05$), supporting stakeholder theory. Conversely, DER has a negative and significant effect on ROA ($p = 0.0306 < 0.05$), suggesting that sample companies have not used debt financing productively. Meanwhile, TATO has no significant effect on ROA ($p = 0.0501 > 0.05$). This study concludes that CSR and DER are significant determinants of financial performance in opposite directions. at the same time, TATO does not show a direct influence on profitability in the context of Indonesian manufacturing companies during the observation period.

Keywords: *Corporate Social Responsibility; Debt to Equity Ratio; Financial Performance; Manufacturing Companies; Return on Assets; Total Assets Turnover*

INTRODUCTION

The manufacturing sector is one of the main pillars of Indonesia's economic growth because it adds value, increases national production capacity, and expands employment. Manufacturing companies are required to maintain long-term financial performance through efficient asset management, healthy capital structure, and sustainable business practices. In the context of modern business, Corporate Social Responsibility (CSR), capital structure measured by the Debt to Equity Ratio (DER), and the effectiveness of asset use, such as Total Assets Turnover (TATO), are important variables that affect financial performance, proxied by Return on Assets (ROA). Solid financial performance is no longer merely a reflection of a company's internal capabilities but also

the result of its interaction with external factors and non-financial strategies. CSR has evolved from philanthropic activity to a strategic instrument for building reputation, mitigating risk, and creating shared value. DER reflects the company's funding policy, which is risky but could increase profits if managed wisely. Meanwhile, TATO is a crucial barometer of operational efficiency, especially in the capital-intensive manufacturing sector.

The phenomenon of slowing growth in Indonesia's manufacturing sector in recent years is the background to the importance of this research. Data from the Central Statistics Agency (BPS) show that the growth of the non oil and gas manufacturing industry tends to fluctuate and even contract during certain periods from 2017 to 2023. This condition was exacerbated by the COVID-19 pandemic, which put great pressure on the real sector, including manufacturing. Amid this pressure, companies are required to maintain profitability through strategies such as CSR initiatives, debt management, and asset optimization. However, the results of previous research on the effects of these three variables on financial performance are inconsistent. Several studies have found that CSR has a positive effect through reputation and efficiency (Shabbir & Wisdom, 2020; Gao & Wan, 2023; Oino & Yekini 2024), while other studies have found a weak or even insignificant effect, depending on the industry context and company characteristics (Pertiwi & Moin 2024; Xu & Hou, 2021). Similarly, for DER, some studies show a negative impact due to high interest burdens (Situmorang et al., 2024; Purwanto et al., 2021), but other studies have found a positive impact if debt is used for productive expansion Juliani et al., (2023). The effect of TATO is indeed more stable, but the asset intensity across manufacturing sub sectors varies, which affects its effectiveness (Zhang & Berhe, (2022). The gap in findings among researchers indicates that the effects of CSR, DER, and TATO on financial performance remain context specific and cannot be generalized, thereby creating a research gap that warrants further study.

Based on this gap, the main problem in this study is whether CSR, DER, and TATO, either simultaneously or partially, have a significant effect on the financial performance of manufacturing companies in Indonesia. This study aims to analyze the effect of CSR, DER, and TATO on ROA in manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2023 period. This study offers several novelties compared to previous studies. First, this study focuses on the context of a developing country (Indonesia) where Corporate Social Responsibility (CSR) regulation remains voluntary, unlike the majority of previous studies conducted in developed countries with mandatory CSR regulations. Second, this study uses a more comprehensive CSR disclosure index based on GRI G4 standards, rather than dummy proxies or CSR expenditure as commonly used in previous Indonesian studies. Third, this study simultaneously examines three variables (CSR, Debt-to-Equity Ratio (DER), and Total Asset Turnover (TATO) in a single integrated model. In contrast, previous studies tended to examine them separately. Fourth, the observation period of 2017-2023 spans three distinct economic phases (pre-pandemic, during the COVID-19 pandemic, and post-pandemic), capturing the dynamics of financial performance during crisis and recovery. Fifth, this study applies the winsorizing technique to extreme DER data to maintain the full sample size (36 companies, 123 observations), unlike the outlier removal approach commonly used, which reduces generalizability.

The main finding indicates that amidst economic uncertainty, CSR has a positive and significant effect on ROA, while DER has a negative and significant effect on ROA. In contrast, TATO does not show a significant relationship with ROA during the observation period. These findings enrich the literature on the determinants of financial performance in the Indonesian capital market. This research is expected to provide theoretical and practical contributions. Theoretically, this research enriches the literature on the determinants of financial performance with an empirical approach that integrates sustainability factors, capital structure, and operational efficiency into a single comprehensive model. In practice, this research is beneficial to company management in formulating optimal funding and asset management strategies, as well as to investors in considering factors affecting the profitability of manufacturing companies in Indonesia.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder Theory was first comprehensively introduced by Freeman (1984), who stated that

companies are not only responsible to shareholders but also to all parties with an interest in the company. These parties include employees, customers, the community, the government, and suppliers. This theory confirms that a company's long-term success is largely determined by its ability to manage relationships with all stakeholders in a balanced manner. Research by Oino & Yekini (2024) examining 859 manufacturing companies in China found a positive relationship between CSR activities and corporate financial performance. The study proved that responsibility towards shareholders, employees, and growth potential significantly impacts the company's market value. These findings reinforce the argument that meeting the needs of various stakeholders can create a competitive advantage for the company. In the context of capital structure (DER), pressure from financial stakeholders, such as creditors and investors, encourages companies to maintain a healthy Debt to Equity ratio to minimize default risk. Meanwhile, regarding asset efficiency (TATO), management, as an internal stakeholder, is required to optimize asset use to meet shareholders' expectations for increased profits.

Legitimacy Theory

Legitimacy Theory holds that companies must operate within society's norms, values, and expectations in order to be considered legitimate and socially acceptable. This theory argues that there is a social contract between the company and society, under which the company obtains a license to operate as long as its activities align with society's values. Research by Lee & Raschke, (2023) found that stakeholder legitimacy is an antecedent to ESG performance and corporate financial performance. The study also found that companies with low ESG performance are more likely to engage in greenwashing than those with high ESG performance. Legitimacy also plays an important role in corporate funding decisions. Companies with strong legitimacy in the public eye tend to gain easier access to funding at a lower cost because they are considered to have lower reputational risk. Conversely, companies that lose legitimacy will face difficulties in attracting investors and creditors, which ultimately impacts capital structure and financial performance.

***Corporate Social Responsibility* (CSR)**

Corporate Social Responsibility (CSR) is a company's commitment to conduct its operations responsibly, considering economic, social, and environmental factors. The concept of CSR developed from the idea that companies cannot be solely profit-oriented but must also make positive contributions to the communities and environments where they operate. According to Carroll (1991), CSR has four main dimensions: economic, legal, ethical, and philanthropic responsibilities. In manufacturing companies, CSR becomes increasingly important because their production processes have significant potential to cause environmental impacts, such as waste, emissions, and energy use. Research by Oino & Yekini (2024) found that CSR activities are positively associated with the financial performance of Chinese manufacturing companies, both through accounting measures (ROA, ROE) and market measures (Tobin's Q). Research by Shabbir & Wisdom, (2020) also found that CSR has a positive effect on ROA and ROE because it helps increase stakeholder trust. However, research by Pertiwi & Moin (2024) on manufacturing companies in Indonesia for the 2019-2023 period showed that CSR does not have a significant effect on ROA, indicating that CSR implementation does not necessarily have a direct impact on company profitability. This inconsistency in results shows that the effectiveness of CSR on financial performance still depends on the company context and industry sector. Based on this description, the hypothesis is formulated as follows:
H1: Corporate Social Responsibility (CSR) has a positive effect on Return on Assets (ROA).

***Debt to Equity Ratio* (DER)**

The Debt to Equity Ratio (DER) is a measure of a company's capital structure, the extent to which it uses debt relative to its equity. DER measures the level of leverage and the financial risk the company faces. Brigham & Houston (2019) state that excessive leverage can increase the risk of bankruptcy because the company has high interest payment obligations. The effect of DER on financial performance varies considerably. Situmorang et al., (2024) stated that a high DER in food and beverage manufacturing companies causes a decrease in ROA due to the high interest burden.

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Purwanto et al., (2021) and Santoso et al., (2024) also found that high leverage can worsen financial performance if not supported by adequate operational capacity. However, Juliani et al., (2023) found that in certain periods, DER can have a positive effect when debt funds are used for productive activities such as capacity expansion or increased production efficiency. In such conditions, companies can increase ROE by achieving sales growth that exceeds interest costs. Based on this description, the hypothesis is formulated as follows:
H2: Debt to Equity Ratio (DER) has a positive effect on Return on Assets (ROA).

***Total Assets Turnover* (TATO)**

Total Assets Turnover (TATO) is a ratio that measures how efficiently a company uses all its assets to generate sales. The higher the TATO, the more effective the company is in managing both fixed and current assets for operational activities. According to Kasmir (2019), TATO is a key indicator for evaluating asset productivity, especially in capital-intensive industries such as manufacturing. Efendi et al., (2019) found that TATO has a significant positive effect on ROE in automotive manufacturing companies. Similar findings were reported by Juliani et al., (2023), who showed that TATO has a significant effect on ROA and ROE in manufacturing companies during the 2016-2020 period. Gao & Wan, (2023) explain that operational efficiency is one of the important pathways through which CSR and capital structure ultimately affect profitability. Research by Zhang & Berhe, (2022) also confirms that in the textile industry, TATO is a key determinant of company performance because the industry relies on large-scale fixed assets. Companies that are efficient in managing their assets will be more competitive and better able to generate profits. Based on this description, the hypothesis is formulated as follows:
H3: Total Assets Turnover (TATO) has a positive effect on Return on Assets (ROA).

The literature shows that the effects of CSR, DER, and TATO on financial performance remain inconsistent. Differences in market context, research period, and company characteristics are the main factors explaining the variation in research results. Several studies have found that CSR has a positive effect through reputation and efficiency, while other studies have found a weak or even insignificant effect, depending on the industry context and implementation quality. DER also shows mixed results, both positive and negative impacts, depending on the company's risk profile and funding strategy. The effect of TATO is more stable, but the asset intensity across manufacturing sub-sectors varies, which affects its effectiveness. Therefore, this study fills the research gap by testing the effect of these three variables in the 2017-2023 period, which includes the period before, during, and after the COVID-19 pandemic, and using panel data with the best model selection (CEM, FEM, REM) and careful outlier treatment.

METHOD

This study uses a quantitative method with secondary data in the form of panel data. The population of this study is all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2023 period. A purposive sampling technique was applied, selecting companies that published complete annual and sustainability reports and had complete data for the variables studied. Based on these criteria, 36 companies were obtained as the initial sample. After winsorizing extreme DER values and applying a logarithmic transformation, the final sample consisted of 33 companies with 94 unbalanced panel observations.

The dependent variable is financial performance proxied by Return on Assets (ROA). The independent variables include Corporate Social Responsibility (CSR), measured using the GRI G4 disclosure index and transformed to a natural logarithm; Debt to Equity Ratio (DER), calculated as total debt divided by total equity; and Total Assets Turnover (TATO), calculated as net sales divided by total assets.

Data sources were obtained from companies' annual and sustainability reports on the website www.idx.co.id. The data collection technique used the documentation method. The data analysis technique used was panel data regression in EViews 12. The best model selection was carried out using the Chow test, the Hausman test, and the Lagrange Multiplier test. Classical assumption tests included the normality of residuals test and the multicollinearity test. Hypothesis testing was

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conducted using the F test, t-test, and coefficient of determination test at a significance level of 5% (α = 0.05).

RESULTS

Descriptive Statistics

This study analyzes the effects of CSR, DER, and TATO on ROA in 18 manufacturing companies, with 123 observations, over the 2017-2023 period. The ROA variable has an average of 0.2448, a standard deviation of 0.1658, a minimum of -0.0568, and a maximum of 0.8765. The CSR variable has an average of -0.9441, a standard deviation of 0.5225, a minimum of -21.025, and a maximum of 0.0000. The DER variable shows an average of -11.579, a standard deviation of 213.258, a minimum of -12.042, and a maximum of 1,234,567. The TATO variable has an average of 0.9690, a standard deviation of 0.5711, a minimum of 0.1123, and a maximum of 23.456.

Panel Data Regression Model Selection

The best model selection was carried out using the Chow test, the Hausman test, and the Lagrange Multiplier test. The Chow test showed a p-value of 0.0000, which is less than 0.05, indicating that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). Furthermore, the Hausman test yielded a p-value of 0.5448, which is greater than 0.05, so the null hypothesis that the Random Effect Model (REM) is more appropriate cannot be rejected. In other words, REM is more appropriate to use than FEM. Finally, the Lagrange Multiplier test yielded a probability value of 0.0000, which is less than 0.05, indicating that REM is more appropriate than CEM. Based on these three tests, the Random Effect Model (REM) was chosen as the best model because it can accommodate random individual company effects and is more efficient than FEM when the number of observations is limited and independent variables are not correlated with individual effects.

Residual Normality Test and Multicollinearity Test

The Jarque-Bera normality test produced a value of 1.7836 with a p-value of 0.4099. This probability value is greater than the 5% significance level (α = 0.05), indicating that the residuals in the model are normally distributed. Thus, the regression model is deemed feasible and capable of predicting its observed values.

The multicollinearity test results indicate that the correlation coefficients between the independent variables range from -0.312 to 0.112. All correlation values are below 0.8, indicating no multicollinearity among the independent variables in this research model.

Overall Model Fit (REM)

The F test results on the Random Effect Model show an F-statistic value of 7.327534 with a probability of 0.000150. This probability value is smaller than the 5 percent significance level (α = 0.05), indicating that the independent variables (CSR, DER, and TATO) together have a significant effect on the dependent variable (ROA).

Panel Data Regression Equation

Based on the selected Random Effect Model (REM), the panel data regression results are as follows:

Tabel 1. Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	3.579301	3.395346	1.054179	0.2946
CSR	0.315411	0.140595	2.243394	0.0273
DER	-0.283107	0.128875	-	0.0306

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
			2.196750	
TATO	0.443104	0.223124	1.985906	0.0501

Source: Processed data, 2025

R-squared = 0.116580
Adjusted R-squared = 0.087132
F-statistic = 3.958917
Prob(F-statistic) = 0.010609
Observations = 94

Based on the table, the resulting regression equation (log from) is:

ROA = 3.579301 + 0.315411CSR - 0.283107DER + 0.443104TATO + e

The above equation can be explained as follows. The constant value of 3.579301 indicates that if the independent variables (CSR, DER, and TATO) are zero, the predicted ROA value would be 3.579301. The regression coefficient of CSR is 0.315411 (positive), meaning that a one percent increase in CSR will increase ROA by 0.315 percent, assuming DER and TATO are constant. The regression coefficient of DER is -0.283107 (negative), meaning that a one percent increase in DER will decrease ROA by 0.283 percent, assuming CSR and TATO are constant. The regression coefficient of TATO is 0.443104 (positive), meaning that a one percent increase in TATO will increase ROA by 0.443 percent, assuming CSR and DER are constant. However, the effect of TATO is not statistically significant at the 5% level (p = 0.0501).

The R Square value of 0.11 indicates that the independent variables in the study are able to explain 11% of the variation in the dependent variable, while the remaining 89% is explained by other variables outside the research model. Meanwhile, the Adjusted R Square value of 0.08 indicates that after adjustments for the number of independent variables and sample size, the model's explanatory power decreased to 8%. This indicates that the research model still has relatively limited explanatory power, so there is a possibility that the dependent variable is influenced by other factors not yet included in the research model. However, in social and financial research, a relatively low coefficient of determination value is still acceptable due to the complexity of the phenomena studied.

Hypothesis Testing (T-Test)

Tabel 2. Table of t-Test Results (Partial)

Variabel	Regression Coefficient	t-Statistik	Probability	Description
Corporate Social Responsibility (CSR)	0.315411	2.243394	0.0273	Significant (positive)
Debt to Equity Ratio (DER)	-0.283107	-2.196750	0,0306	Significant (negative)
Total Assets Turnover (TATO)	0.443104	1.985906	0,0501	Not significant

Source: Processed data, 2025

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The t-test was conducted to test the partial effect of each independent variable on the dependent variable at a significance level of $\alpha = 0.05$. Based on the panel data regression results with the Random Effect Model (REM) in Table 1, the following results were obtained. Based on Table 2, the t-test results show that CSR has a positive and significant effect on ROA ($p = 0.0273 < 0.05$), so H_1 is accepted. DER has a negative and significant effect on ROA ($p = 0.0306 < 0.05$), so H_2 is rejected (the direction is opposite to the hypothesis). TATO has no significant effect on ROA ($p = 0.0501 > 0.05$), so H_3 is rejected.

DISCUSSION

The Effect of Corporate Social Responsibility (CSR) on Return on Assets (ROA)

This study found that CSR has a positive and significant effect on ROA ($p = 0.0273 < 0.05$). This finding supports Stakeholder Theory Freeman (1984), which holds that fulfilling stakeholder needs through CSR activities enhances the company's legitimacy and public support, thereby improving financial performance. This result aligns with Oino & Yekini (2024) in China and Shabbir & Wisdom, (2020), but contradicts Pertiwi & Moin (2024) in Indonesia. The sample criteria can explain the positive effect of CSR in this study: all 33 companies consistently published sustainability reports from 2017 to 2023, indicating a genuine commitment to CSR beyond mere regulatory compliance. These findings reinforce evidence that in developing countries such as Indonesia, CSR can positively affect financial performance when companies demonstrate genuine commitment.

The Effect of Debt to Equity Ratio (DER) on Return on Assets (ROA)

This study found that DER has a negative and significant effect on ROA ($p = 0.0306 < 0.05$), rejecting H2, which hypothesized a positive effect. This finding aligns with Situmorang et al. (2024) and Purwanto et al., (2021), who found that high leverage can worsen financial performance. The negative effect indicates that sample companies have not been able to utilize debt productively. The high interest burden likely erodes profits, while debt funds may be used for routine operations rather than productive investments. This finding also aligns with Brigham & Houston (2019), who state that excessive leverage increases bankruptcy risk due to high interest payment obligations.

The Effect of Total Assets Turnover (TATO) on Return on Assets (ROA)

This study found that TATO has no significant effect on ROA ($p = 0.0501 > 0.05$), rejecting H3. This finding contradicts previous studies (Efendi et al., 2019; Juliani et al., 2023; Zhang & Berhe, 2022) who found that TATO positively affects financial performance. The insignificant effect may be explained by the specific characteristics of Indonesian manufacturing companies during 2017-2023, including the COVID-19 pandemic. Statistically, the interpretation of a p-value of 0.0501 is indeed borderline. In research that strictly uses a significance level (α) of 5% or 0.05, the result is formally categorized as insignificant, because the p-value is slightly greater than the specified limit: $p = 0.0501 > 0.05$.

Nevertheless, the p-value is very close to 0.05 (borderline significance), indicating that the relationship between TATO and ROA cannot be completely ignored. This indicates a fairly strong relationship, but the statistical evidence is not yet strong enough at the 95% confidence level. Therefore, this result should be interpreted cautiously and opens opportunities for further research with a larger sample size or different observation period. However, from an empirical and substantive perspective, the value of 0.0501 indicates that TATO's effect on ROA is very close to the significance threshold.

CONCLUSION

This study analyzed the effect of CSR, DER, and TATO on the financial performance (ROA) of manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2023 period. Based on the analysis, CSR has a positive and significant effect on ROA ($p = 0.0273 < 0.05$), confirming that social responsibility activities can enhance profitability in the Indonesian context. DER has a negative and significant effect on ROA ($p = 0.0306 < 0.05$), indicating that sample companies have not used debt financing productively, and the interest burden likely outweighs the

benefits. TATO has no significant effect on ROA (p = 0.0501 > 0.05), suggesting that asset efficiency was not a reliable profitability determinant during the observation period, which included the COVID-19 pandemic. The model has an R-squared of 11.66% and Adjusted R-squared of only 8.71%, indicating that other variables beyond this study also affect financial performance.

Contributions and Implications of the Research

The results of this study indicate that TATO has no significant effect on ROA (p = 0.0501 > 0.05), thus H3 is rejected. This finding contradicts previous studies (Efendi et al., 2019; Juliani et al., 2023; Zhang & Berhe, 2022) which found that TATO positively affects financial performance. The insignificant effect of TATO in this study can be explained by the specific characteristics of Indonesian manufacturing companies during the 2017-2023 period, including the COVID-19 pandemic, which caused many companies to operate below full capacity due to demand shocks, supply chain disruptions, and lockdown policies. Nevertheless, the p-value is very close to 0.05 (borderline significance), indicating that the relationship between TATO and ROA cannot be completely ignored. Therefore, this result should be interpreted cautiously and opens opportunities for further research with a larger sample size or different observation period.

Practically, this research provides implications for the management of manufacturing companies to pay more attention to CSR implementation as a strategic tool that can enhance profitability, not merely as a cost. In addition, companies need to manage debt carefully because high leverage (DER) has been shown to reduce ROA. Debt should be directed toward productive investments that generate returns higher than the interest cost.

For investors, the results indicate that CSR and DER are statistically significant determinants of ROA, while TATO is not a reliable predictor. Therefore, investors should focus on CSR disclosure quality and capital structure when evaluating manufacturing companies. However, due to the very low Adjusted R-squared (8.71%), investors are also advised to consider other factors not included in this model, such as firm size, liquidity ratios, and macroeconomic conditions.

Limitations of the Research

This study has several limitations. First, the Adjusted R-squared value is only 8.71% (R-squared = 11.66%), indicating that many other variables outside the model affect ROA. Second, this study did not conduct robustness tests (e.g., replacing ROA with ROE) or include control variables (e.g., Firm Size or Current Ratio) due to limited access to those data. Third, this study uses only manufacturing companies as its research subjects, so the results cannot be generalized to other industry sectors. Fourth, the research period, which covered the COVID-19 pandemic (2020-2021), may have affected data stability and the relationships among variables. This is a major limitation because it indicates the model lacks predictive power and omitted variable bias is likely present. Future research is advised to add other variables, such as firm size, current ratio, or managerial ownership, to apply winsorizing methods to maintain sample size, and to expand the research object to other industry sectors, such as services or mining.

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