

## The Effect Of Carbon Emission Disclosure And Corporate Social Responsibility On The Financial Performance Of Manufacturing Companies In Indonesia

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KEYWORDS	ABSTRACT
Carbon Emission, Corporate Social Responsibility, Financial Performance, Manufacturing Companies	This Study examines the relationship between carbon emission disclosure, corporate social responsibility (CSR), and financial performance in the manufacturing industry in Indonesia. Using data from manufacturing companies in Indonesia, this study finds a positive relationship between carbon emission disclosure and financial performance, as well as between CSR and financial performance. Companies that disclose their carbon emissions and engage in CSR initiatives are perceived positively by stakeholders, which can result in increased customer loyalty, improved reputation, and cost savings. The Indonesian government's efforts to regulate carbon emission disclosure and incentivize CSR initiatives have led to an increase in sustainable practices in the manufacturing sector. This study highlights the importance of environmental responsibility and social responsibility for companies to remain competitive and sustainable in the long term.

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### Introduction

As the world grapples with the issue of climate change, the need for companies to be environmentally responsible has become more important than ever before. The manufacturing sector, which is a significant contributor to greenhouse gas emissions, has been under pressure to reduce its carbon footprint. This article seeks to examine the relationship between carbon emission disclosure, corporate social responsibility, and financial performance in the manufacturing industry in Indonesia.

Carbon emission disclosure refers to the reporting of a company's greenhouse gas emissions. This information is important for stakeholders such as investors, customers, and regulators to evaluate a company's environmental performance. In recent years, there has been an increasing trend in companies disclosing their carbon emissions voluntarily or as part of regulatory requirements (Ganda, 2018).

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Corporate social responsibility (CSR) refers to a company's commitment to acting ethically and contributing to the economic, social, and environmental well-being of the community. CSR initiatives can include sustainable practices, philanthropy, and employee volunteering. Companies that engage in CSR are viewed positively by stakeholders and are seen as being socially responsible (Lu, Abeysekera, & Cortese, 2015).

Financial performance is a measure of a company's profitability and sustainability. It includes metrics such as revenue, profit, return on investment, and shareholder value. Financial performance is important for companies to remain competitive and attract investors. Studies have shown that there is a positive relationship between carbon emission disclosure and financial performance. Companies that disclose their carbon emissions are perceived as being environmentally responsible, which can result in increased trust from investors and customers (Feng, Wang, & Kreuze, 2017). Furthermore, companies that are transparent about their environmental impact are more likely to adopt sustainable practices, which can result in cost savings.

Similarly, there is a positive relationship between corporate social responsibility and financial performance. Companies that engage in CSR are perceived as being socially responsible, which can result in increased customer loyalty and improved reputation (Hasan, Kobeissi, Liu, & Wang, 2018). CSR initiatives can also result in cost savings, such as reducing waste and improving energy efficiency. In Indonesia, the government has introduced regulations that require companies to disclose their carbon emissions. This has led to an increase in carbon emission disclosure by companies in the manufacturing sector. Furthermore, the government has also introduced regulations that incentivize companies to engage in CSR initiatives (Akben-Selcuk, 2019).

### **Research Methods**

This study used the contrast review method, meaning the journal review method by finding differences between several research journals and then drawing conclusions. A contrast review is a method of literature review that involves comparing and contrasting two or more different perspectives or theories on a particular topic or research question. In contrast to a traditional literature review, which provides a summary of existing research on a topic, a contrast review emphasizes the differences and similarities between the perspectives or theories being examined (Rokibullah & Sofinia, 2022).

The purpose of a contrast review is to identify conflicting or complementary viewpoints on a topic, and to synthesize these perspectives to develop a more nuanced understanding of the research question. By analyzing the differences and similarities between different theories or perspectives, a contrast review can help researchers identify areas of agreement and disagreement in the literature, and generate new insights or research questions. To conduct a contrast review, the researcher typically begins by selecting two or more different theories or perspectives that are relevant to the research question. The researcher then systematically compares and contrasts these theories,

identifying similarities, differences, and areas of overlap. The researcher may use a variety of methods to compare and contrast the theories, such as creating a table, developing a matrix, or using a thematic analysis approach.

The output of a contrast review is typically a synthesis of the different theories or perspectives, which highlights the key similarities and differences between them, and identifies the implications for the research question. By providing a more nuanced understanding of the research question, a contrast review can help researchers develop new insights, refine their research questions, and identify gaps in the existing literature.

## **Results and Discussions**

The level of carbon emission disclosure and CSR engagement by companies can vary widely, depending on factors such as the size of the company, industry sector, and the regulatory environment. In Indonesia, research has found that the level of carbon emission disclosure and CSR engagement by manufacturing companies is generally low, but is increasing due to government regulations and incentives. Regarding carbon emission disclosure, some manufacturing companies in Indonesia have started to disclose their carbon emissions voluntarily, but many others have not yet done so. The level of disclosure tends to be higher among larger companies, especially those that operate in industries that are more heavily regulated. However, smaller companies are also starting to disclose their carbon emissions as they become more aware of the importance of environmental responsibility (Kurnia, Darlis, & PUTR, 2020).

In terms of CSR engagement, manufacturing companies in Indonesia are beginning to take steps to engage in socially responsible activities, but the level of engagement is still relatively low. Some companies are implementing sustainability programs, such as reducing waste, conserving energy, and engaging in community development projects. However, many companies have yet to develop comprehensive CSR strategies that integrate social and environmental considerations into their core business practices. The impact of carbon emission disclosure and CSR engagement on financial performance can be positive. Studies have found that companies that disclose their carbon emissions and engage in CSR initiatives tend to have better financial performance in terms of profitability, stock price, and access to capital. This is because these practices can help to reduce costs, improve efficiency, and increase stakeholder satisfaction and loyalty.

Overall, the level of carbon emission disclosure and CSR engagement by manufacturing companies in Indonesia is increasing, but there is still much room for improvement. Companies that are more proactive in adopting sustainable practices and engaging in socially responsible activities are likely to reap the benefits in terms of improved financial performance and long-term sustainability. Based on research conducted in Indonesia, it has been found that there is a positive relationship between carbon emission disclosure, corporate social responsibility (CSR), and financial performance in the manufacturing industry. Indonesian manufacturing companies that

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disclose their carbon emissions and engage in CSR initiatives tend to have better financial performance (Rinawiyanti, Xueli, & As-Saber, 2022).

The relationship between carbon emission disclosure and financial performance can be explained by the fact that companies that disclose their carbon emissions are perceived positively by stakeholders, including customers, investors, and regulators. This can lead to increased customer loyalty, improved reputation, and cost savings through more efficient resource use. In addition, companies that disclose their carbon emissions are more likely to adopt sustainable practices, which can help to reduce costs associated with waste, energy use, and resource consumption.

The positive relationship between CSR and financial performance can be explained by the fact that companies that engage in CSR initiatives tend to have a positive impact on their stakeholders, including employees, customers, and the environment. This can lead to increased customer loyalty, improved employee satisfaction, and cost savings through more efficient resource use. Additionally, companies that engage in CSR initiatives tend to have a better reputation, which can lead to increased investor confidence and improved access to capital.

The Indonesian government has implemented regulations and incentives to encourage companies to disclose their carbon emissions and engage in CSR initiatives. This has led to an increase in sustainable practices in the manufacturing sector, which has had a positive impact on financial performance.

The implications of the study for the manufacturing industry in Indonesia and other countries are significant, as they highlight the importance of adopting sustainable practices and engaging in CSR initiatives for long-term financial performance and sustainability. For manufacturing companies in Indonesia, the study suggests that there is a need for greater adoption of carbon emission disclosure and CSR initiatives to improve financial performance. Companies that are more proactive in adopting sustainable practices are likely to reap the benefits in terms of improved financial performance and long-term sustainability. The government's efforts to incentivize and regulate sustainable practices can further support this transition.

In other countries, the study highlights the importance of integrating sustainability and CSR practices into business operations. Companies that disclose their carbon emissions and engage in CSR initiatives tend to have better financial performance in terms of profitability, stock price, and access to capital. Investors are increasingly interested in companies that demonstrate environmental and social responsibility, which can create demand for shares of companies that engage in CSR initiatives and disclose their carbon emissions.

Furthermore, the study also has implications for policymakers and regulatory bodies. Regulations and incentives can encourage companies to adopt sustainable practices and make sustainability a priority. Governments can use policy instruments to create a more favorable environment for sustainable investing and promote sustainability as a key factor in business decision-making. This can help to create a more sustainable and socially responsible business environment, which can benefit

companies, stakeholders, and the wider community. In conclusion, the study highlights the importance of adopting sustainable practices and engaging in CSR initiatives for long-term financial performance and sustainability in the manufacturing industry. Companies in Indonesia and other countries can benefit from adopting these practices, and policymakers and regulatory bodies can use policy instruments to create a more sustainable and socially responsible business environment.

The differences in the findings of different studies on the relationship between carbon emission disclosure, CSR, and financial performance highlight the complex nature of this relationship and the need for further research to fully understand it. One possible reason for the differences in findings is the variation in methodologies used by different studies. The measures of carbon emission disclosure and CSR engagement used in different studies can vary, making it difficult to compare results across studies. Additionally, the sample size, industry sector, and geographic location of the companies studied can also affect the results. Another reason for the differences in findings were the contextual factors that affect the relationship between carbon emission disclosure, CSR, and financial performance. These factors can include regulatory environment, stakeholder expectations, competitive landscape, and industry characteristics. For example, in industries where environmental concerns are particularly salient, such as the renewable energy industry, the relationship between carbon emission disclosure, CSR, and financial performance may be stronger (Okafor, Adeleye, & Adusei, 2021).

Despite these differences, there is a growing body of evidence that suggests that there is a positive relationship between carbon emission disclosure, CSR, and financial performance. Companies that adopt sustainable practices and engage in CSR initiatives tend to have better financial performance, as stakeholders increasingly value sustainability and social responsibility. Governments and regulatory bodies are also recognizing the importance of sustainability and CSR, and are implementing policies to incentivize and regulate sustainable practices. In summary, while there may be differences in the findings of different studies on the relationship between carbon emission disclosure, CSR, and financial performance, there is growing evidence that adopting sustainable practices and engaging in CSR initiatives is beneficial for companies in terms of long-term financial performance and sustainability. Further research is needed to fully understand the complex relationship between these factors and how contextual factors may affect this relationship.

## **Conclusion**

In conclusion, there is a positive relationship between carbon emission disclosure, corporate social responsibility, and financial performance. Companies that disclose their carbon emissions and engage in CSR initiatives are perceived positively by stakeholders, which can result in increased customer loyalty, improved reputation, and cost savings. The Indonesian government's efforts to regulate carbon emission disclosure and incentivize CSR initiatives have led to an increase in sustainable practices in the manufacturing sector. It is essential for companies to continue to

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prioritize environmental responsibility and social responsibility to remain competitive and sustainable in the long term.

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