STIESIA
Sekolah Tinggi Ilmu Ekonomi Indonesia Surabaya
ICOBUSS INTERNATIONAL CONFERENCE ON BUSINESS & SOCIAL SCIENCES
e-ISSN 2746-5667
4th INTERNATIONAL CONFERENCE ON BUSINESS & SOCIAL SCIENCES
BUSINESS REVIVAL THROUGH DIGITAL TECHNOLOGY TRANSFORMATION

CSER ON SUSTAINABILITY OF FINANCIAL PERFORMANCE: PERSPECTIVE ON INNOVATION AND FINANCIAL CONSTRAINTS

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Abstract: Regulations around the world place a lot of emphasis on responsible investment policies and regulations, but not all companies accurately estimate environmental costs and benefits. The purpose of this study is to analyze the strategy of achieving financial performance that is taken into account from the corporate social and environmental responsibility (CSER) factor, which involves innovation and financial constraints of the company. This study uses a sample of companies in the basic and chemical sectors listed on the Indonesia Stock Exchange from 2019 to 2023. Although the results of the track analysis test show that CSER has no effect on sustainable financial performance, the findings prove the role of innovation that connects CSER to sustainable financial performance. The interaction of CSER and financial constraints weakens the relationship between CSER in improving sustainable financial performance. So that this study can be a strategy for industrial companies to carry out regulations that are environmentally and socially responsible through the development of innovations in accordance with technological developments and controlling the financial constraints faced.

Keywords: CSER, Innovation, Financial Constraints, Financial Performance, Sustainability

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1. Introduction

Stricter guidelines for ethical investment are now needed due to the increasing number of issues related to the environment in this era of globalization. International regulations promulgated by the United Nations in 2015 on the Sustainable Development Goals (SDGs) have become a global framework. According to the United Nation, there are only six years left to 2030, and the current progress is still far from what is needed to meet the SDGs. Without massive investment and enhanced actions, achieving a more resilient and prosperous world SDG blueprint and a roadmap out of the current global crisis will remain difficult to achieve (Badar et al., 2024; Galeazzo et al., 2023) The ongoing impact of the COVID-19 pandemic, escalating conflicts, geopolitical tensions, and increasing climate chaos have severely hampered progress on achievement. Regulations issued for international and national interest are always related to the Corporate Social and Environmental Responsibility (CSER) policy, which aims to improve the company's financial performance as a priority and an urgent area needed for stronger and more effective actions to ensure that it can be achieved by 2030 (KPMG, 2024)

The SDGs consist of 17 goals and 169 targets that cover various aspects, including poverty alleviation, gender equality, and environmental protection and in this context, Corporate Social and Environmental Responsibility (CSER) plays an important role as a mechanism for companies to contribute to the achievement of the SDGs (Kücükgül et al., 2022). Despite the growing awareness of the importance of CSER in supporting the SDGs, many companies still face obstacles in their implementation. Financial constraints are often a major obstacle that hinders companies from allocating resources to sustainability initiatives (Liu & Xu, 2024; Xu & Zhu, 2024).

In Indonesia, government regulations such as Law No. 40 of 2007 concerning Limited Liability Companies and Government Regulation No. 47 of 2012 provide a legal framework for the implementation of CSER, but challenges in its implementation are still constrained. Globalization and environmental challenges have given rise to the need for stricter regulations related to responsible investment. The implementation of CSER in achieving sustainability performance still faces financial constraints and a lack of innovative support in some industries. This research involves companies in the basic and chemical sectors in Indonesia that are required to always innovate that integrate into the strategy of achieving sustainability performance by paying attention to social and environmental responsibility factors. Many chemical companies struggle to provide transparent and accurate data on emissions, waste, and social impacts. This can reduce stakeholder trust. Companies with negative social and environmental impacts can face obstacles in their operational activities. Therefore, an effective strategy is needed to convince the stakeholders of the interests conveyed in the financial statements (Marshall et al., 2023; Rahmadhani et al., 2024). This financial reporting transparency can be a means of convincing stakeholders, including investors, consumers, and the public, of the company's ability to control the risk of negative impacts in the social and environmental fields. On the other hand, technological developments provide a great opportunity for companies to make various innovations in operations to meet the wishes of stakeholders in improving the company's financial performance. The existence of this innovation can be used as a cushion for financial constraints that weaken the achievement of sustainable financial performance.

Research that examines whether CSER information can contribute to sustainability is the research Sánchez et al. (2021) CSER contributes to the improvement of better sustainability performance practices in governance-supported companies. Research from Adamkaite et al. (2022) shows that for 9 companies in the energy sector in Lithuania, CSER have a positive impact on the financial performance of relevant companies. Research conducted by Khan et al. (2020), Riduwan and Andajani (2022), Kusumawati et al. (2022), Lahjie et al. (2022) Al Amosh et al. (2022), and Barman and Mahakud (2024) shows that there is a close relationship between CSER disclosure and improved financial performance. On the other hand, research from this study found that in some industries, there is a negative relationship between CSR and financial performance, especially when companies do not consider the long-term impact of CSR initiatives (Li & Xu, 2024; Zheng et al., 2023) CSER expenditures can decrease financial performance because the funds used reduce operational expenses that are important in improving financial performance (Kabir & Chowdhury, 2023) The study stated that CSER does not affect the company's financial performance because it is a donation that does not need to be disclosed (Khan et al., 2022) The implementation of CSR in India, the mandatory provisions of CSR have a negative impact on the value of the company (Oware & Mallikarjunappa, 2020). Indonesia is entering a high-quality development stage and the company continues to develop technological innovations. Through technological innovation and R&D investment, companies can improve their products and processes to expand market share and earn profits. In recent years, the relationship between technological innovation and corporate social responsibility has become increasingly compact with the transformation of smart and green environmentally friendly industries. This research was conducted in the condition that CSER expenditure information on company performance is in the condition of the Indonesian environment, where investor protection is relatively low due to weak regulations. So that the urgency of this research is concentrated on chemical industrialization which consumes complex resources and triggers environmental pollution, so that it becomes a serious challenge for the achievement of the SDGs, especially in sustainable financial performance. Laws and regulations such as Permensos 9/2020 provide flexibility in the mechanism for implementing the company's CSER to carry out its activities. The implementation of CSER integrated with risk analysis and business processes related to stakeholders, can have a clear, useful, and accountable direction. The involvement of companies in CSER practices not only meets legal requirements, but also enhances their reputation and competitiveness in the global market. Therefore, industrial companies in Indonesia must prioritize environmental and social impacts in their strategic plans, innovate various environmentally friendly products or services, and manage potential financial constraints.

The relationship between CSER and sustainable financial performance indirectly requires innovation as an important factor that can mediate this relationship. Innovation in products, processes, and business models can increase the effectiveness of CSER programs in improving sustainability performance (Khan et al., 2022) In addition, financial constraints can serve as moderators that affect the relationship between CSER and sustainability performance. Companies with financial constraints may not be able to implement CSER initiatives effectively, thus affecting sustainability outcomes (Zhang et al., 2023) So the formulation of the problem in this study includes testing whether CSER affects the company's sustainability performance, whether innovation mediates the relationship between CSER and sustainable financial performance, and whether financial constraints moderate the relationship between CSER and sustainable financial performance.

This study aims to analyze the relationship between CSER and the sustainable financial performance of chemical industry companies, focusing on the role of innovation as a mediator and financial constraints as a moderator. By understanding this relationship, it is hoped that it can provide better and more detailed insights into how companies can optimize CSER in achieving better sustainable financial performance. The aim of this study is to explore and analyze the relationship between CSER, innovation, and sustainability performance, as well as to understand the role of financial constraints in this context. The formulation of the problem in this research is to identify and analyze the influence of CSER on the company's sustainable financial performance, the influence of Innovation on the company's sustainable financial performance, explore the role of innovation in mediating the relationship between CSER and sustainable financial performance and assess the impact of financial constraints in moderating the relationship between CSER and sustainable financial performance.

2. Literature Review

Stakeholder Theories

Stakeholder theory is an important framework for understanding the relationship between companies and various stakeholders involved in business activities. According to Freeman (1984) a stakeholder is an individual or group that has an interest in the company's decisions and activities. In the context of social and environmental responsibility, this theory emphasizes the importance of companies taking into account the needs and expectations of stakeholders in formulating their sustainability strategies. Research shows that companies that are active in CSER tend to have better sustainability performance, as they invest in practices that support the environment and society (Kühnen et al., 2022).

CSER and Sustainable Financial Performance

In the context of modern business, stakeholder theory is an important framework for understanding how companies interact with various stakeholders, including customers, employees, investors, and communities. This theory states that companies must consider the interests of all stakeholders to achieve long-term sustainability. In this case, the CSER serves as a bridge between the company and stakeholders, which in turn can improve sustainable financial performance. Research that shows a positive relationship between CSER and sustainability performance is a study by Khan et al. (2022) that shows that companies that implement CSER initiatives effectively can improve sustainability performance through improved reputation and customer loyalty. In addition, research by Sánchez et al. (2021) shows that companies committed to CSER meet stakeholder expectations and achieve better sustainability outcomes, ultimately improving financial performance. Through CSER, companies can improve the reputation of stakeholders. According to (Adamkaite et al., 2022)companies that are active in CSR practices are more likely to gain customer trust and loyalty. This trust leads to increased sales and revenue, contributing to better financial performance.

H_1 Corporate Social and Environmental Responsibility (CSER) has a positive effect on sustainable financial performance.

Innovation and Sustainable Financial Performance

Stakeholder theory emphasizes the importance of companies to pay attention to the needs and expectations of all stakeholders, not just shareholders. In this context, innovation is a key element that enables companies to meet stakeholder expectations and achieve sustainable financial performance (Le et al., 2024) Innovation includes not only the development of new products, but also processes, business models, and practices that can improve efficiency and effectiveness. Innovation can create added value for customers and differentiate products in the market. According to Hai et al. (2022) companies that invest in product innovation can often set premium prices, which contributes to increased revenue and profitability. By offering better or more environmentally friendly products, companies can meet stakeholder expectations and increase customer loyalty. Sustainability-focused innovations can improve a company's reputation and attract stakeholders who care about social and environmental issues. Saeidi et al. (2024) show that companies that integrate sustainable innovation in corporate strategies not only meet social expectations but also achieve better financial results. Sustainable financial performance can be achieved by creating environmentally friendly products and services.

H_2 Innovation has a positive impact on sustainable financial performance.

CSER and Innovation

Companies must pay attention to the interests of all stakeholders including customers, employees, investors, and the public in making strategic decisions. This is a principle of stakeholder theory. In this context, CSER serves as a driver for innovation, as companies committed to social and environmental responsibility tend to be more open to change and the development of new solutions that meet the needs of stakeholders. An active CSER can strengthen a company's reputation in the eyes of stakeholders. According to Sánchez et al. (2021) companies that demonstrate a commitment to social responsibility often earn the trust and loyalty of customers and investors. This trust creates a supportive environment for innovation, as stakeholders are more willing to support and invest in the company. A commitment to CSER can foster a culture of innovation within the company. Novitasari and

Tarigan (2022) shows that companies that integrate sustainability principles in their operations often experience increased creativity in carrying out various innovations
H_3 CSER has a positive effect on innovation

Innovation as a Mediator
Stakeholder theory explains that companies must pay attention to the interests of all stakeholders, including customers, employees, investors, and the public, in strategic decision-making. In this context, CSER plays an important role in building positive relationships with stakeholders, and innovation can be a bridge that connects CSER practices with sustainable financial performance. As such, a deeper understanding of how innovation mediates these relationships is essential. Innovation acts as a mediator in the relationship between CSER and sustainable financial performance. Novitasari and Tarigan (2022) shows that innovations in products and processes can increase the effectiveness of CSER programs, thereby contributing to better sustainability performance. Innovation not only helps companies to meet the demands of stakeholders but also allows them to create new, sustainable value. This is in line with the findings of Mendes et al. (2021) which emphasized that companies that invest in sustainable innovation can optimize the positive impact that comes from the company's CSER. When companies innovate to meet these stakeholder expectations, they can better convert a positive reputation into good financial performance.
H_4 Innovation as a mediator of CSER relationships and sustainable financial performance.

Financial Constraints as a Moderator
Stakeholder theory underlines that companies consider the interests of all stakeholders in strategic decision-making. In this context, CSER is expected to improve sustainable financial performance by meeting stakeholder expectations. However, financial constraints can limit a company's ability to effectively implement CSER initiatives, which can ultimately weaken the relationship between CSER and financial performance. Financial constraints can moderate the relationship between CSER and sustainability performance. The research Zhang et al. (2023) shows that companies with financial constraints are unable to implement CSER activities effectively, which can reduce the positive impact on sustainability performance. Additionally, Liu and Xu (2024) highlights that companies facing financial constraints tend to find it more difficult to invest in the innovations necessary to support the company's CSER, thereby hindering the achievement of optimal sustainability performance. Financial constraints may limit the resources available for the implementation of CSER initiatives. According to Zhang and Ma (2021) companies operating on a limited budget often have to choose between investing in CSER projects and investing in core operations, which can result in the neglect of sustainability initiatives. Without adequate resource allocation, the positive impact of CSER on sustainable financial performance can be reduced.
H_5 Financial Constraints as a moderator of CSER relationships and sustainable financial performance

3. Method

This study aims to analyze the relationship between Corporate Social and Environmental Responsibility (CSER), Innovation, financial constraints and sustainable financial performance. The method in this study uses quantitative data using annual financial statements. The data analysis technique uses k-path analysis with the SmartPLS tool. The sample of this study is 73 basic and chemical industry companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. In this study, the sample determination was carried out using *the Purposive sampling method.* Criteria for determining the sample in this research a) Companies in the basic industry and chemical sectors listed on the Indonesia Stock Exchange annual report for 2019 - 2023. b) Companies in the basic industry and chemical sectors that have experienced a decline in performance are not used. And c) Basic and chemical industrial companies that do not have complete data. The following is the operational definition in this study.

Table 1. Operational Definition of variables

Definition	Operational Indicators
Sustainable financial performance is the ability of a company to produce consistently positive financial performance over the long term, taking into account the social and environmental impacts of its business activities. The company is able to adapt to sustainability challenges and meet stakeholder expectations.	Tobin Q = (MVE+PS+DEBT)/Total of Assets MVE = (share price at the end of the financial year) × (number of common shares outstanding), PS = liquidating value of the firm's preferred shares, DEBT = (current liabilities – current assets) + (book value of inventories) + (book value of long term debt), and AT = book value of Asset
Corporate Social and Environmental Responsibility (CSER) is a concept that refers to a company's commitment to operate ethically and contribute positively to society and the environment. The CSER includes a wide range of initiatives funded by expenditures related to the social and environmental aspects of the company's operations.	The measuring tool of this CSR variable uses two indicators, namely environmental expenditure, social expenditure (Rahmadhani et al., 2024) CSER= (Environmental Expenditure + Social Expenditure) to Total Income
Innovation is the process of developing new ideas or significant improvements to products, services, processes, or business models that generate added value and increase efficiency. In this context, innovation that uses research funds refers to the development and implementation of innovations that are funded through resources allocated for research and development (R&D)	The ratio of R&D expenditure to total revenues
Financial constraints are limitations or obstacles faced by companies in accessing the financial resources needed to carry out operations, investments, and development. These constraints can occur due to a lack of liquidity, high debt, fluctuations in income, or market uncertainty. When companies	High leverage can indicate that the company may face greater liquidity risk. If companies are unable to generate enough revenue to cover debt interest payments, they may be stuck in a difficult debt cycle, which exacerbates financial constraints.

Definition	Operational Indicators
experience financial constraints, their ability to make the necessary investments for growth and innovation can be hampered, which in turn can affect financial performance and long-term sustainability	Leverage = Total Hutang/Total Assets

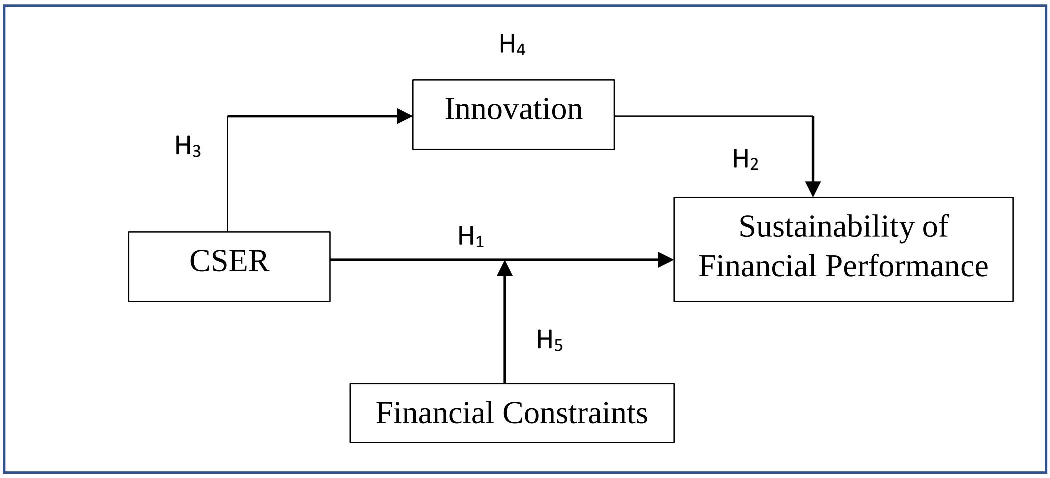

Figure 1. Research Theoretical Framework

4. Result and Discussion

The descriptive results of the data in table 2 below, show that the standard deviation value is smaller and close to the Mean value. This means that the data has a high probability that resembles a mean value so that it can be used to assess the accuracy of research results.

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	289	.322	.725	.30173	.182767
Innovation	289	.034	.869	.18016	.152438
Sustainability FP	289	.234	.267	.04426	.026169
Financial Constr	289	.226	.937	.24124	.146087

Source Data processed in 2024

The correlation table of the variables used in this study is in Table 3. showed the validity of discrimination from the model construct was evaluated by analyzing the Fornell-Larcker Criterion, the value of the coefficient was seen to be higher than the correlation coefficient.

Table 3. Discriminant Validity Fornell Lacker

	CSER	Inno	Sustainability FP	Moderating	Financial Const
CSR	1				
Innovation	0,129	1			
Sustainability FP	0,102	0,154	1		
Moderating	0.028	0,191	0,111	1	

Financial Const	0,050	0,121	0,192	0,104	1

Source Data processed in 2024

The assumption of the fit model with SmartPLS, namely the SRMR value = 0.053 is below 0.08; NFI = 0.90 above 0.80; Cronbach's alpha and CR values greater than 0.7 indicate good internal consistency reliability. Based on the conceptual framework of the research, the testing of structural model relationships and hypothesis testing can be carried out through two stages, namely: (1) testing the coefficient of direct influence paths and (2) testing the coefficient of indirect influence paths (mediation). The results of testing data from the output of the empirical model meet the specified criteria and are stated in accordance with the empirical data, namely the inner model. The discussion of the test results using path analysis can be summarized in table 4 below.

Table 4. Estimates of the model's path coefficients

	Path	Coefficient	Standard Deviation	t Statistics	P Values	Conclusion
H_1	CSER –> Sustainability FP	0,077	0,048	1,461	0,145	Reject
H_2	Innovation –> Sustainability	0,147	0,046	3,195	0,001*	Accept
H_3	CSER –> Innovation	0,129	0,048	2,673	0,008*	Accept
H_4	CSER –> Innovation –> Sustainability FP	0,119	0,019	2,070	0,039*	Accept
H_5	Moderating –> Sustainability	-0,114	0,046	2,498	0,013*	Accept

Note: * denote significance at the .05 levels.
**denote significance at the .01 levels.

The results of the first hypothesis test show that CSER expenditures that affect sustainable financial performance are not supported. The test results show that the change in expenditure in CSER activities is not in line with the achievement of the company's financial performance. The results of this study are in line with the research Margolis et al. (2007) Khan et al. (2019) and Hermundsdottir and Aspelund (2022) The implementation of CSER initiatives often requires an insignificant initial investment with expected results. Research by and that proves the cost of incurring costs associated with sustainability programs can reduce profit margins in the short term. Companies may find that spending on CSER is not proportional to the resulting improvement in financial performance, especially if the company faces financial stress or financial constraints This condition occurs because companies need to rebuild the company's image and cut costs to regain competitiveness after the crisis that once occurred during the covid 19 period.

The results of the second hypothesis test show that innovation has a positive effect on improving sustainable financial performance. Increased creativity in innovation can improve a company's sustainable financial performance. The results of this study are in line with the research of Hai et al. (2022) and Le et al. (2024) These results attest to the emphasis in stakeholder theory that companies must meet the needs and expectations of all stakeholders, not just shareholders. Within this framework, innovation is a crucial element that helps companies meet stakeholder expectations and achieve sustainable financial performance. The innovation that the company undertakes involves not only the development of new products, but also the improvement of processes, business models, and practices that can improve operational efficiency and effectiveness. Innovation has the potential to create added value for customers and differentiate products in the market. According to the company, companies that invest in product innovation can set premium prices, which contributes to increased revenue and profitability. By offering better or more environmentally friendly products, companies can meet stakeholder expectations and increase customer loyalty, thereby improving financial performance. In addition, innovations that focus on sustainability can improve a company's reputation and attract the attention of stakeholders who care about social and environmental issues. Companies that integrate sustainable innovation into their strategies not only meet social expectations, but also achieve better financial results. Thus, sustainable financial performance can be achieved through the development of environmentally friendly products and services.

The results of the third hypothesis test show that CSER activities have a positive effect on the company's innovation. The results of this study are in line with research conducted by Sánchez et al. (2021) and Novitasari and Tarigan (2022) These findings successfully prove that in accordance with stakeholder theory, the company innovates with consideration from all stakeholders, including customers, employees, investors, and the public, in strategic decision-making. CSER serves as a driver of creativity for all elements in innovating, considering that companies committed to social and environmental responsibility are more open to change and the development of new solutions that meet the needs of stakeholders. An active CSER can strengthen a company's reputation in the eyes of stakeholders. Companies that are able to demonstrate a commitment to social and environmental responsibility usually earn the trust and loyalty of customers and investors. This trust creates an environment conducive to innovation, as stakeholders are more willing to support and invest in the company. In addition, a commitment to CSER can encourage the creation of a culture of innovation within the company. Companies that integrate sustainability principles into their operations can increase creativity in the development of various innovations.

The results of the fourth hypothesis test show that innovation is a mediator in the relationship between CSER and sustainable financial performance. Innovation is a full mediating variable in accordance with the test provisions of Hair et al. (2021) So innovation is a key factor that mediates the relationship between CSER and sustainable financial performance. Recent research shows that companies that implement effective CSER activity spending can create an environment that supports innovation and can contribute to better financial performance. Companies that are active in CSER practices often gain a better reputation among stakeholders. This reputation can create higher customer loyalty, which allows companies to innovate in products and services. When customers feel attached to the company's social and environmental values, users of the company's products or services can fully support the proposed innovation. The commitment to CSER encourages employees to think creatively and find new solutions that can meet social and environmental demands. By creating an innovative work environment, companies can develop new, more sustainable products and services, which contribute to better financial performance.

The results of the fifth hypothesis test prove that financial constraints weaken the relationship between CSER and the achievement of sustainable financial performance. Financial constraints can serve as moderation variables that weaken the relationship between CSER and sustainable financial performance. Recent research shows that limited financial resources can hinder a company's ability to effectively implement CSER initiatives, ultimately negatively impacting financial performance. Companies with liquidity constraints tend to focus more on short-term cost efficiency than on long-term investments in CSER. These liquidity limitations lead to reduced spending on social and environmental initiatives, which can reduce the potential for innovation and product differentiation. As a result, long-term financial performance may be negatively affected, suggesting that financial constraints weaken the relationship between CSER and financial performance. Financial constraints can hinder innovation, which is an important element in the CSER process. When companies struggle to meet their financial obligations, they may overlook innovative projects related to sustainability. Thus, financial constraints can reduce the effectiveness of CSER initiatives and hinder the achievement of sustainable financial performance. Companies facing financial constraints are unable to meet the expectations expected by stakeholders in terms of CSER. The inability to properly implement CSER initiatives can result in a decrease in confidence from customers and investors. This decline in trust could weaken the relationship between CSER and financial performance, as stakeholders become less supportive of companies that do not demonstrate a strong commitment to social and environmental responsibility.

5. Conclusions

The study reveals that while Corporate Social and Environmental Responsibility (CSER) spending does not directly improve sustainable financial performance, innovation plays an important mediating role in this relationship. Furthermore, financial constraints can weaken the effectiveness of CSER initiatives, ultimately hindering the company's ability to achieve sustainable financial results. The implications of the results of this study can be applied to business companies to integrate CSER in business strategies that encourage innovation to achieve sustainable financial performance. Companies should see CSER not only as a social obligation, but also as a long-term investment that can create value. The finding that innovation acts as a mediator indicates that companies should focus on innovative development in their products and processes. Continuous innovation can increase competitiveness and help companies meet stakeholder expectations. There are some limitations in this study, but these limitations may also provide some insights for future research. First, there are limitations in the selection of variables in this study, in calculating financial constraints have not used the age of the company to build the model, and Second, in this study still uses mini research for only one type of industry so that in the future it can be carried out on all types of industries and conduct different tests between existing industries.

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