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Corporate social responsibility and financial performance in the Indonesian consumer goods industry through market share and idiosyncratic risk

Abstract

This paper explains the correlation between corporate social responsibility (CSR), market share, idiosyncratic risk, and corporate financial performance (CFP). The role of market share (MS) and idiosyncratic risk (IR), which cause an indirect effect, are also examined. Fifty-seven Indonesian-listed consumer goods companies were studied using partial least squares analysis. The findings suggest that CSR could act as a mitigating risk tool and improve the market's competitiveness. Investing in CSR eventually leads to a long-term increase in financial performance. This paper makes a valuable contribution and offers new and fresh insights into the long debates regarding the CSR-CFP relationship, which is previously found inconsistent in prior studies, through the role of MS and IR as the mediating variables that link CSR and CFP. CSR has proven to build stakeholders' trust and thus increase the MS and lower the IR.

Keywords Corporate social responsibility, market share, idiosyncratic risk, corporate financial performance, consumer goods industry

1. Introduction

The spread of the coronavirus has caused extended lockdowns, debt defaults, and a volatile political environment in developing markets, all of which may result in a new financial crisis and increased vulnerability (Rizwan *et al.*, 2020). Companies' vulnerability during this pandemic leaves a problematic choice of actions and ethical reasoning. The global pandemic outbreak has allowed significant corporations constructively and negatively to regulate their handling of CSR (Popkova *et al.*, 2020).

The improvement of CSR practices implementation has been affected by the prolonged and gradual development of today's global market. A tremendous increase of pressure from the business stakeholders to take ethical, legal, and social responsibility into account thus results in the evolving of overall business responsibility. Not only by using profit to quantify its worth but rather through a vision of the organizational effect on society and the environment as the core values the organization wants to achieve (Gunawan, 2018). CSR has become the firms' attempts to support the survival of corporations through sound management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khelif *et al.*, 2015). CSR activities may directly influence the company's efficiency (Isnailita and Narsa, 2017). Hence, those represent the stakeholder decisions and may influence the organization's long-term financial performance (Rashid, 2017). In Indonesia, the development of CSR is very significant as Indonesia is faced with a range of fundamental difficulties in implementing the SDGs, such as human rights, poverty alleviation, health and safety issues, social and political instabilities, pollution, waste, and need for foreign direct investment (Gunawan, 2018). Indonesian companies are expected to carry out and report on CSR activities by linking them to sustainable development, human rights, human capital, the environment, "true and fair" business practices, and consumer concerns.

Customers are among the primary stakeholders that affect the company's value. CSR positively impacts consumers through its review and appraisal of the firm's goods. Organizations can benefit from improved positioning by implementing CSR if they have a positive reputation and image for contributing good deeds toward society, even if it means sacrificing some income (Devie *et al.*,

2019). This strategy is applied in such a way as customers have a high degree of interest in a brand that is socially conscious compared to its rivals whose social performance could be below the benchmark and thus utilize the firm's products (Khan and Majid, 2013). CSR programs improve customer retention, leading to loyalty and a decrease in customer mistrust in companies. As the firm's performance is determined by the contribution of many parties, including customers, customer satisfaction could lead to higher market share.

CSR activities can also affect the corporate image, increase corporate value, and reduce a firm's risk. CSR activities will help a business's reputation by developing a fresh, more positive image and by strengthening positive relationships with its stakeholders (Tarigan *et al.*, 2020). Studies have shown that CSR is negatively correlated with idiosyncratic risk and can assist companies in alleviating the idiosyncratic risk and protecting like insurance when adverse events take place (Bouslah *et al.*, 2016; Chen *et al.*, 2018; Kong *et al.*, 2020), while also reducing the information asymmetry (Jo and Na, 2012) which will help the firm gain access to more capital. CSR can ultimately contribute to the firm's economic growth as CSR practices will generate value for a business by improving the level of relationship with stakeholders, shaping reputation, re-examining the uncertainties due to the business activities, decreasing the information asymmetry, and mitigating abrupt occurrences. Thereby it will affect the idiosyncratic risk profile and the cost of debt, thus eventually improving the firm's performance.

Several studies are already underway focusing on the examination of CSR-CFP correlations. The findings, however, were inconsistent and have shown that the effect of CSR on firm output is spurious, indicating that there is a mediating dependent component between the relationship of CSR and CFP (Verbeeten *et al.*, 2016; Isnalita and Narsa, 2017). Previously, most studies tried to connect CSR and CFP through total risk and systematic risk, yet there was few research observed through the idiosyncratic risk viewpoint. This also applies to the market share, which only a few past studies could be found. Prior studies only examined four variables separately: the correlation of CSR-idiosyncratic risk or idiosyncratic risk-CFP, and either CSR-market share or market share-CFP. As a result, this study will try to prove that all those four variables are correlated with each other by examining market share and idiosyncratic risk as the mediating variables of the impact of CSR towards CFP in consumer goods industry firms, especially during the Covid-19 pandemic. Both market share and idiosyncratic risk are expected to link and become a bridge for CSR and CFP to help gain more understanding of the CSR-CFP relationship, which are still incoherent in prior studies.

2. Literature review and hypotheses

2.1 Legitimacy theory

In line with the concept of legitimacy theory, all companies enter into a contract with society to conduct business within the values maintained by the companies they operate. It was essential to ensure and maintain alignment with all stakeholders' expectations. Companies have been seeking legitimacy from the community, and the general practice is to enact services that represent the needs of society (Hatane *et al.*, 2019). Since the public's influence has the discretion to allocate resources, corporations would seek to legitimize their activities for society by utilizing environmental performance and social disclosure (Luethge and Han, 2012). It is a means for firms to create, preserve, and legitimize corporate contribution, both from an economic and political

perspective, by disclosing information regarding corporate social responsibility in their annual or sustainability reports (Carroll and Shabana, 2010).

2.2 Stakeholder theory

Stakeholder theory focuses more on the ability and capacity of various stakeholders to exert pressure on companies to share information regarding their social and environmental activities and the demands of specific societal groups (Khlif et al., 2015). The company's objectives must not be restricted to serving only its purposes and profit, as well as other stakeholders' interests (Ducassy, 2012; Tarigan et al., 2020). The organization's success depends on how well it manages relations with key groups such as customers, employees, suppliers, communities, financial institutions, or others which may influence the achievement of its goals (Khan and Majid, 2013; Isnalita and Narsa, 2017). Hence, stakeholders' level of support for the firm will significantly influence the corporation's state (Hatane et al., 2019).

2.3 Corporate social responsibility

Corporate social responsibility is generally defined as a duty performed by a business to all its stakeholders in all its activities to achieve sustainable development in the social, economic, and environmental dimensions (ACCA, 2020). Through the usage of CSR, the ability of firms to attract, improve motivation, and retain employees could be enhanced. At the same time, it also reduces operational costs, boosts investor and financial analyst attractiveness, helps companies strengthen brand positioning, gains increased sales and market share, and enhance the corporate image (Wang, 2014). Furthermore, studies have found that using CSR strategies for competitive purposes has had a positive moral impact (Luethge and Guohong Han, 2012; Tarigan et al., 2020). Legitimacy theory claims that the use of CSR is to legitimize their activities for society (Luethge and Guohong Han, 2012). It is a means for firms to create, preserve, and legitimize corporate contribution, both from an economic and political perspective, by disclosing information regarding CSR in their annual or sustainability report (Carroll and Shabana, 2010). Stakeholder theory states that the use of CSR is to manage the relationship with its stakeholders, which may influence the achievement of the firm's objectives. Thus, stakeholders' level of support to the firm will significantly influence the corporation's state (Hatane et al., 2019). Following prior studies (Carroll and Shabana, 2010; Cai et al., 2011; Ducassy, 2012; Jo and Na, 2012; Mishra and Modi, 2012; Harjoto and Laksmana, 2016; Devie et al., 2019; Ongsakul et al., 2020) this study uses Kinder, Lydenberg, and Domini's (KLD) index in measuring CSR policies.

2.4 CSR and CFP

There was numerous prior research that examined the firm's CSR and the corporate financial performance relationship. However, the empirical findings are inconclusive despite the large body of literature on this subject. Both researchers and the business community have long argued about the link between a company's environmental performance and its financial outcome (Hatane et al., 2019). Corporate performance is a fundamental measure of a company's effectiveness in managing and allocating capital to produce income. Three-dimensional discussions (positive, adverse, and neutral correlation) usually occur in the CSR and CFP relationship. A positive correlation can be found in stakeholder theory, which states that companies whose management team prioritizes activities that improve social efficiency will outperform other organizations in the long run (Devie et al., 2019). The stakeholder theory also supports the positive relationship between CSR and CFP. Previous studies also found that these

two variables have a positive association (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016). Thus, following prior studies, below is presented the hypothesis:

H1: CSR has a positive relationship with CFP

2.5 CSR and market share

Communicating CSR policies and plans to stakeholders within an enterprise tends to significantly impact the firm's corporate social performance, CFP, and reputation. Consumers are one of the most important stakeholders. Consumers who are pleased with a company's CSR activities are more likely to buy its products and services. Consumers tend to highly trust a socially responsible organization and thus prefer to buy its products. Those who are satisfied with the company's services or products will remain loyal, purchasing more products or using the company's services regularly (Isnailita and Narsa, 2017). This will thus eventually result in a larger market share. According to a study conducted by Carroll and Shabana (2010), which looked at the correlation between CSR and market share to measure the CFP, customers can be attracted by a company's CSR activities.

As CSR activities strengthen corporate reputation (Mubarak *et al.*, 2018), the concerns of the consumers and the shareholders regarding a company's best interests in CSR could substantially affect the company's market share. Discussions argue that business organizations will allegedly continue CSR initiatives if they believe such initiatives will eventually influence their market share and, thus, the CFP (Khan and Majid, 2013). Thus, we propose that:

H2: CSR has a positive relationship with the firm's market share

2.6 CSR and idiosyncratic risk

CSR benefits could include improving wealth among shareholders by protecting them with insurance, enhancing risk management, increasing customer market appeal through a strategic approach, improving transparency, and greater accessibility to the financial market (Harjoto and Laksmana, 2016). All or a subset of these factors could foreseeably reduce the risk of firms (Jo and Na, 2012; Nguyen and Nguyen, 2015; Devie *et al.*, 2019). According to the stakeholder theory, positive and negative CSR influence firms' relationships with their primary stakeholders, which are represented in firm-specific resources, resulting in idiosyncratic risk. A study done by Bouslah *et al.* (2016) stated it is expected that there will be a more significant impact on overall risk caused by CSR during the financial crisis and maybe in the post-crisis period because of its impact on idiosyncratic risk. Another study by Suto and Takehara (2021), which took evidence from Japanese firms, also supports the mitigating effect of CSR on a firm's idiosyncratic risk. CSR impacts idiosyncratic risk by affecting relationship-based intangible assets such as trust, reputation, brand, consumer loyalty, and staff morale. Stakeholder interactions and their appraisal of the firms' operations affect the potential cash flows generated by these intangible assets. Thus, we propose our hypothesis as follows,

H3: CSR has a negative relationship with idiosyncratic risk

2.7 CSR, market share, CFP

As one of the main stakeholders, consumers reward socially responsible enterprises by purchasing more from them. They are occasionally willing to pay a greater price for such goods in certain instances (Khan and Majid, 2013). The market share reflects a company's competitiveness in the market, which means that companies with a more significant proportion of the market are seen as better able to meet customers' needs and have a competitive edge over smaller competing brands (Genchev, 2012). As an organization's profitability will rise in direct proportion to its market share (Buyaki, 2017), therefore market share is closely related to performance and can be a valuable indicator of operational performance. More specifically, it is possible for a corporation to increase sales and hence reduce average costs by leveraging experience curve effects, which boosts its profitability and expands its market share. Businesses with a significant market share have a stronger bargaining position and can therefore form more rewarding partnerships with customers, suppliers, and other stakeholders (Edeling and Himme, 2018). Due to inconsistencies in research results when examining the relationship between CSR and CFP, a firm's market share will be used in this study as a mediating variable.

H4: Market share could mediate the relationship between CSR and CFP

2.8 CSR, idiosyncratic risk, CFP

Because a company and society have points of intersection, strategic CSR may become an opportunity for the firm rather than a cost. According to Adascalitei (2015), firms with a social conscience have less fluctuation in their stock prices. Previous studies (Jo and Na, 2012; Chollet and Sandwidi, 2018; Chang *et al.*, 2019) have studied the relationship between CSR, risk, and CFP. Participation in CSR can lower the firms' financial risk and enhance corporate management commitments and sustainable development practices. Risk management advancements can eventually boost corporate profitability levels. According to prior research, CSR and risk have an adverse correlation (Chollet and Sandwidi, 2018; Utz, 2018; Devie *et al.*, 2019). If the risk is managed and the volatility of stock prices is reduced, organizations can expect steadier earnings since a poor outcome is reduced. As a result, reducing risk may improve the firm's performance. Thus, a hypothesis is introduced as follows:

H5: Idiosyncratic risk could mediate the relationship between CSR and CFP

3. Research methodology

3.1 Sample

Analysis utilizing partial least squares (PLS) tests the hypothesis and identifies the correlation between variables. Indonesian consumer goods firms listed in Indonesia Stock Exchange (IDX) in 2017-2020 are chosen as the sample. This industry contributed around 7.87% and 8.08% of Indonesia's total GDP in 2018 and 2019 (BPS, 2019). The consumer goods industry relies mainly on the consumers' consumption level and loyalty and thus must cope in a competitive environment with rapidly changing customer expectations. Any activities done by the companies in this industry will be supervised by customers and become the centre of attention since the company's activities are closely related to people's daily life and needs. All data are derived from secondary sources such as annual reports, sustainability reports, Yahoo Finance, Bloomberg, and other reliable websites.

Table I details the total sample observed, which fulfills the criteria. In total, there are 57 companies for four years, which results in 228 firm-year observations.

Table I	Summary of the sample observed
Sampling criteria	No. of firms
Companies listed in the Indonesian Stock Exchange (IDX) under the consumer goods industry	106
Companies not listed in the entire year of 2017 to 2020	(31)
Companies that did not publish complete annual reports from the year of 2017 to 2020	(12)
Companies that do not have sufficient information about CSR consistently from the year of 2017 to 2020	(6)
Companies that fulfill the criteria	57

3.2 Measures

Measurement of CSR: CSR policies are measured using the KLD method, which is also widely used in previous studies (Nguyen and Nguyen, 2015; Devie *et al.*, 2019). This approach will allow sample companies to be evaluated within specific areas. The KLD index depicts a multidimensional measure of CSR by capturing both the strengths and concerns of social issues environmental, social, and governance performance of the firm. This study will focus on only five relevant areas to Indonesia: diversity, community, environment, employee relations, and products. When the firm is shown to have adopted specific policies or practices relevant to the problem area, a score of 1 will be given to each strength in each measurement, and a score of -1 will also be assigned for any concerns in the related measurement. Meanwhile, 0 will be assigned when no initiative or policies are applied.

Measurement of CFP: Market-based measurement will be utilized to measure the corporate financial performance in this study. In this case, Tobin's Q is used to measure the firm value that will affect CFP since this ratio describes the state of the company's investment prospects or its potential for growth (Rodgers *et al.*, 2013; Kim and Kim, 2020). It is calculated by comparing the market value of equity and debt to total assets. When the value of Q exceeds one, it means that the value of the company's capital investment outweighs its cost, which will eventually attract more new investments. When it is less than one, asset investment is not as appealing as expected (Nenu *et al.*, 2015).

Measurement of market share: Market share is the ratio between the sales of a particular company and the total sales of the industry (Lee, 2013; Isnalita and Narsa, 2017). It is a variable market structure that reflects the competition in each market or industry and shows the concentration level in that market or industry. Thus, it can be concluded that the firm has a strong position in the marketplace if it has a significant market share (Genchev, 2012; Buyaki, 2017).

Measurement of idiosyncratic risk: Idiosyncratic risk depicts market fluctuations in corporate management and operating efficiency, which can be diversified away. It affects only a few assets; thus, this type of risk is referred to as a firm-specific unique risk (Hatane *et al.*, 2019). This risk encompasses factors such as company culture, operational strategy, financial policy, and investment strategy. Following prior studies (Mishra and Modi, 2012; Nguyen and Nguyen, 2015), market model regression standard deviation of daily stock return is utilized to calculate idiosyncratic risk.

Table II	Variable definitions and data source	
Variable	Definition	Data source
CSR	Difference between total strengths and total concerns score	Annual and sustainability report, firm's official website
Idiosyncratic risk (IR)	Market regression of standard deviation of daily stock return	Yahoo Finance, Bloomberg
Market share (MS)	Ratio of the firm's sales to the industry's total sales	Annual report
Tobin's Q (TOBQ)	Market value of assets over book value of assets	Bloomberg

3.3 Model

This paper would like to analyze the influence of CSR on corporate financial performance, market share, and idiosyncratic risk in a positive, negative, or neutral way. Additionally, the role of market share and idiosyncratic risk as mediating variables that could alter the CFP are also examined. The model proposed in conducting the research is expressed in the equation below, with *i* and *t* denoting firms and periods, respectively:

$$CFP_{it} = \alpha + \beta_1 \times CSR_{it} + \beta_2 \times IR_{it} + \beta_3 \times MS_{it} + \varepsilon_{it}$$

3.3.1 Validity and reliability

Validity in PLS used in this study includes both convergent and discriminant validity, which are examined through the correlation coefficient between the latent variable score and the indicator score that is represented by the factor loading value. The criteria of convergent validity are fulfilled when the factor loading value is more significant than 0.5. The discriminant validity test is passed if the cross-loading value for each indicator is greater than the loading value of other latent variables.

Table III	Combined Loadings and Cross-Loadings			
Indicator	CSR	IR	MS	CFP

CSR	(1.00000)	0.00000	0.00000	0.00000
IR	0.00000	(1.00000)	0.00000	0.00000
MS	0.00000	0.00000	(1.00000)	0.00000
TOBQ	0.00000	0.00000	0.00000	(1.00000)

Stated in Table III, the indicators of variables that fulfill both convergent and discriminant validity.

Following the validity test, reliability and multicollinearity of variables must be ensured by looking at composite reliability and full collinearity variance inflation factor (VIF) values. For passing the composite reliability test, the value must be greater or equal to 0.7. As for the collinearity test, VIFs must be less than 3.3.

Table IV		Reliability and collinearity values			
		CSR	IR	MS	CFP
R ²			0.02300	0.02300	0.27300
Adj. R ²			0.01800	0.01900	0.26300
Composite reliability	1.00000	1.00000	1.00000	1.00000	1.00000
Avg. variance extraction	1.00000	1.00000	1.00000	1.00000	1.00000
Full collinearity VIFs	1.04500	1.13400	1.13900	1.24700	

Detailed in Table IV are all variable reliability and multicollinearity tests. The total effect of CSR to IR, CSR to MS, IR to CFP, and MS to CFP is the sum of 2.25%, 2.25%, 11.83%, and 8.35%, respectively, equal to 24.68%. This is significantly bigger than the percentage of total effect between CSR to CFP, which is 7.18%, as an independent to dependent variable. The indirect effect is stronger than the direct effect. According to the findings, it can be concluded that market share and idiosyncratic risk mediate CSR and CFP, and an indirect effect exists between those CSR and CFP. Path coefficient effect sizes may also be taken into account.

4. Research results and discussion

4.1 Sample description

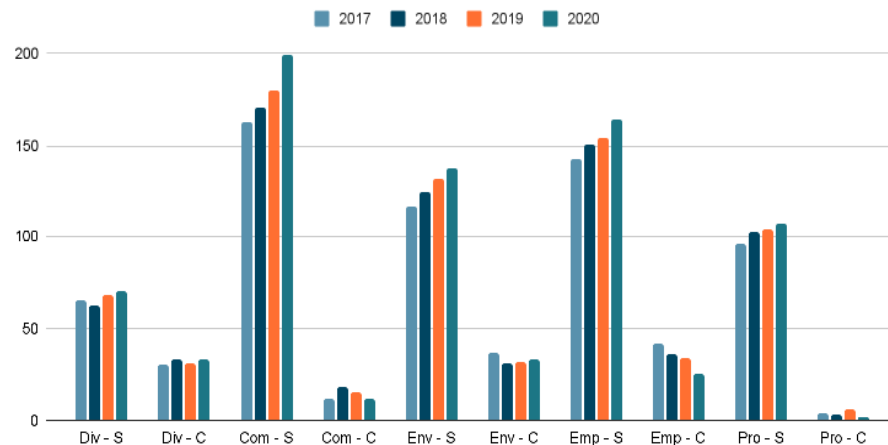
Table V shows the descriptive statistics of each variable, which provides the value of minimum, maximum, mean, and standard deviation. The total data tested in this study is 228 data derived from 57 companies for four years.

Table V		Descriptive Statistics Result			
Indicators		Minimum	Maximum	Mean	Std. Deviation

CSR	1.00000	16.00000	8.80300	3.14800
MS	0.00020	0.11908	0.01466	0.02504
IR	0.00181	0.07043	0.02709	0.01337
CFP	0.09800	22.55900	1.63358	2.85395

The minimum and maximum values of CSR are 1 and 16, with the range of CSR scoring between -17 and 17. The score signifies that Indonesian consumer goods firms have been well-engaged in CSR activities. As stated in Figure 1, CSR in 57 Indonesian consumer goods companies shows an increasing trend from 2017 until 2020. The highest CSR score was during the year 2020 when the pandemic of Covid-19 has spread. It could be seen that year-to-year companies become more aware that CSR performance could bring them better prospects in the upcoming years related to business sustainability. The scores kept improving gradually, and during 2020 Indonesian consumer goods companies' strengths in community and employee issue areas reached their peak. Firms have put their most attention and effort toward the society and communities around them and maintain good relationships by providing benefits and a well-established working environment for their employees. However, diversity has the lowest scores for four consecutive years, with relatively stable total concern scores among the five issue areas examined.

Figure 1 CSR Strengths and Concerns Score in Each Issue Areas



4.2 Hypothesis and research result

4.2.1 Hypothesis 1: CSR has a positive relationship with CFP

It was hypothesized previously that CSR had a considerable beneficial impact on a company's financial performance when strengths are measured and deducted by the concerns (Figure 2). The data processing results detailed in Table VI and Table V show that CSR directly influences CFP with a coefficient value of 0.172 and indirectly influences CFP with a 0.096 coefficient value.

Thus, it yields a total effect of 0.268 with a p-value less than 0.001. The findings, which indicate a significant positive relationship, have proven that when a consumer goods firm participates more in CSR practices, it will lead to a better and higher firm financial performance.

Table VI		Direct Effect Path Coefficients and P-Values	
Independent Variable	Dependent Variable	Path Coefficients	P-Value
CSR	CFP	0.17200	0.00400
CSR	IR	-0.15000	0.01000
CSR	MS	0.15100	0.01000
IR	CFP	-0.34400	<0.00100
MS	CFP	0.28900	<0.00100

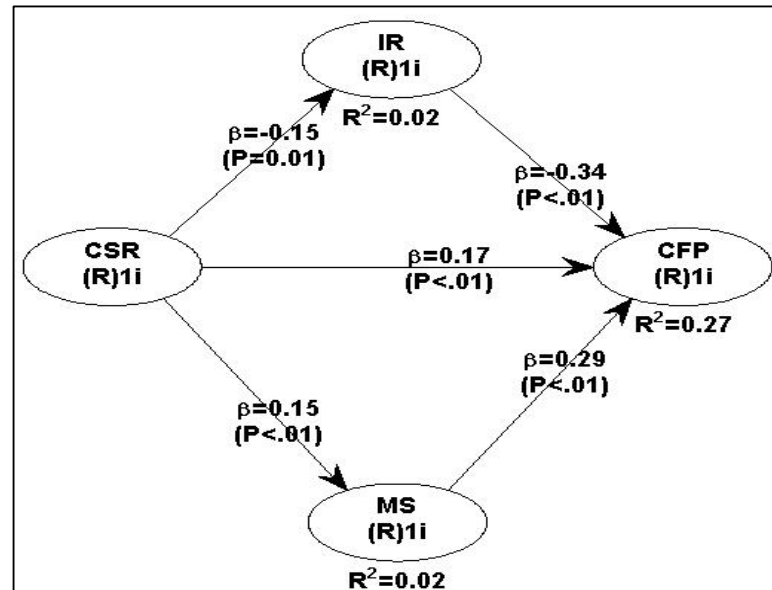
Table V		Indirect Effect Path Coefficients and P-Values		
Independent Variable	Mediating Variable	Dependent Variable	Path Coefficients	P-Value
CSR	MS and IR	CFP	0.09600	0.07200

As a result of this, the assertion that CSR contributes to a long-term competitive advantage can be confirmed. This is partly due to a long-standing relationship with those interested in the company (Alikaj *et al.*, 2017). Moreover, the findings of this study corroborate those of prior studies (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016; Devie *et al.*, 2019; Hatane *et al.*, 2019). The findings also support the results of studies by Rodgers *et al.* (2013) and Price and Sun (2017), which stated that the reputation of corporate social responsibility is linked to the company's value. Most of the time, investors respond favourably to and perceive an entity's social or environmental actions, and as a result, the firm's financial health and market value may improve. It should be related to an increase in the company's worth, primarily when the organization's reputation could be maintained by giving accurate information.

The findings support the value-enhancement theory that corporations might deliberately use an opportunity to target customers by utilizing CSR initiatives to boost their value. This could be because the usage of CSR could enhance corporations' ability to attract, motivate, and retain employees, reduce operational costs, boost investor and financial analyst attractiveness, help companies strengthen brand positioning, gain increased sales, and market share, and enhance corporate image (Wang, 2014). Furthermore, the use of CSR strategies for competitive purposes has had a positive moral impact for the firms.

CSR in the consumer goods industry has proven to be a profitable investment for the company, resulting in better financial performance. CSR has become the attempt to support the survival of corporations through good management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khlif *et al.*, 2015). CSR activities directly influence the firm's efficiency; thus, the outcomes represent the stakeholders' decisions and may influence the organization's long-term financial performance. This also supports the stakeholder theory, which claims that an organization's reputation can be improved if it responds to the needs of its stakeholders. Through the findings in this research, which also includes data from the year 2020, CSR has proven to help firms perform better financially, including during the COVID-19 pandemic outbreak, and could be a tool for the firm to maintain its sustainability.

Figure 2 Path Diagram Results



4.2.2 Hypothesis 2: CSR has a positive relationship with a firm's market share

A firm's market share increases because of CSR policies enacted by the businesses. The findings indicate that CSR and the firm's market share have a highly significant positive correlation. The relationship is defined with a path coefficient value of 0.151 and a p-value of 0.01. When a consumer goods firm engages in more CSR activities that improve its CSR scores, its market share could escalate. The higher market share means that the percentage increase in the firm's sales revenue is higher than the percentage increase in the total sales revenue of the whole industry. CSR policies attract more revenues for the firm.

This is consistent with findings from earlier research (Carroll and Shabana, 2010; Isnalita and Narsa, 2017), which stated that CSR affects the market share. CSR activities performed by the firm strengthen the corporate reputation (Mubarak *et al.*, 2018) thus, investing in CSR can create a significant impact on the firm's market share. Based on research done by Cegliński and Wiśniewska (2017), CSR may be a powerful and long-term competitive benefit for businesses.

However, these policies must be carried out practically and should be incorporated into business strategy. The firm could maintain its strong position and competitiveness in the marketplace, even during a crisis, if it has a significant market share. Trust among stakeholders is the first benefit derived from CSR. Because of the inherent risk and unpredictability in each given situation, it appears that building trust is an absolute necessity. When selecting a product or service, conscious decisions are made by consumers, which are frequently guided by trust toward a company, its image, and its impression of the environment (Cegliński and Wiśniewska, 2017). During the pandemic outbreak, many consumer goods firms have increased their CSR score through positive CSR and minimized negative CSR. Thus, this helps them maintain and even increase their competitiveness in the market, which affects improving the percentage of market share.

4.2.3 Hypothesis 3: CSR has a negative relationship with idiosyncratic risk

The results indicate that increasing the CSR score could help the firms mitigate risk and thus reduce the value of idiosyncratic risk. The adverse correlation between CSR and idiosyncratic risk has been shown through the path coefficient value of -0.150 with a p-value of 0.01, which shows that the relationship is highly significant. The findings in this research support previous studies regarding the negative association of CSR and idiosyncratic risk (Mishra and Modi, 2012; Bouslah *et al.*, 2016).

Weaknesses in CSR implementation are linked to higher levels of idiosyncratic risk, which suggests that a combination of good management and good operational procedures can help mitigate the risk of operating uncertainties. According to Chen *et al.* (2018), when the market is going through a period of corrective action, both corporate social responsibility and the company's idiosyncratic risk have negative repercussions on one another. The ability of a company to continue to promote corporate social responsibility, construct communication channels and connect with stakeholders, and improve operating methods will aid in the development and reduce idiosyncratic risk when the market is uncertain. Therefore, having involved in CSR engagement could become an 'insurance' security for the company, attract consumers, increase transparency, and decrease information asymmetry (Harjoto and Laksmana, 2016). As the level of information transparency is promoted, high-quality CSR could help investors better comprehend the stock price and, as a result, minimize the firm's idiosyncratic risk. It implies decreased volatility in enterprises' future predicted cash flows and prepares the firms to face uncertain future events, such as a covid-19 pandemic.

4.2.4 Hypothesis 4: The firm's market share could mediate the relationship between CSR and CFP

The firm's market share and CFP have a direct positive and highly significant relationship. It is shown through the path coefficient value of 0.289 with a p-value of less than 0.001. It means that when the market share experiences an increase, the corporate financial performance is depicted through Tobin's Q as the firm value indicator. In addition to that, market share has proven to have a positive and significant indirect effect and thus could mediate the relationship between CSR and CFP. It has a 0.096 path coefficient and a p-value of 0.072 in the constructed model. With a total effect of 0.289 path coefficient and p-value of less than 0.001, it could be concluded that the market share's role as a mediator between CSR and CFP is strong.

Increasing CSR engagement results in higher market share, which means the firm is considered better to satisfy customers' needs and have a competitive advantage over smaller competing

businesses (Genchev, 2012). Businesses with significant market share have a stronger bargaining position and can therefore form more rewarding relationships with stakeholders, including customers, suppliers, and other stakeholders (Edeling and Himme, 2018). The firms capture the more extensive market and opportunity through implementing CSR. Trust will be built between the firms and stakeholders as stakeholders value the more socially responsible business. As a result, the trust in the company will translate into an increasing sales revenue, and thus, a high market share will directly translate into high profitability (Buyaki, 2017). As the firm becomes more competitive in the industry, the firm value will improve and quickly achieve a higher return for the investments or costs already incurred. Hence, market share is proven to be closely related to performance and could mediate between CSR and CFP.

4.2.5 Hypothesis 5: Idiosyncratic risk could mediate the relationship between CSR and CFP

With a coefficient value of -0.344 and p-value < 0.001, idiosyncratic risk adversely impacts corporate financial performance significantly. Furthermore, the constructed model also shows an indirect effect of idiosyncratic risk in the relationship between CSR and CFP. In the constructed model, the findings show a path coefficient value of 0.096 and a p-value of 0.072. While the total effect of IR on CFP is negative and highly significant as well, with a p-value of less than 0.001 and a path coefficient value of -0.344. Henceforth, idiosyncratic risk is proven to have a role in mediating between CSR and CFP. As both CSR to idiosyncratic risk and idiosyncratic risk to CFP has a negative association, it thus results in a positive relationship of CSR towards CFP.

This finding is consistent with earlier research (Chollet and Sandwidi, 2018; Utz, 2018; Chang *et al.*, 2019). Participation in CSR practices can lower the firm's idiosyncratic risk and enhance corporate management commitments and sustainable development practices. The unfavorable relationship is developed and aligned with the initial goal of enterprise risk management, which is to improve entities' short and especially long-term value to their stakeholders while also expanding prospects for growth. Along with the legitimacy and stakeholder theory, CSR works as a tool of the firm to seek legitimation from the stakeholders to be perceived as a socially responsible business. While the firm also believes that each stakeholder has their expectations toward the business, and thus, CSR helps to manage the relationship and fulfils the expectations.

Risk management advancements can eventually boost corporate profitability levels and improve the firm's performance. As a means of reducing the company's idiosyncratic risk, creating value, and developing new ways of operating that may be more efficient in terms of resource use, CSR helps organizations stay ahead of their competition. The firm can devise a risk-reducing strategic CSR proposition that is distinctive for its customers and can increase market charm to its customers (Jo and Na, 2012). Engagement in CSR activities also assists companies in lowering capital costs and reducing uncertainty (Tasnia *et al.*, 2020). A study by Adascalitei (2015) stated that businesses that embrace socially responsible concepts experience lower stock price volatility as there is lower information asymmetry. When the risk is managed, and the volatility of stock prices is reduced, organizations can expect steadier earnings since a poor outcome is reduced and strategic value has persevered. Henceforth, this will impact the firm's financial performance better, even during a crisis or uncertain event.

All in all, the role of CSR is very important for companies to be sustainable in their business. Performing CSR could help the firms to lower its firm-specific risk and capture a bigger market,

resulting in better financial performance. Most consumer goods firms in Indonesia already implement good CSR practices, as the scores are above the average of 8.803. However, some firms still have a CSR score below the mean average value. It is suggested that firms in the consumer goods industry improve their CSR score to be more socially responsible and thus resulting in better corporate reputation and lower firm-specific risk. Thus, the information asymmetry will be lowered and help investors gain more information about the firm that helps them in decision-making for providing investments. CSR will attract more consumers and investors and advance relationships with other stakeholders. Investment in CSR could act as insurance for the firm and help businesses to face an uncertain future which aggravates the business's financial performance. Therefore, it is essential for the management of the companies to put more attention toward their CSR implementation as it could stabilize and minimize the impact of uncertainties and crisis periods such as the COVID-19 pandemic and affect the business's long-term financial performance.

5. Conclusion and limitation

This research examines the relationship between CSR, CFP, market share, and idiosyncratic risk. A thorough examination has also been conducted to analyze the mediating role of market share and idiosyncratic risk. KLD index is utilized in measuring CSR policies. As for CFP, market-based measurement through Tobin's Q is used as the proxy. While the value of a market share is derived from dividing the firm's sales revenue by the consumer goods industry's sales revenue. Lastly, the firm's idiosyncratic risk is measured through the market model regression standard deviation of daily stock return.

CSR has proven to significantly affect the CFP and market share positively, as presented in H1 and H2. Engagement in CSR activities could result in improved firm value, which is proven by a positive association with Tobin's Q. While performing CSR could also capture a more significant market since consumers perceive the firm as a socially responsible business. Thus, they are interested in investing or buying more from the firm. Customer loyalty will be increased as well, and the level of competitiveness in the industry will improve. CSR is also proven to have a strong negative association with idiosyncratic risk, which supports H3. Considering the findings, more significant CSR efforts could help reduce and preserve a company's volatility. Thus, CSR works as a risk management tool for the company.

Both firm's market share and idiosyncratic risk could act as mediating variables for the relationship between CSR and CFP, which is defined in H4 and H5. This study has proven that those four variables are connected. When a firm implements more CSR during its business activities, it can improve its public image and reputation, which thus increase the level of sales revenue, and then lead to an enhancement of financial performance. On the other hand, it is possible for organizations to mitigate risks as they become more socially responsible, and this can lead to better financial performance and an increase in firm value, which then improves the firm financial performance.

This research paper has some potential limitations. This study only examines the relationship of four variables in listed companies operating their business in the Indonesian consumer goods sector. Different outcomes might be acquired when different sectors are used. Further studies may use another type of measurement to analyse the variables. They may examine the differences in CSR engagement between pre- and post-pandemic situations to see whether there are changes in the firm's CSR behaviour before and after Covid-19.

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Bukti konfirmasi review dan hasil review
pertama - 18 April 2025



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Josua Tarigan <josuat@petra.ac.id>

First reviewer's review comments- Corporate Social Responsibility and Financial Performance-Re: [ABAC Journal] Submission Acknowledgement

ABAC Journal-Assumption University

<abacjournal@au.edu>

To: Josua Tarigan <josuat@petra.ac.id>

Fri, Apr 18, 2025 at

12:40 PM

Dear Dr. Josua Tarigan,

We are forwarding the reviewer's comments on your manuscript titled "Corporate Social Responsibility and Financial Performance in the Indonesian Consumer Goods Industry Through Market Share and Idiosyncratic Risk".

Kindly revise the manuscript accordingly, ensuring that all changes are clearly highlighted.

In addition, please prepare a detailed response letter addressing each of the reviewer's comments point by point. In your response, specify the locations of the exact changes made in the revised manuscript (e.g., page and line numbers).

Please send both files to abacjournal@au.edu once you are finished with the revisions.

Thank you for your cooperation.

Sincerely,
Aung Kyi Win
ABAC Journal

On Tue, Apr 15, 2025 at 6:03 PM Josua Tarigan <josuat@petra.ac.id> wrote:

Dear Editor,
Do you any update regarding our article?
Thanks

Best Regards,

Bukti kirim revisi pertama & review
response - 24 April 2025



UNIVERSITAS
KRISTEN
PETRA

Josua Tarigan <josuat@petra.ac.id>

First reviewer's review comments- Corporate Social Responsibility and Financial Performance-Re: [ABAC Journal] Submission Acknowledgement

Josua Tarigan <josuat@petra.ac.id>

Thu, Apr 24, 2025 at 11:11 PM

To: ABAC Journal-Assumption University <abacjournal@au.edu>

Dear Dr. Aung Kyi Win,

Thank you for forwarding the reviewer's comments on our manuscript titled "Corporate Social Responsibility and Financial Performance in the Indonesian Consumer Goods Industry Through Market Share and Idiosyncratic Risk."

We have revised the manuscript based on the reviewer's feedback and are pleased to submit the following two files for your review:

- 1) A detailed response letter addressing each of the reviewer's comments point by point.
- 2) The revised manuscript incorporating the suggested changes.

Thank you for your continued support.

Best Regards,

Josua Tarigan, PhD, CMA, CFP, CSRA, CIBA, CBV

[Associate Professor, Dean of the School of Business and Management, Petra Christian University](#)

[Editorial Board for the International Journal of Sustainable Society \(Inderscience-Scopus\)](#)

[Editorial Board for the Arab Gulf Journal of Scientific Research \(Emerald-Scopus\)](#)

[Editorial Board for the ASEAN Journal of Management & Innovation \(AJMI\)](#)

[Lead Guest Editor for Sustainable Management Practices and Policies](#)

[Guest Editor for Organisational Sustainability Performance \(Scopus-Q2\)](#)

Visiting Lecturer for Fresenius University of Applied Sciences Germany

[Quoted text hidden]

2 attachments



Josua_Authors_Response_Revised2.docx

20K



Josua_Natasha Monica_Nguyen_ABAC_Revised2.docx

124K

Dear Editor,

We have completed the revision of “ Corporate social responsibility and financial performance in Indonesian consumer goods industry through market share and idiosyncratic risk. We are resubmitting the revised manuscript to ABAC Journal. We are very grateful for the opportunity to address the reviewers' concerns. We thank you and the reviewers again for the thoughtful and constructive comments, which have significantly helped us improve this paper. We provide point-by-point responses to explain how we have addressed the review team’s comments and concerns. All the content changes have been highlighted in blue, therefore, the entire paper does not have to be re-read.

Recommendation for Change

1. The article is very well written and topic is interesting.
 - Author response: Thank you for the positive feedback and appreciation of the topic.
2. Recommend using Full names and put abbreviation in bracket for the 2.4 Heading
 - Author response: thank you for the feedback, it is revised.
3. Measurement of CSR in Topic 3.2 is not consistent with Table II.
 - Author response: thank you for the feedback, it is consistent actually. KLD index is the “Difference between total strengths and total concerns score”
4. Measurement of CFP: please give the correct definition of Tobin’s Q – not this sentence - “It is calculated by comparing the market value of equity and debt to total assets.”
 - Author response: thank you for the feedback, it is revised into “from the market value of the firm’s assets over the book value of the firm’s assets”
5. Doubt about the values of only 1.00000 and 0.00000 in Table III: Combined Loadings and Cross-Loadings
 - Author response: Thank you for your observation regarding Table III (Combined Loadings and Cross-Loadings). We would like to clarify that the values shown in this table are accurate. The values ranging between 1 and 0 may appear unusual, but this is due to the fact that each latent variable in our model is represented by only one indicator. In such cases, the indicator will load perfectly (1) on its own construct and show zero (0) cross-loadings on other constructs. This characteristic reflects the mathematical structure of PLS when modeling single-indicator constructs, and it explains the pattern observed in Table III. However, we acknowledge that the Combined Loadings and Cross-Loadings table becomes less meaningful and awkward in this context. Therefore, it is generally advisable to omit this table in models with only single-indicator constructs. In contrast, in PLS studies that involve multiple indicators per construct, such as those based on questionnaire-based primary data, the Combined Loadings and Cross-Loadings table is a crucial diagnostic tool. It helps assess

- discriminant validity, ensuring that each indicator loads highest on its intended construct compared to others. We are happy to revise the manuscript and remove Table III
6. This sentence under Table III is not complete sentence - “Stated in Table III, the indicators of variables that fulfill both convergent and discriminant validity.”. Also elaborate how Table III supports the validity.
 - Author response: following our response above (no 5).
 7. Paragraph under Table IV do not explain Reliability and Multicollinearity.
 - Author response: Table IV confirms reliability with all composite reliability values above 0.7. It also indicates no multicollinearity, as all full collinearity VIFs are below the threshold of 3.3
 8. Paragraph under Table V – “The minimum and maximum values of CSR are 1 and 16, with the range of CSR scoring between -17 and 17.” If the range is between -17 and 17, how can the minimum value be 1?
 - Author response: Thank you for your comment. To clarify, the range of CSR scores based on the KLD method is -17 to 17. However, the values 1 and 16 shown in Table V are the minimum and maximum total CSR scores observed in our sample, not about the range. This indicates that all firms in our dataset had more strengths than concerns, resulting in net positive total scores. We revise the sentence to reflect this distinction between theoretical range and observed minimum-maximum values as the following “The observed minimum and maximum CSR scores in the sample are 1 and 16, respectively, although the theoretical range of CSR scoring based on the KLD method spans from -17 to 17. These results indicate that all sampled Indonesian consumer goods firms had net positive CSR scores, reflecting a general trend of active engagement in CSR activities during the study period”
 9. Why does the CSR Scores show negative value? According to the measurement, either 1 or 0 are added.
 - Author response: Thank you for your comment. CSR scores are calculated as the sum of strengths (+1) and concerns (-1) based on the KLD method. Thus, firms may have negative scores if concerns outweigh strengths
 10. “Table V: Indirect Effect Path Coefficients and P-Values” – this is Table VII, not V.
 - Author response: Thank you for spotting the error. This mislabeling has been corrected so the table number matches the sequence and references in the text.
 11. There are 2 articles by Hatane et al. (2019). To avoid ambiguity, more authors’ names should be added. Please check how to write citation.

- Thank you for pointing this out. Upon review, we found that one of the in-text citations labeled as "Hatane et al. (2019)" was incorrect—the correct first author is Devie, not Hatane. As a result, there are two different articles with Devie as the first author published in 2019. To avoid ambiguity, we distinguish the two by adding lowercase letters (a, b) to the year, following APA style for multiple works by the same author(s) in the same year. The citations has been updated to Devie et al. (2019a) and Devie et al. (2019b) accordingly, and the reference list will be revised to reflect this distinction.

12. Check how to use “and” or “&” for in-text citation.

- All in-text citations have been revised to follow APA style. Specifically, we use “and” when the author's name is part of our article sentence, and an ampersand (&) when the citation appears in parentheses. For example: Devie and colleagues (2019) when mentioned in the narrative, and (Devie et al., 2019) when placed in parentheses.

13. Check the format of References

- We have revised the reference list to comply with the required formatting standard (e.g., APA 7th edition), ensuring consistency in author names, journal titles, volume and issue numbers, and URL access formatting.

14. Check Rashid (2017) or (2018)

- The correct citation is Rashid (2018), as indicated in the reference list. The text referring to Rashid (2017) has been corrected for consistency.

Corporate social responsibility and financial performance in the Indonesian consumer goods industry through market share and idiosyncratic risk

Abstract

This paper explains the correlation between corporate social responsibility (CSR), market share, idiosyncratic risk, and corporate financial performance (CFP). The role of market share (MS) and idiosyncratic risk (IR), which cause an indirect effect, are also examined. Fifty-seven Indonesian-listed consumer goods companies were studied using partial least squares analysis. The findings suggest that CSR could act as a mitigating risk tool and improve the market's competitiveness. Investing in CSR eventually leads to a long-term increase in financial performance. This paper makes a valuable contribution and offers new and fresh insights into the long debates regarding the CSR-CFP relationship, which is previously found inconsistent in prior studies, through the role of MS and IR as the mediating variables that link CSR and CFP. CSR has proven to build stakeholders' trust and thus increase the MS and lower the IR.

Keywords Corporate social responsibility, market share, idiosyncratic risk, corporate financial performance, consumer goods industry

1. Introduction

The spread of the coronavirus has caused extended lockdowns, debt defaults, and a volatile political environment in developing markets, all of which may result in a new financial crisis and increased vulnerability (Rizwan *et al.*, 2020). Companies' vulnerability during this pandemic leaves a problematic choice of actions and ethical reasoning. The global pandemic outbreak has allowed significant corporations constructively and negatively to regulate their handling of CSR (Popkova *et al.*, 2020).

The improvement of CSR practices implementation has been affected by the prolonged and gradual development of today's global market. A tremendous increase of pressure from the business stakeholders to take ethical, legal, and social responsibility into account thus results in the evolving of overall business responsibility. Not only by using profit to quantify its worth but rather through a vision of the organizational effect on society and the environment as the core values the organization wants to achieve (Gunawan, 2018). CSR has become the firms' attempts to support the survival of corporations through sound management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khelif *et al.*, 2015). CSR activities may directly influence the company's efficiency (Isnailita and Narsa, 2017). Hence, those represent the stakeholder decisions and may influence the organization's long-term financial performance (Rashid, 2018). In Indonesia, the development of CSR is very significant as Indonesia is faced with a range of fundamental difficulties in implementing the SDGs, such as human rights, poverty alleviation, health and safety issues, social and political instabilities, pollution, waste, and need for foreign direct investment (Gunawan, 2018). Indonesian companies are expected to carry out and report on CSR activities by linking them to sustainable development, human rights, human capital, the environment, "true and fair" business practices, and consumer concerns.

Customers are among the primary stakeholders that affect the company's value. CSR positively impacts consumers through its review and appraisal of the firm's goods. Organizations can benefit from improved positioning by implementing CSR if they have a positive reputation and image for contributing good deeds toward society, even if it means sacrificing some income (Devie *et al.*,

2019a). This strategy is applied in such a way as customers have a high degree of interest in a brand that is socially conscious compared to its rivals whose social performance could be below the benchmark and thus utilize the firm's products (Khan & Majid, 2013). CSR programs improve customer retention, leading to loyalty and a decrease in customer mistrust in companies. As the firm's performance is determined by the contribution of many parties, including customers, customer satisfaction could lead to higher market share.

CSR activities can also affect the corporate image, increase corporate value, and reduce a firm's risk. CSR activities will help a business's reputation by developing a fresh, more positive image and by strengthening positive relationships with its stakeholders (Tarigan *et al.*, 2020). Studies have shown that CSR is negatively correlated with idiosyncratic risk and can assist companies in alleviating the idiosyncratic risk and protecting like insurance when adverse events take place (Bouslah *et al.*, 2016; Chen *et al.*, 2018; Kong *et al.*, 2020), while also reducing the information asymmetry (Jo & Na, 2012) which will help the firm gain access to more capital. CSR can ultimately contribute to the firm's economic growth as CSR practices will generate value for a business by improving the level of relationship with stakeholders, shaping reputation, re-examining the uncertainties due to the business activities, decreasing the information asymmetry, and mitigating abrupt occurrences. Thereby it will affect the idiosyncratic risk profile and the cost of debt, thus eventually improving the firm's performance.

Several studies are already underway focusing on the examination of CSR-CFP correlations. The findings, however, were inconsistent and have shown that the effect of CSR on firm output is spurious, indicating that there is a mediating dependent component between the relationship of CSR and CFP (Verbeeten *et al.*, 2016; Isnalita & Narsa, 2017). Previously, most studies tried to connect CSR and CFP through total risk and systematic risk, yet there was few research observed through the idiosyncratic risk viewpoint. This also applies to the market share, which only a few past studies could be found. Prior studies only examined four variables separately: the correlation of CSR-idiosyncratic risk or idiosyncratic risk-CFP, and either CSR-market share or market share-CFP. As a result, this study will try to prove that all those four variables are correlated with each other by examining market share and idiosyncratic risk as the mediating variables of the impact of CSR towards CFP in consumer goods industry firms, especially during the Covid-19 pandemic. Both market share and idiosyncratic risk are expected to link and become a bridge for CSR and CFP to help gain more understanding of the CSR-CFP relationship, which are still incoherent in prior studies.

2. Literature review and hypotheses

2.1 Legitimacy theory

In line with the concept of legitimacy theory, all companies enter into a contract with society to conduct business within the values maintained by the companies they operate. It was essential to ensure and maintain alignment with all stakeholders' expectations. Companies have been seeking legitimacy from the community, and the general practice is to enact services that represent the needs of society (Devie *et al.*, 2019b). Since the public's influence has the discretion to allocate resources, corporations would seek to legitimize their activities for society by utilizing environmental performance and social disclosure (Luethge & Han, 2012). It is a means for firms to create, preserve, and legitimize corporate contribution, both from an economic and political

perspective, by disclosing information regarding corporate social responsibility in their annual or sustainability reports (Carroll and Shabana, 2010).

2.2 Stakeholder theory

Stakeholder theory focuses more on the ability and capacity of various stakeholders to exert pressure on companies to share information regarding their social and environmental activities and the demands of specific societal groups (Khlif et al., 2015). The company's objectives must not be restricted to serving only its purposes and profit, as well as other stakeholders' interests (Ducassy, 2012; Tarigan et al., 2020). The organization's success depends on how well it manages relations with key groups such as customers, employees, suppliers, communities, financial institutions, or others which may influence the achievement of its goals (Khan & Majid, 2013; Isnalita & Narsa, 2017). Hence, stakeholders' level of support for the firm will significantly influence the corporation's state (Devie et al., 2019b).

2.3 Corporate social responsibility

Corporate social responsibility is generally defined as a duty performed by a business to all its stakeholders in all its activities to achieve sustainable development in the social, economic, and environmental dimensions (ACCA, 2020). Through the usage of CSR, the ability of firms to attract, improve motivation, and retain employees could be enhanced. At the same time, it also reduces operational costs, boosts investor and financial analyst attractiveness, helps companies strengthen brand positioning, gains increased sales and market share, and enhance the corporate image (Wang, 2014). Furthermore, studies have found that using CSR strategies for competitive purposes has had a positive moral impact (Luethge & Guohong Han, 2012; Tarigan et al., 2020). Legitimacy theory claims that the use of CSR is to legitimize their activities for society (Luethge & Guohong Han, 2012). It is a means for firms to create, preserve, and legitimize corporate contribution, both from an economic and political perspective, by disclosing information regarding CSR in their annual or sustainability report (Carroll & Shabana, 2010). Stakeholder theory states that the use of CSR is to manage the relationship with its stakeholders, which may influence the achievement of the firm's objectives. Thus, stakeholders' level of support to the firm will significantly influence the corporation's state (Devie et al., 2019b). Following prior studies (Carroll & Shabana, 2010; Cai et al., 2011; Ducassy, 2012; Jo & Na, 2012; Mishra & Modi, 2012; Harjoto & Laksmana, 2016; Devie et al., 2019a; Ongsakul et al., 2020) this study uses Kinder, Lydenberg, and Domini's (KLD) index in measuring CSR policies.

2.4 Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP)

There was numerous prior research that examined the firm's CSR and the corporate financial performance relationship. However, the empirical findings are inconclusive despite the large body of literature on this subject. Both researchers and the business community have long argued about the link between a company's environmental performance and its financial outcome (Devie et al., 2019b). Corporate performance is a fundamental measure of a company's effectiveness in managing and allocating capital to produce income. Three-dimensional discussions (positive, adverse, and neutral correlation) usually occur in the CSR and CFP relationship. A positive correlation can be found in stakeholder theory, which states that companies whose management team prioritizes activities that improve social efficiency will outperform other organizations in the long run (Devie et al., 2019a). The stakeholder theory also supports the positive relationship between CSR and CFP. Previous studies also found that these two variables have a positive

association (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016). Thus, following prior studies, below is presented the hypothesis:

H1: CSR has a positive relationship with CFP

2.5 Corporate Social Responsibility (CSR) and market share

Communicating CSR policies and plans to stakeholders within an enterprise tends to significantly impact the firm's corporate social performance, CFP, and reputation. Consumers are one of the most important stakeholders. Consumers who are pleased with a company's CSR activities are more likely to buy its products and services. Consumers tend to highly trust a socially responsible organization and thus prefer to buy its products. Those who are satisfied with the company's services or products will remain loyal, purchasing more products or using the company's services regularly (Isnailita & Narsa, 2017). This will thus eventually result in a larger market share. According to a study conducted by Carroll and Shabana (2010), which looked at the correlation between CSR and market share to measure the CFP, customers can be attracted by a company's CSR activities.

As CSR activities strengthen corporate reputation (Mubarak *et al.*, 2018), the concerns of the consumers and the shareholders regarding a company's best interests in CSR could substantially affect the company's market share. Discussions argue that business organizations will allegedly continue CSR initiatives if they believe such initiatives will eventually influence their market share and, thus, the CFP (Khan & Majid, 2013). Thus, we propose that:

H2: CSR has a positive relationship with the firm's market share

2.6 Corporate Social Responsibility (CSR) and idiosyncratic risk

CSR benefits could include improving wealth among shareholders by protecting them with insurance, enhancing risk management, increasing customer market appeal through a strategic approach, improving transparency, and greater accessibility to the financial market (Harjoto & Laksmana, 2016). All or a subset of these factors could foreseeably reduce the risk of firms (Jo and Na, 2012; Nguyen & Nguyen, 2015; Devie *et al.*, 2019a). According to the stakeholder theory, positive and negative CSR influence firms' relationships with their primary stakeholders, which are represented in firm-specific resources, resulting in idiosyncratic risk. A study done by Bouslah *et al.* (2016) stated it is expected that there will be a more significant impact on overall risk caused by CSR during the financial crisis and maybe in the post-crisis period because of its impact on idiosyncratic risk. Another study by Suto and Takehara (2021), which took evidence from Japanese firms, also supports the mitigating effect of CSR on a firm's idiosyncratic risk. CSR impacts idiosyncratic risk by affecting relationship-based intangible assets such as trust, reputation, brand, consumer loyalty, and staff morale. Stakeholder interactions and their appraisal of the firms' operations affect the potential cash flows generated by these intangible assets. Thus, we propose our hypothesis as follows,

H3: CSR has a negative relationship with idiosyncratic risk

2.7 Corporate Social Responsibility (CSR), market share, Corporate Financial Performance (CFP)

As one of the main stakeholders, consumers reward socially responsible enterprises by purchasing more from them. They are occasionally willing to pay a greater price for such goods in certain instances (Khan & Majid, 2013). The market share reflects a company's competitiveness in the market, which means that companies with a more significant proportion of the market are seen as better able to meet customers' needs and have a competitive edge over smaller competing brands (Genchev, 2012). As an organization's profitability will rise in direct proportion to its market share (Buyaki, 2017), therefore market share is closely related to performance and can be a valuable indicator of operational performance. More specifically, it is possible for a corporation to increase sales and hence reduce average costs by leveraging experience curve effects, which boosts its profitability and expands its market share. Businesses with a significant market share have a stronger bargaining position and can therefore form more rewarding partnerships with customers, suppliers, and other stakeholders (Edeling & Himme, 2018). Due to inconsistencies in research results when examining the relationship between CSR and CFP, a firm's market share will be used in this study as a mediating variable.

H4: Market share could mediate the relationship between CSR and CFP

2.8 Corporate Social Responsibility (CSR), idiosyncratic risk, Corporate Financial Performance (CFP)

Because a company and society have points of intersection, strategic CSR may become an opportunity for the firm rather than a cost. According to Adascalitei (2015), firms with a social conscience have less fluctuation in their stock prices. Previous studies (Jo and Na, 2012; Chollet and Sandwidi, 2018; Chang *et al.*, 2019) have studied the relationship between CSR, risk, and CFP. Participation in CSR can lower the firms' financial risk and enhance corporate management commitments and sustainable development practices. Risk management advancements can eventually boost corporate profitability levels. According to prior research, CSR and risk have an adverse correlation (Chollet & Sandwidi, 2018; Utz, 2018; Devie *et al.*, 2019a). If the risk is managed and the volatility of stock prices is reduced, organizations can expect steadier earnings since a poor outcome is reduced. As a result, reducing risk may improve the firm's performance. Thus, a hypothesis is introduced as follows:

H5: Idiosyncratic risk could mediate the relationship between CSR and CFP

3. Research methodology

3.1 Sample

Analysis utilizing partial least squares (PLS) tests the hypothesis and identifies the correlation between variables. Indonesian consumer goods firms listed in Indonesia Stock Exchange (IDX) in 2017-2020 are chosen as the sample. This industry contributed around 7.87% and 8.08% of Indonesia's total GDP in 2018 and 2019 (BPS-Statistics Indonesia, 2019). The consumer goods industry relies mainly on the consumers' consumption level and loyalty and thus must cope in a competitive environment with rapidly changing customer expectations. Any activities done by the companies in this industry will be supervised by customers and become the centre of attention since the company's activities are closely related to people's daily life and needs. All data are derived from secondary sources such as annual reports, sustainability reports, Yahoo Finance, Bloomberg, and other reliable websites.

Table I details the total sample observed, which fulfills the criteria. In total, there are 57 companies for four years, which results in 228 firm-year observations.

Table I	Summary of the sample observed
Sampling criteria	No. of firms
Companies listed in the Indonesian Stock Exchange (IDX) under the consumer goods industry	106
Companies not listed in the entire year of 2017 to 2020	(31)
Companies that did not publish complete annual reports from the year of 2017 to 2020	(12)
Companies that do not have sufficient information about CSR consistently from the year of 2017 to 2020	(6)
Companies that fulfill the criteria	57

3.2 Measures

Measurement of CSR: CSR policies are measured using the KLD method, which is also widely used in previous studies (Nguyen & Nguyen, 2015; Devie et al., 2019a). This approach will allow sample companies to be evaluated within specific areas. The KLD index depicts a multidimensional measure of CSR by capturing both the strengths and concerns of social issues environmental, social, and governance performance of the firm. This study will focus on only five relevant areas to Indonesia: diversity, community, environment, employee relations, and products. When the firm is shown to have adopted specific policies or practices relevant to the problem area, a score of 1 will be given to each strength in each measurement, and a score of -1 will also be assigned for any concerns in the related measurement. Meanwhile, 0 will be assigned when no initiative or policies are applied.

Measurement of CFP: Market-based measurement will be utilized to measure the corporate financial performance in this study. In this case, Tobin's Q is used to measure the firm value that will affect CFP since this ratio describes the state of the company's investment prospects or its potential for growth (Rodgers et al., 2013; Kim and Kim, 2020). It is calculated from the market value of the firm's assets over the book value of the firm's assets. When the value of Q exceeds one, it means that the value of the company's capital investment outweighs its cost, which will eventually attract more new investments. When it is less than one, asset investment is not as appealing as expected (Nenu et al., 2015).

Measurement of market share: Market share is the ratio between the sales of a particular company and the total sales of the industry (Lee, 2013; Isnalita & Narsa, 2017). It is a variable market structure that reflects the competition in each market or industry and shows the concentration level in that market or industry. Thus, it can be concluded that the firm has a strong position in the marketplace if it has a significant market share (Genchev, 2012; Buyaki, 2017).

Measurement of idiosyncratic risk: Idiosyncratic risk depicts market fluctuations in corporate management and operating efficiency, which can be diversified away. It affects only a few assets; thus, this type of risk is referred to as a firm-specific unique risk (Hatane *et al.*, 2019). This risk encompasses factors such as company culture, operational strategy, financial policy, and investment strategy. Following prior studies (Mishra & Modi, 2012; Nguyen & Nguyen, 2015), market model regression standard deviation of daily stock return is utilized to calculate idiosyncratic risk.

Table II	Variable definitions and data source	
Variable	Definition	Data source
CSR	Difference between total strengths and total concerns score	Annual and sustainability report, firm's official website
Idiosyncratic risk (IR)	Market regression of standard deviation of daily stock return	Yahoo Finance, Bloomberg
Market share (MS)	Ratio of the firm's sales to the industry's total sales	Annual report
Tobin's Q (TOBQ)	Market value of assets over book value of assets	Bloomberg

3.3 Model

This paper would like to analyze the influence of CSR on corporate financial performance, market share, and idiosyncratic risk in a positive, negative, or neutral way. Additionally, the role of market share and idiosyncratic risk as mediating variables that could alter the CFP are also examined. The model proposed in conducting the research is expressed in the equation below, with *i* and *t* denoting firms and periods, respectively:

$$CFP_{it} = \alpha + \beta_1 \times CSR_{it} + \beta_2 \times IR_{it} + \beta_3 \times MS_{it} + \varepsilon_{it}$$

3.3.1 Validity and reliability

Validity in PLS used in this study includes both convergent and discriminant validity, which are examined through the correlation coefficient between the latent variable score and the indicator score that is represented by the factor loading value. The criteria of convergent validity are fulfilled when the factor loading value is more significant than 0.5. The discriminant validity test is passed if the cross-loading value for each indicator is greater than the loading value of other latent variables. Following the validity test, reliability and multicollinearity of variables must be ensured by looking at composite reliability and full collinearity variance inflation factor (VIF) values. For passing the composite reliability test, the value must be greater or equal to 0.7. As for the collinearity test, VIFs must be less than 3.3.

Table III	Reliability and collinearity values			
	CSR	IR	MS	CFP
R ²		0.02300	0.02300	0.27300
Adj. R ²		0.01800	0.01900	0.26300
Composite reliability	1.00000	1.00000	1.00000	1.00000
Avg. variance extraction	1.00000	1.00000	1.00000	1.00000
Full collinearity VIFs	1.04500	1.13400	1.13900	1.24700

Detailed in Table III are all variable reliability and multicollinearity tests. The total effect of CSR to IR, CSR to MS, IR to CFP, and MS to CFP is the sum of 2.25%, 2.25%, 11.83%, and 8.35%, respectively, equal to 24.68%. This is significantly bigger than the percentage of total effect between CSR to CFP, which is 7.18%, as an independent to dependent variable. The indirect effect is stronger than the direct effect. According to the findings, it can be concluded that market share and idiosyncratic risk mediate CSR and CFP, and an indirect effect exists between those CSR and CFP. Path coefficient effect sizes may also be taken into account.

4. Research results and discussion

4.1 Sample description

Table IV shows the descriptive statistics of each variable, which provides the value of minimum, maximum, mean, and standard deviation. The total data tested in this study is 228 data derived from 57 companies for four years.

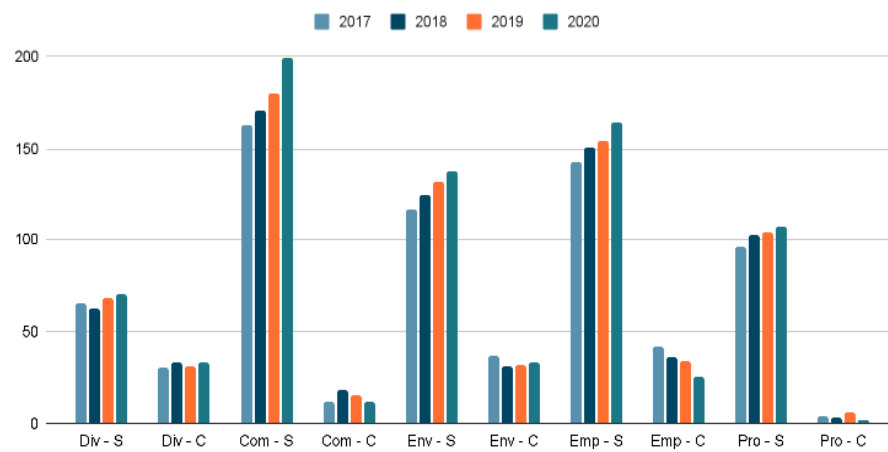
Table IV	Descriptive Statistics Result			
Indicators	Minimum	Maximum	Mean	Std. Deviation
CSR	1.00000	16.00000	8.80300	3.14800
MS	0.00020	0.11908	0.01466	0.02504
IR	0.00181	0.07043	0.02709	0.01337
CFP	0.09800	22.55900	1.63358	2.85395

The observed minimum and maximum CSR scores in the sample are 1 and 16, respectively, although the theoretical range of CSR scoring based on the KLD method spans from -17 to 17. These results indicate that all sampled Indonesian consumer goods firms had net positive CSR scores, reflecting a general trend of active engagement in CSR activities during the study period. As stated in Figure 1, CSR in 57 Indonesian consumer goods companies shows an increasing trend from 2017 until 2020. The highest CSR score was during the year 2020 when the pandemic of Covid-19 has spread. It could be seen that year-to-year companies become more aware that CSR

performance could bring them better prospects in the upcoming years related to business sustainability. The scores kept improving gradually, and during 2020 Indonesian consumer goods companies' strengths in community and employee issue areas reached their peak. Firms have put their most attention and effort toward the society and communities around them and maintain good relationships by providing benefits and a well-established working environment for their employees. However, diversity has the lowest scores for four consecutive years, with relatively stable total concern scores among the five issue areas examined.

Figure 1

CSR Strengths and Concerns Score in Each Issue Areas



4.2 Hypothesis and research result

4.2.1 Hypothesis 1: CSR has a positive relationship with CFP

It was hypothesized previously that CSR had a considerable beneficial impact on a company's financial performance when strengths are measured and deducted by the concerns (Figure 2). The data processing results detailed in Table V and Table VI show that CSR directly influences CFP with a coefficient value of 0.172 and indirectly influences CFP with a 0.096 coefficient value. Thus, it yields a total effect of 0.268 with a p-value less than 0.001. The findings, which indicate a significant positive relationship, have proven that when a consumer goods firm participates more in CSR practices, it will lead to a better and higher firm financial performance.

Table V		Direct Effect Path Coefficients and P-Values	
Independent Variable	Dependent Variable	Path Coefficients	P-Value
CSR	CFP	0.17200	0.00400
CSR	IR	-0.15000	0.01000

CSR	MS	0.15100	0.01000
IR	CFP	-0.34400	<0.00100
MS	CFP	0.28900	<0.00100

Table VI		Indirect Effect Path Coefficients and P-Values		
Independent Variable	Mediating Variable	Dependent Variable	Path Coefficients	P-Value
CSR	MS and IR	CFP	0.09600	0.07200

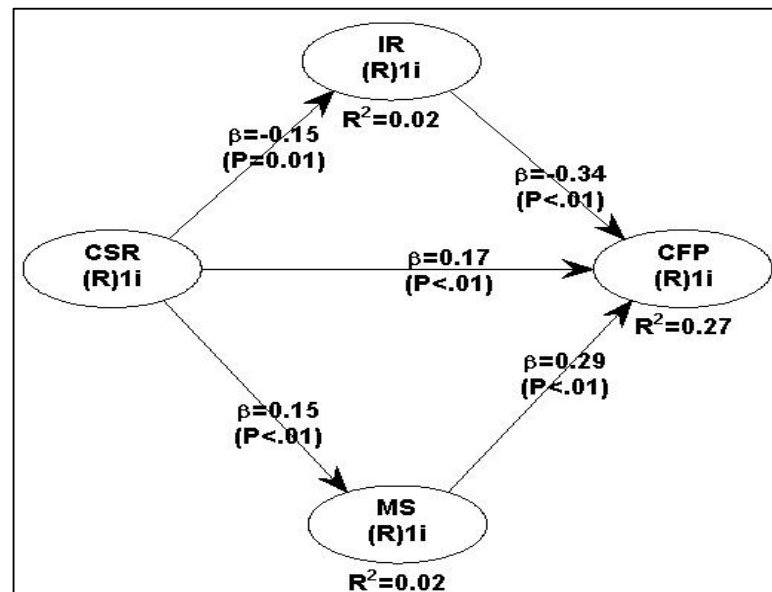
As a result of this, the assertion that CSR contributes to a long-term competitive advantage can be confirmed. This is partly due to a long-standing relationship with those interested in the company (Alikaj *et al.*, 2017). Moreover, the findings of this study corroborate those of prior studies (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016; Devie *et al.*, 2019a; Devie *et al.*, 2019b). The findings also support the results of studies by Rodgers *et al.* (2013) and Price and Sun (2017), which stated that the reputation of corporate social responsibility is linked to the company's value. Most of the time, investors respond favourably to and perceive an entity's social or environmental actions, and as a result, the firm's financial health and market value may improve. It should be related to an increase in the company's worth, primarily when the organization's reputation could be maintained by giving accurate information.

The findings support the value-enhancement theory that corporations might deliberately use an opportunity to target customers by utilizing CSR initiatives to boost their value. This could be because the usage of CSR could enhance corporations' ability to attract, motivate, and retain employees, reduce operational costs, boost investor and financial analyst attractiveness, help companies strengthen brand positioning, gain increased sales, and market share, and enhance corporate image (Wang, 2014). Furthermore, the use of CSR strategies for competitive purposes has had a positive moral impact for the firms.

CSR in the consumer goods industry has proven to be a profitable investment for the company, resulting in better financial performance. CSR has become the attempt to support the survival of corporations through good management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khlif *et al.*, 2015). CSR activities directly influence the firm's efficiency; thus, the outcomes represent the stakeholders' decisions and may influence the organization's long-term financial performance. This also supports the stakeholder theory, which claims that an organization's reputation can be improved if it responds to the needs of its stakeholders. Through the findings in this research, which also includes data from the year 2020, CSR has proven to help firms perform better financially, including during the COVID-19 pandemic outbreak, and could be a tool for the firm to maintain its sustainability.

Figure 2

Path Diagram Results



4.2.2 Hypothesis 2: CSR has a positive relationship with a firm's market share

A firm's market share increases because of CSR policies enacted by the businesses. The findings indicate that CSR and the firm's market share have a highly significant positive correlation. The relationship is defined with a path coefficient value of 0.151 and a p-value of 0.01. When a consumer goods firm engages in more CSR activities that improve its CSR scores, its market share could escalate. The higher market share means that the percentage increase in the firm's sales revenue is higher than the percentage increase in the total sales revenue of the whole industry. CSR policies attract more revenues for the firm.

This is consistent with findings from earlier research (Carroll & Shabana, 2010; Isnalita & Narsa, 2017), which stated that CSR affects the market share. CSR activities performed by the firm strengthen the corporate reputation (Mubarak *et al.*, 2018) thus, investing in CSR can create a significant impact on the firm's market share. Based on research done by Cegliński and Wiśniewska (2017), CSR may be a powerful and long-term competitive benefit for businesses. However, these policies must be carried out practically and should be incorporated into business strategy. The firm could maintain its strong position and competitiveness in the marketplace, even during a crisis, if it has a significant market share. Trust among stakeholders is the first benefit derived from CSR. Because of the inherent risk and unpredictability in each given situation, it appears that building trust is an absolute necessity. When selecting a product or service, conscious decisions are made by consumers, which are frequently guided by trust toward a company, its image, and its impression of the environment (Cegliński & Wiśniewska, 2017). During the pandemic outbreak, many consumer goods firms have increased their CSR score through positive CSR and minimized negative CSR. Thus, this helps them maintain and even increase their competitiveness in the market, which affects improving the percentage of market share.

4.2.3 Hypothesis 3: CSR has a negative relationship with idiosyncratic risk

The results indicate that increasing the CSR score could help the firms mitigate risk and thus reduce the value of idiosyncratic risk. The adverse correlation between CSR and idiosyncratic risk has been shown through the path coefficient value of -0.150 with a p-value of 0.01, which shows that the relationship is highly significant. The findings in this research support previous studies regarding the negative association of CSR and idiosyncratic risk (Mishra & Modi, 2012; Bouslah *et al.*, 2016).

Weaknesses in CSR implementation are linked to higher levels of idiosyncratic risk, which suggests that a combination of good management and good operational procedures can help mitigate the risk of operating uncertainties. According to Chen *et al.* (2018), when the market is going through a period of corrective action, both corporate social responsibility and the company's idiosyncratic risk have negative repercussions on one another. The ability of a company to continue to promote corporate social responsibility, construct communication channels and connect with stakeholders, and improve operating methods will aid in the development and reduce idiosyncratic risk when the market is uncertain. Therefore, having involved in CSR engagement could become an 'insurance' security for the company, attract consumers, increase transparency, and decrease information asymmetry (Harjoto and Laksmana, 2016). As the level of information transparency is promoted, high-quality CSR could help investors better comprehend the stock price and, as a result, minimize the firm's idiosyncratic risk. It implies decreased volatility in enterprises' future predicted cash flows and prepares the firms to face uncertain future events, such as a covid-19 pandemic.

4.2.4 Hypothesis 4: The firm's market share could mediate the relationship between CSR and CFP

The firm's market share and CFP have a direct positive and highly significant relationship. It is shown through the path coefficient value of 0.289 with a p-value of less than 0.001. It means that when the market share experiences an increase, the corporate financial performance is depicted through Tobin's Q as the firm value indicator. In addition to that, market share has proven to have a positive and significant indirect effect and thus could mediate the relationship between CSR and CFP. It has a 0.096 path coefficient and a p-value of 0.072 in the constructed model. With a total effect of 0.289 path coefficient and p-value of less than 0.001, it could be concluded that the market share's role as a mediator between CSR and CFP is strong.

Increasing CSR engagement results in higher market share, which means the firm is considered better to satisfy customers' needs and have a competitive advantage over smaller competing businesses (Genchev, 2012). Businesses with significant market share have a stronger bargaining position and can therefore form more rewarding relationships with stakeholders, including customers, suppliers, and other stakeholders (Edeling & Himme, 2018). The firms capture the more extensive market and opportunity through implementing CSR. Trust will be built between the firms and stakeholders as stakeholders value the more socially responsible business. As a result, the trust in the company will translate into an increasing sales revenue, and thus, a high market share will directly translate into high profitability (Buyaki, 2017). As the firm becomes more competitive in the industry, the firm value will improve and quickly achieve a higher return for the investments or costs already incurred. Hence, market share is proven to be closely related to performance and could mediate between CSR and CFP.

4.2.5 Hypothesis 5: Idiosyncratic risk could mediate the relationship between CSR and CFP

With a coefficient value of -0.344 and p-value < 0.001, idiosyncratic risk adversely impacts corporate financial performance significantly. Furthermore, the constructed model also shows an indirect effect of idiosyncratic risk in the relationship between CSR and CFP. In the constructed model, the findings show a path coefficient value of 0.096 and a p-value of 0.072. While the total effect of IR on CFP is negative and highly significant as well, with a p-value of less than 0.001 and a path coefficient value of -0.344. Henceforth, idiosyncratic risk is proven to have a role in mediating between CSR and CFP. As both CSR to idiosyncratic risk and idiosyncratic risk to CFP has a negative association, it thus results in a positive relationship of CSR towards CFP.

This finding is consistent with earlier research (Chollet and Sandwidi, 2018; Utz, 2018; Chang *et al.*, 2019). Participation in CSR practices can lower the firm's idiosyncratic risk and enhance corporate management commitments and sustainable development practices. The unfavorable relationship is developed and aligned with the initial goal of enterprise risk management, which is to improve entities' short and especially long-term value to their stakeholders while also expanding prospects for growth. Along with the legitimacy and stakeholder theory, CSR works as a tool of the firm to seek legitimation from the stakeholders to be perceived as a socially responsible business. While the firm also believes that each stakeholder has their expectations toward the business, and thus, CSR helps to manage the relationship and fulfils the expectations.

Risk management advancements can eventually boost corporate profitability levels and improve the firm's performance. As a means of reducing the company's idiosyncratic risk, creating value, and developing new ways of operating that may be more efficient in terms of resource use, CSR helps organizations stay ahead of their competition. The firm can devise a risk-reducing strategic CSR proposition that is distinctive for its customers and can increase market charm to its customers (Jo & Na, 2012). Engagement in CSR activities also assists companies in lowering capital costs and reducing uncertainty (Tasnia *et al.*, 2020). A study by Adascalitei (2015) stated that businesses that embrace socially responsible concepts experience lower stock price volatility as there is lower information asymmetry. When the risk is managed, and the volatility of stock prices is reduced, organizations can expect steadier earnings since a poor outcome is reduced and strategic value has persevered. Henceforth, this will impact the firm's financial performance better, even during a crisis or uncertain event.

All in all, the role of CSR is very important for companies to be sustainable in their business. Performing CSR could help the firms to lower its firm-specific risk and capture a bigger market, resulting in better financial performance. Most consumer goods firms in Indonesia already implement good CSR practices, as the scores are above the average of 8.803. However, some firms still have a CSR score below the mean average value. It is suggested that firms in the consumer goods industry improve their CSR score to be more socially responsible and thus resulting in better corporate reputation and lower firm-specific risk. Thus, the information asymmetry will be lowered and help investors gain more information about the firm that helps them in decision-making for providing investments. CSR will attract more consumers and investors and advance relationships with other stakeholders. Investment in CSR could act as insurance for the firm and help businesses to face an uncertain future which aggravates the business's financial performance. Therefore, it is essential for the management of the companies to put more attention toward their CSR implementation as it could stabilize and minimize the impact of uncertainties and crisis periods such as the COVID-19 pandemic and affect the business's long-term financial performance.

5. Conclusion and limitation

This research examines the relationship between CSR, CFP, market share, and idiosyncratic risk. A thorough examination has also been conducted to analyze the mediating role of market share and idiosyncratic risk. KLD index is utilized in measuring CSR policies. As for CFP, market-based measurement through Tobin's Q is used as the proxy. While the value of a market share is derived from dividing the firm's sales revenue by the consumer goods industry's sales revenue. Lastly, the firm's idiosyncratic risk is measured through the market model regression standard deviation of daily stock return.

CSR has proven to significantly affect the CFP and market share positively, as presented in H1 and H2. Engagement in CSR activities could result in improved firm value, which is proven by a positive association with Tobin's Q. While performing CSR could also capture a more significant market since consumers perceive the firm as a socially responsible business. Thus, they are interested in investing or buying more from the firm. Customer loyalty will be increased as well, and the level of competitiveness in the industry will improve. CSR is also proven to have a strong negative association with idiosyncratic risk, which supports H3. Considering the findings, more significant CSR efforts could help reduce and preserve a company's volatility. Thus, CSR works as a risk management tool for the company.

Both firm's market share and idiosyncratic risk could act as mediating variables for the relationship between CSR and CFP, which is defined in H4 and H5. This study has proven that those four variables are connected. When a firm implements more CSR during its business activities, it can improve its public image and reputation, which thus increase the level of sales revenue, and then lead to an enhancement of financial performance. On the other hand, it is possible for organizations to mitigate risks as they become more socially responsible, and this can lead to better financial performance and an increase in firm value, which then improves the firm financial performance.

This research paper has some potential limitations. This study only examines the relationship of four variables in listed companies operating their business in the Indonesian consumer goods sector. Different outcomes might be acquired when different sectors are used. Further studies may use another type of measurement to analyse the variables. They may examine the differences in CSR engagement between pre- and post-pandemic situations to see whether there are changes in the firm's CSR behaviour before and after Covid-19.

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Bukti konfirmasi review dan hasil review
kedua - 28 Mei 2025



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Josua Tarigan <josuat@petra.ac.id>

Sending R1-additional comments and R2-review comments-Re: First reviewer's review comments-Corporate Social Responsibility and Financial Performance-Re: [ABAC Journal] Submission Acknowledgement

ABAC Journal-Assumption University
<abacjournal@au.edu>
To: Josua Tarigan <josuat@petra.ac.id>

Wed, May 28, 2025 at
11:32 PM

Dear Assoc. Prof. Dr. Josua Tarigan,

We are sending you the first reviewer's additional comments and second reviewer's comments on your article titled "Corporate Social Responsibility and Financial Performance in the Indonesian Consumer Goods Industry Through Market Share and Idiosyncratic Risk".

Please revise accordingly and highlight all the revision parts in the revised article (Use different colors for R1 and R2 comments). Also send us the response to both reviewers' comments in a separate file.

Please send both files to abacjournal@au.edu once you are finished with the revisions.

Thank you for your cooperation.

Sincerely yours,
Aung Kyi Win
ABAC Journal

On Mon, May 19, 2025 at 2:18 PM ABAC Journal-Assumption University <abacjournal@au.edu> wrote:

Dear Assoc. Prof. Dr. Josua Tarigan,

Thank you for your email regarding the status of the revised article "Corporate Social Responsibility and Financial Performance in the Indonesian Consumer Goods Industry Through Market Share and Idiosyncratic Risk".

Your revised article is still with the first reviewer and the first reviewer has some articles prior to your article for the review process.

We also sent your article to the second reviewer and hope to receive the

Bukti kirim revisi kedua & review response -
4 Juni 2025



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Josua Tarigan <josuat@petra.ac.id>

Sending R1-additional comments and R2-review comments-Re: First reviewer's review comments-Corporate Social Responsibility and Financial Performance-Re: [ABAC Journal] Submission Acknowledgement

Josua Tarigan <josuat@petra.ac.id>

Wed, Jun 4, 2025 at 5:41 PM

To: ABAC Journal-Assumption University <abacjournal@au.edu>

Dear Dr. Aung Kyi Win,

Attached is the revised manuscript including how we respond to the reviewers comments.

Best Regards,

Josua Tarigan, PhD, CMA,CFP, CSRA, CIBA, CBV

[Associate Professor, Dean of the School of Business and Management, Petra Christian University.](#)

[Editorial Board for the International Journal of Sustainable Society \(Inderscience-Scopus\)](#)

[Editorial Board for the Arab Gulf Journal of Scientific Research \(Emerald-Scopus\)](#)

[Editorial Board for the ASEAN Journal of Management & Innovation \(AJMI\)](#)

[Lead Guest Editor for Sustainable Management Practices and Policies](#)

[Guest Editor for Organisational Sustainability Performance \(Scopus-Q2\)](#)

[Visiting Lecturer for Fresenius University of Applied Sciences Germany](#)

[Quoted text hidden]

2 attachments



Josua_Authors_Response_Revised3.docx

20K



Josua_Natasha Monica_Nguyen_ABAC_Revised3.docx

126K

Dear Editor,

We have completed the revision of “Corporate social responsibility and financial performance in Indonesian consumer goods industry through market share and idiosyncratic risk. We are resubmitting the revised (v3) manuscript to ABAC Journal. We are very grateful for the opportunity to address the reviewers' concerns. We thank you and the reviewers again for the thoughtful and constructive comments, which have significantly helped us improve this paper. We provide point-by-point responses to explain how we have addressed the review team's comments and concerns. All the content changes have been highlighted in blue for reviewer 1 feedback and green for reviewer 2 feedback, therefore, the entire paper does not have to be re-read.

Recommendation for Change

Reviewer 1 Additional Comments:

1. Page 8, Topic 3.2 Measures, “...and a score of -1 will also be assigned for any concerns...” – please put -1 together, do not separate 1 to the next line.

Author response: Thank you for the positive feedback. We have revised it into the following sentence to make it easier to understand: “When the firm is shown to have adopted specific policies or practices relevant to the problem area, a score of “1” will be assigned for each strength identified in the respective measurement, while a score of “-1” will be given for any identified concerns within the same measurement. Meanwhile, “0” will be assigned when no initiative or policies are applied.”

2. Still do not understand the paragraph under Table 3 which is about Total Effect, Direct Effect and Indirect Effect. Where are those numbers from? They are not reported in Table 3.

Thank you for the positive feedback. We agree that the section was confusing, and therefore we have deleted it. Table 3 now focuses solely on validity and reliability. The total, direct, and indirect effects have already been presented and discussed in Tables IV and V, as well as in the hypothesis results section (4.2.1 to 4.2.5).

Reviewer 2 comments:

The article is interesting but there is room for improvement:

1. The word “Through” of the article title should be written in lowercase.

Author response: Thank you for the positive feedback. We have revised it

In the first paragraph of Introduction, the author should briefly discuss why “The global pandemic outbreak has allowed significant corporations constructively and negatively to regulate their handling of CSR (Popkova et al., 2020).

Author response: Thank you for the positive feedback. We have revised it as the following additional paragraph:

While the pandemic created many challenges, it also presented opportunities, particularly in how companies approached their social responsibilities. Some businesses responded by stepping up: they offered greater support to affected communities, took extra care of their employees, and reinforced their commitment to sustainable practices, showing strong leadership during a difficult time. In countries like India and across Southeast Asia, several firms redirected their CSR budgets to healthcare programs and community aid, demonstrating a sincere effort to meet urgent social needs (Dwivedi et al., 2024). In the United States, many corporations increased the frequency and detail of their CSR reporting during the pandemic, aiming to build trust and maintain transparency with their stakeholders (Rahman et al., 2024). However, not all responses were positive. Some companies used the crisis as a reason to reduce their environmental responsibilities or scale back CSR initiatives, framing it as a necessary move for survival, reflecting a more short-term, cost-focused mindset (Tan & Soh, 2024). These contrasting responses show how a crisis can both challenge and reveal the true depth of a company's commitment to corporate social responsibility.

3. In 3.3, the model is **multiple regression**; however, the test results shown in **Table 5 and Figure 2** do not match the mentioned statistic technique. Therefore; the correction needs to be done for the article's consistency.

Author response: Thank you for the positive feedback. Yes, we deleted. The model shown directly in the figure 2.

The author should add the **limitation** of using only listed companies for the examination regarding the ability to represent the whole industry. There are many unlisted companies in this industry too.

Author response: Thank you for the positive feedback. Yes, we have it in the section 5, “This study only examines the relationship of four variables in listed companies operating their business in the Indonesian consumer goods sector” and also in the abstract “Fifty-seven Indonesian-listed consumer goods companies were studied using partial least squares analysis”

Corporate social responsibility and financial performance in the Indonesian consumer goods industry through market share and idiosyncratic risk

Abstract

This paper explains the correlation between corporate social responsibility (CSR), market share, idiosyncratic risk, and corporate financial performance (CFP). The role of market share (MS) and idiosyncratic risk (IR), which cause an indirect effect, are also examined. **Fifty-seven Indonesian-listed consumer goods companies were studied using partial least squares analysis.** The findings suggest that CSR could act as a mitigating risk tool and improve the market's competitiveness. Investing in CSR eventually leads to a long-term increase in financial performance. This paper makes a valuable contribution and offers new and fresh insights into the long debates regarding the CSR-CFP relationship, which is previously found inconsistent in prior studies, through the role of MS and IR as the mediating variables that link CSR and CFP. CSR has proven to build stakeholders' trust and thus increase the MS and lower the IR.

Keywords Corporate social responsibility, market share, idiosyncratic risk, corporate financial performance, consumer goods industry

1. Introduction

The spread of the coronavirus has caused extended lockdowns, debt defaults, and a volatile political environment in developing markets, all of which may result in a new financial crisis and increased vulnerability (Rizwan *et al.*, 2020). Companies' vulnerability during this pandemic leaves a problematic choice of actions and ethical reasoning. The global pandemic outbreak has allowed significant corporations constructively and negatively to regulate their handling of CSR (Popkova *et al.*, 2020). **While the pandemic created many challenges, it also presented opportunities, particularly in how companies approached their social responsibilities. Some businesses responded by stepping up: they offered greater support to affected communities, took extra care of their employees, and reinforced their commitment to sustainable practices, showing strong leadership during a difficult time. In countries like India and across Southeast Asia, several firms redirected their CSR budgets to healthcare programs and community aid, demonstrating a sincere effort to meet urgent social needs (Dwivedi *et al.*, 2024). In the United States, many corporations increased the frequency and detail of their CSR reporting during the pandemic, aiming to build trust and maintain transparency with their stakeholders (Rahman *et al.*, 2024). However, not all responses were positive. Some companies used the crisis as a reason to reduce their environmental responsibilities or scale back CSR initiatives, framing it as a necessary move for survival, reflecting a more short-term, cost-focused mindset (Tan & Soh, 2024). These contrasting responses show how a crisis can both challenge and reveal the true depth of a company's commitment to corporate social responsibility.**

The improvement of CSR practices implementation has been affected by the prolonged and gradual development of today's global market. A tremendous increase of pressure from the business stakeholders to take ethical, legal, and social responsibility into account thus results in the evolving of overall business responsibility. Not only by using profit to quantify its worth but rather through a vision of the organizational effect on society and the environment as the core values the organization wants to achieve (Gunawan, 2018). CSR has become the firms' attempts to support the survival of corporations through sound management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khelif *et al.*, 2015). CSR activities may

directly influence the company's efficiency (Isnailita and Narsa, 2017). Hence, those represent the stakeholder decisions and may influence the organization's long-term financial performance (Rashid, 2018). In Indonesia, the development of CSR is very significant as Indonesia is faced with a range of fundamental difficulties in implementing the SDGs, such as human rights, poverty alleviation, health and safety issues, social and political instabilities, pollution, waste, and need for foreign direct investment (Gunawan, 2018). Indonesian companies are expected to carry out and report on CSR activities by linking them to sustainable development, human rights, human capital, the environment, "true and fair" business practices, and consumer concerns.

Customers are among the primary stakeholders that affect the company's value. CSR positively impacts consumers through its review and appraisal of the firm's goods. Organizations can benefit from improved positioning by implementing CSR if they have a positive reputation and image for contributing good deeds toward society, even if it means sacrificing some income (Devie *et al.*, 2019a). This strategy is applied in such a way as customers have a high degree of interest in a brand that is socially conscious compared to its rivals whose social performance could be below the benchmark and thus utilize the firm's products (Khan & Majid, 2013). CSR programs improve customer retention, leading to loyalty and a decrease in customer mistrust in companies. As the firm's performance is determined by the contribution of many parties, including customers, customer satisfaction could lead to higher market share.

CSR activities can also affect the corporate image, increase corporate value, and reduce a firm's risk. CSR activities will help a business's reputation by developing a fresh, more positive image and by strengthening positive relationships with its stakeholders (Tarigan *et al.*, 2020). Studies have shown that CSR is negatively correlated with idiosyncratic risk and can assist companies in alleviating the idiosyncratic risk and protecting like insurance when adverse events take place (Bouslah *et al.*, 2016; Chen *et al.*, 2018; Kong *et al.*, 2020), while also reducing the information asymmetry (Jo & Na, 2012) which will help the firm gain access to more capital. CSR can ultimately contribute to the firm's economic growth as CSR practices will generate value for a business by improving the level of relationship with stakeholders, shaping reputation, re-examining the uncertainties due to the business activities, decreasing the information asymmetry, and mitigating abrupt occurrences. Thereby it will affect the idiosyncratic risk profile and the cost of debt, thus eventually improving the firm's performance.

Several studies are already underway focusing on the examination of CSR-CFP correlations. The findings, however, were inconsistent and have shown that the effect of CSR on firm output is spurious, indicating that there is a mediating dependent component between the relationship of CSR and CFP (Verbeeten *et al.*, 2016; Isnailita & Narsa, 2017). Previously, most studies tried to connect CSR and CFP through total risk and systematic risk, yet there was few research observed through the idiosyncratic risk viewpoint. This also applies to the market share, which only a few past studies could be found. Prior studies only examined four variables separately: the correlation of CSR-idiosyncratic risk or idiosyncratic risk-CFP, and either CSR-market share or market share-CFP. As a result, this study will try to prove that all those four variables are correlated with each other by examining market share and idiosyncratic risk as the mediating variables of the impact of CSR towards CFP in consumer goods industry firms, especially during the Covid-19 pandemic. Both market share and idiosyncratic risk are expected to link and become a bridge for CSR and CFP to help gain more understanding of the CSR-CFP relationship, which are still incoherent in prior studies.

2. Literature review and hypotheses

2.1 Legitimacy theory

In line with the concept of legitimacy theory, all companies enter into a contract with society to conduct business within the values maintained by the companies they operate. It was essential to ensure and maintain alignment with all stakeholders' expectations. Companies have been seeking legitimacy from the community, and the general practice is to enact services that represent the needs of society (Devie *et al.*, 2019b). Since the public's influence has the discretion to allocate resources, corporations would seek to legitimize their activities for society by utilizing environmental performance and social disclosure (Luethge & Han, 2012). It is a means for firms to create, preserve, and legitimize corporate contribution, both from an economic and political perspective, by disclosing information regarding corporate social responsibility in their annual or sustainability reports (Carroll and Shabana, 2010).

2.2 Stakeholder theory

Stakeholder theory focuses more on the ability and capacity of various stakeholders to exert pressure on companies to share information regarding their social and environmental activities and the demands of specific societal groups (Khelif *et al.*, 2015). The company's objectives must not be restricted to serving only its purposes and profit, as well as other stakeholders' interests (Ducassy, 2012; Tarigan *et al.*, 2020). The organization's success depends on how well it manages relations with key groups such as customers, employees, suppliers, communities, financial institutions, or others which may influence the achievement of its goals (Khan & Majid, 2013; Isnalita & Narsa, 2017). Hence, stakeholders' level of support for the firm will significantly influence the corporation's state (Devie *et al.*, 2019b).

2.3 Corporate social responsibility

Corporate social responsibility is generally defined as a duty performed by a business to all its stakeholders in all its activities to achieve sustainable development in the social, economic, and environmental dimensions (ACCA, 2020). Through the usage of CSR, the ability of firms to attract, improve motivation, and retain employees could be enhanced. At the same time, it also reduces operational costs, boosts investor and financial analyst attractiveness, helps companies strengthen brand positioning, gains increased sales and market share, and enhance the corporate image (Wang, 2014). Furthermore, studies have found that using CSR strategies for competitive purposes has had a positive moral impact (Luethge & Guohong Han, 2012; Tarigan *et al.*, 2020). Legitimacy theory claims that the use of CSR is to legitimize their activities for society (Luethge & Guohong Han, 2012). It is a means for firms to create, preserve, and legitimize corporate contribution, both from an economic and political perspective, by disclosing information regarding CSR in their annual or sustainability report (Carroll & Shabana, 2010). Stakeholder theory states that the use of CSR is to manage the relationship with its stakeholders, which may influence the achievement of the firm's objectives. Thus, stakeholders' level of support to the firm will significantly influence the corporation's state (Devie *et al.*, 2019b). Following prior studies (Carroll & Shabana, 2010; Cai *et al.*, 2011; Ducassy, 2012; Jo & Na, 2012; Mishra & Modi, 2012; Harjoto & Laksmana, 2016; Devie *et al.*, 2019a; Ongsakul *et al.*, 2020) this study uses Kinder, Lydenberg, and Domini's (KLD) index in measuring CSR policies.

2.4 Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP)

There was numerous prior research that examined the firm's CSR and the corporate financial performance relationship. However, the empirical findings are inconclusive despite the large body of literature on this subject. Both researchers and the business community have long argued about the link between a company's environmental performance and its financial outcome (Devie *et al.*, 2019b). Corporate performance is a fundamental measure of a company's effectiveness in managing and allocating capital to produce income. Three-dimensional discussions (positive, adverse, and neutral correlation) usually occur in the CSR and CFP relationship. A positive correlation can be found in stakeholder theory, which states that companies whose management team prioritizes activities that improve social efficiency will outperform other organizations in the long run (Devie *et al.*, 2019a). The stakeholder theory also supports the positive relationship between CSR and CFP. Previous studies also found that these two variables have a positive association (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016). Thus, following prior studies, below is presented the hypothesis:

H1: CSR has a positive relationship with CFP

2.5 Corporate Social Responsibility (CSR) and market share

Communicating CSR policies and plans to stakeholders within an enterprise tends to significantly impact the firm's corporate social performance, CFP, and reputation. Consumers are one of the most important stakeholders. Consumers who are pleased with a company's CSR activities are more likely to buy its products and services. Consumers tend to highly trust a socially responsible organization and thus prefer to buy its products. Those who are satisfied with the company's services or products will remain loyal, purchasing more products or using the company's services regularly (Isnailita & Narsa, 2017). This will thus eventually result in a larger market share. According to a study conducted by Carroll and Shabana (2010), which looked at the correlation between CSR and market share to measure the CFP, customers can be attracted by a company's CSR activities.

As CSR activities strengthen corporate reputation (Mubarak *et al.*, 2018), the concerns of the consumers and the shareholders regarding a company's best interests in CSR could substantially affect the company's market share. Discussions argue that business organizations will allegedly continue CSR initiatives if they believe such initiatives will eventually influence their market share and, thus, the CFP (Khan & Majid, 2013). Thus, we propose that:

H2: CSR has a positive relationship with the firm's market share

2.6 Corporate Social Responsibility (CSR) and idiosyncratic risk

CSR benefits could include improving wealth among shareholders by protecting them with insurance, enhancing risk management, increasing customer market appeal through a strategic approach, improving transparency, and greater accessibility to the financial market (Harjoto & Laksmana, 2016). All or a subset of these factors could foreseeably reduce the risk of firms (Jo and Na, 2012; Nguyen & Nguyen, 2015; Devie *et al.*, 2019a). According to the stakeholder theory, positive and negative CSR influence firms' relationships with their primary stakeholders, which are represented in firm-specific resources, resulting in idiosyncratic risk. A study done by Bouslah *et al.* (2016) stated it is expected that there will be a more significant impact on overall risk caused

by CSR during the financial crisis and maybe in the post-crisis period because of its impact on idiosyncratic risk. Another study by Suto and Takehara (2021), which took evidence from Japanese firms, also supports the mitigating effect of CSR on a firm's idiosyncratic risk. CSR impacts idiosyncratic risk by affecting relationship-based intangible assets such as trust, reputation, brand, consumer loyalty, and staff morale. Stakeholder interactions and their appraisal of the firms' operations affect the potential cash flows generated by these intangible assets. Thus, we propose our hypothesis as follows,

H3: CSR has a negative relationship with idiosyncratic risk

2.7 Corporate Social Responsibility (CSR), market share, Corporate Financial Performance (CFP)

As one of the main stakeholders, consumers reward socially responsible enterprises by purchasing more from them. They are occasionally willing to pay a greater price for such goods in certain instances (Khan & Majid, 2013). The market share reflects a company's competitiveness in the market, which means that companies with a more significant proportion of the market are seen as better able to meet customers' needs and have a competitive edge over smaller competing brands (Genchev, 2012). As an organization's profitability will rise in direct proportion to its market share (Buyaki, 2017), therefore market share is closely related to performance and can be a valuable indicator of operational performance. More specifically, it is possible for a corporation to increase sales and hence reduce average costs by leveraging experience curve effects, which boosts its profitability and expands its market share. Businesses with a significant market share have a stronger bargaining position and can therefore form more rewarding partnerships with customers, suppliers, and other stakeholders (Edeling & Himme, 2018). Due to inconsistencies in research results when examining the relationship between CSR and CFP, a firm's market share will be used in this study as a mediating variable.

H4: Market share could mediate the relationship between CSR and CFP

2.8 Corporate Social Responsibility (CSR), idiosyncratic risk, Corporate Financial Performance (CFP)

Because a company and society have points of intersection, strategic CSR may become an opportunity for the firm rather than a cost. According to Adascalitei (2015), firms with a social conscience have less fluctuation in their stock prices. Previous studies (Jo and Na, 2012; Chollet and Sandwidi, 2018; Chang *et al.*, 2019) have studied the relationship between CSR, risk, and CFP. Participation in CSR can lower the firms' financial risk and enhance corporate management commitments and sustainable development practices. Risk management advancements can eventually boost corporate profitability levels. According to prior research, CSR and risk have an adverse correlation (Chollet & Sandwidi, 2018; Utz, 2018; Devie *et al.*, 2019a). If the risk is managed and the volatility of stock prices is reduced, organizations can expect steadier earnings since a poor outcome is reduced. As a result, reducing risk may improve the firm's performance. Thus, a hypothesis is introduced as follows:

H5: Idiosyncratic risk could mediate the relationship between CSR and CFP

3. Research methodology

3.1 Sample

Analysis utilizing partial least squares (PLS) tests the hypothesis and identifies the correlation between variables. Indonesian consumer goods firms listed in Indonesia Stock Exchange (IDX) in 2017-2020 are chosen as the sample. This industry contributed around 7.87% and 8.08% of Indonesia's total GDP in 2018 and 2019 (BPS-Statistics Indonesia, 2019). The consumer goods industry relies mainly on the consumers' consumption level and loyalty and thus must cope in a competitive environment with rapidly changing customer expectations. Any activities done by the companies in this industry will be supervised by customers and become the centre of attention since the company's activities are closely related to people's daily life and needs. All data are derived from secondary sources such as annual reports, sustainability reports, Yahoo Finance, Bloomberg, and other reliable websites.

Table I details the total sample observed, which fulfills the criteria. In total, there are 57 companies for four years, which results in 228 firm-year observations.

Table I	Summary of the sample observed
Sampling criteria	No. of firms
Companies listed in the Indonesian Stock Exchange (IDX) under the consumer goods industry	106
Companies not listed in the entire year of 2017 to 2020	(31)
Companies that did not publish complete annual reports from the year of 2017 to 2020	(12)
Companies that do not have sufficient information about CSR consistently from the year of 2017 to 2020	(6)
Companies that fulfill the criteria	57

3.2 Measures

Measurement of CSR: CSR policies are measured using the KLD method, which is also widely used in previous studies (Nguyen & Nguyen, 2015; Devie *et al.*, 2019a). This approach will allow sample companies to be evaluated within specific areas. The KLD index depicts a multidimensional measure of CSR by capturing both the strengths and concerns of social issues environmental, social, and governance performance of the firm. This study will focus on only five relevant areas to Indonesia: diversity, community, environment, employee relations, and products. When the firm is shown to have adopted specific policies or practices relevant to the problem area, a score of "1" will be assigned for each strength identified in the respective measurement, while a score of "-1" will be given for any identified concerns within the same measurement. Meanwhile, "0" will be assigned when no initiative or policies are applied.

Measurement of CFP: Market-based measurement will be utilized to measure the corporate financial performance in this study. In this case, Tobin's Q is used to measure the firm value that will affect CFP since this ratio describes the state of the company's investment prospects or its potential for growth (Rodgers *et al.*, 2013; Kim and Kim, 2020). It is calculated from the market value of the firm's assets over the book value of the firm's assets. When the value of Q exceeds one, it means that the value of the company's capital investment outweighs its cost, which will eventually attract more new investments. When it is less than one, asset investment is not as appealing as expected (Nenu *et al.*, 2015).

Measurement of market share: Market share is the ratio between the sales of a particular company and the total sales of the industry (Lee, 2013; Isnalita & Narsa, 2017). It is a variable market structure that reflects the competition in each market or industry and shows the concentration level in that market or industry. Thus, it can be concluded that the firm has a strong position in the marketplace if it has a significant market share (Genchev, 2012; Buyaki, 2017).

Measurement of idiosyncratic risk: Idiosyncratic risk depicts market fluctuations in corporate management and operating efficiency, which can be diversified away. It affects only a few assets; thus, this type of risk is referred to as a firm-specific unique risk (Hatane *et al.*, 2019). This risk encompasses factors such as company culture, operational strategy, financial policy, and investment strategy. Following prior studies (Mishra & Modi, 2012; Nguyen & Nguyen, 2015), market model regression standard deviation of daily stock return is utilized to calculate idiosyncratic risk.

Table II		Variable definitions and data source
Variable	Definition	Data source
CSR	Difference between total strengths and total concerns score	Annual and sustainability report, firm's official website
Idiosyncratic risk (IR)	Market regression of standard deviation of daily stock return	Yahoo Finance, Bloomberg
Market share (MS)	Ratio of the firm's sales to the industry's total sales	Annual report
Tobin's Q (TOBQ)	Market value of assets over book value of assets	Bloomberg

3.3 Validity and reliability

Validity in PLS used in this study includes both convergent and discriminant validity, which are examined through the correlation coefficient between the latent variable score and the indicator score that is represented by the factor loading value. The criteria of convergent validity are fulfilled when the factor loading value is more significant than 0.5. The discriminant validity test is passed if the cross-loading value for each indicator is greater than the loading value of other latent variables. Following the validity test, reliability and multicollinearity of variables must be

ensured by looking at composite reliability and full collinearity variance inflation factor (VIF) values. For passing the composite reliability test, the value must be greater or equal to 0.7. As for the collinearity test, VIFs must be less than 3.3. Detailed in Table III are all variable reliability and multicollinearity tests.

Table III	Reliability and collinearity values			
	CSR	IR	MS	CFP
R ²		0.02300	0.02300	0.27300
Adj. R ²		0.01800	0.01900	0.26300
Composite reliability	1.00000	1.00000	1.00000	1.00000
Avg. variance extraction	1.00000	1.00000	1.00000	1.00000
Full collinearity VIFs	1.04500	1.13400	1.13900	1.24700

4. Research results and discussion

4.1 Sample description

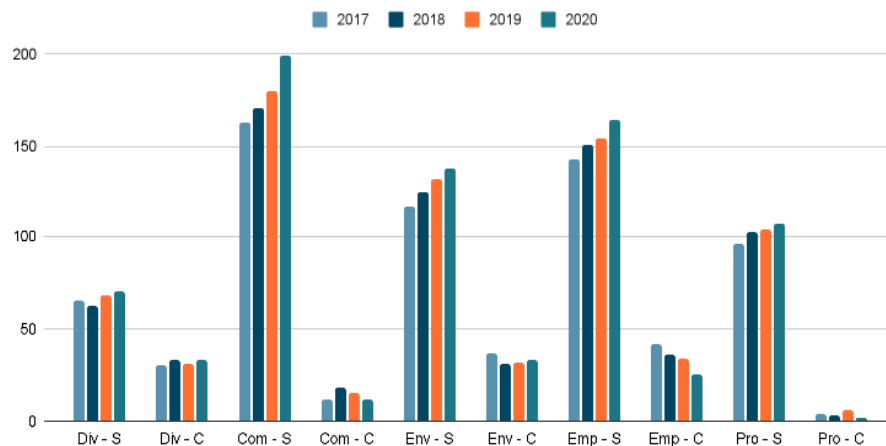
Table IV shows the descriptive statistics of each variable, which provides the value of minimum, maximum, mean, and standard deviation. The total data tested in this study is 228 data derived from 57 companies for four years.

Table IV	Descriptive Statistics Result			
Indicators	Minimum	Maximum	Mean	Std. Deviation
CSR	1.00000	16.00000	8.80300	3.14800
MS	0.00020	0.11908	0.01466	0.02504
IR	0.00181	0.07043	0.02709	0.01337
CFP	0.09800	22.55900	1.63358	2.85395

The observed minimum and maximum CSR scores in the sample are 1 and 16, respectively, although the theoretical range of CSR scoring based on the KLD method spans from -17 to 17. These results indicate that all sampled Indonesian consumer goods firms had net positive CSR scores, reflecting a general trend of active engagement in CSR activities during the study period. As stated in Figure 1, CSR in 57 Indonesian consumer goods companies shows an increasing trend from 2017 until 2020. The highest CSR score was during the year 2020 when the pandemic of Covid-19 has spread. It could be seen that year-to-year companies become more aware that CSR performance could bring them better prospects in the upcoming years related to business sustainability. The scores kept improving gradually, and during 2020 Indonesian consumer goods

companies' strengths in community and employee issue areas reached their peak. Firms have put their most attention and effort toward the society and communities around them and maintain good relationships by providing benefits and a well-established working environment for their employees. However, diversity has the lowest scores for four consecutive years, with relatively stable total concern scores among the five issue areas examined.

Figure 1 CSR Strengths and Concerns Score in Each Issue Areas



4.2 Hypothesis and research result

4.2.1 Hypothesis 1: CSR has a positive relationship with CFP

It was hypothesized previously that CSR had a considerable beneficial impact on a company's financial performance when strengths are measured and deducted by the concerns (Figure 2). The data processing results detailed in Table V and Table VI show that CSR directly influences CFP with a coefficient value of 0.172 and indirectly influences CFP with a 0.096 coefficient value. Thus, it yields a total effect of 0.268 with a p-value less than 0.001. The findings, which indicate a significant positive relationship, have proven that when a consumer goods firm participates more in CSR practices, it will lead to a better and higher firm financial performance.

Table V		Direct Effect Path Coefficients and P-Values	
Independent Variable	Dependent Variable	Path Coefficients	P-Value
CSR	CFP	0.17200	0.00400
CSR	IR	-0.15000	0.01000
CSR	MS	0.15100	0.01000
IR	CFP	-0.34400	<0.00100

MS	CFP	0.28900	<0.00100
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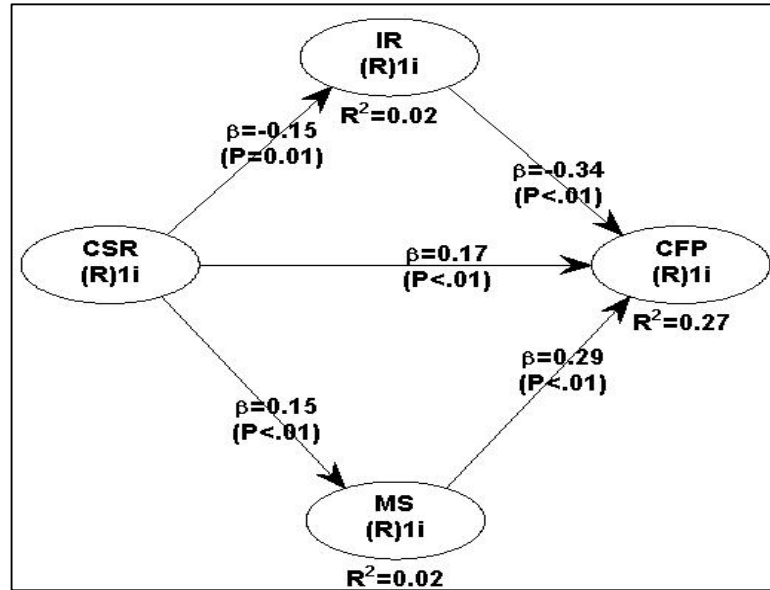
Table VI	Indirect Effect Path Coefficients and P-Values			
Independent Variable	Mediating Variable	Dependent Variable	Path Coefficients	P-Value
CSR	MS and IR	CFP	0.09600	0.07200

As a result of this, the assertion that CSR contributes to a long-term competitive advantage can be confirmed. This is partly due to a long-standing relationship with those interested in the company (Alikaj *et al.*, 2017). Moreover, the findings of this study corroborate those of prior studies (Raza *et al.*, 2012; Wang, 2014; Kang *et al.*, 2016; Devie *et al.*, 2019a; Devie *et al.*, 2019b). The findings also support the results of studies by Rodgers *et al.* (2013) and Price and Sun (2017), which stated that the reputation of corporate social responsibility is linked to the company's value. Most of the time, investors respond favourably to and perceive an entity's social or environmental actions, and as a result, the firm's financial health and market value may improve. It should be related to an increase in the company's worth, primarily when the organization's reputation could be maintained by giving accurate information.

The findings support the value-enhancement theory that corporations might deliberately use an opportunity to target customers by utilizing CSR initiatives to boost their value. This could be because the usage of CSR could enhance corporations' ability to attract, motivate, and retain employees, reduce operational costs, boost investor and financial analyst attractiveness, help companies strengthen brand positioning, gain increased sales, and market share, and enhance corporate image (Wang, 2014). Furthermore, the use of CSR strategies for competitive purposes has had a positive moral impact for the firms.

CSR in the consumer goods industry has proven to be a profitable investment for the company, resulting in better financial performance. CSR has become the attempt to support the survival of corporations through good management practices that promote integrity, factual transparency, and corporate philanthropy (Cai *et al.*, 2011; Khlif *et al.*, 2015). CSR activities directly influence the firm's efficiency; thus, the outcomes represent the stakeholders' decisions and may influence the organization's long-term financial performance. This also supports the stakeholder theory, which claims that an organization's reputation can be improved if it responds to the needs of its stakeholders. Through the findings in this research, which also includes data from the year 2020, CSR has proven to help firms perform better financially, including during the COVID-19 pandemic outbreak, and could be a tool for the firm to maintain its sustainability.

Figure 2 Path Diagram Results



4.2.2 Hypothesis 2: CSR has a positive relationship with a firm's market share

A firm's market share increases because of CSR policies enacted by the businesses. The findings indicate that CSR and the firm's market share have a highly significant positive correlation. The relationship is defined with a path coefficient value of 0.151 and a p-value of 0.01. When a consumer goods firm engages in more CSR activities that improve its CSR scores, its market share could escalate. The higher market share means that the percentage increase in the firm's sales revenue is higher than the percentage increase in the total sales revenue of the whole industry. CSR policies attract more revenues for the firm.

This is consistent with findings from earlier research (Carroll & Shabana, 2010; Isnalita & Narsa, 2017), which stated that CSR affects the market share. CSR activities performed by the firm strengthen the corporate reputation (Mubarak *et al.*, 2018) thus, investing in CSR can create a significant impact on the firm's market share. Based on research done by Cegliński and Wiśniewska (2017), CSR may be a powerful and long-term competitive benefit for businesses. However, these policies must be carried out practically and should be incorporated into business strategy. The firm could maintain its strong position and competitiveness in the marketplace, even during a crisis, if it has a significant market share. Trust among stakeholders is the first benefit derived from CSR. Because of the inherent risk and unpredictability in each given situation, it appears that building trust is an absolute necessity. When selecting a product or service, conscious decisions are made by consumers, which are frequently guided by trust toward a company, its image, and its impression of the environment (Cegliński & Wiśniewska, 2017). During the pandemic outbreak, many consumer goods firms have increased their CSR score through positive CSR and minimized negative CSR. Thus, this helps them maintain and even increase their competitiveness in the market, which affects improving the percentage of market share.

4.2.3 Hypothesis 3: CSR has a negative relationship with idiosyncratic risk

The results indicate that increasing the CSR score could help the firms mitigate risk and thus reduce the value of idiosyncratic risk. The adverse correlation between CSR and idiosyncratic risk has been shown through the path coefficient value of -0.150 with a p-value of 0.01, which

shows that the relationship is highly significant. The findings in this research support previous studies regarding the negative association of CSR and idiosyncratic risk (Mishra & Modi, 2012; Bouslah *et al.*, 2016).

Weaknesses in CSR implementation are linked to higher levels of idiosyncratic risk, which suggests that a combination of good management and good operational procedures can help mitigate the risk of operating uncertainties. According to Chen *et al.* (2018), when the market is going through a period of corrective action, both corporate social responsibility and the company's idiosyncratic risk have negative repercussions on one another. The ability of a company to continue to promote corporate social responsibility, construct communication channels and connect with stakeholders, and improve operating methods will aid in the development and reduce idiosyncratic risk when the market is uncertain. Therefore, having involved in CSR engagement could become an 'insurance' security for the company, attract consumers, increase transparency, and decrease information asymmetry (Harjoto and Laksmana, 2016). As the level of information transparency is promoted, high-quality CSR could help investors better comprehend the stock price and, as a result, minimize the firm's idiosyncratic risk. It implies decreased volatility in enterprises' future predicted cash flows and prepares the firms to face uncertain future events, such as a covid-19 pandemic.

4.2.4 Hypothesis 4: The firm's market share could mediate the relationship between CSR and CFP

The firm's market share and CFP have a direct positive and highly significant relationship. It is shown through the path coefficient value of 0.289 with a p-value of less than 0.001. It means that when the market share experiences an increase, the corporate financial performance is depicted through Tobin's Q as the firm value indicator. In addition to that, market share has proven to have a positive and significant indirect effect and thus could mediate the relationship between CSR and CFP. It has a 0.096 path coefficient and a p-value of 0.072 in the constructed model. With a total effect of 0.289 path coefficient and p-value of less than 0.001, it could be concluded that the market share's role as a mediator between CSR and CFP is strong.

Increasing CSR engagement results in higher market share, which means the firm is considered better to satisfy customers' needs and have a competitive advantage over smaller competing businesses (Genchev, 2012). Businesses with significant market share have a stronger bargaining position and can therefore form more rewarding relationships with stakeholders, including customers, suppliers, and other stakeholders (Edeling & Himme, 2018). The firms capture the more extensive market and opportunity through implementing CSR. Trust will be built between the firms and stakeholders as stakeholders value the more socially responsible business. As a result, the trust in the company will translate into an increasing sales revenue, and thus, a high market share will directly translate into high profitability (Buyaki, 2017). As the firm becomes more competitive in the industry, the firm value will improve and quickly achieve a higher return for the investments or costs already incurred. Hence, market share is proven to be closely related to performance and could mediate between CSR and CFP.

4.2.5 Hypothesis 5: Idiosyncratic risk could mediate the relationship between CSR and CFP

With a coefficient value of -0.344 and p-value < 0.001, idiosyncratic risk adversely impacts corporate financial performance significantly. Furthermore, the constructed model also shows an indirect effect of idiosyncratic risk in the relationship between CSR and CFP. In the constructed model, the findings show a path coefficient value of 0.096 and a p-value of 0.072.

While the total effect of IR on CFP is negative and highly significant as well, with a p-value of less than 0.001 and a path coefficient value of -0.344 . Henceforth, idiosyncratic risk is proven to have a role in mediating between CSR and CFP. As both CSR to idiosyncratic risk and idiosyncratic risk to CFP has a negative association, it thus results in a positive relationship of CSR towards CFP.

This finding is consistent with earlier research (Chollet and Sandwidi, 2018; Utz, 2018; Chang *et al.*, 2019). Participation in CSR practices can lower the firm's idiosyncratic risk and enhance corporate management commitments and sustainable development practices. The unfavorable relationship is developed and aligned with the initial goal of enterprise risk management, which is to improve entities' short and especially long-term value to their stakeholders while also expanding prospects for growth. Along with the legitimacy and stakeholder theory, CSR works as a tool of the firm to seek legitimation from the stakeholders to be perceived as a socially responsible business. While the firm also believes that each stakeholder has their expectations toward the business, and thus, CSR helps to manage the relationship and fulfils the expectations.

Risk management advancements can eventually boost corporate profitability levels and improve the firm's performance. As a means of reducing the company's idiosyncratic risk, creating value, and developing new ways of operating that may be more efficient in terms of resource use, CSR helps organizations stay ahead of their competition. The firm can devise a risk-reducing strategic CSR proposition that is distinctive for its customers and can increase market charm to its customers (Jo & Na, 2012). Engagement in CSR activities also assists companies in lowering capital costs and reducing uncertainty (Tasnia *et al.*, 2020). A study by Adascalitei (2015) stated that businesses that embrace socially responsible concepts experience lower stock price volatility as there is lower information asymmetry. When the risk is managed, and the volatility of stock prices is reduced, organizations can expect steadier earnings since a poor outcome is reduced and strategic value has persevered. Henceforth, this will impact the firm's financial performance better, even during a crisis or uncertain event.

All in all, the role of CSR is very important for companies to be sustainable in their business. Performing CSR could help the firms to lower its firm-specific risk and capture a bigger market, resulting in better financial performance. Most consumer goods firms in Indonesia already implement good CSR practices, as the scores are above the average of 8.803. However, some firms still have a CSR score below the mean average value. It is suggested that firms in the consumer goods industry improve their CSR score to be more socially responsible and thus resulting in better corporate reputation and lower firm-specific risk. Thus, the information asymmetry will be lowered and help investors gain more information about the firm that helps them in decision-making for providing investments. CSR will attract more consumers and investors and advance relationships with other stakeholders. Investment in CSR could act as insurance for the firm and help businesses to face an uncertain future which aggravates the business's financial performance. Therefore, it is essential for the management of the companies to put more attention toward their CSR implementation as it could stabilize and minimize the impact of uncertainties and crisis periods such as the COVID-19 pandemic and affect the business's long-term financial performance.

5. Conclusion and limitation

This research examines the relationship between CSR, CFP, market share, and idiosyncratic risk. A thorough examination has also been conducted to analyze the mediating role of market share and

idiosyncratic risk. KLD index is utilized in measuring CSR policies. As for CFP, market-based measurement through Tobin's Q is used as the proxy. While the value of a market share is derived from dividing the firm's sales revenue by the consumer goods industry's sales revenue. Lastly, the firm's idiosyncratic risk is measured through the market model regression standard deviation of daily stock return.

CSR has proven to significantly affect the CFP and market share positively, as presented in H1 and H2. Engagement in CSR activities could result in improved firm value, which is proven by a positive association with Tobin's Q. While performing CSR could also capture a more significant market since consumers perceive the firm as a socially responsible business. Thus, they are interested in investing or buying more from the firm. Customer loyalty will be increased as well, and the level of competitiveness in the industry will improve. CSR is also proven to have a strong negative association with idiosyncratic risk, which supports H3. Considering the findings, more significant CSR efforts could help reduce and preserve a company's volatility. Thus, CSR works as a risk management tool for the company.

Both firm's market share and idiosyncratic risk could act as mediating variables for the relationship between CSR and CFP, which is defined in H4 and H5. This study has proven that those four variables are connected. When a firm implements more CSR during its business activities, it can improve its public image and reputation, which thus increase the level of sales revenue, and then lead to an enhancement of financial performance. On the other hand, it is possible for organizations to mitigate risks as they become more socially responsible, and this can lead to better financial performance and an increase in firm value, which then improves the firm financial performance.

This research paper has some potential limitations. **This study only examines the relationship of four variables in listed companies operating their business in the Indonesian consumer goods sector. Different outcomes might be acquired when different sectors are used.** Further studies may use another type of measurement to analyse the variables. They may examine the differences in CSR engagement between pre- and post-pandemic situations to see whether there are changes in the firm's CSR behaviour before and after Covid-19.

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Bukti konfirmasi artikel accepted - 20 Juni
2025



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Josua Tarigan <josuat@petra.ac.id>

Re: Sending R1-additional comments and R2-review comments-Re: First reviewer's review comments-Corporate Social Responsibility and Financial Performance-Re: [ABAC Journal] Submission Acknowledgement-Re: Result of Review Process

ABAC Journal-Assumption University

<abacjournal@au.edu>

To: Josua Tarigan <josuat@petra.ac.id>

Fri, Jun 20, 2025 at

4:59 PM

Dear Assoc. Prof. Dr. Josua Tarigan,

Congratulations! Your article has been accepted and it is scheduled for publication in one of the issues in 2025.

We will send you the payment link for the second step publication fee payment of 11,000 Baht next week.

In addition, We will send you the acceptance letter next week.

Regards,

Mallika Duangkhet

ABAC Journal

On Sun, Jun 8, 2025 at 9:22 PM ABAC Journal-Assumption University <abacjournal@au.edu> wrote:

Dear Assoc. Prof. Dr. Josua Tarigan,

Thankyou for sending your revised article titled "Corporate Social Responsibility and Financial Performance in the Indonesian Consumer Goods Industry Through Market Share and Idiosyncratic Risk" and author's response to two reviewers' comments.

We have already sent your revised article and response to comments to the reviewers.

We will inform you when we receive their feedback.



มหาวิทยาลัยอัสสัมชัญ
ASSUMPTION UNIVERSITY

To: Assoc. Prof. Dr. Josua Tarigan
School of Business & Management
Petra Christian University
Indonesia

24 June 2025

Subject: Letter of Acceptance

Dear Assoc. Prof. Dr. Josua Tarigan,

I am pleased to inform you that your article titled “Corporate Social Responsibility and Financial Performance in the Indonesian Consumer Goods Industry Through Market Share and Idiosyncratic Risk,” co-authored with Natasha Monica and Prof. Dr. Tristan Nguyen, has been accepted by the Editorial Board of the ABAC Journal and it is on the schedule for publication in the ABAC Journal Vol.45 No.3 (July-September, 2025) issue.

Please accept my appreciation of your contribution in publishing your article in the ABAC Journal.

Yours Sincerely,

Dr. Absorn Meesing
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29 July 2025



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Josua Tarigan <josuat@petra.ac.id>

[ABAC Journal] New notification from ABAC Journal

Aung Kyi Win <aungkyiwin@au.edu>

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