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THE IMPACT OF FINANCIAL PERFORMANCE, MARKET PERFORMANCE, AND POLITICAL VISIBILITY ON CORPORATE SOCIAL RESPONSIBILITY IN PHARMACEUTICAL COMPANIES IN INDONESIA

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ABSTRACT

This research investigates the relationships between financial performance, market performance, and political visibility in influencing the adoption of Corporate Social Responsibility (CSR) practices among pharmaceutical companies listed on the Indonesia Stock Exchange from 2015 to 2024. Employing a secondary data analysis and the PLS-SEM approach, the study reveals that financial performance and political visibility exert a significant positive influence on CSR implementation. In contrast, market performance and the moderating effect of political visibility are found to be insignificant. These findings underscore the crucial role of financial stability and social-political pressures in driving CSR implementation in Indonesia's pharmaceutical sector, while also suggesting that market perceptions do not always directly correlate with CSR activities.

KEYWORDS: CSR, financial performance, market performance, political visibility,

INTRODUCTION

Apaydin et al. (2021) states that CSR has become an essential element in the operational strategies of businesses, especially in the pharmaceutical industry. CSR is defined as a corporate commitment to contribute positively to societal welfare and environmental sustainability, extending beyond mere compliance with legal and ethical standards (Siahaan, 2022). This commitment is increasingly recognized as essential for fostering trust and loyalty among stakeholders, including the general public, employees, and the environment in which companies operate (Tamvada, 2020). The pharmaceutical industry, in particular, plays a pivotal role in addressing public health needs, as evidenced by its proactive engagement in CSR initiatives that focus on health education, affordable medication, and community health support (Imran et al., 2025).

The Covid-19 pandemic has significantly shifted the focus of CSR activities within the pharmaceutical

sector. Nair et al. (2021) found that prior to the pandemic, CSR efforts were primarily centered on health education and the provision of affordable medicines. However, during the pandemic, there was a notable transition towards the provision of personal protective equipment (PPE), vaccine distribution, and support for healthcare workers (Antiksari & Tiara Widya, 2021). This shift highlights the industry's adaptability and responsiveness to emerging health crises, which has, in turn, contributed to increased profitability and market demand for health-related products (Noviarty & Edryani, 2021).

Furthermore, the increasing awareness of social issues among the public has prompted pharmaceutical firms registered on the Indonesian Stock Exchange (BEI) to actively participate in CSR initiatives. Data from BEI indicates that these companies are involved in various CSR activities, including the provision of affordable medicines and health education programs (Elpanso & Humairoh, 2023). The engagement in CSR not only enhances the corporate image but also serves as a strategic approach to build sustainable value for the company and its stakeholders (Sánchez-Teba et al., 2021).

In light of these developments, this study seeks to explore the connection between financial performance, market performance, and CSR in Indonesian pharmaceutical companies from 2015 to 2024. Specifically, it seeks to explore whether financial performance positively influences CSR initiatives and whether market performance has a similar effect. Additionally, the study will examine the moderating role of political visibility in these relationships, as companies with higher political visibility may be more inclined to engage in CSR activities due to increased scrutiny and expectations from stakeholders (Solikhatul & Doni Teguh Wibowo, 2025). Through its examination of these questions, this study adds to the expanding literature on CSR and its strategic implications for pharmaceutical companies.

LITERATURE REVIEW AND HYPOTHESES

Freeman, (1984) in Mahajan et al., (2023) noted that stakeholder theory highlights the significance of taking into account all stakeholders in corporate activities, encompassing employees, customers, and the broader community. This theory asserts that a company's success is measured not just by its profits, but also by its ability to provide value to all stakeholders. The increasing awareness of social issues has led to a demand for companies to engage in CSR activities that benefit society and the environment (Tamvada, 2020).

Previous research has shown that strong financial performance provides greater financial capacity for companies to allocate resources to CSR (Effendy & Meiden, 2023; Silaban et al., 2020). Financial performance is evaluated using Return on Assets (ROA) and the Current Ratio, which represent a company's profitability and liquidity. An increased ROA signifies that a company is efficiently using its assets to produce profits, enabling it to invest more in CSR activities (Erlinda & Farida Idayati, 2022).

Market performance, assessed using Tobin's Q and Dividend Yield, reflects market perception and the potential for company growth (Yudanti & Dwi Urip Wardoyo, 2021). Tobin's Q, a metric that assesses the market value of a company relative to the replacement cost of its assets, acts as a gauge of the company's market perception. Nonetheless, the impact of market performance on CSR continues to be a contentious issue in academic discussions. Certain studies indicate a positive correlation between market performance and CSR. (Martínez, 2021), whereas others indicate that market performance does not always significantly impact CSR decisions (Istiqomah & Amanah, 2021; Kumar, 2020).

Political visibility, which refers to the level of public and governmental attention received by a company, is anticipated to enhance the connection between financial performance and CSR. Firms with greater political visibility might experience increased pressure to adopt socially responsible practices, as stakeholders seek transparency and accountability (Isnaeni et al., 2021). However, some findings question the significance of this moderating effects (Panjaitan, 2017), suggesting that while political visibility can enhance CSR efforts, it does not always translate into improved financial or market performance (Adyani, 2022; Amelia et al., 2024).

METHODS

The population for this study includes all pharmaceutical companies listed on the Indonesia Stock Exchange that consistently publish CSR and annual financial reports during the period from 2015 to 2024. The sample comprises 9 companies that meet these criteria, selected using purposive sampling (Asrulla et al., 2023). The analysis involved CSR reports and secondary financial data, which were examined using SmartPLS software to implement the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique. This method facilitates the evaluation of causal relationships between independent and dependent variables, along with assessing the moderating effect of political visibility, ensuring a high level of empirical analysis accuracy (Sahban et al., 2024).

RESULTS AND DISCUSSION

Descriptive analysis reveals that the average ROA is 674.123, Current Ratio is 266.106, Tobin's Q is 160.056, and Dividend Yield is 168.122, with significant variation among companies, reflecting heterogeneous financial and market conditions. The average total assets reach 297 trillion rupiah, indicating large company sizes and varying levels of political visibility.

The validity and reliability tests show that the majority of indicators satisfy the requirements for both convergent and discriminant validity, although some indicators need enhancements in internal reliability. The first hypothesis is confirmed with a path coefficient of 0.1875 and a p-value of 0.001, demonstrating a significant positive effect of financial performance on CSR. This result is consistent with earlier studies highlighting the importance of financial stability in allowing companies to invest

in CSR activities.

The second hypothesis, which posits that market performance influences CSR, is not supported ($p = 0.091$). This suggests that fluctuations in market performance do not directly drive companies to enhance their CSR activities. This finding is consistent with studies indicating that market perception does not always correlate with CSR engagement (Kumar, 2020).

Political visibility has a notable positive impact on CSR, evidenced by a p-value of 0.000. This suggests that companies with increased political visibility are more inclined to participate in CSR initiatives due to heightened scrutiny from both the public and government. This finding reinforces the idea that political visibility can improve corporate accountability and transparency in CSR efforts (Akbar & Muslih, 2023).

However, the interaction of political visibility with both financial and market performance is not significant, indicating that political visibility does not function effectively as a moderator in this context. This result implies that although political visibility plays a significant role, it does not necessarily strengthen the connection between financial or market performance and CSR (Adyani, 2022).

CONCLUSION

In conclusion, financial performance has a significant positive influence on CSR disclosure in pharmaceutical companies in Indonesia. Market performance does not show a significant influence on CSR disclosure. Political visibility has a significant positive influence on CSR. However, political visibility does not moderate the relationship between financial performance or market performance and CSR significantly.

For next research, this study recommends that pharmaceutical companies allocate at least 2% of their annual net profit consistently for corporate social responsibility (CSR) activities, adopt Global Reporting Initiative (GRI) reporting standards, and strengthen strategic partnerships with local governments to enhance political visibility. Additionally, it urges government and regulatory bodies to reinforce regulations mandating transparent CSR reporting for all pharmaceutical companies to improve social accountability. Furthermore, future researchers are encouraged to explore the role of corporate governance and other external factors through both qualitative and quantitative methodologies to gain a deeper understanding of the dynamics of CSR within the pharmaceutical sector.

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