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The Effect of Corporate Social Responsibility (CSR) on Financial Performance

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Abstract: Himbara Bank has a very significant role in driving economic growth, managing national assets, and providing sustainable financial services to the community. However, its role is not only limited to financial aspects but also holds social responsibility towards society and the environment. Therefore, it is important to understand the extent to which CSR can influence Bank Himbara's financial performance in this dynamic business environment. This research aims to find information on the effect of implementing Corporate Social Responsibility (CSR) on financial performance based on Return on Equity (ROE). In this research, the population used is banks included in the Association of State-Owned Banks (Himbara) for 2019-2022. The data analysis techniques used are descriptive statistical analysis and panel data regression analysis. Based on research results, Corporate Social Responsibility (CSR) did not have a significant effect on Return on Equity (ROE) in the Association of State-Owned Banks (Himbara) in 2019-2022.
Keywords: Corporate Social Responsibility; Financial Performance; Return on Equity

INTRODUCTION

The advancement of science and technology has led to the growth of industries in Indonesia. Along with industrial development, the operational activities of companies have also expanded, increasing the demands on them. A good company is not only focused on increasing profitability but also cares about the environment and the surrounding community. This encourages businesses to consider the social impacts they generate and how to address them. Every company has a social responsibility to develop the surrounding environment through company-determined programs. Corporate social responsibility is not limited to environmental protection but also includes all stakeholders, including employees, customers, creditors, shareholders, and the community.

Corporate social responsibility, more popularly known as CSR, is essentially a necessity for corporations to interact and adapt with the local community to gain social benefits in the form of trust from their relationship with the local community. According to Undang-Undang nomor 40 Tahun 2007 concerning Limited Liability Companies, Article 1, paragraph 3, Social and Environmental Responsibility is the Company's commitment to participate in sustainable economic development to improve the quality of life and beneficial environment, both for the Company itself, the local community, and society in general (Pemerintah Republik Indonesia, 2007). CSR is understood as a business commitment to act ethically, operate legally, and contribute to economic development while improving the quality of life of employees and their families, as well as the local community and society in general (Rudito & Famiola, 2019).

In Indonesia, awareness of CSR is evident from the increasing number of companies that disclose CSR issues in their annual reports and other press releases. The government has also established laws related to the obligation to implement CSR, namely Undang-Undang nomor 40 Tahun 2007 concerning Limited Liability Companies, Article 74, paragraphs 1 to 4 (Pemerintah Republik Indonesia, 2007). Although the law initially mentioned that the CSR regulations only apply to companies engaged in natural

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resource activities, in reality, this responsibility broadly applies to companies involved in and/or related to natural resources.

For state-owned enterprises (BUMN), CSR initiatives are carried out through the Partnership and Community Development Program (PKBL). This program represents the social responsibility efforts of state-owned enterprises, demonstrating their commitment to actively supporting and assisting small-scale entrepreneurs, cooperatives, and the community. The technical implementation of PKBL is regulated in the Ministerial Regulation of State-Owned Enterprises No. PER-05/MBU/04/2021 of 2021 concerning the Social and Environmental Responsibility Program of State-Owned Enterprises (Kementerian Badan Usaha Milik Negara, 2021). PKBL comprises two primary programs: the Partnership Program and the Community Development Program. The Partnership Program is designed to enhance the capacities of small businesses using a portion of state-owned enterprise (BUMN) profits. Its objective is to foster self-reliance among communities, particularly small business owners, by facilitating soft loans and providing training aimed at enhancing business skills. Meanwhile, the Community Development Program focuses on social empowerment initiatives funded by BUMN profits. These encompass various activities such as disaster relief, educational and training support, healthcare improvement, infrastructure development, assistance to religious facilities, environmental conservation efforts, and social welfare programs aimed at poverty reduction.

One business sector that is a focus in terms of CSR is the banking sector, especially the Association of State-Owned Banks (Himbara) because government-owned banks have more detailed regulations for CSR activities as previously explained. Unlike government-owned banks, private banks do not have detailed regulations, making CSR implementation not a mandatory requirement. Some private banks do not publish sustainability reports. According to (Salsabila, 2021), in 2019, 23 banks listed on the Indonesia Stock Exchange did not publish sustainability reports.

Himbara banks, as entities owned and managed by the government, play a significant role in driving economic growth, managing national assets, and providing sustainable financial services to the public. However, their role is not limited to financial aspects but also includes social responsibility towards the community and environment where they operate. Himbara banks are expected to comply with and implement CSR programs that support sustainable development, including environmental, social, and good corporate governance aspects.

According to a news article (Diantara, 2019), Bank BNI won an award at the 5th CECT Sustainability Awards 2019. BNI's initiated programs received two awards from the CECT Sustainability Awards Jury, namely CSR Core Subject Based on ISO 26000: "Fair Operating Practices" and Overall Sustainability Performance: "Finance Industry". The CECT Sustainability Awards are assessed based on the Sustainable Development Goals (SDGs) and ISO 26000, the standard guidelines for CSR and sustainability management. However, according to the journal by (Nofiar & Chasanah, 2023), BNI's financial performance in the same year still lagged behind other Himbara banks, namely BRI and Bank Mandiri.

This aligns with the findings of (Krisdamayanti & Retnani, 2020), who observed that CSR disclosure by companies does not significantly impact financial performance. (Tran et al., 2021) also reported similar results, with their regression model indicating that ROE does not influence CSRD in Vietnamese-listed banks. Likewise, (Szegedi et

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al., 2020) found that CSR disclosure by banks listed in Pakistan did not affect their financial performance between 2008 and 2018. Additionally, (Giannopoulos et al., 2024) examined 32 banks in the UK banking sector over six years (2017-2022) and discovered a negative relationship between CSR and financial performance, measured by ROA and ROE. This study rejects the hypothesis of a positive relationship between CSR and financial performance in UK-listed banks.

Conversely, (Maqbool & Zameer, 2018) found that CSR positively influences the financial performance of banks in India. Similarly, (Akben-Selcuk, 2019) reported a positive relationship between CSR and financial performance in Turkish companies. A study by (Cho et al., 2019) in South Korea indicated that CSR performance partially positively correlates with profitability and company value. In other sectors, (Simaremare & Gaol, 2018) found that CSR impacts financial performance in food and beverage companies listed on the Indonesia Stock Exchange, as CSR disclosures can attract consumer attention, thereby increasing sales and profit margins. Additionally, (Dama, 2021) found that the CSR Index affects the financial performance of manufacturing companies listed on the Indonesia Stock Exchange.

Based on the background description, there are still phenomena and previous research findings related to CSR disclosure that show inconsistencies. Therefore, this research aims to fill this knowledge gap by investigating how CSR implementation affects the financial performance of companies.

METHODS

This study discusses the influence of corporate social responsibility (CSR) on the financial performance of the Association of State-Owned Banks (Himbara) in Indonesia from 2019-2022. The research method employed is a quantitative approach. Quantitative research is based on the measurement of quantities or amounts that can be applied to observed phenomena. Quantitative research typically uses numerical data (Fauzi et al., 2019). In this study, the population used consists of banks that are part of Himbara from 2019-2022. The study does not use a research sample because there are only four companies in the research population, namely PT Bank Mandiri (Persero) Tbk., PT Bank Negara Indonesia (Persero) Tbk., PT Bank Tabungan Negara (Persero) Tbk., and PT Bank Rakyat Indonesia (Persero) Tbk. Data collection was conducted using archival documentation strategies, specifically secondary data. Secondary data refers to data that has already been processed by other parties (institutions) for specific purposes and is collected by the researcher as research data (Fauzi et al., 2019). The secondary data in question includes annual reports and sustainability reports from each company, which can be legally obtained and downloaded from the official company websites. Additionally, the researcher collected data such as the historical background of the companies under study. Two data analysis techniques are used in this research: descriptive statistical analysis and panel data regression analysis. Descriptive statistics consist of mean, median, minimum, maximum, and standard deviation values. Panel data regression analysis combines time series and cross-sectional data. Data collected at one point in time across many observational units is referred to as cross-sectional data, while data collected over time is known as time series data (Madany et al., 2022). The tool used for analysis in this research is EViews 12.

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RESULTS AND DISCUSSION

In this study, we examined the influence of Corporate Social Responsibility (CSR) on financial performance based on Return on Equity (ROE) using panel data regression analysis. Before testing the data, descriptive statistical analysis of each variable such as mean, median, minimum, and maximum in the data is conducted.

Table 1. Statistic Descriptive

	ROE (Y)	CSR (X)
Mean	0.109990	0.380208
Median	0.115003	0.363095
Maximum	0.178432	0.714286
Minimum	0.008779	0.083333
Std. Dev.	0.046617	0.165099

Source*:* Data that has been processed by the author (2023)

Based on the results of the descriptive statistical test, the Return on Equity (Y) scores range from 0.178432 to 0.008779, with a mean value of 0.109990, a median of 0.115003, and a standard deviation of 0.046617. The Corporate Social Responsibility (X) scores range from 0.714286 to 0.083333, with a mean value of 0.380208, a median of 0.363095, and a standard deviation of 0.165099.

For Panel Data Regression Analysis, model testing is conducted first. This aims to select the most appropriate model to be used for interpreting the Panel Data Regression Analysis. First, the Chow Test or Likelihood Ratio Test is utilized to choose between models in panel data regression, specifically between Fixed Effect Model (FEM) and Common Effect Model (CEM). The hypothesis for selecting the panel data regression model is that if the cross-sectional chi-square value is less than the significance level (0.05), the Fixed Effect Model (FEM) is preferred. Conversely, if the cross-sectional chi-square value exceeds the significance level, the Common Effect Model (CEM) is chosen, rendering the Hausman test unnecessary (Eva, 2020).

Table 2. Chow Test Result

Effect Test	Statistic	d.f.	Prob.
Cross-section F	2.303023	(3,11)	0.1336
Cross-section Chi-square	7.798590	3	0.0504

Source*:* Data that has been processed by the author (2023)

In the Chow test, the cross-section chi-square value is 0.0504, greater than the significance level of 0.05. Therefore, the Common Effect Model (CEM) will be used, and the Hausman test is not required.

To ascertain the superiority of the Random Effects Model (REM) over the Common Effects Model (CEM), the Lagrange Multiplier (LM) test developed by Breusch-Pagan is employed. If the LM test statistic exceeds the critical Chi-Square value, the Random Effects Model (REM) is deemed suitable. Conversely, if the LM test statistic is lower than the Chi-square critical value, the appropriate model is the Common Effects Model (CEM) (Eva, 2020).

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Table 3. Lagrange Multiplier Test Result

	Cross-section	Time	Both
Breusch-Pagan	0.460167	0.020473	0.480460
	(0.4975)	(0.8862)	(0.4881)

Source*:* Data that has been processed by the author (2023)

In the Breusch-Pagan test, the P-value is indicated as 0.4975, which is greater than 0.05. Therefore, it suggests that the best method is the Common Effect Model.

Table 4. Common Effect Model Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.078496	0.029756	2.638040	0.0195
X	0.082833	0.072144	1.148159	0.2701
R-squared	0.086059			
Adjusted R-squared	0.020777			
Prob(F-statistic)	0.270144			

Source*:* Data that has been processed by the author (2023)

Based on the results of the Panel Data Regression Model Test, it has been determined that the best equation model used is the Common Effect Model. In this panel data regression, the values of R-squared and Adjusted R-squared are 0.086059 and 0.020777, less than 0.5, indicating that the influence or explanatory power of the independent variables is weak in explaining the dependent variable.

Furthermore, the Prob (F-Statistics) value is 0.270144, which is greater than the critical value of 0.05. Therefore, we accept the null hypothesis (H0), indicating that Corporate Social Responsibility (CSR) disclosure does not have a significant effect on Return on Equity (ROE) in the State-Owned Banks Association (Himbara).

The study (Krisdamayanti & Retnani, 2020) indicates that corporate social responsibility (CSR) disclosure does not influence financial performance, emphasizing transparency through annual reports. CSR disclosures reflect company activities related to various CSR aspects, fostering higher CSR scores. These activities involve community engagement through initiatives like educational support, health donations, and local industry development, portraying ethical business conduct.

The findings challenge the legitimacy theory, suggesting that extensive CSR activities might not always enhance public trust, potentially impacting financial performance negatively. Investors tend to view companies with weaker social and environmental relationships unfavorably.

Similarly, (Tran et al., 2021) confirm these results, revealing that ROE lacks a significant correlation with CSR disclosure (CSRD), unlike ROA and NIM which exhibit varying impacts. Vietnamese banks demonstrate cautiousness in CSRD implementation, indicating a negative relationship between profitability and CSRD levels. Control variables like SIZE and CIR show positive relationships with dependent variables, while LEV exhibits an inverse relationship, reflecting specific national banking traits.

A comparable study by (Szegedi et al., 2020) on Pakistani banks echoes these findings, showing no significant impact of CSR disclosure on financial performance from 2008 to 2018. Despite a moderate CSR disclosure increase over the period, its influence on accounting-based economic performance is evident, while its impact on market-based financial performance remains uncertain amid Pakistan's economic conditions.

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Furthermore, (Giannopoulos et al., 2024) empirically studied 32 UK banks from 2017 to 2022, revealing a negative relationship between CSR and financial performance measured by ROA and ROE. The study's robust findings reject the hypothesis of a positive CSR-financial performance link among listed UK banks.

Based on recent studies on Corporate Social Responsibility (CSR) disclosure by banks in various countries such as Vietnam, Pakistan, and the UK, findings indicate that CSR disclosure does not positively impact the financial performance of banks. Instead, several studies have found a negative relationship between CSR and financial metrics such as Return on Assets (ROA) and Return on Equity (ROE). This challenges the legitimacy theory, which assumes that CSR disclosure can enhance public trust and ultimately improve financial performance. The implications of these findings underscore the need for regulators and investors to reconsider incentives provided to banks for engaging in CSR, and to adopt a more holistic approach to risk assessment. The importance of transparency and integrity in CSR disclosure is also emphasized, ensuring that CSR practices are not merely superficial or greenwashing, but genuinely beneficial to society and the environment. Therefore, while CSR remains crucial for building reputation and stakeholder relationships, its impact on bank financial performance requires careful and ongoing evaluation.

Apart from what has been explained above, other variables affect financial performance in the State-Owned Banks Association (Himbara). One factor influencing financial performance in the Himbara is the restrictions during the COVID-19 pandemic. According to (Setiawan, 2021) in KONTAN.CO.ID, since the COVID-19 outbreak spread to Indonesia in March 2020, the banking industry has faced challenges in improving its performance. As a result, some banks have recorded unsatisfactory performance. This is reflected in the annual financial reports issued by several state-owned enterprise (BUMN) banks. This has led to a significant decrease in ROE in Himbara in 2020.

Regarding CSR activities in the Himbara, because their implementation is regulated by legislation that encourages or even mandates a certain level of CSR disclosure, these activities were not significantly affected by the pandemic. This can also be part of their long-term strategy. The COVID-19 pandemic has caused many difficulties for the community at large. Banks within the Himbara may realize that they have a greater role in assisting the community during this crisis, and therefore, they have increased or maintained their CSR efforts.

CONCLUSION

Based on the results and discussions outlined in the previous chapter, several conclusions can be drawn regarding the CSR performance of the Association of State-Owned Banks (Himbara). Firstly, the CSR performance of Himbara at the beginning of the observation period was not very strong, but gradually improved each year, reaching a good categorization by the end of the observation period. Secondly, although the Return on Equity (ROE) values for Himbara showed a relative decline in 2020, except for Bank BTN, all banks experienced a significant increase in the following years. Thirdly, from this analysis, it can be concluded that Corporate Social Responsibility (CSR) does not have a significant impact on Return on Equity (ROE) within Himbara. These conclusions indicate that despite improvements in CSR performance, its impact on the financial performance of banks within Himbara, as measured by ROE, is not significant.

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