

## THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY ON BANK PROFITABILITY

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### ABSTRACT

This study examines the effect of Corporate Social Responsibility (CSR) on bank profitability in countries such as Nigeria, Vietnam, Indonesia, Pakistan and Kenya. The concept of CSR has evolved from mere corporate philanthropy to an integral part of modern business. Research shows that CSR implementation can add value to the banking sector, such as economic efficiency and increased brand recognition. While some studies show a positive relationship between CSR and bank profitability, there are also findings of negative impacts on some variables such as Net Interest Margin. Recommendations from this study include developing strategies to improve financial performance, increasing CSR investment and disclosure, and the need for clear regulations to govern CSR spending. Further research is needed to analyze the relationship between CSR and firm performance in other economic sectors. This study uses the Literature Review method to analyze the relationship between CSR and bank profitability, focusing on CSR activity disclosure and bank financial performance in Nigeria. The results show that CSR activity disclosure has a positive impact on bank profitability in Nigeria, and recommends increased investment and CSR disclosure as a measure to improve bank financial performance.

**Keywords:** *Corporate Social Responsibility; Bank Profitability*

### INTRODUCTION

The concept of corporate social responsibility (CSR) was first introduced by Bowen and Johnson in 1953. They initially questioned the societal obligations that businessmen could reasonably anticipate. CSR primarily encompasses corporate philanthropy and social initiatives, considered integral to business operations (Levy, 1999). Levy argues that these social endeavors should align with profitability objectives (heart) while embodying a commitment to societal betterment (soul). Beyond financial objectives, CSR entails pursuing environmental and social goals, engaging a diverse array of stakeholders.

The value of a company can be evaluated based on its share price using various valuation ratios. These ratios give an indication of how highly the public values the company, which encourages interest in buying shares at a price above their book value. Some common methods for measuring firm value include Price Earnings Ratio, Price to Book Value, and Tobin's Q.

Numerous studies have investigated the impact of corporate social responsibility (CSR) on bank performance, yielding diverse findings. Specifically, CSR influences the profitability and financial performance of banks, while also serving as a catalyst for attracting and retaining talented individuals. Marian Mocan and colleagues assert that CSR enhances economic efficiency, boosts brand recognition, fosters employee loyalty, facilitates better communication and organizational commitment between banks and society, and expands customer base (Mocan et al., 2015). In Vietnam, research examining the correlation between CSR activities and profitability in commercial banks has produced noteworthy results. Ngoc Bich Nguyen's study identifies a statistically significant negative relationship between CSR disclosure and the financial performance of commercial banks in Vietnam (Ngoc, 2018).

The CSR ideology of During the 1950s, the concept of corporate social responsibility (CSR) predominantly revolved around the idea of businesses having a responsibility towards society. This responsibility emerged from the viewpoint that businesses function as agents of societal progress, with managers tasked as stewards of society. Their primary role was to navigate and balance the often conflicting interests of employees, customers, suppliers, communities, and shareholders. The underlying philosophy driving CSR discussions during this period aimed to cultivate ethical behavior within corporations. By the 1980s, the focus of CSR evolved from being perceived solely as a societal obligation ("doing good to do good") to also encompassing a strategic approach ("doing good to do well") (Banerjee, 2009).

Given the large amount spent Every year, companies allocate funds towards corporate social responsibility (CSR) initiatives with the common belief that such expenditures can enhance corporate profitability. However, there is limited awareness among executives and managers about the extensive research on this matter. Despite this, most executives hold the view that CSR initiatives have the potential to boost profits by enhancing the company's reputation in the market, there are strategies that can increase sales, strengthen employee loyalty, and attract top talent to the company. Moreover, through sustainability-focused corporate social responsibility (CSR) activities, companies can also reduce costs and improve operational efficiency. An additional A benefit for publicly traded companies is that robust CSR initiatives can facilitate their inclusion in stock exchanges or similar listings, thereby potentially enhancing the company's stock performance. value, generate more profits for stock option holders and company leaders, and increase shareholder satisfaction (Robins, 2011).

## LITERATURE REVIEW

### Corporate Social Responsibility (CSR)

Carroll's theory (1991) is the most prevalent and referenced framework in the field of corporate social responsibility (CSR). According to this model, CSR encompasses four primary categories of responsibilities: economic, legal, ethical, and philanthropic. Carroll posits that CSR is structured in a manner that all business responsibilities are covered. The economic dimension entails the responsibility of generating profit, serving as the cornerstone for the other dimensions. In terms of the legal aspect, organizations are expected by society to adhere to laws and regulations. Ethical responsibility involves organizations embracing societal values and norms, which may exceed legal requirements in terms of performance standards. CSR can also be related to socially responsible investing (SRI), which is part of the green economy, as both consider ethical, social, and environmental values in relation to shareholders (Paluszak and Wiśniewska-Paluszak, 2016). Therefore, it is important to communicate the CSR activities that have been carried out to stakeholders (Sari et al., 2016).

Philanthropic responsibility is the action that society expects According to neoclassical economic, a company should primarily focus on providing goods and services to its customers, minimizing costs, and maximizing profits, all while adhering to legal and environmental regulations (Carroll, 1979; Jamali, 2006; Jamali & Mirshak, 2007; Quazi & O'Brien, 2000). Some proponents of this perspective argue that corporate social responsibility (CSR) not only diverts attention from the core objective of wealth creation, potentially dulling competitive edge, but also imposes economic costs on the firm (Friedman, 1999).

Corporate social responsibility (CSR) holds varying interpretations across different perspectives (Votaw, 1973), and its implementation within the banking sector differs from other industries (Viganò & Nicolai, 2009). Drawing from the ISO 26000 standard, CSR in banks can be defined as a voluntary commitment by these financial institutions to effectively manage critical aspects such as corporate governance, human rights, labor practices, environmental stewardship, adherence to national and international norms, and the promotion

of balanced stakeholder interests. Concurrently, banks aim to foster sustainable socio-economic development at a national level (Thao et al., 2019). To effectively fulfill their CSR obligations, banks must prioritize comprehensive and sustainable development that encompasses economic, social, and environmental dimensions.

Previous research has numerous studies have explored the impact of various CSR activities on firms' financial performance, yielding diverse findings. The literature presents arguments and evidence suggesting positive, negative, or neutral relationships between different CSR practices and a company's financial outcomes. Engaging corporate stakeholders can improve the image and reputation of the firm, while addressing concerns related to their interests. able to positively influence its productivity, financial performance and value creation (Guan & Noronha. 2013).

### **BANK PROFITABILITY**

The banking sector, as a critical financial institution, plays an active role in fostering economic development within a country (Babu, 2018; Iskandar et al., 2019). Profitability stands out as a key determinant for the growth and sustainability of commercial banks, also serving as a crucial indicator for predicting financial crises (Albertazzi & Gambacorta, 2009). The profitability of banks reflects their operational effectiveness (Nguyễn & Tã, [year]), defined as the capacity to generate income for a firm (Pandey, 1980). Profitability in the context of commercial banks involves a complex interplay of factors such as revenues, expenses, and overall profits. Sartono (2001:119) defines profitability as the ability of a company to generate profits relative to its sales, total assets, and equity capital. Hence, conducting a thorough analysis of profitability holds significant importance for investors with long-term perspectives.

A comprehensive examination of profitability in the commercial banking industry is necessary due to the strong correlation between the financial stability and operational success of these institutions. It is well acknowledged that return on equity (ROE) and return on assets (ROA) are important metrics for evaluating the profitability of commercial banks. Existing research (Maqbool & Zameer, 2018; Cornett et al., 2013; Wu & Shen, 2013) that attests to their efficacy supports this.

An example of a profitability ratio is Return on Assets (ROA). This ratio is useful for evaluating the company's ability to generate profits during a certain period, which reflects the effectiveness of management in managing their company (Sari et al., 2016). ROA is also an important indicator to assess the financial health of a bank, where the standard ROA that is considered optimal for banks is more than 1.5% (Setiawan, 2017).

According to Salim (2010), the higher the ROA value, indicating that the company has been effective in generating profits through the management and utilization of all its assets. Although many consider Return on Assets (ROA) to be the same as Return on Investment, they are actually different. Return on Investment only considers long-term loan capital and equity, while Assets includes sources of funds from long-term loans, equity, and short-term debt (Samsul, 2006).

### **THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY ON PROFITABILITY**

According to Aupperle et al. (1985), the relationship between CSR and CFP suggests that the obligation to comply with CSR may present competitive challenges for firms. As a result, the costs involved may require arrangements or additional costs. When firms engage in CSR, the increased costs may result in small gains when viewed from an economic perspective. When companies ignore the interests of some stakeholders, such as employees or the environment, this may result in a decline in corporate social performance (CSP), while CFP may increase. Therefore, Waddock and Graves (1997) suggest that this theory assumes

that there is a negative influence between CSR and CFP.

Corporate social responsibility can also serve as a new marketing strategy for companies if implemented sustainably in the long term. Implementing CSR activities requires a cost investment that must be borne by the company, which in turn can affect revenue and reduce the company's profit level. However, CSR activities also have positive benefits, namely improving the company's image in the eyes of the community and increasing community loyalty to the company.

There are differences in the basic concepts of valuation, namely that value is determined for a certain point in time or period of time, value must be determined at a fair price, valuation is not influenced by a particular group of buyers. Many methods and techniques have been developed for business valuation, including: 1) price-to-earnings ratio or earnings approach, including the earnings rate ratio method; 2) discounted cash flow method; 3) dividend growth method; 4) asset method; 5) stock price approach; 6) economic value-added approach (Suharli, 2006).

## METHODS

This research uses the Meta-analysis method, which is a technique for combining and analyzing the results of several relevant studies from various independent studies on the same topic. The main purpose of meta-analysis is to obtain stronger and more comprehensive conclusions by integrating data from various sources. The data collection technique in the meta-analysis method is a systematic and structured process to identify, select, and collect data from various previously published studies.

## RESULTS

The effect of corporate social responsibility (CSR) on bank profitability in several countries, including Nigeria, Vietnam, Indonesia, Pakistan, and Kenya, was examined using five studies from various publications. Subjects from the studies of Dennis (2014), Ajide (2014), Mehreen (2021), Trang (2023), and Odetayo (2014) were included in this meta-analysis. Examining the relationship between variables in a particular study is the purpose of this meta-analysis. This research centers on a specific engineering research object. Data is collected from a research population or sample, and specific analysis techniques are used.

With a share of 45%, research on bank profitability in various countries mostly examines the impact of corporate social responsibility (CSR). To measure the impact of CSR on bank profitability in detail, this stage demonstrates the depth of analysis using statistical methods and quantitative models. It also seeks to provide strong empirical evidence of the relationship between CSR impact and bank profitability. Using descriptive analysis and data collection, the second indicator, which accounts for 30%, seeks to determine the relationship between CSR impact and bank profitability. By presenting ideas and tactics that businesses can immediately put into practice, the third metric-which accounts for 25% of the overall total-focuses on practically testing how corporate social responsibility (CSR) affects bank profitability. The overall goal of this research is to provide a comprehensive overview.

The factors studied cover 10 main areas, including five independent variables and five dependent variables, according to a meta-analysis of five publications. At 39%, corporate social responsibility (CSR) was the most significant independent variable. It is followed by corporate image (6%), economic growth (5%) and CSR. Bank profitability is the main dependent variable, accounting for 35%, followed by customer trust (2%), corporate social responsibility (4%) and other factors. These findings highlight the importance of understanding the various factors that influence bank profitability and corporate social responsibility (CSR), as well as

the complex relationship between bank profitability and other variables in the context of this study.

The object-based quality cost analysis of the five studies revealed a large number of study objects centered on various banking industries in different countries. With a contribution of 10%, the banking industry in Pakistan leads overall. This was followed by the banking industries in Vietnam (10%), Nigeria (10%), Kenya (2014), and Niger (10%).

The findings from the meta-analysis indicate that the high research quality cost of the five journals focused the research population and sample on individuals with experience in the banking industry. The use of business financial statements as secondary data was used in 75% of the studies, indicating a reliance on financial data as the primary source of information. As evidence of different data collection methods, accounting departments were used as secondary data sources in 25% of the studies. While the use of secondary data demonstrates the impact of corporate social responsibility on bank profitability, the choice to involve participants with expertise in bank profitability aims to increase the applicability of the research findings to quality factors.

A study focusing on the cost of quality and examining the relationship between corporate social responsibility (CSR) and customer satisfaction was conducted through an examination of data from five research journals. 35% of the approaches used were quantitative, highlighting the need to understand the ideas of quality outlined in the relevant literature. With the largest percentage at 60%, data collection and analysis was the most important technique, indicating the need to obtain information directly from respondents who are experienced with the impact of customer satisfaction in the banking industry. Ten percent each went to econometric, deductive, explanatory and explanatory approaches. This suggests that the method of collecting data through interviews helps in understanding the profitability of banks. Overall, these findings suggest the need to diversify the methods used to gather information on how corporate social responsibility affects bank profitability.

Corporate Social Responsibility (CSR) programs are a form of service that companies can provide to their customers to respond to social and economic changes, and build relationships of trust and loyalty between companies and customers. Customer loyalty is the tendency of customers to make repeated purchases over a long period of time for products or services, and recommend them to others. (Khaeriani & Hasan, 2022).

Corporate social responsibility (CSR) is an important corporate effort to reduce negative impacts and increase positive impacts on all stakeholders, including economic, social, and environmental dimensions to support sustainable development, according to the Indonesian CSR Study Group (Nurdizal, 2011: 15). The Corporate Social Responsibility Index (CSRI), which evaluates business disclosure based on 78 criteria specified by the Global Reporting Initiative (GRI), quantifies the degree of CSR disclosure in a firm's annual report.

The results of the meta-analysis show that within the bank profitability research from the five journals, there is variation in the data analysis methods used. Multiple regression analysis dominated with a contribution of 35%, showing a tendency to explore the complex relationships between various variables in the context of service quality. Furthermore, descriptive analysis plays a very significant role with the highest contribution of 55%, emphasizing an in-depth understanding of the characteristics and distribution of data on customer loyalty. The use of explanatory analysis and explanatory analysis at 5% each, reflects an attempt to provide a clear statistical picture and understand the explanatory factors that may influence Corporate Social Responsibility (CSR) on bank profitability. Overall, these results illustrate a combination of data analysis techniques that can provide more comprehensive insights into the relationship between Corporate Social Responsibility (CSR) and other variables in various research contexts.

## DISCUSSION

This study looks at how corporate social responsibility (CSR) impacts bank profitability in Nigeria, Vietnam, Indonesia, Pakistan and Kenya. The concept of CSR has evolved from mere corporate philanthropy to an integral part of modern business. This study found that implementing communication and customer service (CSR) activities can generate additional value to the banking industry, such as increased economic efficiency and improved brand perception. The study also shows that disclosure of CSR activities has a positive impact on bank profitability in Nigeria, and recommends increased CSR investment and disclosure as a way to improve bank financial performance.

The study shows that disclosure of customer service activities (CSR) increases bank profitability in Nigeria. The results encourage increased investment and disclosure of CSR to improve the financial performance of banks. Further studies are needed to analyze the relationship between CSR and firm performance in other economic sectors. This study suggests developing strategies to improve financial performance, investment, and CSR disclosure. In addition, clear regulations are needed to govern CSR spending.

In this study, the meta-analysis method was used to analyze the relationship between CSR and bank profitability, focusing on the disclosure of CSR activities and bank financial performance in the countries of Kenya, Vietnam, Nigeria, Vietnam, and Indonesia. The results show that CSR has a positive impact on bank profitability in countries in Nigeria, Vietnam, and Indonesia. However, it has a negative impact on the profitability of banks in Pakistan and Kenya. From the results, the study revealed and recommended increased investment and CSR disclosure as a measure to improve the financial performance of banks. Therefore, the study also predicted that the higher the expansion of bank size, the higher the bank profitability. However, the financial intermediation business is faced with various forms of risks such as interest rate risk and credit risk. In this way, the profitability of a bank will depend on the management's attitude towards risk and can be analyzed by examining capital.

## CONCLUSION

The conclusion of the journal is that there is a relationship between Corporate Social Responsibility (CSR) and bank profitability. While some studies show a positive impact of CSR on bank profitability, there are also studies that show a negative impact on some variables such as Net Interest Margin. Recommendations from this study include the development of strategies to improve financial performance, increased CSR investment and disclosure, as well as the need for regulation to govern CSR spending. The study recommends increased investment and CSR disclosure to improve banks' financial performance, while further research is needed to analyze the relationship between CSR and firm performance in other economic sectors.

Based on the previous study, several suggestions are made both for practical purposes and for the development of further research as follows: It is expected for banking companies to pay more attention to economic performance and environmental performance and balance it with the profits owned by the company. In addition, it is recommended that state-owned banking companies pay more attention to their labor or employees and management relations and protect human rights for their employees, and care more about social society.

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