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Corporate Social Responsibility, Capital Adequacy Ratio, and Financial Performance Bank In Indonesia

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Abstract

This research aims to determine the impact of Corporate Social Responsibility (CSR) as stated in sustainability reports and the adequacy of capital on banking performance. CSR is measured using GRI-Standards 2016. The adequacy of capital is measured by the capital adequacy ratio (CAR). Banking performance is measured using the return on assets (ROA) ratio, earnings per share (EPS), and Tobin's Q. The sample consists of 14 banking companies listed on the Indonesia Stock Exchange during the period of 2019-2021. Multiple linear regression analysis is used to test the relationship between variables. The results of the study indicate that CSR and the adequacy of capital do not have a significant influence on banking performance.

Keywords: Corporate Social Responsibility, Capital Adequacy Ratio, and Financial Performance

INTRODUCTION

Interest in corporate social responsibility has significantly increased, drawing the attention of both companies and academics. Financial performance is a crucial factor when managers decide whether or not to take on social responsibility (Zhu et al., 2016). Many experts explore the relationship between CSR and company financial performance and form opposing views, supporting both positive and negative influences of CSR (Edmans, 2011; Flammer et al., 2013; Krüger, 2015; Saeidi et al., 2015). However, most of the studies mentioned above have focused on non-financial companies, and research on banks remains relatively scarce. Given the vital role of the banking industry in a country's economic development (Shen & Lee, 2006), further research on the impact of CSR on bank financial performance is necessary.

Many researchers have conducted studies regarding the relationship between corporate social responsibility and financial performance. However, no consensus has been reached. Some studies argue that there is a positive correlation between social responsibility and financial performance (Barnett & Salomon, 2006; Galema et al., 2008; van Dijken, 2007; Wan Ahamed et al., 2014). However, some researchers also believe that a company's financial performance is not influenced by social responsibility (Kim & Choi, 2013; Mcwilliams & Siegel, 2000; Newell & Lee, 2012).

In general, there is still debate about how social responsibility correlates with financial performance, mainly because existing research neglects the difference between short-term and long-term impacts. Banks must incur certain costs to carry out social responsibility because they may not have many resources in the short term. If a bank invests too much in social responsibility, it can have an immediate negative impact on their normal operations (Hillman & Keim, 2001), thus affecting their short-term financial performance. However, in the long term, a bank's responsibility towards the government can be beneficial for building a good relationship between the bank and the government, thereby gaining government support (Waddock et al., 1997). A bank's responsibility towards its employees can enhance their sense of belonging and enthusiasm for work, thus improving competitive advantage (Becker & Gerhart, 1996).

Through CSR activities, companies can build a positive reputation among the public and other stakeholders. A good reputation can help banks gain the trust of customers and investors, which, in turn, can influence a bank's capital adequacy ratio (CAR). Companies with a poor reputation may face a decline in trust, which can affect their capital adequacy. Therefore, this study includes the Capital Adequacy Ratio (CAR). CAR reflects a bank's health by ensuring it can withstand operational losses (Maksum et al., 2019). Ensuring the smooth operation of a bank protects the interests of shareholders, investors, and depositors. A bank's ability to manage long-term risks and other factors is significantly determined by its level of capital adequacy.

Many other researchers have conducted studies related to the relationship between CSR and CAR on company performance. For example, (Anser et al., 2018; Kumar et al., 2021; Naek & Tjun Tjun, 2020; Yang et al., 2019) , state that company performance is positively influenced by CSR. Sahidu, (2019) also argues that CAR positively affects company performance. However, other studies suggest a negative impact (Lin et al., 2019; Lioui & Sharma, 2012; Prasetyo et al., 2015).

The aim of this research is to analyze CSR and capital adequacy's impact on bank financial performance. Because banking plays a crucial role in a country's economic structure, improved banking performance can be used as a measure of the country's economic progress. The more advanced a country becomes, the more important and necessary the banking sector becomes for both the government and the general public (Nurcholis, 2013).

This study contributes to stakeholders and shareholders in need of banking profitability data, policymakers, academics seeking reference data for research, the general public, and even existing research.

THEORETICAL REVIEW

Corporate Social Responsibility (CSR)

CSR is seen as an organization's commitment to maximize its positive impact on stakeholders while reducing its negative impact on society (Brinkmann & Peattie, 2008; Ferrell et al., 1989). According to the World Bank, CSR is defined as a "business commitment to contribute to sustainable economic development by working with employees, their families, the local community, and the public to improve their quality of life in ways that are good for business and for development." The Corporate Responsibility Index states that corporate social responsibility is achieved when "business adjusts all of its practices to ensure that it operates in a manner that meets, or exceeds, the ethical, legal, commercial, and public expectations that society has of business."

Capital Adequacy Ratio (CAR)

CAR is an important measure of a bank's financial health, indicating its ability to absorb potential losses and meet financial obligations. The importance of maintaining adequate CAR has been increasingly emphasized in recent years, especially with the implementation of Basel III regulations, which require banks to maintain a minimum CAR of 8% (Naoaj, 2023).

Return on Assets (ROA)

ROA is a profitability measure that describes a company's ability to efficiently generate profits from its total assets. The higher a company's average ROA, the more profitable it is (Ang, 1997). High asset returns indicate how well a company manages its assets to generate profits for each asset invested in the company. An increased ROA indicates better company performance, meaning shareholders can benefit from increased profits or dividends. This can attract the interest of investors or potential investors to invest their funds in the company (Gul et al., 2011).

Research Hypotheses

Based on the theoretical analysis above, we propose two hypotheses:

1. Hypothesis 1: CSR has a positive impact on bank financial performance.
2. Hypothesis 2: CAR has a positive impact on bank financial performance.

RESEARCH METHODOLOGY

This research employs a quantitative research method using secondary data from the Indonesia Stock Exchange (BEI) and the respective companies online sites. The criteria applied are (1) banking companies listed on BEI from 2019-2021; (2) banks with complete annual reports for the period 2019-2021; and (3) banks with sustainability reports based on the GRI Standard 2016 for the period 2019-2021.

The data analysis method used is multiple linear regression through the Eviews12 program. The variables used in this research are financial performance proxied by ROA as the dependent variable. CSR is proxied by the Corporate Social Responsibility Index (CSRI) based on the GRI Standard 2016, and the capital adequacy level is calculated using the Capital Adequacy Ratio (CAR) as the independent variable. Control variables in this study include leverage and firm size. The equation is as follows:

$$ROAit = \alpha + \beta 1. CSRit + \beta 2. CARit - \beta 3. LEVit + \beta 4. FSIZEit \quad (1)$$

RESEARCH RESULTS AND DISCUSSION

Out of the 46 banking industries listed on the Indonesia Stock Exchange (BEI), 14 banking institutions were selected as valid research samples. The research period spans three years, as indicated in the table below:

Table 1.
Research Sample

No	Kode	Nama Perusahaan
1.	BBCA	PT. Bank Central Asia Tbk
2.	BBRI	PT. Bank Rakyat Indonesia (Persero) Tbk
3.	BMRI	PT. Bank Mandiri (Persero) Tbk
4.	BBNI	PT. Bank Negara Indonesia (Persero) Tbk
5.	BRIS	PT. Bank Syariah Indonesia Tbk.
6.	MEGA	PT. Bank Mega Tbk
7.	BNLI	PT. Bank Permata Tbk
8.	BNII	PT. Bank Maybank Indonesia Tbk
9.	NISP	PT. Bank OCBC NISP Tbk
10.	BJBR	Bank Pembangunan Daerah Jawa Barat dan Banten Tbk
11.	BBTN	PT. Bank Tabungan Negara (Persero) Tbk
12.	BTPS	PT. Bank BTPN Syariah Tbk
13.	BJTM	Bank Pembangunan Daerah Jawa Timur Tbk
14.	BBKP	PT. Bank KB Bukopin Tbk

Source: Indonesia Stock Exchange (IDX)

In Table 2, it is evident that the mean value of ROA (Return on Assets) is only 1.57% of the total assets. The market can evaluate the banking sector for the period 2019-2021 quite positively, with an average CAR (Capital Adequacy Ratio) at a high level of 23.98%. However, the negative ROA indicates that the implementation of CSR (Corporate Social Responsibility) may not have been optimal, despite a disclosure rate of 47.26%.

Table 2.
Descriptive Statistic

	N	Mean	Median	Maximum	Minimum	Std. Deviation
ROA	42	1,573810	1,195000	9,100000	-4,080000	2,116895
CAR	42	23,985480	21,530000	58,270000	12,080000	9,001727
CSRI	42	0,472619	0,445000	0,740000	0,270000	0,128804
LEV	42	0,753333	0,840000	0,910000	0,140000	0,228672
SIZE	42	33,095950	33,000000	35,000000	30,000000	1,358075

Source: Data processing with Eviews 12

The results of model selection testing can be seen in Table 3, which is divided into three testing steps: "(1) Chow test, (2) Hausman test, and (3) Lagrange Multiplier (LM) test." The first test, the Chow test, is used to choose between the common effect model (CEM) and the fixed effect model (FEM). If the probability of the Chow test is < 0.05, FEM is selected; if the opposite is true, CEM is chosen. The second test, the Hausman test, determines whether FEM or the random effect model (REM) is more appropriate. If the probability of the Hausman test is < 0.05, FEM is selected; if the opposite is true, REM is chosen. The LM test is the final test conducted if the results of the first and second tests are conflicting, to decide between REM and CEM. If the probability from the LM test is < 0.05, then REM is selected; otherwise, CEM is chosen. The result of the Chow test for the ROA variable is < 0.05, indicating that FEM is chosen. The result of the Hausman test for the ROA variable is also < 0.05, which means that the ROA variable will use FEM, and there is no need to perform the LM test.

Table 3.
Results of The Model Estimation Selection Test

	Chow Test		*Hausman Test*		*LM Test*		
Variable	***Chi-square***	***Prob***	***Chi-square***	***Prob***	***Breush-Pagan***	***Prob***	**Model**
ROA	14,6220	0,0000	18,5852	0,0009			*Fixed effect model*

Source: Data processing with Eviews 12

Table 4 shows that CSRI (Corporate Social Responsibility Index) does not have a significant influence on ROA (Return on Assets). This is supported by previous research (Hutagalung & Harahap, 2016; Madugba & Okafor, 2016; Sari I & Andreas H, 2019), which assumes that CSR disclosure impacts company performance not in the short term but in the long term. This is because the costs of implementing CSR, which companies use as a long-term investment strategy, will flow back to the company as profits in the coming years.

The research results indicate that the ROA variable is negatively affected by CAR (Capital Adequacy Ratio). This aligns with studies (Abdurrohman et al., 2020; Sumarlin, 2016) that show test results indicating a negative impact of CAR on ROA. This means that the higher a bank's capital adequacy to withstand potential loss risks, the lower the ROA value. Banks with substantial capital may face difficulties in allocating their capital efficiently to achieve profits.

The research obtained an F-statistic value of 13.005 with a probability of F-statistic of 0.000 (<0.05). Therefore, CSRI and CAR variables have a significant simultaneous influence on the financial performance of banks, as proxied by ROA.

The Adjusted R-squared value is 0.8327, indicating that CSRI and CAR variables simultaneously account for 83.27% of the influence on financial performance as proxied by ROA. The remaining 16.73% is influenced by variables not included in this study.

CONCLUSION AND RECOMMENDATIONS

From the above discussion, it can be concluded that the first hypothesis is rejected. The disclosure of CSR does not have a significant impact on the financial performance of banks. This is due to the relatively new implementation of CSR in the banking industry in Indonesia, and its effects may not be immediately noticeable but require a longer time.

Furthermore, the second hypothesis is accepted, but it has a negative impact. The financial performance of banks, as measured by ROA, is negatively influenced by the adequacy of capital. This is because the allocation of banking capital in Indonesia from 2019 to 2021 has not been effectively utilized.

For future research, it is recommended to expand the research period and the sample size on a national and international scale. For banking companies with low CSR levels, it is suggested to consider corporate social responsibility more seriously, as a higher level of CSR can potentially have an impact on the financial performance of banks.

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