The Influence of CSR Programs on Financial Performance in the Banking Sector

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Abstract: The basis of the study is the idea that corporate social responsibility, or CSR, suggests that doing this kind of activity will help the company by establishing its reputation and generating positive community feedback. The purpose of the study is to determine how a company's financial performance is impacted by its commitment to Corporate Social Responsibility (CSR). This report includes research conducted in China, India, Indonesia, and Pakistan. This research indicates that Corporate Social Responsibility (CSR) activities lead to continual performance improvement. Using a meta-analysis methodology, this study investigates the connection between financial success and corporate social responsibility (CSR). Based on theoretical assertions and real facts from the literature, ascertain whether there is a favorable association between financial performance and corporate social responsibility (CSR). If the research results are specified correctly, researchers find that although Corporate Social Responsibility (CSR) does not have much positive impact on short-term financial performance, Corporate Social Responsibility (CSR) offers extraordinary long-term fiscal benefits.

Keywords: Corporate Social Responsibility (CSR), Financial Performance, Banking Companies

Introduction

Statutory regulations refer to Corporate Social Responsibility (CSR) as Social and Environmental Responsibility. This refers to a Limited Liability Company's (PT) obligation to act and participate in sustainable economic development to advance a beneficial environment and a higher standard of living for the PT and the local community, or society at large. The goal of attaining economic activities is closely tied to corporate social responsibility (CSR), which is linked to the company's obligation to society, the country, and the global community in addition to social responsibility concerns.

Detailed, comprehensive, and ongoing corporate social responsibility (CSR) disclosures made by businesses may enhance stakeholder communication and openness. The phrase "corporate social responsibility" The term "corporate social responsibility" (CSR) refers to the formal means by which a business can carry out its social responsibility. Corporate Social Responsibility (CSR) is defined by Bowen (2013:6) as the duty to adhere to established policies when making decisions or to pursue desired activities in the context of societal values and the objective sense.
In this sector, Corporate Social Responsibility (CSR). By integrating the concept of corporate social responsibility (CSR), research consistently shows that CSR initiatives have a positive impact on the working conditions of businesses, particularly those in Pakistan, Taiwan, China, Tanzania, and Bangladesh. Furthermore, literature highlights the existence of shifts in financial employment practices toward areas that more effectively support socially conscious businesses, positioning Corporate Social Responsibility (CSR) as a critical component of business strategies aimed at enhancing customer loyalty and competitive advantage.

Corporate social responsibility (CSR), according to Sari (2012), is a concept that compels the business community to take into account social and environmental concerns in addition to financial issues in order for company to grow sustainably. Beyond financial concerns lies the concept of Corporate Social Responsibility, or CSR. Goessling and Vocht (2007) state that corporate social responsibility, or CSR, is the business community’s obligation to be accountable to all parties involved, not just one.

There is a growing demand for research in emerging nations like Bangladesh and Pakistan, even though the majority of studies concentrate on industrialized nations. Furthermore, fast technology advancements and fierce competition provide special difficulties for the banking industry in nations like Tanzania, making financial performance a crucial differentiator. Corporate Social Responsibility (CSR) efforts have become a crucial component of growing profitability as businesses become more conscious of their social responsibilities. Nonetheless, further empirical investigation is still required to completely comprehend the influence of Corporate Social Responsibility (CSR) on consumer behavior, particularly in areas like the Middle East. Service quality is a crucial component of bank performance, but because it fluctuates, it may be challenging to measure (Hoffman and Bateson, 2002).

According to Glass (1981), a meta-analysis is a quantitative analysis that organizes a lot of information from a big sample using statistical methods in order to achieve certain goals. Meta-analysis is a statistical technique that focuses on effect size to analyze similar studies by previous researchers so as to obtain a quantitative combination of data. The data obtained is in a form that can be compared, such as mean, correlation coefficient, and odds-ratio which is then used as a reference for accepting or rejecting the research hypothesis. Meta analysis can also analyze the relationships and differences between variables in research clearly through calculating effect sizes.

Sustainable development is Corporate Social Responsibility’s (CSR) primary objective. If a company’s business procedures incorporate Corporate Social Responsibility (CSR), then this objective will be accomplished. To put it another way, a company’s operational procedures need to significantly improve the preservation of social and environmental quality. It is incorrect to see corporate social responsibility (CSR) as an endeavor apart from a business’s operational procedures. Because the application of corporate social responsibility (CSR) is not integrated into the company's primary activity, it does not significantly contribute to sustainable development (Walker, 2010). According to Durbin, Herz, Hunter, and Peck (2006), the primary demand placed on banking organizations in
relation to sustainable development is sustainable finance, or responsible financial business. Sustainable finance means that banking company financial projects consider social, environmental and ethical aspects.

The subject of this study is financial institutions. This is a result of the minor differences in business operations between banking and non-banking organizations. The commercial operations of banking institutions do not directly affect social or environmental issues. However, banking firms also indirectly affect society and the environment via their financial initiatives, which is why it is necessary for them to fulfill Corporate Social Responsibility (CSR). By investigating the connection between customer satisfaction and Corporate Social Responsibility (CSR) initiatives in the Saudi banking sector, this study seeks to close this knowledge gap and offer insightful recommendations for the creation of successful CSR plans within the sector.

Research Method

This study examines a number of studies on the relationship between customer happiness in the banking sector and corporate social responsibility, or CSR. A collection of statistical techniques called meta-analysis is used to link the quantitative findings of several studies and create a comprehensive synthesis of the empirical information that exists on a certain subject (Puspitasari & Airlanda, 2021).

A meta-analysis synthesizes empirical information about a particular issue by combining quantitative findings from several investigations. The extent of a connection or treatment impact is shown by the effect sizes used to represent the results of meta-analyses. Every research has an effect size, which is computed individually and then added together to get the total effect size.

Each effect’s effect sizes, statistical significance (z score, p value, and confidence intervals), variance, standard error, and heterogeneity were determined using the Comprehensive Meta-Analysis (CMA) Version 2 program (Faulkner SS, 2002). According to Epilepsy (2012), z represents the effect’s size in standard deviation units. At the p <.05 level, the result is statistically significant if the z score is greater than the crucial value (±1.96) (Fines L, 1994). P is a measure of the amount of evidence against the null hypothesis (H0) of no change or no effect; it also reflects the likelihood that the discovery was obtained by chance (Fischer RL, 2001). There is more evidence against H0 the smaller the p value. But according to Elstad KL (1989), the p value is not a good indicator of the effect’s power or size. Confidence intervals (CI) describe the degree of certainty associated with standardised mean effect size estimations by indicating the range of values likely to encompass the genuine impact. While a tight confidence range suggests strong precision, a broad confidence interval indicates low precision. The mean effect size is deemed statistically significant if the interval excludes zero (Epilepsy, 2012). For this investigation, 95 percent confidence intervals were computed.

Five prior research publications that were pertinent to the study’s issue were examined. The study was derived from international publications that were recognized by
Sinta 1–5. To locate pertinent research articles published in journals written in English, a thorough search was carried out utilizing digital databases including PubMed, Scopus, Corppermus, Ebsco, Doaj, Elsevier, Google Scholar, and Web of Science. Creating this diary involved a number of steps, including searching, reading, comprehending pertinent written works, and selecting dependable data sources. We will examine how Corporate Social Responsibility (CSR) affects financial performance using data from these five publications.

**Result and Discussion**

Five papers from different journal sources were used to do research on how corporate social responsibility affects financial performance. Research-related subjects Chin-Huang Lin (2009), Samira (2018), Juliana (2016), Liu Wu (2020), and Nadeem (2012) were all included in the meta-analysis. To evaluate the association between variables in a specific research, meta analysis is performed. The study is centered on certain engineering research goals. Data were collected from the research population/sample using a particular analytic methodology.

Examining the impact of corporate social responsibility (CSR) on financial performance is the primary goal of the study project, which has a 45% ratio of CSR to financial performance. With the goal of producing solid empirical evidence on the relationship between the influence of corporate social responsibility and financial success, this phase demonstrates greater accuracy by measuring the impact of financial performance in detail using statistical methods and quantitative models. Following the phases of data collection and descriptive analysis, the link between the impact of corporate social responsibility and financial success is identified, with the second ratio being 30%. The third ratio, which stands at 25%, discusses tactics and suggestions that the company may immediately put into practice in order to provide a realistic study of how corporate social responsibility is applied to financial success. In general, the goal of this research is to offer a comprehensive knowledge of how corporate social responsibility affects financial performance.

The factors examined encompass 10 major areas, with five independent variables and five dependent variables, according to the findings of a meta-analysis conducted across five publications. With a contribution of 39%, Corporate Social Responsibility (CSR) is the primary emphasis among independent variables. Financial performance comes in second with 5%, and business image comes in third with 6%. With a ratio of 35%, financial performance is the primary dependent variable, followed by corporate social responsibility (CSR) at 4% and business image at 2%. The intricacy of the link between financial performance and other factors in the research setting is reflected in these results, underscoring the significance of comprehending the different facets that affect company image and corporate social responsibility (CSR).

The diversity of research objects that focus on different banking sectors in different nations is demonstrated by the research on quality costs based on objects from five studies. With a total contribution of 10%, the banking sector in Pakistan leads the field in terms of
research objects, followed by that of China (10%), India (10%), and Indonesia (10%).

The meta-analysis's findings indicate that participants with prior knowledge of the banking industry were the study population and sample in the five journals' worth of high-quality cost studies. A significant proportion of the studies, up to 75% of them, relied on financial information as the major data source and employed secondary data in the form of company financial reports. As a result of differences in data gathering techniques, accounting departments were employed as secondary data sources in 25% of the research. While the use of secondary data illustrates the impact of corporate social responsibility on financial success, the decision to involve participants who are familiar with financial performance improves the applicability of study findings to quality factors.

Carrying doing research on the relationship between financial performance and corporate social responsibility (CSR), gathering information by examining data from five academic publications that concentrate on quality costs; A third of the work is accounted for by quantitative approaches, demonstrating the significance of having a thorough grasp of quality ideas as presented in associated literature. The primary technique that contributed the most, at 60%, was interviewing respondents who were aware of the impact of the banking sector’s financial performance. This approach was chosen since it allowed for direct information to be obtained. Ten percent of the study design is relational, ten percent is deductive, and ten percent is cross-sectional. This demonstrates how the method of gathering data through interviews contributes to our understanding of financial performance. Overall, these results mark the diversification of data collection techniques in the context of the influence of corporate social responsibility on the financial performance of the banking sector.

This Corporate Social Responsibility (CSR) program is one type of service that companies can provide to their customers, in order to respond to socio-economic changes and create a relationship of trust and loyalty between the company and its customers. Customer loyalty is the behavior of customers to make repeated purchases over a very long period of time for goods or services, and recommend to other people to purchase goods or services that they have consumed. (Khaeriani & Hasan, 2022).

The meta-analysis results show that in financial performance research from 5 journals, there are variations in the data analysis methods applied. Multiple regression analysis dominates with a contribution of 35%, indicating a tendency to explore complex relationships between variables in the context of service quality. Furthermore, descriptive analysis has a very significant role with the highest contribution of 55%, emphasizing an in-depth understanding of the characteristics and distribution of data related to customer loyalty. The use of exploratory analysis and explanatory analysis is 5% each, reflecting efforts to provide a clear statistical picture and understand explanatory factors that can influence Corporate Social Responsibility (CSR) on financial performance. Overall, these results illustrate a combination of data analysis techniques that can provide more comprehensive insight into the relationship between Corporate Social Responsibility (CSR) and other variables in various research contexts.
Discussion

Based on stakeholder theory, companies have obligations to all interested parties, including the government, society, the environment, political parties, and others, in addition to their shareholders. One way for companies to fulfill this obligation is through CSR initiatives. CSR initiatives can improve a company's reputation in the eyes of its stakeholders.

Corporate Social Responsibility (CSR) has proven to be a key element in effective business strategy in the banking sector, demonstrating a significant impact on customer satisfaction and loyalty in countries such as Peru, Indonesia, Pakistan, Saudi Arabia and India. Research in Peru reveals that Corporate Social Responsibility (CSR) increases customer loyalty through satisfaction and trust, with effective communication about Corporate Social Responsibility (CSR) initiatives being an important factor in building strong relationships between banks and customers. In Indonesia, research shows that Corporate Social Responsibility (CSR) improves the company's image, which then contributes to increasing customer satisfaction, confirming the important role of corporate image as a mediator in the relationship between Corporate Social Responsibility (CSR) and customer satisfaction. Similar results were found in Pakistan, where a positive corporate image strengthened the impact of Corporate social responsibility (CSR) on customer satisfaction and loyalty.

Corporate Social Responsibility (CSR) on Financial Performance in China

In addition to having a distinct socioeconomic and cultural context from western nations, China is becoming a more significant player in the global economy in terms of GDP growth (9.2% and 8% in 2011 and 2012, respectively) (Anggarini & Permatasari, 2020). In China, social transparency has become more and more important in the last few years (Kiswardhani & Ayu, 2021). Research on the evolution of social transparency and general social performance in China is scarce. China's big enterprises' CSR progress in 2007 was examined by Gao (2009). He noted that while China has the formal foundation to advance corporate social responsibility (CSR), several political, social, and economic restrictions meant that CSR was still in its infancy.

Corporate Social Responsibility (CSR) on Financial Performance in Indonesia

GCG started to cause worry in Indonesia in 1997, just around the time of the country’s economic downturn. One of the things that led to the economic crisis in 1997—the repercussions of which are still being felt today—was poor corporate governance (Manurung et al., 2019). Having recognized this, the government created KEP-117/MMBU/2002 about the Implementation of Good Corporate Governance Practices in State-Owned Enterprises in order to start introducing the idea of GCG inside the BUMN environment. GCG issues also frequently arise in the banking industry in Indonesia. This issue has the potential to lead to a number of financial scandals, such as instances of money laundering, fraud, burglary, and bank employee malfeasance. Thus, it is anticipated that the banking industry’s adoption of sound corporate governance will lessen the number of
instances stemming from financial scandals, assist in enhancing the internal control framework, boost shareholder and potential investor confidence, and—most importantly—improve financial performance. If a bank does well financially, it is seen to have strong governance (Kharismadani & Hendarti, 2020). This makes it possible to illustrate how GCG and banks financial performance are related.

**Corporate Social Responsibility (CSR) on Financial Performance in India**

Ultimately, we argue that potential reverse causality, missing variables, and endogeneity issues might make it challenging to separate the relationship between CSR and financial success. We perform a number of analyses to highlight the significance of this problem. We start with univariate tests, move on to a multivariate analysis that includes control variables that are known to be associated with our performance measures, and end with an instrumental variable two-stage least squares multivariate analysis to handle endogeneity and causality. We use location-based instruments in our instrumental variables method to account for the concentration of best-in-class neighboring enterprises. The literature that operationalizes location-based instruments to mitigate endogeneity issues (Karpoff, Schonlau, and Wehrly, 2017) and establishes relevance through a relationship between local CSR density and CSR engagement (Husted, Jamali, and Saffar, 2016) is the foundation for our choice of location-based instruments.

**Corporate Social Responsibility (CSR) on Financial Performance in Pakistan**

Credit rating organizations are now regularly surveying companies in Pakistan in order to accomplish stakeholder management and to further their own interests. Still, Pakistan's CSR situation is still in its infancy. Few businesses have a corporate social responsibility (CSR) strategy, and the majority of them are global corporations that follow their own guidelines and norms. Regretfully, it appears that the domestic business is either unaware of the advantages of corporate social responsibility or believes that there are no consequences involved in not adhering to these guidelines.

The domestic corporate sector's apathy was scrutinized in 1996. Waheed (2005) created a report for the RBI (Responsible Business Initiative) on CSR compliance in Pakistan using corporate data. The topic of sustainable development is gaining popularity, and empirical researchers are becoming more curious about how stakeholder management may enhance both financial and equity performance. Numerous groups have conducted research on the beneficial effects of corporate social responsibility (CSR) on a company's financial success. Studies by Chin-Huang Lin (2009), Samira (2018), Juliana (2016), Liu Wu (2020), and Nadeem (2012). The results of this research show a strong relationship between CSR success and financial performance. The relationship between CSR and financial performance provides benefits, as can be seen from the positive relationship between the two.
The Influence of Corporate Social Responsibility (CSR) on Financial Performance

An essential component of evaluating the company's overall performance is its financial performance, evaluating debt, liquidity, assets, and so forth first. A company's cash flow or flow of funds per transaction, profitability, liquidity, financial and investment structure, and shareholder ratio are just a few of the numerous indicators that may be used to assess its financial performance (Price and Mueller, 1986; Venkatraman and Ramanujam 1986). Because it serves as the foundation for decisions made by both internal and external stakeholders, financial performance is a critical component of the organization. As a result, businesses must evaluate their financial performance. As stated by Fahmi (2012:2).

The results of this research are in line with research conducted by Krisztina (2020), Florian (2021), Guangyou (2021), Stefanie (2022), dan Amrou (2020). The results of his research show that CSR has a positive effect on company financial performance. This shows that the higher the quality of good service, the more it will affect profitability.

Overall, the findings from these five journals emphasize that investment in Corporate Social Responsibility (CSR) programs not only strengthens the company’s image but also builds stronger and more trusted relationships with customers. Banks are advised to utilize information technology for transparent communication about their Corporate Social Responsibility (CSR) activities, ensuring that messages are clear and can increase positive customer perceptions. Adapting Corporate Social Responsibility (CSR) programs to suit local contexts is also critical, given the varying impacts across countries and situations. Thus, effective integration of Corporate Social Responsibility (CSR) into bank management strategies can significantly improve financial performance and profitability, thereby creating a sustainable competitive advantage in the global banking industry.

Conclusion

The conclusions from these five journals show that Corporate Social Responsibility consistently has a positive impact on the company’s financial performance and profitability. Research in countries such as Pakistan, India, China and Indonesia reveals that Corporate Social Responsibility (CSR) can increase trust and financial performance, which in turn strengthens bank profitability. Corporate image has proven to be an important mediator in this relationship, with Corporate Social Responsibility (CSR) effectively improving customer perceptions and strengthening their relationship with the bank. In addition, effective communication regarding Corporate Social Responsibility (CSR) initiatives and adaptation of programs to local contexts are also key factors in achieving positive results. Therefore, banks around the world are advised to continue investing in strategic and well-communicated Corporate Social Responsibility (CSR) programs to build strong and sustainable relationships with their customers, thereby creating a significant competitive advantage in the banking industry. This is because the banking sector continues to expand its social responsibility programs and increase experience which will improve the company’s financial performance.
References


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