



The influence of the implementation of corporate social responsibility (csr) on the financial performance of Indonesian banks

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ABSTRACT

Nowadays, Corporate Social Responsibility (CSR) has drawn the attention of the international community (not only from developed countries but also from developing countries). This is shown by many attempts to implement a sustainable CSR concept at international level, with good responses from developing countries. This is related to problems such as global warming, depletion of the ozone layer, and pollution that threatens the sustainability of society and the environment and eventually dangers the perpetuation of human life. Hence, it is appropriate for companies to have social responsibilities. But, unfortunately, to implement CSR in a company needs a high cost. This has become one of the obstacles for a company management that has tended only to pay attention to their financial performance to adopt CSR in their business strategy. The purpose of this research is to gather an empirical evidence of CSR influence in Indonesia BUMN's bank 2001-2008's at company financial performance which is measured by Return On Equity (ROE). The data used is the allocation of CSR costs at BUMN's banks in Indonesia and the calculation of the ROE ratio for the period of year 2001 to 2008, what is got from the financial statements of each bank. Analysis with simple regressions shows that CSR has a significant effect on ROE

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1. INTRODUCTION

One interesting issue that is currently the center of attention is a problem related to ethics and corporate moral responsibility for its existence in society, which is known as Corporate Social Responsibility (CSR) (The Independent, 2005 in O'Regan, 2006, p.417 & Barnett, 2005). Nugroho (2006) in Zuhroh (2006) formulates CSR with a triple bottom line: people, planet and profit. The triple bottom line measures financial, social and environmental performance that focuses on sustainability, so that businesses do not only pay attention to profits but also pay attention to people and the planet.

The international community's concern for sustainable CSR is demonstrated by the existence of several efforts made at the international level in describing and implementing the concept of sustainable CSR. One of the concepts was the launch of Socially Responsible Investment (SRI) in the

mid-1990s. The SRI concept has succeeded in channeling global funding, where at the end of 2003 there were recorded funds of 34 billion Euros.

Another example of efforts to implement sustainable CSR is the Extractive Industry Transparency Initiative (EITI). EITI is an initiative of the British government and is welcomed by the Indonesian government and dozens of other developed and developing countries, to increase the transparency of financing and receipt of funds in the extractive industry sector. Meanwhile, the Global Reporting Initiative (GRI) is an effort at the international level to obtain more detailed information than just a company's financial performance, including the impact of their business activities on environmental sustainability and the welfare of local communities (Purwati, 2006).

Of the three concepts as an effort to translate and implement sustainable CSR, it shows that there is great support from the international community, both developed and developing countries, for the concept of CSR. However, it should be remembered that a strong position in terms of controlling capital makes companies far more powerful than the State. In Indonesia, the discourse on CSR began to surface in 2001, but before this discourse surfaced, many companies had implemented CSR and very few disclosed it in a report. In 2005 there were only 27 companies that provided reports on their CSR activities. This is possible because we do not yet have supporting facilities such as: reporting standards, skilled personnel (both report preparers and auditors).

One example of implementing Corporate Social Responsibility (CSR) in Indonesia is the Partnership and Community Development Program (PKBL) at BUMN institutions in Indonesia. PKBL is a program for fostering small businesses and empowering environmental conditions by BUMN through the use of funds from BUMN's share of profits. The amount of profit provision for program funding is a maximum of 2% of net profit for partnership programs and a maximum of 2% of net profit for community development programs.

According to Tandelilin (2001: 240), company performance can be measured using Return On Equity (ROE), which is an important indicator for investors to assess the company's prospects in the future by looking at the company's profitability growth. Weston and Brigham (1993:305) argue that with ROE, investors or owners can see the rate of return on investment as measured by comparing net income to common stock equity.

From the table above, the net asset value of equity funds has increased every year from 2004 to 2007. The net asset value of equity funds in 2007 was the highest compared to other types of mutual funds, amounting to Rp 34 trillion. When compared to money market mutual funds, which resulted in a decrease in net assets in the period 2004 to 2007, investment in equity funds promises attractive returns compared to other types of mutual funds. This shows that investors are starting to switch to investing in equity funds.

The formulation of the problem used in this research is: does the implementation of corporate social responsibility (CSR) have a significant effect on the financial performance of state-owned banks in Indonesia as measured by ROE?

2. RESEARCH METHOD

This research is a hypothesis testing research, which examines the effect of implementing Corporate Social Responsibility (CSR) on the financial performance of state-owned banks in Indonesia. This type of research investigation is causal research (causal study), namely the independent variables cause variations in the dependent variable (Uma Sekaran, 2003, p.126). The research method is field experiments, namely looking at the influence or causal relationship between variables (Uma Sekaran, 2003, p.130).

The data used in this study is secondary data in the form of financial reports contained in the Bank Indonesia (BI) directory. Data collection was carried out by tracing annual reports and social responsibility information (CSR) of selected banks as samples. The sampling technique was carried out in the form of probability sampling. The selected sample is state-owned banks or state-owned banks in Indonesia.

The research hypothesis:

Ho = CSR has no significant effect on the financial performance of state-owned banks in Indonesia as measured by ROE.

Ha = CSR has a significant effect on the financial performance of state-owned banks in Indonesia as measured by ROE.

Data processing was performed using statistical analysis using the SPSS (Statistical Program for Social Science) version 15.0. The author uses statistical analysis using cross-sectional data. The data contains 5 observations on 2 variables.

The two variables observed are as follows:

1. The independent variable or independent variable studied is the implementation of Corporate Social Responsibility (CSR), according to the Minister of State-Owned Enterprises Regulation No. PER- 05/MBU/2007 CSR (X) is measured by:

$$\text{CSR} = 4\% \times \text{Net Income}$$

2. And the dependent variable studied is company performance as measured by ROE (Y). ROE calculation is as follows:

$$\text{ROE} = \frac{\text{Laba bersih}}{\text{Total Modal}}$$

Classic assumption test

Normality test

The results of the normality test using the Kolmogorov Smirnov test show that the significance level of the CSR (X) and ROE (Y) variables is 0.099 and 0.508, meaning that the CSR (X) and ROE (Y) variables are normally distributed because asymp.sig (2 tailed) is larger from 0.05. The normality test can also be done by looking at the normal probability plot, the normal probability plot which shows that the data is normally distributed because it is spread around the line.

Heteroscedasticity Test

The Glejser test shows that the AbsUt significance value is 0.137 or greater than 0.05, this indicates that there is no heteroscedasticity in the study because the independent variable does not statistically significantly affect the dependent variable on the Absolut Ut value (AbsUt) or a significance level above 0.05 (Imam Ghozali, 1999). Heteroscedasticity test can also be done by looking at the scatterplot. Scatterplot shows that there is no clear and regular pattern on the graph plot, so it can be indicated that in this study there is no heteroscedasticity or residual variance from one observation to another is fixed or homoscedasticity.

Statistic test

Coefficient of Determination

The R square of this research is 0.206 or 20.6%. This shows that 20.6% of the ROE variable can be explained by the CSR variable and 79.4% explained by other factors not included in the model.

T test

The results of the regression coefficients show that the significance level of CSR is 0.003 or less than 0.05. This indicates that CSR has a significant influence on ROE, so that Ho is successfully rejected. In this study it was statistically proven that CSR has a significant influence on the financial

performance of state-owned banks in Indonesia, thus it can be said that every increase in CSR of 1 million Rupiah per year causes an increase in ROE of 1% for the 2001-2008 period.

Discussion

In this study, it is statistically proven that CSR has a significant influence on the financial performance of state-owned banks as measured by ROE (H_0 is rejected), with a significance level of 0.003 or less than 0.05.

3. CONCLUSION

Based on the analysis and discussion it can be concluded that Corporate Social Responsibility (CSR) has a significant effect on the financial performance of state-owned banks in Indonesia as measured by Return On Equity (ROE). State-owned banks in Indonesia that implement CSR have a significant influence on their Return On Equity (ROE). State-owned banks in Indonesia that implement CSR have a significant influence on their Return On Equity (ROE), the results of the study show a determination test (R^2) of 0.206, meaning that 20.6% of the variation in ROE values can be explained by CSR, while 79.4% is explained by other factors that not included in the model, this research can be used as one of the considerations for investors to invest in banks that have a CSR commitment, because the implementation of CSR will lead to an increase in investment returns expected by investors, this research is also useful for bank management so that it can better implement CSR effectively, where it can be used to increase bank awareness of the social environment, so that it is hoped that banks can also compete openly with other multinational banks in facing global competition. input in improving the quality of existing standards and regulations.

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