Disclosure of Sustainable Finance in Indonesian Banking from Institutional Theory Perspective

Ni Luh Putu Sri Purnama Pradnyani1, I Wayan Suartana2, Maria Mediatrix Ratna Sari3, I Gusti Ayu Nyoman Budiasih4

1sri.purnama@student.unud.ac.id,
2suark15@yahoo.com, 3maria.ratna65@unud.ac.id,
4Iganbudiasih17@gmail.com
Faculty of Economics and Business, Udayana University

Abstract: This study focuses on the objective of revealing the implementation of Corporate Social Responsibility (CSR) and its implications for financial performance strengthened by corporate governance in the Indonesian banking sector from 2017-2021. CSR is measured by social and environmental performance, financial performance is measured by return on assets and CG is measured by the board of directors. The research approach uses a quantitative approach using secondary data, namely annual financial reports, annual reports and published bank sustainability performance. The study population consists of 43 banks listed on the Indonesia Stock Exchange. The analytical tool used is Partial Least Square (PLS). The results show that CSR has a positive effect on bank financial performance and corporate governance strengthens the influence of CSR on financial performance.

Keywords: Corporate social responsibility, corporate governance, financial performance, institutional theory.

Introduction

Financial performance is an analysis carried out to see the extent to which a company has implemented it using financial implementation rules properly and correctly (Fatihudin et al., 2018; Khoerunisa, 2019). To analyze the financial performance of a company, a company can review the financial statement data, with the aim that the financial statements that have been made are in accordance with the application of generally accepted rules in the world of accounting, so that the results of the financial statements can be accounted for. Financial performance is determined by using financial statements with profitability to measure the level of effectiveness of the company's management as indicated by the amount of profit generated from sales and investment. (Boyoh & Sinabutar, 2021). The better the profitability ratio, the better it describes the company's high ability to earn profits (Alarussi, 2021). The increase in company profits is also influenced by CSR practices and disclosures. The company's business in addition to obtaining high profitability, the company also provides benefits and pays attention to the welfare of stakeholders, because stakeholders play an important role in the sustainability of a company's business.

The implementation of CSR practices is one of the company's strategies to benefit and prosper stakeholders (Humanitisri & Ghozali, 2018). The company's focus on CSR can attract investors to invest so that it can lead to higher company financial performance(Alexander, 1978), considering that investors are now aware of the importance of social, environmental and economic issues. The company considers that reputation is a factor to be maintained and protected (Danciu, 2013). Some authors also argue that greater investment in companies with better social performance (Teoh & Shiu, 1990). Eccles et al., (2017) concluded that it is very important to invest in CSR. Companies that do so have higher financial performance, create greater value for all their shareholders, and companies gain loyal customers and more committed employees (Gaio & Henriques, 2020). One type of industry that is often debated in the role of CSR on financial performance is banking. Scholtens (2008) states that banks are socially responsible for providing rewards to investors, without ignoring the expectations of society. In this case, because of the relationship between corporate social responsibility and reputation (Margolis et al., 2012; Pérez & del Bosque, 2015), increasing attention has been devoted to the impact of CSR on the financial performance of banks (Esteban-Sanchez et al., 2017; Shen et al., 2016).

Banks have an important role as financing managers in economic development, so they need to respond positively to environmental and social changes (Beck & Demirgüç-Kunt, 2009; Mohamed & Salah, 2016; Scholtens, 2011). This has an impact on almost the entire financial services industry throughout the world, to maintain aspects related to the environment and social in the context of providing credit/financing. Perez & del Bosque (2012) states that banking institutions must provide various legal, economic, ethical and policy services. Bank Indonesia Circular No. 15/28/DPNP concerning Asset Quality Assessment of Commercial Banks, encourages banks to consider environmental feasibility factors in assessing a business prospect. Bank Indonesia requires business actors who apply for funding to banks for environmental feasibility assessment of business activities in accordance with government regulations. In the end, it is limited by the emergence of obstacles and regulations that require social and environmental responsibility in business processes. OJK Regulation No.51/POJK.03.2017 concerning the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Public Companies strengthens previous government regulations. This has an impact on banking business processes, which not only imposes environmental aspects on lending but also on bank soundness activities. Institutional theory states that the social environment can significantly influence the development of the formal structure in an organization, which is often stronger than pressure from the market. These developments are related to the features of the social structure that reflect the impact of norms, rules, and routines as imposing guidelines in an organization which is often stronger than pressure from the market. These developments are related to the features of the social structure that reflect the impact of norms, rules, and routines as imposing guidelines in an organization which is often stronger than pressure from the market. These developments are related to the features of the social structure that reflect the impact of norms, rules, and routines as imposing guidelines in an organization (Kuppi, 2013). Understanding of institutional pressures encourages banks to adapt to sustainability regulations in order to create sustainability norms. Companies generally carry out an isomorphic behavioral process from institutional theory to adopt, and adapt operations to the surrounding environment (DiMaggio & Powell, 1983).

This study also uses Corporate Governance as a moderating variable which is proxied using the board of directors. Corporate governance as a moderating variable in this study is expected to strengthen the relationship between CSR disclosure and company performance. Financial performance is a measure of the success of the implementation of financial functions and this is very important, both for banks and for all stakeholders. The importance of assessing financial performance achievement by analyzing financial statements and the bank's concern for the performance of the social environment. The more complex the activities of bank management, the greater the need for good corporate governance practices to ensure that bank management runs well. This study tries to contribute to the disclosure of sustainable finance in Indonesian banking through the application of institutional theory in the development of a theoretical framework. The role of stakeholders is very important in influencing the adoption of CSR. Based on the existing literature this study proposes that different stakeholder pressures can have a positive influence on CSR adoption. This study fills the gap in research on CSR disclosure and implementation on financial performance, especially in the Indonesian banking industry.

Research methods

This study uses a quantitative approach using secondary data obtained indirectly from third parties through intermediary media with various available sources. The data was obtained from the Indonesia Stock Exchange website (www.idx.co.id). Data processing is carried out using path analysis assisted by WarpPLS software. Partial Least Square (PLS) is a multivariate statistical technique that can handle many response variables and explanatory variables (Rehearsal & Kowalski, 1985). In this study, the population used is 43 banks and as many as 22 banks are obtained as samples. For the sampling technique using the purposive sampling method, the criteria aspects of all banking sector companies and recorded on the IDX in 2017-2021 are reporting sustainable performance and not experiencing losses.

Results and Discussion

1. Outer Model Test, Composite Reliability and Cronbach Alpha

There is no outer loading value below 0.5, so all indicators are declared feasible or valid for research use and can be used for further analysis. Composite reliability of all research variables > 0.7. These results indicate that each variable has met composite reliability, so it can be concluded that all variables have a high level of reliability. The table shows the Cronbach alpha value of each research variable > 0.6. Thus these results can indicate that each research variable has met the requirements of the Cronbach alpha value, so it can be concluded that all variables have a high level of reliability.

Table 1 Outer Model Test,Composite Reliability and Cronbach Alpha

Variable	Outer Loading	Composite Reliability	Cronbach Alpha
CSR (X)	1,000	1,000	1,000
ROA (Y)	1,000	1,000	1,000
CG(Z)	1,000	1,000	1,000

2. Discriminant Validity (Discriminant Validity)

Table 2 Output Correlations among Latent Variables with Square Roots of AVEs

Variable	X	Y	Z
CSR (X)	(1,000)	-0.027	-0.085
CG(Z)	-0.019	(1,000)	0.966
ROA (Y)	-0.085	0.966	(1,000)

3.*Goodness Of Fit Test*(Inner Model)

Table 3 R-Square . Value

Variable	R-Square Value
ROA	0.054

The R-Square value for the ROA variable is 0.054. Obtaining this value explains that the large percentage of ROA is influenced by CSR and CG.

Table 4 Q-Square . Value

Variable	Q-Square Value
ROA	0.547

The Q-Square value of the ROA variable is 0.547. This shows the magnitude of the diversity of research data that can be explained by the research model is 54.7%. Thus, from these results, this research model can be declared to have a fairly good goodness of fit.

Hypothesis test

Table 5 Tabulation of Estimation Results from the Research Model

Variable	Path Coefficient (β)	p-value	Note:
CSR → ROA	0.45	0.01	Significant
CSR → GCG→PBV	0.27	0.01	Significant

The results of the hypothesis test show that the path coefficient value is 0.45 and the p-value is 0.01, which means that CSR has a positive and significant effect on ROA in go public banking companies listed on the Indonesia Stock Exchange for the 2017-2021 period. The estimation results of path coefficients to test the strength of the influence between the independent variables on the dependent variable by including the role of the moderating variable are CG (Z), CG moderates the effect of CSR (X) on ROA (Y). The value of the CSR variable moderated by CG shows a significance value of 0.01 < 0.05 which is significant in a positive direction. So it can be concluded that the GCG variable is able to moderate (strengthen) the influence of CSR on ROA with a Quasi moderating type, namely a variable that moderates the relationship between the independent variable and the dependent variable which is also the independent variable.

The Effect of CSR on Financial Performance

CSR has an effect on financial performance. The results of proving the first hypothesis prove that CSR has a positive and significant effect on financial performance. This shows that the higher the level of CSR disclosure, the higher the financial performance. The company's obligation to carry out CSR is regulated in the Law on Limited Liability Companies No. 40/2007 concerning the implementation of CSR. The implementation of CSR makes the banking image better so that consumer loyalty becomes higher. Increased consumer loyalty has an impact on the level of income and profitability of banks, meaning that the higher the financial performance. The company is not only concerned with the interests of the company but also the interests of the government, society, consumers, and suppliers. Good relations with the community can be through social responsibility or CSR (Ermayanti, 2019). CSR has an important role to improve financial performance as a result of increasing bank income by using several social responsibility activities in the local environment. CSR disclosure has an effect on financial performance, which means that investors in Indonesia have considered corporate social responsibility reports so that the need for social responsibility information is a material consideration for investment decision making. The results of this study are in line with CSR disclosure has an effect on financial performance, which means that investors in Indonesia have considered corporate social responsibility reports so that the need for social responsibility information is a material consideration for investment decision making. The results of this study are in line with CSR disclosure has an effect on financial performance, which means that investors in Indonesia have considered corporate social responsibility reports so that the need for social responsibility information is a material consideration for investment decision making. The results of this study are in line with Alexander (1978) and Humanitisri & Ghozali, 2018) which explains that CSR disclosure is the company's competitive advantage so that it is expected to increase company awareness in implementing and disclosing CSR activities carried out. The results of this study are in line with institutional theory which shows that banking social performance due to coercive pressure, namely the government as regulators and policy makers through OJK Regulation No.51/POJK.03.2017 which requires LJK Banking to disclose sustainable performance to stakeholders. Disclosure of CSR in the annual report strengthens the good name of the company and becomes one of the considerations that investors and potential investors pay attention to when choosing an investment location because they consider the company to give a good name to the community if the company does not only pursue profit but has paid attention to the environment and society.

CG Strengthens the Effect of CSR on Financial Performance

Based on the results of hypothesis testing, it is found that CG as proxied by the board of directors can moderate the relationship between CSR and financial performance as proxied by ROA. Disclosure of banking CSR increases profits in firms affected by the board of directors. In other words, management decisions in investing are not only based on the high financial performance of a number of companies in a certain period. So that CG is able to be a moderating variable in the relationship between CSR and financial performance. The obligation to implement CG in the banking sector was also initiated by Bank Indonesia (BI) on January 30, 2006. BI issued guidelines for the implementation of good corporate governance for banks, namely PBI No. 8/4/PBI/2006 concerning the Implementation of Good Corporate Governance for Commercial Banks. BI as the banking authority realizes that the increasingly complex risks faced by banks require the implementation of GCG practices with higher quality. With this regulation, BI wants to achieve the goal of improving bank performance, protecting the interests of stakeholders and increasing compliance with applicable laws and regulations and generally accepted ethical values in the banking industry. Financial performance is a measure of the success of the implementation of financial functions and this is very important, both for investors and for the company concerned. The importance of evaluating company performance by analyzing financial statements has triggered the thoughts of company leaders that managing a company in the modern era with rapid technological developments is a very complex thing. The more complex the company's management activities, the greater the need for CG to ensure that the company's management runs well (Kabir & Thai, 2017; Permatasari & Widianingsih, 2020). The results of the study support the institutional theory that with coercive pressure through regulations issued by BI, banks implement GCG to strengthen the relationship between CSR implementation on bank financial performance.

Conclusion

Disclosure of Corporate Social Responsibility has a positive and significant impact on Company Value in public listed BUMN banking companies on the IDX for the period 2017-2021. This shows that the higher the level of CSR disclosure, the higher the value of the company. CSR disclosure from 2017-2021 is quite good because it has followed the standards issued by GRI. With the disclosure of CSR, stakeholders will give a positive assessment which is indicated by an increase in the company's stock price. This increase will cause the value of the company to increase. Corporate Governance strengthens the effect of Corporate Social Responsibility disclosure on firm value in publicly listed banking companies on the IDX for the 2017-2021 period. This is because the indicators of the board of directors are relatively high for disclosing social responsibility activities, thereby strengthening the influence of CSR on financial performance. This research is still limited to the disclosure of banking CSR, for further research can conduct research on industries that are not required to make sustainable financial performance reports based on government regulations such as the tourism industry.

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