

# Is Bank Financial Performance Affected By Corporate Social Responsibility? A Meta-Analysis

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## Is Bank Financial Performance Affected By Corporate Social Responsibility? A Meta-Analysis

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**Abstract.** This study investigates the impact of Corporate Social Responsibility (CSR) on the Financial Performance of Banks. A meta-analysis of the previous five studies showed that CSR activities as a whole had a positive impact on CFP, especially on Return on Equity (ROE) and Net Interest Margin (NIM). However, the influence of CSR on Return on Assets (ROA) is inconsistent. These findings show that CSR can increase bank profitability, but the effect is not uniform across all aspects of financial performance. This research makes an important contribution by integrating the findings from various studies and highlighting the strategic role of CSR in increasing financial and non-financial added value in the banking industry. The practical implication is that banks need to formulate and implement effective CSR strategies to achieve sustainable long-term financial goals and meet stakeholder expectations.

**Keywords:** Financial Performance, Corporate Social Responsibility Disclosure, Banking, Meta-analysis

### INTRODUCTION

Business performance is affected by their strategies and operations in both market and non-market environments. One of the strategies implemented is the disclosure of corporate social activities better known as Corporate Social Responsibility (CSR), Nyeadi et al. (2018) revealed the reasons why companies carry out CSR activities to build a positive image, gain legitimacy, adjust to opportunities, protect themselves from external challenges and threats, and optimize profits.

Corporate Social Responsibility (CSR) disclosure has become a major focus in the global industry in recent decades. Banks around the world have increasingly realized the importance of social, economic, and environmental responsibility in their operations. Banks that are committed to CSR not only meet legal and ethical obligations, but also build a good reputation in the eyes of the public, which can ultimately improve their financial performance. With increasing pressure from regulators and the public, banks must demonstrate their commitment to sustainability and social responsibility to maintain customer trust and loyalty.

The existing literature shows that CSR can have a positive impact on a bank's financial performance. Peong et al. (2018) shown that banks with higher levels of CSR likely to have better levels of profitability. This is due to the increasing trust and loyalty of customers who

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tend to choose banks with a good reputation in CSR. In line with this, corporate social responsibility (CSR) disclosure improves bank financial performance (Wu et al., 2017; Wei et al., 2021; Van Nguyen et al., 2022). This study highlights the importance of CSR disclosure as a factor that can improve financial performance.

However, not all studies show uniform results. Senyigit & Shuaibu (2017) discovered that the impact of CSR on financial performance differs depending on the country where the bank operates and the size of the bank. In developing countries, for example, the high cost of CSR implementation is often not offset by significant direct benefits. Khémiri & Alsulami (2023) also noted that during economic crises, CSR disclosure can help mitigate risks and improve banks' financial stability.

CSR in the banking sector is very important because it affects decision-making related to project financing. It may have a positive or negative impact on society (Rojas Molina et al., 2023). Understanding the factors that influence the development of CSR practices enables us to explore the variables that motivate responsible social initiatives. This study aims to use meta-analysis to identify the reasons for the development and disclosure of CSR practices, considering the results of previous research in the banking sector that are conflicting. CSR is important for the banking sector because these entities often have poor reputations and face increasingly difficult growth needs to meet, so CSR can be the optimal tool to achieve their noble goals.

This study integrates findings from five previous journals that discuss the influence of disclosure of banking CSR activities on their financial performance. Through a comprehensive analysis, this study seeks to answer the extent to which CSR activities can improve the financial performance of banks. Taking into account the mixed results of previous studies, this study makes an important contribution to understanding the correlation between Corporate Social Responsibility (CSR) and the financial outcomes within the banking industry. The results of the research are expected to provide deeper and practical insights for banks in developing and implementing effective CSR strategies to achieve financial and social goals.

## **RESEARCH METHODOLOGY**

In this study, the researcher applied the *Systematic Literature Review* (SLR) method with the PRISMA (*Preferred Reporting Item for Systematic Review and Meta Analysis*) approach (Page et al., 2021). SLR is the process of collecting, evaluating, and analyzing all available research evidence to answer a specific research question in a clear and focused

manner. (Kitchenham et al., 2009). *The Systematic Literature Review* consists of three stages, namely planning, implementation, and reporting of results (Arief & Abbas, 2021).

### Planning

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The initial stage in the Systematic Literature Review method is to identify the research question. In this study, the research questions used are:

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RQ: How does Corporate Social Responsibility affect bank's Financial Performance?

### Implementation

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The next stage in Systematic Literature Review, the process of collecting articles and selecting articles. In collecting this research literature, it uses the Scopus database and Harzing's Publish or Perish application version 8, as well as Mendeley References Manager as a literature data storage application. This research uses the keywords: "Corporate Social Responsibility" AND "Bank Financial Performance". The inclusion criteria for articles with the year of publication 2000-2023, topics related to keywords, are empirical research, and use English.

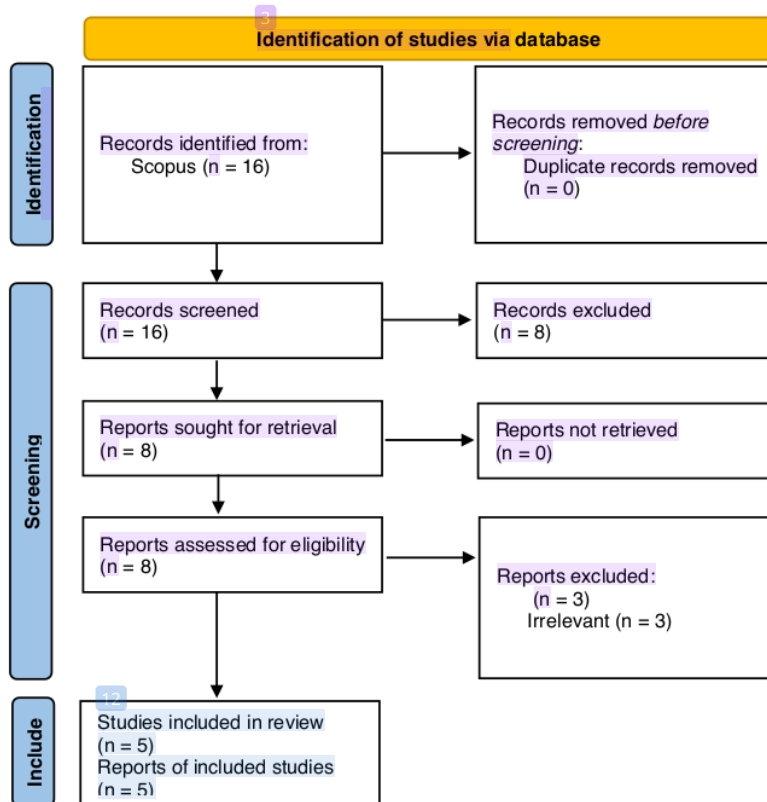


Figure 1. PRISMA flow diagram

Based on the literature selection process, 5 articles were found to be selected based on the suitability of the title, research topic, abstract, and research objectives to answer the research questions. A total of 11 more items were eliminated because they did not match the inclusion criteria. Furthermore, this process will continue to the stage of reporting and discussing the results.

**RESEARCH RESULTS**

Based on the results of collecting literature data using the Harzing's Publish or Perish application version 8 with the Scopus database, 16 articles were found relevant to the keywords "Corporate Social Responsibility" AND "Bank Financial Performance" for the publication period 2000-2023. After the selection stage based on the title, research topic, abstract, research objectives, and research design, as many as 5 articles met the inclusion criteria.

**Table 1. Summary of objectives, samples and findings of the study**

It	Author	Purpose	Sample	Findings
1	Wu et al. (2017)	Investigating the correlation between financial performance and CSR in the banking sector	194 banks accepting deposits across 22 countries from 2003 to 2009	There is a significant correlation between banks' engagement in CSR (Corporate Social Responsibility) activities and their financial performance.
2	Hafez (2015)	Evaluate the application of the concept of CSR by local, international, and Islamic banks in Egypt and identify the differences	34 banks in Egypt covering the categories of commercial local banks, international banks, and Islamic banks during the period 2005 to 2013	The relationship between the CSR practices of banks in Egypt and their financial performance is neutral when viewed in terms of ROA size. However, the relationship is positive when viewed from the perspective of ROE and NIM. This shows that banks' CSR practices do not

				have a negative impact on their financial performance
3	Wei et al. (2021)	Measuring the relationship between entrepreneurship, CSR, and innovation with the financial success of the banking industry	25 banks chosen from five countries—Pakistan, Qatar, China, France, and the United States—comprising a mix of Islamic and conventional banking institutions.	There is a significant relationship between entrepreneurship, CSR, and innovation and bank financial performance. In addition, there is a relationship between the size of the board of directors, the frequency of meetings, and the bank's financial performance
4	Peong et al. (2018)	Analyze the influence of intellectual capital, credit risk, and corporate social responsibility on the profitability of Islamic banks in Malaysia.	Ten Islamic banks in Malaysia between 2008 and 2016	CSR has a positive influence on the profitability of Islamic banks in Malaysia, as measured through ROE. Banks that have a higher level of CSR tend to show a higher level of profitability. CSR has no significant influence on ROA. This means that while CSR can increase ROE, it does not directly affect profitability measured through ROA.
5	Van Nguyen et al. (2022)	Studying the correlation between CSR and CFP	29 Vietnamese Banks from 2012 to 2019	CSR spending and disclosure improve the bank's financial

				performance. Responsibility to the environment and employees has a positive impact, while responsibility to the community has no significant effect
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Source: Research Data, 2024

### How does Corporate Social Responsibility affect Corporate Financial Performance in the banking sector?

According to the table mentioned earlier, engagements in CSR activities contribute positively to the of bank’s financial performance (Wu et al., 2017; Wei et al., 2021; Van Nguyen et al., 2022). In more detail, the results of Peong et al. (2018) revealed that banks that have a higher level of CSR tend to show a higher level of profitability. Notwithstanding the importance of CSR to the financial performance of banks, it is limited to ROE and NIM, on the contrary, CSR has a neutral influence on the bank’s CFP in the perspective of ROA in terms of Return on Asset (ROA) (Hafez, 2015; Peong et al., 2018).

This underscores the complexity of the relationship between CSR and financial indicators in the banking sector, illustrating that the effects of CSR may vary depending on the specific financial metric under investigation.

### How is the measurement of Corporate Social Responsibility (CSR) and financial performance of banking companies carried out?

Table 2. Summary of CSR measurement and financial performance

No	Author	CSR performance	Financial performance
1	Wu et al. (2017)	Ethical Investment Research Service (EIRIS) questionnaire	<ol style="list-style-type: none"> <li>Return on Assets (ROA)</li> <li>Return on Equity (ROE)</li> <li>Non-Performing Loans (NPL)</li> <li>Net Interest Income (NII)</li> <li>Non-Interest Income (NonII)</li> </ol>
2	Hafez (2015)	CSR score for each bank during the study period	<ol style="list-style-type: none"> <li>Net interest margin (NIM)</li> <li>Return on Assets (ROA)</li> <li>Return on Equity (ROE)</li> </ol>

3	Wei et al. (2021)	Corporate social responsibility is related to social and environmental concern	13 1. Return on Assets (ROA) 2. Return on Equity (ROE)
4	Peong et al. (2018)	Corporate Social Responsibility Disclosure Index (CSRDI)	5 1. Return on Assets (ROA) 2. Return on Equity (ROE) 3. Return on Investment (ROI) 4. Return on Capital Employed (ROCE) 5. Gross Operating Income Margin 6. Net Operating Income Margin
5	Van Nguyen et al. (2022)	The total CSRD index The environmental responsibility index The employee responsibility index The community responsibility index The total CSR expenditure The total corporate income tax paid during the fiscal year Amount spent on employees Amount spent on the community	19 1. Net interest margin (NIM) 2. Return on Assets (ROA) 3. Return on Equity (ROE)

Source: Research Data, 2024

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The measurement of CSR and the financial performance of banking companies is an important aspect. In this study, as presented in table 2 above, various methodologies have been used to measure CSR, as seen in the research of Wu et al. (2017) which used a questionnaire from the Ethical Investment Research Service (EIRIS) to assess the CSR dimension. Conversely, the financial performance of banking companies is assessed through indicators such as ROA, ROE, NPL, NII, and NonII.



Hafez's (2015) research involved assessing the CSR score for each bank during the study period, which was associated with financial performance such as Net Interest Margin (NIM), ROA, and ROE. A similar approach was also found in the research of Wei et al. (2021), where corporate social responsibility is assessed and linked to ROA and ROE. Meanwhile, Peong et al. (2018) used the Corporate Social Responsibility Disclosure Index (CSRDI) to measure the CSR dimension, and evaluated its correlation with ROA, ROE, ROI, ROCE, and various operating income margins.

Furthermore, research by Van Nguyen et al. (2022) illustrates the complexity of CSR measurement by considering CSR indices such as the total CSR index, environmental responsibility index, employee responsibility index, and community responsibility index. The study correlates these indicators with financial performance such as NIM, ROA, and ROE. Through this framework, the academic literature is able to provide an in-depth understanding of the impact of CSR on the financial performance of banking institutions, as well as the importance of integrating effective CSR strategies in achieving sustainable long-term financial goals. Thus, this study not only provides insight into the impact of CSR on corporate sustainability and reputation, but also highlights the strategic role of CSR in increasing financial and non-financial added value in the context of the global banking industry.

## **Discussion**

This study explores the correlation between Corporate Social Responsibility and bank's financial performance. Based on the analysis of 5 scientific articles, it was found that CSR positively impacts CFP, especially in terms of profitability and Net Interest Margin. Higher levels of bank's CSR tend to show higher profitability and better NIM.

However, some studies show a neutral relationship between CSR and Return on Assets (ROA). This shows that CSR does not directly increase the profitability of the bank as measured through ROA.

The influence of CSR on CFP may vary depending on the type of CSR activities carried out and the characteristics of the bank. Further research is needed to explore these factors and to better understand the causal relationship between CSR and CFP.

Overall, this study provides evidence that CSR can improve a bank's financial performance. Banks that want to increase their profitability and NIM should consider implementing effective CSR practices.

## CONCLUSION

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Overall, available evidence shows that CSR efforts have a favorable impact on bank financial performance, especially in terms of Return on Equity (ROE) and Net Interest Margin (NIM). However, the influence of CSR on Return on Assets (ROA) tends to be neutral. This indicates that while CSR can improve some aspects of a bank's profitability, its impact on all aspects of financial performance is not uniform. Banks that invest in CSR activities generally show better financial performance, especially in the long term.

In addition, the academic literature that presents the results of various studies emphasizes that CSR measurement in the context of banking companies is carried out through various methodologies. These studies consistently link CSR practices to key financial performance indicators such as ROA, ROE, NIM, and NPL. These findings show that the integration of effective CSR strategies is key to achieving sustainable long-term financial goals in the global banking sector.

Overall, this literature provides in-depth insights into how CSR not only positively impacts a company's financial performance, but also plays a strategic role in strengthening a company's reputation and sustainability in a global context. Follow-up research that expands this analytical framework can provide further guidance for practitioners and decision-makers in building and evaluating effective CSR programs, which in turn can increase the company's added value as well as meet the increasing expectations of stakeholders.

This study offers a significant insight into the link between Corporate Social Responsibility (CSR) and banks' financial performance on a worldwide scale, has some limitations that need to be considered. This study only includes studies published within a specific time period according to the inclusion criteria, so there may be other studies that have not been considered. By adding a journal recall database, it can increase the number of publications to be analyzed which can result in better conclusions.

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