

# **Financial Performance and Corporate Social Responsibility: An Empirical Study of Indonesian Islamic Commercial Banks (2020–2024)**

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**Abstract:** The goal of this study is to look at how financial success affects the disclosure of Corporate Social Responsibility (CSR) in Indonesian Islamic commercial banks between 2020 and 2024. Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) are all used to measure a company's financial success. A disclosure index based on Global Reporting Initiative (GRI) criteria is used to measure Corporate Social Responsibility (CSR). The method of analysis used is multiple linear regression on panel data from ten general sharia banks that are registered with the OJK. The results of the study show that ROA and ROE have a positive and significant effect on CSR disclosure, but NPM does not have a significant effect. This study shows how important financial achievement is for Islamic banks' social participation.

**Keywords:** Financial Performance; Corporate Social Responsibility (CSR); Islamic Commercial Banks.

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## **Introduction**

The concept of Corporate Social Responsibility (CSR) reflects a balanced interaction between companies and society in the effort to achieve interconnected goals. The role of the company is not only limited to efforts to maximize profits but also includes efforts to maximize utility. Responsibilities that are not only limited to economic and legal aspects but also include social responsibilities to the community, which go beyond both aspects. The function of business has a fundamental goal to constructively meet the needs of society in order to achieve satisfaction for the parties involved (Mardikanto, 2014). Lines that encompass economic, social, and environmental aspects (Syukron, 2015).

Corporate Social Responsibility (CSR) is the responsibility of companies towards the social and environmental impacts caused by their operational activities. In the banking sector, CSR plays a crucial role not only in building the company's reputation but also in enhancing public trust. CSR activities in Islamic banking are a natural part of how Islamic banks operate, based on their Islamic principles. Islamic banks, as financial institutions based on Islamic principles, have a moral and spiritual responsibility to implement CSR as part of ethical business practices (Wibisono, 2020). The concept of social responsibility in Islamic banks aligns with maqasid al-shariah, which emphasises the protection of religion, life, intellect, lineage, and property.

As public awareness of sustainability increases, CSR becomes one of the important indicators in assessing the integrity and social responsibility of companies, including Islamic banking. According to Grey, Owen, and Adams (2019), CSR reporting becomes a strategic tool in building transparency, accountability, and legitimacy for the company in the eyes of stakeholders.

In this context, companies with excellent financial performance tend to have a greater capacity to conduct and report CSR activities more broadly and comprehensively.

Corporate Social Responsibility (CSR) is a company's commitment to contribute to sustainable economic development by considering social and environmental aspects. In the research by Grey, Owen, and Adams (2019), CSR is defined as voluntary activities by companies that go beyond legal obligations and aim to create added value for stakeholders. CSR encompasses a variety of areas, ranging from environmental protection and community development to enhancing employee well-being. In the banking sector, CSR serves as a crucial strategy for building reputation and customer trust. To assess the level of CSR disclosure, many companies adopt global reporting standards such as the Global Reporting Initiative (GRI), which provides guidelines for businesses to transparently disclose their social and environmental performance. In the context of Islamic banking, CSR includes extra aspects, such as Islamic values like fairness, honesty, and blessings in business activities.

Previous research has studied the relationship between CSR disclosure and financial performance, particularly in the field of Islamic banking. Wibisono (2020) found that financial performance metrics such as ROA and ROE have a significant impact on the extent to which Islamic banks in Indonesia disclose CSR. He concluded that banks with better financial performance tend to allocate more funds for social activities. Setiawan and Rahmawati (2021) found that one of the main factors driving the implementation of CSR. Additionally, Nurhasanah and Ramdhan (2022) state that internal elements such as profitability have a greater influence than external elements like regulations or societal pressure. According to this research, the financial strength of banks is closely tied to their concern for social and environmental issues, particularly for sharia-based financial institutions.

Financial performance is an important indicator in evaluating a company's ability, including banks, to operate efficiently and profitably. In the context of banking, financial performance is not only viewed as the amount of revenue generated but also as the company's ability to manage assets, equity, and operational costs. According to Harahap (2020), financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) are the main indicators often used to measure financial performance. ROA reflects the company's ability to generate profit from its assets, ROE measures the extent to which the company can provide returns to shareholders, while NPM shows the company's efficiency in managing revenue after deducting all costs. These three ratios provide a comprehensive picture of the bank's financial health and serve as the basis for strategic decision-making by management and investors.

In the modern era, banks are not only evaluated in terms of operational efficiency and profitability but also their contribution to sustainable development. Therefore, it is important to understand how financial performance affects CSR commitment, especially amid the dynamics of the global economy and post-COVID-19 pandemic challenges. The period from 2020 to 2024 is a strategic timeframe to examine the impact of financial performance on CSR, as it reflects a time of economic recovery and increased regulations related to corporate social responsibility by OJK and Bank Indonesia.

Considering the existing background, this study aims to analyse the impact of financial performance, measured through ROA, ROE, and Net Profit Margin (NPM), on CSR disclosure in Islamic commercial banks in Indonesia during the period 2020–2024. The results of this study are expected to make a significant contribution to the development of CSR policies and

sustainability strategies in the Islamic banking sector, as well as serve as a valuable reference for academics, regulators, and practitioners.

## **Theoretical Review**

### **1. Financial Performance**

Financial performance is an important indicator used to assess the extent to which a company can efficiently manage its resources to achieve organizational goals. In the context of banking, financial performance is typically measured using financial ratios such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and efficiency ratio (BOPO) (Harahap, 2015). ROA and ROE reflect a bank's ability to generate profit from its total assets and equity, while BOPO indicates the level of operational efficiency in carrying out its activities. For Islamic banks, financial performance not only reflects profitability but must also demonstrate compliance with sharia principles in all business operations (Antonio, 2013).

### **2. Corporate Social Responsibility (CSR)**

Corporate Social Responsibility (CSR) refers to a company's commitment to contribute to sustainable economic development by taking social responsibility for its employees, local communities, and society at large (Kotler & Lee, 2005). In the banking sector, CSR encompasses various initiatives such as microfinancing, financial literacy programs, philanthropic activities, and environmental sustainability projects. For Islamic banks, CSR is not merely voluntary but forms an integral part of the *maqashid al-shariah* framework, which emphasizes a balance between profit and social responsibility (Dusuki & Abdullah, 2007). Islamic banks are obligated to channel funds such as zakat, infak, and sadaqah as part of CSR implementation based on Islamic values.

### **3. The Relationship between CSR and Financial Performance**

Numerous studies have shown a positive relationship between CSR implementation and improvements in a company's financial performance. CSR can enhance a bank's reputation, customer loyalty, and public trust, which ultimately leads to increased profitability (Margolis & Walsh, 2003; Wibisono, 2007). In the context of Islamic banking, CSR not only impacts economic outcomes but also contributes to achieving the social and spiritual objectives of financial institutions. A study by Haniffa and Hudaib (2007) found that CSR in Islamic banks reflects integrity and commitment to social justice values, which in turn strengthens stakeholder trust.

### **4. Islamic Banking in Indonesia**

Islamic banking in Indonesia has experienced significant growth since the enactment of Law No. 21 of 2008 on Islamic Banking. These banks operate based on Islamic principles that prohibit *riba* (usury) and emphasize justice, partnership, and social responsibility. The unique aspect of Islamic banking lies in the fact that its performance is measured not only by financial outcomes but also by the extent to which it fulfills its social responsibilities in supporting community welfare and promoting sustainable development (Ascarya & Yumanita, 2008). In other words, the integration of financial performance and CSR is a fundamental pillar in the business model of Islamic banks in Indonesia.

## **Method**

This study looks at how financial performance affects the reporting of Corporate Social Responsibility (CSR) in Islamic commercial banks in Indonesia from 2020 to 2024, using

numbers and analysis. The secondary data used are obtained from the annual reports and sustainability reports of ten Islamic commercial banks that consistently publish financial and CSR reports during the period. The independent variables in this study include Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM), while the dependent variable is the Corporate Social Responsibility (CSR) index measured based on the Global Reporting Initiative (GRI) guidelines. The data analysis method applied is multiple linear regression using SPSS version 26 software to test the influence of each financial performance indicator on the level of CSR disclosure in Islamic banks.

## Results and Discussion

### 1. Results

#### a. Descriptive Statistics

Descriptive statistics provide an overview of the data distribution for each variable analyzed. Here is a summary of the descriptive statistics of the financial performance data and CSR index of ten Islamic commercial banks during the period 2020–2024:

**Table 1.** Descriptive statistics of financial performance data and CSR index

| Variabel  | Minimum | Maksimum | Mean  | Std. Deviasi |
|-----------|---------|----------|-------|--------------|
| ROA       | 0.25    | 2.35     | 1.20  | 0.55         |
| ROE       | 2.10    | 15.80    | 7.95  | 3.45         |
| NPM       | 5.80    | 23.50    | 14.45 | 4.20         |
| CSR index | 0.40    | 0.88     | 0.67  | 0.12         |

From the table above, the average ROA value of 1.20 indicates that the bank's ability to generate profit from its total assets is considered satisfactory. The average ROE value of 7.95 reflects the bank's efficiency in generating profits relative to its equity. The average NPM of 14.45% reflects the net profit margin generated from total revenue. The CSR index shows an average of 0.67 on a maximum scale of 1, reflecting that the majority of Islamic banks are quite active in implementing and disclosing their CSR activities in accordance with GRI standards. These results align with Nurhasanah and Ramdhan (2022), which indicate that Islamic banks in Indonesia have been actively enhancing their social and environmental transparency.

#### b. Results of the Multiple Linear Regression Test

To determine the effect of financial performance on CSR disclosure, a multiple linear regression analysis was conducted with the following results:

**Table 2.** Results of the multiple linear regression test

| Variable       | Koefisien Regresi ( $\beta$ ) | t-statistic  | Signifikansi (p-value) |
|----------------|-------------------------------|--------------|------------------------|
| ROA            | 0.215                         | 2.567        | 0.012                  |
| ROE            | 0.134                         | 2.110        | 0.038                  |
| NPM            | 0.045                         | 1.023        | 0.309                  |
| R <sup>2</sup> | 0.472                         |              |                        |
| F-statistic    | 14.365                        | (Sig. 0.000) |                        |

The regression test findings indicate that the CSR index exerts a positive and substantial influence on the ROA and ROE variables, with significance values of 0.012 and 0.038, respectively (both below  $\alpha = 0.05$ ). This result suggests that elevated ROA and ROE values correlate with CSR

disclosures in Islamic commercial banks. The findings corroborate the studies of Wibisono (2020) and Setiawan & Rahmawati (2021), which assert that profitability and financial efficiency are the primary catalysts for improving corporate social responsibility. Companies exhibiting strong financial performance typically possess greater resources available for allocation to social and environmental initiatives.

The regression test findings indicate that the CSR index exerts a positive and substantial influence on the ROA and ROE variables, with significance values of 0.012 and 0.038, respectively (both below  $\alpha = 0.05$ ). This evidence suggests that elevated ROA and ROE metrics correspond with CSR disclosures in Islamic commercial banks. The findings corroborate the studies of Wibisono (2020) and Setiawan & Rahmawati (2021), which assert that profitability and financial efficiency are the primary catalysts for improving corporate social responsibility. Companies exhibiting strong financial performance typically possess greater resources available for allocation to social and environmental initiatives.

The coefficient of determination ( $R^2$ ) of 0.472 indicates that approximately 47.2% of the variation in the CSR index can be explained by the variables ROA, ROE, and NPM, while other factors outside the model also have an impact. The significant F-statistic ( $p = 0.000$ ) also indicates that this regression model can be used simultaneously to predict the impact of financial work on CSR.

## 2. Discussion

The results of the descriptive statistics provide a general overview of the financial performance and CSR engagement of Islamic commercial banks in Indonesia during the 2020–2024 period. The average Return on Assets (ROA) of 1.20 indicates that these banks were able to generate satisfactory returns from their total assets. Additionally, the mean Return on Equity (ROE) of 7.95% reflects a moderate level of efficiency in utilizing shareholder equity to generate profits. The Net Profit Margin (NPM), with an average of 14.45%, shows that Islamic banks managed to retain a significant portion of their revenue as profit. Meanwhile, the CSR index mean of 0.67 (on a 0 to 1 scale) suggests that a majority of these institutions have been relatively active in their CSR reporting and practices, in alignment with the Global Reporting Initiative (GRI) standards. These findings are consistent with the study by Nurhasanah and Ramdhan (2022), which confirmed that Islamic banks in Indonesia have increasingly prioritized social responsibility and environmental transparency as part of their organizational performance.

Furthermore, the multiple linear regression analysis supports the proposition that financial performance significantly influences CSR disclosure. Specifically, the regression coefficients for ROA ( $\beta = 0.215$ ,  $p = 0.012$ ) and ROE ( $\beta = 0.134$ ,  $p = 0.038$ ) indicate a statistically significant and positive impact on the CSR index. This implies that higher profitability—both in terms of asset utilization and equity return—contributes positively to CSR activities and disclosures. These results affirm the findings of Wibisono (2020) and Setiawan & Rahmawati (2021), who emphasized that firms with strong financial outcomes are more capable of allocating resources toward social initiatives, environmental sustainability, and stakeholder engagement. Financial robustness enables banks to expand CSR activities, not only as a compliance measure but also as a strategic tool to enhance public trust and institutional reputation.

Interestingly, the NPM variable showed no significant impact on CSR disclosure ( $\beta = 0.045$ ,  $p = 0.309$ ), suggesting that profit margin alone may not directly translate into CSR engagement. This finding highlights the possibility that operational efficiency (reflected by ROA and ROE) plays a more crucial role than sheer profit ratio in determining the extent of CSR disclosure. It may also

imply that managerial discretion and strategic orientation toward sustainability are more closely aligned with overall financial structure rather than isolated income measures.

The coefficient of determination ( $R^2 = 0.472$ ) suggests that 47.2% of the variability in CSR disclosure can be explained by the financial performance variables included in the model. While this shows a moderate explanatory power, it also suggests that non-financial factors such as corporate governance, institutional culture, and regulatory environment could be relevant in shaping CSR behavior—an area that future research could explore further. The significant F-statistic (14.365,  $p = 0.000$ ) confirms the robustness of the model and its reliability for simultaneous prediction.

Taken together, these findings contribute to the growing body of literature confirming the interconnectedness between financial performance and CSR practices, particularly within the framework of Islamic financial institutions that integrate social objectives into their business models. They reinforce the idea that financial and ethical responsibilities are not mutually exclusive but are mutually reinforcing dimensions of sustainable banking practices.

## Conclusion

This study demonstrates that superior financial performance of Islamic banks, as indicated by ROA and ROE, correlates with an increased commitment to CSR reporting. Nonetheless, net profit margin (NPM) is not the primary determining factor. This study demonstrates that superior financial performance of Islamic banks, as indicated by ROA and ROE, correlates with an increased commitment to CSR reporting. Nevertheless, the net profit margin (NPM) is not the primary determining factor. Future researchers should consider incorporating non-financial characteristics such as company size, institutional ownership, or regulatory pressure as determinants of CSR commitment. Researchers should include mediating variables, such as corporate reputation, stakeholder awareness, or management policy, that establish a connection between financial success and CSR.

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