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Original Research Article

The Effect of Corporate Social Responsibility, Deposit and Non Performing Financing on Profitability in Islamic Banks in Indonesia

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Abstract

The purpose of this study is to analyze the effect of Corporate Social Responsibility (CSR), Third Party Funds (DPK) and Non Performing Financing (NPF) on profitability (ROA) at Islamic Commercial Banks in Indonesia (ROA). The sample during this study was eleven Moslem business Banks in state for the 2014-2018 periods. The results showed that the variables CSR, TPF and NPF had partial and co-occurring result on ROA. The magnitude of the value of Corporate Social Responsibility (CSR) which is realized in the form of the use of benevolent funds can lead to reduced bank income. The expenditure of funds for CSR in accounting calculations is a burden on the bank so that it has an impact on reducing the amount of profit earned by the bank, thereby reducing the value of the ROA ratio. However, on the other hand, Islamic banks earn profits in the form of contributing to sustainable economic development by paying attention to corporate social responsibility and improving the quality of life of the community and the environment, especially those in the company's environment, thus CSR has nothing to do with company profitability.

Keywords: CSR, Islamic banks, ROA

INTRODUCTION

Indonesia is a country with the largest Muslim population in the world, so it is necessary to carry out all life activities in accordance with the rules set by Allah SWT. This makes the development of Islamic-based economics and business well-developed in Indonesia, which is marked by the emergence of various Islamic financial entities and institutions. Companies that apply sharia principles in their business activities are likely to attract many Muslim investors or other Muslim interested parties who want to invest and be involved in the company's business activities.

A bank's financial performance is a description of a bank's financial condition in a certain year, both in terms of raising funds and distributing funds. The bank's ability to profit is one indicator that the bank has good performance and has good prospects. The profit position generated by the bank can be seen in the income statement contained in the financial statements. Users of financial statements can view profit information from year to year and can calculate profit growth by calculating the difference between the current year's profit and the previous year's profit divided by the previous year's profit. By looking at profit growth, investors can make decisions about their investment, whether to continue investing or not.

The growth of Islamic banks in Indonesia encourages the birth of an ethical disclosure of social responsibility. As associate Islamic-based entity, Moslem Banks ought to listen to the setting and also the close community as a kind of concern and responsibility for the individuals. In accordance with Law no. 21 of 2008 article 7 "the legal form of a sharia bank is a Limited Liability Company", so that in terms of social and environmental responsibility, Islamic banks must refer to Law no. 40 of 2007 article 74 concerning limited liability companies (PT). Related to the need for disclosure of social responsibility in the sharia sector or known as Corporate Social Responsibility (CSR). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), which is an international organization authorized to set accounting standards, auditing, governance, and sharia ethics for Islamic financial institutions in the world, has established Corporate Social Responsibility items (Rosiana et al. 2015).

Corporate Social Responsibility consists of CSR standard items set by AAOIFI (Accounting and Auditing Organization for Islamic Institutions) and then further developed by researchers regarding CSR items that should be disclosed by an Islamic entity. The CSR index contains 6 (six) themes, including: investment and finance, products and services, employees, community, environment, and corporate governance. Every theme has indicators, a complete of 43 indicators.

The concept of CSR in Islam is more emphasized as a form of human piety to Allah SWT in the corporate dimension. The foremost applicable theory to reveal sharia-based company social responsibility is that the jurisprudence Enterprise Theory (SET). This is because in SET, Allah is the main source of trust. Meanwhile, the resources owned by the company are a mandate from God which includes a responsibility and a goal set by the Most Trustworthy. Companies are also responsible for humans and the environment or nature. In the Islamic perspective, it is explained that business transactions cannot be separated from the moral goals of society.

The extent of literature on Islamic banking divided into theoretical and empirical dimension. The earliest works dealing with the potential of Islamic banking include Mannan (1968)[17], Ahmad (1987)[2], Saeed (1996)[22] and Iqbal and Mirakhor (1999)[8]. These authors mentioned a good vary of institutional problems together with ideas and principles that ar subject to interpretation. Because of the rise in Islamic banking in these recent decades, it incorporate opportunities for the teachers to conduct study in analyzing its' monetary performance victimization monetary ratios. Some previous studies investigated performance of Islamic Banks and compare it with conventional banks performance (Samad, 1999[23]; Samad and Hassan, 2000[25]; Iqbal, 2001[7]; Rosly and Bakar, 2003[21]; Samad, 2004[24]; Kader et. al, 2007[10]; Widagdo and Ika; 2007[29]; Beck et al., 2010[5]; Jaffar and Manarvi, 2011[9]; Ansari and Rehman, 2011[3]; Wahidudin at al., 2012[28]; Merchant, 2012[18]; Zeitun, 2012[31]; Babatunde and Olaitan, 2013[4])

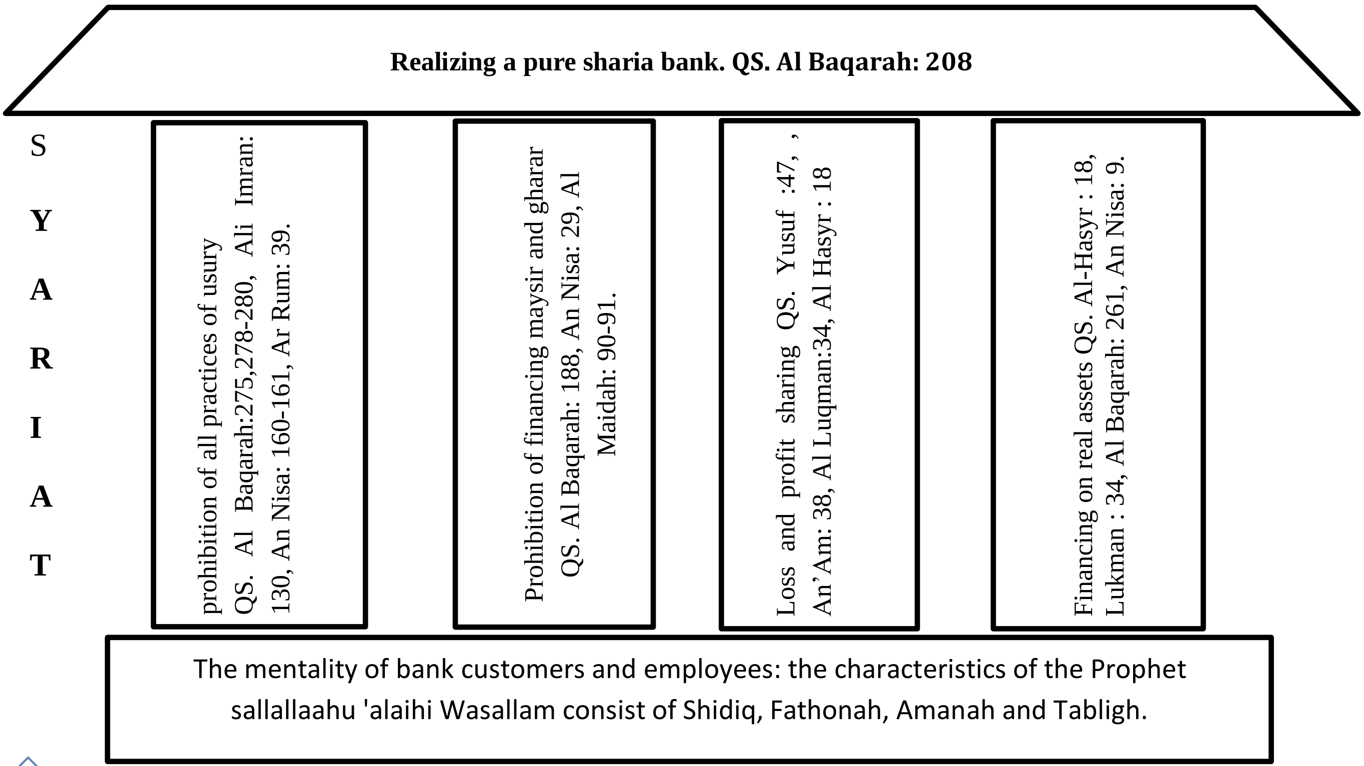
In previous literature, tons of labor is completed on determinant the factors that influence the bank performance in country. however a touch work is completed on of sharia banks. Studies in Indonesia so far have looked into the performance of conventional banks but did not study the effect of *Corporate Social Responbility (CSR)* on the performance of sharia banks. So, the main purpose of this study is to fill this gap by performance of sharia banks.

In addition to CSR, the factors that affect the profitability of Islamic banks are the level of Non-Performing Financing Ratios and Third Party Funds. The formulation of the problem in this study is whether Corporate Social Responsibility, deposit, Non Performing Financing (NPF), affect the profitability of Islamic Commercial Banks in Indonesia.

Review of literature

Islamic Bank Theory

Figure-1: Islamic Bank Theory



foundation: Akidah berdasarkan Al-Quran (Al Maidah :3; Al Anbiyaa :25 ; baqarah:2,186, 208; An nisa:80; 15,16; Az Zumar : 65; At Taubah:31; AI-iklas: 1-4, Azh Zariayaat: 56, Al hadid :22)

Source: Agustin (2021)[1]

Islamic banks are all banking activities based on the Koran and Hadith. Islamic banking activities based on Islamic sharia can be carried out properly if they have the right foundation in the form of creed. This can be seen in Figure-1. The theory of Islamic banks shows that Islamic banks are shaped like buildings where the foundation of Islamic banks is faith based on the Al-Quran and Al-Hadith and carries out the nature of the Prophet sallallaahu 'alaihi Wasallam. After the foundation already exists, it can carry out Islamic bank rules based on the Shari'a which consists of: 1. Prohibition of all practices of usury. based on QS. Al Baqarah: 278-280, Ali Imran: 130, An Nisa: 160-161, Ar Rum: 39. 2. Prohibition of business financing of maysir and gharar. Based on QS. Al Baqarah: 188, An Nisa: 29, Al Maidah: 90-91 3. Financing on real assets. Based on QS. Al-Hasyr: 18, Lukman: 34, Al Baqarah: 261, An Nisa: 9. 4. Sharing profits and risks of loss (profit and loss). Based on QS. Yusuf: 47, Al Lukman: 34, An'Am: 38, Al Hasyr: 18. If shariah has been enforced in shariah banking, a pure shariah bank are going to be accomplished so it gets the pleasure of Allah Ta'ala in step with QS. Al Baqarah verse 208.

Hypothesis Effect of Corporate Social Responsibility on Profitability

Corporate Social Responsibility (CSR) is a form of a company's concern for the environment. This program is a company obligation as stated in Law no. 40 of 2007 concerning Limited Liability Companies. The law applies to companies that carry out their business activities in the field and/or related to natural resources. As an institution whose operational activities are not directly related to natural resources, in fact many banks have carried out various CSR activities and disclosed them in their Annual Reports. In Indonesia itself, banking companies carry out social reporting because of the accountability paradigm, from management to shareholders to management to all stakeholders. In addition, the challenge of maintaining the company's image in the eyes of the public is an important point that encourages banking companies in Indonesia to report CSR. CSR carried out by companies is often associated with financial performance. Managers are expected to be sensitive to the importance of CSR strategies and carry out CSR activities which are then disclosed in the annual financial statements in order to gain stakeholder trust. The trust gained by the company in the form of funding from stakeholders or prospective customers will encourage companies to improve their financial performance. Corporate Social Responsibility (CSR) activities are now one of the strategies to improve the company's image. When the company's image rises, it is hoped that it will also increase the interest of both investor's and customers as well as other stakeholders to channel their funds to the company. This is often additionally established by Putri et al. (2014)[20] explained that CSR is a variable that affects the profitability of Islamic banks. Supported this description, the hypotheses planned during this study are:
H1: Disclosure of Corporate Social Responsibility affects the profitability of Islamic banks

The Effect of Deposit Third Party Funds on the Profitability of Islamic Banks

Deposit funds, namely factors that describe funds obtained from the community, in the sense of the community as individuals, companies, governments, households, cooperatives, foundations, and others both in rupiah and foreign currencies. The higher this ratio, the better the level of public trust in the bank concerned. The deposit funds are obtained by adding up current accounts, savings and time deposits. The more deposit funds a bank can accommodate, the more funds can be processed by the bank. From these activities, banks can get additional profitability. Based on this description, the hypotheses proposed in this study are:
H2: Deposit Funds affect the Profitability of Islamic Banks

The Effect of Non-Performing Financing on Profitability

Non-performing financing at Islamic Banks uses the ratio of non-performing financing as a measuring tool. The level of non-performing financing can be seen from its collectability. The assessment of the collectability of financing is classified into five groups, namely pass, special mention, substandard, doubtful, and loss. If financing is related to the level of collectability, then what is classified into non-performing financing is financing that is in the substandard, doubtful, and loss category. Based on Bank Indonesia Regulation (PBI) No. 11/10/PBI/2009, the maximum non-performing financing ratio for Islamic Banks (BUS) is 5%. Therefore, Islamic banks must be able to maintain the non-performing financing ratio so that it does not exceed the predetermined limit.

The non-performing financing ratio is one of the performance assessment instruments of a Sharia Bank which is the interpretation of the assessment of earning assets, especially in the assessment of non-performing financing. So, the size of the non-performing financing ratio owned by an Islamic bank can affect profitability. This is in accordance with the findings of the research of Ummah et al. (2015)[27] who examined Bank Muamalat stated that NPF had an effect on the profitability of Islamic banks. Meanwhile, the research of Widiyanti et al. (2015)[30] also states that the non-performing financing ratio has no effect on bank profitability.
Based on this description, the hypotheses proposed in this study are:
H3: NPF affects the profitability of Islamic banks

Research on Corporate Social Responsibility, Third Party Funds, Non-Performing Financing (NPF), operational costs to operating income (BOPO), capital equity ratio (CAR) to the profitability of Islamic Commercial Banks in Indonesia, has been carried out by several previous researchers, including the results of Putri's research. et al. (2014)[20] shows that there is an influence between CSR disclosure on ROE in the following year. These results indicate that if CSR disclosure increases this year, the ROE in the following year will increase. The results of this study also show that CSR disclosure this year will not have a significant effect on ROA in the following year.

The results of Khabibah et al. (2013)[12] show that there is a positive relationship between CSR and ROE in the following year, this shows that the higher the CSR, the higher the ROE of the company. This study also shows a negative relationship between CAR and CSR in the following year, this result shows that the higher a company's CAR, the lower its CAR level. The rejection of the hypothesis regarding the relationship between CSR and CAR in the following year shows that CSR is not related to solvency in the following year. Meanwhile, the rejection of the hypothesis regarding the relationship between ROA, ROE, and NPM with CSR in the following year shows that profitability (as reflected by ROA, ROE, and NPM) is not always associated with CSR in the following year. The results of Ummah et al. (2015)[27] Shows the results that automotive has no important impact on bank profit. BOPO features a negative and important impact on bank profit. NPF has a negative and significant effect on profitability. FDR has a negative and significant effect on profitability.

Research Method

The population utilized in this study was all Islamic industrial Banks registered at Bank country, as several as 13 banks. The method used in determining the sampling is by using the purposive sampling method. The sample in this study was 11 Islamic banks during 2014-2018.
In this study using pooled ordinary least square (OLS). The regression models during this study are:
ROA = b0 + b1CSR + b2DP+ b3NPL +ei

Information:

ROA = Return On Assets

CSR =Corporate Social Responsibility (total disclosure scores fulfilled divided by maximum number of disclosure scores)

DP = Deposit (LN deposit amount)

NPF = Non Performing Financing (bad loans divided by the number of loans ratio)

RESULTS AND DISCUSSION

Tabel-1: Regression Results

Variable	OLS without standard errors	
	Coef.	p-value
Constan	-9.633	0.000**
CSR	-0.914	0.026*
DP	3.469	0.000**
NPF	-0.548	0.000**
R-squared	0.194	
Adjusted R-squared	0.146	
Prob > F	0.000	

number of observations	55	

***and ** significant at 5% and 1% seen p-value**

The results of the F check higher than show that CSR, refugee and NPL have a synchronous result and R2 = 0.194. CSR has a negative effect on ROA. Investor's view that the amount of CSR that is realized in the form of the use of benevolent funds can lead to reduced bank income. Expenditure of funds for CSR in accounting calculations is a burden on the bank so that it has an impact on reducing the amount of profit earned by the bank, thereby reducing the value of the ROA ratio. However, on the other hand, Islamic banks earn profits in the form of contributing to sustainable economic development by paying attention to corporate social responsibility and improving the quality of life of the community and the environment, especially those in the company's environment, thus CSR has nothing to do with company profitability. This study is in line with the results of Khabibah et al. (2013)[12] who found evidence that CSR has an effect on ROA. However, it is not in line with the research of Putri et.al. (2014)[20] Which states that CSR has no effect on ROA.

DP has a positive effect on ROA. The higher the third party funds collected in the bank and balanced by lending, the possibility of the bank experiencing an increase in the level of profit, because the margin income from financing distribution to debtors exceeds the margin costs that must be paid to depositors. This study supports the analysis conducted by Edo and Wiagustini (2014)[6] that complete that third party funds (TPF) have a positive result on ROA.

NPF has a negative effect on profitability (ROA). nvestors read that the worth of Non acting finance (NPF) has a vital role in profitableness (ROA). This shows that the higher Non Performing Financing (NPF) or non-performing loans will affect the decline in profitability (ROA).

This finding supports information asymmetry theory and bad management hypothesis which argues that NPF is the result of adverse selection, and is linked to management inability to control operating efficiency which in the run run leads to decrease in profitability. Therefore, the results support the higher the nonperforming loans, the lower the ROA. The results are consistent with the findings of Kithinji (2010)[14], Kargi (2011)[11], Kolapo et al. (2012)[15], Muhammad et al (2012)[19], Samuel et al. (2012)[26], Madishetti and Rwechungura (2013)[16] and Kingu et al (2018)[13].

Conclusion

The results showed that the variables Corporate Social Responsibility (CSR), Third Party Funds (DPK) and Non Performing Financing (NPF) had partial and simultaneous influence on ROA. The magnitude of the worth of company Social Responsibility (CSR) that is completed within the variety of the employment of benevolent funds will cause reduced bank financial gain. The expenditure of funds for CSR in accounting calculations is a burden on the bank so that it has an impact on reducing the amount of profit earned by the bank, thereby reducing the value of the ROA ratio. However, on the other hand, Islamic banks earn profits in the form of contributing to sustainable economic development by paying attention to corporate social responsibility and improving the quality of life of the community and the environment, especially those in the company's environment, thus CSR has nothing to do with company profitability. DP has a positive effect on ROA. This shows that the higher the third party funds collected in the bank and balanced by lending, the more likely the bank will experience an increase in the level of profit. NPF has a negative effect on profitability (ROA). Investors read that the worth of Non performing arts funding (NPF) has a crucial role in ROA. This shows that the higher Non Performing Financing (NPF) or non-performing loans will affect the decline in ROA.

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