

Original Research Article

Corporate Social Responsibility and Good Corporate Governance: The Role of Financial Stability as Intervening Variable

ABSTRACT

Corporate social responsibility and good corporate governance are elements in Sharia bank operations that balance social responsibility and business interests. Financial sustainability is also an important indicator in assessing the long-term performance of financial institutions, including Islamic banks. Meanwhile, financial stability plays a role in strengthening the relationship between CSR, GCG and financial sustainability. So, this research aims to analyze the influence of CSR and GCG on financial sustainability with financial stability as a mediating variable in Sharia Commercial Banks in Indonesia. The sampling technique used was purposive sampling, with a total sample of 12 Islamic commercial banks in Indonesia, and panel data path analysis was used. The research results show that CSR does not affect financial sustainability directly or through financial stability. GCG also does not affect financial sustainability directly or through financial stability. Financial stability itself does not affect financial sustainability. Besides, CSR does not affect financial stability, but GCG affects financial stability.

Keywords: Corporate Social Responsibility, Good Corporate Governance, Financial Sustainability, Financial Stability, Bank Syariah

1. INTRODUCTION

Paying attention to and prioritizing the balance between economic, social and environmental aspects can help realize the national economy. So on December 5 2014, the Financial Services Authority (OJK), in collaboration with the Ministry of Environment and Forestry (KLHK) of the Republic of Indonesia, formed a roadmap which functions as a controller of the regulatory and supervisory system in the financial services sector by Law Number 21 2011 concerning the Financial Services Authority. The roadmap establishes sustainable finance principles to create an economy that grows stably, inclusively, and sustainably, aiming to provide economic and social prosperity to the Indonesian population and wisely protect and manage the environment. The sustainable financial roadmap was formed because, so far, development that only focuses on economic growth will result in social inequality and a decline in the quality of the environment as a whole [1]. Financial Sustainability has five dimensions: achieving industrial, social and economic excellence to reduce the threat of global warming and overcome other social and environmental problems. Thus, companies must understand the importance of sustainable finance to gain greater access to the financial resources necessary for growth, especially

sustainable development. Implementing risk supervision will obtain good governance and increase the company's resilience and competitiveness.

According to the 2020 Islamic Finance Development Report launched by Refinitiv and the Islamic Corporation for the Development of the Private Sector, it is explained that the global Islamic finance sector industry is currently developing very rapidly. It is evidenced by the growth of 14%, with total assets of US\$2.88 trillion at the end of 2019. Global Islamic financial assets are estimated to reach US\$3.69 trillion by the end of 2024, as reported on the website www.icd-ps.org. It will also increase opportunities for sustainable economic growth in the Sharia financial sector in Indonesia, so an active role is needed in the Sharia financial sector in various efforts and strategies aimed at realizing financial sustainability.

Companies active in corporate social responsibility can attract investors to make their own decisions. So, when more and more investors invest their capital in the company because of CSR factors, the company's performance will increase, and it can achieve financial sustainability [2]. Companies active in CSR activities can also improve credit credibility, which minimizes the risk of default because these companies have low business risks [3]. Investors also prefer to invest in companies with good governance because they are considered more stable and lower risk [4]. So, this has an impact on the company's financial sustainability. Companies that have strong GCG practices are more likely to gain the trust of investors and creditors. This trust is crucial in attracting capital and investment, which is essential for growth and financial sustainability. In addition, Sharia banks that have stable finances have the potential to contribute and support the implementation of sustainable finance through Sharia-compliant financing [5]. Efforts to increase financial stability can be made through efficient management and wise debt control to ensure the continuity of operations and services to the community.

1.1 Corporate Social Responsibility

Corporate social responsibility (CSR), or corporate social responsibility, is a company's commitment to participate in economic development to improve the quality of life and create a beneficial environment for the company itself, local communities, and society in general [6]. In an organizational context, Corporate Social Responsibility is a necessary investment to create sustainable development for a business because it allows companies to bridge the "trust gap" among different stakeholders such as governments, customers, employees, suppliers, investors, and others [7]

1.2 Good Corporate Governance

Good Corporate Governance is a system for controlling and managing a company to gain added value and encourage transparent, clean, professional management work patterns. It also aims to manage risks to benefit stakeholders and obtain profits. Besides, implementing good GCG will attract investors to invest in their shares [8]. Apart from that, Good Corporate Governance (GCG) is a system in the form of input consisting of processes and outputs as well as a set of regulations which regulate the relationship between interested parties (stakeholders), especially the relationship between shareholders, the board of commissioners and the board of directors to achieve the goals of the company [9].

1.3 Financial Stability

Financial stability is a phenomenon that describes financial flows related to micro and macroeconomic changes, with the concept that the two cannot influence each other [10]. *Financial Stability indicates a company's financial condition in managing economic resources, overcoming financial risks, and operating well* [11]. When a bank experiences financial stability, it also operates stably. Bank stability not only reflects the company's health but also supports the effectiveness of monetary policy and the smooth transmission of economic policy mechanisms through the banking system [12].

1.4 Financial Sustainability

Financial Sustainability is defined as a company's ability to combine investment and optimal financing sources to generate value for owners and provide long-term sustainability of the company's life [13]. Financial Sustainability is one of the essential things for banks to be able to predict the potential for going concerns or the bank's survival in the future. Banks must have a high level of sustainability and growth to operate well [14].

2. METHODS

This research uses quantitative research with an explanatory approach [15] to prove the relationship between corporate social responsibility, good corporate governance, and financial sustainability with financial stability as mediation in Sharia Commercial Banks in Indonesia. The population used in this research is 15 Sharia Commercial Banks in Indonesia registered with the Otoritas Jasa Keuangan (OJK) in 2019-2023. The sampling technique used was purposive sampling.

By criteria:

1. Sharia Commercial Banks Registered with OJK in 2019-2023
2. Sharia Commercial Banks That Do Not Publish Annual Reports or Sustainability Reports in 2019-2023
3. Sharia Commercial Bank Changed Name
4. New Sharia Commercial Bank Established in 2024
5. Sharia Commercial Banks Merging in 2021

Based on these criteria, a sample of 9 Sharia Commercial Banks was taken that met the research requirements. The data used is secondary data obtained from annual reports and sustainability reports published on the official websites of each bank. The method used in this research is path analysis to determine the direct and indirect influence between variables using Eviews version 12 software.

3. RESULTS AND DISCUSSION

Table 1. Results of descriptive statistical testt

	N	Min	Max	Mean	Std. deviation
CSR	45	0.11	0.58	0.2834	0.11901
GCG	45	3.00	10.00	5.9886	1.92138
Financial Stability	45	0.00	13.01	2.0002	2.34840
Financial Sustainability	45	-7.05	728.60	53.3166	158.7996

Source: data processed by researchers (2024)

From the results of descriptive statistical tests, it is stated that the Corporate Social Responsibility variable has a minimum value of 0.11 and a maximum value of 0.58, with a mean of 0.2834 and a standard deviation of 0.11901. The Good Corporate Governance variable has a minimum value of 3.00, a maximum value of 10.00, a mean value of 5.9886 and a

standard deviation of 1.92138. The financial stability variable has a minimum value of 0.00, a maximum value of 13.01, a mean value of 2.0002 and a standard deviation of 2.34840. Meanwhile, the Financial Sustainability variable has a minimum value of -7.05, a maximum value of 728.60, a mean value of 53.3166 and a standard deviation of 158.7996.

3.1 Financial Stability Equation Test (CSR, GCG on Financial Stability)

3.1.1 Panel Data Model Selection Test Results

Table 2. Chow Test Results

Effect Test	Statistic	Prob.
<i>Cross-section F</i>	1.107450	0.3834
<i>Cross-section Chi-square</i>	10.46380	0.2340

Source: data processed by researchers (2024)

Based on table 2, the Chow test results for equation I show that the Cross-Section F Probability value is $0.23 > 0.05$, which means that the CEM model was selected.

Table 3. Lagrange Multiplier Test Results

	Cross-section
<i>Breusch-Pagan</i>	0.013618 (0.9071)

Source: data processed by researchers (2024)

Based on table 3, the LM test results show that the P-value from the Breusch-Pagan test is $0.90 > 0.05$, so the CEM model was chosen for the CSR, GCG testing model on Financial Stability.

3.1.2 Results of Classical Assumption Test Analysis

Table 4. Normality Test Results

	Standardized Residuals
Jarque-Bera	2.137606
Probability	0.343419

Source: data processed by researchers (2024)

Based on the results of the normality test, the Jarque-Bera value has a probability of $0.343419 > 0.05$. So the normality assumption has been met and the data is normally distributed.

Table 5. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	1.216571	37.72442	NA
CSR	0.213330	74.47778	1.039885
GCG	0.344119	33.51564	1.039885

Source: data processed by researchers (2024)

Based on the results of the multicollinearity test, the VIF value was $1.039885 < 10$ so that there was no multicollinearity or no correlation in the model equation.

Table 6. Heteroscedasticity Test Results

Variable	Prob.
C	0.9774
CSR	0.3325
GCG	0.9246

Source: data processed by researchers (2024)

Based on the results of the heteroscedasticity test, it shows that the sig probability value for the CSR variable is 0.33 and the GCG variable is 0.92. This means that the value of each variable is > 0.05 so that this model equation is free from heteroscedasticity.

Table 7. Autocorrelation Test Results

<i>Durbin-Watson stat</i>	1.559087
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Source: data processed by researchers (2024)

Based on the results of the autocorrelation test using the durbin-watson test, the value obtained is 1.559087. This means $-2 < 1.559087 < 2$ so there is no autocorrelation.

Table 8. t test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.985098	1.102983	-1.799754	0.0794
CSR	0.085355	0.461877	0.184800	0.8543
GCG	1.300514	0.586616	2.216976	0.0324

Source: data processed by researchers (2024)

The t-test results table shows that the Corporate Social Responsibility variable has a probability value of $0.85 > 0.05$. Thus, it is concluded that Corporate Social Responsibility does not affect Financial stability. Although CSR provides the potential to mitigate risks and improve long-term performance in banks, it is not enough to improve financial stability. After all, CSR focuses more on economic performance and financial inclusion.

For the Good Corporate Governance variable, the t-test results t-tested a probability value of $0.03 < 0.05$ and concluded that Good Corporate Governance affected financial stability. This result is because good GCG in a company will also show good financial stability. After all, it encourages transparent company management so that this transparency allows all stakeholders to monitor the company's performance. Creating sustainable trust will maintain stability in the financial aspect because it reduces the risk of manipulation of financial reports and increases investor confidence [16]. This trust is essential to maintain economic stability because investors prefer to invest in companies with good governance.

3.2 Financial Sustainability Equation Test (CSR, GCG, Financial Stability on Financial Sustainability)

3.2.1 Panel Data Model Selection Test Results

Table 9. Chow Test Results

Effect Test	Statistic	Prob.
<i>Cross-section F</i>	1.989943	0.0839
<i>Cross-section Chi-square</i>	17.940662	0.217

Source: data processed by researchers (2024)

Based on the chow test results table, it shows that the Cross-Section F Probability value is $0.02 < 0.05$, which means that the FEM model was selected.

Table 10. Hausman test

Test Summary	Chi-Sq. Statistic	Prob.
Cross-section random	2.149089	0.5420

Source: data processed by researchers (2024)

Based on the hausman test results table, it shows that the random cross-section probability value is $0.54 > 0.05$, which means the rem model was chosen for the corporate social responsibility, good corporate governance, financial stability testing model on financial sustainability.

3.2.2 Results of Classical Assumption Test Analysis

Table 11. Normality Test Results

Standardized Residuals	
Jarque-Bera	4.736065
Probability	0.093665

Source: data processed by researchers (2024)

Based on the results of the normality test, the jarque-bera value has a probability of $0.093665 > 0.05$. So the data is normally distributed.

Table 12. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	6.668450	29.60086	NA
CSR	0.757947	7.038187	1.014250
GCG	1.889070	26.87534	1.082997
Financial stability	0.0844320	1.090143	1.068718

Source: data processed by researchers (2024)

Based on the results of the multicollinearity test, each variable has a VIF value < 10 , so there is no correlation between the variables in this model equation.

Table.13 Heteroscedasticity Test Results

Variable	Prob.
C	0.6440
CSR	0.0762
GCG	0.5812
Financial stability	0.2239

Source: data processed by researchers (2024)

Based on the results of the heteroscedasticity test, it shows that the sig probability value for the CSR variable is 0.07, the GCG variable is 0.58 and the Financial stability variable is 0.22. This means that the value of each variable is > 0.05 so that in this model equation there is no heteroscedasticity.

Table.14 Autocorrelation Test Results

Durbin-Watson stat	1.287242
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Source: data processed by researchers (2024)

Based on the results of the autocorrelation test using the Durbin-Watson test, the value obtained is 1.287242. This means that $-2 < 1.287242 < 2$, thus there is no autocorrelation between variables.

Table.15 t test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.924474	2.582334	1.132492	0.2647
CSR	0.336009	0.870602	0.385950	0.7017
GCG	-0.488202	1.374434	-0.355202	0.7245
Financial stability	-0.371867	0.2905672	-1.279777	0.2086

Source: data processed by researchers (2024)

The t-test results table shows that the Corporate Social Responsibility variable has a probability value of $0.70 > 0.05$. Thus, it is concluded that Corporate Social Responsibility does not affect Financial Sustainability. A bad business strategy and disproportionate CSR will increasingly burden the company's finances, and unhealthy finances can be a bad signal for stakeholders, so the economic benefits from carrying out CSR cannot be felt. As a result, companies cannot carry out and implement financial sustainability.

The Good Corporate Governance variable, based on the t-test results, has a probability value of $0.72 > 0.05$, so it is concluded that Good Corporate Governance does not affect Financial Sustainability. This result is supported by the statement that financial sustainability produced by companies with the implementation of GCG is not paid attention to by investors because investors tend to look at the company's performance in generating profits and paying dividends [16]. Meanwhile, the financial stability variable has a probability value of $0.20 > 0.05$, and it is concluded that financial stability does not affect financial sustainability. These results mean that when a company has good financial stability, it does not impact achieving financial sustainability. The reason is that financial sustainability is not limited to the company's ability to generate stable profits or its debt ratio. Financial stability is more influenced by significant factors, namely the directors who manage and run the company [17]. It can be concluded that if the director manages and runs the company well, it has more influence on achieving Financial Sustainability.

3.3 Sobel test

3.3.1 Corporate Social Responsibility towards Financial Sustainability through Financial stability

a: 0,085355 b: -0,371867 sa: 0,461877 sb: 0,290572

$$Sab = \sqrt{b^2 sa^2 + a^2 sb^2 + sa^2 sb^2}$$

$$Sab = \sqrt{-0,371867^2 0,461877^2 + 0,085355^2 0,290572^2 + 0,461877^2 0,290572^2}$$

$$Sab = \sqrt{0,006293332 + 0,000615128 + 0,018011928}$$

$$Sab = \sqrt{0,024920388}$$

$$Sab = 0,157861925$$

$$t = \frac{ab}{sab}$$

$$t = \frac{-0,031740708}{0,157861925}$$

$$t = -0,201066265$$

Based on the results of the Sobel test on the influence of Corporate Social Responsibility on Financial Sustainability through Financial Stability, the calculated t-value is -0.201066265. Meanwhile, the t-table value of 0.05 is 2.0210753. Thus, the Financial Stability variable cannot mediate the influence of Corporate Social Responsibility on Financial Sustainability. Although active CSR can provide the potential to mitigate risks and improve long-term performance in banks, this is not enough to improve financial stability because CSR focuses more on financial performance and financial inclusion. Apart from that, financial performance can increase the confidence of investors and other stakeholders because they prefer companies that have good financial performance so that they can contribute and achieve financial sustainability.

3.2.2 Good Corporate Governance towards Financial Sustainability through Financial stability

a: 1,300514 b: -0,371867 sa: 0,586616 sb: 0,290572

$$Sab = \sqrt{-0,371867^2 \cdot 0,586616^2 + 1,300514^2 \cdot 0,290572^2 + 0,586616^2 \cdot 0,290572^2}$$

$$Sab = \sqrt{0,047586426 + 0,142803085 + 0,029054629}$$

$$Sab = \sqrt{0,21944414}$$

$$Sab = 0,468448652$$

$$t = \frac{-0,48361824}{0,468448652}$$

$$t = -1,032382605$$

Based on the results of the Sobel test on the influence of Good Corporate Governance on Financial Sustainability through Financial Stability, the calculated t-value is -1.032382605. Meanwhile, the t-table value of 0.05 is 2.0210753. Thus, the Financial Stability variable cannot mediate the influence of Good Corporate Governance on Financial Sustainability. It is because GCG focuses more on short-term performance and compliance with regulations than long-term sustainability and risk management, resulting in a lack of attention to practices supporting long-term financial stability. Apart from that, external factors such as macroeconomic conditions and market structure also have an essential role in determining financial stability, which can hinder efforts to achieve economic sustainability even though GCG has been implemented well [18].

4. CONCLUSION

This research indicates that Corporate Social Responsibility does not affect financial sustainability directly or through financial stability. Good corporate governance does not affect financial sustainability directly or through financial stability. Financial stability itself does not affect financial sustainability. Apart from that, corporate social responsibility does not affect financial stability, but good corporate governance does.

COMPETING INTERESTS

Authors have declared that they have no known competing financial interests OR non-financial interests OR personal relationships that could have appeared to influence the work reported in this paper.

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