



The Influence of Social Responsibility on Profitability in the Southern African Banking Industry

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Abstract

Objective – This study aims to examine the effect of social responsibility on profitability in the Southern African banking industry.

Methodology – The study utilized content analysis to evaluate financial statements, including measures of return on assets and return on equity, and social responsibility components based on International Accounting Principles. Panel data from 2015 to 2019 were used to assess the impact of social responsibility reporting on profitability. This paper regresses SR reporting on Profitability using panel data from 2015 to 2019.

Results – The standard deviation for banks in Mozambique (0.1916) was higher than that of banks in South Africa (0.0928) according to the SR_Dind variable. The lack of significance in the impact of environmental initiatives on profitability ($\lambda_1 = 0.001$, P-value > 0.1) may be attributed to Mozambique's underdeveloped status compared to South Africa. The larger size and significance of the SR_Dind coefficient for the entire sample suggest that the impact is more significant for South African banks ($\lambda_1 = 0.057$ and $\lambda_1 = 0.068$, $p < 5\%$) than for Mozambique banks ($\lambda_2 = 0.049$ and $\lambda_2 = 0.051$, $p < 5\%$).

Research limitations/implications – The study's focus on a small sample (the biggest 10 banks in every nation) makes it less intriguing than it could be if all banks had been included in the sample. The research significantly elucidates the relationship between SR reporting and profitability by throwing light on SR's behaviour in the banking industry, answering the unresolved problem relating SR reporting and profitability in the banking industry. The study may be used by lawmakers and shareholders to help explain how banks operate in these two nations.

Novelty/Originality – The study provides an original perspective on how voluntary Social Responsibility Commitment Report could help enhance profitability in the banking industry.

Keywords: Environment suitability, social responsibility, profitability

1. Introduction

Businesses are putting more emphasis on participating in SR (Social Responsibility) initiatives, and the banking industry's role in environmental sustainability is being challenged since it uses a great deal of resources, such electricity and paper, and produces waste (Nyeadi et al., 2018; Anggraini and Tanjung, 2020). SR initiatives are a means to support the viability of the community directly or indirectly. According to Ndhlovu (2011), bank managers must operate sustainably out of a desire to promote environmental conservation as opposed to the maximizing of shareholders' returns because the banking industry is essential to a nation's economy. The main industries where sustainability efforts are relevant are those that deal with chemicals, manufacturing, mining, and oil refining. Investors are ready to pay more for sustainable firms as they embrace SR practices, have transparent management, stronger governance, and lower risk (McWilliams and Siegel, 2000). According to Mansaray et al. (2017), SR initiatives are crucial for advancing sustainable growth goals. This indicates that organizations now have greater motivation to promote sustainable development and record more SR activities.

Given this situation, the United Nations identified the Environmental Financial Market (EFM) in 2015 including the intention of establishing an innovative commitment to building financial markets which encourages public capacity for community development through volunteering and integrates concerns about the economy, environment, and society into global investment and business plans (McWilliams and Siegel, 2000). According to Nyeadi et al. (2018), when considering the connection between sustainability and profitability, a sound SR strategy enhances sustainability development. They view SR and sustainability as complimentary strategies for improved profitability. Based on the presumption that a sustainable firm uses voluntary SR reporting to improve profitability, the SR indicator was chosen as the score for reputable manufacturers (Okafor et al., 2021).

There are conflicting empirical findings from the few writers who have studied the connection among social responsibility (SR) initiatives as well as profitability in the banking industry. They discovered a connection between the two variables that were either negative, positive, or neutral, although the majority of other studies have tended to demonstrate a favourable correlation between profitability and SR reporting (Mansaray et al., 2017). There is no agreement on these results, which are ambiguous. Instead of focusing on the fact that both positive and negative indications of SR effort show up to successfully boost profitability, an earlier study Barauskaite and Streimikiene (2021) focussed on the total impact of SR reporting on profitability. Actual proof from Southern African countries is still scarce. The countries of southern Africa are the subject of this essay for the following reasons: There aren't many studies looking at how SR affects profitability in the banking industry for nations with a recent history of SR practice, despite the fact that SR research is increasingly becoming more common in industrialised nations (Okafor et al., 2021).

These prior results, according to Purbawangsa et al. (2020) could be extrapolated to various circumstances. Mansaray et al. (2017) mentioned that the connection between social responsibility and profitability varies among sectors, is not always the same, and is competing across industries—all of which are crucially important factors that affect this relationship. According to Lombardi et al. (2020), understanding a company's SR conduct depends on where it is located. This research provided an effort to investigate how profitability in the Southern Africa banking industry is affected by voluntary SR reporting. The three primary ideas of legitimacy theory, agency theory, and stakeholder theory tend to dominate in the literature when it comes to comprehending the connection between social responsibility and profitability.

Part 2 discusses each of these alternatives (based on the literature as well as hypotheses). Hence, the study clarifies the connection between both components and evaluated the hypothesis using the stakeholder theory. This idea supports the claim that socially aware behaviour helps firms compete effectively. According to Putra and Gustiana (2021), the attractiveness of firms draws investment who put fresh cash into the business to increase activities and lower operating expenses. The data utilised in this study came from annual audited bank statements, which are available online at the websites of individual banks as well as the federal reserve banks of Mozambique and South Africa. The top banks in each nation make up the sample, which spans the years 2015 to 2019. They are both representatives of the Southern African Development Community (SADC), located in southern Africa, and share international boundaries. Mozambique ranks among the lowest prosperous nations in terms of GDP, whereas SA has the most industrialised economy in SADC (and the continent's most advanced banking system) (Lombardi et al., 2020).

It is crucial to emphasise the similarities between international banks in Mozambique and South Africa. They each have unique SR strategies and policies. This suggests that SR reporting initiatives made in the two banking industries may also differ. Sari et al. (2020) Claimed that accounting data is believed to be less noisy than

economic variables and reflects what is happening within the organisation. In this study, profitability was measured using ROE and ROA. The authors have employed a variety of techniques to assess and notify the sustainable development of a company, including the Sustainable, Cultural, and Corporate Scores, the World Bank's world disclosure activities, Kinder, Lydenberg, and Domini (KLD Community Indicator), and the Information Governance Innovation (IGI), with varying degrees of success (Lombardi et al., 2020). Most of these metrics become applicable to industrialized economies, but also emerging economies could further utilise them (Hapsoro and Sulistyarini, 2019). In this research, the aspects of SR reporting activities were evaluated using content analysis using data from the yearly reports, banks' SR report, and the websites of the different institutions. The following is how the majority of this article is organised. The theory is developed, and the literature is discussed in Part 2. The research methods, the data, and the sample are all described in Part 3. The key findings are covered in Part 4, and Part 5 conclusions.

2. Literature Review, Theoretical Framework, and Hypothesis Development

The term "sustainability" was first used in the business industry many years ago, and it was proven that the triple bottom line (TBL), which combines financial, ecologic, and social concerns, has a direct impact on a company's capacity to succeed. The fundamental tenet of TBL is that businesses should produce sustainably to provide themselves with a competitive edge (Lombardi et al., 2020). The UN launched the SSE project with the aim of promoting environmental sustainability globally, mindful of TBL. Hermawan and Gunardi (2019) claimed that the SR approach is genuinely connected to sustainability, and businesses that don't use environmental methods tend to be less profitable compared to those that do. Stakeholder demand for all businesses to be responsible is rising, according to Poerwati et al. (2021) analysis.

According to Almashhadani (2021), the reason why stakeholders choose sustainable communities over unsustainable ones is due to the latter employing a SR strategy to lessen managers' propensity for opportunism while boosting their profitability. Moreover, they contend that SR activity is a strong indicator of sustained development. Agudelo et al. (2020) have demonstrated the value of SR tactics to accomplish environmental sustainability by demonstrating how businesses implementing SRD approaches are making significant progress towards creating an efficient sustainability reporting system. Another incentive for a sustainable firm to increase profitability is through engaging in sustainability initiatives (LAMBADA et al., 2022). The body of current SR literature demonstrates that the field's purview has been widened to consider sustainability's growing significance.

This study draws on earlier research, both theoretical and empirical data, to create the hypothesis. According to the research, the legitimacy theory, agency theory, and stakeholder theory appear to predominate as viable explanations for the relationship between SR and profitability (Bag and Omrane, 2022). According to legitimacy theory, that also contends that there is a "social compact" between business and the community, it is important to disclose a company's economic viability (Abrari et al., 2022). Hence, agency theory, there is a gap that exists between the management and the shareholder that might have an impact on the profitability of the company (Dewanti and Sujana, 2019). The stakeholder theory, businesses with socially conscious practices have an edge over rivals since they draw in more shareholders and have lower operational expenses (Cantika and Arief, 2023).

Stakeholder theory is a fantastic way to show how SR and profitability are related. Companies that practice SR make better use of their resources and do it profitability (Abrari et al., 2022). Hidayah and Khasanah (2022) mentioned that a company's long term sustainable report is a non-financial summary that effectively provides the key elements concerning the environment, economy, societal problems, and management. Concerns for businesses include their capacity to provide greater

value to stakeholders, reducing information asymmetry, and increasing transparency in their operations. Dewanti and Sujana (2019) claimed that the SR behaviour company reaped additional rewards, including increased investor interest, cheaper capital expenditure, a better image, and improved financial results (Li et al., 2019b). Various datasets were utilised to explore the worldwide sustainable supply chain relationship, including the ESG score, GRI, KLD Sustainability Index. The use of indexes that were dependent on the company's possess report or prejudiced benchmark datasets may have contributed to the inconsistent findings. To get around these restrictions, the SR reporting dimensions were estimated using the content analysis.

For instance, Li et al. (2019b) found that there is no generally acknowledged relationship between these two factors in their research study but also experimentally and theoretically agenda, which used an amount of 101 studies published between 1991 and 2010 through different research publications. The conclusions vary in economic and cross-cultural situations, and they highlight gaps that need to be investigated in the case of developing nations. Bahar and Ismaya (2022) used the set of criteria under the TBL concept to examine the connection between and sustainability of Brazilian public firms between 2013 and 2017. They discovered that the company's sector categorization has a significant impact on the relationship between profitability and sustainability activities. Hidayah and Khasanah (2022) examined this influence in developing nations using Korea as a case study, evaluating SR performance and its impact on corporate profitability using an ESG score. In accordance with earlier research in industrialised nations, they concluded that SR policies positively and considerably increase profitability, and that the characteristics of the organisations are important when assessing the size of the impact.

Empirically, the relationship between SR and profitability may be positive, negative, or neutral. Li et al. (2019b) evaluated research that linked SR and profitability and concluded that most of the studies showed a favourable correlation between the two indicators. According to Darmayanti and Merkusiawati (2019), banks participate in SR, and SR is proportionally linked to profitability. Moreover, financial companies with successful organizational management and labour relations showed improvement financially. As a result, the data suggest that SR involvement is critical to increasing bank efficiency and competitiveness. According to this study, bank management will establish an opportunity to participate through CSRD. In addition, IMF (2019) claimed that SA is more structured than Moz in the SADC, it is projected that SA banks would engage in more social responsibility and transparency than Moz banks:

H1. The positive relationship between SR reporting and Profitability is greater and more substantial in SA banks compared to Moz banks.

Many ways to gauge SR reporting; however, this study employs the results of a content analysis methodology (Finishtya et al., 2021). The banking industry uses this often to determine the SR reporting activity score. The four drivers of SR behaviour (environmental innovation, customers & products, community involvement, and human resource behaviour) were chosen with consideration to this methodology (Syilfania et al., 2022). Never has it been addressed that voluntary SR reporting activity appears to increase profitability in the banking industry in both good and bad ways (Finishtya et al., 2021). The SR reporting index is divided into advantages (strong) and concerns (poor) classifications, that change the sector and time frame of impacts to prevent wasting valuable knowledge about the SR programme. This is done since each shareholder's view of the favourable (poor) SR indication varies. SA banks are expected to be more dedicated to optional SR reporting in line with H1:

H2. In comparison to the negative voluntary SR indication, the positive voluntary SR indicator is greater and more important.

3. Research Method

This study chose a specific goal and put forward some hypotheses, evaluated pertinent articles on the topic that were written by people who work in the banking sector, and created a baseline information set for the study by identifying the dependant and independent variables (Profitability and SR) as well as the control variables. When the regression model was applied to the pertinent data from the MOZ and SA banking industries, the assessment and interpretations of the data resulted in a concluding and new questions for further study.

3.1 Sample and Data

The Central Bank of SA reported that there were only 22 banks in SA as of the end of 2019, and the Central Bank of Mozambique reported that there were only 18 banks there as of the same date. Only the biggest 10 banks in each nation with resources that offer comparable services and are governed by identical rules and reporting requirements were to be included in the sample. Whether they were local, international, listed, or unlisted, the research evaluated all the banks identically. The Central Bank of Mozambique as well as the South African Reserve Bank have been left out of the analysis as they both issue currency in their different countries but also adopt their own set of laws, legislation, and reporting standards. This paper is based on secondary data sets derived from financial statements and other financial institution documents, and it measures SR reporting using a content analysis technique (as demonstrated in Appendix A), and it analyses data using a regression model during a five-year period from 2015 to 2019. In addition, the study used pre-covid data to conceptualize.

3.2 Measurement of Variables

3.2.1 SR Measurement

There are numerous approaches to quantify SR reporting (surveys, one-dimensional measures, relational assessments, moral rating, and content analysis). Using content analysis, the degree of SR reporting activities was analysed (Li et al., 2019a). Due to its non-financial characteristics, content analysis is a reliable proxy for measuring SR reporting notwithstanding the subjectivity of SR initiatives (McWilliams and Siegel, 2000). According to earlier authors, content analysis is a superior method for processing, analysing, examining, and interpreting various forms of content data and enables the division of SR reporting into several classifications.

According to the specific categories of SR reporting, including Sustainable Initiative (SI), Human Resource (HR), Customer and Product (CP), and Community Involvement (CI), the total number of statements for each bank were gathered and processed for this study, as shown in (Table 2). In comparison to yearly reports, bank websites now include more information on SR initiatives due to technological developments and globalisation. This research combines the information seeking from internet sites of the financial institutions to discover financial institutions that already have published social responsibility in their document from May of 2019 to November of 2019. If a bank is regarded as a revealing bank, it earned a score of one (1); if not, it received a score of zero (0). The study estimated the SR reporting as a total of the scores from the financial statements and bank site reports (Januari and Suardikha, 2019). It employs following equation to determine the SR reporting index, which is consistent with earlier research (Li et al., 2019a):

$$SR_Dind = \frac{\sum_{i=1}^n K_{i,j,t}}{N}$$

Where SR_Dind denotes the reporting index of classification j at time t; $K_{i,j,t}$ denotes the variable K (1,..., n) for classification j at period t; and N denotes the entire number of statements. The SR activity index is divided into categories for capabilities (good) and worries (poor). From such activity, it acquires a regression model (having taken the significance one (1) for strong and low (0) for worries), as well as it adapts to years of impact.

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Table 1.

Lists of biggest
10 banks
based on their
assets

Moz	SA
BancABC	Absa Bank
Banco Terra	African Bank
Banco Unico	Bidvest
Barclays Bank	Capitec Bank
BCI	FNB
BNI	First Rand Bank
Ecobank	Grindrod
FNB	Investec
Millennium BIM	Nedbank Limited
Standard Bank	Standard Bank

3.2.2 Profitability Measurable

Several research used market indicators that include the market to book ratio (MTB), stock returns (SR), and net profit margin (NPM). Numerous studies employed accounting approaches to estimate profit (return on assets = ROA, return on equity = ROE, return on sales = ROS, and sales growth rate = SGR) (kans, 2016). Januari and Suardikha (2019) agreed that the metrics of profitability utilised in this study were ROA and ROE. International Financial Reporting Standards (IFRS) made by the International Accounting Standards Board (IASB), ROE and ROA are reported in Mozambique as well as South Africa's financial statements.

3.3 Model Specific

The article suggested Eq. (2) to investigate the influence of SR on Profitability H1 and H2, computed fixed effects for such entire sample including both the sub-samples (SA as well as Moz), and utilised the VIF - variance inflation factor to find multicollinearity between independent variables. The Durbin-Watson test was used in this research to examine the issue of autocorrelation among the variables, as well as the Hausman test was used to address the endogeneity issue:

$$P = \lambda_0 + \lambda_1 SR_Dindi,t + \lambda_2 LNSizei,t + \lambda_3 Cap_Ri,t + \lambda_4 Loan_Ri,t + \lambda_5 Debit_Ri,t + \theta_i + \varepsilon_{i,t} \quad (\text{Model 1})$$

To test H1 throughout the whole sample, the model specific to incorporate the predicate connection between banks (Moz and SA) and profitability was derived as follows:

$$P = \lambda_0 + \lambda_1 SA * SR_Dindi,t + \lambda_2 MOZ * SR_Dindi,t + \lambda_3 LNSizei,t + \lambda_4 Cap_Ri,t + \lambda_5 Loan_Ri,t + \lambda_6 Debit_Ri,t + \theta_i + \varepsilon_{i,t} \quad (\text{Model 2})$$

The engagement variables $SA * SR_Dindj,t$ and $MOZ * SR_Dindj,t$ evaluate the influence of SR reporting on Profitability hypothesis (H1) by characterising banks whether as South Africa (SA) or Moz. If the H1 is correct, it anticipates that the SA banks' coefficient (λ_1) will be favourable, larger in size, and more significant than the Moz banks' coefficient (λ_2).

To test H2 over the whole sample, it expanded the fundamental model to look at how a positive sign of volunteer SR reporting (SR_DiST) compares to a negative indication of volunteer SR reporting (SR_DiCO), as indicated in Eq. (4):

$$P = \lambda_0 + \lambda_1 SA * SR_DiSTi,t + \lambda_2 SA * SR_DiCOi,t + \lambda_3 MOZ * SR_DiSTi,t + \lambda_4 MOZ * SR_DiCOi,t + \lambda_5 LNSizei,t + \lambda_6 Cap_Ri,t + \lambda_7 Loan_Ri,t + \lambda_8 Debit_Ri,t + \theta_i + \varepsilon_{i,t} \quad (\text{Model 3})$$

If H2 is correct, it predicts that the coefficients for positive indicators (λ_1 and λ_3) will be greater in size and relevance compared to negative indicators (λ_2 as well as λ_4).

Rebuild the model with each possible SR reporting category (social innovation, human capital, customer support & item, and surrounding area) as a measure of total SR reporting, as shown in Eq (5):

$$P = \lambda_0 + \lambda_1 \text{SR_Disi,t} + \lambda_5 \text{LNSizei,t} + \lambda_6 \text{Cap_Ri,t} + \lambda_7 \text{Loan_Ri,t} + \lambda_8 \text{Debit_Ri,t} + \theta_i + \varepsilon_{i,t} \quad (\text{Model 4})$$

3.3.1 Variable description

3.3.1.1 Dependent Variable

For dependent variables, the research employs two commonly used profitability indicators, ROA and ROE (Widiyanti and Wahyuni, 2020). This analysis overlooks the metric of market-return as certain institutions are not publicly traded. In order to mitigate the consequences of various international tax laws, it aggregated financial data into U.S. dollars and used pre-tax income as a measure of profitability.

3.3.1.2 Independent Variable

SR-Dindit reflects each personal classification of SR reporting (environmental, consumer and item, social capital, as well as surrounding area) to investigate how another aspect comes into contact with profitability Eq (1), SR-Disi,t signifies a positive index of SR reporting, SR-DiCOit, signifies a negative index of SR reporting (Januari and Suardikha, 2019).

3.3.1.3 Control Variable

The bank's size, capital ratio, loan ratio, and debt ratio are a few of the control variables examined in this research and they are characterized as follows: size of the bank as determined by the natural logarithm of its total assets (LNSize). Larger banks have greater resources to engage in SR activities and disclosure because of their ability to obtain inexpensive capital. They also contribute more to the community than smaller banks do (Martos-Pedrero et al., 2019). The expected relationship between bank size and profitability is one that is both favourable and substantial. The capital ratio (Cap_R) is determined by dividing equity capital by total assets. The capacity of the banks to expand underneath the current capital structure is determined by an indication of the banks' undetectable default probability.

According to Galdeano et al. (2019), the banks with the greatest capitalization levels frequently engage actively in SR activities. It foresees a favourable correlation between SR and profitability. To manage the bank's earning potential, the loan ratio (Loan_R) is calculated as the sum of all loans split by the total of all assets (Januari and Suardikha, 2019). This statistic, which represents one of the primary ways that banks generate income, is also employed as a measure of bank default risk. The expected relationship between profitability and SR is favourable and substantial. The debt ratio (Debit_R) is the long-term debt divided by the bank's total assets at time t. It anticipates that the Profitability and SR will result in a negative correlation with the debt ratio factor (Zelazna et al., 2020). The error term is denoted by $\varepsilon_{i,t}$, while the non - observable financial institution impacts, such as bank company culture, are indicated by θ_i . λ_0 signifies the intercept, $\lambda_1... \lambda_n$ designates the regression coefficients.

4. Results and Discussion

4.1 Correlation Matrix and Statistics

Table 3 panels A, B, and C provide the descriptive and inferential statistics for such study's target variables both country (Mozambique as well as South African banks). Using panel data ranging from 2015 to 2019, the fixed-effects technique was used to evaluate the model's coefficients. The standard deviation for banks in Mozambique is larger (0.1916 vs 0.0928) than the standard deviation for banks in South Africa, according to the variable SR_Dind. This suggests that Mozambique banks have quite different attitudes on disclosure practices of the SR. The effectiveness variable is depicted in Table 3 with the greatest mean ROA and ROE values for South

African banks and the minimum average ROA value for Mozambique banks, respectively, both being 0.0256 with a standard deviation of 0.1982. This highlights the research period and demonstrates that banks did not register deficits in line with the typical positive result of the profitability ratio. The greatest mean value for bank size was found in SA banks, which had a standard deviation of 0.1782 and a mean value of about 6.0042.

Variable Cap_R's mean value for bank capital types is 0.2255 as opposed to Mozambique banks' mean value of 0.1926. The mean loan ratio for banks in SA is 0.0184, whereas that of banks in Mozambique is 1.98% on average, with a standard deviation of 0.141. The debt ratio for SA banks is between 0.0401 and 0.0779, but the mean for Mozambique banks is 0.0524, or about 5%. The Pearson correlation matrix of significant factors across the entire sample (Panel A) and Mozambique banks (Panel B), as well as South African banks, is shown in Table 4. (Panel C). The correlation matrix between the SR reporting index but each profitability variable is highlighted in this study; the coefficients are statistically significant and positive for both the complete sample and both sub-samples (Mozambique and South Africa). All evaluations among several other factors are consistent with earlier literature, which is in accordance with Mahdiraji et al. (2020)'s research and at odds with ZM (2021)'s research. Although most variables have modest correlation coefficients, collinearity does not appear to be a major problem with this research.

4.2 Empirical Findings

Table 4 displays the findings for both sub-samples as well as the entire sample. The models comprise control variables, the independent variable, the SR index, and the dependent variables, ROA and ROE. The table also displays the calculated coefficients λ_n as well as related to t-values (in parenthesis). The fact that both the complete sample and both sub-samples had a substantial positive coefficient on SR_Dindj,t indicates that banks voluntarily disclose their SR activities.

Table 2.
Descriptive
analysis

Section A: Whole sample				
Variables	Mean	Max	Min	Std. Dev.
SR_Dind	0.217	0.226	0.143	0.135
SR_DiST	0.163	0.221	0.088	0.129
SR_DiCO	0.100	0.202	0.093	0.164
ROA	0.035	0.037	0.024	0.132
ROE	0.037	0.041	0.030	0.101
LNSize	6.004	7.240	3.179	0.163
Cap_R	0.226	0.499	0.165	0.118
Loan_R	0.020	0.029	0.014	0.174
Debit_R	0.051	0.078	0.039	0.182
Section B: Moz Banks sub-sample				
SR_Dind	0.110	0.197	0.010	0.192
SR_DiST	0.131	0.198	0.071	0.199
SR_DiCO	0.097	0.156	0.031	0.207
ROA	0.022	0.026	0.019	0.198
ROE	0.032	0.034	0.020	0.191
LNSize	4.063	5.998	2.006	0.184
Cap_R	0.193	0.421	0.102	0.098
Loan_R	0.018	0.025	0.002	0.099
Debit_R	0.050	0.061	0.008	0.117

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Table 3. Correlation matrix of the principal variable

Section C: SA Banks sub-sample									
SR_Dind		0.227		0.229		0.133		0.093	
SR_DiST		0.199		0.202		0.072		0.167	
SR_DiCO		0.104		0.199		0.067		0.195	
ROA		0.037		0.043		0.029		0.164	
ROE		0.039		0.046		0.028		0.172	
LNSize		6.179		7.034		3.982		0.178	
Cap_R		0.230		0.445		0.126		0.155	
Loan_R		0.020		0.021		0.014		0.141	
Debit_R		0.051		0.078		0.040		0.198	

Section A: Whole sample									
Variable	ROA	ROE	SR_Dind	SR_DiST	SR_DiCO	LNSize	Cap_R	Loan_R	Debit_R
ROA	1.000								
ROE	0.313**	1.000							
SR_Dind	0.339**	0.362**	1.000						
SR_DiST	0.302**	0.291**	0.271**	1.000					
SR_DiCO	0.297**	0.288**	0.248**	0.311	1.000				
LNSize	0.301**	0.332**	0.312**	0.238**	0.281**	1.000			
Cap_R	0.229	0.229	-0.227	0.303**	0.294**	-0.211	1.000		
Loan_R	0.239***	0.239***	-0.245***	-0.202***	0.291	-0.225	0.331	1.000	
Debit_R	-0.201	-0.201	-0.201	-0.224	0.225**	0.395	0.211	-0.322	1.000

Section B: Moz Banks sub-sample									
Variable	ROA	ROE	SR_Dind	SR_DiST	SR_DiCO	LNSize	Cap_R	Loan_R	Debit_R
ROA	1.000								
ROE	0.372**	1.000							
SR_Dind	0.309**	0.310**	1.000						
SR_DiST	0.393**	0.346**	0.385**	1.000					
SR_DiCO	0.336**	0.347**	0.341**	0.401**	1.000				
LNSize	0.411	0.411	0.413	0.212**	0.310**	1.000			
Cap_R	0.326	0.327	-0.334	0.327**	0.315	-0.323	1.000		
Loan_R	0.324***	0.322***	-0.334***	-0.225***	0.269	-0.321	0.395	1.000	
Debit_R	-0.301	-0.301	-0.301	-0.241	0.217**	0.405	0.013	-0.322	1.000

Section C: SA Banks sub-sample									
Variable	ROA	ROE	SR_Dind	SR_DiST	SR_DiCO	LNSize	Cap_R	Loan_R	Debit_R
ROA	1.000								
ROE	0.311**	1.000							
SR_Dind	0.299**	0.312**	1.000						
SR_DiST	0.301**	0.311**	0.296**	1.000					
SR_DiCO	0.298**	0.299**	0.303**	0.339**	1.000				

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Table 4.
Profitability and
SR index results
evaluated
(Model 1, Eq (2))

LNSize	0.401**	0.402**	0.401**	0.231**	0.310**	1.000			
Cap_R	0.241	0.242	-0.241	0.313**	0.325**	0.324	1.000		
Loan_R	0.290***	0.291***	0.291***	-0.255***	0.296	-0.268	0.382	1.000	
Debit_R	-0.297	-0.297	-0.297	-0.239	0.331**	0.395	0.028	-0.283	1.000
Statistical significance at 10%, 5%, and 1% levels, respectively (two-tail).									
Variables	Whole Sample								
	ROA	ROE	Moz Banks	SA Banks	Moz Banks	SA Banks			
Intercept	0.034** (-2.377)	0.029** (-2.350)	0.044** (-4.054)	0.031** (-3.296)	0.451** (-4.071)	0.157** (-3.447)			
SR_Dind	0.060** (4.255)	0.071** (4.127)	0.062** (4.215)	0.074** (4.917)	0.043*** (3.728)	0.054*** (3.442)			
LNSize	0.043*** (5.243)	0.048*** (5.994)	0.040*** (4.981)	0.043*** (5.280)	0.037*** (4.818)	0.039*** (4.613)			
Cap_R	0.076** (4.219)	0.081** (4.319)	0.056** (4.138)	0.075** (4.379)	0.0720** (3.902)	0.043** (3.800)			
Loan_R	3.063* (3.044)	3.123* (3.045)	2.094* (3.037)	2.263* (3.104)	1.997 (2.874)	1.876* (2.110)			
Debit_R	0.030** (-1.076)	0.028** (-1.053)	0.019 (-1.063)	0.014** (-1.031)	0.205 (-1.083)	0.182** (-1.053)			
Year-specific impacts	Incorporate	Incorporate	Incorporate	Incorporate	Incorporate	Incorporate	Incorporate		
Bank-specific impacts	Incorporate	Incorporate	Incorporate	Incorporate	Incorporate	Incorporate	Incorporate		
R-square	0.418	0.539	0.408	0.538	0.412	0.535			
Adj_R square	0.369	0.378	0.351	0.366	0.354	0.361			
F-test	15.631	15.469	14.964	15.003	15.175	15.002			
Prob. (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000			
Durbin-Watson Stat.	1.774	1.846	2.121	2.118	2.075	2.199			
Max VIF	2.375	2.402	2.422	2.439	2.397	2.418			
Banks	20	20	10	10	10	10			
Obs.	100	100	50	50	50	50			
Statistical significance at 10%, 5%, and 1% levels, respectively (two-tail).									

These results contrast with those of Januari and Suardikha (2019), who discovered a negative association between SR and Profitability, and are in line with research by Ramzan et al. (2021), among others. These findings support the hypothesis that banks could strengthen client loyalty and may improve profitability by engaging in more socially responsible actions and transparency. The results also provide credence to the notion that investors should evaluate banks' SR reporting policies and practices. The findings are consistent with the stakeholder paradigm, suggesting that socially conscious business practices as well as reporting may help boost profitability. The coefficient on SR Dind_{it} for the ROA model has a larger dimension as well as is more

significant (0.074 vs 0.062 and $P < 0.05$), as can be shown. According to this assessment, the SR reporting score and profitability have a positive association, indicating that the profitability is greater when SR information is disclosed.

The results are consistent with the theoretical frameworks examined, which predict a favourable association between SR reporting and Profitability (Lin et al., 2020). According to Ramzan et al. (2021), the competitiveness around through companies is a crucial factor affecting this favourable connection. This supports H1, which contends that SA banks have a greater and much stronger positive correlation among SR reporting and profitability than Moz banks. The four control variables were all statistically relevant (at least 0.1, 0.05, and 0.01) as expected, indicating that the models are accurate. The size regression coefficient (LNSize) is statistically relevant ($p < 0.10$ or greater) and positive, suggesting that larger banks are reporting more SR data and contributing to society than smaller institutions (Popova et al., 2019). The capital ratio (Cap_R) improves profitability and exhibits a statistically significant impact at 5%. As a result, the most capitalised banks frequently engage in aggressive SR conduct and reporting (Brin and Nehme, 2019). The positive and statistically relevant ($p < 0.01$ or greater) regression coefficient for the loan ratio (Loan_R) shows the banks' ability to make money. As anticipated, the debt ratio's (Debit_R) regression coefficient is negative and statistically significant ($p < 0.05$ or higher) (Brin and Nehme, 2019). In relation to the ROE-based robustness test (Eq. (2), model 1).

As shown in Table 4, the outcome is comparable to that of the first model (ROA), and both models are resilient to predict the influence of the variable and relevant at least in Prob. $F < 0.1$. Moz banks had higher and more relevant SR reporting indices ($\lambda_1 = 0.0543$, $P\text{-value} < 0.1$, and $t\text{-stat} = 3.422$) than for SA banks ($\lambda_1 = 0.0431$, $P\text{-value} < 0.1$, and $t\text{-stat} = 14.3728$). The results of this study confirm the stakeholder theory's prediction that businesses' adoption of socially responsible practices will have a favourable impact on their profitability.

The coefficient on SR_Dindj,t has a larger size and stronger significance, indicating that SA banks will be more affected by this influence than Moz banks. It was noted that all of the control variables were statistically relevant (at minimum at 0.01, 0.05, and 0.1) as expected, indicating that the models are accurate. Equation (3), model 2, which is a component of the research, expands the fundamental model in equation (2) to account for Equation (3), model 2, which is a component of the research, expands the fundamental model in equation (2) to account for contractual connections seen between banks as well as profitability. The increased size and importance of the coefficient on SR_Dind for the whole sample are shown in Table 6, which indicates the influence is much more relevant for SA banks than Moz banks ($\lambda_1 = 0.057$ and $\lambda_1 = 0.068$, $p < 5\%$ or higher than $\lambda_2 = 0.049$ and $\lambda_2 = 0.051$, $p < 5\%$). The coefficient on SR_Dindj,t has a larger size and stronger significance, indicating that SA banks will be more affected by this influence than Moz banks. It was noted that all of the control variables were statistically relevant (at minimum at 0.01, 0.05, and 0.1) as expected, indicating that the models are accurate. Equation (3), model 2, which is a component of the research, expands the fundamental model in equation (2) to account for contractual connections seen between banks and profitability. The increased size and importance of the coefficient on SR_Dind for the full sample are shown in Table 4, which indicates how this influence is substantially higher significant for SA banks than Moz banks ($\lambda_1 = 0.057$ and $\lambda_1 = 0.068$, $p < 5\%$ or higher than $\lambda_2 = 0.049$ and $\lambda_2 = 0.051$, $p < 5\%$).

Such a result further corresponds nicely with the notion that, in comparison to sustainable development, less developed nations naturally place a higher priority on revenues and operational effectiveness. Moreover, it is consistent with the notion that developing nations have a considerably higher need for voluntary SR reporting than rising nations. Our results demonstrated that whereas some governments, like those of China, India, and Brazil (Kans, 2018), have started SR practices, other rising nations still have a long way to go before reaching sustainable development goals. All the control variables were found to be unaltered. When the F-test was used to assess the coefficient

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on the connection variables between the two banks in the two nations, the results were significantly more significant than the usual threshold (the minimal level of 10); the rejecting of the null hypothesis ($p < 0.000$). The greatest Adj. R-squared is 0.366 for SA banks and 0.354 for Moz banks, suggesting that such model hardly describes 36.6% and 35.1% for SA banks, respectively, and that the unused percentages might have been clarified through complicating variables. The most of models are statistically relevant (P-value 0.05). The greatest VIF - variance inflation factor for SA was also determined to be 2.439, which was greater than 2.422 for Moz banks, showing that multicollinearity may not show up as a cause for concern.

The highest value of the Durbin-Watson test was 2.121, which ruled out the residual autocorrelation hypothesis in relation to the autocorrelation issue. The findings support the stakeholder theory's prediction since they show that voluntary SR reporting has a positive and statistically significant impact on profitability for both two models (ROA as well as ROE). This data supports the first hypothesis, which is approved. Meaning that the banking industry is voluntarily assume responsibility, this conduct also helps banks be more profitable, and SA banks have a considerably stronger positive correlation between SR reporting and profitability than Moz banks do. The results of Januari and Suardikha (2019), who discovered a negative link between SR and profitability, are at odds with those of Brin and Nehme (2019) research.

Table 5.
The results of
the conditional
interactions
between the
Profitability and
SR indices for
the entire
sample (Model
2, Eq. (3)).

Variables	ROA	ROE
Intercept	0.037** (-3.235)	0.031** (-3.914)
SA* SR_Dind	0.057** (4.677)	0.068** (4.986)
Moz* SR_Dind	0.049** (4.019)	0.051** (4.532)
LNSize	0.041*** (4.993)	0.044*** (5.013)
Cap_R	0.069** (4.361)	0.076** (4.518)
Loan_R	3.161* (3.141)	3.177* (3.124)
Debit_R	0.031** (-1.128)	0.030** (-1.123)
Year-specific impacts	Incorporate	Incorporate
Bank-specific impacts	Incorporate	Incorporate
Adj_R square	0.353	0.361
F-test	15.521	15.337
Prob. (F-statistic)	0.0000	0.0000
Durbin-Watson Stat.	1.769	1.712
Max VIF	2.399	2.402
Banks	20	20
Obs.	100	100

Statistical significance at 10%, 5%, and 1% levels, respectively (two-tail).

In order to determine if a positive indication of optional SR reporting (SR_DiST) varies from a negative predictor of optional SR reporting (SR_DiCO) in higher profitability, the research expands the fundamental model in equation (2). The coefficient of SR_DiST is significant and positive for all measures of profitability, as can be seen in Table 6 ($\lambda_1 = 0.040$, $\lambda_3 = 0.047$, $p < 5\%$ or better for ROA model and $\lambda_1 = 0.040$, $\lambda_3 = 0.048$, $p < 5\%$ or higher for ROE model). The coefficient of SR_DiCO is

positive and not statistically relevant for both models at the average degree ($p > 10\%$), with SA banks seeing a larger effect than Moz banks ($\lambda_1 > \lambda_3$). The fact that none of the control variables changed was noticed. The research discovered that the two coefficients' divergence (SR DiST vs SR DiCO) is substantial as well as positive (min F-test: 13.27), exceeding the typical threshold (the min of 10). The **H2** theory is supported by the data, that also show that a positive voluntary SR indicator has a bigger influence on profitability than a negative indicator and is significantly more prevalent in SA banks than in Moz banks.

Table 6.
The assessment of the Positive and Negative Indicators of optional SR reporting: Model 3, Eq (4)

Variables	ROA		ROE	
	MOZ Bank	SA Bank	MOZ Bank	SA Bank
Intercept	0.048** (-4.762)	0.042** (-3.307)	0.048** (-4.039)	0.042** (-3.302)
SR_DiST	0.040** (4.001)	0.047** (5.983)	0.040** (4.026)	0.048** (5.281)
SR_DiCO	0.033 (3.958)	0.041 (4.813)	0.037 (4.008)	0.040 (5.051)
LNSize	0.041*** (4.637)	0.044*** (4.812)	0.041*** (4.519)	0.043*** (4.627)
Cap_R	0.051** (4.987)	0.062** (5.092)	0.050** (4.998)	0.062** (5.121)
Loan_R	2.131* (4.101)	2.957* (5.017)	2.131* (4.111)	2.958* (5.002)
Debit_R	0.029** (-1.133)	0.022** (-1.009)	0.029** (-1.132)	0.022** (-1.008)
Year-specific impacts	Incorporate	Incorporate	Incorporate	Incorporate
Bank-specific impacts	Incorporate	Incorporate	Include	Incorporate
R-square	0.402	0.498	0.403	0.498
Adj_R square	0.341	0.352	0.341	0.353
F-test	13.265	13.793	13.372	13.996
Prob. (F-statistic)	0.0000	0.0000	0.0000	0.0000
Durbin-Watson Stat.	1.836	1.902	1.815	1.898
Max VIF	2.331	2.404	2.341	2.403
Banks	10	10	10	10
Obs.	50	50	50	50

Statistical significance at 10%, 5%, and 1% levels, respectively (two-tail).

4.3 Robustness Evaluations

Rerun the model using each optional SR reporting classification as a measure to determine the overall SR reporting score. Table 7 shows that every optional SR reporting category has a positive relationship with profitability and that the P-value is smaller than the required 0.05, recommending that the banking industry employ these SR behaviours, except for (SR_D1) and (SR_D4), as a tool to improve profitability. Particularly for the Mozambique banks included in this study, it indicates that the banking industry publishes less on environmental initiatives and social integration than some other areas of discretionary SR reporting.

As predicted by Brin and Nehme (2019) the findings demonstrate that ethical commitment and civic engagement do not appear to have a beneficial impact on profitability, and in fact, the models imply that the effect may even be nil (2017). The lack of significance of the environmental initiative's impact on profitability ($\lambda_1 = 0.001$, P-value > 0.1) may be attributed to Mozambique's underdeveloped status in comparison to SA. This implies that getting managers involved in SR reporting depends critically on the degree of national growth. In contrast to managers in wealthy nations

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who focus their SR strategies on environmental concerns and projects that help the community thrive and maintain itself, bank executives in far less advanced nations are not keen on exploring sustainability programs. This study highlights the differences in SR practices among industrialised and developing nations. These results also imply that not all specific voluntary SR reporting classifications have an impact on profitability, suggesting that banks did not always reap financial rewards from their profitability. This may have occurred due to inadequate reporting of SR activities and a lack of coordination between its execution and strategy (Anggraini and Tanjung, 2020). These results are consistent with those of Finishtya et al. (2021). This finding suggests that there is no statistically significant correlation among profitability as well as any of the various SR reporting practise classifications.

Table 7.
Results of the
robustness
evaluation for each
SR classification
and the ROA
(Model 4, Eq. (5))

Variables	SR_D1		SR_D2		SR_D3		SR_D4	
	Moz Banks	SA Banks	Moz Banks	SA Banks	Moz Banks	SA Banks	Moz Banks	SA Banks
Intercept	0.069* (-4.496)	0.055** (-4.744)	0.067** (-4.491)	0.055** (-4.744)	0.057** (-4.319)	0.054** (-4.028)	0.053** (-4.015)	0.055** (-3.992)
SR_D1	0.001 (1.997)	0.678** (4.012)						
SR_D2			0.462** (4.201)	0.533** (4.028)				
SR_D3					0.626** (4.005)	0.526** (4.022)		
SR_D4							0.053 (3.913)	0.0476*** (4.011)
LNSize	0.040*** (4.572)	0.042*** (5.314)	0.040*** (4.156)	0.042*** (5.044)	0.040*** (5.457)	0.042*** (5.023)	0.040*** (4.313)	0.043*** (5.151)
Cap_R	0.055** (4.169)	0.069** (4.013)	0.055** (4.168)	0.069** (4.013)	0.055** (4.168)	0.069** (4.014)	0.055** (4.169)	0.069** (4.013)
Loan_R	2.009* (3.186)	2.067* (3.192)	2.089 (3.353)	2.067* (2.123)	2.009* (3.353)	2.067 (2.137)	2.009* (3.355)	2.059* (2.125)
Debit_R	0.033** (-1.073)	0.024** (-1.068)	0.033** (-1.073)	0.024** (-1.068)	0.033** (-1.074)	0.024** (-1.069)	0.033** (-1.073)	0.024** (-1.068)
Adj_R square	0.335	0.345	0.338	0.349	0.331	0.346	0.339	0.346
F-test	15.004	15.271	16.005	15.997	15.924	15.326	15.886	15.973
Prob. (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Durbin-Watson Stat.	1.914	1.896	1.881	1.936	1.925	1.903	1.921	1.922
Max VIF	2.241	2.24	2.401	2.405	2.411	2.397	2.226	2.301
Banks	10	10	10	10	10	10	10	10
Obs.	50	50	50	50	50	50	50	50

Statistical significance at 10%, 5%, and 1% levels, respectively (two-tail).

Table 8.
Endogeneity
test with 2SLS
regression

Variables	ROA		ROE	
	1st Stage	2nd Stage	1st Stage	2nd Stage
Intercept	0.161** (-4.887)	0.459** (5.983)	0.135** (-4.914)	0.088** (6.028)
SR_DiST		1.048** (4.972)		1.076** (5.012)
Instrumental Variables	coeff. (t-stat.)	coeff. (t-stat.)	coeff. (t-stat.)	coeff. (t-stat.)
Bank Mean SR	0.230 (4.739)	0.230 (4.739)	0.230 (4.739)	0.230 (4.739)
Post-Estimation Test for Instrumental Variables		32.272		32.272

Predictive Power Partial R ² Robust F-Test				
p-value		0.000		0.000
Test of under-identification		27.998		27.998
Kleiberge-paapr LM statistic				
p-value		0.000		0.000
Endogeneity test		63.781		63.781
Durbin-Wu-Hausman test				
Chi-sq.(1) p-value		0.000		0.000
Description of all major variables	Incorporate	Incorporate	Incorporate	Incorporate
Year fixed effects	Incorporate	Incorporate	Incorporate	Incorporate
Particular bank impacts	Incorporate	Incorporate	Incorporate	Incorporate
Robust	Yes	Yes	Yes	Yes

Statistical significance at 10%, 5%, and 1% levels, respectively (two-tail).

This may have occurred due to inadequate disclosure of SR activities and a lack of coordination between its execution and strategy (Lombardi et al., 2020). These results are consistent with those of (Martos-Pedrero et al., 2019). This finding suggests that there is no statistically significant correlation between profitability and any of the various SR reporting practice classifications. It was observed that all of the control variables remained constant and were still statistically significant (at least at 0.01, 0.05, and 0.1), as expected. Since the study used the appropriate statistical test to address it, multicollinearity, endogeneity, and heteroscedasticity as shown in Table 7 do not seem to be issues with the autocorrelation.

4.4 Regression Analysis (2SLS) of Instrumental Variables

In accordance with other research Ramzan et al. (2021), the study used 2SLS regression to evaluate the results' explanation while avoiding the endogeneity issue. The results demonstrate that even when endogeneity is taken into consideration, the coefficients of SR DiST are still positive and significant at the average degree ($\lambda = 0.48$, $P < 5\%$). Our results suggest that endogeneity cannot explain the large and positive relationship between SR activities and profitability. The research then performed the F-test using the two models, and the results were 32.27, which is higher than the typical level (the minimum of 10); based on these findings, the null hypothesis was disregarded ($p < 0.000$) (see Table 8).

There are at least three restrictions to this study: The study's focus on a small sample (the biggest 10 banks in every nation) makes it less intriguing than it could be if all banks had been included in the sample. Due to the fact that just 5 years of data were used for analysis, the study's findings may have differed if the time period had been prolonged. It is therefore feasible to draw the conclusion that discretionary reporting might not even make an exact opinion of SR contribution since the SR reporting method of measuring does not encompass every facet of SR initiative, like the SR disclosure score supplied by SR credit ratings. The study relied on data collected by the researcher from financial statements and bank websites. It is thought that the results would assist individuals in comprehending how the UN's proposals for SR reporting and company profitability work as they can raise a little amount of money from prospective buyers to advance environmental sustainability and improve profitability.

This essay adds to the financial reporting by contrasting the banks in Southern Africa in a variety of manners. It is the initial effort at looking into how optional SR reporting's positive and negative indicators may more effectively contribute to enhancing profitability. The research significantly elucidates the relationship between SR reporting and profitability by throwing light on SR's behaviour in the banking industry, answering the unresolved problem relating SR reporting and profitability in

the banking industry. The study's findings may be used by lawmakers and shareholders to help explain how banks operate in these two nations. Future study may use the SSE efforts suggested by the UN as well as other sustainable indices because there are several sustainability indices available worldwide. This idea can more accurately depict the continuous improvement of banks and offer in-depth knowledge into the SR-Profitability when the analysis' time frame is extended. The banking industry may be able to enhance its profitability and pursue sustainable development with the support of the optional report on SR reporting actions.

5. Conclusion

The research reveals that voluntary SR reporting differs by country and that the positive SR reporting index has a considerably higher effect on raising profitability than the negative SR reporting index. It is noteworthy that the degree of growth in the country is a crucial factor in tying SR reporting and profitability together since it shows that banks in Mozambique are less committed to disclosing their SR operations than do banks in SA. It further suggested that the SSE project be adopted by all banks.

Table 9.
SR reporting
classifications
score by country,
Appendix A.
(2015-2019)

Year	Moz				SA			
	SR_D1	SR_D2	SR_D3	SR_D4	SR_D1	SR_D2	SR_D3	SR_D4
2015	0	6	6	1	10	10	10	5
2016	0	6	11	3	13	8	10	7
2017	0	7	14	8	13	9	14	10
2018	0	10	18	8	15	11	13	13
2019	3	20	20	12	26	23	18	20
Total	3	49	69	32	77	61	65	55

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