INTERNATIONAL JOURNAL OF APPLICATION ON ECONOMICS AND BUSINESS
IJAEB E-ISSN 2987-1972
UNTAR Universitas Tarumanagara

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND INTELLECTUAL CAPITAL ON FINANCIAL PERFORMANCE

PDF (https://journal.untar.ac.id/index.php/ijaeb/article/view/34164/20443)

Published: Feb 28, 2025

DOI: https://doi.org/10.24912/ijaeb.v3i1.419-428 (https://doi.org/10.24912/ijaeb.v3i1.419-428)

Keywords:
Bank's Financial Performance, Return on Equity, Corporate Social Responsibility, Intellectual Capital

Dimensions

(https://badge.dimensions.ai/details/doi/https://doi.org/10.24912/ijaeb.v3i1.419-428?domain=https://journal.untar.ac.id)

Altmetrics

(https://www.altmetric.com/details.php?domain=journal.untar.ac.id&doi=10.24912%2Fijaeb.v3i1.419-428)

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Abstract

The objective of this study is to gather empirical data about how corporate social responsibility with intellectual capital affect economic performance of banking institutions that are listed on Indonesia Stock Exchange (IDX) between 2018 and 2022. In this study, 10 samples and 50 data points from banking businesses were chosen using the purposive sampling method. Microsoft Excel 2016 and the SPSS Version 25 software were used for data collection and analysis. The study's conclusions show that corporate social responsibility along with intellectual capital have a favourable yet substantial impact on financial success.

ISSUE

Vol. 3 No. 1 (2025): February 2025 (https://journal.untar.ac.id/index.php/ijaeb/issue/view/790)

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ISSN

ISSN 2987-1972 (https://issn.brin.go.id/terbit/detail/20230426411707807)

ISSN PUSAT NASIONAL ISSN INDONESIA (https://issn.brin.go.id/terbit/detail/20230426411707807)

Indexed by :

(https://scholar.google.com/citations?hl=id&user=UuFn-joAAAAJ&view_op=list_works&authuser=2&gmla=AOV7GLMmf1WMkuBiJJMC0LiHjEROH-c_rOjP_5mNgA2HCGL6-7p0men-j8wm22Zu3MGLdhGHqGsTFvVj60JgtCV4)

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(https://app.dimensions.ai/discover/publication?search_mode=content&search_text=10.24912%2Fijaeb&search_type=kws&search_field=text_search)

(https://portal.issn.org/resource/ISSN/2987-1972)

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(https://journal.untar.ac.id/index.php/ijaeb/about/aboutThisPublishingSystem)

International Journal of Application on Economics and Business (IJAEB)
Volume 3, Issue 1, 2025. ISSN: 2987-1972

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND INTELLECTUAL CAPITAL ON FINANCIAL PERFORMANCE

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Submitted: 05-11-2024, Revised: 20-12-2024, Accepted: 13-02-2025

ABSTRACT

The objective of this study is to gather empirical data about how corporate social responsibility with intellectual capital affect economic performance of banking institutions that are listed on Indonesia Stock Exchange (IDX) between 2018 and 2022. In this study, 10 samples and 50 data points from banking businesses were chosen using the purposive sampling method. Microsoft Excel 2016 and the SPSS Version 25 software were used for data collection and analysis. The study's conclusions show that corporate social responsibility along with intellectual capital have a favourable yet substantial impact on financial success.

Keywords: *Bank's Financial Performance, Return on Equity, Corporate Social Responsibility, Intellectual Capital*.

1. INTRODUCTION

The banking industry is undergoing operational changes due to technological advancements and intensifying industrial competitiveness. In this context, the finance sector is emerging as a significant economic catalyst for a nation. To ensure sustainable economic growth, a range of financial services and products should be available to businesses, including payment processing, investment products, and increased financial inclusion. Financial stability should be preserved as well. When financial institutions can uphold public confidence, facilitate the flow of payments, support monetary policy, and serve as intermediaries, they are considered to be in good financial health. Four criteria are used to evaluate the health of a bank: capital, profitability, excellent corporate governance, and risk profile. When assessing the financial performance of a bank, crucial ratios like liquidity, solvency, and profitability are utilised.

An essential ratio to consider is the Return on Equity (ROE). ROE compares earnings to a bank's primary funding to determine the efficiency with which the bank generates profits. As it provides a direct indication of a bank's profit generation efficiency, ROE is frequently of interest to investors and financial analysts. In bank management, return on equity (ROE) serves as a performance metric to ascertain the efficacy and efficiency of risk management. Apart from financial considerations, banks also incorporate non-financial factors, including intangible assets like intellectual capital and corporate social responsibility into their economic performance. This indicates that banks have transitioned from being solely financial institutions to emerging as significant participants in social and economic ecosystem of a nation.

Intellectual capital is a company's complete value, which is comprised of three major pillars of intangible assets: human capital, structural capital, and consumers. The prominence of technological advancements has led to the displacement of physical capital by intellectual capital, and hence became the primary objective of competitive strategies for businesses. On the other hand, Corporate Social Responsibility (CSR) indicates an organization's ethical conduct and active participation in fostering sustainable economic growth. Through the

implementation of CSR, businesses can enhance their reputation, reinforce their stakeholder relationships, and generate a more extensive positive influence

Despite the conviction of financial institutions that Corporate Social Responsibility (CSR) along with Intellectual Capital (CSR) positively impact economic performance, the available empirical proof remains insufficient to substantiate this assertion. Indeed, the implementation of non-financial strategies by several institutions has been marred by difficulties, with no discernible improvement in their financial performance. Therefore, the objective for this research was to discover the correlation between Intellectual Capital including Corporate Social Responsibility with IDX-recorded economic performance of banks.

The research is expected to provide several advantages based on the objectives it aims to achieve. This research will enhance comprehension of correlation among Corporate Social Responsibility as well as Intellectual Capital within the banking industry, providing a foundation for future investigations. The findings of this research can be a valuable resource for investors, particularly those in the banking industry when making investment selections. This research may serve as an asset for company management in their efforts to develop sustainable, long-term strategies.

This research has a structure consisting of six main sections. First, the introduction presents the background information, the study aims, and topic of this study. Second, a theoretical review addresses theories or ideas that are relevant to the subject of the research. Third, a literature review that examines the findings of previous studies that are relevant to the research. Fourth, the method describes the approach and procedures implemented during the research. In the fifth section, the research findings and discussion are presented together with a discussion. Lastly, the conclusion contains the main findings, consequences, and suggestions for further research.

Resource Based Theory

According to Wernerfelt (1984), Resources Based Theory explains the significance of a firm's unique resources, which are resources that impart additional value and are challenging for rivals to replicate. There are two categories of these resources: intangible and tangible resources. Physical assets that are quantifiable, such as finished goods inventory, production apparatus, and facilities, are tangible resources (Hitt et al., 2016). In contrast, intangible resources consist of customer relationships, organizational culture, knowledge, and skills (ERIK SVEIBY, 1997). For the purpose of achieving long-term competitive advantage, this theory emphasizes the significance of identifying, developing, and exploiting rare, valuable, non-substitutable, and inimitable internal resources. Numerous studies indicate that this theory focuses on intangible assets, including intellectual capital, which comprises information and knowledge.

Stakeholder Theory

As proposed by R. Edward Freeman (2020), Stakeholder Theory serves as a method for explaining how different parties with an interest in an organization interact with it in order to come to mutually advantageous agreements. There are two categories of stakeholders: primary and secondary. Groups of individuals who are actively engaged and intimately connected to the company's sustainability constitute primary stakeholders. Conversely, secondary stakeholders comprise cohorts of individuals who do not participate directly in transactions but are subject to the company's influence. Companies are obligated to fulfill the expectations of their stakeholders in order to ensure their long-term viability (R. Edward Freeman, 2020).

Organizations employ the Corporate Social Responsibility (CSR) disclosure initiatives as a tactic to sustain their relationships with stakeholders.

Financial Performance (Return on Equity)

Sucipto (2003)defines financial performance as a metric utilized to evaluate the profitability of an organization. Commonly employed as a metric for assessing financial performance is Return on Equity (ROE). Kasmir (2019) explains that the return on equity (ROE) is computed through the comparison of earnings and company capital. One profitability ratio called Return on Equity (ROE) measures how a company converts shareholder equity into profits. A company that possesses greater efficiency in generating profits from its equity holds a higher return on equity (ROE).

Intellectual Capital

Thomas A. Stewart (1998) defines intellectual capital as an organization's or an individual's collection of knowledge, information, experience, and expertise that can be used to enhance the attainment of objectives. Intellectual capital measurement entails the evaluation and administration of the worth of the intellectual property owned by an organization. One of the methods used is Value Added Intellectual Coefficient (VAIC), that assesses effectiveness of generating value from an organization's intangible assets by examining the interrelation among three key aspects: capital employed, human capital, and structural capital. By utilizing intellectual capital, businesses can attain a long-term competitive edge and improve financial outcomes. This advantage is reflected in an increase in financial ratios that serve as indicators of the business's financial results, such as Return on Equity (ROE). Consequently, it indicated that intellectual capital positively and significantly influences financial outcomes.

Ha1 : Intellectual Capital significantly impacts and has positive effects on Financial Performance.

Corporate Social Responsibility

Mohammad Hamim Sultoni (2020) defines Corporate Social Responsibility (CSR) as the ethical conduct and contribution to sustainable economic development that a company feels obligated to uphold. Four elements comprise CSR William C Frederick (1998): There are four distinct types of responsibility: economy, legal, ethical, and philanthropic. In general, corporate social responsibility (CSR) initiatives are explained in annual and sustainability reports. Companies have the ability to inform stakeholders of their dedication to social responsibility using these reports. By engaging in positive CSR initiatives, businesses can enhance their reputation. This facilitates the growth of the organization's market presence, leading to a subsequent augmentation of its earnings and profit margins. In addition, corporate social responsibility (CSR) promotes investor confidence in firms and enhances return on equity. Therefore, it concluded that CSR exerts positive effects on financial performance.

Ha2 : Corporate Social Responsibility significantly impacts and has positive effects on Financial Performance.

Intellectual Capital with Financial Performance

Organizations have potential to enhance their financial performance and obtain a competitive edge by capitalizing on their distinctive capabilities and assets. A business's intellectual capital is a resource that contributes to the creation of new products, increased output, and improved service quality. Ultimately, these factors result in increased profits, decreased expenses, and satisfied customers. Financial ratios like Return on Equity (ROE), which measures effectiveness of the business's finances, have increased as the outcome. Consequently, it is possible to deduce that intellectual capital and financial performance are significantly and

favorably correlated. Research performed by Ousama et al. (2020)and Olarewaju & Msomi (2021) further substantiates correlation among Intellectual Capital with Financial Performance.

Corporate Social Responsibility with Financial Performance

Corporate Social Responsibility (CSR) emphasizes one of organizational philosophy which underscores responsibility of a corporation to the societal, ecological, and financial ramifications that result from its operations. The application of Corporate Social Responsibility (CSR) is a company's endeavor to conduct its operational activities with all stakeholders in mind. By engaging in Corporate Social Responsibility (CSR) initiatives, organizations have the potential to cultivate a favorable societal perception, augment their profitability, optimize employee productivity, and attract potential investors. Ultimately, this will contribute to a rise in Return on Equity, considered an important measure of financial performance. Studies conducted by Partalidou et al. (2020) and Ling (2019)provide additional evidence that Corporate Social Responsibility (CSR) provides a beneficial impact to Financial Performance.

2. RESEARCH METHOD

The study methodology employed is quantitative descriptive research. The research utilizes cross-sectional data, namely secondary data, obtained between year 2018 to 2022 from the yearly financial reports of banks traded on Indonesia Stock Exchange (IDX). This study employed the Non-Probability Sampling approach for sampling. The sample design is a Purposive sample, a method that entails the deliberate selection of elements that align with predetermined criteria derived from the research objectives. The criteria employed for sample selection in this study encompass the following: (1) Banking institutions traded on IDX between year 2018 and 2022; (2) Banking institutions that underwent IPO between 2018 and 2022; (3) Banking institutions that removed from the IDX between 2018 and 2022; (4) Banking institutions that have not released a Sustainability Report between 2018 and 2022; and (5) Banking institutions lacking a positive Value Added value.

This research analyses data acquired from samples of 46 banks that publicly traded on Indonesia's Stock Exchange (BEI) across 2018 and 2022. However, according to established criteria, a total of 10 banks were able to be chosen as samples. Data processing was conducted using Microsoft Excel software for data organization and cleansing, while the lastest version of the Statistical Package for the Social Sciences (SPSS) Vers 25 was implemented to conduct statistic analysis. This research seeks to acquire a more profound understanding of financial performance and the determinants that impact it within the banking sector in Indonesia, utilizing this particular sample.

Financial Performance, which is the dependent variable on this research, and it's explicitly determined by applying the method below for calculating Return on Equity (ROE):

$$ROE = \frac{Net\ Income}{Shareholder's\ Equity} x\ 100\%$$

Intellectual Capital with Corporate Social Responsibility are both independent variables in this research.

IC can be calculated by the Value Added Intellectual Coefficient (VAIC) approach, that requires evaluating effectiveness of managing Invested Capital (CEE), Human Resources (HCE), and Capital Structure (SCE), within an organization.

$$VAIC = VACA + VAHU + STVA$$

Corporate Social Responsibility (CSR) is possible to calculated using CSRD, where the total number of CSR items disclosed by organizations will be divided by 91 indicators of GRI G4 standard.

$$CSRD = \frac{\Sigma Xj}{Nj}$$

3. RESULTS AND DISCUSSIONS

Test of Descriptive Statistics

The statistical measures employed in this research for descriptive purposes involve the mean, median, variance, standard of deviation, the degree of skewness, kurtosis, highest and lowest value. With the Return on Equity (ROE) proxy, the dependent variable Financial Performance generates a mean value 0.10875 also a median value 0.10712, as determined by descriptive statistical analysis. In 2022, Bank Permata (BNLI) has the lowest ROE, at 0.021, while Bank BCA (BBCA) has the highest at 0.184. ROE has a standard deviation of 0.045334, a slope of -0.058 (indicating a leftward skew), and a kurtosis of -0.997 (indicating a flatter distribution) of the data.

For the first independent variable, Value Added Intellectual Coefficient (VAIC), which known as proxy for Intellectual Capital (IC), the mean and median values are 0.22499 and 0.25181, respectively. Additionally, Bank BCA (BBCA) had the highest VAIC in 2022 at 0.598, whereas Bank Tabungan Negara (BBTN) had the lowest in 2019 at 0.045. VAIC has a standard deviation of 0.118383, a slope of 0.788 (indicating a rightward distortion in the data distribution), and a kurtosis of 0.415 (indicating a more angular distribution).

Finally, the mean value 0.61868 and median value 0.62088 are obtained using the CSRD proxy for the independent variable Corporate Social Responsibility (CSR). In 2021, Bank Mandiri (BMRI) exhibited the maximum CSRD of 0.769, whereas in 2018, Bank CIMB Niaga (BNGA) demonstrated the lowest CSRD of 0.429. The CSRD has a standard deviation of 0.084547, a slope of -0.330 (indicating a leftward skew), and a kurtosis of -0.440 (indicating a flatter distribution) of the data.

Normality Test

The normality test focus to discover if a specific set of data is taken from a normal distribution. The Kolmogorov-Smirnov test is frequently used to check how closely numerical data matches a standard distribution. If the p-value above 0.05, it suggests that dataset is most likely distributed normally. Conversely, a p-value lower than 0.05 suggests that distribution of the dataset is probably abnormal.

Table 1. Results from the Test of One-Sample Kolmogorov-Smirnov Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		50
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.30441563
Most Extreme Differences	Absolute	.090
	Positive	.077
	Negative	-.090
Test Statistic		.090
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		

The normality test result which are revealed in Table 1, suggest that the distribution of the data in this study is normal, as indicated by the Asymp. Sig. value of 0.200, which above the significance level of 0.05.

Multicollinearity Test

Finding the degree of correlation between numerous independent variables inside a regression model is the goal of the multicollinearity test. The Variance Inflation Factor (VIF) value is applied to each independent variable in the multicollinearity test. A value of greater than 5 for the Variance Inflation Factor (VIF) indicates significant multicollinearity. Conversely, if the VIF number is less than 5, it indicates the absence of multicollinearity.

Table 2. Results from the Test of Multicollinearity

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	-.076	.026		-2.886	.006		
	IC	.294	.029	.769	10.070	.000	.998	1.002
	CSR	.178	.041	.333	4.358	.000	.998	1.002
a. Dependent Variable: ROE								

According to the findings of multicollinearity test presented in Table 2, both independent variables present a VIF value below 5. Consequently, it might be deducted that the indicators of multicollinearity are absence in the model of regression.

Heteroscedasticity Test

The test of heteroscedasticity intends to determine whether heteroscedasticity patterns occur, which arise when the residual variance in the regression model is not constant. The Glejser test with a significance level is one of the methods used. Heteroscedasticity is present when the significance value is below 0.05. In contrast, heteroscedasticity is absent if the significance value above 0.05.

Table 3. Results from the Test of Heteroscedasticity.

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.089	.030		2.976	.005
IC	-.008	.012	-.109	-.665	.509
CSR	-.021	.020	-.169	-1.031	.308
a. Dependent Variable: ABS_RES1					

The test of heteroscedasticity results presented in Table 3 indicate that both two independent variables show significance value above 0.05. Consequently, it may be assumed that the heteroscedasticity does not exist in the model of regression.

Autocorrelation Test

The purpose of the autocorrelation test is to determining presence of a correlation pattern among subsequent values of a variable or sequential data. The Durbin-Watson test is used to identify autocorrelation, generating a result (d) that occurs within the range of 0 to 4. If the value of result (d) is close with 2, it indicates that there is no sign of autocorrelation. Positive autocorrelation occurs when the d value approaches zero. When the value of d approaches 4, it indicates the presence of negative autocorrelation.

Table 4. Result from the Autocorrelation Test.

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.878[a]	.771	.756	.022189	1.514
a. Predictors: (Constant), CSR, IC					
b. Dependent Variable: ROE					

The Durbin-Watson value determined from the autocorrelation test in Table 3 is 1.514. The Durbin-Watson table yields a range of values DL = 1.4206 and DU = 1.6739 at a significance level of 0.05. Based on the Durbin-Watson value remaining within the range of DU to 4-DU, it may be concluded that the regression model has no autocorrelation.

Multiple Linear Regression

One of statistical method, named multiple regression analysis is applied to examine relationship among single dependent variable with multiple independent variables.

Table 5. Result from the Analysis of Multiple Regression.

Coefficients[a]							
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
	(Constant)	-.076	.026		-2.886	.006		
	IC	.294	.029	.769	10.070	.000	.998	1.002
	CSR	.178	.041	.333	4.358	.000	.998	1.002
a. Dependent Variable: ROE								

Multiple regression equation model used in this study was calculated from the findings of the multiple regression examination presented by Table 5.

$$\mathbf{FP= -0.076 + 0.294(IC)+ 0.178(CSR) + \varepsilon}$$

The regression equation indicates that the constant term is -0.076. If the Corporate Social Responsibility (CSR) along with Intellectual Capital (IC) values are both zero, then resulting Financial Performance (FP) value will be -0.076. The coefficient for Intellectual Capital (IC) is 0.294, indicating that Financial Performance (FP) will increase by 0.294 for each unit growth in IC, providing other variables persist unchanged. The coefficient for Corporate Social Responsibility (CSR) is 0.178, indicating that Financial Performance (FP) will increase by 0.178 for each unit growth in CSR, providing other variables persist unchanged.

The Coefficient of Determination

The efficacy model of regression in explaining variations in the dependent variable is assessed using the test of coefficient determination. R^2 represents a number range from 0 and 1, with a greater value indicating an additional effective regression model in explaining the variability observed in the dependent variable.

Table 6. Results form the test of Coefficient Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.853[a]	.727	.715	.024192
a. Predictors: (Constant), CSR, IC				

According to the findings of coefficient determination test in Table 6, the Adjusted R Square coefficient is 0.715. This indicates that the dependent variable Financial Performance is 71.5%

influenced by the independent variables Intellectual Capital and Corporate Social Responsibility. The remaining 28.5 percent is impacted by factors unrelated to this study.

F-Test

The regression model's consistency is assessed using the F test. Regression model is regarded as significant if the significance value is lower than 0.05. In case the significance value exceeds 0.05, it possible to determine that the model of regression lacks statistical significance.

Table 7. Results of F-Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.073	2	.037	62.533	.000[b]
	Residual	.028	47	.001		
	Total	.101	49			
a. Dependent Variable: ROE						
b. Predictors: (Constant), CSR, IC						

According to the results presented in Table 7, F test produced a computed F value of 62,533. This value exceeds the critical F value of 2,790, as determined by the level of significance by 0.05. Furthermore, the significance level of 0.000 exceeds the minimum value of 0.05, indicating that the variables of Intellectual Capital and Corporate Social Responsibility have a statistically significant impact on Financial Performance.

T-Test

Significance on each regression coefficient in the regression model is evaluated using the t-test. The obtained t-value for the Intellectual Capital variable is 10.07, as indicated by the t-test results, considering a significance level of 0.000. In this research, the t-value for Corporate Social Responsibility variable was determined to be 4.358, indicating a significance level of 0.000. The measured values of the two independent variables exceed the critical value from the t-table. The t-table value for the two-way test in this study is 2.013, calculated using a 95% confidence level and 47 degrees of freedom (df). The findings suggest that there is a favorable and substansial relationship between the variables of Intellectual Capital along with Corporate Social Responsibility and their influence on Financial Performance.

Results from the hypothesis testing indicate that Intellectual Capital is statistically significant and positive impact towards Financial Performance. Consequently, the first hypothesis (H1) considered valid and accepted. Intellectual capital, including intellectual resources, has the potential to enhance value, which allows firms to attain improved growth and increased profitability. The outcomes of this research align with the research outcomes published by Olarewaju & Msomi (2021) and Ousama et al. (2020), which demonstrated a statistically significant and positive relationship between the variables of Intellectual Capital and Financial Performance. Contrary to the findings of (Commer et al., 2018), the results of this study indicate a lack of significant connection between the Financial Performance and Intellectual Capital variable.

The results from evaluation of the second hypothesis indicate that Corporate Social Responsibility (CSR) is statistically significant and favorable impact on Financial Performance. Consequently, the acceptance of the second hypothesis (H2) is supported. Implementing effective Corporate Social Responsibility (CSR) procedures has ability to enhance a company's reliability and mitigate legal, environmental, also social liabilities. As a result, this facilitates the company's long-term expansion. The outcomes of the study align with research published by Tran et al. (2022) and Ling (2019), which proved a favorable correlation

between Corporate Social Responsibility with Financial Performance. Contrary to the discover of Neves et al. (2023), this research presents results that contradict the assumption of a negative and statistically significant relationship between Financial Performance with Corporate Social Responsibility.

4. CONCLUSION AND SUGESSTIONS

The studies intend to investigate how Intellectual Capital and Corporate Social Responsibility affect the financial performance of publicly traded banking companies on the Indonesian Stock Exchange (BEI) from 2018 to 2022. The results indicate a favourable and statistically significant association between Intellectual Capital and Financial Performance. Similarly, Corporate Social Responsibility has a favourable and considerable impact on Financial Performance.

Future studies should take into consideration the limitations of this study. First, the study's scope is limited to variables of both Corporate Social Responsibility and Intellectual Capital. Second, it should be noted that the focus of this research is restricted to a restricted dataset, specifically focusing on banking firms. Third, it is important to acknowledge that the measuring methods employed in this research to assess Corporate Social Responsibility, Intellectual Capital, also Financial Performance may possess certain limitations. Last, the focus of the study only limited to examining influence of Corporate Social Responsibility along with Intellectual Capital to Economic Performance, while excluding the inclusion of other control variables.

Based on the limitations mentioned previously, several suggestions for future research can be proposed. First, additional variables, such as company risk and management quality, might be incorporated into additional research. Second, future investigations might involve a wider range of organizations and diverse industries to provide a more comprehensive perspective. Third, additional investigation can be conducted to enhance the measuring techniques that are suitable for the specific circumstances of the banking sector. Last, it is recommended that future studies incorporate other control variables that have the potential to impact the outcomes of the research, such as economic circumstances or regulatory frameworks.

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