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# Corporate Social Responsibility (CSR), and Agency Conflict : Empirical Study on The Banking Industry in Asean-5

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***Abstract*— This research aims to examine the influence of Agency Conflict on CSR. This research was conducted in the banking industry in Asean (Indonesia, Malaysia, Thailand, Philippines, Singapore. There were 35 samples studied for 5 years. This research used panel data regression. The results of this research show that Agency Conflict has no effect on CSR This indicates that excessive CSR will affect company profits, resulting in a decrease in company value..**

***Index Terms*— Agency conflict, CSR, ASEAN.**

## I. INTRODUCTION

Several previous empirical studies show that CSR activities help companies build trust among stakeholders, which in turn increases customer loyalty(Servaes & Tamayo, 2017; Lata & Mittal, 2023) and a strong reputation(Deng et al., 2014). When managers try to maximize investment in CSR activities and when shareholders want high dividend distributions, conflict will arise.

Research on corporate social responsibility (CSR) has grown rapidly; However, empirical evidence regarding the benefits of CSR for companies is still mixed. On the one hand, a series of studies argue that CSR overcomes business shocks, reduces the cost of capital, and reduces the downward pressure on stock prices during periods of crisis. This argument shows that CSR increases company performance and value. On the other hand, some studies show that CSR serves the interests of managers but has a negative impact on shareholder profits, or may serve the interests of shareholders and managers but harms the interests of creditors. The agency's view of CSR shows that CSR reduces company value.

Cheng et al., (2013)argue that CSR spending is partly caused by managerial agency problems, which destroy shareholder value. Additionally, when companies dedicate a portion of their cash flow to CSR activities, they may have less cash to support debt repayments, thereby adversely impacting creditor interests.(Barney et al., 2021);(Goss & Roberts, 2011). Thus, CSR can be a manifestation of shareholder-creditor interest conflicts and/or managerial agency problems.

Stakeholder theory argues that companies engage in CSR activities to create and increase social capital, which ultimately increases corporate and shareholder value (Deng et al., 2013; Servaes & Tamayo, 2013), while agency theory states that shareholders benefit from CSR at the expense of creditors ( Barnea & Rubin, 2010 ) or managers undertake CSR activities for their own benefit, which adversely impacts shareholder interests (e.g., Cheng, Hong, & Shue, 2023 ). This research helps company managers, investors and policy makers to better

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understand the determinants and implications of CSR values as well as considerations in decision making.
The existence of regulations requiring CSR activities does not always provide a guarantee that companies allocate resources appropriately or effectively in implementing CSR programs in ASEAN countries.

## II. Theoretical basis

Agency theory can explain the relationship between agency conflict, company values and CSR. The dynamics of agency conflict arise because managers prioritize personal goals or incentives, while shareholders focus more on dividend distribution. High agency conflict can reduce differences in interests between managers and shareholders because high agency conflict suggests the possibility of managers taking a higher dividend policy than they should, meaning managers may be more inclined to pay dividends to shareholders in an effort to reduce pressure from shareholders so that impact on CSR. This is supported by research conducted(Porta et al., 1996; Lata & Kumar, 2022) which states that some countries with higher agency conflicts actually pay higher dividends too. Therefore, the hypothesis proposed is that agency conflict influences CSR.

## III. Methods, Data, and Analysis

### *A. Data*

The study relies on secondary data from the annual reports since 2016 to 2021 and uses linear regression to analyze the panel data. The ASEAN-5 Banking Industry sector was chosen because CSR is not only applicable to industries related to natural resources but also to the financial sector, especially the banking sector which contributes significantly to the economy (Kumar and Lata, 2022). Research was conducted in 5 countries with the aim to expand the scope. This research uses purposive sampling.

TABLE I. SAMPLE SELECTION PROCEDURE

| | Sample construction procedure | Bank-year observations |
|---|---|---|
| 1. | Publicly listed banks in the banking sector of IDX, BM, SES, PSE, and SET | 119 |
| 2. | Banks without CSR report data covered by 10 banks with largest assets, GRI standard 2021. | 50 |
| 3. | The final number of banks with complete observation and financial data (control variables) | 35 |

Note: IDX = Indonesia Stock Exchange; BM = Bursa Malaysia or Malaysia Stock Exchange; SES = Stock Exchange of Singapore; PSE = Philippine Stock Exchange; SET = Stock Exchange of Thailand

The research sample consists of 210 banks: Indonesia (9), Malaysia (8), Philippines (7), Thailand (7), and Singapore (4). All variables are taken from the database at Reuters which refers to the annual report of each company, while the data of CSR disclosure is taken from a sustainability report. This study uses the Ordinary Least Square (OLS) method to estimate regression models of panel data. Table 1 describes all the variables used in this study.

### *B. Operational Definitions*

The study uses dependent variable is CSR. The CSR variable is measured based on the GRI (Global Reporting Initiative) standard, which consists of three disclosure focuses, such as economic, environmental, and social. GRI-G4 is used to measure a company's CSR performance because it is considered more comprehensive in evaluating a company's CSR activities with these three disclosures. CSR disclosure can be seen in sustainability reports. A sustainability report is a form of report carried out by a company to disclose the environmental, social and governance performance that companies have committed to the public (especially shareholders).
CSR variables are measured using the content analysis method. According to Eriyanto (2011) content analysis is a scientific method to study and draw conclusions from phenomena using documents (texts). The first step in this method is scoring each performance indicator according to the guidelines contained in the sustainability report. Zero score is given if the indicator was not disclosed and 1 score is given if the indicator was disclosed. Next, the scores from each indicator point are totaled to get the total score. The formula to calculate the CSR index of the firm is:

$$CSRI_j = \frac{\sum x_{ij}}{n_j} \qquad (2)$$

The second independent variable, namely dividend policy. Dividend policy is a company strategy regarding the decision on how much profit to distribute to shareholders and the decision on how much profit to retain as additional capital or for investment. This variable is proxied by the Dividend Payout Ratio (DPR). According to Esana and Darmawan (2017) this ratio can be calculated using the following formula:

$$DPR = \frac{DPS}{EPS} \qquad (3)$$

Agency conflict variables are used as independent variables in this study. According to Jensen & Meckling (1976) agency conflict is seen as a conflict between principals (shareholders) and agents (management) in achieving different goals. Agency conflict is represented by institutional ownership with the following proxy:

$$INST = \frac{total\ number\ of\ shares\ owned\ by\ institutional}{Stock\ Outstanding} x\ 100\% \qquad (4)$$

## IV. RESULTS AND DISCUSSION

The model was tested using EVIEWS and using panel data. The model chosen uses the Lagrange Multiplier Test.

### *A. Chow Test Results*

- Redundant Fixed Effects Tests
- Equation: Untitled
- Cross-section fixed effects test

TABLE II. CHOW TEST

| Effects Test | Statistics | df | Prob. |
|---|---|---|---|
| Cross-section F | 3.995648 | (5.29) | 0.0070 |
| Chi-square cross-section | 18.866891 | 5 | 0.0020 |

The prob value is 0.0020<0.05, then the FEM model was selected

### *B. Hausman Test Results*

- Correlated Random Effects - Hausman Test
- Equation: Untitled
- Cross-section random effects test

TABLE III. HAUSMAN TEST

| Test Summary | Chi-Sq. Statistics | Chi-Sq. df | Prob. |
|---|---|---|---|
| Random cross-section | 12.224859 | 1 | 0.0005 |

The prob value is 0.0005<0.05, then the FEM model is selected. So the model chosen is FEM, then there is no need to carry out the LM test

### *C. Panel Data Regression Equation*

The panel data regression equation obtained is: Y = 0.098 - 0.043*X1 + e, while for hypothesis testing it is as follows:

- Dependent Variable: Y
- Method: Least Squares Panel
- Date: 05/07/24 Time: 16:38
- Sample: 2016 2021
- Periods included: 6
- Cross-sections included: 6
- Total panel (balanced) observations: 35

TABLE IV. HYPOTHESIS TESTING

| Variables | Coefficient | Std. Error | t-Statistics | Prob. |
|---|---|---|---|---|
| C | 0.098616 | 0.045844 | 2.151102 | 0.0399 |
| X1 | -0.043961 | 0.077030 | -0.570703 | 0.5726 |

The results of the t test on the agent conflict variable obtained a sig value. 0.5726 > 0.05 then ha is rejected and ho is accepted, meaning that the agency conflict variable has no effect on CSR. This can be explained by Agency theory which states that conflict between management and shareholders cannot affect CSR. Managers may prefer to provide dividends to shareholders rather than carrying out CSR activities, but CSR activities can provide a good image for the company. CSR can reduce conflict because compensation and donations from the CEO can avoid misuse of assets and increase the company's reputation(Masulis et al., 2014),(Nguyen et al., 2023), as well as adding company value(Sulistiawati, 2017).

## V. Conclusion

Finally, the research found that there was no influence of CSR activities associated with agency conflict, which means that social demands caused by agency problems due to CSR were not proven. The research results show that CSR activities cannot influence agency conflicts, in contrast to the research results (Nguyen et al., 2023)which says that agency conflict has a negative influence on CSR.

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