CHAPTER 1

INTRODUCTION

1.1 Background

A company is founded with the aim of making a profit, so are banks. Nowadays, bank development is becoming more dynamic. Society needs social information by the company to increase its profitability. The company's profitability is important because it is one of the basic considerations for investors in carrying out investment activities. According to Mulianti (2010) company value is very important because reflects the company's performance that can affect investors' perceptions against the company. With the existence of very advanced economic growth with technological advances, these banks must pay attention to all sides to win the competition. There are many ways that can be done to increase profits, one of which is by disclosing Corporate Social Responsibility (CSR) in Financial Statements or Sustainability Reports. Because it is considered to be beneficial in terms of improving the company's reputation and good name, Increasing the company's reputation will bring multiple benefits in the long term in the form of increased market share, profitability, and company value (Lako,2011:87).

In the current economic climate, sustainability, particularly in the social sector, has surfaced as the greatest approach for incorporating moral ideals into banking activities. According to Scholtens (2009), social disclosure is becoming an increasingly relevant topic in the banking business and has witnessed more integration. Previous research has mostly focused on the link between sustainability and profitability. This focus demonstrates that a bank's social disclosures have a beneficial association with its profitability. This theory is linked to certain studies from Suteja et al. (2016), the researchers found the results that social disclosure influences profitability. This finding shows that a better sustainability report in social aspects will convey a good news to the public including shareholder that excpected to provide a good image for the company. Previous study has shown similar results, according to Nobanee et al. (2022), This paper examines the influence of overall sustainability and economic, social, and environmental disclosure on bank profitability for banks listed on the Dubai and Abu Dhabi financial markets between 2003 and 2013. The findings show that there are no significant variations in overall sustainability and economic and environmental disclosures between Islamic and conventional banks, however social disclosures are much greater in conventional banks' annual reports. This might imply that traditional banks reveal more social problems to demonstrate a better degree of social responsibility in their operations and a higher level of regard for moral and ethical standards in their business.

However, the findings of various previous studies contradict the findings of Moufty et al. (2021), who investigated *The Different Dimensions of Sustainability and Bank Performance: Evidence from EU and the USA*. The researchers discovered, the internal and external social disclosures have no effect on bank performance meanwhile internal and external environment disclosures have a significant positive effect on bank performance. Moreover, Rukaanisy et al. (2019) revealed that profitability has no substantial effect on social transparency This demonstrated that a company's great profitability did not imply that it engaged in more social activities since it is deemed to voluntarily report items that may conflict with information about the financial statements' performance.

Based on POJK no.51/POJK.03/2017 about Sustainable Finance Application for Financial Services Institution Services Institution, Issuers, and Public Companies that need to stipulate Financial Services Authority Regulation on the Implementation of Sustainable Finance for Financial Services Institutions, Issuers, and Companies Public. Corporate accountability is becoming increasingly important in a rapidly changing environment. Because it's important that measurement and reporting is done according to international recognized standards such as GRI Sustainability Reporting Standards (GRI standard). This ensures data quality and comparability and contribute to better decision making by allowing access to information that promote better decisions.

Based on the above explanation, the purpose of this study was to assess the impact of social transparency on bank profitability as measured by ROA, ROE, and operating margin. This research provides three new findings to the base of information. To begin, this study would focus on social disclosure, as compared to most prior studies, which also looked at economic and environmental aspects. Second, beyond earlier research, this study employs The GRI Standards (2016) as a factor of the social disclosure index. Finally, this study investigates the influence of social disclosure on financial performance in the Indonesian banking sector, although most earlier studies did not employ Indonesian banks but were also undertaken for corporations whose operations directly affect social and are situated in different countries. As a result, banking sector study relates to banks listed on IDX.

1.2 Problem Formulation

From the background and motivation that stated before, this study has the research question as follow:

1. Do social disclosures affect bank's profitability measured by ROA?
2. Do social disclosures affect bank's profitability measured by ROE?
3. Do social disclosures affect bank's profitability measure by Operating Margin?

1.3 Research Purposes

The purpose of research according to the background and the formulation of a problem, the purpose of the author of doing this research are:

1. To know the effect of social disclosures on bank's profitability measured by ROA.
2. To know the effect of social disclosures on bank's profitability measured by ROE.
3. To know the effect of social disclosures on bank's profitability measured by Operating Margin.

1.4 Research Benefit

After knowing the background, problem identification, research scope and purpose of this study, the authors have several benefits including:

1. For Banks

To increase awareness of all social disclosures carried out by the bank can affect on bank's profitability, especially the results of this study can be used as a reference for the progress of the bank to take a decision.

2. For Academics

This research can provide information as input to give more insight about sustainability disclosures and guidance to conduct further research

3. For Investors

This research results can be used as a information to knowing the effect of social disclosure on the bank's profitability and to assist investors in order to taking a decisions whether or not to invest.

4. For Government

This research can be used as guidelines to determine the regulations and policies regarding the sustainability disclosures of banks in Indonesia.

1.5 Writing Systematic

This study is divided into five sections. The first chapter examines the background, problem formulation, research purposes, and research benefits. The second chapter discusses prior research on the implications of sustainability disclosure on bank financial performance. This is followed by a theoretical study, which includes theoretical frameworks and assumptions developed to carry out the research.

The third chapter examines research methodology, defining the approach employed in the research by explaining the research variables, research population and sample, data collecting sources and procedures, and data analysis tools. The fourth chapter then reveals the research's findings and arguments. Finally, the fifth chapter contains findings, limits, and recommendations based on this research for those who are interested.