

## EFFECTS OF CEO INCENTIVES AND CORPORATE SOCIAL RESPONSIBILITIES ON FINANCIAL PERFORMANCE

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**Abstract:** Banking financial performance is necessary for economic growth globally because the banking sector is the backbone of the economy. Recent economic uncertainty requires examining the banking sector's financial performance and improving accordingly. The present research, thereby, aims to scrutinize the influence of chief executive officers (CEO) incentives, corporate social responsibilities (CSR) such as social and environmental responsibilities, liquidity, and capital structure on the banking financial performance in ASEAN countries. Data from the hundred commercial banks (ten from each country) were taken in the time period of 2016-2020. Moreover, fixed effect model (FEM) was applied to test the association between the constructs. The findings revealed that the CEO incentives, social and environmental responsibilities, liquidity and capital structure are positively and significantly associated with banking financial performance in ASEAN countries. The regulators get help from the current study in formulating the regulation related to the banking sector performance by focusing on the CEO incentives and CSR responsibilities.

**Key words:** CEO incentives, corporate social responsibilities, banking financial performance, liquidity

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### Introduction

In recent times, the concept of corporate governance, as well as corporate social responsibility, is accelerating at a rapid pace in the world and all the industries, including the banking sector. This is all because of globalisation and social development appeals in the firms. Firms all around the globe are practising CSR to improve their social and environmental performance. CSR differs from firm to firm and country to country according to the need. Different factors impact the banking sector's reputation but inform, but in the past few times, it has also been witnessed that the banking system's reputation is improving as a result of CSR (Twum, Kosiba, Abdul-Hamid, & Hinson, 2022). In CSR, the firm supports the society through different means like financially etc. Thus, CSR connects the firms with the community. Accordingly, CSR results in the betterment of the banking sector's

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reputation. The CSR of any firm is decided by the governing body of the firm. Here corporate governance plays its role. The world has been witnessing financial discrepancies over the past few decades, enhancing corporate governance's importance. The governments of the countries pay special attention to corporate governance, especially in the financial sector like banking etc. Although all the financial intuitions play a vital role in the country's economy, banking system is considered the key to being directly associated with the community. Corporate governance and Corporate Social Responsibility (CSR) in banks have grown in popularity worldwide. Banks from around the globe now support educational, cultural, and environmental efforts, as well as health initiatives, by recognizing CSR. Furthermore, they carry out sponsorship campaigns for disadvantaged communities and philanthropic charity organizations. Thus, there is a core need to investigate this nexus of CG and CSR, especially in the banking sector.

The banking sector of any country is almost the backbone of the country's economy. Similar is the case with ASEAN. As ASEAN is a combination of developing and developed nations, most of them are developing countries. There is a huge difference between ASEAN nations in terms of language, level of development, population size, related religion, and legal requirements. The performance of the country's economy can be predicted from the banking sector of the country. Further, especially the financial sector of the country reflects the well-being of the community by analyzing its CS activities. The more the firms involved in CSR activities, the more the chances the society is getting its benefit. Usually, the firm avoids practicing CSR activities. The corporate body of the company is the ultimate responsibility for designing the company policies (Twum et al., 2022). Forgoing in view: the ASEAN can be an interesting area for research in terms of the financial sector. Thus, the aim of the present study is to investigate the CSR and CG effect on the banking sector of all the countries of ASEAN.

The present study will address some gaps that exist in the literature like 1) being one of the important topics like corporate governance along with corporate social responsibility in the banking sector although researched although but still not reached its peak, 2) Ruiz and García (2021), worked on the corporate social responsibility in banking system whereas the present study will also work on corporate social responsibility with addition of CEO incentives in all the economies of ASEAN, 3) Nguyen and Nguyen (2020), worked on the corporate social responsibility perception in online banking system whereas the present study will work on corporate social responsibility with addition of CEO incentives in whole banking industry of ASEAN, 4) Tulcanaza-Prieto, Shin, Lee, and Lee (2020), worked on corporate social responsibility in financial and non-financial institutions whereas the present study will test the corporate social responsibility and CEO incentives effect in ASEAN banking system with a new data set, 5) the present study will check the model from ASEAN perspective with new data set, 6) Boyallian and Ruiz-Verdú (2018), CEO incentives and banking system whereas the present study will add the variable like corporate social responsibility and test the model with new

data set in ASEAN. The significance of the study are to 1) highlight the importance of corporate governance and corporate social responsibility for the betterment of the ASEAN banking system, 2) help professional to revamp their policies for the better controlling of corporate governance and implementation of corporate social responsibility in the banking system, and 3) help the researchers to identify and explore the more aspects of corporate governance and corporate social responsibility from a banking point of view.

## Literature Review

### *CEO incentives and return on equity*

Financial performance has been the main objective and motive of every company for the past few decades. The world has acknowledged the reservations of business individuals who are taking various measures and feasibilities to earn more return on their invested capital. In this context: Mersland, Beisland, and Pascal (2019) examined the origin and performance of chief executive officers that are more important and an asset to the hybrid businesses. For the achievement of desired objectives, the role of business owners could not be neglected, and the role of directors is also promotive. Thus, Altarawneh, Shafie, Ishak and Ghaleb (2022) discussed the relationship between discretionary accruals, incentives and characteristics of chief executive officers and their roles in an emerging economy. Additionally, Huang, Sadiq, and Chien (2021) analyzed the narrowing gender pay and shattered glass for the salaries and incentives related to chief executives that impact the return on equity. For this purpose, the chief executive officers are given incentives for their working achievements. These incentives are considered motivations for the chief executive officers who strive hard in the companies to achieve their goals. The desired incentives given to the chief executive officers could create a promotive environment for the employees and companies. This incentive technique not only raises the company's wealth but also raises the higher return on their equity. Return on equity is specifically influenced by the meaningful growth as well as the strategies applied by the elected chief executive officers (Hartani, Haron, & Tajuddin, 2021).

*H1: There is a relationship between CEO initiatives and return on equity*

### *Social responsibilities and return on equity*

The growing importance of companies over the past few years has retained the ramping up their emphasis focus on social responsibility. Social responsibility in any organization tends to be a major objective for achieving the desired objectives. These objectives are more precisely dependent on the amount that has been invested in the organizations. Therefore, Y. Li, Chiu, Wu, Li, and Lin (2021), enumerated the efficiency of company management according to the dynamic social responsibility perspective for returns. These amounts are also dependent on the structure of social responsibilities, which must be performed by the organizational members. Mostly the members and staff of the companies are responsible for maintaining the social responsibility in an organization. Thought, Twum et al. (2022) investigated the

importance of corporate social responsibility in enhancing political marketing that could create higher returns. Return on equity is the main element upon which every company applies its social elements to perform best. In pursuing the goals and objectives, the business obligations assert some social responsibilities. Various projects are established and organized in the organizations which entail the social responsibilities of their staff and owners. These staff and owners basically strive according to the safety and higher returns on their equity. Customer social responsibility is the main element in the company that help the social environment to retain its customers as well as its employees. It is dependent on the invested equity, which more likely attracts the talent that can perform improvingly for more productive approaches (Hamsal, Ichsan, Utomo, Fahira & Wetik, 2021) .

*H2: There is a relationship between social responsibilities and return on equity*

***Environmental responsibilities and return on equity***

Environmental responsibilities trend in the corporate environment with significant and better values that improve the relationships with stakeholders. Usually, the stakeholders are more suspicious about their return from the invested equity in their businesses. Therefore, the companies are mostly required to maintain their environment according to the public and competitive environment demands. In this context, Chien, Hsu, Ozturk, Sharif, and Sadiq (2022), elaborated on the relationship between environmental responsibility and board of directors' globalization and its contribution toward return on equity. The companies that are organized according to the return on equity could perform better than the expected returns. In order to achieve a better and splendid return from equity, the sustainability and maintainability of the environment are compulsory. Thus, Wang and Wang (2019) discussed the linkage between corporate environmental responsibility, local economic priority and state-enterprise relations that is important for return on equity. Mostly, the banking environment is best organized according to the competitive environment to last significant impact on the moods of customers. Those customers that are highly influenced by the mood and need attainment according to the required environment results in better return from equity. Therefore, Olkkonen (2018) assessed the business, corporate and journalistic responsibilities and their implication for attaining and finishing return on equity. Similarly, Atilgan, Demirtas, and Gunaydin (2021) investigated the predicted returns on equity that have certain impacts on emerging market environments. Therefore, the reduction of financial costs in a competitive environment, less use of energy over the market and more energy over the environment could benefit the return. Huge returns are expected by organizing the environmental responsibilities in organizations. Effective policies and maintaining environmental responsibilities approach are progressive for the more return on equity.

*H3: There is a relationship between environmental responsibilities and return on equity*

### ***Liquidity and return on equity***

The world has started using the feasible elements, which are important for easy and growing return on equity. Liquidity refers to the elements easily convertible into cash and liquid money that directly impact the return. In this context, Kontuš and Mihanović (2019) analyzed the relationship between the management of liquid assets and liquidity in SMEs and their returns on equity. When the banking companies and organizations lack returns, they usually invest the liquid capital into markets for better and fast returns from the market. It also refers to the efficiency of an asset and security that directly impacts the return, and efficaciously, the return on equity attains higher performance from the banking markets. Thus, Dutto Giolongo and Carlevaro (2019) investigated the provisions and demands of liquidity in the banking systems and its impact on the returns. Most of the banking sector uses liquid elements which are easily acquirable and easily applicable to the market for retaining higher profits. From the applicability of liquidity, the returns and market performance gain higher growth in a short period. Therefore, Toh, Gan, and Li (2019) revisited the impacts of liquidity with the creation of liquidity creation and its contribution toward the uplifting of return on equity. Finally, the dividends among investors and payouts induce a return on equity and liquidity. In other words, the assets and things that are easily moveable and easily bought and sold retain and reflect more intrinsic value in the market. This relates to the collectables, fine art and financial assets that are relatively more important in the eyes of companies than real estate (Widodo & Hayu, 2021).

*H4: There is a relationship between liquidity and return on equity*

### ***Debt to equity and return on equity***

In every organization, the risk is associated with the return, and higher debts always exist with a higher return in the organizations. Some companies invest more in the setups to attain higher performance and higher returns, and the capital structure is more important for this. Therefore, Soyeh, Kim, and Gyamfi-Yeboah (2021) discussed the role and impacts of debt inequity on the values of net assets in return. When the companies avail more debt from the financing institutions, the policies and rules of investments involve higher risks. These risks, however, are important in the devaluation of ownership structure and value in the market due to higher debt but somehow also refer to high profits. It is dependent on the cash flows of companies that are more frequent in investing and earning more profits with the investment of equity. Additionally, Liu et al. (2021) elaborated on the impact of debt transmission and external sovereignty on the interest rate and equity market. Anyhow, equity refers to the capital, which has been invested by the banking companies, but most of the capital belongs to the loans. These loans induce a greater risk of insolvency and bankruptcy, but the efficacious settlements and arrangement of capital in a short time could eliminate the risks of insolvency. The debt to equity ratio also refers to and indicates that the company's debts actually belong to the shareholders' values. These shareholders are the main owner of a company due to their investment that actually depicts the debt to equity.

*H5: There is a relationship between Debt to equity and return on equity*

### Research Methodology

The research examines the impact of CEO incentives, social and environmental responsibilities, liquidity, and capital structure on the banking financial performance in ASEAN countries. The current research has extracted the data from the hundred commercial banks (ten from each country) from 2016 to 2020. The present article has applied the FEM to test the association between the constructs. The equation of the article with understudy constructs is given below:

$$ROE_{it} = \alpha_0 + \beta_1 CEOI_{it} + \beta_2 SR_{it} + \beta_3 ENR_{it} + \beta_4 LQ_{it} + \beta_5 DE_{it} + e_{it} \quad (1)$$

Where ROE stands for return on equity, CEOI means chief executive officers' incentives, SR stands for social responsibilities, ENR means environmental responsibilities, LQ stands for liquidity, and DE stands for debt to equity (capital structure).

The current research has taken the banking financial performance as the predictive variable measured as the return on equity (ROE) (Pointer & Khoi, 2019). Moreover, the current article has used three predictors such as CEO incentives measured as the ratio of CEO incentives to total incentives (Sadiq, Mohamad, & Kwong, 2019), social responsibilities measured as the ratio of expenditures on social activities (Nuseeb et al., 2021; Raju & Rangaswamy, 2017), and total expenditures and environmental responsibilities measured as the ratio of expenditures on environmental activities and total expenditures (Khan, Zhang, Kumar, Zavadskas, & Streimikiene, 2020). Finally, two control variables have been used: liquidity, measured as the ratio of current assets to current liabilities (Husna & Satria, 2019), and capital structure, measured as the ratio of debts and equity.

### Research Results

The current research has examined the correlation matrix, highlighting the directional linkage among variables. The results revealed that the CEO incentives, social and environmental responsibilities, liquidity and capital structure are positively and significantly associated with banking financial performance in ASEAN countries. Table 1 presents the correlation matrix.

**Table 1. Matrix of correlations.**

Variables	ROE	CEOI	SR	ENR	LQ	DE
ROE	1.000					
CEOI	0.382	1.000				
SR	0.522	0.333	1.000			

ENR	0.432	-0.532	0.311	1.000		
LQ	0.653	0.372	0.543	2.833	1.000	
DE	0.400	0.553	0.182	3.711	2.983	1.000

Moreover, the research also investigates the multicollinearity assumption using VIF. The results indicated that the VIF values are not bigger than five and that the reciprocal of VIF values is bigger than 0.20. These values indicated that no multicollinearity exists. Table 2 presents VIF results.

**Table 2. VIF.**

	VIF	1/VIF
ROE	2.382	0.420
CEOI	3.102	0.322
SR	1.321	0.757
ENR	3.209	0.304
LQ	1.994	0.502
DE	3.773	0.265
Mean VIF	2.630	.

In addition, the article has also applied the Hausman test to check the suitable model. The findings indicated that the probability value is less than 0.05 and that the FEM model is appropriate because the null hypothesis related to the random-effect model is appropriate and is rejected. Table 3 presents the Hausman test results.

**Table 3. Hausman test.**

	Coef.
Chi-square test value	4.352
P-value	0.012

The results of FEM have revealed that the CEO incentives, social and environmental responsibilities, liquidity and capital structure have a positive and significant association with banking financial performance in ASEAN countries. In addition, R square 0.612 indicated that the 61.2 per cent changes in the ROE are due to CEO incentives, social and environmental responsibilities, liquidity and capital structure. Table 4 presents the FEM results.

**Table 4. Fixed effect model.**

ROE	Beta	S.D.	t-value	p-value	L.L.	U.L.	Sig
CEOI	3.873	1.214	3.190	0.012	0.873	2.992	**

<b>SR</b>	2.353	0.922	2.552	0.029	0.933	2.982	**
<b>ENR</b>	0.986	0.431	2.288	0.043	0.103	1.982	**
<b>LQ</b>	0.699	0.181	3.862	0.006	1.992	3.992	**
<b>DE</b>	1.948	0.499	3.904	0.003	1.002	3.209	**
<b>Constant</b>	6.200	2.916	2.126	0.048	1.146	2.102	**
<b>R-sq</b>		0.612	<b>Number of obs</b>				500
<b>F-test</b>		3.200	<b>Prob &gt; F</b>				0.011

**Source:** Authors estimations.

## Discussion

The present study aims to evaluate the CEO incentives and corporate social responsibility's role on banking financial performance. Findings revealed that CEO incentives positively impact return on equity, which determines financial performance. These results show consistency with Velte (2019), which explains that the business firms, where CEO is given particular incentives like performance compensation, bonuses, extra salary, and handsome salary increment, show much serious behavior towards the improvement in firms' performance and take an active role in improving businesses, raising marketing for the products and services, and enhancing the rate of profitability. So, an increase in CEO incentives enhances return on equity. The results showed that social responsibilities positively impact return on equity, which determines financial performance. These results are supported by Siueia, Wang, and Deladem (2019), which throws light on the social responsibilities' contribution to firm financial performance. The study implies that when firms are engaged in considering and meeting the responsibilities by law or ethically imposed on them, they can improve their reputation in society and raise marketing. So, profitability increases, leading to higher financial performance. These results are also in line with Oyewumi, Ogunmeru, and Oboh (2018), which highlight that the return on equity increases when firms fulfill their social responsibilities honestly as in such situation, the same variables give more productivity (Ewa Jadwiga Lipińska, 2021). The results indicated that environmental responsibilities positively impact return on equity, which determines bank financial performance. These results are supported by Fijałkowska, Zyznarska-Dworczak and Garsztko (2018), which posits that the business enterprises involved in the banking sector or others have to take care of the environmental quality while making any decision about the infrastructure, transportation activities and other technologies. If the enterprises meet their environmental responsibilities, they enjoy more return on equity because of increased reputation and marketing. These results are also supported by Nizam, Ng, Dewandaru, Nagayev, and Nkoba (2019), highlighting that fulfilling environmental responsibilities reduces pollution emissions, and a clean work environment enhances return on equity. The results revealed that liquidity positively impacts return on



equity, which shows financial performance. Effective business plans lead the firms to achieve a high return on equity. These results are supported by Ullah, Pinglu, Ullah, Zaman, and Hashmi (2020), which reveal that the debt-to-equity ratio shows how much the value of the total liabilities is against the firms' total equity. This represents the leverage power of the firm. The increase in debt-to-equity ratio means they can put large finances into the business and expand its marketing, which brings more profits. Hence, an increase in the debt-to-equity ratio enhances the return on equity.

### **Conclusion**

The study has large theoretical implications because of its contribution to economic literature. The current study examines the banks' financial performance and uses return on equity to measure financial performance. Moreover, the authors check the impacts of CEO incentives, social responsibilities, environmental responsibilities, liquidity, and debt-to-equity ratio on return on equity in ASEAN countries. The study has much empirical significance in the rapidly emerging economies as it addresses the financial performance of enterprises operating in the banking sector, which has backbone importance in any economy. The study provides a guideline to economists on how they can promote banking practices within the country and the management of business firms by suggesting that the banks' financial performance can be increased by increasing CEO incentives, implementing social and environmental responsibilities, and increasing liquidity and debt-to-equity ratio. The results indicated that the banks where CEOs are granted incentives try their best to carry the business operations in the right way, reducing the risks, finding opportunities, and enhancing the business profitability. Similarly, fulfilling environmental responsibilities reduces pollution emissions and assures quality environment and productivity, ultimately enhancing return on equity. The results indicated that banks with high liquidity and debt-on-equity ratio could better finance banking practices and achieve a higher return on equity.

The current study has some limitations despite its theoretical and empirical importance. These limitations are likely to be removed in future literature. The present study examines the impact of limiting factors like CEO incentives, social responsibilities, environmental responsibilities, liquidity and debt-to-equity ratio on return on equity. The use of limited factors having a similar nature makes this study limited in reliability. Future authors are recommended to enhance the number of factors for a more comprehensive study. The study is based on the data acquired from ASEAN economies which are limited in number and have specific banking policies. For a general study, authors must collect information from countries worldwide.

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## WPLYW ZACHĘT DLA DYREKTORÓW GENERALNYCH I SPOŁECZNEJ ODPOWIEDZIALNOŚCI BIZNESU NA WYNIKI FINANSOWE

**Streszczenie:** Wyniki finansowe banków są niezbędne dla wzrostu gospodarczego na świecie, ponieważ sektor bankowy jest kręgosłupem gospodarki. Ostatnia niepewność gospodarcza wymaga zbadania wyników finansowych sektora bankowego i odpowiedniej poprawy. Niniejsze badanie ma zatem na celu zbadanie wpływu zachęt dyrektorów generalnych (CEO), odpowiedzialności społecznej przedsiębiorstw (CSR), takich jak odpowiedzialność społeczna i środowiskowa, płynność i struktura kapitału na wyniki finansowe banków w krajach ASEAN. Dane ze stu banków komercyjnych (po dziesięć z każdego kraju) zostały zebrane w okresie 2016-2020. Ponadto zastosowano model efektów stałych (FEM) do testowania powiązania między konstruktami. Wyniki ujawniły, że zachęty dla dyrektorów generalnych, obowiązki społeczne i środowiskowe, płynność i struktura kapitału są pozytywnie i znacząco powiązane z wynikami finansowymi banków w krajach ASEAN. Regulatorzy uzyskują pomoc z obecnego badania w formułowaniu regulacji związanych z funkcjonowaniem sektora bankowego, koncentrując się na zachętach dla prezesów i obowiązkach CSR.

**Słowa kluczowe:** zachęty dla dyrektorów generalnych, społeczna odpowiedzialność biznesu, wyniki finansowe banków, płynność

### CEO 激励和企业社会责任对财务绩效的影响

**摘要:** 银行业的财务业绩对于全球经济增长是必要的，因为银行业是经济的支柱。最近的经济不确定性需要检查银行业的财务表现并相应地改进。因此，本研究旨在审查首席执行官 (CEO) 激励措施、企业社会责任 (CSR) 如社会和环境责任、流动性和资本结构对东盟国家银行业财务业绩的影响。100 家商业银行 (每个国家 10 家) 的数据取自 2016-2020 年期间。此外，应用固定效应模型 (FEM) 来测试结构之间的关联。调查结果显示，CEO 激励、社会和环境责任、流动性和资本结构与东盟国家的银行财务业绩呈正相关且显著相关。监管机构从当前的研究中获得帮助，通过关注 CEO 激励和 CSR 责任来制定与银行业绩效相关的监管

**关键词:** CEO激励, 企业社会责任, 银行财务绩效, 流动性