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Do Environmental or Social Initiatives Benefit Banks More? Evidence from Vietnam's Banking Sector

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ABSTRACT

We examine the relationship between CSR and financial performance in the banking sector in Vietnam using a sample of 19 listed banks during the period 2013-2023. Due to the unavailability of CSR data in Vietnam, this study constructs content analysis and disaggregate approach to divide and measure CSR into two categories: environmental and social activities. Empirical evidence shows that engagement in social initiatives is more relevant to investors thus it has a greater impact on the profitability ratios return on asset (ROA) and return on equity (ROE). Environmental policies and activities bring direct benefits for banks through a higher profit margin. These environmental actions are costly and quite abstract thus they do not have any statistically significant impact on the profitability ratios. The study findings provide implications for banks to incorporate CSR into their strategies to take advantage of the long-term benefits of being socially responsible banks.

1. INTRODUCTION

Many prior researches have pointed out that the banking sector's performance is directly linked to broader economic stability and growth [1-3]. Failed governance within this sector can lead to severe economic, social, and environmental consequences, as evidenced by the 2008 financal crisis. Consequently, there has been increasing attention directed toward banking governance, particularly models that prioritize the interests of a diverse range of stakeholders rather than exclusively focusing on shareholders, as suggested by traditional theories [4]. This shift implies that banks must now account for a wider range of factors beyond their conventional economic objective of profit maximization.

Corporate Social Responsibility (CSR) refers to a firm's behavior toward its various stakeholders, including communities, investors, employees, customers, and suppliers. From a managerial perspective, CSR entails voluntary, multidimensional practices that encompass social, ethical, enviromental, and political initiatives [5]. A growing number of organizations, including banks, have acknowledge CSR as a critical component of their operation.

While incorporating CSR initiatives into strategic frameworks can contribute to fostering economic stability, such integration can also influence the bank's financal performance, with the outcomes remaining inconsistent. Many researchers have identified a positive correlation between CSR and financial performance, arguing that CSR helps enhance firm reputation, stakeholder trust, and long-term profitability [4, 6, 7]. Conversely, others have positted that extensive CSR engagement may detract from profitability, as resources allocated to these activities could otherwise be directed toward revenue-generating initiatives [8]. These conflicting results are often attributable to the difference in methodologies, indices, and analytical frameworks used in prior studies.

Thus, further research on the CSR-financial performance (CSR-FP) relationship is essential to provide banks with clarity on whether CSR innitiatives can be harmonized with their economic objective of profit maximization. Furthermore, most existing research has been conducted in developed economies, resulting in a significant knowledge gap regarding CSR practices and their implications in developing countries [9]. This study aims to address this gap by examining the CSR-FP relationship within the context of the Vietnamese banking sector.

The Vietnam's banking sector poses as an interesting case study for CSR research. As a rapidly developing Southeast Asian emerging market, Vietnam has experienced sustained economic growth over the past decade, characterized by increased GDP rate. This rapid development has led to increased business activity and heightened expectations regarding corporate responsibility. However, alongside with economic development, it continues to face numerous socio-economic challenges, including global warming, environmental degradation, unemployment, corruption and aging population, to name a few [10]. These issues underscore the need for greater CSR efforts across industries, as well as further research into the matter. At the same time, the banking sector often plays a crucial role in addressing these challenges due to its ability to promote CSR activities, support green finance initiatives and financial inclusion, and fund socially responsible projects. However, in Vietnamese banks, CSR remains largely peripheral to their core business strategies rather than being fully integrated into them. Many banks in Vietnam primarily engage in CSR through philanthropic efforts, focusing on healthcare, education, and general welfare. The superficial engagement with CSR in Vietnam's banking sector further highlights a critical need in academic research.

As previously noted, inconsistent findings in the CSR-financial performance relationship can be attributed, in part, to the lack of a definitive CSR index. CSR is a multifaceted construct encompassing various dimensions of organizational behavior, with actions within each dimension potentially exerting distinct and varied effects on firm performance [11, 12]. To address this issue, this study adopts a disaggregated approach, analyzing the influence of specific CSR dimensions on financial performance. We select two key dimensions: the social dimension (S-index), which encompasses initiatives related to human resources, societal contributions, and customer-oriented policies, and the environmental dimension (E-index), which include efforts aimed at environmental sustainability. The CSR-FP relationship is analyzed across 19 listed banks in Vietnam over a 11-year period from 2013 to 2023.

To evaluate CSR disclosure among Vietnamese banks, content analysis was conducted on their annual reports. Unlike developed countries where CSR reporting follows a standardized framework or measured by established measurement indices, Vietnam's banking sector is still in the process of integrating CSR into business strategies. As a result, CSR disclosure varies significantly across institutions. Content analysis helps provide a systematic approach to examining Vietnamese bank's annual reports and other publicly available information on their website to determine bank's level of CSR commitment. Furthermore, this method offers flexibility in evaluating different dimensions of CSR separately [13], which is a significant advantage for this study's approach in measuring the two dimensions of CSR.

The remainder of the paper examines the conceptual foundations of links between corporate social and financial performance. Subsequently, the empirical methodology is discussed. This involves an evaluation of alternative measures of CSR, and a discussion of the data, sample, and estimator. The results are then reported before being discussed in a final concluding section.

2. LITERATURE REVIEW AND HYPOTHESIS TESTING

The concept of CSR extends far beyond the pursuit of profit, highlighting the role of organizations as active contributors to social well-being [14, 15]. It encompasses a diverse range of initiatives, with environmental protection, ethical trading, and employee welfare standing out as key priorities [9, 16]. CSR is considered to influence businesses' performance broadly through various theoretical frameworks, including agency theory, stakeholder theory, signaling theory, and legitimacy theory [7, 9, 17, 18].

Agency theory explores the principal-agent relationship within firms, highlighting potential conflicts arising from misaligned interests of shareholders and managers. In the context of CSR, CSR can serve as a mechanism to align these interests, reducing information asymmetry and fostering trust among stakeholders [19]. Stakeholder theory emphasizes the importance of addressing the needs and expectations of various stakeholders, including employees, customers, suppliers, and the community. This theory posits that firms that actively engage in CSR are more likely to foster positive relationships with their stakeholders, which can lead to enhanced loyalty, trust, and ultimately, financial performance [18, 20]. Signaling theory relates to how firms communicate their CSR efforts to the market. Firms may use CSR disclosures as a signal of their commitment to ethical practices, which can enhance their reputation and reduce perceived risks among investors [19, 21]. Legitimacy theory posits that firms must align their operations with societal norms and values to maintain their legitimacy. It suggests that CSR activities are often undertaken to demonstrate a firm's commitment to social responsibility and to gain societal approval [22]. Effective communication of these efforts could help enhance legitimacy and potentially improve financial performance by attracting ethically conscious customers and investors [23]. The four aforementioned theories, which support the positive CSR-FP relationship, form the foundation of the hypothesis proposed in this study.

In terms of empirical evidence, many existing studies show the positive relationship between CSR and firm's financial performance. A detailed analysis by Platonova et al. [7] on Islamic banks in the Gulf Cooperation Council region revealed that CSR activities, evaluated through a multidimensional CSR index, significantly enhance key financial indicators such as ROA and ROE. These findings were further supported by Zafar et al. [24], who conducted a similar study on Islamic banks in the Gulf region and reported consistent results. Singh and Chakraborty [25] further noted that CSR initiatives promote financial inclusion, which, in turn, strengthens overall financial outcomes. Similarly, Siueia et al. [4] identified a significant positive association between CSR disclosures and FP in Sub-Saharan African banks. The authors explained that higher degree of CSR integration could increase customer loyalty, leading to higher financial performance. Muchiri et al. [26] further highlighted CSR's capacity to create competitive advantages, leading to stronger financial results. Ibrahim et al. [6] demonstrated that CSR significantly boosts profit efficiency, enabling banks to outperform peers in terms of profitability. Bihari and Pradhan [27] investigated the relationship between CSR and financial performance in Indian banks, suggesting that CSR initiatives enhance the bank's reputation and transform its contributions to societal and community welfare into measurable benefits for the institution [27]. Margolis et al. [17] conducted a meta-analysis of 251 studies, finding a small but generally positive effect of CSR on financial performance.

However, not all studies support the notion that CSR leads to improved financial performance. Opponents of CSR argue that engaging in socially responsible practices-such as supporting charitable causes, promoting employee welfare, and minimizing environmental impact-can be costly and may impose financial constraints on organizations, potentially undermining their profitability [8]. Friedman [28] suggests that CSR investments that ultimately benefit other stakeholders at the expense of shareholders will lead to reduced corporate profits and stock prices. Other studies present a more nuanced view on the matter. Bhattacharyya and Rahman [29] note that mandated CSR expenditures may be perceived negatively by investors, suggesting that while voluntary CSR initiatives can enhance performance, obligatory spending might not yield the same benefits. Szegedi et al. [9] observed that while CSR initiatives can enhance accounting-based performance measures, their impact on market-based performance remains uncertain, especially in Pakistan's economically unstable environment.

The mixed findings on the CSR-FP relationship can be attributed to variations in the measurement of CSR, including the use of differing indices and disclosure content [22]. Moreover, the impact of CSR differs across regions, influenced by cultural, economic, and regulatory contexts. For example, in the Gulf Cooperation Council (GCC), Islamic banks view CSR as a moral obligation, fostering a stronger CSR-FP connection compared to Western banks, where CSR often serves as a strategic response to market demands [24]. By focusing on Vietnam's banking sector, this study seeks to enrich the literature by offering insights into how this dynamic operates in a distinct socio-economic and regulatory environment.

This study also makes an important contribution by addressing the limitations in measuring CSR, a factor that prior research has identified as a potential cause of the inconsistent findings regarding the relationship between CSR and financial performance [12]. Specifically, we take a disaggregated approach, focusing on two distinct dimensions of CSR: the social dimension, represented by the S-index, and the Environmental dimension, represented by the E-index. The S-index includes information related to the management of human resources and employees, contributions to society and culture, and policies addressing products, customers, and suppliers. In contrast, the E-index includes information on actions aimed at proactively sustaining the natural environment. The development of these CSR index dimensions is grounded in prior research on CSR disclosure, particularly the study by Siueia et al. [4]. This approach is based on the idea that these dimensions provide distinct types of information and may influence bank performance in different ways.

Notably, S-index is more directly aligned with customer benefits, whereas the E-index may not immediately connect to customers' transactional needs. For example, banks that invest in improving customer services, such as implementing new digital systems to resolve customer issues, are likely to see a stronger impact on financial performance compared to adopting environmental initiatives. Furthermore, information related to the S-index is often easier to interpret and directly relevant to consumers. While E-index may be important, they are often perceived as more abstract and less relatable. For instance, customers might struggle to understand how a bank's environmental policies affect them, but they can easily appreciate improvements to products or services. As a result, efforts targeting the S-index are expected to have a more significant effect on financial performance. Based on these considerations, we propose the following hypothesis:

Hypothesis 1: *CSR related to social performance have stronger positive impact on financial performance than CSR related to environment.*

3. DATA AND METHODOLOGY

The sample examines the CSR-FP relationship in commercial banks listed on the stock exchange in Vietnam during the period 2013-2023. Foreign-owned banks, policy banks, and acquired banks are excluded from the sample as their operational models and regulatory frameworks often differ from domestic commercial banks and may affect the overall trend of the banking sector. Foreign banks often follow international CSR standards, which may influence local banking practices. Meanwhile, policy banks often have a distinct approach to CSR as their CSR initiatives focus on promoting national development goals and social welfare. Acquired banks may adopt the CSR strategies of their parent institutions and potentially affecting the sector's trends. For these reasons, there are a total of 19 commercial banks included in the sample.

Financial variables are collected annually from FIINPRO, a financial database provider in Vietnam. As for CSR, the study follows Siueia et al. [4], using content analysis to measure CSR in four sub-categories: Environment, Human Resources, Customers and Products, and Community Involvement. For each category, the study examines the requirements of specific criteria from annual reports and assigns a value of 1 if the information is disclosed and 0 otherwise. To ensure consistency in the scoring process, a standardized coding framework was developed and thoroughly communicated among coders. Each coder then assessed the reports independently, after which the assigned values were cross-checked. Any discrepancies identified during this process were discussed and reconciled to maintain accuracy and reliability.

The S-index and E-index are then calculated based on the 22 criteria, where the S-index covers company involvement in human resources, community, and customer & product activities, while the E-index focuses solely on environmental interactions. The calculation for S-index and E-index are as follows:

$$S - index_{it} = \frac{\sum_{i=1}^{j} K_{it}}{N}$$

$$E - index_{it} = \frac{\sum_{i=1}^{l} K_{it}}{N}$$

With K_{it} is the value at time t of criteria *i; j* is the number of criteria for sub-sectors human resources, community, and customer & product activities while *l* is the number of criteria for seb-sector environment. *N* equals 22, the total number of criteria for bank CSR.

Table 1. Calculations of control variables

Name	Meaning	Calculations
Size	Bank size	Logarithm of total assets
Loanratio	Bank risk	Total loans/total assets
Capratio	Bank invisible risk of default	Equity/total assets
Tangibility	Investments in fixed assets	Non current asset/ total assets

To examine the impact of CSR on firm performance in banking sector, the study ultilizes Eq. (1) with the inclusion of $S - index_{it}$ and $E - index_{it}$.

Variables represented firm size, capital ratio, loan ratio and tangibility are added to the equation following Siueia et al. [4] and Ramzan et al. [30] as control variables (Table 1). We align our studies following Ramzan et al. [30] and Siueia et al. [4] by measuring the impact of CSR on firm performance at the same time t. This perspective is also supported by the aforementioned theories, emphasizing the immediate impact of CSR on the firm performance.

Firm size is a common variable to be included in studies examining the CSR-FP relationship, as larger firms tend to have more financial resources, cheaper capital and greater market influence which can affect both their financial performance and capacity to invest in CSR initiatives [4, 31]. Capital ratio is also a key determinant as banks with higher capital ratios are better positioned to engage in CSR activities [4], as they can afford to invest in CSR without jeopardizing their financial stability. A higher capital ratio also indicates that a bank has a sufficient capital and requires less external fundings, which enhances its profitability [32]. Loans serves as the primary source of revenue for banks [33]. A higher loan ratio enables banks to generate more income, which can positively influence profitability [4, 30]. Tangibility refers to the proportion of tangible assets to total assets. Banks with a higher level of tangible assets may have different risk profiles and operational efficiencies compared to those with more intangible assets. In other words, tangible asset investments positively impact financial performance, suggesting that banks with more tangible assets may be better positioned to leverage their resources for profitability [34]. Dependent variables include ROA, ROE and net profit margin (NPM).

$$FP_{it} = \alpha + \beta_1 S - index_{it} + \beta_2 E - index_{it} + \beta_3 Control_{it} + \mu_{it} \tag{1}$$

To obtain the regression coefficients of Eq. (1), fixed effect and random effects are used. Hausman test is employed to decide which model is preferable. Wald test and Wooldridge Test are used to test for heteroskedasticity and autocorrelation. To overcome the problem of heteroskedasticity and autocorrelation, Feasible Generalized Least Squares estimation is specified.

4. RESULTS AND ANALYSIS

4.1 Descriptive statistics

Table 2 illustrates descriptive statistics of variables used in this study. ROA and ROE have the mean of about 1% and 15% respectively. In terms of CSR measurement, E-index has the mean of 0.126 and standard deviation of 0.106 while S-index mean is about 0.463 and standard deviation 0.168 implying that CSR related to social aspect is more popular but with greater disparity among the commercial banks in Vietnam. When it comes to the control variables, the average capital ratio is about 8% while about 59% show that bank relies significantly on lending and interest expenses while the tangibility ratio of 60% indicates the reliance on tangible assets and long-term stability.

As for the pairwise correlation, the correlations among the variables are not very high, indicating that multicollinearity is not a problem in our regression (Table 3).

Variance inflation factor test shows high value of VIF indicating the removal of tangibility variable (Table 4). The new VIF results with capratio, loanratio and size variables confirm that multicollinearity is not a problem in our regression.

Table 2. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Roa	178	1.285	.904	.001	4.108
Roe	178	14.985	9.346	.028	44.56
Npm	178	7.756	4.099	1.465	25.102
E-index	178	.126	.106	0	.273
S-index	178	.463	.168	0	.636
Size	178	19.178	.864	17.185	21.332
Capratio	178	8.503	2.937	3.717	22.05
Loanratio	178	59.66	12.978	22.525	97.713
Tangibility	178	60.593	13.075	23.255	98.135

Table 3. Pairwise correlation among variables

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) roa	1.000							
(2) roe	0.827	1.000						
(3) eindex	0.426	0.242	1.000					
(4) sindex	0.447	0.293	0.642	1.000				
(5) size	0.225	0.270	0.512	0.438	1.000			
(6) capratio	0.536	0.040	0.338	0.350	-0.016	1.000		
(7) loanratio	0.269	0.166	0.398	0.167	0.442	0.161	1.000	
(8) tangibility	0.247	0.142	0.386	0.162	0.434	0.157	0.998	1.000

Table 4. Variance inflation factor

	VIF	1/VIF
eindex	2.171	.461
sindex	1.942	.515
ta	1.73	.578
loan	1.39	.719
cap	1.296	.772
Mean VIF	1.706	.

4.2 Regression results

Tables 5 and 6 show regression results of S-index and E-index on firm performance measured by ROA and ROE. Hausman test results in Table 7 show the preference of fixed effect regression. Modified Wald test (not shown here) suggests the use of Feasible Generalized Least Squares regressions.

Table 5. Regression results with dependent variable ROA

	(1)	(2)	(3)
	roa	roa	roa
eindex	.676	.706	.965
	(.745)	(.807)	(.738)
sindex	1.123**	.859*	1.073**
	(.446)	(.518)	(.47)
size	.052	.19	.086
	(.082)	(.151)	(.115)
capratio	.129***	.068***	.09***
	(.021)	(.024)	(.022)
loanratio	.791	2.265***	1.69***
	(.488)	(.648)	(.576)
_cons	-1.887	-4.781*	-2.76
	(1.473)	(2.758)	(2.089)
Observations	178	178	178
Pseudo R^2	.3934	.2925	.3590

Standard errors are in parentheses

**** p<.01, ** p<.05, * p<.1*

(1) (2) and (3) represent OLS, fixed effect and random effect regressions.

Table 6. Regression results with dependent variable ROE

	(1)	(2)	(3)
	roe	roe	roe
eindex	1.429	4.252	5.657
	(9.291)	(9.88)	(9.073)
sindex	13.19**	10.883*	12.793**
	(5.562)	(6.338)	(5.799)
size	1.342	2.002	1.401
	(1.02)	(1.844)	(1.454)
capratio	-.187	-.833***	-.639**
	(.26)	(.292)	(.271)
loanratio	5.403	23.391***	17.588**
	(6.083)	(7.932)	(7.139)
_cons	-18.679	-35.864	-23.653
	(18.372)	(33.757)	(26.494)
Observations	178	178	178
Pseudo R^2	.0914	.0831	.0985

Standard errors are in parentheses

****p<.01, **p<.05, *p<.1*

(1) (2) and (3) represent OLS, fixed effect and random effect regressions.

Table 7. Hausman specification test

	Coef.
Chi-square test value	17.614
P-value	.003

Table 8. Regression results using FGLS technique

	(1)	(2)
	roa	roe
eindex	.839	5.078
	(.519)	(5.844)
sindex	.798***	11.552***
	(.266)	(3.269)
size	.158**	1.396
	(.076)	(.86)
capratio	.129***	-.436***
	(.02)	(.162)
loanratio	.009**	.159***
	(.005)	(.038)
_cons	-4.017***	-24.97
	(1.392)	(16.168)
Observations	178	178

Standard errors are in parentheses

**** p<.01, **p<.05, * p<.1*

Regression results in Table 8 show the impact of S-index and E-index on ROA and ROE respectively. Coefficients related to S-index is positive and statistically significant meaning that the involvement in social aspect does bring positive impact on the financial performance. Coefficients related to E-index is positive but insignificant, confirming the role of social factors are more important than the environment factors.

This result can be explained by the unique nature of the banking industry, where trust, ethics and socially responsible practices are fundamental to its operation, directly influencing consumer confidence and decision-making [35], ultimately improving its financial performance. Meanwhile, environmental efforts, while valuable, are often perceived as secondary concerns in banking. Furthermore, social policies such as community support program, employee welfare and financial inclusion are often perceived positively by the stakeholders as they create direct and tangible benefit. For instance, bank's effort in providing accessible financial services to rural population could directly serves customer's needs, leading to higher customer satisfaction and trust. This would in turn enhances profitability. In contrast, environmental initiatives such as reduced paper consumption may seem less relevant as they do not create immediate visible impact to key stakeholders. As a result, such initiatives are often met with indifference and do not significantly influence financial performance. This coincides with the *stakeholder theory*, which emphasizes that firms are expected to align their CSR initiatives with the interests of their key stakeholders. Since the key stakeholders experience tangible benefits from social initiatives, these efforts create stronger financial gains than environmental actions.

Additionally, according to a study done by Jayachandran et al. [36], some types of CSR are easier for stakeholders to interpret than others due to the information content. Stakeholders can easily understand social efforts such as scholarships funding or building houses for the less fortunate, while environmental efforts such as carbon neutrality commitments would require specialized knowledge to interpret. Similarly, Orlitzky and Benjamin [37] raise the related issues, noting that investors are less interested in environmental aspects, whereas social aspects are more effectively communicated to and evaluated by investors and stakeholders. *Signaling theory and legitimacy theory* support this argument. Following social expectations, firms use CSR disclosures to signal their commitment to responsible business practices. Social initiatives provide a clearer and more immediate signal of corporate responsibility, making them more effective in influencing stakeholders' perceptions and financial performance.

Our finding also coincides with Gutiérrez-Ponce and Wibowo [38] on Southeast Asian banks, showing that environmental policies do not significantly benefit firm value or shareholder returns. *Agency theory* further explains this. Since managers are accountable to shareholders, they may focus on CSR activities that yield immediate financial benefits rather than long-term environmental initiatives with uncertain returns.

Therefore, the hypothesis 1 is confirmed when the financial performance is measured by ROA and ROE.

When it comes to NPM measurement, the impact of S-index and E-index are illustrated in Table 9. Environment has positive impact on the NPM while the social index does not have positive impact. This effect of environmental CSR can be explained through several cost-reduction mechanisms. Bour et al. [39] highlight that environmental initiatives such as effective waste management not only minimizes disposal costs but also allows companies to recover value from materials that would otherwise be discarded. This directly contributes to lower overall costs, thereby improving profit margins.

Additionally, the adoption of sustainable practices often enhances resource efficiency. Banks with strong environmental involvement uses energy efficiently, they can lower utility cost which in turn increase the profit margin. Yadav et al. [40] further emphasize that firms engaging in environmental initiatives benefit from a dual advantage: lower operational costs and increased labor productivity. This arises from the optimization of processes and the reduction of resource consumption, which contribute to lower expenses related to utilities and raw materials. Thus, banks can reallocate resources more effectively, ultimately enhancing overall profitability.

Furthermore, Mårtensson and Westerberg [41] argue that companies that proactively adopt environmental strategies are better positioned to comply with existing and future regulations, thereby avoiding costly fines and legal issues. By investing in sustainable practices, firms can ensure regulatory compliance and strengthen their financial performance through risk reduction and long-term cost savings.

Table 9. Regression results with the NPM

	(1)	(2)	(3)
	npm	npm	npm
eindex	4.1*	3.731*	2.729**
	(2.111)	(1.96)	(1.14)
sindex	1.312	1.615**	.8
	(.834)	(.763)	(.713)
ta	.459	.406	.88***
	(.601)	(.45)	(.202)
cap	.289***	.318***	.266***
	(.062)	(.059)	(.043)
loan	.204***	.204***	.181***
	(.019)	(.017)	(.01)
_cons	-16.769	-16.134**	-22.493***
	(10.337)	(7.493)	(3.733)
Observations	178	178	178

Standard errors are in parentheses
****p<.01, **p<.05, *p<.1*
(1) (2) and (3) represent fixed effect, random effect and FGLS regressions.

Another possible explanation could be environment policy includes evaluation related to lending and investment policy which allow banks to attract environmentally conscious clients and provide green loans. These actions improve operational efficiency, leads to the positive relationship between NPM and E-index. As for the S-index, it aims at improving trust and build long term relationship with the stakeholders, therefore they do not directly reduce the cost or improve the margin. The findings coincide with previous study examines the relationship between ESG and financial performance among 251 banks in 44 emerging countries that ESG is associated with higher profit margin, lower price sensitivity [42]. Customers are willing to take on the lower deposit rates or higher borrowing rate for banks engaging more in CSR.

Overall, socially responsible activities do improve financial performance in the banking sector, but the impact varies depending on the specific actions taken. Environmental initiatives enhance operational efficiency through cost reduction and premium pricing, leading to an increase in NPM. In contrast, the social aspect improves ROA and ROE but has no statistically significant impact on NPM, as it is indirectly related to shareholder benefits, fostering trust and loyalty among customers, which in turn strengthens ROA and ROE. These social initiatives create an indirect impact on financial performance, contributing to a stronger and more sustainable business. In other words, when it comes to ROA and ROE, the impact of social actions is more influential than that of environmental involvement. The findings hightlight stakeholder and legitimacy theory positing that the CSR involvement can be translated into financial benefit.

5. CONCLUSION

The study examines the impact of bank CSR on firm performance measured by the financial profitability ratios ROA, ROE, and NPM. CSR activities in commercial banks listed on the stock exchange in Vietnam have been classified into two groups: S-index and E-index, covering social and environmental aspects, respectively.

As for financial profitability (ROA and ROE ratios), social actions are appreciated by stakeholders, leading to a positive and statistically significant influence, while environmental actions are less appealing and difficult to interpret. However, social actions do not bring any significant impact on the NPM. The environmental factor, indeed, allows banks to charge higher revenues while being charged lower expenses, which can create operational efficiency as expressed by a higher NPM. Environmental involvement does create a direct impact on energy and resource usage, allowing banks to attract more green lending from sustainable customers, which then improves the net margin.

The study findings confirm the positive impact of different CSR dimensions on firm performance in asset utilization (ROA), shareholder aspects (ROE), as well as cost efficiency (NPM). The study results can provide implications for managers as well as regulators in stimulating CSR in the banking industry. Banks that engage in more environmental activities can take advantage of a greater profit margin, while engagement in social actions can add value through equity utilization, creating long-term growth and higher investor value.

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