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Do Corporate Social Responsibility and Political Connections Matter to Financial Performance and Financial Stability in the Banking Sector? Evidence from Indonesia

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ABSTRACT

This study aims to determine the effect of Corporate Social Responsibility and political connections on financial performance and financial stability in the banking sector in Indonesia. Corporate Social Responsibility is widely seen as a form of the company's commitment to society, which can encourage sustainability. Meanwhile, political connections are seen as capable of maintaining the financial stability of banking companies, especially in countries with high levels of corruption and weak laws. The sample in this study were 26 banking companies listed on the Indonesia Stock Exchange for the period 2017-2020. The method used in sampling is purposive sampling method, with secondary data in the form of financial statements and company annual reports during the study period. This study uses a combined least squares regression analysis technique. The results showed that Corporate Social Responsibility had a positive effect on financial performance and had no effect on financial stability, while political connections had a negative effect on both financial performance and financial stability. This shows that banks that have political connections do not make people more trusting. Thus, the company's image in society becomes more important than political connections.

1. INTRODUCTION

Indonesia's economic growth in 2020 experienced a contraction of 2.07 percent [1]. Economic growth is one of the macroeconomic indicators that have a direct impact on financial stability in Indonesia [2]. This condition certainly has an impact on the decline in financial stability in Indonesia. Financial system management becomes a priority in supporting economic growth and sustainable development to encourage the creation of a country's financial system stability to overcome these problems. The financial stability of a country cannot be created without the role of a stable financial corporate [3]. A stable financial sector can be reflected in the banking performance of that sector [4].

In the traditional financial view, corporates are only obliged to maximize the wealth of their shareholders [5]. Therefore, the corporation's only goal will be to maximize profit with its resources [6]. However, because the corporate is also a part of society, it creates an obligation to engage in ethical and philanthropic activities [7]. As a result of this issue, Corporate Social Responsibility was created as a form of the corporate's commitment to encouraging the creation of sustainability through a balanced relationship between economic, social, and environmental factors [8]. Previous studies have shown influence, impact, and a positive relationship between Corporate Social Responsibility and financial performance [9-11]. Research shows that corporates with higher levels of Corporate Social Responsibility performance tend to be more stable [12]. Therefore, Corporate Social Responsibility should be seen as a wise investment and not a mere expense [13].

Corporate Social Responsibility has been paid attention to by various organizations worldwide, and Indonesia is no exception [14]. This study examines the effect of Corporate Social Responsibility on financial performance and financial stability in the banking sector in Indonesia. This is due to the absence of similar research in this sector and the lack of research on the influence of Corporate Social Responsibility on financial stability variables in Indonesia. This study adopted the research method of Ramzan et al. [3] and extended it by examining the political connections variable.

Political connections are generally defined as an attempt to gain power by deceiving social relations [15]. The variable of political connections is a very significant variable for a corporate in a country like Indonesia, which has a high level of corruption cases and a weak legal system [16]. The statement that Indonesia is one of the countries with a relatively high level of corruption cases [17] is supported by the survey of transparency international in 2020 [18], which places Indonesia rank 102 out of 179 countries with a Corruption Perceptions Index (CPI) of 37 points. Meanwhile, a survey conducted by Saiful Mujani Research & Consulting in 2021 shows that Indonesia has a weak legal system, which shows that 41.2% of respondents think that the condition of law enforcement in Indonesia is still poor or very bad [19].

A previous study conducted on the banking sector in China found that there was an influence between political connections on financial performance and financial stability, as indicated by an increase in Return on Assets and a decrease in inherent risk and credit risk [20]. Thus, the corporate's political connections can benefit the corporation through the ease of lending, access to government, etc., improving the corporate's financial performance and ultimately maintaining

the corporate's financial stability.

This study was conducted on Indonesia's banking sector for two reasons. First, the institution has a vital role as a liquidity provider from the various assets it manages. Therefore, banking is crucial for a country, especially in developing countries such as Indonesia [21]. Second, most of the previous studies on political connections in Indonesia [22-24] only looked at the point of view of debtors who had political connections. However, few studies still looked at creditors' points of view, with its political connections [20].

2. LITERATURE REVIEW

2.1 Corporate theory

In general, corporate management has a responsibility to maximize corporate profits. This statement is in line with the corporate theory, which states that corporate management will always try to maximize corporate profits [25]. The corporate's management will have the opportunity to increase its income by making good use of its Corporate Social Responsibility expenditures. This increase in income can be seen as a management effort to maximize its profit [26]. In addition, the political connections owned by a corporate also play a role in the corporate's efforts to maximize its profits. This statement is in line with the study of Azmi et al. [27], which shows a significant positive relationship between the variables of political connections and corporate performance.

2.2 Financial performance and financial stability

Financial performance is an essential factor that can assist corporate management in assessing the overall performance and financial health. Information regarding financial performance can be used as management consideration to assist the decision-making process related to the corporate [28]. By keeping several financial performance indicators of suitable value, management can also create financial stability in the corporate [29]. Financial stability can be defined as a condition reflecting a corporate's financial stability [30].

2.3 Corporate social responsibility

Samy et al. [31] define Corporate Social Responsibility as a corporation's actions to produce a positive impact on society through the business processes it manages. Meanwhile, according to Kiran et al., Corporate Social Responsibility provides an overview of an entity that is not only looking for profit but also has moral and ethical responsibilities to its environment [32]. Corporate Social Responsibility can benefit the internal organization and the surrounding socio-cultural environment. Therefore, Corporate Social Responsibility is often necessary [33].

2.4 Political connections

Suppose a corporate has top management or shareholders with minimum ownership of 10% and has a position closely related to politics. In that case, the corporate can be said to have political connections [34]. Fan et al. [35] stated that a CEO or director currently serving or has a history of serving in a government or military agency could be categorized as a person with political connections.

2.5 The effect of corporate social responsibility on financial performance and financial stability

Corporates that want to improve financial performance need to pay attention to customer loyalty. By doing Corporate Social Responsibility, corporates can increase consumer loyalty because the image of corporates that carry out Corporate Social Responsibility will be judged better by the community so that the corporate's financial performance will also increase [36]. This statement is in line with various studies that have been conducted in Indonesia and other countries which show that Corporate Social Responsibility has a positive influence on financial performance. Ahyani and Puspitasari [8] found that Corporate Social Responsibility has a positive influence on financial performance as measured by Return on Assets, Return on Equity, and Net Profit Margin. Putri and Wirajaya [28] found that Corporate Social Responsibility has a positive impact on financial performance. Yanti [37] found that Corporate Social Responsibility has a significant and positive influence on financial performance. Mallin et al. [10] who examined the relationship between Corporate Social Responsibility and financial performance in Islamic banks also found that the disclosure of Corporate Social Responsibility has a positive relationship with financial performance. Samy et al. [31] investigated Corporate Social Responsibility as a strategic tool for business success and found a very weak but positive relationship between Corporate Social Responsibility and Earnings Per Share.

On the other hand, Oyewumi et al. [38] who examined the effect of investment and disclosure of Corporate Social Responsibility on the corporate's financial performance, concluded that Corporate Social Responsibility has a negative effect on financial performance. This is because the costs incurred for Corporate Social Responsibility activities are not proportional to the financial benefits received by the corporate. Meanwhile, Kiran et al. [32] studied the impact of Corporate Social Responsibility practices on financial performance in Pakistani corporates and found different results. The results of their study show that there is a positive relationship between Corporate Social Responsibility and Net Profit and Net Profit Margin, while the relationship between Corporate Social Responsibility and Total Assets is found to be negative. Then, Prastuti and Budiasih [36] found that Corporate Social Responsibility had no effect on financial performance.

The study of Ramzan et al. [3] found that banks that spend more on Corporate Social Responsibility activities build strong relationships with clients thereby helping to reduce financial risk and increase their financial stability. Gong and Ho [12] studied the relationship between Corporate Social Responsibility and corporate stability in China by using the unique Corporate Social Responsibility score as a proxy measure of Corporate Social Responsibility. In line with the view that ethically forward-looking managers tend to use Corporate Social Responsibility as a tool that can manage risk, they found that corporates with stronger Corporate Social Responsibility performance tend to be more stable. Cooper et al. [33] found that TARP recipients with strong Corporate Social Responsibility were better able to use capital injections to help bank stability compared to TARP recipients with weak Corporate Social Responsibility.

Based on the description, it can be hypothesized as follows:

H_1: Corporate Social Responsibility has a positive effect on financial performance

H_2: Corporate Social Responsibility has a positive effect on

financial stability

2.6 The effect of political connections on financial performance and financial stability

The study of Li et al. [39] found that politically connected firms have more trust in the legal system which can improve firm performance. Hung et al. [20] found that banks with CEOs who have experience working in government have higher asset returns and lower inherent risk and credit risk. This is because they have easy access to provide loans to corporates that have political connections. Saeed et al. [40] argued that political connections provide benefits in the form of easier access to debt and a reduction in financing costs and tax rates. The benefits received can have a positive impact on the corporate's financial performance.

On the other hand, Faccio et al. [41] found that politically connected firms had poorer financial performance than those that were not politically connected. This is due to the dissipation of more funds to make upfront payments by politically connected people. Liang et al. [42] argued that banking corporates with political connections tend to find it challenging to meet the corporate's goal of maximizing firm value. This is caused by government intervention, which hampers the banking corporates' performance. Meanwhile, Wong and Hooy [15] studied the influence of four types of politically connected corporates, i.e., corporates linked to the government, boards of directors, entrepreneurs, and family members, on corporate performance with evidence from Malaysia. Their results show that only government-linked corporates and boards of directors positively influence corporate performance.

Based on this description, the following hypotheses can be formulated:

H_3: Political connections have a positive effect on financial performance

H_4: Political connections have a positive effect on financial stability

3. RESEARCH METHODOLOGY

3.1 Data, population, and sample

The data used in this study is secondary data in the form of financial reports and annual reports of banking corporates listed on the Indonesia Stock Exchange for the 2017-2020 period, which were obtained from the Indonesia Stock Exchange website, www.idx.co.id, and related corporate websites. The selection for the 2017-2020 period was based on the reason that the 2017-2019 period was a trade war between the United States and China, while the 2020 period was a period of economic crisis due to the COVID-19 pandemic. This reason makes researchers want to see the financial stability of banks in these conditions. The research population includes all banking corporates listed on the Indonesia Stock Exchange. In this study, the method used in sampling is the purposive sampling method. Several sampling criteria were determined, including: (1) Banking corporates listed on the Indonesia Stock Exchange for the 2017-2020 period; (2) Corporates that consecutive published their financial statements and annual reports on the Indonesia Stock Exchange in 2017-2020; (3) Completely available data needed and their relation to the variables in this study. Based on these criteria, a sample of 26 corporates was obtained with 104-panel data. Table 1 describes the sample selection of this research.

Table 1. Sample selection

Description	Amount
Banking Companies listed on JCI	46
Do not publish consecutive annual report	9
	37
Unavailable data needed to the variable in this study	11
Research sample	26
Observation for 4 years	104

3.2 Variable operational definition

Table 2 describes the research variables and their measurements. This study uses the dependent variable in the form of financial performance as measured by ROA, ROE, EPS, and NPM, and the variable financial stability as measured by the Z-Score. The measurement of financial performance and financial stability variables refers to the measurement used by Ramzan et al. [3]. The first independent variable is Corporate Social Responsibility which is measured by actual expenditure for Corporate Social Responsibility activities, where this measurement is also used by Ramzan et al. [3]. The second is the political connections variable which is measured using a dummy variable which refers to the measurement used by Hung et al. [20]. The control variables used in this study include firm size, firm age, leverage, and tangibility.

Table 2. Variable description and measurement

No	Variable	Measurement
	Dependent Variables	
1.	Financial Performance	Return On Assets (ROA)=Net Profit/Total Assets Return On Equity (ROE)=Net Profit/Total Equity Earnings Per Share (EPS) Net Profit Margin (NPM)=Net Profit/Total Revenue
2.	Financial Stability	Z-Score=(ROA+(Total Equity/Total Assets))/Standard Deviation (ROA)
	Independent Variables	
3.	Corporate Social Responsibility	Natural logarithm of actual expenditure for Corporate Social Responsibility activities
4.	Political Connections	Dummy, is worth 1 if the CEO has political connections and 0 if the CEO has no political connections
	Control Variables	
5.	Corporate Size	Natural logarithm of Total Assets
6.	Corporate Age	The length of time the company operates
7.	Leverage	Total Liabilities/Total Assets
8.	Tangibility	Fixed Assets/Total Assets

3.3 Data analysis method

This study uses combined least squares regression analysis with Stata software version 13.0 to examine the relationship between the dependent variables and the independent variables with the following econometric model:

$$FPit=\alpha+\beta1 \log CSRit+\beta2 CEO's PCit+\beta3 Sizeit+\beta4 Ageit+\beta5 Leverageit+\beta6 Tangibilityit+\mu it \quad (1)$$

$$FSit=\alpha+\beta1 \log CSRit+\beta2 CEO's PCit+\beta3 Sizeit+\beta4 Ageit+\beta5 Leverageit+\beta6 Tangibilityit+\mu it \quad (2)$$

where, FP=Financial Performance; FS=Financial Stability; CSR=Corporate Social Responsibility; CEO's PC=Political Connections; Size=Corporate Size; Age=Corporate Age; Leverage=Leverage; Tangibility=Tangibility.

4. RESULTS AND DISCUSSION

4.1 Descriptive statistics

Descriptive statistic testing in this study uses summarized dispersion on Stata Program. Descriptive statistics for all variables can be seen in Table 3 panel A. From the 104 data observed, the dependent variable of financial performance proxied by ROA, ROE, EPS, and NPM and financial stability respectively shows an average value of 0.0106464; 0.0682684; 90.96567; 0.183763; and 20,608. Both financial performance and financial stability have a lower mean value than their SD. This indicates that financial performance and financial stability in the sample of this study are homogeneous and have low variability. The independent variables of Corporate Social Responsibility and political connections show the average values of 21.99685 and 0.4230769. Meanwhile, the control variables which consist of firm size, firm age, leverage, and tangibility, respectively, show an average value of 31.93826, 16.92308, 0.8430499, and 0.021683.

The comparison of banks with CEOs who have and do not have political connections can be seen in table 3 panel B. As shown in the table, banks with CEOs who have political connections show a higher average value of ROA, ROE, EPS, and NPM compared to those with no political connections. However, their average value of financial stability looks lower.

4.2 Correlation analysis

Table 4 presents the correlations between variables in this study and shows that most of the variables have a significant correlation with each other. Corporate Social Responsibility and corporate size have a significant and positive correlation with all other variables, except with financial stability, which has a significant and negative correlation. Political connections have a significant and positive correlation with ROE, EPS, Corporate Social Responsibility, firm size, leverage, and tangibility, but have a significant and negative correlation with financial stability. Corporate age only has a significant and positive correlation with Corporate Social Responsibility, corporate size, and tangibility. Leverage only has a significant and positive correlation with Corporate Social Responsibility, political connections, and corporate size. Tangibility has a significant and positive correlation with all other variables, except with leverage, which has a significant and negative correlation.

4.3 Regression analysis

4.3.1 The effect of corporate social responsibility on financial performance and financial stability

Based on Table 5, column 1, it can be seen that Corporate Social Responsibility does not affect financial performance as measured by ROA. This means corporate spending on Corporate Social Responsibility activities does not affect ROA. This result is in line with Prastuti and Budiasih [36], which found that Corporate Social Responsibility did not affect financial performance.

Table 3. Descriptive statistics

Panel A

Variable	Obs.	Mean	Std. Dev.	Min.	Max.
ROA	104	0.0106464	0.0081326	-0.0096416	0.0313434
ROE	104	0.0682684	0.0529983	-0.0968214	0.1776125
EPS	104	90.96567	83.73454	-28.17	327
NPM	104	0.183763	0.1145149	-0.021472	0.440276
Financial Stability	104	20.608	6.797366	7.349706	37.64644
Corporate Social Responsibility	104	21.99685	2.699588	16.6714	27.04869
Political Connections	104	0.4230769	0.4964399	0	1
Corporate Size	104	31.93826	1.665451	28.94511	34.95208
Corporate Age	104	16.92308	8.334852	1	38
Leverage	104	0.8430499	0.0528531	0.7099559	0.944664
Tangibility	104	0.021683	0.0141249	0.0011367	0.0721751

Panel B: Comparison of banks with CEOs with and without political connections

	CEO's PC=1		CEO's PC=0	
	Obs.	Mean	Obs.	Mean
ROA	44	0.0111927	60	0.0102458
ROE	44	0.0800766	60	0.0596091
EPS	44	120.8391	60	69.0585
NPM	44	0.1977263	60	0.1735232
Financial Stability	44	16.84468	60	23.59952
Corporate Size	44	32.76279	60	31.33361
Corporate Age	44	17.40909	60	16.56667
Leverage	44	0.8655331	60	0.8265623
Tangibility	44	0.026112	60	0.018435

Table 5, column 2 shows that Corporate Social Responsibility has a positive and significant influence on financial performance as measured by ROE at 10%. This means that the higher the corporate's expenditure for Corporate Social Responsibility activities, the higher the ROE. This result is in line with Yanti [37] study which found that Corporate Social Responsibility had a significant and positive effect on financial performance as measured by ROE, and also with Ahyani & Puspitasari [8] study, which also found that Corporate Social Responsibility had a positive influence on financial performance as measured with ROE.

Based on table 5, column 3, it can be seen that Corporate Social Responsibility has a positive and significant influence on financial performance as measured by EPS at 1%. This means that the higher the corporate's expenditure for Corporate Social Responsibility activities, the higher the EPS will be. These results align with the study of Samy et al. [31], who found a fragile but positive relationship between Corporate Social Responsibility and EPS.

Table 5, column 4 shows that Corporate Social Responsibility has a positive and significant influence on financial performance measured by NPM at 10%. This means that the higher the corporate's expenditure for Corporate Social Responsibility activities, the higher the NPM. These results are in line with the studies of Kiran et al. [32], who found that there was a positive relationship between Corporate Social Responsibility and NPM, and Ahyani and Puspitasari [8], who also found that Corporate Social Responsibility had a positive influence on financial performance as measured by NPM.

The description above shows that Corporate Social Responsibility does not affect ROA. This could be because the data from the ROA variable, the sample, does not have a high enough value to support the hypothesis. This could be due to tight economic competition conditions and the emergence of a recession in 2020. On the other hand, Corporate Social Responsibility shows a positive and significant influence on ROE, EPS, and NPM. Therefore, it can be concluded that overall Corporate Social Responsibility positively influences financial performance, so the first hypothesis in this study is accepted.

Based on Table 6, it can be seen that Corporate Social Responsibility does not affect financial stability. This means that the level of corporate spending for Corporate Social Responsibility activities does not affect financial stability, so the second hypothesis in this study is rejected. This is because the average ROA value in this study sample tends to be closer to the minimum range than the maximum. These findings align with the results of Hung et al. [20], which indicate that high ROA can reflect financial stability. In other words, financial stability is directly proportional to ROA. The results of this study on testing the first hypothesis indicate that Corporate Social Responsibility does not affect ROA. Then, because the measurement of financial stability in this study uses ROA as one of the indicators, the results indicated by the financial stability variable may be the same as those indicated by the ROA variable.

Table 4. Correlation matrix

	ROA	ROE	EPS	NPM	Financial Stability	Corporate Social Responsibility	Political Connections	Corporate Size	Corporate Age	Leverage	Tangibility
ROA	1.0000										
ROE	0.8845***	1.0000									
EPS	0.6499***	0.7209***	1.0000								
NPM	0.8842***	0.7970***	0.5292***	1.0000							
Financial Stability	0.3654***	0.0100	0.0429	0.2969***	1.0000						
Corporate Social Responsibility	0.5693***	0.7023***	0.6744	0.5403***	0.2170**	1.0000					
Political Connection	0.0578	0.1917*	0.3070***	0.1049	0.3415***	0.4975***	1.0000				
Corporate Size	0.5345***	0.6792***	0.5933***	0.4848***	0.2831***	0.8889***	0.4260***	1.0000			
Corporate Age	0.0677	0.0602	0.0712	0.1173	0.0939	0.2491**	0.0502	0.4089***	1.0000		
Leverage	0.2284**	0.1256	0.1449	0.1744*	0.9897***	0.3146***	0.3660***	0.3783***	0.1087	1.0000	
Tangibility	0.4280***	0.3353***	0.3554***	0.4164***	0.3012***	0.3453***	0.2698***	0.2068**	0.2081**	0.2492**	1.0000

Note: ***, **, * shows the significance of the coefficients at the level of 1%, 5%, 10%.

Table 5. The influence of corporate social responsibility and political connections on financial performance

Variable	Financial Performance			
	ROA	ROE	EPS	NPM
Corporate Social Responsibility	0.0006803	0.0051558*	15.32941***	0.0149078*
	(0.000481)	(0.0031)	(5.67834)	(0.0079411)
Political Connections	-0.0039848***	-0.0271783***	-13.16387	-0.0391386*
	(0.0012808)	(0.0082552)	(15.12116)	(0.0211468)
Corporate Size	0.0030278***	0.0200407***	10.92544	0.0247177*
	(0.0007858)	(0.0050648)	(9.277385)	(0.0129744)
Corporate Age	-0.0002371***	-0.0019051***	-1.796865**	-0.0016874
	(0.000073)	(0.0004707)	(0.8621069)	(0.0012057)
Leverage	-0.0548476***	-0.0088862	7.720275	-0.6301622***
	(0.0119804)	(0.0772179)	(141.442)	(0.1978056)
Tangibility	0.143448***	0.9127581***	1181.649**	1.779897**
	(0.0457061)	(0.2945917)	(539.6107)	(0.754642)

Note: Numbers in parentheses indicate the standard error. ***, **, * indicate the significance of the coefficient on rate 1%, 5%, 10%.

Table 6. The influence of corporate social responsibility and political connections on financial stability

Variable	Financial Stability		
	Coefficient	Standard Error	Probability
Corporate Social Responsibility	0.0836459	0.0591406	0.160
Political Connections	-0.4899746***	0.1574888	0.002
Corporate Size	0.3723038***	0.0966251	0.000
Corporate Age	-0.0291485***	0.008979	0.002
Leverage	-129.7062***	1.473136	0.000
Tangibility	17.63866***	5.620112	0.002

Note: ***, **, * indicate the significance of the coefficients at the 1%, 5%, 10% levels.

4.3.2 The effect of political connections on financial performance and financial stability

Table 5, column 1 shows that political connections negatively and significantly influence financial performance as measured by ROA at the 1% level. This means that CEOs of corporates with political connections will yield lower ROA. These results are in line with Liang et al. [42], who found a negative relationship between the level of political connections of bank boards and bank performance as measured by ROA, and with Faccio et al. [41]. They also found that politically connected firms had poorer financial performance compared to those that were not politically connected.

Table 5, column 2 shows that political connections negatively and significantly influence financial performance as measured by ROE at the 1% level. This means that a corporate CEO with political connections will yield a lower ROE. These results are in line with the research of Liang et al. [42], who found a negative relationship between the level of political connections of bank boards and bank performance as measured by ROE and by Faccio et al. [41]. They also found that politically connected firms had poorer financial performance than those not politically connected.

Based on Table 5 and column 3, it can be seen that political connections do not affect financial performance measured by EPS. This means that the presence or absence of a politically connected corporate CEO does not affect EPS.

Based on Table 5 and column 4, it can be seen that political connections have a negative and significant influence on financial performance as measured by NPM at the level of 10%. This means that a corporate CEO with political connections will yield a lower NPM. These results are in line.

Faccio et al. [41] found that politically connected firms had poorer financial performance compared to those that were not politically connected.

The description above shows that political connections do not affect EPS. This may be because the data from the EPS variable, the sample, is insufficient to support the hypothesis formed. On the other hand, political connections show a negative and significant influence on ROA, ROE, and NPM. Therefore, it can be concluded that overall political connections negatively influence financial performance, so the third hypothesis in this study is rejected. These findings are in line with the research of Hung et al. [20], which states that the more political connections a corporate has, the corporate will tend to have lower performance. It is difficult to focus on the corporate's primary goal, i.e., maximizing the wealth of its shareholders. The results of this study provide further evidence from previous studies that examine the political connections to the corporate's financial performance from the debtor's perspective. Debtor corporates get many facilities when they have political connections [43, 44]. However, the results of this study indicate that in creditor corporates, political connections negatively influence the corporate's financial performance. This may be due to political connections causing banks to be more flexible and "generous" in providing interest rates on debt and repayment periods during a recession.

Based on Table 6, it can be seen that political connections have a negative and significant influence on financial stability at the 1% level. This means that the CEO of a corporation with political connections will reduce financial stability, so the fourth hypothesis in this study is rejected. This finding is in line with the previous explanation, i.e., corporates with political connections tend to have lower performance. The low performance will ultimately affect financial stability.

5. CONCLUSIONS

In this study, the researchers examined the effect of Corporate Social Responsibility and political connections on the corporate's financial performance and financial stability. Based on the test results, the researchers found several interesting findings. First, Corporate Social Responsibility positively influences financial performance and does not affect financial stability. Therefore, it can be said that corporates carrying out Corporate Social Responsibility will experience increased performance due to an excellent corporate image. Meanwhile, the increase in Corporate Social Responsibility is not necessarily accompanied by an increase in corporate stability. Second, political connections have a negative influence, both on financial performance and financial stability. Therefore, banking corporates with many political connections in countries with high corruption cases and a weak legal system, such as Indonesia, tend to show poor financial performance and financial stability.

The results of this study can be helpful for banking corporates to continue to carry out Corporate Social Responsibility activities. Thus, banking corporates can maintain their image during intense business competition and in times of economic recession and ultimately improve their financial performance. In addition, the results of this study can also provide input for creditor corporates that political connections do not improve the corporate's financial performance, especially in countries with weak legal protection. The limitations of this study are the sampling period during the period of intense business competition and the occurrence of a recession due to the COVID-19 pandemic. To overcome the limitations of this study, suggestions that can be given to further researchers are to extend the range of the research period so that the results obtained can be more generalized for case studies in Indonesia. We also suggest that future researchers use different measurement methods in measuring political connections, for example, the amount of involvement in political funds provided by companies for certain political parties.

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