

## **CORPORATE SOCIAL RESPONSIBILITY AND FIRM VALUE – EVIDENCE FROM LQ45 FIRMS**

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### **ABSTRACT**

Corporate Social Responsibility (CSR) has emerged as a cornerstone of sustainable corporate strategy; however, empirical consensus regarding its impact on firm value remains elusive. Extant literature often relies on subjective CSR ratings or content analysis, which may fail to capture the economic reality of corporate commitments. This study addresses this research gap by utilizing actual annual CSR expenditure as a more precise, objective proxy for corporate engagement. Employing a quantitative research design with Panel Data Path Analysis, we examined 95 firm-year observations from companies listed in the LQ45 Index on the Indonesia Stock Exchange between 2019 and 2023. Our results reveal that CSR expenditure exerts a significant positive effect on Return on Equity (ROE), underscoring its efficacy as a strategic driver for operational competitiveness and stakeholder relationship management. Furthermore, while ROE positively impacts stock prices—consistent with the Efficient Market Hypothesis—we find no evidence of a direct or indirect link between CSR expenditure and stock market valuation. These findings suggest that while CSR serves as a robust internal mechanism for enhancing financial performance, it may not yet be perceived by investors as a primary signal for short-term capital market valuation.

**Keywords** : CSR, Financial Performance, Firm Value

## **A. INTRODUCTION**

Currently, financial aspects are no longer the sole primary consideration in decision-making; instead, non-financial aspects are perceived as drivers for companies to achieve optimal performance (Fathony et al., 2020). One non-financial performance metric receiving significant attention is Corporate Social Responsibility (CSR). CSR remains a central topic of discussion among corporations, business practitioners, and the investment community. Many large companies worldwide not only invest significant resources into CSR programs but also strive to disclose their CSR activities as effectively as possible to stakeholders (Awaysheh et al., 2020). CSR can serve as a strategic tool for companies to address environmental and social issues with the aim of generating a positive impact on society (Ramzan et al., 2021). (Sugiarti, 2020) suggests that investors tend to favour companies with higher levels of CSR disclosure compared to those with lower CSR fund allocations.

Numerous stakeholders demand that companies demonstrate greater environmental responsibility and adopt sustainable approaches in their business operations. However, the fundamental question remains whether the funds allocated to CSR activities can enhance financial performance. Academics and researchers have devoted significant attention to the impact of CSR on performance (e.g., (Awaysheh et al., 2020; Barauskaite & Streimikiene, 2021; Coelho et al., 2023; Kabir & Chowdhury, 2023; Liu & Lu, 2021; Okafor et al., 2021; Ramzan et al., 2021; Siregar & Deswanto, 2018).

(Okafor et al., 2021) state that researchers examining the relationship between CSR and financial performance fall into three categories. First, corporate engagement in CSR can drive improved financial performance (Awaysheh et al., 2020; Coelho et al., 2023; Ramzan et al., 2021), suggesting that superior CSR programs ensure better financial outcomes. Second, companies that allocate excessive funds to CSR may incur losses, as they perceive CSR as an additional burden that can diminish profitability (Barauskaite & Streimikiene, 2021). Third, CSR and financial performance are not proven to be related (Kabir & Chowdhury, 2023; Kamatra & Kartikaningdyah, 2015; Liu & Lu, 2021; Siregar & Deswanto, 2018), implying that the extent of CSR involvement does not influence financial performance.

Nevertheless, (Coelho et al., 2023) conducted a literature review and concluded that the majority of researchers find that CSR can enhance financial performance. Their study also suggests that future research should examine the impact of CSR on stock prices. (Jizi et al., 2016) found that when conducting asset valuations, investors pay significant attention to CSR because it is perceived to have a positive impact and can increase shareholder value. Superior CSR disclosure can be associated with higher earnings quality, a lower cost of capital, and increased firm value (De-Villiers et al., 2020). This is because CSR disclosure can be regarded as a signal to investors regarding a company's improved financial prospects.

(Keleş et al., 2023) argue that the results of studies examining the relationship between CSR and stock performance remain varied. (Pérez et al., 2020) found that environmental issues disclosed by companies elicit positive reactions from investors; (Tasnia et al., 2020) found that CSR can cause stock prices to fluctuate;

whereas (Fathony et al., 2020; Motta & Uchida, 2018; Olaoye & Oluwadare, 2018) stated that there is no relationship between CSR and stock performance. Drawing upon Stakeholder Theory and Signalling Theory, this study aims to examine the influence of CSR on financial performance and its subsequent impact on stock prices. CSR programs are not merely implemented to fulfil corporate obligations; rather, they can enhance investor valuation and perception, which provides benefits to the company as reflected in its stock price (Siregar & Deswanto, 2018).

Furthermore, the majority of researchers measure CSR using ratings published by a rating agency (e.g., Awaysheh et al., 2020; Lu et al., 2024; Motta & Uchida, 2018; Ogachi & Zoltan, 2020; Okafor et al., 2021) or conduct content analysis on sustainability reports (e.g., De-Villiers et al., 2020; Fathony et al., 2020; Fuadah & Kalsum, 2021; Nguyen et al., 2022). However, such methods may not accurately reflect the actual magnitude of a company's CSR investment. A survey conducted by PwC in 2024 revealed that 94% of investors in Indonesia doubt the reliability of sustainability reporting and the information therein, as some disclosed sustainability performances lack supporting evidence. (Kabir & Chowdhury, 2023) state that larger CSR funding is perceived as an indication of superior social performance. This study adopts a distinct approach to measuring CSR by utilizing the actual funds allocated by the company within a year. The consideration behind this approach is Government Regulation (PP) No. 47 of 2012, which mandates all public companies whose operations relate to natural resources to prepare and report their CSR budgets and actual expenditures. Moreover, Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017 stipulates that public companies are required to allocate funds for CSR activities to support sustainable financial performance. Nevertheless, neither regulation specifies a minimum funding threshold, leading to significant disparities in CSR allocations among public companies in Indonesia. While some companies allocate substantial funds to CSR, others do the opposite, merely seeking to discharge their social responsibilities and comply with prevailing laws and regulations.

Companies allocate substantial CSR funds on the condition that they are in a sound and stable financial state. The LQ45 Index is a stock market index comprising 45 premier stocks with the highest liquidity. This study utilizes LQ45 companies as the sample, under the expectation that they invest more effectively in CSR compared to other public companies. The research is underpinned by Stakeholder Theory and Signalling Theory. The data were analysed using Panel Data Path Analysis to examine the effect of CSR on firm value, including both the direct and indirect effects through financial performance. The findings indicate a positive effect of CSR expenditure on financial performance. Furthermore, financial performance has a positive impact on firm valuation, as reflected in the stock price. However, this study fails to provide empirical evidence for the influence of CSR on stock prices. Neither directly nor indirectly does CSR exert any significant impact on stock prices.

## **B. LITERATURE STUDY**

### ***Stakeholder Theory***

Stakeholder theory explains that in conducting its business activities, a company operates within the same environment as various stakeholders who contribute to the sustainability and ability of the firm to create better corporate value (Gutterman, 2024) (Gutterman, 2024). Consequently, companies are required to maintain good relationships with these stakeholders and integrate societal interests into their operations to achieve goal alignment, one way being through CSR programs. CSR prioritizes society above other business responsibilities. While stakeholder theory implies that companies must reach out to all stakeholders and focus primarily on the local communities where they operate, CSR extends its focus to the broader community and society.

### ***Signalling Theory***

To explain the effect of CSR on the benefits received, the researcher relies on signalling theory. A signal is an action taken by a company to provide information to the public with the aim of reducing information asymmetry. In relation to CSR, signalling theory illustrates that companies disclosing information about their CSR programs to stakeholders can mitigate information asymmetry and build a positive perception of the firm. (Hetze, 2016) explains that CSR reporting (which, in Indonesia, is generally presented in sustainability reports) is considered a form of CSR communication between the company and its stakeholders. The report serves as a signal that reveals corporate responsibility, thereby reducing information asymmetry, meeting the public's information needs, and contributing to corporate value creation, which can be observed through both financial and stock performance.

### ***The Influence of CSR on Financial Performance***

Every expenditure incurred by a company will have a direct impact on profitability. CSR is one such expenditure that companies are mandated to allocate to ensure business sustainability. A lingering question in the literature is whether the relationship between CSR and financial performance is positive or, conversely, negative. (Kabir & Chowdhury, 2023) state that the influence of CSR on financial performance shows inconsistent results across different studies. Some researchers have found that CSR disclosure has a negative effect on performance, as CSR is perceived to be costly and fails to maximize shareholder value (e.g., (Hou, 2019; Nguyen et al., 2022)). Furthermore, CSR disclosure has also been found to have no impact on financial performance (e.g., (Kabir & Chowdhury, 2023; Liu & Lu, 2021; Siregar & Deswanto, 2018)). (Awaysheh et al., 2020; Barauskaite & Streimikiene, 2021; Coelho et al., 2023) state that, in fact, there are no definitive results regarding the relationship between CSR and financial performance, as findings remain varied. Nevertheless, the majority of researchers find that CSR has a positive impact on a firm's financial performance (e.g., (Awaysheh et al., 2020; Dela et al., 2024; Okafor et al., 2021; Ramzan et al., 2021)). Companies can leverage CSR programs to establish and maintain positive relationships with various stakeholders (Tuyen et

al., 2023). Furthermore, CSR can be regarded as a strategy to enhance reputation, value creation, customer loyalty, and financial outcomes (Dela et al., 2024). We argue that CSR can improve financial performance, as its implementation reflects the company's level of concern for all stakeholders. This, in turn, will lead to a better stakeholder perception of the company, thereby ensuring its long-term sustainability.

Based on the explanation above, the first hypothesis is formulated as follows:

**H<sub>1</sub>** : CSR expenditure has a significant positive effect on financial performance

### ***The Influence of Financial Performance on Stock Prices***

A company's financial performance can be reflected, in part, by its profitability. Profitability serves as a fundamental basis for evaluating how a company has been managed over a specific period (Fathony et al., 2020). High profitability indicates a sound financial condition, and vice versa. Financial statements contain performance data that inform stakeholders about how assets are managed and controlled, which can subsequently influence investor decision-making. Furthermore, financial performance demonstrates a manager's competence in operating the business and maximizing shareholder wealth (Ayuba et al., 2020). Companies are required to enhance resource efficiency to achieve better financial performance, with the ultimate goal of maximizing market stock prices and increasing future profits. A company's stock price fluctuates constantly due to both external factors (such as inflation, interest rates, and government policies) and internal factors (namely factors originating from within the company, such as financial performance).

Although some researchers have demonstrated that stock prices are not influenced by financial performance (e.g., (Jonnius & Marsudi, 2021; Karamoy & Tulung, 2020; Puspitaningtyas, 2017), others (Nugraha & Artini, 2022; Prasetyo et al., 2021) have found a positive effect of financial performance on stock prices. Improved financial performance, as reported in financial statements, tends to elicit a market response and is directly reflected in the stock price. This aligns with the Efficient Market Hypothesis (EMH). Based on this discussion, the second hypothesis is formulated as follows.

**H<sub>2</sub>** : Financial performance has a positive effect on stock prices

### ***The Influence of CSR on Stock Prices through Financial Performance***

Drawing upon signalling theory, CSR disclosure presented within an annual report serves as a vital signal for stakeholders in evaluating a company. The higher the quality of the information conveyed, the better the public valuation. (Coelho et al., 2023) suggest examining the impact of CSR programs on stock performance, as CSR is predicted to influence stock prices. Companies with superior CSR programs may achieve better stock returns. Several researchers have provided evidence of this relationship (Lu et al., 2024; Qiu et al., 2021). Specifically, (Qiu et al., 2021) demonstrate that companies with robust CSR performance yield positive and higher stock returns compared to those with poor CSR disclosure. (De-Villiers

et al., 2020; Jizi et al., 2016) also found a positive influence of CSR on stock prices. Conversely, (Tasnia et al., 2020) found the opposite; CSR may cause stock price instability as companies perceive CSR as a costly expense. Meanwhile, (Fathony et al., 2020; Ogachi & Zoltan, 2020; Olaoye & Oluwadare, 2018) were unable to prove such a relationship.

This study predicts that CSR has a positive effect on stock prices. This is based on the premise that all information disclosed in annual reports, including CSR information, is reflected in stock prices (Keleş et al., 2023). This assumption aligns with the Efficient Market Hypothesis (EMH) proposed by (Fama, 1970), which posits that stock prices reflect all information published by a company to the public. Companies that disclose CSR aim to 'secure' their position under various conditions, establish positive relationships with stakeholders, and build public trust. The favourable relations resulting from CSR can subsequently enhance a company's financial performance and, in turn, influence the firm's valuation as reflected in its stock price (Keleş et al., 2023). Based on this discussion, the third and fourth hypotheses are formulated as follows:

- H<sub>3</sub>** : CSR expenditure has a significant positive effect on stock prices
- H<sub>4</sub>** : Financial performance mediates the positive effect of CSR expenditure on stock prices

### C. RESEARCH METHOD

This study employs a quantitative research design utilizing Panel Data Path Analysis. The data are obtained from Annual Reports, Sustainability Reports, or CSR Reports published annually by the companies, which were downloaded from the respective corporate websites or the Indonesia Stock Exchange (IDX). The sample comprises all public companies listed in the LQ45 Index. The sample was selected using a purposive sampling method. A total of 19 companies met the criteria over a five-year period from 2019 to 2023, resulting in 95 observations (firm-years). The operationalization of the variables is presented in Table 1.

**Table 1**  
**Variable Operationalization**

Variables	Measurement	Data Source
CSR	CSR is measured using the natural logarithm of the total funds allocated to CSR programs (Kabir & Chowdhury, 2023)	CSR or Sustainability Report
Financial Performance	Financial performance is proxied by <i>Return on Equity</i> (ROE) (Lu et al., 2024)	Financial Statements
Firm Value	Firm value is reflected by the lagged stock price, specifically the closing price on the last trading day of April t+1 (Nugraha, 2019; Qiu et al., 2021; Siregar & Deswanto, 2018)	Financial Statements
Control Variables	<ol style="list-style-type: none"> <li>1. This study covers the period from 2019 to 2023. Given that the COVID-19 pandemic occurred between 2020 and 2021, this research incorporates COVID-19 as a control variable to account for the impact of the pandemic on financial performance and stock prices (Qiu et al., 2021)</li> <li>2. Stock prices in period t+1 is also typically influenced by the Earnings Per Share (EPS). Therefore, this study</li> </ol>	Financial Statements

Variables	Measurement	Data Source
	incorporates EPS as a control variable for stock prices (Siregar & Deswanto, 2018)	

Source: Various Study (2025)

The data were analysed using Panel Data Regression with two research models developed as follows:

$$ROE_{it} = \beta_0 + \beta_1 \ln(CSR_{it}) + \beta_2 COVID + \epsilon_{it}$$

$$PRICE_{it+1} = \beta_0 + \beta_1 ROE_{it} + \beta_2 \ln(CSR_{it}) + \beta_3 EPS_{it} + \beta_4 COVID_{it}$$

This study employs a panel data regression framework to evaluate the determinants of firm value. Stock price, measured with a one-year lead ( $PRICE_{it+1}$ ), serves as the dependent variable to capture lagged market valuation. Financial performance is operationalized via Return on Equity ( $ROE_{it}$ ), while corporate CSR engagement is quantified using the natural logarithm of CSR expenditure ( $\ln(CSR_{it})$ ) to ensure distributional normality. To account for exogenous influences, the model integrates Earnings per Share ( $EPS_{it}$ ) and a binary COVID-19 indicator ( $COVID_{it}$ ) as control variables for profitability and pandemic-related market anomalies. Each equation incorporates an intercept ( $\beta_0$ ), estimated regression coefficients ( $\beta_{1-4}$ ), and an error term ( $\epsilon_{it}$ ) to account for stochastic variations.

## D. RESULTS AND DISCUSSION

### *Descriptive Statistics*

Table 2 presents the descriptive statistics, revealing wide disparities across all research variables. CSR disclosure ranges from IDR 7 billion to IDR 805 billion, with an average of IDR 144 billion and a standard deviation of IDR 153 billion. Significant gaps are also observed in financial performance, with ROE varying from -9% to 61,5%. Finally, stock prices show substantial variance, ranging from a low of IDR 510 to a high of IDR 33,300 per share.

**Table 2**  
**Descriptive Statistics**

Variable	Observation	Mean	Std. Dev	Min	Max
CSR (Billion)	95	144	153	7	805
ROE (%)	95	14,58	10,26	-8,96	61,5
PRICE <sub>t+1</sub> (Rp)	95	7.248	7.437	510	33.300
EPS (Rp)	95	7.169	6.714	840	39.025

Source: Processed Data (2025)

### *Hypotheses Testing*

This study utilizes panel data; therefore, it is necessary to determine the most appropriate estimation model.

**Table 3**  
**Model Selection Test Results**

	Criteria	Prob.	Decision
<b>Equation 1</b>			
Chow	Prob > F	0,0000	FE
Hausman	Prob > Chi2	0,7065	RE
Lagrange Multiplier	Prob > Chibar2	0,0000	<b>RE</b>
<b>Equation 2</b>			
Chow	Prob > F	0,0000	FE
Hausman	Prob > Chi2	0,0000	<b>FE</b>

Source: Processed Data (2025)

Table 3 presents the model selection test results. For Equation 1, the Chow test ( $p = 0.0000$ ) favours the Fixed Effect (FE) model over the Common Effect (CE) model. However, the Hausman test ( $p = 0.7065$ ) and Lagrange Multiplier (LM) test ( $p = 0.0000$ ) systematically confirm that the Random Effect (RE) model is the most appropriate estimation method. Conversely, for Equation 2, both Chow and Hausman tests consistently select the FE model as the best estimation method, rendering the LM test unnecessary. The results of the research model testing and hypothesis verification are presented in Table 4 for the direct effects ( $H_1$ ,  $H_2$ , and  $H_3$ ) and Table 5 for the indirect effect testing ( $H_4$ ).

Table 4 reports the direct effect testing results. In Equation 1, Ln\_CSR has a significant positive effect on ROE ( $t = 2,54 > 1,98$ ). This indicates that CSR has a significant positive effect on ROE. Consequently, the first hypothesis is supported, leading to the rejection of  $H_0$  and the acceptance of  $H_1$ . These findings are consistent with prior research (Awaysheh et al., 2020; Dela et al., 2024; Okafor et al., 2021; Ramzan et al., 2021). Positive CSR disclosure can satisfy the needs of all stakeholders, enhance corporate reputation and competitiveness, and foster customer loyalty, which ultimately leads to improved financial performance.

**Table 4**  
**Direct Effect Test Results**

Variables	Equation 1: RE	Equation 2: FE
	Dependent: ROE <sub>it</sub>	Dependent: PRICE <sub>it+1</sub>
Ln_CSR <sub>it</sub>	3,3366** (2,54)	-0,0578 (-0,61)
ROE <sub>it</sub>	-	0,0308*** (4,55)
EPS <sub>it</sub>	-	-6,4800 (-0,20)
COVID	-3,9621** (-2,54)	0,3249*** (4,98)
Cons.	-67,8858** (-2,04)	9,3722*** (3,95)
F-Test	0,0009	0,0000
Adjusted R-Square	0,1270	0,1428

\*\*\*<0,001; \*\*<0,05; \*<0,1. t-statistic in parentheses.

Source: Processed Data (2025)

**Table 5**  
**Indirect Effect Test Results**

Variable	Dependent: PRICE <sub>it+1</sub>		
Ln CSR <sub>it</sub>	Coef.	t-stat	Prob
Ln CSR <sub>it</sub>	0,0088	0,31	0,759

Source: Data Processed (2025)

Companies can utilize CSR as an internal strategy to achieve competitive advantage and sustainable performance. CSR creates a positive corporate image that attracts customers; conversely, companies with a negative image risk losing their customer base. This competitive advantage enhances customer loyalty, which subsequently increases corporate revenue and profitability (Okafor et al., 2021). Furthermore, (Dela et al., 2024) found that CSR establishes a win-win solution for both the company and society. Firms with substantial CSR allocations are perceived more favourably than those that do not disclose their CSR activities

In Equation 2, ROE has a significant positive effect on stock prices ( $t = 4,55 > 2,63$ ), thus supporting H<sub>1</sub>. This indicates that improved financial performance drives higher stock prices, consistent with findings by (Berggrun et al., 2020; Nugraha & Artini, 2022). Investors allocate their capital into securities issued by companies, such as stocks. When investing, they must pay close attention to factors influencing stock prices, as these determine both the risk and return of their portfolio. Financial performance is proven to drive future stock price movements. It provides stakeholders with vital information regarding a company's efficiency in generating profits. Furthermore, these results align with the Efficient Market Hypothesis (EMH), where public information—including financial disclosures—is immediately reflected in stock prices as a response from stakeholders. ROE measures management's effectiveness in generating returns on equity. As found by (Nugraha & Artini, 2022), a high profitability ratio serves as a positive signal to investors. Based on Signalling Theory, a higher ROE implies a 'good signal' from the company, thereby increasing firm value as reflected in the stock price.

In Model 2 (Table 5), CSR shows no significant direct ( $t=0,61$ ,  $p= 0,759 > 0,05$ ) or indirect effect ( $t=0,31 < 1.98$ ) on stock prices. Consequently, financial performance does not mediate the relationship between CSR and stock prices. These results support the findings of (Fathony et al., 2020; Motta & Uchida, 2018; Olaoye & Oluwadare, 2018), who found no significant impact of CSR on stock performance. (Fathony et al., 2020) suggest that when investors evaluate corporate performance, better CSR disclosure does not guarantee high returns; thus, CSR is not considered a primary factor in investment decision-making. CSR information provided through sustainability or annual reports fails to act as a signal that triggers a market reaction, thereby leaving stock prices unaffected. Furthermore, (Motta & Uchida, 2018) argue that the lack of influence may be attributed to specific corporate characteristics not included in the model, which future research should consider. Using a 2019–2023 LQ45 sample, this study reveals that the COVID-19 pandemic disrupted corporate finances, causing a 2020 decline in CSR spending as firms shifted toward humanitarian aid. During this crisis, CSR served compliance and stakeholder relations rather than strategic signalling; hence, subsequent post-pandemic spending recoveries failed to generate significant market reactions.

## **E. CONCLUSIONS**

The results demonstrate that CSR has a significant positive effect on ROE. Companies with superior CSR disclosure tend to generate higher ROE, as CSR fosters a competitive advantage that secures stakeholder relations and enhances customer loyalty, which ultimately improves financial performance. Furthermore, ROE is proven to have a significant positive impact on stock prices. Prior to investing, investors typically evaluate the feasibility of their investments by assessing financial performance disclosed in financial statements. Firms that demonstrate strong financial performance receive more favourable valuations, which are subsequently reflected in their stock prices. Lastly, the direct relationship between CSR and stock price is not statistically proven. This study has a limited focus, primarily focusing on companies with stable financial conditions. Future research could examine CSR fund allocations in firms facing financial instability. Furthermore, CSR performance could be analysed across three distinct periods: pre-pandemic, during the COVID-19 pandemic, and post-pandemic. Additionally, the research variables in this study were measured using single proxies. To strengthen future findings, researchers could incorporate alternative proxies, such as third-party CSR ratings (e.g., ESG scores), other financial performance indicators like ROA, NPM, or GPM, and firm value metrics such as Tobin's Q or Price-to-Book Value (PBV) Ratio. The results of this study provide significant implications for public companies, particularly for management. Although many firms still perceive CSR primarily as an expense, this study provides empirical evidence that CSR serves as a strategic investment that positively impacts financial performance.

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