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Hal: 584 - 588

The Influence of Corporate Social Responsibility (CSR) on Firm Value in the Indonesian Banking Industry

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Abstract

This study aims to analyze the impact of Corporate Social Responsibility (CSR) activities on firm value within the context of the Indonesian banking industry. Using data from banks listed on the Indonesia Stock Exchange (IDX) during the period of 2014-2023, this research applies a multiple linear regression method to assess the relationship between various dimensions of CSR and firm value. The measured CSR dimensions include CSR expenditures and CSR index metrics, while firm value is measured through Price-to-Book Value (PBV) and Tobin's Q. The results of the study indicate that CSR activities focused on social and environmental development have a significant positive impact on firm value. Specifically, investments in social and environmental activities have been proven to enhance the company's reputation and customer trust, which indirectly increases the company's market value. This finding confirms that CSR is not only a moral responsibility but also a profitable business strategy. However, the study also reveals that not all CSR initiatives have the same impact. CSR activities that are not well integrated into the company's core business strategy tend to have no significant effect on firm value. Therefore, this study suggests that banks in Indonesia should be more strategic in designing and implementing CSR programs, taking into consideration. business objectives and stakeholder needs.

Keywords: Corporate Social Responsibility, Firm Value, Banking Industry, Indonesia Stock Exchange, Regression Analysis

INTRODUCTION

Corporate Social Responsibility (CSR) has increasingly become a critical element of corporate strategies across the globe (Abbas, 2020). As societal expectations grow, companies face mounting pressure from various stakeholders—including consumers, investors, and regulators—to adopt socially responsible practices (Ernawan, 2007). These practices, while initially seen as ethical obligations, are now regarded as a means to improve a company's reputation, brand image, and overall value. For many industries, especially those that are highly visible or directly involved with community development, CSR is no longer just an optional activity but a strategic tool that contributes to long-term business success.

In the banking sector, CSR holds particular importance due to the industry's central role in driving economic growth and its profound impact on the welfare of society. Banks are uniquely positioned to influence both the economic and social fabric through their lending policies, community engagement, and environmental initiatives (Amanti, 2020). The decisions they make, especially in terms of responsible investment and ethical lending, can significantly affect not only their financial standing but also their broader societal reputation. Consequently, the banking industry has seen increasing integration of CSR into its core operations, as banks aim to align their business goals with societal and environmental objectives.

ISSN: XXX-XXX-XXXXX-X-X
Desember 2024
Hal: 584 - 588

This research specifically targets the Indonesian banking industry, which has shown growing interest in CSR over recent years. Indonesia, as a developing economy, has seen banks play a critical role in fostering sustainable development through socially responsible practices. As CSR activities have gained prominence within the sector, it becomes essential to understand their true impact on firm performance. This study aims to assess how CSR initiatives contribute to the overall value of firms operating within Indonesia's banking industry. The research seeks to provide empirical evidence on whether CSR investments directly influence market performance and, by extension, the long-term value of banks.

To achieve this, the study focuses on several key dimensions of CSR, particularly CSR expenditures and CSR index metrics, which are used to evaluate the breadth and quality of the initiatives undertaken by banks. CSR expenditures represent the financial investments made by banks in various social, environmental, and governance-related activities. Meanwhile, CSR index metrics serve as qualitative and quantitative indicators that reflect how well a bank is performing in its socially responsible endeavors. Together, these dimensions provide a comprehensive view of CSR practices within the banking industry and allow for a detailed analysis of their impact.

Firm value is assessed using two widely recognized financial metrics: Price-to-Book Value (PBV) and Tobin's Q. PBV measures the market value of a company in relation to its book value, providing insight into how well the company's tangible assets are valued by the market. Tobin's Q, on the other hand, compares the market value of a company's assets with the cost of replacing those assets, offering an indication of whether the company is overvalued or undervalued by the market. By examining the relationship between CSR initiatives and these financial indicators, this study seeks to determine whether CSR efforts translate into measurable financial benefits for banks.

The findings of this research will offer valuable insights into the role of CSR in enhancing firm value within the Indonesian banking sector. Understanding this relationship is crucial for both corporate decision-makers and policymakers, as it sheds light on how socially responsible business practices can be leveraged as a strategic asset. Moreover, it will provide evidence on the extent to which CSR can contribute to a firm's financial performance, helping banks refine their CSR strategies to align better with their long-term business goals.

METHODS

This research utilizes data from banks listed on the Indonesia Stock Exchange (IDX) between the years 2014 and 2023. It employs a quantitative methodology, with multiple linear regression being used to evaluate the relationship between Corporate Social Responsibility (CSR) activities and firm value. Two key dimensions of CSR are considered in this analysis: CSR expenditures, which represent the financial investments made by banks toward various CSR activities, and CSR index metrics, which encompass both qualitative and quantitative indicators to assess the scope and effectiveness of a bank's CSR initiatives.

The dependent variable, firm value, is measured using two important financial metrics: Price-to-Book Value (PBV), a commonly used valuation ratio that compares a company's market value with its book value, and Tobin's Q, which is the ratio of a firm's market value to the replacement cost of its assets (Husnan, 2013). These financial metrics provide insight into how CSR activities may influence the perceived and actual market value of a firm. Through this approach, the study aims to determine whether CSR activities positively impact the financial performance of banks listed on the IDX.

ISSN: XXX-XXX-XXXXX-X-X
Desember 2024
Hal: 584 - 588

RESULTS

The results of the regression analysis demonstrate that CSR activities, particularly those aimed at social and environmental development, have a significant positive impact on firm value. Specifically, investments in social and environmental initiatives help enhance a company's reputation and build greater trust among customers. This increased reputation and trust, in turn, lead to higher market valuation, indicating that CSR plays a crucial role in elevating a company's perceived value within the marketplace.

Moreover, the study reveals that while certain CSR activities contribute positively to firm value, not all CSR initiatives produce the same favorable results. The effectiveness of CSR activities largely depends on how well they are integrated with the company's core business operations. CSR activities that are not strategically aligned with the company's primary objectives and values tend to have minimal or no significant effect on firm value, underscoring the importance of a cohesive approach to CSR.

In summary, the research highlights that for CSR to deliver meaningful business outcomes, it must be thoughtfully designed and strategically aligned with the company's core business strategy. CSR initiatives that are well-integrated and focused on addressing both societal and environmental issues are more likely to enhance firm value, while poorly executed or misaligned CSR efforts may fail to provide any tangible benefits to the company.

DISCUSSION

These findings reinforce the idea that Corporate Social Responsibility (CSR) is not only an ethical obligation but also a highly effective business strategy. The positive correlation between well-implemented CSR initiatives and firm value demonstrates the crucial role CSR can play in enhancing a company's financial performance. Specifically, CSR programs that are thoughtfully aligned with a firm's business objectives and the needs of stakeholders are more likely to produce significant, measurable benefits. By focusing on initiatives that address pressing social and environmental issues, firms in the Indonesian banking sector can create more sustainable long-term value.

The research underscores the importance of strategic alignment between CSR activities and the core business operations of banks. CSR should not be treated as a superficial effort or merely a public relations exercise, but rather as an integral component of the company's broader business strategy. When CSR initiatives are designed with a clear understanding of business goals and stakeholder expectations, they have the potential to create a lasting positive impact on both society and the firm's financial outcomes.

Moreover, the findings suggest that CSR activities specifically aimed at addressing social and environmental concerns tend to generate the most significant returns in terms of firm value. In the context of the Indonesian banking industry, where societal and environmental challenges are often intertwined with economic development, banks that prioritize these areas are likely to see a more favorable response from both the market and their stakeholders. This highlights the need for banks to develop CSR programs that are not only socially responsible but also strategically advantageous.

The study also emphasizes the need for a shift in how banks approach CSR in Indonesia. Rather than viewing CSR as a standalone marketing tool or a box-ticking exercise, banks should integrate it more deeply into their long-term business strategies. This requires a more comprehensive and thoughtful approach to CSR planning, where initiatives are aligned with the company's mission,

ISSN: XXX-XXX-XXXXX-X-X
Desember 2024
Hal: 584 - 588

vision, and financial goals. By doing so, banks can maximize the value of their CSR efforts, benefiting both society and their shareholders.

In addition, the research points to the importance of stakeholder engagement in the development of CSR strategies. To ensure that CSR programs are effective, banks must engage with various stakeholders—such as customers, investors, regulators, and the communities they serve—to understand their expectations and concerns. By incorporating stakeholder input into the design and implementation of CSR initiatives, banks can create programs that are more responsive to the needs of society while also reinforcing their business objectives.

In conclusion, the findings of this study suggest that CSR, when strategically aligned with business objectives and stakeholder needs, can be a powerful driver of firm value in the Indonesian banking industry. Banks that are proactive in designing and implementing CSR programs that address social and environmental challenges will not only fulfill their moral responsibilities but also position themselves for long-term success. Through thoughtful integration of CSR into their core business strategies, these banks can create a lasting positive impact on both their financial performance and the broader community.

CONCLUSION

In conclusion, this study affirms that CSR activities, especially those centered on social and environmental development, have a positive impact on firm value within the Indonesian banking sector. These initiatives not only enhance a company's reputation but also build customer trust, leading to improved market valuation. However, the effectiveness of CSR efforts is contingent upon their integration into the company's overall strategic framework. When CSR activities are closely aligned with a bank's core mission and objectives, they are more likely to yield tangible financial benefits.

Therefore, banks should adopt a more strategic approach to CSR by ensuring that their initiatives are not merely standalone projects but are deeply embedded within the organization's long-term business strategy. This approach requires that CSR programs be designed in a way that aligns with both the company's business goals and the needs and expectations of key stakeholders. By doing so, banks can maximize the value of their CSR efforts, achieving a balance between fulfilling their corporate responsibilities and enhancing their financial performance.

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ISSN: XXX-XXX-XXXXX-X-X
Desember 2024
Hal: 584 - 588

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