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Corporate Social Responsibility Disclosure and Financial Performance of Banks in Indonesia

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Abstract

This study examines the effect of Corporate Social Responsibility (CSR) on financial performance and stock returns in banking companies listed on the Indonesia Stock Exchange for 2020-2022. This research uses a quantitative approach with secondary data as the primary source. The research sample was selected using the purposive sampling method, resulting in 47 issuers as research objects. The data analysis technique used Statistical Product and Service Solution (SPSS) software, which allows in-depth analysis of the relationship between CSR variables and financial performance and stock returns. The results showed that CSR disclosure positively and significantly influences financial performance, as measured by Return on Equity (ROE). In addition, CSR also indicates a positive and significant influence on stock returns. These findings suggest that CSR disclosure is a corporate social responsibility and an effective business strategy to create added value. With higher CSR disclosure, companies can increase investor confidence, attract market interest, and strengthen their reputation, ultimately impacting growing profits and stock market stability. This study implies that companies, particularly in the banking sector, must strengthen CSR disclosure as part of their business strategy. Transparent CSR disclosure not only improves the competitiveness of companies in the capital market but also supports long-term sustainability. The findings are also relevant for regulators to design policies encouraging accountability and transparency in CSR reports, creating a more stable and sustainable investment environment.

Keywords: Corporate Social Responsibility, Financial Performance, Stock Return.

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Introduction

Corporate Social Responsibility (CSR) has become essential to modern business practices, particularly in the banking sector. Initially viewed as a philanthropic activity, CSR is now a strategic framework integrated into the company's operations. In Indonesia, the banking sector plays a key role in economic development, so the pressure to fulfill social and environmental responsibilities is growing (Petro et al., 2023). CSR is considered a moral obligation and a strategic necessity to maintain long-term financial sustainability and public trust (Ahn & Park, 2018). In this context, CSR builds reputation, attracts ethical investors, and strengthens customer loyalty. However, undirected CSR initiatives can create inefficiencies and reputational risks, especially in the banking industry, which relies heavily on public trust and is subject to strict regulations from the Financial Services Authority (OJK).

CSR implementation in the Indonesian banking sector has shown mixed results despite its positive potential. Some banks have successfully utilized CSR to improve their public image and customer loyalty, leading to improvements in financial indicators such as Return on Assets (ROA) and Return on Equity (ROE) (Oladele & Tedekon, 2024). Conversely, inconsistencies in CSR implementation and unclear reporting standards lead to inefficiencies and reputational risks for other banks. Public scrutiny and heightened societal expectations of corporate social responsibility encourage banks to demonstrate a real commitment to social and environmental sustainability (Li et al., 2023). The diverse interpretations and implementations of CSR reflect the complexity of the relationship between CSR and financial performance, emphasizing the importance of a targeted strategic approach.

Recent research has explored the complex relationship between CSR disclosure and financial performance in the banking sector, yielding mixed and sometimes contradictory findings. For example, research in Vietnam suggests a positive correlation between Environmental, Social, and Governance (ESG) disclosures and bank financial performance (Loan et al., 2024). In contrast, studies in the UK and Pakistan report negative correlations, indicating that the impact of CSR varies widely across different economic and institutional contexts (Giannopoulos et al., 2024; Hafeez, 2023). While some studies highlight the potential of CSR to amplify media campaigns and attract ethically concerned investors Hafeez (2023), other studies warn of the possible negative financial impact of CSR initiatives, making it essential to maintain a balanced approach (Giannopoulos et al., 2024). Certain CSR activities, such as engagement with local communities, were also identified as significantly impacting banking performance (Zuriat, 2024).

Further research has examined this relationship in a broader context. In Ghana, CSR positively impacted profitability and shareholder returns in financial institutions (Saeed et al., 2023). Similarly, CSR disclosure in OECD countries moderates the relationship between corporate governance and financial performance (Hamad & Cek, 2023). In India, legislative CSR initiatives are a significant moderator in the relationship between financial inclusion and bank performance (Bhatter & Chhatoi, 2023). However, mixed results emerged in a study focusing on banks in Indonesia, where overall ESG performance was negatively related to financial indicators, although the social pillar had a positive influence on ROA and ROE (Gutiérrez-Ponce & Wibowo, 2023). In Islamic banking, CSR disclosure is positively associated with financial performance Zafar et al. (2022), whereas in conventional banking, the potential negative impact is influenced by institutional quality and the presence of ESG investors (AlAjmi et al., 2023; Chen & Xie, 2022). A meta-analysis of 73 studies further revealed that significant financial benefits can be achieved when CSR disclosure strategies and measurement techniques are well implemented (Gupta & Das, 2022).

Despite many related studies, there are still gaps in understanding the relationship between CSR disclosure and financial performance, especially in the Indonesian banking sector. Conflicting findings across different geographical contexts indicate the absence of a universal framework for assessing the impact of CSR. Exploration of the specific mechanisms linking CSR to financial metrics in emerging markets such as Indonesia is limited, with in-depth analysis that considers local institutional factors, cultural dynamics, and regulation rare. Research in Indonesia is often fragmented, tending to generalize findings without regard to the unique priorities of individual banks. For example, some studies show a negative relationship between ESG performance and financial results Gutiérrez-Ponce & Wibowo (2023) but do not explore the causes or differentiate between CSR dimensions. In addition, the influence of regulatory frameworks such as OJK in shaping CSR practices has not been widely discussed.

This study is based on the signaling theory introduced by Spence (1978), which explains how firms can overcome information asymmetry between themselves and their stakeholders by providing credible signals through specific activities. In the context of CSR disclosure, CSR reports serve as signals that demonstrate a company's commitment to sustainability, social responsibility, and ethical business practices (Zerbini, 2017). In the Indonesian banking sector, CSR disclosure is a strategic tool to increase investor confidence and corporate reputation. By signaling transparency and accountability through CSR activities, banks can attract more investment, strengthen customer loyalty, and reduce reputational risk. Signaling theory also explains the impact of CSR disclosure on financial performance indicators such as ROE and stock returns, where more transparent banks are perceived as responsible entities with long-term sustainability goals (Rehman et al., 2020).

This study explores the relationship between CSR disclosure and financial performance in the Indonesian banking sector, focusing on its impact on ROE and stock returns. By investigating the extent to which CSR activities are disclosed by banks contribute to profitability and attract investor interest, this study seeks to provide a deeper understanding of the strategic role of CSR disclosure in creating competitive advantage in a highly regulated and trust-dependent industry. The novelty of this research lies in its focus on the Indonesian banking context, which has unique regulatory and economic characteristics. Although this sector has a significant role in driving national economic development, studies examining the relationship between CSR and financial performance in this industry are still rare. By analyzing the effect of CSR disclosure on ROE and stock returns, this study offers specific insights into how CSR practices can be optimized to support financial sustainability while creating value for stakeholders. In addition, this study contributes to the academic literature and practical applications by highlighting the importance of transparency and regulatory frameworks in strengthening the relationship between CSR and financial performance.

Literature Review

Corporate Social Responsibility (CSR) is a concept in which companies voluntarily integrate social, environmental, and economic issues into their business operations and stakeholder interactions. CSR reflects a company's commitment to contribute positively to society while balancing economic, ecological, and social aspects. According to Rashid (2021), CSR is a way for companies to achieve this balance while meeting the expectations of shareholders and other stakeholders. The definition of CSR has evolved from a mere legal responsibility to an integral part of a company's sustainability strategy. Halkos & Nomikos (2021) define CSR as practices beyond legal obligations, including trade, environmental protection, and human rights. CSR initiatives, such as philanthropy and community engagement, are now considered essential to a company's strategic efforts to create positive social impact while increasing profitability.

Return on Equity (ROE) is a financial metric used to measure a company's efficiency in generating profits from its shareholders' equity. ROE is calculated by dividing net income by shareholders' equity and is a key indicator for investors in assessing financial health and management performance. Alamoudi & Bafail (2022) mentioned that ROE is one of the most popular metrics for evaluating company profitability, especially in the banking sector. However, an excessive focus on high ROE can lead to risky strategies that sacrifice long-term stability. ROE is often analyzed alongside other metrics, such as ROA and ROCE, as an essential performance measure to provide a more comprehensive picture of a company's financial performance (Vernimmen et al., 2022). In the context of governance, Ekadjaja & Ekadjaja (2020) emphasize that a good governance structure can improve ROE by ensuring efficient resource allocation and minimizing risks.

CSR has a strategic role in enhancing a company's image, attracting investors, and increasing customer satisfaction, all of which support an increase in ROE. CSR activities, such as sustainable environmental practices, demonstrate a company's commitment to ethics and strengthen relationships with stakeholders. Dakhli (2022) points out that CSR can create goodwill and loyalty that positively impact a company's financial performance. In addition, Al-Shammari et al. (2022) highlighted that companies that fulfill social and economic responsibilities simultaneously show better performance. Tsai & Wu (2022) also noted that CSR drives innovation and creates long-term value by developing products and services that meet social and environmental needs. Thus, CSR enhances social sustainability and supports corporate profitability through efficiency and operational risk reduction.

Previous research highlights a positive relationship between CSR disclosure and ROE. Dakhli (2022) found that CSR positively impacts financial performance, including ROE, by building stakeholder trust and loyalty, ultimately increasing profitability. Liu et al. (2021), in a study of the banking sector in China, revealed that higher CSR disclosure scores are associated with increased ROE, emphasizing the role of CSR in strengthening corporate reputation and attracting investors. Velte & Stawinoga (2020) showed that strong corporate governance structures, including the presence of sustainability officers and CSR committees, contribute to improved financial performance, as reflected in higher ROE. Hasan et al., (2018) also identified that CSR increases firm productivity, directly supporting increased ROE. This research highlights how engaging with stakeholders through CSR initiatives creates intangible assets that sustain firm profitability in the long run. These findings confirm that CSR not only fulfills a company's social obligations but also serves as an effective strategy to drive financial performance, particularly in increasing ROE.

H1: Pengungkapan aktivitas Corporate Social Responsibility (CSR) berpengaruh positif terhadap ROE perusahaan.

Stock returns refer to the financial gains or losses investors gain from owning company shares within a certain period (Siegel, 2021). This return consists of capital appreciation, which is the increase in share price and dividends paid to shareholders. As an essential measure of a company's financial performance, stock returns reflect market confidence and profitability, helping investors evaluate their investment strategies. High stock returns usually indicate strong company performance and solid investor confidence, while negative returns may reflect market volatility or internal inefficiencies. Kurniati (2019) emphasized the importance of stock returns as an indicator of firm value and long-term growth potential for shareholders. Eldomiaty et al. (2020) added that stock returns are also influenced by macroeconomic factors such as inflation and interest rates, thus reflecting broader market dynamics.

Corporate Social Responsibility (CSR) strategically builds corporate reputation and stakeholder trust while aligning business practices with community expectations. CSR activities such as environmental sustainability and community development increase customer loyalty and attract investors who care about social values (Tsai & Wu, 2022). The relationship between CSR and stock returns is based on the positive signaling effect generated by CSR initiatives. Companies with transparent CSR practices send a message to the market about their sustainability and ethical commitment, which increases investor confidence and stock demand. As a result, the company's stock returns tend to increase as market valuations increase. CSR also serves as a risk mitigation tool, protecting firms from financial losses resulting from negative perceptions or trust deficits (Cherkasova et al., 2023).

Empirical research consistently shows a positive relationship between CSR initiatives and stock performance. Maqbool (2019), who examined companies listed on the BSE 100 index, found that CSR engagement positively impacts current profitability and stock returns, indicating that socially responsible practices increase firm value. This study highlights how CSR activities are a strategic tool to attract investors and improve financial results. Similarly, Kaur & Singh (2021), who analyzed the steel industry in India, reported that increased CSR investments resulted in wealth creation for shareholders, increased profitability, and sales growth. Their findings emphasize the dual benefits of CSR in driving sustainable growth and delivering value to stakeholders. Ye et al. (2022) examined companies in EU member states and concluded that higher Environmental, Social, and Governance (ESG) disclosure correlates with better stock returns. This confirms the financial benefits of adopting sustainable practices and meeting investors' increasing demand for transparency. In addition, Bodhanwala & Bodhanwala (2018), examining global markets, found that sustainable and responsible investment (SRI) portfolios, especially in developed countries, either outperform or are on par with benchmark indices. These findings highlight the importance of CSR in shaping investment decisions and improving market performance.

H2: Pengungkapan aktivitas CSR berpengaruh positif terhadap return saham.

Research Design and Method

This study uses a quantitative approach to analyze the causal relationship between Corporate Social Responsibility (CSR) disclosure and company financial performance, as measured by Return on Equity (ROE) and stock returns. The quantitative method was chosen because it allows objective hypothesis testing through statistical analysis. This approach provides a robust framework for understanding the relationship between variables using scalable and reliable regression models. This research involves two main groups of variables that are interrelated. The independent variable in this study is Corporate Social Responsibility (CSR), measured using the CSR disclosure index. This index is calculated based on international reporting standards such as the Global Reporting Initiative (GRI), which is then adapted according to the context of companies in Indonesia. This measurement ensures that

CSR disclosure reflects the company's commitment to social, environmental, and sustainability responsibilities. Meanwhile, the dependent variable consists of two leading indicators. First, financial performance is proxied through Return on Equity (ROE). ROE reflects the company's efficiency in generating profits from shareholders' equity, making it an important indicator in assessing its ability to utilize capital to create profitability. Second, stock returns measure changes in the value of a company's shares within a certain period. Stock returns provide an overview of the market's response to the company's performance, reflecting the level of investor confidence and market perception of the company's stability and prospects.

This study involved several stages of data analysis. First, descriptive statistical analysis is conducted to describe data characteristics, such as minimum, maximum, average, and standard deviation values of CSR, ROE, and stock returns. Next, a classical assumption test is conducted to ensure the validity of the regression model, including normality test (normal residual distribution), autocorrelation test (Durbin-Watson value is within the acceptable range), and heteroscedasticity test (random distribution of data without a specific pattern). Furthermore, regression analysis was conducted to test the hypothesis and determine the significance level and influence of CSR on ROE and stock returns, with a significance level below 0.05. All analyses were performed using the SPSS Statistics tool to ensure accurate and reliable results.

Results and Discussion

Result

Based on the descriptive statistics results, 81 observation data were obtained by multiplying the research period, namely 3 years from 2020 - 2022, with the number of sample companies, namely 27 companies.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	81	.22	.75	.4580	.15196
ROE	81	1.15	43.69	13.8677	8.58471
Stock Return	81	-.54	1.97	.3518	.45783
Valid N (listwise)	81				

Source: processed data, 2024

Table 1 shows that the minimum value of Corporate Social Responsibility (CSR) is 0.22, and the maximum value is 0.75. The average value is 0.4580. The standard deviation of Corporate Social Responsibility (CSR) is 0.15196. The minimum value of financial performance proxied through Return on Equity (ROE) is 1.15, and the maximum value is 43.69. The average value is 13.8677. The standard deviation of Return on Equity (ROE) is 8.58471. The minimum value of stock return is -0.54, and the maximum is 1,780. The average value is 0.3518. The standard deviation of stock prices is 0.45783.

In this study, the results of the data normality test used the Normal P-P Plot of Regression Standardized Residual graph, the test results of which can be seen in Figure 1.

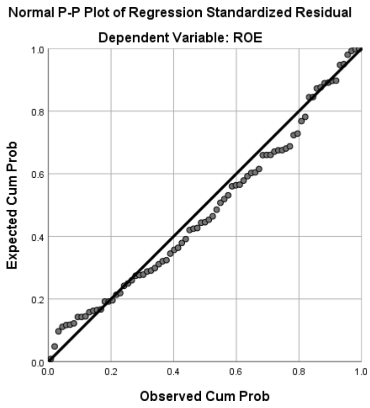

Figure 1. Normality Test Results (Equation I)
Sumber: Data primer yang diolah, 2024

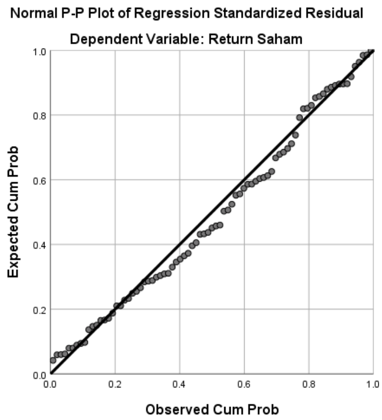

Figure 2. Normality Test Results (Equation II)
Sumber: Data primer yang diolah, 2024

Figures 1 and 2 show that the points spread around the diagonal line, and the direction of the spread follows the direction of the diagonal line. This shows that the regression model is suitable for use because it fulfills the assumption of normality.

Next, an autocorrelation test is carried out to determine whether there is a correlation between confounding errors in period t and period t-1 (previous) in a linear regression model. A regression equation is said to have met the assumption that there is no autocorrelation in the equation if the value of the Durbin-Watson Test is -2 < DW < +2. The results of the autocorrelation test are presented in Table 2.

Table 2. Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
CSR → ROE	.450[a]	0.203	0.192	7.71448	0.749
CSR → Stock Return	.506[a]	0.256	0.246	0.39748	1.708

Source: processed data, 2024

Table 2 shows that the Durbin-Watson coefficient value is 0.749 and 1.708, which is where the DW value is between -2 and +2 (-2 < 0.749 < +2) and (-2 < 1.708 < +2) Thus, it can be concluded that in the regression between the Corporate Social Responsibility (CSR) variable on Financial Performance (ROE) (Y1) and Stock Returns (Y2) there is no autocorrelation.

The next step is to conduct a heteroscedasticity test to see if there is an inequality of variance in the residuals from one observation to another. The scatterplot method can detect heteroscedasticity, where the spread of the points generated is formed randomly, does not form a certain pattern, and the direction of its distribution is above or below the number 0 on the Y axis.

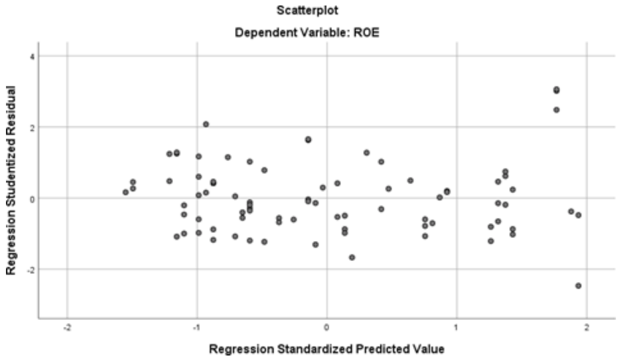

Figure 3. Heteroscedasticity Test Results (Equation II)
Source: processed data, 2024

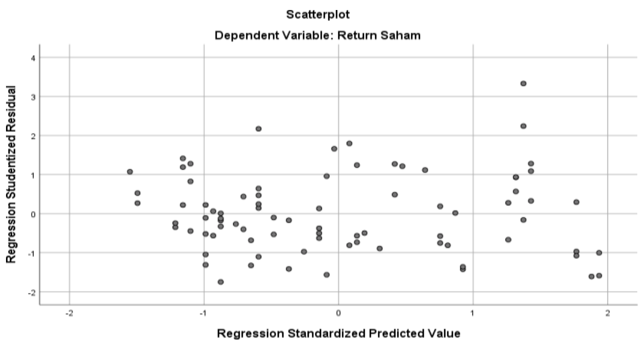

Figure 4. Heteroscedasticity Test Results (Equation II)
Source: processed data, 2024

Based on Figures 3 and 4, the scatterplot graph shows that the data is spread on the Y-axis and does not form a clear pattern in the data distribution. This indicates no heteroskedasticity in the regression model, so it is feasible to use the regression model to predict financial performance and stock returns with variables that affect corporate social responsibility (CSR) after the results of the classical assumption test are carried out, the overall results show that the regression model fulfills the classical assumptions.

The coefficient test aims to determine how much the independent variable can explain the ability of the dependent variable.

Table 4. Determination Coefficient Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
CSR ➔ ROE	.450[a]	0.203	0.192	7.71448	0.749
CSR ➔ Stock Returns	.506[a]	0.256	0.246	0.39748	1.708

Source: processed data, 2024

From Table 4, there is an R number of 0.450 and 506, which indicates that the relationship between financial performance and stock returns with one independent variable is quite strong because it is in the definition of strong enough, whose numbers are between 0.401 - 0.6. While the R square value of financial performance is 0.203 or 20.3%, the economic performance variable can be explained by the Corporate Social Responsibility (CSR) variable by 20.3%. The remaining 79.7% can be explained by other variables not contained in this study. The R square value of stock returns of 0.256 or 25.6% indicates that the stock return variable can be explained by the Corporate Social Responsibility (CSR) variable by 25.6%. The remaining 74.4% can be explained by other variables not contained in this study.

Next, a partial test will be done to see the effect of each independent variable on the dependent variable. Testing is done with the t-test, namely by looking at the significance value of the t count; if the significance value is < 0.05, then it can be said that the independent variable influences the dependent variable.

Table 5. Partial Test Results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
CSR ➔ ROE	25.426	5.676	0.450	4.480	0.000
CSR ➔ Stock Returns	1.524	0.292	0.506	5.210	0.000

Source: processed data, 2024

Through t-test statistics consisting of Corporate Social Responsibility (CSR) (X), its effect on Financial Performance (ROE) (Y1) and Stock Return (Y2) can be seen partially.

First Hypothesis Testing

Corporate Social Responsibility (CSR) has a significant level of 0.000, which is smaller than 0.05. The coefficient value of +25.426 indicates that the effect given is positive on the dependent variable. This means that H1 is accepted so that Corporate Social Responsibility (CSR) positively and significantly impacts financial performance proxied through Return on Equity (ROE).

Second Hypothesis Testing

Corporate Social Responsibility (CSR) has a significant level of 0.000, which is smaller than 0.05. The coefficient value of +1.524 indicates that the effect given is positive on the dependent variable. This means that H2 is accepted, so Corporate Social Responsibility (CSR) positively and significantly impacts Stock Returns.

Discussion

Corporate Social Responsibility (CSR) on Financial Performance

The results of this study indicate that Corporate Social Responsibility (CSR) has a positive and significant influence on financial performance proxied through Return on Equity (ROE). This finding provides empirical evidence that the higher the level of CSR disclosure by the company, the better the resulting financial performance. CSR activities carried out strategically reflect corporate social responsibility and are an essential step in increasing economic value. Companies committed to transparently implementing and reporting CSR activities gain greater stakeholder trust. More comprehensive CSR disclosure is an effective communication tool between companies, investors, and other stakeholders. CSR reports demonstrate the company's commitment to environmental sustainability, social responsibility, and good governance. This creates a positive image that attracts new investors and strengthens the loyalty of existing shareholders. This trust encourages increased acceptance of the company's products and services, directly increasing profits and Return on Equity (ROE).

The findings of this study confirm that corporate social responsibility (CSR) disclosure serves as a strategic communication tool that provides positive signals to external parties through the signaling theory. Companies convey their commitment to sustainability, regulation, and social responsibility through transparent reporting. This information creates positive perceptions among stakeholders, including investors and customers, influencing strategic decisions such as investment and loyalty. Comprehensive CSR disclosure creates transparency that increases stakeholder trust, attracts investor interest, and strengthens customer loyalty to the company. This trust results in increased profitability, as reflected in financial indicators such as Return On Equity (ROE). By integrating CSR disclosure into business strategy, companies meet social expectations and create sustainable economic value, strengthening their position in a competitive market.

The results of this study are highly consistent with signaling theory, which emphasizes that CSR disclosure can serve as a positive signal received by stakeholders and shareholders. These signals translate into actions that benefit the company, such as increased investment, customer loyalty, and a better corporate image in the market. By demonstrating transparency and commitment to sustainability, CSR disclosures provide the market with concrete evidence of the company's stability and capacity to withstand changes in the business environment. These disclosures also reduce information uncertainty, one of the main barriers to investment decision-making. By showing that CSR disclosure directly impacts increasing Return on Equity (ROE), the results of this study reinforce the relevance of CSR as an effective business strategy. CSR disclosure is a tool to create trust in the market and a mechanism to increase shareholder value. In an increasingly competitive business landscape, CSR is a strategic component that enables companies to maintain their competitiveness and achieve long-term sustainability. This study confirms that companies that consistently communicate CSR activities can create significant economic value through increased profitability and capital efficiency. The results of this study are consistent with several previous studies that confirm the positive relationship between CSR disclosure and Return on Equity (ROE). For example, research by Dakhli (2022) revealed that CSR positively impacts corporate financial performance, including ROE, through increased stakeholder trust and loyalty. This trust creates an environment conducive to the growth of corporate profitability. In addition, Liu et al. (2021) found that higher CSR disclosure scores were significantly correlated with increased ROE within the banking sector in China. This finding shows the critical role of CSR in strengthening the company's reputation and attracting investors, thereby providing better financial performance. This research is also in line with the findings of Velte and Stawinoga (2020), who showed that an integrated corporate governance structure with the presence of sustainability officers and CSR committees positively contributes to higher ROE. In addition, Hasan et al. (2018) identified that exemplary CSR implementation cancan increase the company's productivity, directly contributing to improved financial performance. By creating intangible assets such as good reputation and customer loyalty, CSR initiatives become one of the key factors in sustaining a company's profitability for the long term.

The practical implications of these findings are highly relevant for companies, particularly in the Indonesian banking sector. First, companies need to integrate CSR into their core business strategies. This includes transparent and comprehensive CSR reporting to build stakeholder trust and strengthen corporate image. Second, companies can utilize CSR to increase market competitiveness by highlighting sustainability and social responsibility as a competitive advantage. Third, for investors, CSR disclosure can be one of the criteria in evaluating potential investments, given its impact on financial performance. Fourth, regulators can also use these findings to encourage broader CSR disclosure through policies and guidelines that support sustainability. Thus, this study's findings provide theoretical insights and practical guidance for companies, investors, and regulators to create sustainable value.

Corporate Social Responsibility (CSR) on Stock Returns

The results of this study indicate that Corporate Social Responsibility (CSR) has a positive and significant influence on stock returns. This finding shows that CSR disclosure is a social obligation supporting sustainability and an essential business strategy for creating added value in the capital market. The higher the level of CSR disclosure the company makes, the significant the impact on increasing stock returns. In the capital market context, stock price movements are strongly influenced by the supply and demand mechanism. Companies with good CSR performance are more likely to attract investor attention because CSR reflects the company's commitment to social responsibility and sustainability. When investor confidence in the company increases, demand for the company's shares tends to increase, affecting the stock price and increasing stock returns. Thus, CSR disclosure is one of the essential elements that can create a competitive advantage for companies in an increasingly competitive market. CSR disclosure adds significant value by building the company's positive reputation, a major factor in investment decisions. Companies that consistently report CSR activities are considered more socially responsible, thus attracting investors' attention. According to signaling theory, CSR disclosure is a positive signal that reduces information asymmetry between companies and investors. Investors respond to this signal by allocating their funds to responsible companies, increasing stock trading volume and returns. In addition, good CSR disclosure creates higher market loyalty. Investors see it as a reliable indicator of corporate sustainability, creating market stability and supporting long-term growth. The increased share trading volume due to investor confidence also strengthens the company's position in the capital market. Thus, CSR becomes integral to corporate strategy, supports long-term sustainability, and adds significant value to stock returns.

The findings of this study are closely related to signaling theory, which states that companies can use CSR disclosure to provide positive signals to the market. In this context, CSR disclosures reflect a company's commitment to sustainability, social responsibility, and good governance. This signal reduces information uncertainty in the market, increasing investor interest and confidence. Investors' response to this signal is often realized in the form of increased investment, which directly impacts the company's stock price and stock returns. In other words, CSR is a philanthropic tool and a strategic mechanism to improve the company's market performance. The positive effect of CSR disclosure on stock returns, as found in this study, suggests that signaling theory provides a strong conceptual framework for understanding this dynamic.

The results of this study are consistent with various previous studies that show a positive relationship between Corporate Social Responsibility (CSR) initiatives and stock performance. For example, Maqbool (2019), who examined companies in the BSE 100 index, showed that engagement in CSR activities positively impacts company profitability and stock returns. This study underscores how responsible CSR practices increase firm value and serve as a strategic tool to attract investors. Furthermore, Kaur and Singh (2021), in their study on the steel industry in India, reported that significant CSR investments not only resulted in profitability and sales growth but also created considerable value for shareholders, emphasizing the dual benefits of CSR in driving sustainable growth. The study by Ye et al. (2022), which examined companies in European Union countries, found that higher Environmental, Social, and Governance (ESG) disclosures positively correlate with stock returns. These findings highlight the financial benefits of implementing sustainability practices that meet investors' transparency demands. In addition, Bodhanwala and Bodhanwala (2018), who analyzed sustainable investment portfolios globally, showed that investment portfolios that integrate CSR tend to outperform or be on par with benchmark indices, especially in developed countries.

The practical implications of this research are significant for companies, especially those listed on the stock exchange. Companies need to integrate CSR into their business strategy to strengthen their position in the capital market. Transparent and comprehensive CSR disclosure will attract new investors and increase existing investors' loyalty, thus creating long-term stability. In addition, companies can utilize CSR disclosure as a communication tool to build a positive reputation in the market. A good reputation supports stock market growth and creates value for all stakeholders. These findings provide insight into the importance of CSR in investors' investment decisions. Investors can use CSR information as an additional indicator to evaluate a company's growth potential and sustainability. Finally, regulators can utilize the results of this study to encourage companies to be more transparent in CSR disclosure through policies that support sustainability and good governance. This will create a more stable and fair capital market, supporting economic growth.

Conclusions

This study analyzes the effect of Corporate Social Responsibility (CSR) on financial performance and stock returns in banking companies listed on the Indonesia Stock Exchange during the period 2020-2022. The results showed that CSR positively and significantly influences financial performance, as measured by Return On Equity (ROE). The higher the CSR disclosure, the better the company's financial performance. This reflects that CSR can increase stakeholder trust, strengthen reputation, and encourage capital efficiency, increasing corporate profits. In addition, CSR also has a positive and significant impact on stock returns. High CSR disclosure provides positive signals to the market, increases investor confidence, and attracts more investors to buy the company's shares. This leads to an increase in stock price, directly impacting higher stock returns. This study confirms that CSR is a social obligation and an effective strategy to support financial performance and create higher market value for banking companies.

Based on this study's results, several suggestions can be recommended for various parties. Investors should be more active in obtaining relevant information as early as possible to avoid information asymmetry when making investment decisions. Accurate and timely information is essential so investment decisions can be based on valid and reliable data, reducing the risk of loss. It is recommended that information disclosure related to financial statements and disclosure of Corporate Social Responsibility (CSR) activities be increased for companies, especially banking companies. Better transparency will make it easier for investors to access the information they need and increase their trust in the company. Information disclosure will also support better decision-making by investors and help companies build a positive reputation while minimizing risks that can harm both parties.

For future researchers, it is recommended that the scope of research be expanded by including companies from other sectors besides banking. This study only focuses on banking companies listed on the Indonesia Stock Exchange, so the results may not fully reflect the relationship between CSR and financial performance in other sectors. In addition, this study's R^2 (Determinant) value shows that the CSR variable only explains financial performance by 20.3% and stock returns by 25.6%. At the same time, the rest is influenced by other variables not included in this study. Therefore, future researchers are advised to consider additional or broader combinations of variables to provide a more comprehensive understanding of the relationship between CSR, financial performance, and stock returns. Such research is expected to enrich academic literature and provide deeper insights into this field.

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