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The Effect of Corporate Social Responsibility on Investment Decisions: The Mediating Role of ESG Score on Banking Companies in Indonesia

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Abstract: This study aims to analyze the influence of Corporate Social Responsibility (CSR) on investment decisions in Indonesia's banking sector, considering the role of the ESG (Environmental, Social, Governance) Score as a mediating variable. A quantitative approach is used, involving eight banking companies listed on the Indonesia Stock Exchange (IDX) and included in the IDX ESG Leaders index from 2019 to 2023, with a total sample of 40 research samples. The research findings indicate that CSR disclosure does not have a direct effect on investment decisions. However, ESG mediation significantly impacts CSR and investment decisions, and ESG is associated with EPS. These results suggest that ESG can act as a bridge for CSR in investment decision-making.

Keywords: Environmental Social Government (ESG), Corporate Social Responsibility (CSR) Disclosure, Investment Decision, Earning Per Share (EPS)

INTRODUCTION

The banking sector is one of the important pillars in a country's economy. Banks play a role not only in maintaining economic stability but also in supporting national financial growth. In the Indonesian banking sector, investors face challenges in determining strategic and sustainable investment decisions. For investors, banking has its own appeal as a trust-based industry, where the right investment decisions not only impact profitability but also build reputation and maintain corporate sustainability. As global awareness of responsible investment practices increases, investors are increasingly recognizing the importance of integrating Environmental, Social, and Governance (ESG) and Corporate Social Responsibility (CSR)-based approaches. Investors now not only consider their decisions from financial returns alone but also assess whether a bank has a good ESG score or engages in ongoing CSR activities that ensure sustainability and social responsibility assessment.

Corporate Social Responsibility (CSR) is an important component in investment decisions in the banking sector. Corporate Social Responsibility (CSR) reflects the social responsibility of the company, showing the concern and sincerity of the business towards society (LUTFIA et al., 2021). Optimal CSR implementation can improve the company's image and reputation and have a positive impact on the company and society (Matasik, 2022). Effective CSR implementation not only improves the company's image but also strengthens relationships with consumers and investors and provides a competitive advantage (Chen et al., 2019). However, in the Indonesian banking sector, CSR disclosure still shows weaknesses, for example, seen from the low number of banks that received CSR awards, as well as cases such as the 1998 monetary crisis case of BCA bank and the Century Bank scandal that show the importance of transparency and commitment to social responsibility as a determinant of the sustainability of the banking business in Indonesia in maintaining public trust in banks. Despite the growing awareness of CSR, more efforts are needed to overcome implementation barriers and ensure the positive impact of CSR on investment decisions.

Many studies have shown a positive relationship between CSR disclosure and investment decisions. A study by Plumlee et al. (2015) found that CSR disclosure benefits companies by allowing them to send positive signals to investors. CSR information provided in the annual report indicates that the company provides fair treatment to other stakeholders. This also has a positive impact on investors, who have the perception that they will be treated fairly in the future. Plumlee et al. (2015) observed that the quality of disclosed environmental responsibility information actually affects firm value through cash flow and cost of capital. CSR information, along with financial information, is used by investors to assist in market valuation.

On the other hand, Environmental, Social, and Governance (ESG) is becoming an important standard in measuring the sustainability and social impact of a bank. Within the CSR framework, ESG principles complement the triple bottom line concept, which measures a company's contribution to environmental and community sustainability. Although ESG and CSR have similarities, ESG emphasizes governance as a more explicit indicator, while CSR focuses on environmental and social issues and includes governance indirectly (Gillan et al., 2021). The implementation of ESG in the banking sector in Indonesia further strengthens the role of CSR, with banks prioritizing ESG proving to be superior in terms of sustainability. Banks that play a crucial role in realizing sustainability through the implementation of effective Environmental, Social, and Governance (ESG) practices, as well as integrating social and environmental responsibility into sustainable credit and investment policies (Buallay et al., 2021). This can increase the attractiveness of institutional investors for implementing ESG in the banking sector because it is considered capable of providing high long-term financial returns, improved stock performance, dividends, social benefits, and better risk management (Dyck et al., 2019; Pástor et al., 2021; Pedersen et al., 2021; Wen et al., 2022).

Empirical research also shows a positive influence of ESG on investment decisions in companies with an increased Earning Per Share (EPS) ratio. According to Gitman et al. (2015), Earning per Share (EPS) is a ratio to measure management success in achieving profits for company owners. EPS is an important metric for investors and stock analysts because it provides insight into the company's profitability on a per-share basis. In addition, a study by Li et al. (2023) showed that environmental factors are the most important factors in green finance investment decision-making in China, followed by governance and social factors. While Tan & Solangi (2023) found that green infrastructure investment decisions are mainly influenced by environmental impacts, followed by economic and social factors identified as the second and third most important considerations. Another study by Khemir et al. (2019) also supports the view that ESG information has a significant impact on investment decisions, showing that EPS reflects the financial performance of a company as an indicator of investment decision measurement.

In the context of investment decision-making, the ESG score is an important indicator used to assess CSR performance. The ESG score covers various aspects related to environmental, social, and corporate governance and is considered a relevant indicator for long-term investment decision-making and good risk management (Ahmadin et al., 2023). Banking companies that have good levels of CSR disclosure and high ESG scores are likely to demonstrate more responsible and sustainable business practices, which in turn influence investment decisions on long-term sustainability. The relationship between CSR disclosure, ESG score, and investment decisions suggests that banks with better ESG performance are more likely to be selected by investors, especially those who are concerned with sustainability and social responsibility. The ESG score here mediates the effect of CSR on investment decisions, making ESG aspects a crucial indicator in the process of evaluating the risk and value of investment in banking companies in Indonesia.

A research study made by Gillan et al. (2021) found that ESG scores are derived from CSR, which suggests that a comprehensive sustainability assessment requires an in-depth understanding of corporate social responsibility and its impact on environmental, social, and corporate governance aspects. In the study also mentioned, ESG scores can be seen as an extension of CSR strategies because ESG issues develop from CSR strategies. The ESG score represents the quantitative element of the CSR strategy. Currently, CSR strategies are better expressed through mission statements, future strategic directions, and corporate values, all of which are difficult to measure. While the ESG score is a unique metric that evaluates CSR elements, it can accurately represent how a company is addressing certain CSR issues.

In Indonesia, CSR and ESG on investment decisions in companies in Indonesia, especially in the banking world, have not been widely applied. Therefore, this study aims to analyze the effect of CSR on investment decisions in the Indonesian banking sector with ESG *score* as a mediating variable. The results of this study are expected to determine the influence of ESG and CSR on investment decisions in this sector to understand the extent to which both factors contribute to shaping investor perceptions, which will strengthen the stability of the banking sector in supporting sustainable national development goals, including environmental, social, and good governance aspects.

Framework

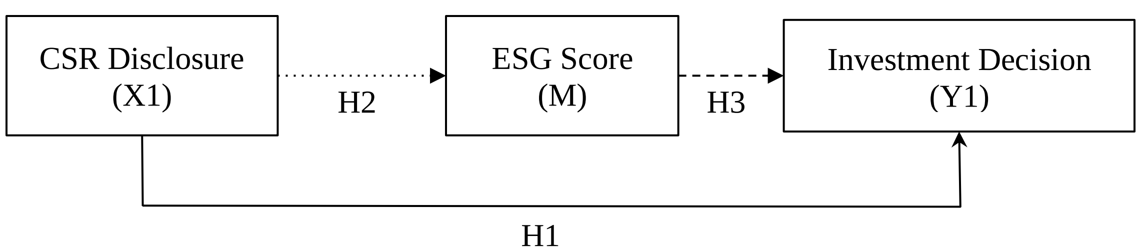

Figure 1. Conceptual Framework

Hypothesis Formulation

Based on problem identification, theoretical studies, and previous research results, the research hypothesis can be formulated as follows:

H1 : CSR disclosure has a positive effect on investment decisions
H2 : ESG mediation has a positive effect on CSR disclosure in investment decisions.
H3 : ESG has a positive effect on Earning per Share

METHOD

This research method uses a quantitative approach with a causality research design. The object of research is banking companies listed on the Indonesia Stock Exchange (IDX), which are listed in the ESG Sector Leaders IDX SRI-KEHATI (ESGSKEHATI) stock report for the period May 2–July 31, 2024 in the IDX80 index. There are 8 banking companies listed, namely Bank Jago, Bank BCA, Bank BNI, Bank BRI, Bank BTN, Bank Mandiri, Bank Syariah Indonesia, and Bank BTPN Syariah. To maximize data relevance and produce accurate results, this study uses data collected from the period 2019 to 2023. Thus, the total samples used in this study were 40 samples...

The data used in this study are secondary data. Data related to CSR measured by CSR disclosure is obtained from the annual financial statements of banking companies published through the IDX website and the official website of each company, while data related to ESG measured using ESG score is obtained from the Thomson Reuters platform. Data for investment decisions measured using Earning Per Share (EPS) is obtained from the company's financial statements. This data collection also utilizes the dataset provided by ESG Intelligence Universitas Airlangga, which is managed by the Center for Environmental, Social, Governance Studies Universitas Airlangga.

Data processing and analysis were conducted using multiple linear regression analysis. Data analysis was conducted using SmartPLS 4, which allows testing of structural models and variable measurements simultaneously. The analysis procedure began by conducting descriptive analysis to understand the basic characteristics of the data. Next, relevant data was collected from the mentioned sources. Data processing uses SmartPLS to test the validity and reliability of the model. The results of hypothesis testing were interpreted to assess the significance of the relationship between variables. The interpretation of the results includes an explanation of the path coefficient value, p value, and R-square, which shows how much variation in investment decisions can be explained by the variables studied.

RESULT AND DISCUSSION

Result

The following are the results obtained from this research:

Table 1. Construct Reliability and Validity

Variables	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Corporate Social Responsibility (CSR)	1,000	1,000	1,000	1,000
Earning per Share (EPS)	1,000	1,000	1,000	1,000

Environmental, Social, and Government (ESG)	1,000	1,000	1,000	1,000

Source of data processed, 2024

Based on table 1, it shows that the Average Variance Extracted (AVE) of all variables has a construct > 0.7. Corporate Social Responsibility (CSR), Earning per Share (EPS), and Environmental, Social, and Government (ESG) meet Construct Reliability and Validity. This study shows that all variables meet the Cronbach's Alpha, Rhoa, and Composite Reliability values. This research data has the feasibility of reliability
High.

Table 2. Discriminant Validity

Variables	CSR	EPS	ESG
Corporate Social Responsibility (CSR)	1,000		
Earning per Share (EPS)	0,184	1,000	
Environmental, Social, and Government (ESG)	0,223	0,556	1,000

Source of data processed, 2024

Based on table 2, it shows that the Forller-Larcker Criterion value is greater than the AVE value. Where all variables reach an AVE value > 0.7, it can be concluded that Corporate Social Responsibility (CSR), Earning per Share (EPS), and Environmental, Social, and Government (ESG) fulfill the Discriminant Validity aspect. The table above shows that all stages can be fulfilled well from the aspects of validity, reliability, and data differentiation.

Table 3. R Square

Variables	R Square
Earning per Share (EPS)	0,313
Environmental, Social, and Government (ESG)	0,050

Source of data processed, 2024

Based on table 3, it is known that the R-Square value of Earning per Share (EPS) is 0.313, which means that corporate social responsibility (CSR) and Environmental, Social, and Government (ESG) are able to influence Earning per Share (EPS) by 31.3%. The R-Square value of Environmental, Social, and Government (ESG) is 0.050, which means corporate social responsibility (CSR) and Earning per Share (EPS) are able to influence Environmental, Social, and Government (ESG) by 0.5%.

Table 4. Hypothesis Test

Variables	Original Sample (O)	T Statistics	P Values
CSR → EPS	0,063	0,429	0,334
ESG → EPS	0,542	3,631	0,000
CSR→ ESG→ EPS	0,121	1,794	0,037

Source of data processed, 2024

Table 4 shows that the first hypothesis is that Corporate Social Responsibility (CSR) has no significant effect on Earning per Share (EPS). The Corporate Social Responsibility (CSR) variable has a T-statistic value of 0.429 and a P-value of 0.334. The T-statistic value of Corporate Social Responsibility (CSR) is below the T-test value of 1.98 (0.429> 1.98), with a P-value (0.334> 0.05), so hypothesis 1 is rejected.

The second hypothesis is that Corporate Social Responsibility (CSR) has a significant influence on Earning per Share (EPS) and Environmental, Social, and Government (ESG) as a mediating variable. The indirect effect results show that the T-statistic is greater than the T-test value of 1.98 (1.794> 1.98) and the P-value (0.037> 0.05), so hypothesis 2 is accepted.

The third hypothesis is that Environmental, Social, and Government (ESG) has a significant influence on Earning per Share (EPS). The Environmental, Social, and Government (ESG) variable has a T-statistic value of 3.631 and a P-value of 0.000. The T-statistic value of Environmental, Social, and Government (ESG) is below the T-test value of 1.98 (3.631> 1.98), with a P-value of 0.000> 0.05, so hypothesis 3 is accepted.

Discussion

The Effect of CSR on Investment Decisions

This study found that the influence of CSR has no significant effect on investment decisions. This is in line with research conducted by Prasetyo & Meiranto (2017) proving that CSR disclosure has no significant effect on Earning per Share (EPS). Although the hypothesis in this study states that CSR provides benefits to the company by sending positive signals to investors, in fact, the relationship between CSR and the company's financial performance has a poor level of community care. Although the company has been concerned about its environment, if the community does not care about its environment, then the business will not have a positive impact on financial performance (profitability). According to Meilinda & Widodo (2016), if the company can be precise in making investment decisions, the company's assets will also obtain optimal performance that can increase company value. If the company has high investment opportunities, it will have good future prospects and be able to increase company value. This can cause the company's ability to share its profits with investors to be considered unfavorable and the level of investment decisions to be low because the company provides a small profit return.

Mediating Effect of ESG on CSR in Investment Decision

Based on the results of the study, the mediating effect of Environmental, Social, and Governance (ESG) is proven to have a significant effect on Corporate Social Responsibility (CSR) in investment decision-making, which supports the view that the company's CSR strategy is increasingly important in the eyes of investors. Gillan et al. (2021) state that CSR is currently expressed more through mission statements and corporate strategic values, but these elements are often difficult to measure directly and do not always reflect the resulting impact.

This research strengthens the argument that ESG scores, derived from CSR implementation, provide a key indicator for investors to assess corporate social responsibility. Thus, companies with high ESG scores tend to be more attractive to investors as it reflects their commitment to sustainability. This finding is in line with the view that investment decisions should not only consider financial aspects but also consider social and environmental impacts. Therefore, the hypothesis that ESG acts as a positive mediator between CSR and investment decisions is well-founded, where good CSR implementation contributes to an increase in ESG scores, which in turn attracts investors. In addition, it is important to consider that the influence of ESG as a mediator may vary depending on the industry context, such as the banking sector, where ESG performance is often used by investors to assess the risks and opportunities present in investments, as well as reinforcing the important role of banking companies in ensuring capital flows proceed with optimal sustainability principles.

Effect of ESG *score* on EPS

The results of the analysis show a significant influence between Environmental, Social, and Governance (ESG) scores on Earnings Per Share (EPS), indicating that corporate attention to sustainability can contribute to improved financial performance. This finding is in line with research shows that companies with high ESG scores are not only able to improve their image in the eyes of the public but also contribute to an increase in EPS, which is a key indicator of financial performance and attractiveness to investors. The proposed hypothesis that companies with higher ESG scores have better financial performance, reflected in increased EPS, is proven in this analysis, where attention to sustainability and good governance issues is able to have a positive impact on company profits. The higher the EPS, the better the company's financial performance, and this has the potential to attract more investment, so ESG scores can be considered as an indicator of company quality that does not only focus on financial returns but also reflects how the company manages risks as well as social and environmental responsibilities. With increasing awareness of the importance of sustainability in investments, the relationship between ESG scores and EPS is becoming increasingly relevant, creating a cycle where companies with good sustainability strategies, reflected in high ESG scores, tend to generate better financial performance, which is ultimately seen in higher EPS.

CONCLUSION

Based on the results and discussion, research conclusions are obtained that are able to answer the problems in this study. The research conclusions are (1) CSR does not have a significant influence on investment decisions in the Indonesian banking sector. This means that banks need to strengthen CSR practices in making a positive contribution to society and the environment to improve appropriate decision-making. (2) The ESG Score plays a significant role as a mediator in the relationship between CSR and investment decisions in the Indonesian banking sector. This means that investment decisions in banks in Indonesia assess aspects of corporate social responsibility aspects and also pay attention to social and environmental impacts. (3) ESG Score has a significant influence on EPS in the banking sector in Indonesia. This means that companies can handle risks as well as social and environmental responsibilities, as well as pay attention to sustainability issues and good corporate governance.

Suggestions for future researchers are expected to expand the scope of the sectors studied, not only limited to the banking sector but also other sectors such as manufacturing, energy, or technology. In addition, expanding the sample of companies covering the Asian region to expand a more diverse regional perspective. This research can also consider other variables, such as Sustainable Development Goals (SDGs) or Corporate Reputation to see how these factors play a role in investment decisions.

This research provides an in-depth understanding of how to increase investment attractiveness in the banking sector through the implementation of Corporate Social Responsibility (CSR) and Environmental, Social, and Governance (ESG) principles. CSR and ESG are not only important elements in creating added value for the company but also play a strategic role in building trust and long-term relationships with investors. This research opens up opportunities to develop more comprehensive strategies to attract investment by investigating the relationship between effective CSR and ESG implementation and investor preferences.

In addition, this study identifies the challenges that companies face when integrating CSR and ESG into their business operations. Based on the results obtained, strategic recommendations can be developed that aim not only to optimize the implementation of CSR but also to improve the sustainable application of ESG principles. These recommendations are expected to help companies improve business competitiveness and inform policymakers in developing regulations that support the expansion of responsible investment in the banking sector. Therefore, this research contributes significantly to creating synergies between sustainability, social responsibility, and investment attractiveness.

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