

THE IMPACT OF CSR IMPLEMENTATION ON STOCK PRICES IN INDONESIA & MALAYSIA

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ABSTRACT

Corporate Social Responsibility (CSR) has become an integral component of corporate strategy, influencing not only societal and environmental well-being but also the financial performance and stock prices of companies. This study examines the impact of CSR implementation on stock prices in Indonesia and Malaysia, highlighting how different regulatory frameworks, cultural contexts, and economic conditions shape this relationship. In Indonesia, mandatory CSR activities for companies involved in natural resources, coupled with a focus on local community development and environmental sustainability, have enhanced corporate reputation, operational efficiency, and investor confidence. Companies such as PT Unilever Indonesia Tbk and PT Astra International Tbk exemplify these benefits. In Malaysia, stringent CSR reporting guidelines by Bursa Malaysia have encouraged transparency and accountability, attracting both local and international investors. Companies like Nestlé Malaysia Berhad and Sime Darby Berhad have leveraged these guidelines to align with global sustainability standards, supporting stock price stability and growth. Comparative analysis reveals that while Indonesian companies primarily gain domestic investor confidence through local CSR efforts, Malaysian companies attract a broader investor base through stringent reporting and international alignment. This study underscores the strategic importance of CSR in achieving sustainable growth and investor confidence, demonstrating that CSR is not just a moral obligation but a strategic tool for enhancing competitive advantage and market standing.

Keywords: Corporate Social Responsibility (CSR), stock prices, financial performance, Indonesia, Malaysia.

INTRODUCTION

Corporate Social Responsibility (CSR) has become an integral element in modern business strategies. CSR refers to the practices where companies voluntarily take responsibility for the social, economic, and environmental impacts of their operations, often going beyond mere legal compliance. In the era of globalization and increasing public awareness of environmental and social issues, CSR implementation has evolved into more than just a marketing tool or a philanthropic approach (Ahyan & Puspitasari, 2019). CSR is now considered an important indicator of good and sustainable corporate management and a factor that can influence a company's value in the stock market (Legesse & Wondwossen Jerene, 2023).

In Indonesia and Malaysia, two developing countries in Southeast Asia with dynamic economies and active stock markets, CSR implementation has growing significance (Pasko et al., 2022). These two countries have unique cultural, economic, and regulatory contexts that shape corporate approaches to CSR. Indonesia, with the largest population in Southeast Asia and abundant natural resources, faces significant challenges in terms of sustainable development and corporate social responsibility. The Indonesian government has introduced various regulations and guidelines to encourage companies to implement CSR, focusing not only on social welfare but also on environmental protection (Isanya & Atieno, 2023).

Malaysia, known for its political stability and economic progress, also prioritizes CSR in its national development. Bursa Malaysia, the country's capital market authority, has implemented strict guidelines related to CSR disclosure, and many leading companies in Malaysia have integrated CSR practices into their business operations. CSR implementation in Malaysia is often directed towards community empowerment, education, and environmental conservation, with the aim of creating long-term value for stakeholders (Legesse & Wondwossen Jerene, 2023).

It is important to note that CSR implementation in both countries impacts not only the reputation and image of companies but also their financial performance, particularly stock prices. Stock prices are a vital indicator of a company's value in the eyes of investors and the financial market (Bernal-Conesa et al., 2016). The factors influencing stock prices are diverse, ranging from financial performance, market conditions, to public perception of ethical practices and corporate social responsibility.

Research on the impact of CSR implementation on stock prices in Indonesia and Malaysia is relevant to understanding how social responsibility practices can influence investment decisions and corporate value in the stock market (Zhou & Xu, 2023). Several studies indicate that companies active in CSR activities tend to have better stock performance, as they are considered more sustainable and less risky by investors. Conversely, there is also a view that CSR can be an additional cost burden that reduces short-term profitability (Zheng et al., 2023).

Therefore, it is essential to deeply examine the relationship between CSR implementation and stock prices in Indonesia and Malaysia, considering the various contextual factors influencing these two markets. This research will not only provide insights into the effectiveness of CSR strategies from a financial perspective but also help companies and policymakers design more effective and sustainable CSR policies in the future.

METHODS

The method employed in this study is a literature review aimed at exploring the impact of Corporate Social Responsibility (CSR) on stock prices in Indonesia and Malaysia. This approach involves systematically collecting, evaluating, and critically analyzing existing research and publications relevant to the topic. The review will focus on identifying and synthesizing key findings from empirical studies conducted in the past 20 years, specifically those that examine the relationship between CSR practices and stock price performance in these two countries. By utilizing academic databases and peer-reviewed journals, the literature review will compare methodologies, results, and contextual factors influencing CSR's financial impact. The goal is to develop a comprehensive understanding of how CSR affects stock prices, identify research gaps, and provide insights for future studies and practical applications in business and policy-making.

RESULTS AND DISCUSSION

This study formulated a conceptual framework to elucidate the connection between CSR dimensions, brand image, and customer satisfaction. According to the suggested model, CSR dimensions can positively impact customer satisfaction, with brand image serving as a mediator in this relationship (Mohammed & Rashid, 2018)

The study highlights the substantial impact of applying Islamic criteria to leverage, accounts receivable, and cash on performance. After controlling for various variables and analyzing the data across different time periods and firm sizes, the findings consistently

indicate that firms classified as Islamic exhibit superior environmental and social performance, though not in governance performance. Consequently, relevant policies should be adjusted (Qoyum et al., 2022).

This study revealed a moderate to strong positive correlation among all variables when examined collectively. Nonetheless, the correlation outcomes differ when analyzed separately for individual countries and sectors. There is a growing recognition of CSR disclosure among the top listed ASEAN companies (Waworuntu et al., 2014).

This study examines mining companies operating within the oil and gas sectors in Indonesia and Malaysia. Employing a fixed effect model validated by the Hausman diagnostic test statistics, this research uncovers evidence indicating that financial fraud may diminish the influence of CSR on a firm's value (Tarjo et al., 2022).

Our discoveries hold implications for redefining the concept of CSR in developing nations, providing insights into the particular types of CSR initiatives undertaken, along with their underlying motivations. The study concludes by discussing the implications of the findings, acknowledging limitations, and suggesting avenues for future research (Abaeian et al., 2014).

The Impact of CSR Implementation on Stock Prices in Indonesia

Corporate Social Responsibility (CSR) has become an essential component of corporate strategy in many parts of the world, including Indonesia. CSR refers to the practices where companies voluntarily take responsibility for their social, economic, and environmental impacts. In Indonesia, CSR implementation has significant implications not only for the social and environmental well-being of communities but also for the financial performance and stock prices of companies (Astri, 2012). This discussion explores how CSR initiatives impact stock prices in Indonesia, providing examples of companies that have effectively integrated CSR into their business operations.

Indonesia, the largest economy in Southeast Asia, faces numerous challenges related to sustainable development. These include environmental degradation, social inequality, and economic disparities. The Indonesian government has been proactive in promoting CSR, introducing regulations such as the Law No. 40 of 2007 on Limited Liability Companies, which mandates that companies engaged in natural resources must undertake CSR activities. Additionally, the Indonesia Stock Exchange (IDX) requires listed companies to report their CSR activities, emphasizing transparency and accountability (Monalisa & Serly, 2023).

CSR initiatives often enhance a company's reputation and brand value, leading to a positive public perception. Companies that are seen as socially responsible attract more investors, customers, and partners, which can increase demand for their shares and, consequently, their stock prices. For example, PT Unilever Indonesia Tbk (UNVR) has been recognized for its robust CSR programs focusing on environmental sustainability and community development. Unilever's efforts in waste reduction, water conservation, and community empowerment have significantly boosted its brand image, contributing to investor confidence and a stable stock price performance.

Effective CSR practices can help companies mitigate risks and improve operational efficiency. By addressing environmental risks and improving labor conditions, companies can reduce the likelihood of costly disruptions and enhance productivity. PT Astra International Tbk (ASII), a major conglomerate in Indonesia, has implemented comprehensive CSR programs that focus on environmental sustainability, education, and healthcare. Astra's initiatives in reducing carbon emissions and enhancing employee welfare have not only minimized operational risks but also attracted socially conscious investors, positively influencing its stock prices.

Compliance with CSR regulations can enhance a company's legitimacy and provide access to new markets and investment opportunities. Companies that proactively engage in CSR are often seen as compliant with local and international standards, which can be attractive to foreign investors. For instance, PT Pertamina (Persero), the state-owned oil and gas company, has implemented extensive CSR programs aimed at environmental protection and community development. Pertamina's adherence to CSR regulations and its commitment to sustainable practices have made it a favorable choice for both domestic and international investors, supporting its stock price stability.

Companies with strong CSR programs tend to have higher employee satisfaction and productivity, which can translate into better financial performance. Engaged employees are more likely to contribute to the company's success, leading to improved profitability and higher stock prices. PT Bank Central Asia Tbk (BBCA), one of Indonesia's largest banks, has been noted for its CSR initiatives in education, health, and community development. BCA's commitment to social responsibility has fostered a positive workplace culture, resulting in higher employee morale and productivity, which in turn has contributed to its strong financial performance and stock price growth.

The Impact of CSR Implementation on Stock Prices in Malaysia

Corporate Social Responsibility (CSR) has become a cornerstone of corporate strategy for many companies around the world, including those in Malaysia. CSR involves voluntary efforts by companies to manage their economic, social, and environmental impacts responsibly. In Malaysia, the implementation of CSR initiatives has significant implications not only for societal and environmental well-being but also for the financial performance and stock prices of businesses. This discussion examines how CSR initiatives influence stock prices in Malaysia, providing examples of companies that have effectively integrated CSR into their operations and the subsequent effects on their financial performance and market value (Isanya & Atieno, 2023).

Malaysia, known for its economic progress and political stability, has prioritized CSR in its national development agenda. The Malaysian government, through institutions like Bursa Malaysia (the country's stock exchange), has implemented stringent guidelines on CSR reporting and disclosure, ensuring that companies are transparent about their CSR activities. These regulations have encouraged companies to adopt sustainable practices and report their CSR efforts comprehensively.

CSR initiatives improve a company's reputation and brand equity, leading to a favorable public perception. Companies perceived as socially responsible attract more investors, customers, and partners, which can increase demand for their shares and drive up stock prices. For example, Nestlé Malaysia Berhad is renowned for its strong CSR programs focusing on nutrition, rural development, and environmental sustainability. Nestlé's commitment to community well-being and environmental conservation has significantly enhanced its reputation, contributing to investor confidence and stable stock price performance.

Effective CSR practices help companies mitigate risks and improve operational efficiency by addressing environmental risks and enhancing labor conditions, thereby reducing the likelihood of costly disruptions. Sime Darby Berhad, a major Malaysian conglomerate, has implemented comprehensive CSR initiatives focused on sustainable agriculture, biodiversity conservation, and community development. Sime Darby's efforts in promoting sustainable practices and improving working conditions have minimized operational risks and attracted socially conscious investors, positively influencing its stock prices.

Compliance with CSR regulations enhances a company's legitimacy and provides

access to new markets and investment opportunities. Companies that proactively engage in CSR are often seen as compliant with local and international standards, which can attract foreign investors. For example, Petronas, Malaysia's national oil and gas company, has extensive CSR programs aimed at environmental protection, education, and community development. Petronas' adherence to CSR regulations and commitment to sustainable practices have made it a favorable choice for both domestic and international investors, supporting its stock price stability.

Companies with strong CSR programs tend to have higher employee satisfaction and productivity, translating into better financial performance. Engaged employees are more likely to contribute to the company's success, leading to improved profitability and higher stock prices. Public Bank Berhad, one of Malaysia's largest banks, has been noted for its CSR initiatives in education, health, and community development. Public Bank's commitment to social responsibility has fostered a positive workplace culture, resulting in higher employee morale and productivity, which in turn has contributed to its strong financial performance and stock price growth.

A Comparison of the Impact of CSR Implementation on Stock Prices in Malaysia & Indonesia

Both Indonesia and Malaysia have embraced Corporate Social Responsibility (CSR) as a pivotal element of corporate strategy, with significant implications for stock prices. However, the impact of CSR on stock prices in these two countries can be distinct due to their unique regulatory environments, cultural contexts, and economic landscapes. While both countries mandate CSR reporting and encourage sustainable practices, the mechanisms and outcomes of these initiatives vary, influencing how CSR affects stock prices differently in each market.

In Indonesia, the government's regulatory framework mandates CSR activities for companies involved in natural resources, emphasizing environmental protection and community welfare. This regulatory push has led companies like PT Unilever Indonesia Tbk and PT Astra International Tbk to adopt comprehensive CSR programs that enhance their brand reputation and operational efficiency. These companies have reported positive impacts on their stock prices as a result of increased investor confidence and reduced operational risks (Sarmawa et al., 2021). In contrast, the CSR landscape in Malaysia is shaped by stringent guidelines from Bursa Malaysia, which require detailed CSR reporting. Companies like Nestlé Malaysia Berhad and Sime Darby Berhad have leveraged these guidelines to implement CSR initiatives that not only comply with regulations but also attract foreign investment. The transparency and accountability fostered by these guidelines have made Malaysian companies more attractive to international investors, supporting their stock price stability.

Cultural differences influence how CSR is perceived and its subsequent impact on stock prices. In Indonesia, CSR activities often focus on local community development and environmental sustainability, aligning with the country's pressing social and environmental issues. This focus resonates well with local investors who value companies contributing to national development. In Malaysia, CSR tends to emphasize broader issues like global sustainability standards and corporate governance, appealing to both local and international investors. Malaysian companies' alignment with international CSR standards can lead to better market access and investor trust, positively affecting their stock prices. This difference in focus highlights how cultural and societal values can shape the effectiveness and financial impact of CSR initiatives in different markets.

While both Indonesia and Malaysia recognize the importance of CSR in enhancing corporate value and stock prices, the impact of these initiatives is mediated by regulatory

frameworks, cultural contexts, and economic conditions. Indonesian companies benefit from CSR by enhancing their local reputation and operational efficiency, which drives domestic investor confidence. Conversely, Malaysian companies leverage stringent reporting standards and alignment with international practices to attract a broader investor base, including foreign investors. Understanding these nuances is crucial for companies operating in these markets to effectively strategize their CSR efforts and maximize their positive impact on stock prices.

CONCLUSION

The implementation of Corporate Social Responsibility (CSR) has emerged as a critical factor influencing the stock prices of companies in both Indonesia and Malaysia. Through comprehensive CSR initiatives, companies in these countries aim to address social, environmental, and economic challenges, which in turn enhances their corporate reputation, operational efficiency, regulatory compliance, and employee engagement.

In Indonesia, the regulatory framework mandates CSR activities, particularly for companies involved in natural resources, emphasizing community welfare and environmental sustainability. Companies like PT Unilever Indonesia Tbk and PT Astra International Tbk have reported positive impacts on their stock prices due to increased investor confidence and reduced operational risks. The focus on local community development resonates well with domestic investors, aligning with national development goals.

In Malaysia, stringent CSR reporting guidelines set by Bursa Malaysia have encouraged companies to adopt transparent and accountable CSR practices. Companies like Nestlé Malaysia Berhad and Sime Darby Berhad have leveraged these guidelines to attract both local and international investors. The emphasis on broader sustainability standards and corporate governance appeals to a wider investor base, supporting stock price stability and growth.

Comparatively, the impact of CSR on stock prices in Indonesia and Malaysia is influenced by their unique regulatory environments, cultural contexts, and economic conditions. Indonesian companies benefit from enhancing their local reputation and operational efficiency, which drives domestic investor confidence. Malaysian companies, on the other hand, leverage stringent reporting standards and alignment with international practices to attract a broader investor base, including foreign investors.

Effective CSR strategies are crucial for companies in both Indonesia and Malaysia to achieve sustainable growth and investor confidence. By understanding and adapting to the distinct regulatory and cultural contexts, companies can maximize the positive impact of their CSR initiatives on stock prices, contributing to their long-term financial performance and market value. The examples of PT Unilever Indonesia, PT Astra International, Nestlé Malaysia, and Sime Darby illustrate that CSR is not just a moral or ethical obligation but a strategic approach that enhances a company's competitive advantage and market standing.

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