

The Influence of CSR and Financial Performance in Explaining Cumulative Abnormal Return

*The Influence of CSR
and Financial
Performance*

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ABSTRACT

This study examines the influence of corporate social responsibility, leverage, earnings per share, and profitability (net profit margin and return on equity) on cumulative abnormal return. Using a quantitative approach, this study employs secondary data from 77 consumer cyclical companies listed on the Indonesia Stock Exchange during the 2019–2022 period, resulting in 308 firm-year observations selected through purposive sampling. Panel data regression analysis is conducted using EViews. The empirical results indicate that CSR and net profit margin have a positive and significant effect on cumulative abnormal return, suggesting that social responsibility disclosure and operational profitability enhance investor confidence and market reactions. In contrast, leverage and ROE show a significant negative effect on cumulative abnormal return, implying that higher financial risk and extreme equity Return may be perceived unfavorably by investors. Meanwhile, EPS does not exhibit a significant influence on cumulative abnormal return. These findings imply that both financial performance and non-financial information, particularly CSR, play an important role in shaping investor behavior, and thus should be carefully managed and transparently disclosed to strengthen market responses.

Keywords: Corporate Social Responsibility, Cumulative Abnormal Return, Financial Performance, Leverage, Return on Equity.

INTRODUCTION

Investments in the form of stocks are among the most common forms of investment made globally, with the potential for large return but also more significant risks compared to other investment mediums, and are supervised by government agencies and regulations (Permana, 2017). Before investing in stocks, an investor can use fundamental analysis in order to minimize various unwanted risks (Natarsyah, 2000). This analysis provides information related to the state of the company that is usually seen in financial statements (Hapsoro & Husain, 2019). In addition, information on corporate social responsibility disclosure can also be used as a consideration for investors before deciding to invest in stocks (Cheng & Christiawan, 2011).

Information can trigger an investor's reaction to transact in the capital market if the information is valuable in the eyes of investors. This reaction is usually reflected in abnormal return, which can be used to indicate the state of the market. Abnormal return are considered to be able to project how market phenomena will be by paying attention to how much the actual return is different from the expected return (Hartono, 2017).

The outbreak of COVID-19, which first emerged in China, immediately affected the performance of the Chinese stock market. Fluctuations in this market subsequently triggered negative spillover effects on stock exchanges across several Asian countries

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during the early phase of the pandemic, before spreading further to European and American markets (Aybars & Öner, 2022). This global shock also significantly influenced Indonesia's economy, as reflected in the declining performance of various business sectors. One of them is the consumer cyclical industry sector, which is known as a sector that is reactive to economic conditions and business cycles, and which also experienced a significant decline during the Covid-19 pandemic because people tended to prioritize primary needs over secondary needs during the Covid-19 pandemic (Siwu & Tirayoh, 2022).

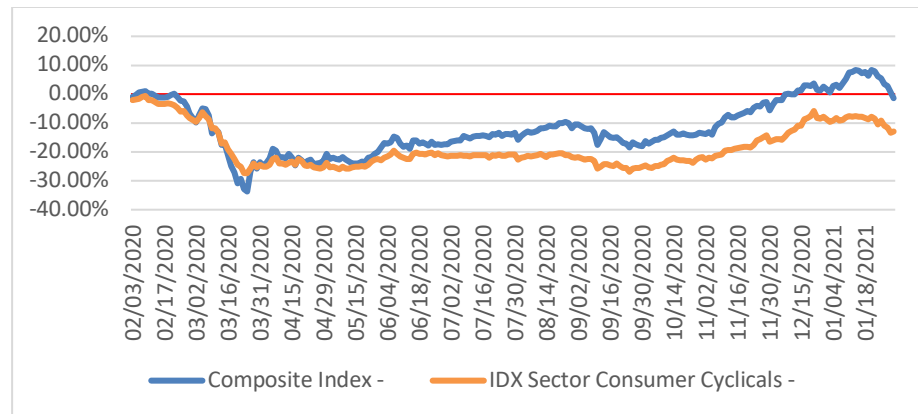


Figure 1. Consumer Cyclical Sector Stock Movements, Jan 2020 – Jan 2021

Figure 1 shows a comparison between the stock price index of the consumer cyclical sector and the composite index during the observed period, indicating that the consumer cyclical sector underperformed relative to the broader market. This weaker performance may heighten investor caution, particularly when making investment decisions under uncertain economic conditions.

Egbunike and Okerekeoti (2018) state that a firm's financial performance serves as a reliable indicator of its capacity to withstand unexpected external shocks, such as the COVID-19 pandemic. Financial performance is commonly assessed using financial ratio measures (Hapsoro & Husain, 2019). Beyond financial indicators, Corporate Social Responsibility (CSR) practices also play an important role in shaping a company's performance (Yi et al., 2021). A study by Chen et al. (2023) suggests that investment in CSR can enhance stakeholder trust, build social capital, and mitigate risk during periods of crisis. Firms that actively engage in social responsibility initiatives tend to experience smaller declines in firm value and recover more quickly from adverse events. Consequently, both strong financial ratios and transparent CSR activities can influence investor responses and investment decisions, even amid the economic instability caused by the Covid-19 pandemic.

Despite the growing body of literature examining investor reactions through abnormal return, most prior studies have focused either on financial ratios or on CSR in isolation and have rarely integrated both financial and non-financial factors within a highly cyclical and crisis-sensitive sector such as consumer cyclical firms during the Covid-19 period. Moreover, empirical evidence on how CSR, leverage, earnings per share, and profitability jointly shape cumulative abnormal return in emerging markets, particularly Indonesia, remains limited. Given the sharp market volatility and heightened uncertainty experienced during 2019–2022, understanding the determinants of investor reactions in this sector becomes increasingly urgent. Therefore, this study aims to examine the influence of corporate social responsibility, leverage, earnings per share, and profitability, proxied by net profit margin and return on equity, on cumulative abnormal return.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of CSR and Leverage on Cumulative Abnormal Return

Corporate Social Responsibility (CSR) reflects a company's dedication to promoting social and environmental welfare alongside achieving financial and economic goals (Indrawati et al., 2025). Through CSR initiatives, organizations seek to create positive outcomes for various stakeholders, including employees, communities, customers, and other relevant parties. These efforts can also bolster the firm's reputation and enhance stakeholder trust (Taghian et al., 2015; Julythiawati & Ardiana, 2023). According to stakeholder theory, effectively implementing and transparently disclosing CSR activities improves a company's image and strengthens its relationships with stakeholders. Such enhancements influence how investors perceive the company's performance and reliability, which is subsequently mirrored in their behavior in the capital market. These investor responses are often captured through cumulative abnormal return, with empirical studies by Cheng and Cristiawan (2011) and Yi et al. (2021) demonstrating a positive association between CSR and cumulative abnormal return.

Leverage, in contrast, denotes the extent to which a firm relies on borrowed capital to finance its assets or investments to boost profitability (Daruwala, 2023; Runkat & Primasatya, 2024; Safitri et al., 2025). It serves as an indicator of the company's ability to meet both short-term and long-term obligations (Ulfah & Paramu, 2017; Maysaroh & Handayani, 2025). A higher reliance on debt increases financial risk, as it raises the possibility that the firm may struggle to fulfill its obligations (Hou et al., 2025). From the perspective of signaling theory, leverage provides investors with important information regarding the firm's financial health. Elevated leverage is typically interpreted as a sign of higher financial risk, which acts as a negative signal to investors and can influence their market behavior, as reflected in cumulative abnormal return. Supporting this view, Agusti et al. (2021) reported that higher leverage negatively affects cumulative abnormal Return.

H1: Corporate social responsibility has a positive effect on cumulative abnormal return.

H2: Leverage has a negative effect on cumulative abnormal return.

The Effect of Earnings per Share on Cumulative Abnormal Return

Cumulative Abnormal Return (CAR) reflects the total abnormal return a company accumulates over a specific event period. Abnormal return itself is the difference between actual and expected return, where the actual return represents the observed change in a stock's price relative to the previous period, and the expected return is calculated using a predictive estimation model. When the actual return surpasses the expected return, the abnormal return is positive. Conversely, it becomes negative if the expected return exceeds the actual return (Hartono, 2017).

Earnings Per Share (EPS) is a market-based ratio that measures the profit earned per outstanding share, providing investors with insight into the profitability of their holdings. A higher EPS indicates greater return for shareholders, while a lower EPS suggests reduced profits per share (Hapsoro & Husain, 2019; Djauhari & Supratin, 2023). EPS is widely used by investors to evaluate the potential gains from stock investments. According to signalling theory, a high EPS serves as a positive signal of strong profit potential and attractive return, whereas a decline in EPS is perceived as a negative signal, reflecting lower expected return. Empirical evidence by Rahayu and Wardana (2021) supports this notion, showing that earnings per share positively influence cumulative abnormal return.

H3: Earnings per share have a positive effect on cumulative abnormal return.

The Effect of NPM and ROE on Cumulative Abnormal Return

Net profit margin (NPM) reflects a company's or industry's ability to convert sales into net income after taxes (Jefriyanto, 2021; Sa'adah et al., 2022). As a key profitability ratio,

it measures the proportion of revenue retained as profit and indicates how efficiently a firm controls its costs over a specific period (Kasmir, 2016). A high NPM signals effective expense management and strong profit generation per unit of sales, while a low NPM suggests limited efficiency and potential operational or strategic weaknesses (Hutami, 2012). From an investor's perspective, NPM serves as an important signal, higher margins convey positive information about the firm's profitability and operational efficiency, which can enhance investor confidence and market reactions, reflected in cumulative abnormal return. Empirical research by Permana (2017) confirms that NPM positively affects cumulative abnormal return.

Return on Equity (ROE) is another crucial profitability measure, assessing how effectively a firm uses shareholder equity to generate profits. It is calculated as net income divided by total equity (Kasmir, 2016; Hasanuddin et al., 2025). A higher ROE indicates efficient utilization of invested capital, producing a stronger return for shareholders, whereas a lower ROE points to inefficiency in converting equity into profit (Ardimas et al., 2014). According to signaling theory, investors interpret high ROE as a positive signal of the company's capacity to maximize return on equity, attracting investment interest. This relationship is empirically supported by Permana (2017), who found a positive link between ROE and cumulative abnormal return.

H4: Net profit margin has a positive effect on cumulative abnormal return.

H5: Return on equity has a positive effect on cumulative abnormal return.

Figure 2 presents the conceptual framework of this study, which includes five independent variables: corporate social responsibility, leverage, earnings per share, net profit margin, and return on equity, each hypothesized to have a direct effect on cumulative abnormal return (H1–H5). The framework is grounded in signaling theory proposed by Spence (1973), which explains that managers convey information about a firm's condition and future prospects to investors through corporate reports in order to attract positive market responses and support future growth (Godfrey et al., 2010). These market reactions are reflected in stock price movements, particularly in the form of abnormal return (Nawang Sari & Iswajuni, 2019). In addition, the framework is also supported by stakeholder theory, which emphasizes that a company's responsibilities are not limited to shareholders but extend to all parties affected by its activities; by fulfilling these responsibilities, firms can strengthen their sustainability and maintain constructive relationships with stakeholders (Julythiawati & Ardiana, 2023).

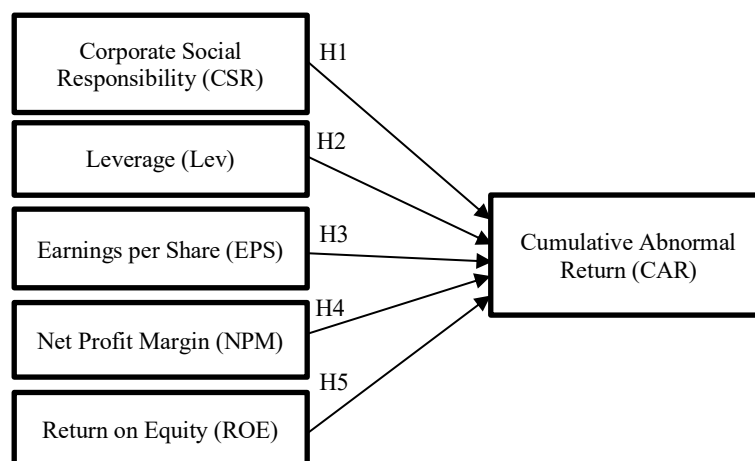


Figure 2. Conceptual Framework

RESEARCH METHODS

This research employs a quantitative methodology based on the positivist paradigm, which is suitable for investigating specific populations or samples, collecting data

systematically, performing statistical analysis, and testing pre-established hypotheses (Sugiyono, 2017). Data collection was carried out using a documentation approach, sourcing information from annual reports, corporate sustainability reports, and historical stock prices accessed through official company websites, the Indonesia Stock Exchange, and finance.yahoo.com. The study focuses on companies within the consumer cyclical sector listed on the Indonesia Stock Exchange from 2019 to 2022. Out of a population of 111 firms, 77 were selected as the research sample using purposive sampling criteria.

The study examines five independent variables, namely CSR, leverage, EPS, NPM, and ROE, with CAR as the dependent variable. CAR is defined as the cumulative sum of deviations between actual and expected return over a specified event period (Hartono, 2017). CSR captures a firm's commitment to balancing economic, environmental, and social responsibilities, measured using the Corporate Social Responsibility Disclosure Index (CSRDI), which quantifies the proportion of CSR items disclosed relative to total items (Apriliani & Cheisviyanny, 2023). Leverage is measured by the Debt-to-Asset Ratio (DAR), reflecting the extent of debt financing used in a firm's operations (Runkat & Primasatya, 2024). EPS represents profit per outstanding share (Djauhari & Supratin, 2023), NPM assesses a firm's ability to generate net profit from sales (Kasmir, 2016), and ROE evaluates how efficiently equity is utilized to generate return for shareholders (Sufriani & Rimawan, 2020). All variables are measured using ratio scales.

Panel data regression analysis was performed in EViews to determine the influence of independent variables on CAR. Model selection was guided by the Chow test and Lagrange Multiplier (LM) test, and classical assumption tests were conducted to ensure the regression model met the necessary statistical requirements before hypothesis testing.

$$CAR = \alpha + \beta_1 CSR_{it} + \beta_2 DAR_{it} + \beta_3 EPS_{it} + \beta_4 NPM_{it} + \beta_5 ROE_{it} + e_{it}$$

Information:

- CAR = Cumulative Abnormal Return.
- α = Constant
- β = Regression Coefficients.
- CSR = Corporate Social Responsibility.
- DAR = Debt to Assets Ratio.
- EPS = Earnings Per Share.
- NPM = Net Profit Margin.
- ROE = Return on Equity.
- e = error term.
- i = Unit Cross-sectional
- t = Time

RESULTS

Statistical methods are used to project and describe the data that has been collected, without the intention of drawing conclusions that are commonly referred to as descriptive statistics (Sugiyono, 2017). According to Ghozali and Ratmono (2017) the picture given in descriptive statistics can be in the form of average values (mean), median, standard deviation, variance, maximum, or minimum.

Table 1. Descriptive Statistical Analysis

Test	CAR	CSR	DAR	EPS	NPM	ROE
Mean	0.009	0.193	1.587	38.21	-0.175	0.135
Median	-0.013	0.167	0.429	3.10	0.014	0.023
Max	1.311	0.607	101.866	1843.55	1.441	41.353
Min	-0.523	0.012	0.001	-423.15	-17.707	-3.408
Std. Dev.	0.190	0.143	9.551	177.70	1.188	2.403
Obs	308	308	308	308	308	308

Table 1 provides descriptive statistics for 308 observations. The highest CAR value, 1.311, represents the strongest positive market response, whereas the lowest value of -0.523 indicates the most pronounced negative reaction. The mean CAR is 0.009 with a standard deviation of 0.190. The CSR variable records a maximum of 0.607 and a minimum of 0.012, resulting in an average of 0.193. Leverage, measured by the debt-to-asset ratio, exhibits substantial dispersion, ranging from as low as 0.001 to as high as 101.866, with a mean value of 1.587. Earnings per share vary widely, with a maximum of 1,843.55 and a minimum of -423.15 , and an average of 38.21. Net profit margin spans from -17.707 to 1.441, producing a mean of -0.175 . Finally, return on equity shows a maximum of 41.353, a minimum of -3.408 , and an average value of 0.135.

Table 2. Chow Test and Breusch-Pagan Lagrange Multiplier

Test	Effects Test	Statistic	d.f.	Prob.
Chow Test	Cross-section F	1.021048	-76,226	0.443484
	Cross-section Chi-square	90.91387	76	0.116669
Breusch-Pagan Lagrange Multiplier	Test	Cross-section	Time	Both
	Breusch-Pagan	0.000200391 (0.9887)	0.437825 (0.5082)	0.438025 (0.5081)

The results from the regression model selection tests are used to identify the most appropriate estimation technique for analyzing the panel data and testing the study's hypotheses. As shown in Table 2, the Chow test produced an F-probability of 44.3484%, which is above the 5% significance threshold (α). This indicates that the null hypothesis cannot be rejected, suggesting that the Common Effect Model (CEM) is a suitable estimation method for this analysis. Similarly, the Breusch-Pagan Lagrange Multiplier test shows a cross-sectional probability of 98.87%, exceeding the 5% significance level, further confirming that the Common Effect Model (CEM) is the best-fitting specification for the regression.

Table 3. Normality Test (Jarque-Bera)

Test	Value
Jarque-Bera	5.543982
Probability	0.062537

Table 3 shows that the normality of residuals was evaluated using the Jarque-Bera test, where residuals are assumed to be normally distributed if the probability exceeds 0.05. Initially, the test yielded a probability of 0.00000, indicating non-normality. To address this, outlier detection and removal were performed following Ghozali (2018), using the studentized residual method by Hoaglin and Welsch (1978), implemented in EViews 12 as the rstudent function (Algifari, 2021). Twelve outliers were identified and removed. After this adjustment, the Jarque-Bera probability increased to 0.062537, exceeding 0.05, confirming that the residuals are now normally distributed.

Multicollinearity was assessed by examining correlations among independent variables. Table 4 shows that no correlation coefficient exceeds 0.80, indicating that multicollinearity is not a concern in the regression model.

Table 4. Multicollinearity Test

Variable	CAR	DAR	EPS	NPM	ROE
CAR	1	-0.05381	0.239383	0.121494	0.010588
DAR	-0.05381	1	-0.06167	-0.07721	-0.00102
EPS	0.239383	-0.06167	1	0.126917	0.022684
NPM	0.121494	-0.07721	0.126917	1	0.044698
ROE	0.010588	-0.00102	0.022684	0.044698	1

This test was applied with the glajser test, which indicated the existence of heteroscedasticity problems in the regression model. Therefore, efforts are needed to make the regression model free from the problem of heteroscedasticity. One of them is with

cross-section weights. This weighting is applied with the Generalized Least Squares (GLS) method, which can overcome the problem of heteroscedasticity (Algifari, 2021).

Table 5. Comparison of Regression Models Without Weighting and With Weighting

Statistical Value	No Weighting	With weighting
T-statistics (Prob Value) CSR	1.223426(0.2222)	2.349894(0.0194)
T-statistics (Prob Value) DAR	-3.57096(0.0004)	-2.822237(0.0051)
T-statistics (Prob Value) EPS	0.735287(0.4628)	1.517619(0.1302)
T-statistics (Prob Value) NPM	2.415454(0.0163)	3.75801(0.0002)
T-statistics (Prob Value) ROE	-2.563292(0.0109)	-8.407746(0.0000)
F statistics (Prob. F state)	6.161695(0.000019)	21.69681(0.000000)
Coefficient of Determination (R ²)	0.096034	0.272242

Table 5 indicates that the weighted regression model produces more favorable statistical results than the unweighted model. This suggests that the unweighted regression suffers from heteroscedasticity, and therefore, the weighted model is more appropriate to be employed in subsequent analyses.

Table 6. Determination Coefficient and F-Test

Test	Value
R-squared	0.272242
Adjusted R-squared	0.259694
F-statistic	21.69681
Prob(F-statistic)	0.00000

In Table 6, the value of the Adjusted R-squared is 0.259694 or 25.9694%. This figure is interpreted as 25.9694% of cumulative abnormal return influenced by independent variables related to this study. While the rest of it is around 74.0306% due to several other factors that are outside of the regression model. In looking at the influence of all independent variables simultaneously (simultaneously) on dependent variables, it can be observed through the statistical F test (Ghozali & Ratmono, 2017). Table 6 proves that the magnitude of the F-statistic is 21.69681, where this value exceeds the value of the F-table, which is 2.25. If viewed from the statistical probability value of F, which is 0.00000, this indicates that the value is below the significance level of 0.05. Based on these two things, it can be stated that all independent variables simultaneously affect the cumulative abnormal return as dependent variables.

Table 7. Hypothesis Testing (Partial T-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	-0.01535	0.008498	-1.8063	0.071907
CSR	0.08578	0.036504	2.349894	0.019449
Leverage	-0.00266	0.000944	-2.82224	0.005099
Earning per Share	6.47E-05	4.26E-05	1.517619	0.1302
Net Profit Margin	0.013952	0.003712	3.75801	0.000207
Return on Equity	-0.00776	0.000923	-8.40775	0.00000

Table 7 presents the results of the partial t-test, which evaluate the individual effect of each independent variable on cumulative abnormal return. The findings indicate that corporate social responsibility and net profit margin have a positive and significant influence on cumulative abnormal return, suggesting that better social responsibility practices and higher profitability from sales are associated with more favorable investor reactions. In contrast, leverage and return on equity show a negative effect, implying that higher financial risk and unstable return on shareholders' equity tend to reduce market responses. Meanwhile, earnings per share does not exhibit a significant effect, indicating that variations in EPS alone are insufficient to shape investors' reactions in the stock market.

DISCUSSION

The results of the partial significance test indicate that corporate social responsibility has a positive effect on cumulative abnormal return. This implies that improvements in the implementation and disclosure of corporate social responsibility will increase cumulative abnormal return as a reflection of investor responses in the stock market. In other words, companies that consistently and transparently carry out social responsibility activities tend to gain greater investor confidence, which is reflected in more favorable market reactions. Through the practice and disclosure of corporate social responsibility, firms demonstrate their commitment to stakeholders, which can be interpreted by investors as a signal of strong performance. This result supports the studies of Cheng and Cristiawan (2011) and Yi et al. (2021) but differs from the findings of Ayu and Sastrodiharjo (2015), who reported that corporate social responsibility disclosure did not significantly influence cumulative abnormal return because it was not considered a crucial factor by most investors.

Leverage has a significant negative effect on cumulative abnormal return. This means that an increase in leverage is associated with a decline in cumulative abnormal return, which represents investors' reactions in the capital market. A high level of leverage reflects a company's strong reliance on debt to finance its operations, thereby increasing financial risk. As a result, investors may perceive such conditions as unfavorable and become more cautious, reducing their willingness to invest. In accordance with signaling theory, a high leverage ratio can be interpreted as a negative signal by the market, prompting investors to adjust their behavior based on the information received. The greater the company's dependence on debt, the lower the level of investor confidence, which is reflected in decreasing cumulative abnormal return. These results support the findings of Agusti et al. (2021), but differ from those of Kurnia et al. (2022), who reported that leverage does not significantly influence cumulative abnormal return.

Earnings per share were found to have no significant effect on cumulative abnormal return, indicating that differences in EPS levels do not substantially shape investor reactions. During 2019–2022, the generally low average EPS in the consumer cyclical sector may have reduced its relevance as an investment signal, since EPS only reflects profit per share and does not capture other important factors in valuation. As a result, EPS alone is insufficient to influence market responses, as reflected in CAR. This finding contrasts with Rahayu and Wardana (2021), who reported a positive effect of EPS on CAR, but it is consistent with the results of Hapsoro and Husain (2019).

The net profit margin exerts a positive effect on cumulative abnormal return. A higher net profit margin signals strong company performance in generating sales and efficiently controlling costs, which can enhance investor confidence and stimulate investment interest. In other words, favorable investor responses in the stock market, as reflected by cumulative abnormal return, are positively associated with high net profit margins. Accordingly, the fourth hypothesis is accepted. A high net profit margin represents a favorable signal, which subsequently encourages positive market responses reflected in rising cumulative abnormal return. This outcome is consistent with the findings of Permana (2017).

Return on equity was found to have a negative effect on cumulative abnormal return, leading to the rejection of the fifth hypothesis. This indicates that an increase in ROE is, in this context, associated with a decline in cumulative abnormal return. Although ROE is generally viewed as a measure of strong financial performance, during the 2019–2022 period in the consumer cyclical sector, it was not necessarily interpreted by the market as a positive signal. The study also shows that ROE in this sector exhibited a very wide range, with values reaching a maximum of 41.3528 and a minimum of –3.4079. Extremely high ROE figures may signal elevated risk, such as an unsound capital structure caused by excessive debt, negative equity, or substantial losses. Such conditions can heighten uncertainty and perceived risk among investors, ultimately leading to adverse market reactions, as reflected in declining cumulative abnormal return. These

findings differ from those of Hapsoro and Husain (2019), who reported a positive effect of ROE on cumulative abnormal return, but are in line with the results of Visanti (2021).

CONCLUSION

The results indicate that corporate social responsibility and net profit margin positively and significantly influence cumulative abnormal return, whereas leverage and return on equity exert a significant negative impact, and earnings per share show no significant partial effect on cumulative abnormal return. These outcomes suggest that investor responses in the capital market are shaped by a firm's fundamental conditions, encompassing both financial indicators and non-financial information such as CSR disclosure. Companies are encouraged to enhance their performance and improve the transparency of information in order to generate more favorable market reactions.

This study is limited to consumer cyclical companies listed on the Indonesia Stock Exchange during 2019–2022, which may restrict the generalizability of the findings to other industries or economic conditions. Second, the analysis only considers CSR, leverage, earnings per share, net profit margin, and return on equity, while other factors such as corporate governance, firm size, liquidity, or broader macroeconomic conditions might also affect cumulative abnormal return. Future research could expand the study period, include firms from different sectors, and incorporate additional financial and non-financial indicators or alternative analytical methods to provide a more complete understanding of the factors influencing investor behavior. Researchers are also encouraged to examine other variables that may impact CAR and to identify the specific events that trigger investor reactions, thereby enhancing the precision and relevance of subsequent findings.

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