DOES CORPORATE SOCIAL RESPONSIBILITY RELATED TO FIRM VALUE?

Wiwiek Mardawiyah Daryanto
Janette
Lauren Angelina

ABSTRACT

Purpose *– Since 2017, In Indonesia one of public companies obligation is to pay attention to the social and environmental impact from their operating activities. The program is reported in the sustainable financial report or commonly called a sustainability report. In the international world, sustainability report can be one of company transparency about the impact of their activities towards environment and social, such as climate change and human rights. In addition to corporate transparency, sustainability reports also help companies make better decisions, which are related to company's social, environmental and economic aspects.*

In Indonesia we used GRI sustainability-reporting guidelines-G4 issued in last May 2013. The guidelines which contain 91 point of disclosure, helps to provide an international reference for all parties in terms of disclosure in corporate governance and environmental; social and economic performance approaches; and organizational impacts.

The aim of this journal is to prove whether Corporate Social Responsibility related to the firm value & to prove profitability (as a moderating variable) will strengthen the relationship of Corporate Social Responsibility with firm.

Finding *– CSR positively related to firm value and profitability (ROE) will strengthen the relationship between CSR and firm value.*

Research Limitations *– The study concentrates on CSR disclosure in the banking industries especially foreign exchange bank in Indonesia.*

Keywords: Corporate Social Responsibility, firm value, profitability, ROE, banking industries, foreign exchange bank

INTRODUCTION

In the international world sustainability report can be one of company transparency regarding the impact of the business towards the environment and social, such as climate change and human rights. In addition to corporate transparency, sustainability reports also help companies make a better decision related to the company's social, environmental and economic aspects. One part that include inside the sustainability report is the explanation of company's corporate social responsibility or commonly known as CSR.

Based on the EU Commission, CSR is a concept when companies linking their social and environmental issues in operations activities and the interactions with stakeholders (Aras and Crowther, 2008). The application of CSR in the company began in 1970, many experts began to realize the influence and important reasons why companies need to implement CSR. The importance of companies implementing CSR is also explained through the statement by Burke & Logsdon (1996) that in short term CSR tends to incur costs but it will become profits for the long-term period. From the external side according to Howard R.Bowen in Melé (2008), CSR is a reflection of the company's responsibility related to environment and social aspects. The experts also suggest that one of the roles of accounting should be reporting the impact of the company activities. In line with information from Ballou & Heitger (2005), CSR is a method used by some companies to disclose transparent reports, accurate and reliable data, and also companies' performance. The conclusion of the importance of companies implementing CSR is as a real disclosure of corporate responsibility due to the impact of operating activities. Furthermore, CSR might supports the sustainability of business activities and forms transparency to stakeholders.

In Indonesia, awareness about CSR began in 2007. At first, UU No.40 - 2007 concerning Limited Companies used the term Social and Environmental Responsibility (TJSL) to regulate companies' regulation related to natural resources. After that further arrangements regarding the implementation mechanism of TJSL in Government Regulation Number 47 of 2012 Concerning Social and Environmental Responsibility of Limited Companies. During that time the implementation of TJSL was still carried out voluntarily except for companies whose activities generated by natural resources. Through Otoritas Jasa Keuangan (SAL POJK) Regulation, Number 51 / POJK.03 / 2017, the government requires Financial Services Institutions (LJK), issuers and public companies to implement sustainable finance. According to the National Centre for Sustainability Report (NCSR) sustainable financial reporting standards in Indonesia is following standards from Global Reporting Initiative (GRI). Meanwhile, GRI also provide 91 point from GRI Sustainability Reporting guidelines – G4 to help companies disclosed their social and environment programs. This standard could be used as an international reference for any external parties.

Through this research, the author will examine the CSR effect in firm value. Firm value can be affected by a good reputation. According to the earlier research, a good reputation will affect the consumer preferences to purchase any products from the company. In this research, the author chose banking industry as a sample to conduct the research. Banking industry manage lot of funds that came from the third party, which means that banking industry should be responsible towards the fund (reliable) and giving back the benefit to the third party.

There are some studies related to CSR in the banking industry. For example, it was carried out in several countries, such as Australia, Taiwan, Poland. McDonald & Rundle-Thiele research results (2008); McDonald & Lai (2011); Krasodomska (2015) said that CSR would affect the banking industry in a positive way. The disclosure of CSR will lead to trust and loyalty of consumers who invest their funds in the bank. The same thing also happened in developed countries such as the UK, America and Germany which were explained through the final statement of Chambers & Day research (2009); Jizi, Salama, Dixon, & Stratling (2013); Lock & Seele (2015). While for research in Indonesia the author thinks that it is still rare to find research that links CSR disclosure to the banking industry.

LITERATURE REVIEW

2.1 Signalling Theory

Godfrey et al. (2010) said that the signalling theory is a theory that emphasizes the importance of information released to the external parties' decisions. From the perspective of this theory, management voluntarily provides and provides information to investor that is useful in helping decision-making. Management takes this role because they have a comparative advantage in the production and dissemination of information.

A similar opinion from Stiglitz (2000) states that signalling theory discusses information asymmetry between two parties where the information is related to the quality and objectives of the company. In his statement, Stiglitz highlighted two types where information asymmetry often occurs. First, information related to company quality. This becomes important when one party (stakeholders) does not fully know the character of the other party (company management). Second, information relating to the company's goals or intentions. This happens when one party is concerned about the purpose of any decisions taken by the company.

The benefit of signalling theory is to describe the behaviour of two parties (individuals or organizations) who have different information access. The sender of information must think about how to communicate or how to signal the information. On the other hand, the recipient of the information must know how to interpret the signal (Connelly et al., 2011).

Signalling theory states that, information published by a company becomes one of the reasons or determinants of the action taken by the recipient of the information (Karasek & Bryant, 2012). Certain signals issued by companies can provide beneficial benefits for both the giver of information and the recipient of information (Bliege Bird & Smith, 2005).

Drawing conclusions from the above explanation, every company will always issue a signal that is expressed in a certain way to the market. As a receiver of the signals or information, market reactions are determined according to interpretations obtained from the signals given by the company.

2.2 Stakeholder Theory

According to Donaldson & Preston (1995), stakeholder theory grouped into three aspects: normative, instrumental and descriptive. In normative aspect, stakeholder theory used to interpret corporate functions, including identification of moral and philosophical guidelines for the corporate operations and management. In normative use, the correspondence between theory and facts from company activity is not a significant problem. Instead, a normative theory seeks to interpret functions and offer guidance to companies based on some moral principles or underlying philosophies. As an instrument, stakeholder theory used to scan any connections lack related to relationship between management and stakeholders about the profit and corporate growth. Based on descriptive aspects, stakeholder theory reflects and explains the state of the company's relationships in the past, present and future.

The company has relationships with stakeholder groups that influence and are influenced by company decisions. This statement is reinforced in Freeman et al (2007) that the basic idea to create value for stakeholders is started from the business relationship between the company & stakeholders. The word business defined as a set of connection between groups who have the same interest in any activity. Its all about how consumers, suppliers, employees, shareholders and management interact and create a value. This is a way to understand how the relationship works.

In conclusion, stakeholder theory evolving to address issues such as understanding and managing a business that places importance on creating value from business activities that occur; formulate ideas about ethical issues, responsibility and sustainability (sustainability); understand what must be taught to management about what is needed to be successful in the business world. By focusing on the basic theories of stakeholders we can understand that through CSR programs run by the company aims to provide environmental and social benefits that indirectly support a company's business activities.

2.3 Corporate Social Responsibility

CSR is a concept that becomes dominant in business reporting. Each company has a policy regarding CSR and produces an annual report that contains details of CSR activities. The broad definition of CSR is corporate social responsibility related to the relationship between companies, governments and citizens. More specifically explained that the citizens in question are the local community where the company is located and operates (Aras and Crowther, 2008). Internationally CSR began in 1970. Many experts began to realize the need for the application of CSR. From the internal side of the company, Burke & Logsdon (1996) states that, in the long run CSR will provide economically profit for companies. Furthermore, researchers identified several ways to plan CSR program that have an impact on company profits. The intended strategy is centrality, which explains that the CSR program undertaken has the same objectives and mission as the company; specificity describes how much the ability of CSR programs can generate profits for the company; activity aimed at making plans for the composition of CSR programs that follow social trends; Visibility explains that CSR programs must be observable and known by stakeholders. Thus, CSR programs are important because the company has expectations that when the firm value define as a good one in the market, then it will make an impact for the economic profit.

The treatment and disclosure of CSR by companies also provide benefits for the external side of the company. Melé (2008) states that in addition to the interest to seek profits, companies also have responsibility for social and environmental problems that are created along with business travel in the company. In other words, if the company improves its performance or CSR program, it means the company is trying to show its form of responsibility in minimizing negative impacts on the environment.

The experts also suggest that one of the roles of accounting science should be to disclose the impact from the activities of the company. In line with triple bottom line frameworks which include economic, social and environmental aspects. From this framework the company is asked to continue to assume that economic aspects such as profit are as important as social and environmental aspects. The triple bottom line concept explains that companies have responsibilities towards stakeholders, and not just shareholders. The intended stakeholders are any parties, both internal and external, who are directly and indirectly affected by the activities of a company.

In Indonesia, CSR disclosure or better known as the implementation of Environmental Social Responsibility (TJSL) began to develop in 2007. The term TJSL is used in Law Number 40 of 2007 concerning Limited Liability Companies that regulate obligations for companies relating to natural resources. Furthermore, in Government Regulation Number 47 of 2012 concerning Limited Liability Company TJSL, arrangements are made regarding the mechanism for implementing TJSL. This regulation highlights that every company as a legal subject has social and environmental responsibility. During that time the implementation of TJSL was done voluntarily. Except for companies whose activities are related to natural resources. Until finally in 2017, making and publishing sustainability reports becomes one of the obligations for Financial Services Institutions (LJK), issuers and public companies. This statement is written in a copy of the Financial Services Authority Regulation (SAL POJK) Number 51 / POJK.03 / 2017. The financial reporting standards used in Indonesia follow the standards issued by the Global Reporting Initiative (GRI).

The GRI Reporting Principles are the basis for producing quality sustainability reports. Some standards issued by GRI in expressing sustainability context are that reporting organizations present an understanding of sustainability report and provide objective information, organizations present their performance in communicating impacts and contributions in accordance with geographical contexts, and organizations describing how economic, social and environmental relate to long-term strategies, organization risks and objectives. In addition, GRI also issued guidelines for disclosing companies' CSR program. The guideline called GRI Sustainability Reporting Guidelines - G4, which was last published in May 2013. This guideline has 91 standard disclosure points. This guideline also helps provide international references for all parties interested in the disclosure of a governance approach and environmental, social and economic performance and the organizational impact of a company.

2.4 Firm Value

The existence of certain activities in a company will affect on the firm value. Activities that occur might be political activity, regulatory changes, information disclosure and others. When viewed from an internal perspective, every decision made by a public company is disclosed to the public through information disclosure to the company's financial statements and annual reports. Investors and other external parties who see or get information from the company have a different perspective and reaction to the information. If the information is considered profitable, then investors have high expectations of the company. This is what then influences the company's value in the market (Blacconiere & Patten, 1994).

Companies that have a performance that is considered good usually have a high value in the market. One common method is to look at the company's stock price on the stock exchange (Fama & French, 1998). From a financial perspective, good performance can be assessed through financial ratio information provided by the company. However, in accordance with regulations in Indonesia that began in 2017, public companies are not only required both financially but also through corporate environmental and social responsibility. With the disclosure of corporate responsibility, investors and stakeholders can assess the other side that determines the frim value in the market (Colleoni, 2013). Because through the disclosure of these responsibilities, the company seeks to increase market share which has an impact on customer loyalty and affects company profits. In addition, this method can be used as an advantage and value added company compared to competitors (Porter & Kramer, 2006).

SURVEY METHOD & RESULT

3.1 The Purpose of Research and Method Used

The aim of this research is to prove whether Corporate Social Responsibility affects firm value & to prove profitability (as a moderating variable) strengthen the relationship between Corporate Social Responsibility and firm value.

This research conducted using secondary data. Secondary data in this study are from the annual reports and financial reports obtained through Indonesia Stock Exchange (www.idx.co.id) and through the websites of each company. The period used in this study is 5 years, from 2014 - 2018. The Research sample comprised 13 foreign exchange bank listed in Indonesia Stock exchange.

3.2 Hypothesis Development

Corporate Social Responsibility is a concept or program where companies integrate social and environmental care in their operation activities and company interactions with stakeholders. From the results of Michelon research (2011), companies that have good financial performance where the company is facing pressure from the public will usually use sustainability disclosure. Which is one of them is CSR disclosure as a communication tool that legitimizes the company's activities to stakeholders and forms of responsibility to stakeholders. CSR programs designed to create strategic advantages for company. It's called strategic when the CSR program provides benefits related to the company's substantial business, specifically by supporting the company's core business activities. This can help the company's effectiveness in achieving its goals both in financial and social value (Burke & Logsdon, 1996).

In McDonald & Lai study (2011), conducted in the banking industry in Taiwan, CSR disclosure has an effect on customer's attitude, which directly determines positive customer behaviour. From this, the company management can take an advantage to attract more customers, which is in return will strengthen the company's financial performance and firm value in the market.

The same thing happens in the banking industry in America, CSR disclosure provides information to investors that have an impact on investors' assessments or assessments of the company (Jizi et al., 2013). The above explanation underlying this hypothesis:

H1: CSR disclosure positively affects the firm value

From the research of Cochran & Wood (1984) they said that the basic idea to find out investor returns is the rate of return must be measured from the perspective of shareholders or investors. Therefore to determine the level of return, the company must have indicators related to the company's financial performance that can be used as information for investors.

One indicator that can measure the rate of return for investors is profitability. Profitability is an indicator that directly related to company's financial capability, so it is commonly used as a point to evaluate the company's financial performance (Joh, 2003). Many ratios can be used to measure a company profitability, including the ratio between net income and total assets commonly known as return on assets (ROA), the ratio between net income and equity or commonly called return on equity (ROE) and etc. In this research authors use ROE as a ratio to measure the company profitability. Damodaran (2007) states that Returns on equity only focus on the equity component of the investment. This relates to the income remaining for the equity investor after the debt service costs are calculated in the equity invested in the asset the accounting definition of return on equity reflects this:

Profitability Ratio:
Return on Equity (ROE) = Net Income : Book Value of Equity

Tsoutsoura research results (2004) states that companies with high and strong profitability are more unimpeded to invest their resources in social performance and environmental issues. With a high level of profitability the company can allocate its resources to CSR programs that will provide benefits in the long run. These advantages include, the company can improve its image in the market and maintain investor confidence towards the fund that invested in the company. It happens while the existence of CSR program provides transparency on the allocation of resources from investors that spend by the company. This statement is in line with the author decision to use ROE as a tool to measure the company profitability, because ROE measures the return on funds entrusted by investors to the company. The above explanation forms the basis for the following hypothesis:

H2: A high level of profitability (ROE) can strengthen the relationship of CSR and firm value

3.3 Verification of the Hypothesis

H1: CSR disclosure has a positive effect on firm value

Model		Sum of Square	df	Mean square	F	Sig.
1	Regression	0.020	1	0.020	13.214	0.001[b]
	Residual	0.096	63	0.002		
	Total	0.117	64			

By using SPSS, there are results showing that the sig. value is 0.001 (<0.05) means that H0 is rejected and H1 is accepted. The conclusion is CSR disclosure index has a positive effect on firm value (PER), especially for banking sector. So, the greater the CSR disclosure the firm value will be higher.

Linear Regression (Firm Value= α + β CSRDI)

Model		Unstandardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.052	0.009		5.815	0.000
	CSRDI	0.006	0.002	0.416	3.635	0.001

From the simple linear regression test results obtained by the equation:

Y = 0.052 + 0.006X1

Firm Value = 0.052 + 0.006 CSRDI

The results of the equation show that:

1. a constant of 0.052, means that if CSRDI value is 0 (zero) then the firm value has a value of 0.052 or 5.2%

2. The coefficient value of CSRDI as an independent variable is equal to 0.006, meaning that every time there is an addition of 1 CSRDI can increase the firm value by 0.006 or 0.6%

Results of this testing supported the opinion of McDonald & Rundle-Thiele (2008), Asványi (2009), McDonald & Lai (2011) and Mocan et al. (2015) who made similar research in banking industry, stated by disclose CSR programs would have a positive impact on customer loyalty, company reputation, company communication with stakeholder, in return it will affect the firm value in market. Therefore in conclusion, banking sector in Indonesia is also experience the same thing; the disclosure of CSR will positively affect the firm value.

One of the factors driving CSR disclosure in Indonesia is the emergence of regulations from the OJK that says that starting in 2017, all public companies are required to report on environmental social responsibility (TJSL). It aims to increase transparency and report on corporate responsibility towards stakeholders. In the end this disclosure provides its own benefits for the company.

H2: A high level of profitability (ROE) can strengthen the relationship of CSR with firm value

Model		**Sum of Square**	**df**	**Mean square**	**F**	**Sig.**
1	Regression	0.038	2	0.013	10.015	0.000[b]
	Residual	0.078	61	0.001		
	Total	0.117	64			

Based on tests that have been done, there are results that indicate that the significance value is 0.000 (<0.05) and the increasing coefficient of determination indicates that H0 is rejected and H1 is accepted. This means that ROE can be a moderating variable that strengthens the relationship between CSR and firm value.

Moderated Regression Analysis (Firm Value= α+β₁CSRDI + β₂ROE + β₃CSDRDI*ROE)

Model		Unstandardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(constant)	0.004	0.016		0.219	0.000
	CSRDI	0.014	0.003	0.946	5.279	0.001
	ROE	-0.365	0.141	-0.476	-2.589	0.012
	CSRDI*ROE	1.698	0.469	0.836	3.696	0.000

From the Moderated Regression Analysis test results obtained by the equation:

Y = 0.004 + 0.014X1 - 0.365X2 + 1.698X1 * X2

Firm Value = 0.004 + 0.014CSRDI - 0.365ROE + 1,698 CSRDI * ROE

The results of the equation show that:

1. a constant of 0.004, this means that if X has a value of 0 then the firm value has a value of 0.004 or 0.4%

2. CSRDI coefficient as an independent variable is 0.014, meaning that addition of 1 CSRDI will increase the firm value by 0.014 or 1.4%

3. While the ROE coefficient is 0.365, meaning that every 1 (one) additional ROE can reduce the firm value by 0.014 or 36.5%

4. The coefficient of CSRDI * ROE as a moderating variable is 1,698, meaning that every 1 additional CSDI * ROE will increase the firm value by 0.014 or 1.4%. In addition, the value of significance is 0.000 (<0.05) indicates that ROE eligible as a moderating variable between CSR and firm value.

Although the author still find it difficult to find predecessors studies that use ROE as a moderating variable in the banking sector, in the Cochran & Wood (1984) study it is stated that the basic idea to find out investor returns is that the rate of return must be seen from the perspective of the shareholders or investors. Therefore to determine the level of return the company must have indicators related to the company's financial performance that can be used as information for investors. Profitability is one indicator that is directly related to a company's financial capability, so it is often used as a special point to evaluate the company's financial performance (Joh, 2003). Meanwhile, in the opinion of Tsoutsoura (2004) companies with high and strong profitability will be more flexible to invest their resources in social performance and environmental issues. In other words, companies will be free to do the CSR program and report on CSR activities.

The explanation above is in line with the results of the research. Stated that ROE is eligible to become a moderating variable between CSR and firm value. With a high ROE level, companies will be more flexible to allocate their resources into CSR programs.

CONCLUSION AND RESEARCH LIMITATION

Based on the research that has been done, the conclusion is CSR positively affect firm value and ROE as a moderating variable in this study is able to be a moderator in the relationship of CSR with firm value. Therefore it shows that CSR is important for every company. Through CSR company will gain a good reputation in public, which will increase the firm value. But on the other side, the company should ensure their shareholders that it will give a good return for the shareholder. In this case, the company will also gain trust from the shareholder, which will make the CSR program that they have run smoothly.

4.1 Research limitation

The author realizes there are some limitations that need to be considered again in subsequent studies. Limitations in this study are:

1. The subjectivity factor in measuring CSR index in each company
2. The author only uses samples from the banking industry, so this research cannot represent other sectors
3. Only few companies in Indonesia disclose their CSR program reports in accordance with GRI G-4 standards

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Wiwiek Mardawiyah Daryanto
Sekolah Tinggi Manajemen IPMI
Email: wiwiek.daryanto@ipmi.ac.id

Janette
Sekolah Bisnis dan Manajemen, Instiut Teknologi Bandung
Email: janette@sbm-itb.ac.id

Lauren Angelina
Sekolah Bisnis dan Manajemen, Instiut Teknologi Bandung
Email: lauren_angelina@sbm-itb.ac.id