THE MODERATING ROLE OF FOREIGN OWNERSHIP IN THE RELATIONSHIP BETWEEN CORPORATE SOCIAL PERFORMANCE AND FIRM VALUE: EVIDENCE FROM INDONESIA

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ABSTRACT

Purpose: *This study aims to examine the effect of Corporate Social Performance (CSP) on firm value and to investigate whether foreign ownership moderates the relationship between CSP and firm value among companies listed on the Indonesia Stock Exchange during the period 2020 to 2024.*

Method: *This study employed panel data from 120 purposively selected firms, resulting in 600 firm year observations. The data were analyzed using a Fixed Effects Model, which was determined through the Chow test, the Hausman test, and the Lagrange Multiplier test. CSP was measured using a nineteen item social disclosure index based on the Global Reporting Initiative framework, firm value was measured using Tobin's Q ratio, and foreign ownership was measured as a dichotomous variable reflecting shareholding above five percent.*

Finding: *The results indicate that CSP has a positive and significant effect on firm value, which is consistent with the predictions of stakeholder theory, legitimacy theory, and agency theory. Foreign ownership does not significantly moderate the relationship between CSP and firm value, although it shows a direct and positive association with firm value on its own.*

Novelty: *This study offers novelty by positioning foreign ownership as a moderating variable rather than merely a control variable in the relationship between CSP and firm value within the context of the Indonesian capital market, while also providing practical implications for regulators to strengthen internal governance mechanisms so that foreign ownership can function more effectively as a monitoring device.*

INTRODUCTION

In today's global business landscape, the notion of corporate value creation has extended far beyond traditional financial indicators. Firms are now expected to deliver benefits not merely to shareholders, but also to employees, communities, and the environment. This transformation has largely been propelled by the increasing salience of Environmental, Social, and Governance (ESG) factors, which have substantially altered the way corporate performance is assessed. The United Nations Sustainable Development Goals (SDGs) have further strengthened this shift by urging governments, institutions, and organisations across the globe to integrate ESG dimensions into their reporting frameworks and sustainability practices (Saini & Singh, 2022). The surge in sustainable investing, which gained considerable momentum following the COVID-19 pandemic, has heightened investor expectations for transparent ESG disclosure, positioning ESG performance as a key driver of long-term corporate value in markets worldwide.

Within the ESG framework, corporate social performance (CSP) has drawn significant scholarly interest due to its direct bearing on stakeholder engagement, corporate legitimacy, and reputational standing. The pressing nature of this issue in Indonesia is reflected in recent statistics: by the close of 2022, approximately 653 firms listed on the IDX, representing 79% of all listed companies, had issued Sustainability Reports, marking a 324% surge from only 154 firms in 2021 (PwC, 2023). The IDX has further introduced five ESG-based indices, among them the IDX ESG Leaders index launched in December 2020, illustrating rising investor appetite for sustainable equities. As of early 2024, no fewer than 81 IDX-listed firms had articulated explicit ESG commitments (IDX., 2024). Notwithstanding this progress, Indonesia was ranked 78th in the 2024 Environmental Sustainability Index with a score of 69.51, indicating that a considerable divide persists between disclosure practices and the genuine quality of social performance execution at the corporate level.

Growing empirical evidence supports the notion that robust CSP does more than satisfy normative social responsibilities; it also produces measurable economic gains. Studies consistently demonstrate that ESG engagement, inclusive of its social component, enhances firm performance as reflected in Return on Assets (ROA) and Tobin's Q, especially within developing economies (Bilyay-Erdogan & Öztürkkal, 2023). Aydoğmuş et al. (2022) verify that individual social and governance scores hold a significant positive association with firm value, suggesting that social performance functions as a substantive driver of market valuation. Collectively, these findings reinforce the strategic importance of social performance within the wider discourse on corporate value creation.

Although the evidence connecting ESG and firm value continues to accumulate, scholars increasingly acknowledge that this relationship varies across firms and is influenced by both firm-specific and institutional characteristics. Ownership structure emerges as one of the most critical moderating factors given its central role in shaping governance mechanisms, managerial incentives, and strategic direction. As (Wu et al., 2022) contend, ownership structure exerts a meaningful moderating influence on the relationship between ESG performance and firm value, with distinct ownership categories generating varying outcomes. This suggests that the influence of social performance on firm value cannot be adequately grasped without considering the ownership context in which a firm operates.

Among the different facets of ownership structure, foreign ownership receives particular scholarly attention because of its unique attributes and consequences. Foreign investors introduce alternative governance philosophies, elevated transparency standards, and international best practices in CSR and ESG reporting. Research conducted by (Fuadah et al., 2022) within the Indonesian setting demonstrates that foreign ownership exerts a positive and significant influence on ESG disclosure, underscoring the ability of foreign investors to elevate social and governance benchmarks. Al Amosh and Khatib (2021) report comparable results among Jordanian industrial firms. Viewed through an agency lens, foreign institutional investors (FIIs) are considered sophisticated monitors that actively interact with portfolio firms to enhance governance quality and enforce stricter CSR standards (Li et al., 2025). From an institutional perspective, firms with foreign ownership encounter heightened legitimacy pressures from international stakeholders, prompting them to adopt global social performance benchmarks as a means of mitigating the liability of foreignness (Tokas & Yadav, 2020).

The significance of foreign ownership becomes especially apparent in emerging markets, where domestic governance systems are frequently weaker and more prone to agency conflicts. Tran et al. (2025) present evidence from Vietnam indicating that foreign ownership enhances firm performance through improved capital access, reduced cost of capital, and stronger sales outcomes. Bilyay-Erdogan and Öztürkkal (2023) illustrate, across 22 developing nations, that the positive influence of ESG engagement on firm performance is intensified when foreign ownership levels are higher. These findings characterise foreign ownership as a governance mechanism capable of reinforcing the value relevance of social performance in emerging markets, Indonesia included.

Despite the expanding body of literature on ESG, social performance, and ownership structure, three research gaps remain insufficiently addressed and form the core rationale for this study. The first concerns a conceptual-theoretical gap. Most prior studies investigate the direct effects of ownership on either firm performance or ESG disclosure without isolating the moderation pathway through which foreign ownership shapes the CSP–firm value relationship. Studies that explicitly model the three-way relationship among CSP, foreign ownership, and firm value remain scarce. Li et al. (2025) and (Bilyay-Erdogan & Öztürkkal, 2023) touch upon this question, yet within the contexts of China and multi-country panels rather than Indonesia specifically. Consequently, the moderating mechanism of foreign ownership within Indonesia's distinctive institutional environment remains largely unexplored. The second concerns a methodological gap. Existing Indonesian research, such as (Fuadah et al., 2022), centres on ESG disclosure as the dependent variable and treats audit committees, rather than foreign ownership type, as the principal moderating mechanism. Furthermore, nearly all prior studies depend on composite ESG scores that merge environmental, social, and governance dimensions into a single index, an approach that masks the distinct contribution of the social dimension to firm value.

Aydoğmuş et al. (2022) themselves reveal that social and governance dimensions generate stronger effects than environmental scores, yet dimension-specific analysis incorporating foreign ownership as a moderator remains absent within the Indonesian context. Much of the existing research also draws on pre-pandemic data, thereby failing to capture the behavioural and expectational shifts that COVID-19 accelerated among firms and investors. The third concerns an object and contextual gap. Indonesia stands as Southeast Asia's largest emerging economy, with 941 firms listed on the IDX as of December 2024 and a swiftly expanding capital market. Nonetheless, understanding of how the social performance of Indonesian firms, operating within the evolving regulatory framework of the Financial Services Authority (OJK), interacts with foreign ownership to generate higher market value remains limited. This study addresses all three gaps by: (1) theoretically integrating stakeholder, agency, and legitimacy theories within a unified moderation framework; (2) methodologically employing a standalone 19-item GRI-based social disclosure index, panel data covering 2020–2024 to capture the post-COVID period, and a Fixed Effects Model estimator selected through rigorous model testing; and (3) examining all sectors of Indonesian public companies across a five-year period, a combination not previously investigated for this particular set of variables.

To make these conceptual, methodological, and contextual differences more explicit, Table 1 synthesises how the studies most closely related to this research position foreign ownership, CSP, and firm value, and how the present study departs from each of them.

Table 1 Synthesis of Closely Related Prior Studies and the Positioning of This Study

Prior Study	Context & Method	Key Focus/Finding	Gap Relative to This Study
Li et al., (2025)	China; FII ownership as moderator of the CSR–firm value link	Moderation is positive and stronger for non-state-owned firms	Confined to a single-country (China) setting; does not test Indonesia's distinct institutional and ownership environment
Bilyay-Erdogan & Öztürkkal, (2023)	22 developing countries; composite ESG score with ownership as a contextual factor	Foreign ownership strengthens the ESG–performance relationship	Relies on a composite ESG index rather than an isolated social dimension; cross-country averages mask Indonesia-specific dynamics

Prior Study	Context & Method	Key Focus/Finding	Gap Relative to This Study
Fuadah et al., (2022)	Indonesia; ESG disclosure as the dependent variable, audit committee as moderator	Foreign ownership raises the quality of ESG disclosure	Foreign ownership is modelled as an antecedent of disclosure, not as a moderator of the CSP–firm value relationship
Wu et al., (2022)	China; ownership structure as moderator of the ESG–value link	Only executive and institutional ownership moderate significantly	Does not isolate foreign ownership specifically, nor the social pillar in particular
Aydoğmuş et al., (2022)	Turkey; disaggregated ESG pillars and firm value, mostly pre-pandemic data	Social and governance pillars matter more than the environmental pillar	No moderating variable is tested; single-country, largely pre-COVID-19 sample

Source: Synthesised by the researchers (2026)

As Table 1 shows, prior studies either examine foreign ownership as an antecedent of ESG disclosure rather than as a moderator of the CSP–firm value link, rely on composite ESG indices that obscure the specific contribution of the social dimension, or are situated in single-country settings other than Indonesia. This synthesis reinforces the rationale for a study that isolates the social dimension, positions foreign ownership explicitly as a moderator, and does so within Indonesia's distinctive post-pandemic institutional context.

THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Stakeholder Theory

Stakeholder theory, first articulated by (Freeman, 2020), holds that firms bear responsibility not solely to shareholders but to all parties affected by their activities, including employees, customers, suppliers, local communities, and the natural environment. In the context of corporate social performance, the theory provides the normative foundation for explaining why firms need to attend and respond to the interests of diverse stakeholder groups in a balanced way. Firms that manage stakeholder relationships effectively build legitimacy, trust, and reputation, which ultimately translate into improved long-term corporate value.

Within the stakeholder framework, CSP reflects management's ability to identify, prioritise, and respond to stakeholder demands. Mavruk (2025) shows that CSR activities directed at a broader range of stakeholders produce more pronounced increases in firm value compared with CSR activities that are local and narrow in scope. This is consistent with the argument that firms adopting an inclusive stakeholder perspective benefit from improved share liquidity, a more diversified investor base, and stronger firm fundamentals. Alregab (2022) further demonstrates that ESG performance positively influences foreign investment, indicating that foreign investors use social and governance performance as signals of corporate trustworthiness and legitimacy. This study adopts stakeholder theory as one of its three theoretical pillars to explain both how social performance affects firm value and how foreign ownership moderates that relationship.

Legitimacy Theory

Legitimacy theory holds that firms operate under an implicit social contract with society, whereby they are expected to conduct business activities in accordance with prevailing norms, values, and social expectations (Suchman, 1995). When a gap emerges between the values the firm espouses and what society expects, commonly referred to as a legitimacy gap, the firm's survival can be threatened. To close that gap, firms are motivated to disclose their social practices and performance transparently as a means of maintaining or securing legitimacy in the eyes of the public and relevant stakeholders.

In the context of foreign ownership, legitimacy theory offers a compelling explanation for why firms with foreign investors tend to exhibit higher ESG disclosure quality. Tokas and Yadav (2020) argue that foreign-owned firms face stronger legitimacy pressures from international stakeholders, which pushes them to adopt global social performance standards in order to overcome the liability of foreignness. Fuadah et al. (2022) confirm that foreign ownership bears a positive and significant effect on ESG disclosure in the Indonesian market, indicating the role of foreign legitimacy pressures in promoting corporate social transparency. The theory also explains why strong social performance can be capitalised into higher market value: when a firm successfully maintains its legitimacy through consistent social performance, investors place a higher premium on its shares.

Agency Theory

Agency theory (Jensen & Meckling, 1976) describes the contractual relationship between principals (shareholders) and agents (firm management), in which agents are granted authority to manage resources on behalf of principals. Within this relationship, potential conflicts of interest arise because of information asymmetry and divergent objectives: shareholders seek to maximise firm value while managers may prioritise their own interests. Effective monitoring mechanisms are needed to mitigate these agency conflicts, and ownership structure serves as one such mechanism.

From an agency perspective, foreign institutional investors (FIIs) function as sophisticated and active monitors of managerial behaviour. Li et al. (2025) show that FIIs enhance the relationship between CSR performance and firm value through two primary channels: monitoring and advising. As experienced external monitors, FIIs have both the incentive and the capacity to ensure that a firm's social investments genuinely create long-term value rather than constituting resource wastage or impression management. Bilyay-Erdogan and Öztürkkal (2023) further demonstrate that higher foreign ownership amplifies the positive impact of ESG engagement on firm performance across 22 developing countries. Desender and Epure (2020) develop an actor-centred framework explaining CSP in terms of owner motives, which may be instrumental, relational, or moral, and their relevance across different institutional settings, reinforcing the argument that ownership type exerts a meaningful moderating influence on how social performance is translated into firm value.

Corporate Social Performance

CSP is a multidimensional concept reflecting the extent to which firms integrate social responsibility into their strategies and operations. It encompasses employment relations, occupational health and safety, community development, human rights, diversity and inclusion, and responsible supply chain practices. Within the broader ESG framework, the social pillar is one of three primary dimensions used to assess corporate sustainability comprehensively.

Empirical evidence consistently supports a positive relationship between CSP and financial performance. Bilyay-Erdogan and Öztürkkal (2023), drawing on a sample from 22 developing countries, find that ESG engagement, including its social pillar, significantly improves firm performance as measured by ROA and Tobin's Q. Aydoğmuş et al. (2022) confirm similar findings and show that individual social scores bear a positive and significant relationship with firm value. (Griffin & Ryou, 2019), covering 4,587 companies from 43 countries over the period 2003 to 2015, find that social performance correlates positively with firm value through three channels: higher cash flows, lower cash flow variability, and a lower cost of equity. Saini et al. (2022) further show that ESG disclosure is positively related to financial performance, with foreign ownership reinforcing that relationship.

That said, the impact of CSP on firm value is not uniform and can be shaped by contextual factors including ownership type, market characteristics, and institutional setting. Yadav (2020) finds that different types of institutional investors respond differently to CSP dimensions, with pressure-sensitive institutional investors showing a negative association with the social and governance dimensions. This indicates that further research is needed to explore the role of specific ownership types, particularly foreign ownership, as a moderator in the CSP–firm value relationship.

Firm Value

Firm value is a comprehensive measure reflecting the market's perception of a company's overall performance and prospects. In the finance and accounting literature, firm value is most commonly proxied by Tobin's Q: the ratio of the market value of the firm to the replacement value of its assets. This ratio is considered superior to accounting-based measures such as ROA because it reflects investor expectations about future performance rather than historical results alone. A Tobin's Q greater than one indicates that the market values the firm above the replacement cost of its physical assets, signalling the presence of intangible assets valued by investors, including reputation, brand, and governance quality.

Recent research consistently demonstrates that ESG performance, and social performance in particular, contributes positively to firm value as measured by Tobin's Q. Aydoğmuş et al. (2022) find that a composite ESG score correlates positively and significantly with firm value, with the social and governance scores contributing more strongly than the environmental score. Wu et al. (2022) show that ESG performance plays an important role in enhancing the value of Chinese manufacturing firms, with ownership structure as a meaningful moderator. The value creation mechanism operates through several channels: reputational risk reduction, improved consumer loyalty and employee productivity, and an expanded base of sustainability-oriented investors (Mavruk, 2025). Tran et al. (2025) add that this mechanism also operates through greater access to capital and lower cost of capital enjoyed by firms with strong governance and social performance, particularly in emerging markets.

Foreign Ownership

Foreign ownership refers to the proportion of shares held by overseas individuals or entities, whether in the form of foreign institutional investors (FIIs) or foreign corporate investors engaged in foreign direct investment (FDI). In the corporate governance literature, foreign ownership is seen as an important external mechanism that shapes corporate behaviour, promotes transparency, and raises governance standards in host countries. These characteristics make foreign ownership a theoretically relevant and empirically interesting variable to examine in the context of the CSP–firm value relationship.

Empirical research consistently documents positive effects of foreign ownership on governance quality and corporate social performance. Al Amosh and Khatib (2021) find that foreign ownership plays a critical role in improving ESG performance disclosure quality among Jordanian industrial firms. Fuadah et al. (2022) confirm similar findings for the Indonesian context. Alregab (2022) adds that stronger ESG performance positively influences the flow of foreign investment to Saudi Arabian firms, pointing to a reciprocal relationship between foreign ownership and ESG commitment. Li et al. (2025) provide evidence from China that firms with higher FII ownership exhibit a more positive relationship between CSR performance and firm value, with the moderation effect being stronger for non-state-owned enterprises and for firms with greater consumer awareness.

Studies on foreign ownership and social performance also reveal differences in role depending on the characteristics of the foreign investors themselves. Al-Gamrh et al. (2020) distinguish between Arab and non-Arab foreign ownership in the UAE context, finding that non-Arab foreign ownership positively influences both financial and social performance. Tokas and Yadav (2020) show that in India, foreign-owned firms incur on average higher CSR expenditures than their domestic counterparts. Liu et al. (2021) provide evidence that superior CSR performance increases firms' propensity to engage in FDI, revealing a reciprocal dynamic between social performance and corporate global orientation.

Hypothesis Development

Drawing on the literature review and theoretical framework outlined above, this study formulates two primary hypotheses. The first is grounded in stakeholder theory and legitimacy theory, which emphasise the importance of meeting social expectations to secure legitimacy and stakeholder trust, and is supported empirically by (Aydoğmuş et al., 2022; Bilyay-Erdogan & Öztürkkal, 2023; Griffin et al., 2021). We argue that corporate social performance has a positive effect on firm value. Firms that demonstrate strong social performance build a more robust reputation, lower their cost of capital, and deepen stakeholder loyalty, all of which ultimately raise their market valuation.

H_1: Corporate social performance has a positive effect on firm value.

Beyond the empirical patterns documented above, the theoretical mechanism underlying H2 can be specified more precisely. From an agency-theory standpoint, foreign investors act as active monitors who, through board representation, voting influence, and direct engagement with management, reduce the information asymmetry between managers and outside shareholders (Jensen & Meckling, 1976). This monitoring capacity implies that foreign owners are better positioned than dispersed domestic shareholders to verify whether a firm's social performance reflects a genuine, value-creating commitment rather than symbolic disclosure or managerial impression management; foreign ownership should therefore amplify, rather than merely parallel, the value relevance of social performance. From a legitimacy-theory standpoint, firms with higher foreign ownership face heightened scrutiny from international capital markets, rating agencies, and cross-border institutional investors, whose expectations of social performance often exceed domestic norms (Tokas & Yadav, 2020). Under such scrutiny, a given level of corporate social performance is more likely to be recognised and rewarded by the market when foreign ownership is present, because it more credibly signals compliance with international legitimacy standards rather than domestic regulatory minima alone. Together, these two mechanisms, reduced information asymmetry through active foreign monitoring and stronger legitimacy signalling under international stakeholder scrutiny, provide the theoretical basis for expecting foreign ownership to strengthen the positive relationship between corporate social performance and firm value.

Building on this theoretical mechanism, we argue that foreign ownership moderates and reinforces the positive relationship between corporate social performance and firm value. Empirical support for this argument is drawn from (Li et al., 2025) in China and (Bilyay-Erdogan & Öztürkkal, 2023) across 22 developing countries.

H_2: Foreign ownership positively moderates the relationship between corporate social performance and firm value.

Conceptual Framework

The conceptual framework depicts corporate social performance as the independent variable, firm value as the dependent variable, and foreign ownership as the moderating variable that may strengthen or weaken the relationship between the two. Firm size, firm age, and profitability are included as control variables to isolate the effect of the main variables from other factors that theory and prior research confirm affect firm value.

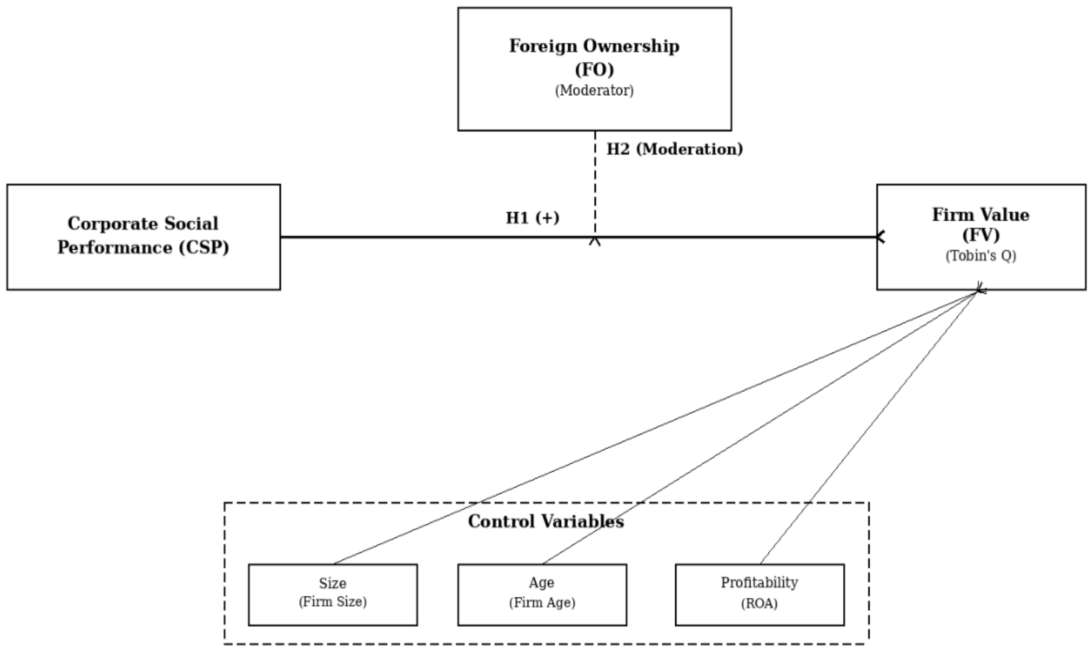

Figure 1 presents this framework graphically.

RESEARCH METHODOLOGY

This study employs a quantitative descriptive methodology to investigate the causal relationship between corporate social performance and firm value, with foreign ownership as the moderating variable. The research population comprises all public companies listed on the IDX over a five-year window from 2020 to 2024. This time frame was chosen deliberately because it spans the post-COVID-19 shock era, a period during which global investor ESG priorities shifted considerably, making the temporal context more relevant than that offered by pre-pandemic studies.

Purposive sampling was applied using five selection criteria: (1) consistent IDX listing throughout 2020–2024; (2) continuous publication of audited financial statements; (3) consistent issuance of sustainability reports throughout the period; (4) active share trading; and (5) complete data availability for all research variables. This process yielded 120 firms satisfying all criteria, resulting in 600 firm-year observations for the panel data estimation.

Table 2. Population and Research Sample

Description	Count
Companies listed on the IDX as of December 2024	941
Companies disclosing sustainability reports	873
Companies meeting all sample criteria	120
Research period (years)	5
Total observations (firm-year)	600

Source: Processed Data (2026)

Variable Measurement

Corporate social performance reflects the actual impact and contribution of a firm to the welfare of employees, communities, and all stakeholders. The theoretical basis of this variable rests on stakeholder theory (Freeman, 2010), which asserts that firms have an obligation to attend to the interests of all affected parties rather than focusing solely on shareholder interests. Social performance is measured using a disclosure index covering 19 social indicators based on Global

Reporting Initiative (GRI) standards, encompassing Employment, Labour/Management Relations, Occupational Health and Safety, Training and Education, Diversity and Equal Opportunity, Non-discrimination, Freedom of Association and Collective Bargaining, Child Labour, Forced or Compulsory Labour, Security Practices, Rights of Indigenous Peoples, Human Rights Assessment, Local Communities, Supplier Social Assessment, Public Policy, Customer Health and Safety, Marketing and Labelling, Customer Privacy, and Socioeconomic Compliance. The methodological advantage of this approach over aggregate ESG scores lies in its ability to isolate the specific contribution of the social dimension without contamination from environmental and governance dimensions, directly addressing the concern raised by (Aydoğmuş et al., 2022) that individual ESG dimensions exert different effects on firm value. The Social Performance score is calculated following the approach of (Chang & Lee, 2022):

CSP = Number of Social Indicators Disclosed ÷ 40

Foreign ownership is defined as the proportion of shares held by foreign individuals or entities in the firm's capital structure, with the potential to influence management practices, strategic policies, and corporate decision-making. Consistent with (Hashmi et al., 2018; Salihu et al., 2015; Wang & Shailer, 2017), this variable is operationalised as a dichotomous variable: a firm receives a value of 1 if foreign shareholders collectively hold more than 5% of total ordinary shares outstanding, and 0 otherwise. The 5% threshold was chosen because it corresponds to the level of ownership considered regulatorily significant for influencing corporate decisions.

The choice of a dichotomous rather than a continuous measure of foreign ownership warrants further justification. Indonesian capital market regulation treats a shareholding of 5% or more as the threshold for a "substantial shareholder," triggering enhanced disclosure obligations and, implicitly, a greater capacity to influence board composition and strategic decisions through voting rights at general meetings of shareholders. Below this threshold, foreign shareholders are typically dispersed portfolio investors whose individual stakes are too small to justify the cost of active monitoring, consistent with the agency-theory premise that monitoring effectiveness depends on an ownership stake large enough to warrant the exercise of governance rights (Jensen & Meckling, 1976). A dummy specification is therefore more theoretically aligned with the threshold effect central to this study's moderation argument than a continuous percentage measure, which would implicitly assume that governance influence rises linearly with ownership share, an assumption not well supported in the corporate governance literature. Methodologically, this specification does entail a trade-off: it collapses the full distribution of foreign ownership into two categories and cannot capture marginal differences in influence among firms whose foreign ownership exceeds the 5% threshold by a small or a large margin. To make this trade-off transparent, the underlying distribution of foreign ownership is reported in the descriptive statistics (Table 4.1), and the use of a continuous measure or firm-level ownership breakpoints in future research is revisited in the limitations section.

Firm value is measured using Tobin's Q, rooted in the concept developed by (Modigliani & Miller, 1963). Tobin's Q is recognised as a superior firm value proxy because it goes beyond historical accounting performance: the ratio captures market expectations of future performance, including the value of intangible assets such as reputation and governance quality. Measurement follows (Chang & Lee, 2022):

Tobin's Q = (Share Price × Shares Outstanding + Total Debt) ÷ Total Assets

Three control variables are included. Firm size reflects operational scale based on total assets. Larger firms typically enjoy more stable cash flows, a lower risk of financial distress, and greater ease of access to external financing (Hanafi, 2021). It is measured as the natural logarithm of total assets:

SIZE = Ln (Total Assets)

Firm age represents the length of time the entity has been in operation since its founding. Older firms generally enjoy greater public recognition and more mature institutional capacity (Belitski & Desai, 2019). It is calculated as the difference between the annual report year and the IPO year (Zhang & Liu, 2022):

AGE = Annual Report Year – IPO Year

Profitability measures how effectively a firm generates profit from its operations (Brigham & Houston, 2006; Kasmir, 2012). It is measured using a modified Return on Assets formula:

ROA = (Net Income + Other Comprehensive Income) ÷ Total Assets

Regression Model and Analytical Technique

The collected data are analysed using Fixed Effects Model (FEM) panel regression. The FEM was selected based on rigorous model selection tests: the Chow test comparing Pooled OLS with FEM, the Hausman test comparing FEM with the Random Effects Model (REM), and the Lagrange Multiplier test confirming FEM's superiority over alternative estimators. The Fixed Effects Model controls for unobserved firm-specific heterogeneity by treating each firm's individual effect as a fixed parameter estimated alongside the other variable coefficients, yielding unbiased and consistent estimates.

Hypothesis testing is conducted in two stages through two regression models. Model 1 tests the direct effect of social performance on firm value (H_1), while Model 2 tests the moderating role of foreign ownership by including an interaction term between social performance and foreign ownership (H_2). The model specifications are as follows:

Model 1 (Direct Effect of CSP on Firm Value):

$$FV_{it} = \alpha + \beta_1 CSP_{it} + \beta_2 SIZE_{it} + \beta_3 AGE_{it} + \beta_4 ROA_{it} + \varepsilon_{it}$$

Model 1 tests H_1 by regressing firm value (FV) as the dependent variable on Corporate social performance (CSP) as the main independent variable and three control variables: firm size (SIZE), firm age (AGE), and profitability (ROA). A positive and statistically significant coefficient β_1 will support H_1 that social performance has a positive effect on firm value. The subscripts i and t refer to the firm unit and time period respectively; α is the constant; β is the vector of regression coefficients; and ε_{it} is the error term.

Model 2 (Moderating Effect of Foreign Ownership):

$$FV_{it} = \alpha + \beta_1 CSP_{it} + \beta_2 FO_{it} + \beta_3 (CSP_{it} \times FO_{it}) + \beta_4 SIZE_{it} + \beta_5 AGE_{it} + \beta_6 ROA_{it} + \varepsilon_{it}$$

Model 2 tests H_2 by adding foreign ownership (FO) and the interaction term CSP × FO to the model. The interaction variable CSP × FO is the product of corporate social performance and foreign ownership, capturing the moderating effect of foreign ownership on the CSP–firm value relationship. A positive and statistically significant coefficient β_3 will support H_2 that foreign ownership amplifies the positive effect of social performance on firm value. The Fixed Effects Model is applied for both models, with heteroskedasticity-corrected standard errors to ensure the validity of statistical inference.

The full notation used in both regression models is presented in Table 3 below.

Table 3 Regression Model Notation

Notation	Description
FVit	Firm value of firm i in year t, measured by Tobin's Q
CSPit	Corporate Social performance of firm i in year t, measured by 19-item GRI index

FOit	Foreign ownership of firm i in year t, dummy variable (1 if foreign ownership > 5%, else 0)
CSPit × FOit	Interaction variable between social performance and foreign ownership (moderating variable)
SIZEit	Firm size of firm i in year t, measured by Ln(Total Assets)
AGEit	Firm age of firm i in year t, measured by difference between report year and IPO year
ROAit	Profitability of firm i in year t, measured by modified Return on Assets
α	Regression model constant (intercept)
β_1 to β_6	Regression coefficients for each independent variable
εit	Error term (residual) of firm i in year t

Source: Developed by the Researchers (2026)

RESULTS AND DISCUSSION

Descriptive Statistics

Table 4 Descriptive Statistics of Research Variables

Variable	Mean	Median	Max.	Min.	Std. Dev.	Obs.
Firm Value	1.4235	0.9960	14.4147	0.0775	1.3587	600
Corporate Social Performance	0.5394	0.5517	0.9722	0.0750	0.2099	600
Foreign Ownership	0.7295	1.0000	1.0000	0.0000	0.4446	600
Firm Size	30.6272	30.4254	35.4255	25.7094	1.6898	600
Firm Age	41.5276	39.0000	129.0000	2.0000	20.9809	600
Profitability	0.0633	0.0374	6.9977	-1.7701	0.3154	600

Source: Processed Secondary Data (2026)

Firm value has a mean of 1.4235 and a standard deviation of 1.3587. The median of 0.9960 indicates that most observations cluster around this value, although several extreme cases pull the mean upward; the range from a minimum of 0.0775 to a maximum of 14.4147 reflects considerable valuation variation across IDX-listed firms. Corporate social performance has a mean of 0.5394 and a median of 0.5517 with a standard deviation of 0.2099, indicating that the sampled firms' level of social disclosure sits in the moderate range, at around 54% of the 40 possible GRI items disclosed, with moderate variation. As a dummy variable, foreign ownership has a mean of 0.7295, indicating that approximately 73% of sample firms hold foreign ownership above the 5% threshold. Firm size has a mean of 30.6272 with a standard deviation of 1.6898 and a median of 30.4254 that is close to the mean, suggesting a reasonably normal distribution. Firm age shows a mean of 41.5276 years with a range of 2 to 129 years, reflecting notable heterogeneity in firm maturity across the sample. Profitability has a mean of 0.0633, with a minimum of −1.7701 and a maximum of 6.9977, capturing the full spectrum of financial performance from loss-making to highly profitable firms.

Fixed Effects Model Regression Results

Table 5 Fixed Effects Model Estimation Results

Variable	Coefficient	P-Value
Corporate Social Performance (CSP)	0.1129	0.0178**
Foreign Ownership (FO)	0.1136	0.0137**
CSP × FO (Interaction)	0.0312	0.6218 (ns)
Firm Size	0.2650	0.0000***
Firm Age	0.0372	0.0000***
Profitability	0.2823	0.0006***
Constant	11.0836	0.0000***
Observations	600	
F-statistic	28.4498	0.0000***
R^2	0.8867	

*Note: *** p < 0.01; ** p < 0.05; ns = not significant.*
Source: Processed Secondary Data (2026)

Before interpreting the coefficients in Table 5, the classical assumptions underlying panel data estimation were also checked, covering multicollinearity, heteroskedasticity, and autocorrelation for the variables used in the moderation model (CSP, FO, SP × FO, Firm Size, Firm Age, and Profitability). Multicollinearity among the independent variables was assessed using the Pearson correlation matrix, heteroskedasticity was assessed using the Breusch-Pagan/Cook-Weisberg auxiliary regression test, and autocorrelation was assessed using the Durbin-Watson statistic, in addition to the heteroskedasticity-corrected standard errors already applied to the Fixed Effects estimation. Tables 6 and 7 summarise the results.

Table 6 Multicollinearity Test (Pearson Correlation Matrix)

Variable	CSP	FO	Firm Size	Firm Age	Profitability
CSP	1.0000	0.1538	0.1357	0.0544	0.0124
FO	0.1538	1.0000	0.1956	0.1388	0.0640
Firm Size	0.1357	0.1956	1.0000	0.4391	-0.1154
Firm Age	0.0544	0.1388	0.4391	1.0000	0.0520
Profitability	0.0124	0.0640	-0.1154	0.0520	1.0000

Source: Processed Secondary Data (2025).

Note: CSP × FO (the interaction term) is excluded from this matrix because, by construction, an interaction term is mechanically correlated with its constituent variables (CSP and FO); a high correlation between CSP × FO and CSP or FO is therefore not indicative of problematic multicollinearity and is not interpreted using the same 0.80–0.90 threshold applied to the substantive predictors.

All pairwise correlations among Corporate Social Performance, Foreign Ownership, Firm Size, Firm Age, and Profitability are well below the conventional threshold of 0.80–0.90, with the highest correlation observed between Firm Size and Firm Age (r = 0.4391). This indicates that multicollinearity is not a serious concern in the estimated model, supporting the reliability of the individual coefficient estimates reported in Table 5.

Table 7 Heteroskedasticity Test (Breusch-Pagan/Cook-Weisberg Auxiliary Regression) and Autocorrelation Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	3.665476	1.909126	1.919975	0.0555
CSP	0.151416	0.112388	1.347260	0.1785
FO	0.078016	0.076950	1.013850	0.3112
Firm Size	-0.099350	0.064319	-1.544640	0.1231
Firm Age	-0.008921	0.011788	-0.756807	0.4495
Profitability	-0.010762	0.065341	-0.164710	0.8692

Dependent variable: squared residuals from the Fixed Effects estimation.
Source: Processed Secondary Data (2025).

Durbin-Watson statistic: 1.583309.

None of the regressors, Corporate Social Performance, Foreign Ownership, Firm Size, Firm Age, or Profitability, significantly explains the squared residuals at the 5% level (all p-values exceed 0.05), indicating that the null hypothesis of homoskedasticity cannot be rejected. This corroborates the use of heteroskedasticity-corrected standard errors in Table 4.2 as an additional safeguard rather than a correction for a confirmed heteroskedasticity problem. The Durbin-Watson statistic of 1.5833, falling within the generally accepted range of 1.5 to 2.5, further indicates that residual autocorrelation is not a material concern for this panel specification. Taken together, the diagnostic tests in Tables 4.3 and 4.4 support the validity of the Fixed Effects estimates reported in Table 4.2 for testing H_1 and H_2.

Effect of Social Performance on Firm Value

The empirical results confirm that Corporate Social Performance has a positive and significant effect on firm value among IDX-listed firms, meaning that firms demonstrating stronger Corporate Social Performance are rewarded with higher market valuations. This finding is consistent with the predictions of stakeholder theory (Freeman, 2010): firms that honour their responsibilities to all stakeholders, rather than shareholders alone, build trust and support that ultimately materialises in higher market value. Empirical corroboration comes from (Alamoudi, 2025), who analyses 862 BRICS firms using fixed effects models and robustness tests including Driscoll-Kraay standard errors and an instrumental variables approach, finding that social performance positively affects firm value and that well-established sustainability reporting further strengthens this relationship. This finding is directly relevant to the IDX context given the comparable emerging-market characteristics. Yu and Xiao (2022), studying Chinese A-share companies, also find that the positive effect of the social dimension on firm value remains robust through instrumental variable regression and Heckman two-stage estimation.

From an agency theory perspective, the positive effect of Corporate Social Performance on firm value operates through reduced agency problems and improved information transparency. Consistent corporate social performance functions as a credible signal of governance quality and managerial integrity, thereby reducing the information asymmetry that underlies agency conflicts. Fuadah et al. (2022), in a study of 140 IDX-listed firms over 2018–2020 using partial least squares structural equation modelling, find that ESG disclosure, including the social dimension, positively affects firm value, with foreign and public ownership shown to improve disclosure quality. Jang (2015), applying the KEJI Index across 733 observations over 2009–2012, confirms that firms with higher CSR activity consistently show stronger financial performance as measured by Tobin's Q, because CSR effectively reduces conflicts between firms and society, thereby lowering agency costs and enhancing investor valuation.

Legitimacy theory adds a further explanatory layer by positioning corporate social performance as the primary mechanism through which firms build and sustain their legitimacy. Alsayegh et al. (2022), analysing 9,218 Asian firms with 26,838 firm-year observations over 2012–2019, find that the social dimension significantly improves investment efficiency while the environmental and governance dimensions do not show a significant effect, indicating that efforts to build social legitimacy uniquely improve investment decision quality and value creation. Cheung et al. (2013), studying large companies on the Hong Kong Stock Exchange using an OECD Principles-based CSP index over 2002–2005, confirm that CSP is positively and significantly related to corporate valuation and also correlates positively with market valuation in the following year, indicating that consistently maintained social legitimacy not only creates contemporaneous value but also accumulates lasting long-term value effects.

Taken together, the convergence of empirical evidence from diverse Asian and emerging capital market contexts, including BRICS (Alamoudi, 2025), China (Alsayegh et al., 2022; Yu & Xiao, 2022), Hong Kong (Cheung et al., 2013), Korea (Jang, 2015), and Indonesia itself (Fuadah et al., 2022), consistently confirms the positive effect of corporate social performance on firm value, reinforcing the validity of this study's findings within the IDX context. All three theoretical pillars, namely stakeholder theory, agency theory, and legitimacy theory, collectively provide a comprehensive and mutually reinforcing explanation: corporate social performance creates value by meeting stakeholder expectations, reducing agency costs through credible transparency, and building social legitimacy that sustains public and market support for the firm.

Foreign Ownership as a Moderating Variable

The empirical results show that foreign ownership does not moderate the relationship between corporate social performance and firm value among IDX-listed firms, and H_2 is therefore rejected. It should be emphasised that this rejection does not imply that foreign ownership is conceptually irrelevant: foreign ownership still has a direct positive and significant effect on firm value ($\beta = 0.1136$, $p = 0.014$). The rejection of H2 specifically indicates that the presence of foreign investors in the ownership structure is not empirically demonstrated to either strengthen or weaken the effect of corporate social performance on firm value through the moderation channel. Wu et al. (2022), analysing Chinese manufacturing firms, offer a direct explanation: only executive and institutional ownership is shown to significantly moderate the relationship between ESG performance and firm value, while other ownership types do not exhibit a meaningful moderating role. Fuadah et al. (2022) in the IDX context similarly confirm that while foreign ownership positively affects ESG disclosure, this mechanism does not straightforwardly translate into higher firm value through the corporate social performance channel alone.

From an agency theory perspective, the absence of a significant moderating role for foreign ownership can be understood through the limitations of foreign investors as principals in monitoring and guiding management. In the Indonesian capital market context, foreign investors face constraints arising from limited understanding of local social and institutional dynamics. Wang et al. (2021), studying Chinese firms publishing CSR reports over 2009–2017, find that foreign exposure reflects a motivation for short-term financial performance improvement rather than substantive commitment to long-term social value, a finding that directly explains why foreign investors tend to evaluate corporate social performance as an impression management tool rather than a genuine source of value creation. Aksoy et al. (2020), studying non-financial Turkish firms on the Borsa Istanbul Sustainability Index, report the paradoxical finding that despite foreign ownership positively affecting corporate sustainability performance, firms with high sustainability performance actually exhibit lower Tobin's Q returns, a result confirming that foreign ownership driving high corporate social performance does not automatically produce significant improvement in firm value.

Legitimacy theory adds a further dimension. The effectiveness of foreign ownership as a moderator depends considerably on the degree to which the local institutional context is conducive to foreign investors encouraging firms to build and sustain their legitimacy. Jitmaneeroj (2024), studying publicly listed firms in Asia-Pacific developing countries over 2010–2020, finds that the positive valuation effects of CSP are significantly amplified in countries with higher per capita income and lower corruption. This directly explains why in the Indonesian context, as a developing economy with complex governance challenges, the institutional conditions required to activate the moderating effect of foreign ownership are not yet fully in place. Desender and Epure (2020) confirm that owner motives towards social performance are heterogeneous, whether instrumental, relational, or moral, and are strongly determined by the specific institutional context. This heterogeneity of foreign investor motives is a key reason why foreign ownership is unable to consistently moderate the CSP–firm value relationship at the IDX.

Overall, these findings reflect the complexity of the moderating relationship between foreign ownership, social performance, and firm value, a relationship that is strongly conditioned by Indonesia's institutional context and the specific characteristics of its capital market. Al Amosh and Khatib (2021) and (Fuadah et al., 2022) specifically argue that internal governance mechanisms such as board independence and audit committees are far more effective moderators than foreign ownership. Strengthening internal governance mechanisms in IDX-listed firms, alongside improving sustainability reporting quality and deepening foreign investors' understanding of local social dynamics, therefore represents a prerequisite that must be met before foreign ownership can play its moderating role more effectively.

This finding can be further understood by considering the specific characteristics of foreign investors and the governance conditions prevailing in the Indonesian capital market. A substantial share of foreign ownership on the IDX is channelled through passive foreign institutional vehicles, including index-tracking and exchange-traded funds, whose holdings are driven by benchmark replication rather than active engagement with investee firms; such passive foreign shareholders have neither the mandate nor the incentive to monitor how a firm's social performance is translated into long-term value, which weakens the monitoring channel predicted by agency theory. In addition, ownership structures among IDX-listed firms remain highly concentrated in the hands of controlling domestic families, business groups, or the state, so that even a foreign shareholding above the 5% threshold typically confers minority-shareholder status without effective board representation or voting power to influence strategic decisions on social investment. This concentrated-ownership environment, combined with corporate governance practices in Indonesia that are still developing relative to more mature markets, particularly with respect to minority shareholder protection and the independence of boards and audit committees, limits the practical capacity of foreign investors to act as the sophisticated external monitors that agency theory envisions. These institutional characteristics, taken together with foreign investors' documented tendency to prioritise short-term financial signals (Wang et al., 2021) and the uneven diffusion of international legitimacy pressures across Indonesian firms, provide a plausible explanation for why foreign ownership fails to significantly strengthen the CSP–firm value relationship in this sample.

CONCLUSIONS AND RECOMMENDATIONS

This study establishes that social performance has a positive and significant effect on firm value among IDX-listed companies over the period 2020–2024. Firms with stronger social performance are valued more highly by the market. Companies that demonstrate a genuine commitment to their social responsibilities are perceived more favourably by investors because they fulfil their obligations to a broad set of stakeholders rather than focusing exclusively on shareholder interests. Meeting these responsibilities builds market trust and legitimacy, which ultimately raises firm value. Corporate social performance also functions as a credible governance signal, reducing information asymmetry between management and investors, thereby lowering agency costs and strengthening investor confidence.

Foreign ownership, on the other hand, does not significantly moderate the relationship between Corporate social performance and firm value among IDX-listed firms, and the second hypothesis is rejected. The presence of foreign investors in the ownership structure does not automatically amplify or weaken the effect of social performance on firm value. This ineffectiveness as a moderating variable may stem from foreign investors' limited understanding of local social and institutional dynamics, their tendency to prioritise short-term financial returns over long-term social commitment, and the institutional environment in Indonesia that has not yet fully equipped foreign ownership to play an optimal monitoring role. In this context, internal governance mechanisms such as audit committees and board independence prove considerably more effective in reinforcing the CSP–firm value relationship.

Implications

The findings carry important implications for multiple stakeholders. For the management of IDX-listed companies, the evidence that Corporate social performance positively affects firm value confirms that investment in social activities is not merely philanthropic expenditure but a measurable strategy for long-term value creation. Companies should therefore improve the consistency and quality of their Corporate social performance implementation and reporting, including expanding the range of GRI indicators disclosed. For regulators and policymakers, the results highlight the importance of developing more binding ESG regulations for all listed issuers, accompanied by stronger internal governance standards, particularly the role of audit committees and independent board members, so that foreign ownership can function more effectively as a monitoring mechanism. For foreign investors, the findings signal the need to deepen their understanding of Indonesia's social and institutional context and to shift from short-term financial evaluation toward a more comprehensive, long-term assessment of corporate social performance.

To make these implications more operational, several concrete steps can be outlined for each stakeholder group. For regulators, OJK could strengthen the existing sustainability reporting mandate (POJK No. 51/POJK.03/2017) by setting a minimum disclosure target for the social dimension of GRI reporting, for example requiring listed issuers to disclose at least two-thirds of the nineteen social indicators used in this study within a defined transition period, and by linking foreign-ownership disclosure thresholds to a stewardship code that obliges foreign institutional investors holding above 5% to report their engagement and voting policy on social and governance matters. For company management, priority should be given to strengthening disclosure on the indicators most closely tied to firm value in this sample, particularly occupational health and safety, community development, and human rights assessment, and to publishing a annual social-performance scorecard that the board reviews alongside financial results. For foreign investors, adopting a formal ESG engagement and voting policy for Indonesian portfolio holdings, and extending average holding periods for firms with strong Corporate social performance, would help translate their ownership stake into the active monitoring role that this study's theoretical framework anticipates but which the empirical results do not yet confirm.

Limitations and Future Research

This study has several limitations. First, foreign ownership is measured as a dummy variable, simplifying the spectrum of foreign ownership into two binary categories; future research could employ a continuous measure (percentage of ownership) or distinguish between FII and FDI for more granular analysis. Second, the GRI-based social disclosure index assumes that disclosure quality is equivalent to implementation quality, when in practice the two may diverge. Third, this study does not explore cross-sector differences.

Future research is encouraged to examine alternative moderating variables such as internal governance quality, market development level, and industry sector differences. Subsequent studies could also explore how Indonesia's evolving institutional environment, including OJK's strengthening ESG regulations, might enable foreign ownership to play a more effective moderating role in the CSP–firm value relationship. The use of more advanced analytical methods, such as the Generalised Method of Moments (GMM) to address endogeneity, or the Heckman two-stage approach, would also improve the robustness of the findings.

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