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The Effect of Price to Book Value and Corporate Social Responsibility on Abnormal Returns

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ABSTRACT

Objective: *This study aims to examine the effect of Price Book Value (PBV) and Corporate Social Responsibility (CSR) on abnormal returns in LQ45 indexed companies on the Indonesia Stock Exchange during the 2022-2024 period.* ***Method:*** *The method used in this study is a quantitative approach with a purposive sampling technique, resulting in 35 companies as research samples. Data were analyzed using multiple linear regression with the help of SPSS.* ***Results:*** *The results show that Price Book Value (PBV) has a negative and significant effect on abnormal return. Meanwhile, Corporate Social Responsibility (CSR) does affect abnormal return. However, the results of the simultaneous test show that PBV and CSR have an effect on abnormal return.* ***Novelty:*** *The novelty of this study lies in its integrated analysis of market valuation metrics and sustainability disclosures during the volatile post-pandemic economic recovery period of 2022–2024. Unlike previous studies that often treat financial indicators and non-financial disclosures in isolation, this research provides fresh empirical evidence from Indonesia's most liquid capital market segment (LQ45), revealing the nuanced dynamics and shifting investor priorities where corporate social responsibility indicators interact simultaneously with valuation multiples to drive abnormal market returns.*

INTRODUCTION

The development of the Indonesian capital market reflects a consistent upward trend in recent years. This progress is evident in the increasing intensity of trading and the proliferation of investment instruments available to the public. Investments are not limited to the domestic market but can also be made in foreign markets, which are considered attractive to investors due to the potential for relatively high returns. The increasing number of issuers indicates that the capital market is increasingly attractive as a source of funding and investment. This development indicates that capital market quality and investor confidence are continuously improving, making analysis of factors influencing returns, including abnormal returns, increasingly relevant.

In investing, every investor seeks the best possible return by considering the risks inherent in each investment decision. To understand the magnitude of risk and profit opportunities, investors need to analyze abnormal returns as an indicator of a discrepancy between expected and actual returns. Abnormal returns can arise when the market reacts to certain information, whether fundamental or non-fundamental. A market can be considered inefficient if investors consistently achieve abnormal returns over a prolonged period. The ability to achieve returns beyond normal levels indicates that not all information is conveyed or responded to equally by all market participants [1]. Abnormal returns received by investors can appear in the form of positive or negative values. These factors are heavily influenced by capital market dynamics and macroeconomic conditions in each country, both when the market is in a weakening phase and when it experiences increased activity. An abnormal return is categorized as positive if the rate of return obtained by investors exceeds the average market return. Conversely, the value is considered negative if the return is below the average performance of the overall market [2]. Abnormal Return is a true reflection of how the market responds to new information, so it is important to test it using fundamental variables to determine which factors truly influence stock price movements.

The LQ45 Index is a collection of 45 selected stocks with high liquidity, large market capitalization, and strong company fundamentals, thus serving as a benchmark for analyzing the price movements of blue-chip stocks. Stocks included in the LQ45 index attract investor attention due to their characteristics considered superior to other stocks. Several factors driving this interest include the prospect of relatively attractive dividend distributions, a relatively lower risk of loss, and market performance that generally demonstrates stability and better returns. On the Indonesia Stock Exchange, entities listed on this index are categorized as blue-chip stocks, a term used to describe large stocks that influence the Jakarta Composite Index (JCI). Companies included in the blue-chip category are entities with a very large capitalization of over 50 trillion rupiah, accompanied by strong liquidity and sound fundamentals [3].

In the context of this research, the selection of LQ45 companies is considered relevant to examine the influence of *Price Book Value* (PBV) and *Corporate Social Responsibility* (CSR). In determining investment decisions for leading stock markets, investor considerations are not limited to company profits alone, but also encompass aspects of sustainability and corporate social responsibility as signals of management quality and long-term prospects. CSR disclosures in LQ45 companies tend to be more comprehensive and transparent, thus influencing investor responses, which are reflected in stock price dynamics and abnormal returns. By using the LQ45 index as the research object, this study hopes to obtain more precise empirical evidence regarding the relationship between PBV and CSR and abnormal returns in leading issuers in the capital market. Furthermore, the study results are expected to be more generalizable and provide contributions based on financial performance and corporate sustainability.

As one of the ratios that is often used, PBV or market to book value is considered by investors in the investment decision-making process, because this ratio shows the relationship between the market value and book value of the company and contributes to the analysis of abnormal returns [4]. The PBV ratio is used as a tool to evaluate the comparison between a company's stock price and its book value. This measure can indicate anomalies or irregularities in stock valuation. When a company's book value increases, the stock price, as a reflection of the company's value, typically shows an upward trend [5]. A low PBV ratio reflects a relatively undervalued stock price, while a high PBV indicates that the stock is overvalued by the market, so this ratio has the potential to influence the level of returns obtained by investors [6]. This is because investors buy shares with the goal of achieving a return on their investment in the company. The analysis found that an increase in PBV was followed by a significant increase in share price [7], However, this is inconsistent with previous studies which revealed that PBV has a negative and insignificant impact on stock prices [8].

Law No. 40 of 2007 concerning Limited Liability Companies stipulates that the implementation of CSR or TJSL is an obligation for companies conducting business activities in the natural resources sector. In its implementation, CSR is no longer dependent on the company's profit level, but has been designated as part of the company's costs that must be allocated and budgeted specifically. Implementing CSR requires companies to pay attention to stakeholders, comply with applicable regulations, adhere to international norms, and incorporate these principles into the company's strategy and objectives comprehensively [9].

Investors not only rely on financial performance as a basis for investment decisions, but are also influenced by the level of transparency in CSR disclosures published by companies in their annual reports. Through CSR disclosure, annual reports provide more comprehensive information, allowing investors to consider non-financial aspects beyond financial performance, while also understanding the company's risk level, business prospects, and long-term sustainability commitments [10]. Previous research findings show that testing the influence of CSR on abnormal returns, ROE and PBV is used as a control variable in the applied regression model [11]. This study found that CSR significantly impacts abnormal returns. ROE, as a control variable, also has a significant effect, while PBV does not show a significant relationship with abnormal returns.

RESEARCH METHOD

This study uses a quantitative approach utilizing secondary data obtained from companies' annual financial reports. Data were collected from companies in the LQ45 index listed on the Indonesia Stock Exchange during the period 2022-2024. The population consists of all LQ45 companies listed on the Indonesia Stock Exchange. The sample was selected using purposive sampling based on certain criteria, resulting in 35 observations after removing outliers. The dependent variable in this study is abnormal return, the difference between realized and expected returns [12]. The independent variables are Price Book Value (PBV) and Corporate Social Responsibility (CSR). Price Book Value (PBV) is calculated by comparing the stock price on the market with the company's book value. This book value can be calculated on a company-wide basis or per share basis. This ratio compares the company's market value to the value recorded in the financial statements [5]. CSR measurement was conducted using a dummy variable, with a score of 1 given to companies that disclose CSR in their annual reports, and a score of 0 to companies that do not [11]. The analysis included descriptive statistics, classical assumption tests (normality, multicollinearity, autocorrelation, heteroscedasticity), and hypothesis testing, including t-tests, F-tests, and coefficients of determination (R^2).

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Descriptive statistics are used to provide an overview of the characteristics of the research data.

Table 1. Descriptive Statistics.

	N	Minimum	Maximum	Mean	Std. Deviation
PBV	70	0.00	9.59	1.5663	1.54878
CSR	70	0.00	0.31	.1887	.07614
ABNORMAL RETURN	70	-.09	.21	.0409	.05795
Valid N (listwise)	70				

Based on the table above, Price Book Value (PBV) obtained an average value of 1.5663 and a standard deviation of 1.54878 as a measure of data dispersion. The greater the standard deviation value, the greater the variation in PBV values between companies in the study sample. The average CSR value of 0.1887 and standard deviation of 0.7614 indicate the level of variation in CSR disclosure between companies. The relatively small standard deviation value indicates that the level of CSR disclosure between companies tends to be relatively small. The average abnormal return of 0.0409 and standard deviation of 0.05795 reflect the variation between companies during the observation period. The greater the standard deviation value, the greater the difference in the level of abnormal returns obtained by investors in each company.

Classical Assumption Test

Table 2. Normality Test.

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			70
Normal Parameters[a,b]	Mean		.0000000
	Std. Deviation		.02827592
Most Extreme Differences	Absolute		.099
	Positive		.099
	Negative		-.071
Test Statistic			.099
Asymp. Sig. (2-tailed)[c]			.083[d]
Monte Carlo Sig. (2-tailed)[e]	Sig.		.088
	99% Confidence Interval	Lower Bound	.081

	Upper Bound	.096

Based on the results above, it is known that the data (N) becomes 70 due to the outlier process. The *Kolmogorov-Smirnov* value is 0.099. The *Kolmogorov-Smirnov* significance value above shows a value of 0.83, which means it is greater than 0.05, so it can be concluded that the data above is normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test.

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	PBV	.968	1.034
	CSR	.968	1.034
a. Dependent Variable: Abnormal Return			

The table above indicates that each independent variable in the model, namely PBV and CSR, meets the criteria, namely a tolerance value exceeding the limit > 0.10 and a VIF < 10.00. The test results indicate that the independent variables in the model are free from symptoms of multicollinearity.

Autocorrelation Test

Table 4. Autocorrelation Test.

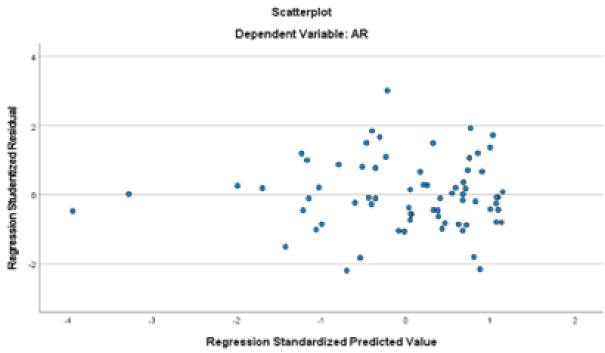
Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.489[a]	.239	.216	.029	2.213

a. Predictors: (Constant), CSR, PBV
b. Dependent Variable: Abnormal Return

In this study, the Durbin-Watson value obtained after analysis was 2.213. To test for the presence of autocorrelation, the DW value generated from the regression model was compared with the lower limit of dL and the upper limit of dU based on the Durbin-Watson table. Where the number of independent variables (K) is 2 and the total research is 70, so that the value of dL = 1.5542 and dU = 1.6714 was obtained, while the value of 4-dL is 2.4458 and 4-dU is 2.3286. As seen in the Durbin Watson table, the model has a value between dU and 4-dU of 2.213. The test results show that the data does not experience autocorrelation.

Heteroscedasticity Test

Table 5. Heteroscedasticity Test Using Scatterplot.



Shows that the results of the heteroscedasticity test are characterized by a distribution of points that are not patterned and spread around the zero value on the Y axis. Because the homoscedasticity assumption has been met, the regression model can be declared free from indications of heteroscedasticity.

Table 6. Heteroscedasticity Test Using the Glejser Test.

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients Beta	T	Sig.
Model		B	Std. Error			
1	(Constan)	.029	.007		4.313	<.001
	PBV	-.002	.001	-.144	-1.175	.244
	CSR	-.024	.029	-.099	-.811	.420

a. Dependent Variable: ABS_RES

The test results listed in Table 4.9 show that the significance level of PBV is 0.244 and CSR is 0.420, with each value > 0.05. These values indicate that neither variable exhibits any signs of heteroscedasticity. These results indicate that there is no heteroscedasticity in the regression model.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Test.

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.026	.011		2.470	.016
	PBV	-.011	.002	-.395	-3.649	<.001
	CSR	.096	.046	.225	2.081	.041

a. Dependent Variable: Abnormal Return

The regression equation is as follows:

$$AR= 0{,}026 – 0{,}011PBV + 0{,}096CSR$$

The results of the equation show that the constant has a positive value of 0.026, indicating that the PBV and CSR variables are considered constant, so the abnormal return has a value of 0.026. The PBV regression coefficient is negative at -0.011, indicating that a one-unit increase in PBV, assuming other variables remain unchanged, will reduce the abnormal return by 0.011. The CSR regression coefficient is 0.096 and is positive, meaning that an increase in the level of CSR disclosure tends to reduce the abnormal return.

Hypotesis Testing

Table 8. F-test.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.017	2	.009	10.532	<.001[b]
	Residual	.055	67	.001		
	Total	.073	69			

a. Dependent Variable: Abnormal Return
b. Predictors: (Constant), CSR, PBV

According to the test data in Table 8, the calculated F value is 10,532 with df_1 = 2 and df_2 = 67 with a significance level of 0.05, the F table value is 3.134. The results of this comparison prove that the calculated F value is above the F table value (10,532 < 3.0134). The analysis results show that the significance value is below the predetermined 0.05 threshold. Therefore, simultaneously, the PBV and CSR variables are proven to have a significant effect on abnormal returns. This finding can be concluded that the analyzed regression model meets the feasibility standards and is effective in explaining variations in the dependent variable.

Table 9. T-test.

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.026	.011		2.470	.016
	PBV	-.011	.002	-.395	-3.649	<.001
	CSR	.096	.046	.225	2.081	.041

a. Dependent Variable: Abnormal Return

The partial test results show that the PBV variable has a t-value of -3.649 and a significance value of <0.001, which is below 0.05. This condition indicates a significant influence of PBV on abnormal returns. Meanwhile, the CSR variable produces a t-value of 2.081 and a significance level of 0.041, which is below 0.05. Therefore, it can be concluded that CSR has a significant effect on abnormal returns.

Tabel 10. Coefficient of Determination (R^2).

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.489[a]	.239	.216	.029

a. Predictors: (Constant), CSR, PBV
b. Dependent Variable: Abnormal Return

The results of the determination coefficient (R^2) test obtained an R Square value of 0.239. This shows that the *Price Book Value* (PBV) and *Corporate Social Responsibility* (CSR) variables are able to explain the variation in Abnormal Return by 23.9%, while the remaining 76.1% is explained by other variables outside the research model. The Adjusted R Square value of 0.216 shows that after adjusting for the number of independent variables in the model, the ability of the PBV and CSR variables to explain abnormal returns is 21.6%, while the remaining 78.4% is influenced by other variables outside the research model.

Discussion

The results of the study indicate that *Price Book Value* (PBV) has a negative and significant effect on abnormal returns. The negative PBV regression coefficient reflects an unequal effect on abnormal returns. This indicates that an increase in a company's PBV is correlated with a downward trend in abnormal returns for investors. This condition indicates that stocks with high PBVs are perceived by the market as relatively expensive, thus limiting investors' opportunity to obtain normal returns. This finding aligns with signaling theory, where a high PBV is a positive signal for investors, but the market responds quickly to this information.

Meanwhile, *Corporate Social Responsibility* (CSR) significantly influences abnormal returns. A positive regression coefficient indicates that the higher a company's CSR disclosure, the higher its abnormal returns. This indicates that a company's CSR activities and disclosures can elicit a positive market response. The results of this study indicate that information regarding corporate social responsibility disclosures is one of the signals investors consider when making investment decisions.

From a stakeholder theory perspective, companies are accountable not only to shareholders but also to all stakeholders, such as the community, government, employees, consumers, and the environment. Through CSR disclosure, companies demonstrate their commitment to meeting the interests of these various stakeholders. When companies are able to maintain positive relationships with stakeholders, their reputation and image will improve, thereby fostering investor confidence in the company's sustainability [13], [14], [15].

CONCLUSION

Fundamental Finding: The results of this study indicate that the research objective has been achieved, namely to test the influence of *Price Book Value* and *Corporate Social Responsibility* on abnormal returns. The findings indicate that *Price Book Value* (PBV) has a negative and significant effect on abnormal returns. Meanwhile, *Corporate Social Responsibility* (CSR) has a significant effect on abnormal returns. Simultaneously, *Price Book Value* (PBV) and *Corporate Social Responsibility* (CSR) have an effect on abnormal returns. **Implication :** The results of this study indicate that investors should not solely rely on *Price Book Value* (PBV) in making investment decisions, as a high PBV tends to reflect a stock's fully valued market, reducing the likelihood of abnormal returns. Furthermore, *Corporate Social Responsibility* (CSR) has been shown to influence abnormal returns, thus investors should consider non-financial information. For companies, more transparent and consistent CSR disclosures, particularly on social aspects, can increase investor confidence and provide a positive signal to the market. Theoretically, these results support signaling theory and stakeholder theory in explaining market responses to financial and non-financial information. **Limitation :** This study is limited to CSR measurements that only cover social aspects, and the research subjects are limited to LQ45 companies, making it difficult to generalize broadly. Furthermore, the PBV and CSR variables do not cover other factors that could potentially influence abnormal returns. **Future Research :** Further research is recommended to add other variables such as profitability, leverage, and expand the research object to obtain more comprehensive results.

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