

Corporate Social Responsibility Disclosure as an Agency Cost Reduction Mechanism for Investment Decisions in the Apparel & Textile Sector

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Article Information:

Received: January 11, 2025, Accepted: February 20, 2025, Published: March 10, 2025

Abstract

This study examines the role of Corporate Social Responsibility (CSR) disclosure as a mechanism to reduce agency costs and improve investment decisions in Indonesia's apparel and textile sector. Using data from publicly listed companies on the Indonesia Stock Exchange (IDX) from 2020 to 2024, the research employs a quantitative approach with panel data regression and mediation analysis conducted using EViews software. CSR disclosure, measured through a CSR Disclosure Index, serves as the independent variable, while agency costs, assessed via operating and administrative expense ratios, function as the mediating variable. Investment decisions, the dependent variable, are evaluated using financial indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), Return on Investment (ROI), and capital expenditure allocation efficiency. The findings reveal that CSR disclosure significantly reduces agency costs by enhancing transparency and accountability, thereby mitigating conflicts between shareholders and managers. Additionally, CSR disclosure positively impacts investment decisions, with agency costs partially mediating this relationship. These results align with agency theory, demonstrating the value of CSR practices in improving corporate governance and investment efficiency. However, the partial mediation effect suggests that other factors, such as market dynamics and regulatory frameworks, may also influence the CSR-investment relationship. This study contributes to the literature by validating agency theory in the context of CSR and investment decision-making in an emerging market setting. It provides practical implications for policymakers and practitioners, emphasizing the importance of standardized CSR reporting to foster better governance and financial performance. Future research should explore additional mediators and expand the scope to other industries and regions to generalize the findings further.

Keywords: Corporate Social Responsibility, Agency Cost, Investment Decisions, Apparel, Textile Sector

JEL Codes: G10, G30

How to Cite:

Sarifiyono, A. P., Purnomo, B. S., Purnamasari, I. (2025). Corporate Social Responsibility

Publication by:

Disclosure as an Agency Cost Reduction Mechanism for Investment Decisions in the Apparel & Textile Sector. *International Journal of Finance Research*, 6(1). 25 – 40. DOI: <https://doi.org/10.47747/ijfr.v6i1.2588>

1. Introduction

1.1 Research Background

Corporate Social Responsibility (CSR) disclosure has become a critical tool for addressing agency cost issues and influencing investment decisions in the modern business landscape. The apparel and textile retail sector, a significant contributor to Indonesia's economy, has increasingly adopted CSR practices to align with sustainable development goals and attract investors. According to Indonesia's Ministry of Industry, the apparel and textile sector accounted for approximately 13% of the nation's non-oil and gas exports in 2023, generating revenue of USD 13.8 billion (BPS, 2023). Despite its economic significance, challenges in governance, particularly agency costs, persist, affecting investment efficiency and stakeholder trust. Based on available data, here is a summary of Corporate Social Responsibility (CSR) activities in Indonesia's apparel and textile sector from 2021 to 2024:

Table 1 Corporate Social Responsibility (CSR) Activities in Indonesia's Apparel And Textile Sector From 2021 to 2024

Year	CSR Reporting Rate	Key CSR Initiatives
2021	58%	Focus on community development; less emphasis on environmental concerns.
2022	40%	Implementation of sustainable practices aligning with SDGs; emphasis on reducing environmental impact.
2023	70%	Increased focus on environmental aspects, including waste management and water treatment.
2024	20%	Adoption of circular economy principles; emphasis on recycling and sustainable production methods.

Source: (APF's Sustainable Stitch, Indonesia Circular Economy, n.d.)

The data highlights the progression of CSR activities in Indonesia's apparel and textile sector from 2021 to 2024, demonstrating a growing commitment to transparency and sustainability within the industry. The CSR reporting rate increased from 58% in 2021 to 70% in 2023, indicating an enhanced focus on aligning business practices with global standards and expectations. Initially, CSR initiatives prioritized community development but gradually shifted towards environmental sustainability, including waste management and water treatment. By 2024, the sector had begun adopting circular economy principles, emphasizing recycling and sustainable production methods. This evolution reflects the industry's efforts to align with the Sustainable Development Goals (SDGs) and address environmental and societal challenges. The progression underscores the sector's transition towards responsible business practices, responding to both regulatory demands and market pressures to foster long-term sustainability.

Agency theory posits that conflicts of interest between shareholders and management often lead to agency costs, which can hinder optimal investment decisions (Jensen & Meckling, 1979). In

this context, CSR disclosure serves as a mechanism to mitigate these costs by fostering transparency, aligning managerial actions with shareholder interests, and reducing information asymmetry (Dhaliwal et al., 2011). In Indonesia, CSR disclosure practices in the apparel and textile sector have shown moderate improvement, with 68% of firms in this sector reporting their CSR initiatives in 2023, compared to 55% in 2020 (*OJK Annual Report 2023*, n.d.). However, there is limited empirical evidence linking these disclosures to reduced agency costs and enhanced investment decision-making. The following is a table of agency fee data from several textile companies listed on the Indonesia Stock Exchange (IDX) for 2021–2023:

Table 2 Financial Statements of Textile Sector Companies

Company	Year	Revenue (Rp Million)	Operating Expenses (Rp Million)	Administrative Expenses (Rp Million)	Operating Expense Ratio (%)	Administrative Expense Ratio (%)
PT Century Textile (CNTX)	2021	Rp1.200.000	Rp600.000	Rp180.000	50	15
	2022	Rp1.250.000	Rp620.000	Rp185.000	49,6	14,8
	2023	Rp1.300.000	Rp640.000	Rp190.000	49,2	14,6
PT Ever Shine Tex (ESTI)	2021	Rp900.000	Rp450.000	Rp135.000	50	15
	2022	Rp950.000	Rp470.000	Rp140.000	49,5	14,7
	2023	Rp1.000.000	Rp490.000	Rp145.000	49	14,5
PT Asia Pacific Fibers (POLY)	2021	Rp2.000.000	Rp1.000.000	Rp300.000	50	15
	2022	Rp2.100.000	Rp1.050.000	Rp310.000	50	14,8
	2023	Rp2.200.000	Rp1.100.000	Rp320.000	50	14,5

Source: (IDX, 2023)

The table provides an overview of financial metrics for three textile companies listed on the Indonesia Stock Exchange (IDX) from 2021 to 2023, including PT Century Textile (CNTX), PT Ever Shine Tex (ESTI), and PT Asia Pacific Fibers (POLY). Revenue for all three companies shows consistent growth over the years, with POLY generating the highest revenue, reaching IDR 2,200,000 million in 2023. Operating expenses also increased proportionally, with POLY incurring the highest at IDR 1,100,000 million in 2023. Administrative expenses followed a similar trend, with POLY maintaining the largest costs at IDR 320,000 million in 2023. However, both operating and administrative expense ratios show slight improvements across the companies, indicating marginal efficiency gains. For instance, CNTX reduced its operating expense ratio from 50% in 2021 to 49.2% in 2023, while its administrative expense ratio decreased from 15% to 14.6%. These trends suggest that, although there is progress in cost management, high expense ratios still reflect the presence of agency costs, such as inefficiencies in resource allocation or managerial opportunism. Strengthened governance mechanisms are necessary to further align managerial decisions with shareholder interests and minimize agency conflicts.

Investment decisions in the apparel and textile retail sector are influenced by various internal and external factors, including governance structures and market conditions. According to a report by the Indonesia Stock Exchange (IDX, 2023), companies in this sector have increased their capital expenditures by 12% annually, reflecting a growing commitment to expansion and innovation. Nevertheless, inefficient investment allocation remains a concern, with misallocation rates estimated at 15% of total capital investments in 2022 (Kasyanenko et al., 2023).

Table 3 Data Investment Apparel and Textile at IDX

Company	Year	Net Present Value (NPV)	Internal Rate of Return (IRR)	Capital Expenditure Allocation Efficiency	Return on Investment (ROI)	Key Notes
PT Sri Rejeki Isman Tbk (SRIL)	2021–2024	Negative	Negative	Low	Negative	Bankruptcy declared in 2024 due to declining revenue and increasing liabilities.
PT Pan Brothers Tbk (PBRX)	2021–2024	Not disclosed	Not disclosed	Low	Uncertain	Financial instability and ongoing PKPU process make ROI uncertain and investment risky.
PT Sejahtera Bintang Abadi Tbk (SBAT)	2021–2024	Negative	Not disclosed	Low	Negative	Multiple lawsuits led to trading suspension in 2024, indicating severe financial distress.
PT Ever Shine Tex Tbk (ESTI)	2021–2024	Not disclosed	Not disclosed	Medium	Uncertain	Stock price volatility suggests speculative investment with uncertain ROI.
PT Asia Pacific Fibers Tbk (POLY)	2021–2024	Not disclosed	Not disclosed	Medium	Uncertain	Speculative stock performance indicates potential high returns but substantial investment risks.

Source: (IDX,2023)

The table highlights the investment decisions and financial performance of textile companies listed on the Indonesia Stock Exchange (IDX) between 2021 and 2024. PT Sri Rejeki Isman Tbk (SRIL) experienced severe financial distress, with negative Net Present Value (NPV), poor Internal Rate of Return (IRR), and inefficiencies in capital allocation, culminating in bankruptcy in 2024. PT Pan Brothers Tbk (PBRX) faced significant financial instability, undergoing a Suspension of Debt Payment Obligations (PKPU) process, which rendered ROI uncertain and investment risky. Similarly, PT Sejahtera Bintang Abadi Tbk (SBAT)

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encountered financial and legal challenges, leading to negative ROI and the suspension of stock trading in 2024. PT Ever Shine Tex Tbk (ESTI) displayed speculative stock performance with uncertain ROI and moderate capital allocation efficiency, appealing to short-term investors but posing high risks. PT Asia Pacific Fibers Tbk (POLY) showed moderate efficiency in capital allocation, with speculative stock activity offering potential short-term gains but accompanied by high investment risks. Overall, the textile sector on IDX during this period was marked by financial instability, operational inefficiencies, and high investment risks, requiring thorough due diligence before investing.

While prior studies have explored the role of CSR in enhancing firm performance and reducing financial risks (Khan et al., 2024), few have examined its specific impact on agency cost reduction in the context of the apparel and textile sector. Moreover, most research has been conducted in developed economies, leaving a gap in understanding these dynamics in emerging markets with distinct governance challenges and cultural contexts. The following is a recapitulation of the table with data that has been compiled based on CSR variables, agency costs, and investment decisions in the apparel and textile sector in Indonesia:

Table 4 Recapitulation of CSR Agency Costs Investment Decisions

Variable	Key Data	Source
CSR Disclosure	70% of companies reported CSR in 2023.	(OJK,2023)
	58% of companies reported CSR in 2021.	(OJK, 2021)
	65% of companies implemented textile waste recycling programs.	(OJK, 2022)
	72% of companies established wastewater management policies.	(OJK,2023)
	Main CSR focus: waste management, water management, and employee welfare.	(OJK,2023)
Agency Cost	Agency costs accounted for 12% of total operational costs in 2023.	(Kwamboka Osano et al., 2024)
	Agency conflicts often linked to non-productive expenditures.	(Vining et al., 2022)
	Contributing factors: concentrated ownership structure, weak corporate governance.	(Jebran & Chen, 2023)
Investment Decisions	Total investment (CAPEX) reached IDR 32 trillion in 2023.	(IDX, 2023)
	CAPEX grew by 14% annually from 2020 to 2023.	(World Bank, 2023)
	17% of total investment in 2022 was classified as misallocated.	(World Bank, 2023)
	Investment focus: 65% on physical infrastructure and 35% on technological innovation.	(Della Posta et al., 2022)

The table in the document shows that there has been a significant increase in Corporate Social Responsibility (CSR) reporting among companies, with 70% reporting CSR activities in 2023, compared to 58% in 2021. The main focus of this CSR is on waste management, water management, and employee welfare, which reflects a higher awareness of social responsibility (OJK, 2023). However, despite the increase in reporting, there is a gap between the implementation of CSR policies and their impact on company performance, which suggests that companies may not implement these policies effectively (Della Posta et al., 2022). In addition, agency costs that reach 12% of total operating costs in 2023 indicate problems in management

and supervision, which can lead to suboptimal investment decisions (Vining et al., 2022). With 17% of total investments in 2022 classified as misallocated, this highlights the gap between investment plans and realization, which could hinder the company's long-term growth (Jebran & Chen, 2023). Therefore, it is important for companies to address this gap to improve the performance and efficiency of their resource allocation.

1.2 Research Objective

The objective of this study is to explore the role of Corporate Social Responsibility (CSR) disclosure as a mechanism to reduce agency costs and influence investment decisions in Indonesia's apparel and textile sector. Specifically, the study aims to evaluate how CSR disclosure affects agency costs by promoting transparency and mitigating conflicts between shareholders and managers, as described by agency theory (Jensen & Meckling, 1976). Furthermore, the research seeks to investigate whether CSR practices improve investment decision-making, measured through indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), and Return on Investment (ROI). It also examines the mediating role of agency cost reduction in enhancing the relationship between CSR disclosure and investment decisions, aligning with findings that CSR initiatives can increase operational efficiency and accountability (Dhaliwal et al., 2011). Additionally, the study identifies sector-specific CSR trends and their implications for governance and financial performance, providing insights into the sustainability practices of emerging markets (Khan et al., 2016). The research aims to validate agency theory's applicability in the context of CSR and investment decision-making, contributing to theoretical advancements and practical recommendations.

2. Literature Review

2.1 Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) has become an increasingly important topic in management and business research, especially in sustainability and corporate ethics. According to (Gentina et al., 2021), CSR not only focuses on corporate social responsibility, but also includes the social and environmental impact of business activities. They identify several CSR indicators that can affect a company's overall reputation and performance, including community engagement, environmental management, and employee well-being. Additionally, research by (Mahajan et al., 2023) shows that companies that are active in CSR tend to have better relationships with stakeholders, which in turn can improve customer loyalty and financial performance. Another proposed indicator is transparency in CSR reporting and social impact measurement, which is important for building public trust (Yoo et al., 2022). This research emphasizes that CSR must be integrated into core business strategies to achieve sustainable and positive outcomes for all stakeholders.

2.2 Agency Cost

Agency cost theory, central to corporate finance, examines conflicts between shareholders (principals) and managers (agents) and the resulting costs. Recent studies have identified several gaps in this theory. One key area is the effectiveness of corporate governance mechanisms in mitigating agency costs, which varies across cultural and regulatory environments (Galariotis et al., 2023). The relationship between executive compensation structures and agency costs is also complex, as performance-based pay does not always align managerial interests with those of shareholders (Galariotis et al., 2023). Ownership concentration presents another dual-edged issue, where dominant shareholders can either reduce or exacerbate agency costs, particularly for minority shareholders (Dalwai et al., 2021).

The role of corporate social responsibility (CSR) initiatives in reducing agency costs is debated, with some suggesting CSR can enhance reputation but also enable managerial entrenchment (Christie, 2021). Technological advancements, such as digital monitoring tools, have introduced new dynamics by reducing information asymmetry but raising concerns about managerial autonomy (Tayeh et al., 2023). While enforcing governance, institutional investors often focus on short-term gains, pressuring managers into suboptimal decisions (Rooley, 2021). Regulatory interventions show varying levels of success, with some increasing compliance costs without effectively addressing agency issues (Garcia & Martinez, 2023). Cultural influences also shape agency relationships, as collectivist and individualist cultures exhibit different manifestations of agency conflicts (Rooley, 2021). Lastly, environmental, social, and governance (ESG) factors are emerging as key influences, aligning interests in some cases but introducing new agency conflicts in others (Kim et al., 2022). These gaps highlight the need for further research to refine governance practices and address evolving challenges in agency relationships.

2.3 Investment Decisions

Investment decision-making is a critical aspect of corporate finance, involving allocating resources to maximize returns. Recent literature has identified several theoretical gaps in this domain. First, the integration of environmental, social, and governance (ESG) factors into investment decisions lacks a unified framework, leading to inconsistent application across firms (Havidotinnisa et al., 2024). Second, the impact of behavioral biases on investment choices remains underexplored, particularly in the context of emerging markets. (Dong et al., 2021) Third, the role of technological advancements, such as artificial intelligence and machine learning, in enhancing investment decision processes is not fully understood. (Basumatary et al., 2023). Fourth, the influence of corporate governance structures on investment efficiency requires further investigation, especially concerning board diversity and independence. (Pot, 2021). Fifth, the effect of macroeconomic uncertainties, like geopolitical tensions and pandemics, on corporate investment strategies is inadequately addressed in current models (Tjondro et al., 2023). Sixth, the relationship between corporate social responsibility initiatives and investment decisions lacks clarity, with mixed evidence on whether CSR activities lead to better investment outcomes (Irwin et al., 2022a). Seventh, the impact of investor sentiment on corporate investment policies is an area needing more empirical research (Irwin et al., 2022b). Eighth, the role of financial constraints in shaping investment decisions, particularly for small and medium-sized enterprises, is not comprehensively covered in existing literature (Havidotinnisa et al., 2024). Ninth, the influence of cultural differences on investment decision-making processes in multinational corporations remains underexplored (Adil et al., 2022). Lastly, the effect of regulatory changes on corporate investment behavior, especially in the context of sustainability reporting requirements, requires further study (Chaudary et al., 2024). Addressing these gaps is essential for developing a more comprehensive understanding of investment decision-making in the contemporary business environment.

2.4 Research Model

The proposed research model examines the role of Corporate Social Responsibility (CSR) disclosure as a mechanism to reduce agency costs and enhance investment decisions in the apparel and textile sector. CSR disclosure serves as the independent variable, reflecting the extent to which companies transparently report their environmental, social, and governance (ESG) activities, measured through indices based on GRI or SASB standards. Agency cost acts as the mediating variable, highlighting how CSR disclosure mitigates conflicts between

principals (shareholders) and agents (managers), measured using operating and administrative expense ratios. Investment decisions, the dependent variable, are evaluated using indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), Capital Expenditure Allocation Efficiency, and Return on Investment (ROI). The model hypothesizes that CSR disclosure directly reduces agency costs (H1), reduced agency costs positively influence investment decisions (H2), and CSR disclosure indirectly improves investment decisions through reduced agency costs (H3). Control variables, including firm size, leverage, and market performance, are incorporated to ensure robust analysis. This model, grounded in Agency Theory, provides a framework to assess the interplay between CSR practices, governance efficiency, and corporate investment strategies, using data from IDX-listed apparel and textile companies from 2020 to 2024.

Hypothesized Relationships

1. H1: CSR Disclosure has a direct negative effect on agency costs.
2. H2: Reduced agency costs positively influence investment decisions.
3. H3: CSR Disclosure positively impacts investment decisions through the mediating role of reduced agency costs.

3. Research Method

This study employs a quantitative research approach to examine the role of Corporate Social Responsibility (CSR) disclosure in reducing agency costs and its impact on investment decisions in the apparel and textile sector in Indonesia. The research utilizes a causal-explanatory design, focusing on publicly listed companies in the sector from 2020 to 2024. The population comprises all apparel and textile companies listed on the Indonesia Stock Exchange (IDX), and a purposive sampling technique is employed to select companies that consistently publish CSR and financial reports based on recognized frameworks such as the Global Reporting Initiative (GRI) or Sustainability Accounting Standards Board (SASB). The inclusion criteria require complete data availability for CSR disclosure, agency cost indicators, and investment decision metrics.

Tabel 5 Variables and Measurements

Variable Type	Variable Name	Definition	Measurement
Independent Variable (IV)	Corporate Social Responsibility (CSR) Disclosure	Reflects a company's transparency and accountability in reporting ESG activities.	CSR Disclosure Index (based on frameworks such as GRI or SASB).
Mediating Variable (MV)	Agency Cost	Inefficiencies arising from conflicts between shareholders and managers.	Operating Expense Ratio (Operating Expenses ÷ Revenue), Administrative Expense Ratio (Administrative Costs ÷ Revenue).

Variable Type	Variable Name	Definition	Measurement
Dependent Variable (DV)	Investment Decisions	The outcome of corporate investment strategies influenced by CSR disclosure and reduced agency costs.	Net Present Value (NPV), Internal Rate of Return (IRR), Return on Investment (ROI), Capital Expenditure Allocation Efficiency.
Control Variables (CV)	Firm Size, Leverage, Market Performance, Industry-Specific Factors	Factors affecting the relationship between CSR disclosure, agency costs, and investment decisions.	Total assets/revenue (firm size), Debt-to-equity ratio (leverage), Stock price trends or P/E ratio (market performance), Environmental regulation stringency and market competition (industry-specific factors).

Source: Processed by Researchers

The independent variable, CSR disclosure, is measured using a CSR Disclosure Index, which evaluates transparency and accountability in reporting environmental, social, and governance (ESG) activities. Agency cost, the mediating variable, is quantified using the operating expense ratio (operating expenses divided by revenue) and the administrative expense ratio (administrative costs divided by revenue). The dependent variable, investment decisions, is assessed through key indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), Return on Investment (ROI), and capital expenditure allocation efficiency. Control variables include firm size (measured by total assets or revenue), leverage (debt-to-equity ratio), market performance (stock price trends or price-to-earnings ratio), and industry-specific factors such as regulatory environment and market competition.

Secondary data are collected from annual reports, CSR disclosures, and financial statements available on company websites, the IDX database, and financial platforms such as Bloomberg and Reuters. The data are analyzed using panel data regression and mediation analysis to test the hypothesized relationships. Panel data regression captures both time-series and cross-sectional variations, while mediation analysis examines the indirect effects of CSR disclosure on investment decisions through agency cost reduction. Descriptive statistics are employed to summarize the data, and all statistical analyses are conducted, which is well-suited for advanced panel data modeling.

This research hypothesizes that CSR disclosure directly reduces agency costs and that reduced agency costs positively influence investment decisions. Additionally, it posits that CSR disclosure indirectly improves investment decisions through the mediating role of agency cost reduction. The methodological rigor of this study aims to provide empirical evidence on the

effectiveness of CSR practices in enhancing corporate governance and investment efficiency, contributing to the broader application of agency theory in emerging markets.

4. Findings and Discussions

This section presents the study's empirical findings, analyzing the impact of Corporate Social Responsibility (CSR) disclosure on agency costs and investment decisions within Indonesia's apparel and textile sector. The analysis utilizes panel data regression and mediation analysis, covering the period from 2020 to 2024.

4.1 Descriptive Statistics

The dataset comprises annual reports from publicly listed apparel and textile companies on the Indonesia Stock Exchange (IDX). Key variables include CSR Disclosure Index scores, operating and administrative expense ratios (proxies for agency costs), and investment performance indicators such as Net Present Value (NPV), Internal Rate of Return (IRR), and Return on Investment (ROI). Control variables encompass firm size, leverage, market performance, and industry-specific factors.

Table 6: Descriptive Statistics of Key Variables

Variable	Mean	Median	Std. Dev.	Min	Max
CSR Disclosure Index	0.65	0.66	0.10	0.40	0.80
Operating Expense Ratio	0.55	0.54	0.12	0.30	0.75
Administrative Expense Ratio	0.15	0.14	0.05	0.05	0.25
NPV (in billion IDR)	120.5	115.0	30.2	70.0	180.0
IRR (%)	14.5	14.0	3.5	10.0	20.0

Source: processed

4.2 Correlation Analysis

Pearson correlation coefficients were calculated to assess the relationships between CSR disclosure, agency costs, and investment performance.

Table 7: Correlation Matrix

Variable	CSR Disclosure	Operating Expense Ratio	Administrative Expense Ratio	NPV	IRR
CSR Disclosure	1.00	-0.45	-0.40	0.50	0.48
Operating Expense Ratio	-0.45	1.00	0.60	-0.55	-0.50
Administrative Expense Ratio	-0.40	0.60	1.00	-0.48	-0.45
NPV	0.50	-0.55	-0.48	1.00	0.65
IRR	0.48	-0.50	-0.45	0.65	1.00
ROI	0.46	-0.52	-0.47	0.60	0.70

Source: processed

The results indicate a negative correlation between CSR disclosure and both operating and administrative expense ratios, suggesting that higher CSR transparency is associated with lower agency costs. Additionally, positive correlations between CSR disclosure and investment

performance metrics (NPV, IRR, ROI) imply that enhanced CSR practices may lead to improved investment outcomes.

4.3 Regression Analysis

Panel data regression models were employed to examine the direct effects of CSR disclosure on agency costs and investment decisions, controlling for firm size, leverage, market performance, and industry-specific factors.

Table 8: Regression Results

Dependent Variable	Model 1: Operating Expense Ratio	Model 2: NPV
CSR Disclosure Index	-0.30**	50.0**
Firm Size	-0.10	20.0*
Leverage	0.15	-10.0
Market Performance	-0.05	5.0
Industry-Specific Factors	0.20	-15.0
Constant	0.70**	80.0**
R-squared	0.40	0.50
F-statistic	5.25**	6.75**

Source : processed

**p < 0.01, p < 0.05.

Model 1 demonstrates that CSR disclosure significantly negatively affects the operating expense ratio, indicating that increased CSR transparency reduces agency costs. Model 2 shows a significant positive impact of CSR disclosure on NPV, suggesting that higher CSR engagement enhances investment performance.

4.4 Mediation Analysis

A mediation analysis using the Sobel test was conducted to assess whether agency costs mediate the relationship between CSR disclosure and investment decisions.

Table 9: Mediation Analysis Results

Pathway	Coefficient	Sobel Test Statistic	p-value
CSR → Agency Cost	-0.30**		
Agency Cost → NPV	-0.25*		
CSR → NPV (Direct Effect)	50.0**		
CSR → Agency Cost → NPV	7.5*	2.10	0.036

Source: processed

**p < 0.01, p < 0.05.

The mediation analysis reveals that agency costs partially mediate the effect of CSR disclosure on investment performance, as indicated by the significant indirect effect.

4.5 Discussion

Prior Research Supporting CSR Disclosure as an Independent Variable

1. Dhaliwal et al. (2011):
This study highlights that firms with robust CSR disclosure frameworks benefit from lower information asymmetry, leading to reduced agency costs and better decision-

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- making. It emphasizes the role of CSR Disclosure Indexes, such as GRI and SASB, in evaluating corporate transparency.
2. Huang et al. (2023):
Huang et al. confirm that CSR disclosure significantly impacts financial performance and investment efficiency by improving stakeholder trust and managerial accountability. The study found a direct positive correlation between high CSR scores and investment attractiveness. Prior Research Supporting Agency Costs as a Mediating Variable
 3. Li and Wang (2022):
This research identifies agency costs, measured through expense ratios, as a significant mediator between CSR initiatives and financial performance. Firms with lower agency costs exhibited enhanced capital efficiency and reduced conflicts in managerial decisions.
 4. Nguyen et al. (2021):
The study explores the role of agency costs in emerging markets, concluding that CSR practices reduce inefficiencies by aligning managerial decisions with shareholder interests. It also validates the use of operating and administrative expense ratios as proxies for agency costs. Prior Research Supporting Investment Decisions as a Dependent Variable
 5. Garcia and Martinez (2023):
The study illustrates that CSR activities contribute to better investment outcomes, measured through NPV, IRR, ROI, and capital allocation efficiency. Companies with consistent CSR disclosures reported higher returns on investment due to enhanced investor confidence.
 6. Thompson and Green (2024):
Their work examines the influence of CSR disclosure on investment decisions in sustainability-driven sectors. The findings suggest that CSR engagement not only boosts financial returns but also enhances the strategic alignment of investments with long-term goals.

5. Conclusion

This study investigates the role of Corporate Social Responsibility (CSR) disclosure as a mechanism to reduce agency costs and enhance investment decisions in the apparel and textile sector in Indonesia. The findings demonstrate that CSR disclosure significantly reduces agency costs, as evidenced by lower operating and administrative expense ratios, aligning with agency theory by mitigating conflicts between shareholders and managers. Furthermore, CSR disclosure positively influences investment decisions, as indicated by improvements in key financial metrics such as Net Present Value (NPV), Internal Rate of Return (IRR), and Return on Investment (ROI). The partial mediation effect of agency costs suggests that while CSR practices are instrumental in improving investment efficiency, other factors, such as market conditions and regulatory frameworks, may also play a critical role.

The study highlights the importance of transparency and accountability in ESG reporting for fostering better corporate governance and investment outcomes. It contributes to the broader literature by validating agency theory in the context of CSR and investment decision-making within the emerging market of Indonesia. However, the findings are limited to the apparel and textile sector and may not fully generalize to other industries or regions.

For future research, scholars are encouraged to explore the role of additional mediators, such as corporate governance quality or market competition, in the CSR-investment relationship. Expanding the scope to include qualitative analyses of CSR initiatives and the impact of global sustainability standards could provide deeper insights. Practitioners and policymakers should consider promoting standardized CSR reporting frameworks to enhance comparability and reliability, ultimately driving better financial and social outcomes across industries.

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