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Determinants of Banking Stock Returns: The Moderating Role of Corporate Social Responsibility and Fraud Risk in Indonesian Banking

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Abstract: This study examines the effect of financial performance, Enterprise Risk Management (ERM), government ownership structure, and Risk-Based Bank Rating (RBBR) on banking stock returns, with Corporate Social Responsibility (CSR) and fraud risk as moderate variables. The study is motivated by the volatility of the Indonesian capital market and inconsistent findings regarding the relevance of accounting information in emerging markets. This research employed panel data from 27 banking companies listed on the Indonesia Stock Exchange during 2015–2021. Data were analyzed using panel data regression and Moderated Regression Analysis (MRA) through the Panel EGLS approach. The results show that financial performance and ERM negatively affect stock returns, whereas government ownership structure and RBBR positively affect stock returns. CSR significantly moderates the relationship between ERM and stock returns ($\beta = 0.251$, $p < 0.05$) and between government ownership and stock returns ($\beta = 0.314$, $p < 0.01$). The findings indicate that investors perceive strict risk management and aggressive earnings strategies as signals of higher risk exposure and lower short-term growth prospects. In contrast, government ownership and RBBR strengthen investor confidence in institutional support, regulatory compliance, and financial stability. Furthermore, CSR and fraud do not directly affect stock returns but function contextually as moderating mechanisms. The novelty of this study lies in integrating RBBR into stock valuation models and revealing the asymmetric moderating role of CSR and fraud in the Indonesian banking sector. This study contributes to Signaling Theory and Agency Theory by demonstrating that investors in emerging markets rely more heavily on formal regulatory signals during periods of high fraud risk.

Keyword: Stock Return, Enterprise Risk Management, Corporate Social Responsibility, Fraud Risk, Risk-Based Bank Rating, Banking Sector.

INTRODUCTION

The banking sector plays a strategic role in supporting economic growth and maintaining financial system stability in emerging economies (World Bank, 2022). In Indonesia, the banking industry has experienced significant volatility, particularly during and after the COVID-19 pandemic. Market uncertainty, declining investor confidence, and increasing systemic risk have caused substantial fluctuations in banking stock returns. The Indonesia Stock Exchange (IDX) recorded several market disruptions during the pandemic period, including trading halts and significant declines in the Composite Stock Price Index (IHSG). These conditions highlighted the importance of identifying the determinants of stock returns in the banking industry.

Stock return remains one of the primary indicators considered by investors in making investment decisions (Brigham & Houston, 2019). Investors generally evaluate firm performance through financial information disclosed in annual reports, including profitability, risk management practices, ownership structure, and corporate governance quality. However, prior studies have reported inconsistent findings regarding the ability of accounting information to explain stock return variations. Several studies revealed that financial performance positively affects stock returns, while others found insignificant or even negative relationships (Nguyen & Tran, 2023).

In addition to financial performance, Enterprise Risk Management (ERM) has become an increasingly important factor in determining market valuation. ERM is considered a strategic mechanism to identify, evaluate, and control corporate risks comprehensively (Ahmed et al., 2022). Nevertheless, empirical findings regarding the impact of ERM on stock returns remain inconclusive. Some studies argue that effective risk management increases investor confidence and market value, whereas others suggest that excessive risk control may reduce growth opportunities and negatively affect investor expectations.

Ownership structure also plays an important role in influencing stock returns. Government ownership is often associated with stronger institutional support, lower default risk, and better regulatory protection (Shleifer & Vishay, 1997). In the banking industry, investors may perceive government-owned banks as more stable during periods of financial uncertainty. Furthermore, the implementation of Risk-Based Bank Rating (RBBR) as a regulatory framework for assessing bank health has introduced a new dimension in evaluating banking performance and risk exposure (Utami & Fitriana, 2023).

Another important issue in the modern capital market is the growing relevance of Corporate Social Responsibility (CSR) and fraud risk. CSR has evolved from a voluntary disclosure mechanism into a strategic reputational asset that can influence investor trust and market perception (Lins et al., 2017). Companies with strong CSR practices are generally considered more sustainable and socially responsible, particularly during periods of economic turbulence. Conversely, fraud risk represents a reputational shock that can significantly damage investor confidence and reduce market valuation (Karpoff et al., 2008).

Despite the growing literature on stock return determinants, several research gaps remain unresolved. First, previous studies rarely integrate RBBR indicators into stock valuation models in the banking sector. Second, limited studies examine the simultaneous moderating role of CSR and fraud risk in the relationship between financial performance, ERM, ownership structure, and stock returns. Third, empirical evidence from emerging markets, particularly Indonesia, remains relatively limited.

Therefore, this study aims to examine the effect of financial performance, Enterprise Risk Management, government ownership structure, and Risk-Based Bank Rating on banking stock returns, with CSR and fraud acting as moderating variables. The study contributes to the literature by integrating reputational mechanisms into stock return analysis and expanding

the application of Signaling Theory and Agency Theory within the context of emerging markets.

METHOD

This study employed a quantitative research approach using panel data analysis (Darmono, 2020). The population consisted of banking companies listed on the Indonesia Stock Exchange during the period 2015–2021. Using purposive sampling techniques, 27 banks were selected as research samples.

The dependent variable in this study was stock return. Independent variables included financial performance, Enterprise Risk Management (ERM), government ownership structure, and Risk-Based Bank Rating (RBBR). Corporate Social Responsibility (CSR) and fraud risk were treated as moderating variables.

Data were obtained from annual reports, financial statements, and sustainability reports published by banking companies. Prior to regression analysis, panel unit root tests were conducted to examine the stationarity of the data and avoid spurious regression problems. The study employed the Levin, Lin & Chu (LLC) and Im, Pesaran, and Shin (IPS) panel unit root tests. The results indicated that all variables were stationary at level form with probability values below 0.05, confirming that the data were suitable for panel regression analysis.

The analysis was conducted using panel data regression and Moderated Regression Analysis (MRA) (Ghozali, 2021). The study employed the Common Effect Model and Panel EGLS (Period SUR) to estimate the relationships among variables. Panel EGLS was selected because it can handle heteroscedasticity and cross-sectional correlation problems commonly found in panel data. The regression model can be formulated as follows:

$$\mathbf{RET} = \alpha + \beta 1\ \mathbf{FP} + \beta 2\ \mathbf{ERM} + \beta 3\ \mathbf{GOV} + \beta 4\ \mathbf{RBBR} + \beta 5\ \mathbf{CSR} + \beta 6\ \mathbf{FRAUD} + \varepsilon$$

Moderation effects were tested using interaction terms between CSR and fraud with each independent variable.

RESULT AND DISCUSSION

Descriptive Statistics

Descriptive statistical analysis was conducted to provide an overview of the characteristics of the research variables during the observation period. The results indicate that the Indonesian banking sector experienced considerable fluctuations in stock returns during 2015-2021, particularly during the COVID-19 pandemic period.

Table 1. Descriptive Statistics

Variable	Mean	Minimum	Maximum	Std. Dev
Stock Return (RET)	0.084	-0.462	0.571	0.193
Financial Performance (FP)	0.127	0.011	0.356	0.074
Enterprise Risk Management (ERM)	0.684	0.421	0.912	0.115
Government Ownership (GOV)	0.432	0.000	0.980	0.351
Risk-Based Bank Rating (RBBR)	2.814	1.000	4.000	0.641
Corporate Social Responsibility (CSR)	0.538	0.201	0.842	0.127
Fraud Risk (FRAUD)	0.291	0.041	0.711	0.143

Source: Processed research data (2026)

The average stock return of 8.4% indicates moderate market performance within the Indonesian banking sector. However, the relatively high standard deviation demonstrates significant volatility in investor responses and market conditions during the observation

period. Negative minimum return values indicate that several banks experienced substantial declines in market value due to financial uncertainty and economic instability.

Financial performance exhibited moderate variation among banks. This finding suggests that profitability levels differed significantly across banking institutions depending on operational efficiency, credit quality, and risk exposure.

Enterprise Risk Management disclosure levels showed relatively high average values, indicating that most banks had implemented integrated risk management systems. Nevertheless, differences in ERM disclosure quality suggest variations in governance capability and institutional maturity.

Government ownership also varied substantially across the sample, reflecting the coexistence of state-owned and private banks in Indonesia. State-owned banks generally possessed stronger capitalization and institutional legitimacy.

The average RBBR score indicates that most sample banks maintained healthy financial conditions during the observation period. CSR disclosure levels increased gradually over time, reflecting the growing importance of sustainability practices within the banking sector.

Fraud risk indicators demonstrated considerable variation among banking firms, implying differences in governance quality, ethical standards, and internal control effectiveness.

Correlation Analysis and Multicollinearity Test

Prior to panel regression estimation, correlation analysis and multicollinearity testing were conducted to ensure the reliability of the regression model.

Table 2. Correlation Matrix

Variable	RET	FP	ERM	GOV	RBBR	CSR	FRAUD
RET	1.000						
FP	-0.287	1.000					
ERM	-0.314	0.422	1.000				
GOV	0.418	-0.105	0.237	1.000			
RBBR	0.446	0.192	0.315	0.472	1.000		
CSR	0.118	0.284	0.391	0.408	0.352	1.000	
FRAUD	-0.226	0.141	0.287	-0.194	-0.233	-0.172	1.000

Source: Processed research data (2026)

The correlation matrix demonstrates that stock returns are positively correlated with government ownership and Risk-Based Bank Rating, while negatively associated with financial performance and Enterprise Risk Management.

The relatively moderate correlation coefficients indicate that the independent variables measure different dimensions of organizational performance, governance, and market perception. Furthermore, the Variance Inflation Factor (VIF) values for all variables were below the threshold value of 10, indicating that the regression model was free from severe multicollinearity problems.

Model Selection, Stationarity, and Classical Assumption Testing

The study employed panel data regression analysis because the dataset combined cross-sectional and time-series observations. Prior to regression estimation, panel unit root tests were conducted to examine the stationarity of the data and avoid spurious regression problems. The Levin, Lin & Chu (LLC) panel unit root test indicated that all variables were stationary at level form with probability values below 0.05. Therefore, all variables were integrated at I(0), and no first-difference or cointegration testing was required. These results confirm that the dataset was suitable for panel regression estimation.

Several model selection tests were subsequently conducted to determine the most appropriate estimation model. The Chow test results indicated that the fixed effect model was more appropriate than the common effect model because significant differences existed among banking companies. Furthermore, the Hausman test confirmed that the fixed effect model was preferable to the random effect model. The heteroscedasticity test indicated the presence of unequal residual variance across observations. Therefore, the Panel EGLS (Period SUR) estimation technique was employed to produce more efficient and unbiased estimators. The regression model also passed normality and autocorrelation tests, indicating that the estimated model satisfied the classical assumption requirements.

Table 3. Levin-Lin-Chu (LLC) Panel Unit Root Test

Variable	LLC Statistic	Probability	Conclusion
RET	-4.287	0.000	Stationary
FP	-3.112	0.001	Stationary
ERM	-2.874	0.003	Stationary
GOV	-4.015	0.000	Stationary
RBBR	-3.446	0.001	Stationary
CSR	-2.691	0.004	Stationary
FRAUD	-3.008	0.002	Stationary

Source: Processed research data (2026).

Main Regression Results

The panel regression results are presented in Table 3.

Table 4. Main Regression Results

Variable	Coefficient	t-Statistic	Probability
Constant	0.271	2.871	0.005
Financial Performance (FP)	-0.327	-2.944	0.004
Enterprise Risk Management (ERM)	-0.281	-2.513	0.013
Government Ownership (GOV)	0.364	3.182	0.002
Risk-Based Bank Rating (RBBR)	0.298	2.761	0.007
Corporate Social Responsibility (CSR)	0.082	1.143	0.255
Fraud Risk (FRAUD)	-0.064	-0.987	0.325
Adjusted R^2	0.641		
F-Statistic	18.327		0.000

Source: Processed research data (2026).

a) The regression model explains approximately 64.1% of the variation in banking stock returns. The significant F-statistics indicate that the independent variables jointly influence stock returns.
b) Financial performance negatively affects stock returns with a coefficient value of -0.327 and a probability value below 0.05. This result indicates that investors may interpret aggressive profitability as a signal of increased future risk exposure and earnings instability.
c) Enterprise Risk Management also demonstrates a significant negative effect on stock returns. The negative coefficient suggests that highly conservative risk management practices may reduce investor expectations regarding future growth opportunities.
d) Government ownership positively affects stock returns. This finding indicates that investors place greater confidence in state-owned banks because such institutions are perceived as possessing stronger institutional support, financial resilience, and regulatory protection.

e) Risk-Based Bank Rating positively affects stock returns. Banks with stronger regulatory ratings and healthier financial conditions tend to receive more favorable market responses from investors.
f) CSR and fraud risk do not directly affect stock returns because their probability values exceed the significance threshold. Nevertheless, both variables become significant within the moderating regression model.

Moderating Effect of Corporate Social Responsibility

The moderating effect of CSR is presented in Table 4.

Table 5. Moderating Effect of CSR

Interaction Variable	Coefficient	t-Statistic	Probability
FP × CSR	-0.074	-0.812	0.418
ERM × CSR	0.251	2.433	0.016
GOV × CSR	0.314	2.772	0.006
RBBR × CSR	0.098	1.174	0.242
Adjusted R^2	0.683		
F-Statistic	21.564		0.000

Source: Processed research data (2026).

a) CSR significantly moderates the relationship between ERM and stock returns. The positive interaction coefficient indicates that CSR weakens the negative effect of ERM on stock returns.
b) This finding suggests that CSR functions as a reputational mechanism capable of reducing investor concern regarding conservative risk management practices. Banks with stronger CSR disclosure are perceived as more sustainable, transparent, and socially responsible.
c) CSR also strengthens the positive influence of government ownership on stock returns. Investors tend to place greater confidence in state-owned banks that actively implement social responsibility programs because such institutions are considered more accountable and stakeholder oriented.
d) However, CSR does not significantly moderate the relationship between financial performance and stock returns, nor between RBBR and stock returns.

Moderating Effect of Fraud Risk

The moderating effect of fraud risk is presented in Table 5.

Table 6. Moderating Effect of Fraud Risk

Interaction Variable	Coefficient	t-Statistic	Probability
FP × FRAUD	-0.102	-1.114	0.267
ERM × FRAUD	-0.291	-2.864	0.005
GOV × FRAUD	0.338	3.041	0.003
RBBR × FRAUD	0.281	2.521	0.013
Adjusted R^2	0.702		
F-Statistic	24.892		0.000

Source: Processed research data (2026).

a) Fraud risk significantly weakens the relationship between ERM and stock returns. This result implies that investors perceive fraud risk as evidence that existing risk management systems may be ineffective in preventing unethical behavior and governance failures.

b) Fraud risk also strengthens the influence of government ownership and RBBR on stock returns. Under conditions of high reputational uncertainty, investors increasingly rely on external institutional protection and formal regulatory assessment.
c) These findings indicate that fraud risk changes the way investors interpret governance and regulatory signals within the banking sector.

Discussion

The findings of this study provide important insights into the determinants of banking stock returns in emerging markets, particularly within the Indonesian banking sector. The results indicate that investor behavior is not solely influenced by traditional financial indicators such as profitability, but also by governance quality, institutional legitimacy, reputational considerations, and regulatory credibility. These findings suggest that stock return formation in the banking industry reflects a multidimensional evaluation process in which investors interpret both financial and non-financial signals simultaneously.

The negative relationship between financial performance and stock returns represents an important anomaly when compared with conventional financial theory. Traditional finance literature generally assumes that higher profitability improves firm value and strengthens investor confidence. However, this study demonstrates that aggressive profitability may instead generate negative market reactions under conditions of economic uncertainty and financial instability.

This finding indicates that investors in the Indonesian banking sector may perceive unusually high profitability as a signal of excessive risk-taking behavior, aggressive lending strategies, or unsustainable operational expansion. In highly uncertain environments, investors appear to prioritize earnings sustainability and organizational resilience rather than short-term financial performance alone. Consequently, profitability is interpreted contextually rather than universally as a positive signal.

This result supports Signaling Theory, which emphasizes that market participants interpret corporate information according to perceived credibility, environmental uncertainty, and information asymmetry. Financial signals do not automatically generate positive investor responses because investors continuously evaluate the reliability and sustainability of disclosed information.

The negative effect of Enterprise Risk Management also provides important implications for the development of governance and risk management literature. Previous studies conducted in developed markets frequently conclude that ERM implementation improves firm value, organizational resilience, and investor confidence. However, the findings of this study reveal a different pattern within the context of emerging markets.

In the Indonesian banking industry, highly conservative risk management practices may reduce investor expectations regarding growth opportunities, lending expansion, and strategic flexibility. Investors may interpret rigid ERM implementation as an indication that management prioritizes excessive risk avoidance rather than innovation and long-term growth. This condition demonstrates that the effectiveness of risk management depends not only on the existence of governance mechanisms but also on organizational adaptability and strategic balance.

The findings therefore indicate that ERM should not be implemented merely as a compliance mechanism. Instead, risk management systems should support sustainable growth, organizational flexibility, and strategic responsiveness to market dynamics. Excessive governance rigidity may unintentionally weaken market confidence if investors perceive that organizational growth potential becomes constrained.

The positive influence of government ownership on stock returns highlights the importance of institutional legitimacy and political credibility within emerging economies.

Government-owned banks are generally perceived as possessing stronger financial resilience due to implicit state guarantees, regulatory protection, and closer supervisory oversight.

This finding supports Agency Theory, which argues that governance structures and monitoring mechanisms reduce agency conflicts and information asymmetry between management and investors. In the context of Indonesian banking, government ownership functions not only as a governance mechanism but also as a reputational signal capable of strengthening market confidence during periods of uncertainty.

The positive effect of Risk-Based Bank Rating further demonstrates the growing importance of formal regulatory assessment within investor decision-making. Investors increasingly rely on external supervisory indicators to evaluate organizational stability, prudential compliance, governance quality, and long-term sustainability.

This finding is particularly important because previous studies rarely integrated RBBR into stock return analysis. Therefore, the study contributes to the literature by demonstrating that regulatory-based governance assessment significantly influences market valuation in the banking sector. Investors in emerging markets appear to place substantial trust in formal institutional supervision when evaluating financial institutions.

The moderating role of Corporate Social Responsibility also provides important theoretical and practical implications. CSR weakens the negative effect of ERM on stock returns, indicating that sustainability disclosure functions as a reputational buffer capable of reducing investor concern regarding conservative governance practices.

Banks with strong CSR disclosure are generally perceived as more transparent, socially responsible, and stakeholder oriented. Consequently, investors may interpret strict risk management more positively when organizations demonstrate strong sustainability commitments and ethical responsibility.

This finding suggests that CSR has evolved beyond symbolic disclosure practices and increasingly functions as a strategic reputational asset. In highly regulated industries such as banking, CSR contributes to organizational legitimacy, stakeholder trust, and reputational resilience during periods of financial uncertainty.

CSR also strengthens the positive relationship between government ownership and stock returns. Investors appear to place greater confidence in state-owned banks that actively engage in social responsibility programs because such institutions are perceived as possessing stronger public accountability and long-term sustainability orientation.

The findings regarding fraud risk provide another important contribution to governance literature. Fraud risk weakens the relationship between ERM and stock returns, indicating that governance failures reduce the credibility of internal risk management systems. Investors may perceive fraud exposure as evidence that existing governance structures are ineffective in preventing unethical behavior, financial manipulation, or managerial opportunism.

Under conditions of increased fraud risk, investors become less dependent on internal managerial claims and increasingly rely on external governance mechanisms. This finding explains why fraud strengthens the positive influence of government ownership and RBBR on stock returns.

When reputational uncertainty increases, investors tend to place greater trust in institutional protection, regulatory supervision, and externally validated governance indicators. Government ownership and regulatory ratings therefore become increasingly important as credibility signals capable of restoring investor confidence.

The findings of this study also reflect broader changes in investor behavior within the post-pandemic financial environment. The COVID-19 crisis significantly transformed the way market participants evaluate corporate performance and organizational sustainability. Prior to the pandemic, investors generally focused on profitability growth and financial

expansion. However, current investment behavior increasingly emphasizes resilience, governance quality, sustainability, and institutional trust.

This transformation demonstrates that modern investors are becoming more risk-sensitive and sustainability-oriented. Financial performance alone is no longer sufficient to generate positive market responses if organizations fail to demonstrate governance credibility and reputational stability.

The study further indicates that reputational capital has become an increasingly strategic asset within the banking industry. Governance transparency, CSR disclosure, fraud prevention, and regulatory compliance are now interpreted as indicators of organizational sustainability and institutional legitimacy.

This condition is particularly relevant within emerging markets where information asymmetry remains relatively high and investor protection systems are still evolving. Under such conditions, investors tend to rely more heavily on externally validated signals such as government supervision, regulatory ratings, and institutional reputation.

From a theoretical perspective, the findings contribute to the development of Signaling Theory by emphasizing that investors interpret financial and non-financial signals dynamically according to contextual uncertainty, reputational risk, and institutional credibility. Signals are not interpreted universally but are evaluated according to market conditions and governance quality.

The study also extends Agency Theory by highlighting the strategic role of external governance mechanisms in restoring investor confidence during periods of uncertainty and reputational instability. Institutional legitimacy and regulatory credibility appear to play increasingly important roles in reducing information asymmetry within emerging markets.

From a practical perspective, the findings suggest that banking companies should balance prudential governance with strategic flexibility and innovation. Excessively rigid governance systems may reduce investor expectations regarding organizational growth potential. Therefore, governance effectiveness should not be measured solely through compliance indicators but also through the organization's ability to maintain sustainable growth and stakeholder trust.

Furthermore, CSR should be integrated into long-term corporate strategy rather than treated merely as symbolic disclosure. Sustainability practices, governance transparency, and ethical organizational culture are increasingly important in strengthening reputational resilience and investor confidence.

For regulators, the findings highlight the importance of strengthening supervisory transparency, fraud prevention mechanisms, and governance monitoring systems within the banking industry. Regulatory assessment mechanisms such as RBBR play an increasingly strategic role in stabilizing investor expectations and maintaining financial system credibility.

Overall, this study demonstrates that banking stock returns in emerging markets are shaped not only by financial performance but also by complex interactions between governance quality, reputational mechanisms, institutional legitimacy, and regulatory trust. These findings confirm that investor behavior in emerging economies is highly contextual and increasingly influenced by sustainability and governance considerations.

CONCLUSION

This study examines the determinants of banking stock returns in Indonesia by analyzing the effects of financial performance, Enterprise Risk Management (ERM), government ownership structure, and Risk-Based Bank Rating (RBBR), with Corporate Social Responsibility (CSR) and fraud risk acting as moderating variables.

The findings reveal that financial performance negatively affects stock returns, indicating that investors in the Indonesian banking sector do not always interpret high

profitability as a positive signal. Under conditions of economic uncertainty, aggressive profitability may instead be perceived as an indication of higher future risk exposure and unsustainable growth practices.

Enterprise Risk Management also demonstrates a negative effect on stock returns. This finding suggests that excessively conservative risk management practices may reduce investor expectations regarding organizational flexibility, business expansion, and long-term growth opportunities.

Conversely, government ownership structure positively influences stock returns, implying that investors place greater confidence in banks supported by strong institutional legitimacy and regulatory protection. Similarly, Risk-Based Bank Rating positively affects stock returns, demonstrating that investors increasingly rely on formal regulatory assessment in evaluating banking stability and organizational sustainability.

The study further finds that CSR and fraud risk do not directly affect stock returns but function as contextual moderating mechanisms. CSR weakens the negative relationship between ERM and stock returns and strengthens the positive relationship between government ownership and stock returns. This finding indicates that CSR acts as a reputational buffer capable of enhancing organizational legitimacy and investor trust.

Meanwhile, fraud risk weakens the effectiveness of ERM while strengthening the influence of government ownership and RBBR on stock returns. These results demonstrate that under conditions of reputational uncertainty, investors increasingly depend on external governance mechanisms and formal institutional supervision.

The novelty of this study lies in the integration of Risk-Based Bank Rating into stock return analysis and the identification of the asymmetric moderating roles of CSR and fraud risk within the Indonesian banking sector. The findings contribute to the development of Signaling Theory and Agency Theory by emphasizing that investors in emerging markets interpret financial and non-financial information contextually according to governance quality, reputational stability, and institutional legitimacy.

Overall, the study concludes that banking stock returns in emerging markets are increasingly shaped by governance credibility, regulatory trust, and reputational considerations rather than financial performance alone.

Based on the findings of this study, several recommendations can be proposed for banking institutions, investors, regulators, and future researchers.

First, banking companies should strengthen governance quality while maintaining strategic flexibility and innovation capability. Excessively rigid risk management practices may reduce investor confidence if such mechanisms are perceived as limiting organizational growth opportunities. Therefore, banks should implement balanced risk management systems that support both prudential governance and sustainable business expansion.

Second, CSR should not be treated merely as symbolic disclosure or compliance activity. Banking institutions should integrate sustainability practices into long-term corporate strategy to strengthen organizational legitimacy, stakeholder trust, and reputational resilience. Strong CSR implementation can improve investor perception, particularly during periods of economic uncertainty and reputational risk.

Third, banking institutions should strengthen fraud prevention systems, internal control mechanisms, and governance transparency. Fraud exposure significantly weakens investor trust and reduces the credibility of internal governance structures. Therefore, ethical organizational culture and effective monitoring systems are essential to maintaining market confidence.

Fourth, regulators should continue strengthening supervisory transparency and governance monitoring within the banking sector. The findings demonstrate that formal regulatory assessment, particularly Risk-Based Bank Rating, plays an increasingly important

role in shaping investor confidence. Consequently, improving disclosure standards, governance supervision, and regulatory transparency may contribute positively to financial system stability.

Fifth, investors should consider governance quality, institutional legitimacy, and reputational sustainability in addition to financial performance when evaluating banking stocks. Investment decisions based solely on profitability indicators may not accurately reflect long-term organizational stability within emerging markets.

Finally, future studies are recommended to expand the research scope by incorporating additional governance and sustainability variables such as ESG performance, digital governance, cybersecurity risk, institutional resilience, and corporate reputation. Comparative studies between emerging and developed markets may also provide deeper insights regarding investor behavior and governance effectiveness in different institutional environments.

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