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The Relationship Between Corporate Social Responsibility, Capital Structure, And Profitability On Firm Value

Nurfani Amelia Putri[1], Mukhzarudfa[2], Aulia Beatrice Brilliant[3]
Universitas Jambi
Corresponding Author Nurfani Amelia Putri. M, E-Mail: 2110631180175@student.unsika.ac.id

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ABSTRACT

This study endeavours to investigate the nexus among Corporate Social Responsibility, Capital Structure, and Profitability in relation to Firm Value. Employing a purposive sampling approach, the research focuses on energy-sector entities listed on the Indonesia Stock Exchange (IDX) over the 2021–2024 timeframe. The dataset was procured from the official IDX portal (www.idx.co.id) and the respective corporations' authorised websites. Analytical procedures were conducted through a correlation examination utilising Stata version 17. The empirical outcomes reveal that both Corporate Social Responsibility and Capital Structure exhibit an exceedingly weak and statistically non-significant association with Firm Value, whereas Profitability demonstrates a moderately robust and statistically significant positive correlation with Firm Value.

Keywords: CSR, Capital Structure, Profitability, Firm Value, Correlation Analysis.

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INTRODUCTION

A corporation must be founded with explicitly articulated purposes. These purposes encompass both immediate objectives, such as the optimisation of profits, and enduring ambitions, including the preservation of business continuity, the advancement of proprietors' and shareholders' prosperity, and the augmentation of corporate worth (Adinda et al., 2024). The present inquiry assesses firm value through the Tobin's Q metric, which serves as an indicator of comprehensive corporate performance by juxtaposing the market valuation of equity and total obligations against the invested capital (Hidayat et al., 2021).

The occurrence of these fluctuations reflects a non-linear dynamic influenced by various contributing factors that require further in-depth examination. One of the key factors in enhancing firm value is Corporate Social Responsibility, as energy companies exert significant impacts on both the environment and society. To achieve sustainable development, companies must consider economic growth, social development, and environmental protection as consequences of their operational activities (Jao et al., 2024). However, the implementation of CSR in Indonesia has not yet become a primary focus for many companies. Some firms still perceive CSR as not directly contributing to corporate earnings. Consequently, CSR reporting is often conducted merely as a formality to comply with regulations, without being accompanied by genuine commitment to creating sustainable positive impacts (Hidayat et al., 2021).

This investigation concentrates on disparities in firm value among energy-sector entities listed on the Indonesia Stock Exchange (IDX) throughout the 2021–2024 period, as depicted by the Tobin's Q ratio in Figure 1.1.

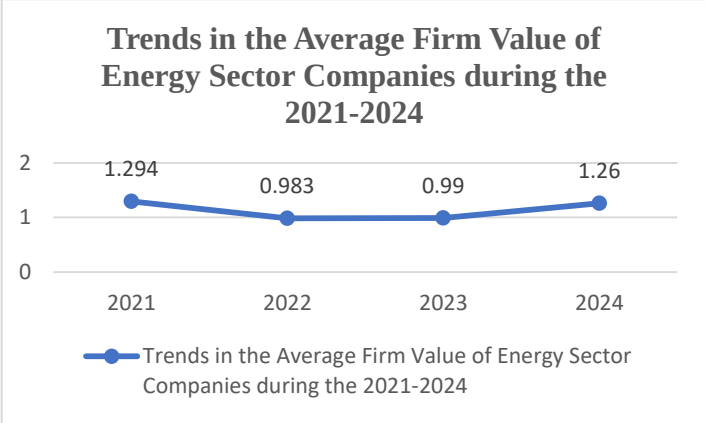


Figure 1. Trends in the Average Firm Value of Energy Sector Entities, Assessed through the Tobin's Q Ratio, Listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 Observation Period

Source: Researcher's processed data, 2025

Capital structure constitutes a pivotal determinant of corporate value, as expanding enterprises frequently rely upon external capital to facilitate business growth. It delineates the proportional composition of shareholders' equity and long-term liabilities, commonly quantified through the Debt to Equity Ratio (DER), which evaluates a firm's prudence and efficacy in orchestrating its financing policy (Agustin et al., 2022). Moreover, firm value is intrinsically interlinked with profitability, as a corporation's capacity to generate earnings entices investors and fortifies market confidence. Elevated profitability functions as an affirmative signal that reinforces investor credibility and underpins more judicious investment decisions (Batubara & Wenny, 2025). Profitability, proxied by Return on Equity (ROE), signifies the extent to which a company adeptly employs shareholders' capital to yield economic value, whereby a superior ROE denotes heightened managerial efficiency (Revaliana & Budiwitjaksono, 2022).

This research is anchored in signaling theory, originally posited by ((Spence, 1973), which elucidates that the signaler (the proprietor of information) conveys indications or cues—such as financial disclosures—that mirror a firm's condition and hold significance for the receiver (investors). The theory emphasizes that companies communicate their financial and non-financial information to the capital market to convey their current performance and future prospects (Brigham & Houston, 2016). Positive signals may include profit growth, credible CSR disclosure, sound capital structure, and strong profitability, reflecting the firm's capacity to generate income. Conversely, declining profits act as negative signals. Hence, accurate and timely information is essential for investors to make well-informed decisions (Purba, 2023).

Previous studies on factors associated with firm value have reported diverse findings. According to (Batubara & Wenny, 2025) sserted that Corporate Social Responsibility (CSR) exerts a significant influence on firm value. Conversely, (Humaira et al., 2025) reported a significant negative effect, and (Fadli & Yusrawati, 2025) demonstrated that CSR exhibits no significant effect on firm value. Regarding capital structure, (Ganisius & Yoseph Agus, 2025) revealed an insignificant association between capital structure and firm value, whereas (Yuwono & Priyadi, 2023) found a positive and significant relationship. Furthermore, in terms of profitability, (Batubara & Wenny, 2025) confirmed that profitability significantly affects firm value, while (Yuwono & Priyadi, 2023) documented a negative and insignificant association. Such inconsistencies underscore the academic necessity for further inquiry into these interrelationships.

This study refers to (Humaira et al., 2025) who investigated the influence of financial leverage and corporate social responsibility disclosure on corporate valuation within the property industry listed on the Indonesia Stock Exchange (IDX). Their empirical results demonstrated that financial leverage exerted a materially positive impact, whereas CSR disclosure was found to have a materially adverse influence on firm valuation. The present study differs in several aspects. First, the research focuses on the energy sector, which has substantial environmental impacts and relatively complex capital structures

due to high financing needs. Second, the observation period is shorter, covering 2021–2024, to better represent current conditions, while (Humaira et al., 2025) employed a longer period (2014–2023), which may be prone to data limitations. Third, profitability is incorporated as an additional independent variable, as it is considered a primary indicator of financial performance. Fourth, this study employs Tobin's Q as the measure of firm value, which is regarded as more comprehensive than PBV because it accounts for total liabilities and equity, rather than solely equity.

The objective of this study is to empirically analyze the relationship between Corporate Social Responsibility, Capital Structure, and Profitability in relation to Firm Value. This study utilizes panel data derived from the annual and sustainability reports of energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021–2024 observation period.

MATERIALS AND METHODS

A quantitative research framework is employed in this investigation, drawing upon archival data obtained from annual and sustainability disclosures available on the official IDX portal (www.idx.co.id) alongside the corporate websites of the examined entities. The inquiry focuses on enterprises within the energy industry that are publicly listed on the IDX throughout the 2021–2024 period. The entire population consists of 90 entities, whereas the ultimate sample comprises 20 firms determined through purposive sampling methodology. The sampling parameters are delineated as follows:

Table 1 Sample Selection Criteria

No	Description	Total Companies
1	Energy sector companies listed on the Indonesia Stock Exchange (IDX).	90
2	Energy sector companies that conducted an Initial Public Offering (IPO) on the Indonesia Stock Exchange prior to 2021.	71
3	Energy sector companies that are not currently under suspension.	66
4	Energy sector companies that have published complete Sustainability Reports for the period 2021–2024.	60
5	Energy sector companies that have fully adopted the Global Reporting Initiative (GRI) Standards in their Sustainability Reports throughout the period 2021–2024.	20
Total Research Sample		**20**
Research Period (2021–2024)		**4**
Total Research Observations		**80**

Source: Researcher's processed data, 2025

This study identifies Firm Value as the dependent variable, whereas the independent variables include Corporate Social Responsibility, Capital Structure, and Profitability.

Tabel 2. Operational Definition of Variables

No.	Variable	Operational Definition	Measurement/ Indicator	Scale
1	Dependent Variables (Y): Firm Value	Firm value represents how investor perceive a company's performance and success, which is reflected through the market valuation of its stock price (Virliandita & Sulistyowati, 2024).	$Q = \frac{MVE + Debt}{TA}$ (Ningrum, 2022)	Ratio
2	Independent Variables (X): Corporate Social Responsibility (X1), Capital Structure (X2) and Profitability (X3)	Corporate Social Responsibility refers to the act of conveying information regarding a company's social and environmental effects resulting from its operations (Hidayat et al., 2021).	$CSRDi = \sum \frac{(Xj)}{(Nj)}$ (Agustina et al., 2023)	Ratio
		Capital Structure refers to the composition of a company's funding derived from long term debt and equity	$DER = \frac{Total\ Debt}{Total\ Equity}$ (Kasmir, 2019)	Ratio

		as sources of financing (Fahmi, 2018).		
		Profitability represents the company's ability to generate profits over a specific periode (Ningrum, 2022).	$DER = \frac{EAT}{Total\ Equity}$ (Kasmir, 2019)	Ratio

Source: Researcher's processed data, 2025

The data in this research were collected through documentation and literature review techniques. The analytical process involved conducting a correlation test using STATA version 17 software. Correlation analysis is a statistical approach applied to assess the strength and direction of the association between two or more variables, with the outcomes represented by a correlation coefficient (Kurniawan, 2019). As stated by (Indartini & Mutmainah, 2024), correlation testing can be categorized into three main types: Pearson correlation, Spearman correlation, and Kendall's Tau correlation.

RESULT AND DISCUSSION

Descriptive statistics in this research are utilized to delineate the essential attributes of each construct incorporated within the analysis, encompassing the dependent variables (Y) of Firm Value and the independent variables (X), namely X1 (Corporate Social Responsibility), X2 (Capital Structure), and X3 (Profitability).

Table 3. The Results of The Descriptive Statistical Analysis

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. summarize TOBINSQ CSR DER ROE
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Variable	Obs	Mean	Std. dev.	Min	Max
TOBINSQ	80	1.131939	.9359188	.5128421	8.081343
CSR	80	.5661517	.2455662	.1123596	.9438202
DER	80	1.341253	1.375706	.0504539	7.202999
ROE	80	.1632911	.1555751	-.3404449	.6149604

Source: STATA 17 Output (processed by the researcher, 2025)

The results of the descriptive statistical analysis reveal that the Firm Value variable (Tobin's Q) has a mean of 1.131939 and a standard deviation of 0.9359188, with minimum and maximum values of 0.5128421 and 8.081343, respectively. The maximum value surpasses the mean by more than three standard deviations, indicating the presence of an outlier. The Corporate Social Responsibility variable (CSRDi) presents a mean of 0.5661517, a standard deviation of 0.2455662, a minimum of 0.1123596, and a maximum of 0.9438202, reflecting a relatively normal distribution without outliers. The Capital Structure variable (DER) reports a mean of 1.341253, a standard deviation of 1.375706, a minimum of 0.0504539, and a maximum of 7.202999, suggesting the existence of potential outliers. In contrast, the Profitability variable (ROE) exhibits a mean of 0.1632911, a standard deviation of 0.1555751, a minimum of -0.3404449, and a maximum of 0.6149604, remaining within a reasonable range and showing no signs of outliers.

The existence of outliers should be taken into account in subsequent analyses by applying the *winsorizing* procedure to reduce the influence of extreme values, ensuring that the descriptive statistical results are more stable and representative.

Table 4. Descriptive Statistics Results for Variables Containing Outliers After Winsorizing

Variable	Obs	Mean	Std. dev.	Min	Max
TOBINSQ_w	80	1.025902	.3544914	.6728954	2.144798
DER_w	80	1.303723	1.231085	.1528406	5.144886

Source: STATA 17 Output (processed by the researcher, 2025)

After applying the winsorizing process, the descriptive statistics reveal that the mean Firm Value (Tobin's Q) decreased to 1.025902 with a standard deviation of 0.3544914, a minimum of 0.6728954, and a maximum of 2.144798, indicating a more stable distribution with reduced outlier influence. Likewise, the mean Capital Structure (DER) declined to 1.303723 with a standard deviation of 1.231085, a minimum of 0.1528406, and a maximum of 5.144886, confirming that outlier effects

were effectively minimized. Subsequently, a normality test was performed using the Skewness-Kurtosis approach.

Table 5. Normality Test Results

Skewness and kurtosis tests for normality

Variable	Obs	Pr(skewness)	Pr(kurtosis)	Joint test Adj chi2(2)	Joint test Prob>chi2
TOBINSQ_w	80	0.0000	0.0007	28.97	0.0000
CSR	80	0.1173	0.0002	13.59	0.0011
DER_w	80	0.0000	0.0004	30.90	0.0000
ROE	80	0.0432	0.0303	7.83	0.0200

Source: STATA 17 Output (processed by the researcher, 2025)

The residual normality assessment conducted through the Skewness–Kurtosis Test (sktest) reveals that all variables in the study deviate from the assumption of normality. Specifically, the Firm Value (Tobin's Q) variable records a Prob > chi2 of 0.0000, which is below the 0.05 threshold, confirming a non-normal distribution. Likewise, the Corporate Social Responsibility (CSR) variable, with a Prob > chi2 value of 0.0011 < 0.05, also exhibits non-normality, albeit to a lesser degree. The Capital Structure (DER) variable similarly presents a Prob > chi2 of 0.0000 < 0.05, further reinforcing this deviation, while the Profitability (ROE) variable yields a Prob > chi2 of 0.0200 < 0.05, indicating a breach of normality. Consequently, given that all variables fail to meet the normality assumption, the Spearman Rank Correlation method is employed for subsequent analysis.

Table 6. Results of the Spearman Rank Correlation Test

Key
rho *Sig. level*

	CSR	DER_w	ROE	TOBINS~w
CSR	1.0000			
DER_w	0.2965 0.0076	1.0000		
ROE	0.2815 0.0114	-0.0687 0.5450	1.0000	
TOBINSQ_w	0.0942 0.4059	0.0517 0.6490	0.4601 0.0000	1.0000

Source: STATA 17 Output (processed by the researcher, 2025)

The Spearman Rank Correlation results show that the Corporate Social Responsibility variable has a correlation coefficient of 0.0942 with a significance value of 0.4059 (>0.05), indicating a very weak and insignificant positive relationship, meaning that higher CSR disclosure does not significantly affect firm value. Similarly, the Capital Structure (DER) variable has a correlation coefficient of 0.0517 with a significance level of 0.6490 (>0.05), reflecting a very weak and statistically insignificant relationship, suggesting that capital structure proportion has little impact on firm value. In contrast, the Profitability (ROE) variable shows a correlation coefficient of 0.4601 and a significance value of 0.0000 (<0.05), indicating a moderate and statistically significant positive relationship, implying that increased profitability tends to enhance firm value.

Discussion

The analysis results show that Corporate Social Responsibility (CSR) has a positive but insignificant relationship with Firm Value, with a correlation coefficient of 0,0942 and a significance

level of 0,4059. The average CSR disclosure is 0,566, categorized as a moderate level, with considerable variation across companies; however, it has not shown a significant impact on increasing firm value. From the perspective of signaling theory, CSR should serve as a positive indicator for investors. Nevertheless, in Indonesia's energy sector, CSR is often perceived merely as a formality and lacks credibility as a basis for investment decisions. This finding aligns with (Fadli & Yusrawati, 2025) who state that CSR has no significant effect because it is primarily carried out to comply with regulations rather than as part of a strategic business approach. Investors continue to focus on profitability indicators; therefore, even though companies engage in various CSR activities, such efforts do not automatically enhance firm value as perceived by investors.

The analysis results indicate that Capital Structure (DER) has a very weak positive but insignificant relationship with Firm Value, with a correlation coefficient of 0,0517 and a significance level of 0,6490. The average DER of 1,30 suggests that companies in the energy sector tend to rely on debt-based financing; however, the wide variation among firms leads to an inconsistent relationship with firm value. From the perspective of signaling theory, DER should reflect a firm's ability to manage external financing, yet in the energy sector, high leverage is often perceived as an additional risk due to commodity price fluctuations and regulatory uncertainty. This finding aligns with the study by (Ganisius & Yoseph Agus, 2025) which states that capital structure has no significant effect on firm value because investors tend to focus more on profitability, cash flow, earnings per share (EPS), and dividends. Therefore, the use of DER has not become a primary signal for investors in the energy sector, and its influence on firm value remains limited.

The analysis results indicate that Profitability (ROE) has a positive and significant relationship with Firm Value, with a correlation coefficient of 0,4601 and a significance level of 0,0000 (<0,05). This implies that the higher the net income generated from shareholders' equity, the higher the market's valuation of the company. The average ROE of 0,163 and its variation among firms reflect differences in efficiency in managing equity, which directly influence investor perceptions. From the perspective of signaling theory, a high ROE serves as a strong signal of a company's efficiency and future prospects, whereas a low or negative ROE indicates potential risk. This finding is consistent with (Batubara & Wenny, 2025) who emphasize that profitability is the dominant factor in investors' assessments—particularly in the high-risk energy sector—where the market tends to respond more strongly to profitability than to CSR or capital structure factors.

CONCLUSION

The current study explores the nexus between Corporate Social Responsibility, Capital Structure, and Profitability in relation to Firm Value among enterprises operating within the energy industry from 2021 to 2024. The empirical outcomes indicate that CSR manifests a positive yet statistically immaterial linkage with Firm Value. This implies that, while CSR initiatives may transmit constructive signals, investors in the energy domain appear to ascribe greater importance to financial indicators rather than socio-environmental aspects. Likewise, Capital Structure portrays a positive but negligible association with Firm Value, suggesting that an augmented reliance on debt financing does not inherently translate into superior firm valuation within this industry. Conversely, Profitability exerts a positive and statistically substantive influence on Firm Value, affirming that profitability remains a pivotal determinant for investors as it epitomizes the firm's proficiency in generating income, preserving operational soundness, and ensuring enduring expansion.

Several limitations are acknowledged, as the analysis focuses solely on three primary variables Corporate Social Responsibility, Capital Structure, and Profitability without incorporating other internal or external factors that may affect firm value. In addition, the sample is restricted to energy sector companies listed on the Indonesia Stock Exchange (IDX), which limits the generalizability of the results to other industries. The analytical method employed is also limited to correlation analysis, which only illustrates relationships between variables without capturing deeper causal effects. Therefore, future research is recommended to include additional relevant internal and external variables and to employ more advanced analytical methods such as panel regression, moderation and mediation analysis,

or robustness checks like the Oster Test or Instrumental Variable (IV) approach to minimize endogeneity bias and obtain more robust results.

From a practical perspective, companies are expected to balance profitability which remains the main concern for investors with sound CSR practices and a healthy capital structure to maintain reputation and ensure business sustainability. Meanwhile, investors are advised not to evaluate performance solely based on profitability but also to consider social responsibility and capital structure stability to support more strategic and sustainable long-term investment decisions.

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