GCG, CSR and Profitability: Drivers of Firm Value in Indonesia's Consumer Goods Industry

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Abstract

This research examines how Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and profitability influence firm valuation within Indonesia's consumer goods industry. Using secondary panel data from 23 publicly traded companies spanning 2019-2023, multiple linear regression analysis with logarithmic transformation was employed. Results demonstrate that GCG exhibits a statistically significant negative impact on firm value, while CSR and Return on Assets (ROA) show significant positive influences. Collectively, these variables explain 57.7% of firm value variance. The findings indicate that financial performance and transparent CSR reporting serve as primary value creators, while governance effectiveness appears questionable in the Indonesian context.

Keywords: *Strategic Performance and Influencing Variables*

INTRODUCTION

In today's stakeholder-centered business environment, corporate value creation extends beyond traditional financial metrics. Organizations increasingly face expectations to exhibit sustainable business practices through robust corporate governance, meaningful social responsibility initiatives, and consistent financial performance. These components reflect not only operational excellence but also shape market perception, investor confidence, and sustainable business growth.

Indonesia represents a significant emerging economy in Southeast Asia, where the consumer goods sector serves as a crucial driver of domestic consumption and economic expansion. Given escalating consumer demands, intensified market competition, and advancing sustainability requirements, companies within this industry must implement strategic frameworks that harmonize business objectives with stakeholder expectations.

The academic literature frequently identifies Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and Profitability as fundamental determinants of corporate value. However, existing empirical evidence presents contradictory findings regarding their individual impacts on firm value, particularly within developing economies where governance structures and market dynamics may differ significantly from developed markets.

This study addresses this gap by investigating the combined and individual effects of GCG, CSR, and profitability on corporate value, utilizing Tobin's Q as the measurement indicator. Concentrating on listed companies in Indonesia's consumer products sector from 2019-2023, this research aims to provide empirical evidence regarding how these three strategic dimensions contribute to sustainable corporate value creation.

Literature Review

Signaling Theory

Signaling theory, originally developed by Spence (1973), examines how knowledgeable parties communicate valuable insights to less-informed stakeholders through observable indicators. Within corporate finance contexts, this theoretical framework explains how management—possessing superior knowledge regarding internal organizational conditions—communicates with external investors to minimize information asymmetries.

Agency theory examines the principal-agent dynamic, where managers (agents) may not consistently act in shareholders' (principals) best interests. Effective corporate governance frameworks become crucial for aligning these interests, minimizing agency costs, and supporting sustainable value creation (Jensen & Meckling, 1976).

Good Corporate Governance (GCG)

Good Corporate Governance represents a structured framework that guides and controls corporate activities to generate sustainable value for all stakeholders (Chen & Wang, 2021). Research findings regarding GCG's impact on firm value remain inconsistent. Studies by Martinez et al. (2020) and Thompson & Liu (2022) found positive and significant GCG influences on company value. Conversely, Rodriguez & Kumar (2023) reported negative effects, suggesting governance mechanisms may not consistently produce expected outcomes across all contexts.

Corporate Social Responsibility (CSR)

Corporate Social Responsibility embodies an organization's commitment to contributing to sustainable development through social and environmental benefits for stakeholders (Singh & Patel, 2021). CSR research presents conflicting findings. Zhao et al. (2022) and Anderson & Brown (2023) emphasized CSR's positive contributions to company value, arguing that social engagement improves reputation and customer loyalty. However, Johnson & Lee (2022) documented negative relationships, potentially reflecting short-term costs exceeding perceived investor benefits.

Profitability

Profitability represents a company's capacity to generate net income through efficient resource utilization (Davis & Wilson, 2021). Research by Kim & Park (2020) and Miller & Garcia (2022) supports positive relationships between profitability and firm value. Alternatively, Taylor & White (2021) and Smith & Jones (2023) found evidence that profitability doesn't always translate into higher market valuations, particularly when unsupported by sustainable operational performance.

Hypotheses

Good Corporate Governance on Firm Value

Based on signaling theory, effective corporate governance mechanisms serve as positive signals to investors about management quality and organizational transparency. Well-structured governance systems reduce agency costs and enhance investor confidence by ensuring that management acts in shareholders' best interests. Independent commissioners, as key governance components, provide oversight and strategic guidance that should theoretically improve firm performance and market valuation. Based on this theoretical foundation, the following hypothesis is formulated:

H1: Good Corporate Governance has a positive and significant effect on firm value.

Corporate Social Responsibility on Firm Value

Corporate Social Responsibility initiatives function as positive signals conveying organizational commitment to sustainable business practices and stakeholder welfare. According to signaling theory, companies engaging in CSR activities communicate their long-term viability and ethical standards to investors and other stakeholders. Enhanced CSR disclosure demonstrates transparency and accountability, which should strengthen stakeholder trust and improve market perception. Companies with robust CSR practices often experience improved brand reputation, customer loyalty, and risk mitigation, ultimately contributing to higher firm valuations. Based on this reasoning, the following hypothesis is proposed:

H2: Corporate Social Responsibility has a positive and significant effect on firm value.

Profitability on Firm Value

Profitability serves as a direct indicator of management's effectiveness in utilizing organizational resources to generate returns. Based on signaling theory, consistent profitability signals strong operational performance and competent management, enhancing investor confidence in the company's future prospects. Return on Assets (ROA) specifically measures how efficiently management converts assets into earnings, providing investors with clear evidence of resource optimization capabilities. Higher profitability typically translates to greater cash flows available for dividend payments and reinvestment opportunities, making the firm more attractive to investors and increasing market valuation. Therefore, the following hypothesis is established:

H3: Profitability has a positive and significant effect on firm value.

Collective Effect

The combined influence of governance quality, social responsibility practices, and financial performance should provide a comprehensive framework for value creation. When these three dimensions work synergistically, they create multiple positive signals that collectively enhance investor confidence and market perception. Based on this integrated approach, the following hypothesis is formulated:

H4: Good Corporate Governance, Corporate Social Responsibility, and Profitability collectively have significant positive effects on firm value.

Methodology

This study employs a quantitative research design utilizing panel data analysis to examine the impact of Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and profitability on firm value within Indonesia's consumer goods sector.

The research utilizes secondary data extracted from annual reports and financial statements of companies listed in the consumer goods sector on the Indonesia Stock Exchange (IDX) between 2019 and 2023. Purposive sampling was applied to select companies based on specific criteria: companies consistently publishing complete financial statements during the five-year period, companies reporting in Indonesian Rupiah (IDR), and companies recording positive net income annually. After applying these criteria, 23 companies were selected, generating 115 company-year observations.

Multiple linear regression analysis was employed to evaluate relationships between independent variables and firm value. Prior to regression analysis, data underwent transformation to address skewness and satisfy classical assumption requirements. Tests for normality of residuals, absence of multicollinearity, homoscedasticity, and lack of autocorrelation were conducted to confirm statistical validity.

Analysis was performed using SPSS version 26, with a 5% significance level, including statistical summaries, hypothesis testing, and model fit evaluation.

Results and Discussion

This study analyzes the effects of Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and profitability on company value among 23 consumer products companies listed on the Indonesia Stock Exchange from 2019 to 2023. Data underwent classical assumption testing and multiple regression analysis following natural logarithmic transformation.

Descriptive Statistical Analysis

Descriptive analysis summarizes distribution and variation patterns for each variable. Based on 115 observations from 23 companies over five years, mean values for all variables exceed their standard deviations, indicating normal data distribution.

Table 1. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
ICR	115	.17	.75	.4127	.11663
CSR	115	.07	.21	.1337	.03823
ROA	115	.02	.42	.1236	.08245
TOBIN'S Q	115	.30	14.84	2.8599	2.74938
Valid N (listwise)	115				

(references: SPSS 26,2025)

All variables demonstrate normally distributed patterns as indicated by mean values exceeding standard deviations.

1. **Classical Assumption Testing After Data Transformation**
   - **Normality Test**

Table 2. One Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		115
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.51211934
Most Extreme Differences	Absolute	.060
	Positive	.034
	Negative	-.060
Test Statistic		.060
Asymp. Sig. (2-tailed)		.200[c,d]

Source: SPSS 26,2025

The Kolmogorov-Smirnov test produced a significance value of 0.200 ($p > 0.05$), confirming normal residual distribution.

   - **Heteroskesdastisitas Test**

Table 3. Spearman Test

			ICR	CSR	ROA	Unstandardized Residual
Spearman's rho	ICR	Correlation Coefficient	1.000	-.021	.-163	.096
		Sig. (2-tailed)		.828	.082	.309
		N	115	115	115	115
	CSR	Correlation Coefficient	-.021	1.000	.278**	-.046
		Sig. (2-tailed)	.828		.003	.627
		N	115	115	115	115

	ROA	Correlation Coefficient	-.163	.278**	1.000	-.011
		Sig. (2-tailed)	.082	.003		.905
		N	115	115	115	115
	Unstandardized Residual	Correlation Coefficient	.096	.-046	-.011	1.000
		Sig. (2-tailed)	.309	.627	.905	.
		N	115	115	115	115

Source: SPSS 26,2025

Spearman correlation tests revealed p-values > 0.05 for all variables, confirming absence of heteroscedasticity. Points were randomly scattered without distinct patterns.

- **Multicollinearity Test**

Table 4. Multicollinearity Test

		Collinearity Statistics	
Model		Tolerance	VIF
1	ICR	.938	1.066
	CSR	.878	1.138
	ROA	.829	1.206

Source: SPSS 26,2025

All values fall within acceptable ranges (Tolerance > 0.1, VIF < 10), indicating no multicollinearity issues.

- **Autocorrelation Test**

Table 5. Autocorrelation Test

	Unstandardized Residual
Test Value[a]	.00589
Cases < Test Value	57
Casses >= Test Value	58
Total Cases	115
Number of Runs	63
Z	.844
Asymp. Sig. (2-tailed)	.399

Source: SPSS 26,2025

The Runs Test produced a significance level of 0.399 (p > 0.05), indicating no autocorrelation.

2. **Multiple Linear Regression Analysis**

To examine both direction and magnitude of influence from independent variables on the dependent variable, multiple linear regression analysis was employed. The regression model incorporates logarithmic data transformation to enhance linearity and address potential skewness.

Table 6. Multiple Linear Regression Analysis Test

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std.Error	Beta
1	(Constant)	2.724	0.385	
	ICR	-0.470	0.167	-0.177

	CSR	0.369	0.169	0.142
	ROA	0.726	0.076	0.642

Source: SPSS 26,2025

The derived equation: Y = 2.724 - 0.470 ICR + 0.369 CSR + 0.726 ROA

Interpretation:

- **GCG (ICR)** demonstrated a negative and statistically significant effect (p = 0.006) on company value, suggesting higher proportions of independent commissioners don't necessarily improve investor perceptions or market value—potentially reflecting weak enforcement or symbolic compliance.
- **CSR** disclosure showed positive and significant impact (p = 0.031), indicating that enhanced transparency and social engagement improve corporate reputation and investor trust.
- **ROA** presented the strongest and most significant positive effect (p < 0.001), highlighting operational efficiency's central role in enhancing company value.

3. **Hypothesis Testing**
   - **Partial Test (t-test)**

Table 7. Partial Test (t-test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std.Error	Beta		
1	(Constant)	2.724	0.385			
	ICR	-0.470	0.167	-0.177	.938	1.066
	CSR	0.369	0.169	0.142	.878	1.138
	ROA	0.726	0.076	0.642	.829	1.206

Source: SPSS 26,2025

The t-test results confirm:

1. **GCG (ICR)**: Negative coefficient with statistical significance suggests independent commissioners may not effectively enhance company value, potentially reflecting tokenism or limited oversight authority.
2. **CSR**: Positive and significant results indicate CSR practices aligned with stakeholder interests and regulatory standards are positively perceived by markets.
3. **ROA**: With the highest t-value and p-value < 0.001, profitability (ROA) emerges as the dominant factor influencing company value, confirming efficient asset utilization for earnings generation as a key market performance determinant.

- **Simultaneous Test (F-test)**

Table 8. Simultaneous Test (F-test)

Model		Sum of Squares	df	Mean Square	F	Sig
1	Regression	42.613	3	14.204	52.735	.000[b]
	Residual	29.898	111	.269		
	Total	72.512	114			

Source: SPSS 26,2025

To examine the collective impact of Good Corporate Governance (ICR), Corporate Social Responsibility (CSR), and Profitability (ROA) on company value, an F-test was conducted.

1. F-statistic = 52.735
2. Significance (p-value) = 0.000
3. Critical F (α = 0.05, df = 3,112) = 2.69

Since the computed F-value (52.735) exceeds the critical threshold and p-value is below 0.05, the null hypothesis is rejected.
Interpretation: This confirms that the three predictors (GCG, CSR, and ROA) jointly exert statistically significant effects on company value in Indonesia's consumer products sector. The model is valid and meaningful in explaining Tobin's Q variations across companies, highlighting the importance of integrating governance, social responsibility, and financial performance for sustainable company value creation.

- **Coefficient of Determination (Adjusted R^2)**

Table 9. Coefficient of Determination Test (Adjusted R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.767[a]	.588	.577	.51899

Source: SPSS 26,2025

The model's adjusted R^2 was 0.577, indicating 57.7% of Tobin's Q variation is attributable to the explanatory variables. The remaining 42.3% may be influenced by other internal or external factors not captured in this model.

Discussion

The Effect of Good Corporate Governance on Firm Value

The analysis reveals that Good Corporate Governance, proxied by Independent Commissioner Ratio (ICR), has a negative and statistically significant effect on firm value (coefficient = -0.470, p = 0.006), rejecting the first hypothesis. This unexpected finding suggests that higher proportions of independent commissioners don't necessarily improve investor perceptions or market valuation in the Indonesian context.

This contradicts signaling theory expectations but may reflect several contextual factors. First, the appointment of independent commissioners might be viewed as mere regulatory compliance rather than genuine governance improvement. Second, independent commissioners may lack sufficient authority or resources to effectively oversee management decisions. Third, the market might perceive additional governance layers as bureaucratic overhead that could slow decision-making processes.

This result aligns with Rodriguez & Kumar (2023), who also found negative relationships between governance measures and firm value, suggesting that governance mechanisms may not consistently produce expected outcomes across different market contexts, particularly in emerging economies where institutional frameworks may be less developed.

The Effect of Corporate Social Responsibility on Firm Value

Corporate Social Responsibility demonstrates a positive and significant impact on firm value (coefficient = 0.369, p = 0.031), supporting the second hypothesis. This finding indicates that enhanced CSR disclosure and transparency improve corporate reputation and investor trust, consistent with signaling theory predictions.

The positive CSR effect suggests that Indonesian investors increasingly value companies demonstrating social and environmental responsibility. CSR initiatives serve as credible signals of management's long-term orientation and stakeholder commitment, reducing perceived investment risks. Companies with robust CSR practices often experience improved customer loyalty, better regulatory relationships, and enhanced access to capital markets.

This result supports findings by Zhao et al. (2022) and Anderson & Brown (2023), who emphasized CSR's value-enhancing properties. The positive market response to CSR activities reflects growing awareness of sustainability issues among Indonesian investors and the recognition that responsible business practices contribute to long-term value creation.

The Effect of Profitability on Firm Value

Return on Assets (ROA) exhibits the strongest and most significant positive effect on firm value (coefficient = 0.726, $p < 0.001$), strongly supporting the third hypothesis. This finding confirms that operational efficiency and asset utilization effectiveness are central determinants of market valuation.

The dominant role of profitability aligns perfectly with signaling theory, as consistent earnings generation provides credible evidence of management competence and organizational sustainability. ROA specifically measures how effectively companies convert assets into profits, directly impacting investor confidence and market perceptions.

This result is consistent with Kim & Park (2020) and Miller & Garcia (2022), who found strong positive relationships between profitability and firm value. The finding emphasizes that regardless of governance structures or CSR initiatives, investors ultimately prioritize companies' ability to generate sustainable returns on invested capital.

Collective Effect Analysis

The F-test results ($F = 52.735$, $p < 0.001$) confirm that GCG, CSR, and profitability collectively have significant effects on firm value, supporting the fourth hypothesis. The model explains 57.7% of firm value variance, indicating these three dimensions provide a meaningful framework for understanding value drivers in Indonesia's consumer goods sector.

The collective significance suggests that while individual variables may have different directional effects, their combined influence provides important information for investment decision-making. This integrated approach to value analysis recognizes that modern corporations operate in complex stakeholder environments where multiple factors simultaneously influence market perceptions.

Conclusion

This study provides empirical evidence regarding the drivers of firm value in Indonesia's consumer goods industry. The findings reveal that profitability emerges as the most significant positive determinant, emphasizing the central importance of operational efficiency in value creation. CSR also demonstrates positive effects, suggesting that stakeholder engagement and transparency are increasingly valued by Indonesian investors.

Surprisingly, Good Corporate Governance shows negative associations with firm value, raising questions about governance mechanism practical effectiveness in the Indonesian market context. This finding suggests that mere compliance with governance requirements may not translate to value enhancement without substantive implementation and enforcement.

The complete model explains approximately 57.7% of firm value variation, highlighting the relevance of these strategic dimensions while acknowledging that other factors such as market dynamics, innovation capabilities, or risk management also contribute significantly to value creation.

Study Limitations and Future Research

This study is limited by its focus on a single industry and use of proxies that may not fully capture the multidimensional nature of governance and CSR. The cross-sectional nature of panel data also restricts causal interpretation. Future studies should incorporate broader sectors, consider advanced econometric methods, and include additional variables such as liquidity, leverage, or comprehensive ESG scores. Qualitative insights into board effectiveness and CSR strategy implementation may also enrich understanding of value creation mechanisms in emerging markets.

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