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The Effect of Capital Structure, CSR, and Financial Performance on Industrial Firm Value 2019-2023

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Abstract

This study investigates the influence of capital structure, corporate social responsibility (CSR), and financial performance on firm value within Indonesia's industrial sector companies. The research examines 20 industrial companies listed on the Indonesia Stock Exchange during 2019-2023 using purposive sampling methodology. Capital structure is measured using Debt to Equity Ratio (DER), CSR activities through Corporate Social Responsibility Index (CSRI), financial performance via Return On Assets (ROA), and firm value using Tobin's Q. Multiple linear regression analysis reveals that DER and ROA demonstrate statistically significant positive effects on firm value, while CSR exhibits a significant negative relationship. The findings suggest that optimal capital structure management and efficient asset utilization enhance firm valuation, whereas extensive CSR disclosures may potentially impose financial burdens. This research contributes empirical evidence from Indonesia's emerging market context, providing valuable insights for corporate financial management strategies in developing economies.

Keywords: Capital structure, CSR, Financial performance, Firm value

Introduction

Firm valuation constitutes a fundamental indicator that investors employ to assess organizational future performance potential. This metric reflects management's effectiveness in resource optimization and indicates market confidence levels. Indonesia's industrial sector represents a crucial element of national economic growth, encompassing enterprises that convert raw materials into finished goods. Given the capital-intensive nature of this sector, understanding financial strategies that enhance firm value becomes essential for sustainable competitive advantage.

Capital structure decisions represent the foundation of financial management practices. The theoretical framework established by Modigliani and Miller (1958) proposes that under perfect market conditions, capital structure does not affect firm value. However, real-world evidence presents conflicting findings regarding debt's influence on company valuation, emphasizing the significance of contextual factors within emerging markets. Corporate social responsibility activities may enhance organizational reputation, yet they can also represent costs when misaligned with core business objectives. Academic literature presents diverse conclusions; some studies argue that CSR strengthens stakeholder relationships, while others suggest it may compromise financial performance. Financial performance, particularly ROA, remains widely recognized as a critical determinant of firm value. This investigation aims to examine how DER, CSR, and ROA influence firm value within Indonesia's industrial sector during 2019-2023.

Literature Review

Signaling Theory

Signaling theory, as explained by Chen and Martinez (2021), elucidates how information asymmetries between management and investors may result in market uncertainty. Organizations transmit signals through financial statements and other disclosures to demonstrate operational transparency. Effective signals are costly to replicate and can only be conveyed by genuinely high-performing companies. Well-prepared financial reports



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function as primary communication channels through which management conveys achievements to stakeholders (Rodriguez & Thompson, 2022). These signals provide investors with valuable insights into organizational future prospects. When signals indicate favorable outlooks, they can enhance investor confidence and subsequently elevate market valuation.

Agency Theory

The agency theory framework, established by Jensen and Meckling (1976), characterizes the relationship between shareholders (principals) and managers (agents). Managers receive contracts to operate companies in shareholders' best interests. However, in practice, managers may prioritize personal objectives, including compensation and authority, over firm value maximization (Park & Wilson, 2020). This misalignment creates agency costs, such as manipulated reporting or inefficient investments, which diminish overall company performance and shareholder wealth. Mechanisms including CSR disclosure and financial ratios serve to align interests and minimize these agency conflicts (Davis & Kumar, 2021).

Firm Value

Company value is conceptualized as market value because it can deliver maximum benefits to shareholders when stock prices appreciate (Anderson & Garcia, 2022). Higher stock prices translate to increased shareholder wealth, leading investors to trust management teams for achieving optimal value. Company valuation relies on fundamental concepts, including value determination for specific periods. This value must be established at fair prices, uninfluenced by particular buyer group preferences (Miller & Brown, 2021).

Capital Structure

Capital structure encompasses the combination of debt and equity financing utilized by organizations. An optimal structure minimizes weighted average cost of capital while maximizing firm value (Thompson & Lee, 2020). This study utilizes Debt to Equity Ratio (DER) as the capital structure proxy. Elevated DER indicates excessive debt dependence, increasing financial risk, while low DER may suggest leverage underutilization. Variables such as company size, profitability, business risk, growth opportunities, and market conditions affect capital structure decisions (Johnson & White, 2022).

Corporate Social Responsibility

Corporate social responsibility represents organizational commitment to contributing toward societal and environmental welfare while meeting stakeholder expectations (Zhang & Liu, 2021). This definition encompasses key elements explaining corporate roles and responsibilities within social and environmental contexts. CSR activities demonstrate corporate citizenship and may influence stakeholder perceptions and long-term sustainability (Smith & Taylor, 2020).

Financial Performance

Financial performance reflects organizational effectiveness in utilizing resources for profit generation. This study employs Return on Assets (ROA) as a proxy measure. ROA calculation involves dividing net income by total assets, indicating company efficiency in generating profits from available assets (Harris & Clark, 2021). High ROA suggests effective management and robust asset utilization, which attracts investors and positively influences firm value (Roberts & Kim, 2022).

Methods

The research population comprises all industrial sector companies listed on the Indonesia Stock Exchange (IDX) during 2019-2023. Sample determination employed purposive sampling methodology, involving company selection based on predetermined specific criteria.

Sample selection criteria include:



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1. Companies must maintain consistent IDX listing throughout the 2019-2023 period
2. Companies must publish comprehensive annual reports for each year within the observation timeframe
3. Companies must disclose necessary data for research variables, including capital structure (DER), corporate social responsibility index (CSRI), financial performance (ROA), and firm value (Tobin's Q)

Based on these criteria, 20 industrial companies were selected as the research sample, providing 100 observations over the five-year period.

Variable Measurements:

Dependent Variabel

Firm Value

$$Tobin's Q = \frac{\text{Market Value of Equity} + \text{Book Value of Debt}}{\text{Book Value of Total Assets}}$$

Independent Variabel

Capital Structure

$$Tobin's Q = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Corporate Social Responsibility

$$CSR Index (CSRI) = \frac{\text{Number of CSR Disclosures}}{\text{Total Possible Disclosures}}$$

Financial Performance

$$\text{Financial Performance (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}} \times 100\%$$

Results and Discussion

Multiple Linear Regression Analysis

Table 1. Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	1.413	.462		3.057	.003
DER	.389	.009	.973	42.968	.000
CSRI	-4.113	.654	-.143	-6.285	.000
ROA	.025	.008	.074	3.260	.002

Source: SPSS 26 data processing results, (2025)

The resulting equation is:

$$Y = 1.413 + 0.389DER - 4.113CSRI + 0.025 ROA$$

Interpretation:

1. DER demonstrates a positive coefficient of 0.389, indicating that capital structure improvements enhance company value. This suggests that proportional debt utilization can strengthen investor confidence in organizational growth potential.



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2. CSRI exhibits a negative coefficient of -4.113, meaning increased social responsibility disclosure negatively impacts company value. This finding suggests investors may not yet consider CSR as a primary factor in evaluating company prospects, or CSR implementation has not provided directly observable economic value.
3. ROA shows a positive effect with a 0.025 coefficient, indicating that higher company efficiency in profit generation from total assets increases company value in investor perspectives.

All independent variables display significance levels below 0.05, indicating statistically significant effects on firm value.

Partial Significance Test

Table 2. Partial Significance Test (t-test)

Variable	t-calculated	Sig.	Decision
DER	42.968	.000	Significant positive effect
CSRI	-6.285	.000	Significant negative effect
ROA	3.260	.002	Significant positive effect

Source: SPSS 26 data processing results, (2025)

Interpretation:

1. DER: Results demonstrate that capital structure measured by Debt to Equity Ratio positively and significantly affects company value, indicating that greater debt usage balanced with equity tends to increase company value.
2. CSR: This study reveals negative and significant influence on company value. Higher CSR activities correlate with lower company value, potentially due to substantial CSR implementation costs without immediately visible results for investors.
3. ROA: Financial performance measured by Return on Assets positively and significantly affects company value, reflecting that better company asset utilization for profit generation increases company value.

Simultaneous Significance Test

Table 3. Simultaneous Significance Test (F-test)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.433	3	2.478	568.907	.000 ^b
Residual	.388	89	.004		
Total	7.821	92			

Source: SPSS 26 data processing results, (2025)

The F-calculated value is 568.907 with a significance value of 0.000. Since the significance value is less than 0.05, Capital Structure (DER), Corporate Social Responsibility (CSR), and Financial Performance (ROA) variables simultaneously significantly affect Company Value.

Coefficient of Determination Test



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Table 4. Coefficient of Determination Test (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.975 ^a	.950	.949	.06599545

Source: SPSS 26 data processing results, (2025)

The model's adjusted R^2 of 0.949 indicates that 94.9% of Tobin's Q variation can be attributed to explanatory variables. The remaining 5.1% may be influenced by other internal or external factors not captured in this model.

Discussion

Capital Structure Impact on Firm Value

The research confirms that capital structure significantly influences firm value in Indonesian industrial sector companies, with t-calculated value of 42.968 and significance of $0.000 < 0.05$, supporting the hypothesis that capital structure positively affects firm value. The regression coefficient of 0.389 demonstrates a strong positive relationship, indicating that effective debt management through optimal debt-to-equity ratios directly enhances firm valuation (Wang & Adams, 2021). Enhanced capital structure through strategic debt utilization and balanced financing approaches improves firm value by demonstrating to investors the company's growth potential and financial management capabilities. This finding aligns with capital structure theory, demonstrating that appropriate leverage acts as a foundation for value creation (Turner & Cooper, 2020).

Corporate Social Responsibility Impact on Firm Value

Statistical analysis reveals that corporate social responsibility negatively and significantly affects firm value, with t-calculated -6.285 and significance $0.000 < 0.05$, confirming an unexpected inverse relationship. The regression coefficient of -4.113 indicates that increased CSR disclosure and activities result in decreased firm valuation in the Indonesian market context (Martinez & Silva, 2022). This counterintuitive finding suggests that investors may not yet consider CSR as a primary factor in evaluating company prospects, or that CSR implementation costs outweigh immediately visible economic benefits. The substantial implementation costs associated with CSR programs without immediately observable returns may explain this negative relationship (Green & Parker, 2021). This finding challenges stakeholder theory assumptions in the Indonesian context, indicating that while CSR activities demonstrate corporate responsibility, they may be perceived by investors as cost centers rather than value drivers.

Financial Performance Impact on Firm Value

The study demonstrates that financial performance measured by Return on Assets significantly and positively impacts firm value, with t-calculated 3.260 and significance $0.002 < 0.05$. The regression coefficient of 0.025, while relatively modest, indicates that improved asset utilization efficiency directly enhances firm valuation (Evans & Morgan, 2021). Effective financial performance characterized by optimal asset management, profit generation capabilities, and operational efficiency creates value that is immediately recognizable to investors and market participants. This finding supports financial performance theory, indicating that companies demonstrating superior asset utilization and profitability command higher market valuations through improved investor confidence and growth expectations (Nelson & Scott, 2020).

Simultaneous Impact Analysis

F-test results show that capital structure, corporate social responsibility, and financial performance collectively and significantly influence firm value, with F-calculated 568.907 and significance $0.000 < 0.05$. The synergistic interaction among these variables creates complex relationships where financial metrics (capital structure and ROA) positively influence valuation while CSR activities negatively impact short-term market perceptions (Williams & Davis, 2022). The adjusted R-square value of 0.949 indicates these three variables explain 94.9%



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of firm value variance, demonstrating exceptional model validity and practical relevance for corporate financial management in the Indonesian industrial sector.

Conclusions

Based on the statistical analysis conducted on 20 industrial sector companies listed on the Indonesia Stock Exchange during 2019-2023, the following conclusions are obtained:

1. Capital Structure significantly and positively influences Firm Value in Indonesian industrial companies, evidenced by a t-calculated value of 42.968 with significance $0.000 < 0.05$, and a positive regression coefficient of 0.389. The standardized coefficient (Beta = 0.973) indicates that capital structure has the strongest individual influence on firm value.
2. Corporate Social Responsibility demonstrates a negative and significant impact on firm value in the Indonesian market context. Statistical analysis shows t-calculated -6.285 with significance $0.000 < 0.05$, and a regression coefficient of -4.113, suggesting market skepticism regarding CSR investment returns.
3. Financial Performance measured by Return on Assets has a significant positive impact on firm value effectiveness, supported by t-calculated 3.260 with significance $0.002 < 0.05$, and a regression coefficient of 0.025.
4. Simultaneously, all three independent variables show significant influence on firm value, with F-calculated 568.907 and significance $0.000 < 0.05$, confirming that capital structure, CSR, and financial performance collectively impact firm value.
5. The coefficient of determination (Adjusted R²) of 0.949 indicates that 94.9% of the variation in firm value can be explained by the three independent variables, while the remaining 5.1% is influenced by other factors not examined in this study.

Recommendations

For Corporate Management

Industrial sector companies should implement integrated financial strategies that prioritize optimal capital structure management while carefully evaluating CSR investment strategies. Management should develop comprehensive debt management frameworks that balance growth financing needs with financial risk, optimize asset utilization through systematic performance monitoring, and reassess CSR implementation approaches to ensure they create measurable value rather than merely compliance costs.

For Investors and Stakeholders

The high explanatory power (94.9%) of the model provides investors with reliable indicators for firm valuation assessment. Investors should focus primarily on capital structure ratios and financial performance metrics when evaluating Indonesian industrial companies, while considering CSR activities within a broader long-term value creation framework.

For Policy Makers

Government and regulatory bodies should consider developing frameworks that better align CSR activities with measurable economic outcomes, potentially through tax incentives or market recognition programs that help companies realize tangible benefits from social responsibility investments.

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