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SUSTAINABILITY-DRIVEN VALUATION: THE ROLE OF CAPITAL STRUCTURE AND PROFITABILITY IN FIRM VALUE WITH CORPORATE SOCIAL RESPONSIBILITY AS A MODERATOR

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ABSTRACT

This research delves into the ways in which sustainability influences business valuation, in particular analyzing how capital structure and performance impact the value of a firm. This study examines the relationship between financial institutions listed on the Indonesia Stock Exchange (IDX) and the impact of corporate social responsibility as a moderator from 2020 to 2023. Out of 47 banking firms in Indonesia, 16 were selected for the sample using a purposeful selection approach. Panel data regression, in conjunction with software (version 10), was used to analyze secondary data in this study. The findings demonstrated that the FEM analytical model was the best fit. The research shows that capital structure, when considered in isolation, has no effect on firm value. In contrast, a company's worth may be positively impacted by profitability on its own. The financial structure and profitability of a firm have a substantial impact on its value. Furthermore, CSR does not mitigate the association between capital structure and company value, according to the research. Corporate social responsibility does, however, reduce the correlation between profit and company value.

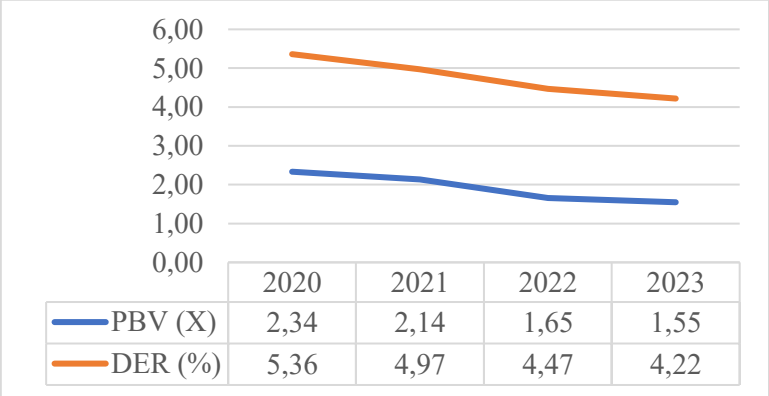
1. INTRODUCTION

Changes and additions to Indonesia's commercial landscape occur daily in this age of globalization. The highest level of competitiveness among Indonesian businesses in the banking, manufacturing, and service sectors is a clear indication of this trend. In 2020, Indonesia's economy had a significant slowdown of -2.07% in terms of growth. Economic growth in Indonesia ranged from 3.69 percent in 2021 to 5.31 percent in 2022, which was a substantial improvement. Governments throughout the globe took measures to curb the development of the COVID-19 pandemic, which led to a precipitous decline in GDP realization in 2020 compared to the previous year. Every country's economy feels the effects of this. The worldwide adoption of lockdowns and social restrictions severely impacted social and economic activity. This economic decline occurred in Indonesia and other countries which caused a decline in economic growth. Another indicator that causes economic growth is domestic factors, starting from strong fiscal and monetary consolidation and purchasing power stability is maintained. In 2023 Indonesia experienced a slowdown in economic growth to 5.05% , down from5.31% in 2022. The decline was caused by domestic activities affected by high inflation in the agricultural and banking sectors which had to raise interest rates to stabilize the Indonesian economy (Kompas.com 2024).

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This decline in economic growth has an impact on the value of companies, one of which is that banking companies play a role in all economic activities and are also the main drivers of Indonesia's Gross Domestic Income (GDP). Quoted in the article Online CNBC Indonesia (Natalia, 2023) said that as of June 2023, banking loans only grew by 7.76%, the lowest figure since the last 15 months. And the factors that affected it were mainly the decline in corporate loans with high interest rates, slowing individual loans, and Third Party Funds (DPK) in June 2023 which grew at a slower pace of 5.97% yoy compared to July of 6.55% yoy.

Having strong corporate principles is essential for any company, but especially for those listed on the IDX. Consistent, engaging content and persistent persuasion are the cornerstones of a trust-building strategy for investors. The Price to Book Value (PBV) ratio is a helpful gauge of a company's worth as it compares the present stock price with the book value per share (as defined by Bringham and Gapensi, 2006). A PBV ratio higher than one suggests that a business is doing successfully when its stock price exceeds its book value. A high P/B ratio suggests substantial wealth for shareholders and might inspire optimism among investors and the market. Possible influences on value changes include a company's capital structure. You can see the relative contributions of long-term and short-term debt, equity, and other financing components in an organization's capital structure. (Faradila & Efendi, 2023). The following can be seen as the average firm value (PBV) and capital structure (DER) in banking companies in 2020-2023.



	2020	2021	2022	2023
PBV (X)	2,34	2,14	1,65	1,55
DER (%)	5,36	4,97	4,47	4,22

Figure 1. Average Debt to Equity Ratio and PBV in Banking Companies Listed on the Indonesia Stock Exchange in 2020-2023
Source : IDX data processed in 2024

Based on the data above, PBV in banking companies decreased from 2020 to 2023 This also reflects investors' confidence in the company's poor growth prospects and stability. As well as the influence of global economic uncertainty, including the impact of the pandemic which affects investors' perception of Indonesian financial institutions' worth.

Between 2020 and 2023, the capital structure (DER) and the company's value both continue to fall. Banking firms in Indonesia have sufficient cash to support their operations, which is why this occurs. A reduced Debt-to-Equity Ratio (DER) is associated with a decrease in a company's valuation because it suggests a shortage of capital for operational activities. This observation aligns with the theory proposed by Kirana et al. (2021), which posits that a reduction in capital structure corresponds with a decrease in firm value.

Profitability is another element influencing a company's worth, as a primary objective for any business is to maximize profits within a specific time frame. One common measure of profitability is return on assets, or ROA. Presented below is the average ROA for banking companies from 2020 to 2023.

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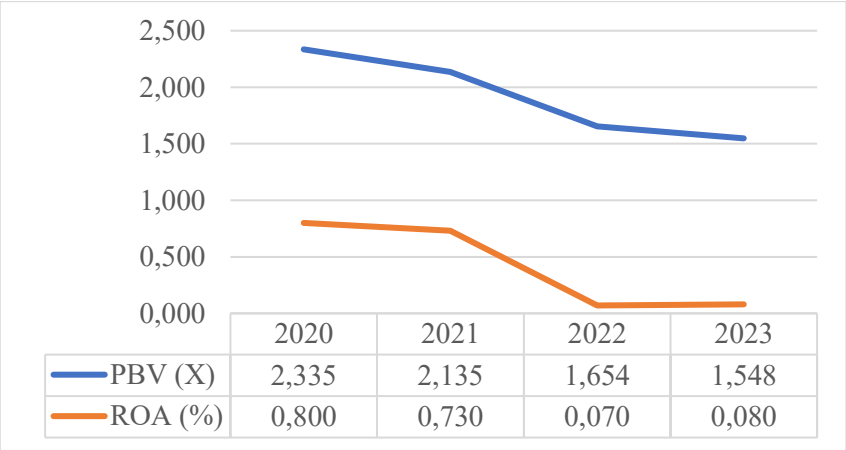


Figure 2. Average Return On Asset and PBV in Banking Companies Listed on the Indonesia Stock Exchange in 2020-2023
Source : IDX data processed in 2024

From this data, it can be seen that Return On Asset (ROA) in 2020-2022 experienced a decline, this occurred due to a decrease in loans disbursed due to the highest inflation for the last 8 years that occurred in Indonesia in 2022, causing banking companies to have to raise interest rates to stabilize the country's economy (Nichaputra, 2022). And in 2023 ROA experienced an increase fluctuation of Every 0.01 or 1% of the resulting ROA ratio shows 1% of total net profit after tax as the rate of return on what the business does with its resources (Kasmir, 2018).

2. LITERATURE REVIEW

The Effect of Capital Structure on Firm value

Large firms often use debt to finance their assets, according to signal theory, which is based on the premise that such organizations can weather the bankruptcy storm with a high amount of debt. Size matters a lot when it comes to a company's operational profit potential its capital structure ratio, which indicates the proportion of long-term loans to total capital. The larger the capital structure ratio, the more long-term loans will be made, which leads to less net profit after taxes received by the company causing bankruptcy (Yanti, 2021). The debt-to-equity ratio (DER) is a measure of capital structure that is used in this study. One way to look at a company's financial health is by looking at its debt to equity ratio (DER). Businesses with high DER values tend to have substantial debt, which impacts their net income and causes interest expenses to rise. The likelihood of insolvency rises, investor enthusiasm wanes, and stock values fall. In the event that stock prices fall, the PBV will also fall. Research backs up this claim Firmansya & Sari (2024) and Wardani S (2022).
H1: Capital Structure has a negative effect on the Firm Value.

The Effect of Profitability on Firm value

Theory of Deep Signaling Describe how businesses communicate information about which company is in a better shape than others. A return on asset (ROA) proxy is used in this study to quantify profitability, which gauges how well a business generates profits using its own capital (Sutrisno, 2017:213). A high ROA value is a sign that the business can turn a profit, that its assets are managed well, and that its capital will yield a higher return. These factors will increase investor interest in the shares of the firm, leading leading to a rise in the stock price and ultimately raise the price to book value (Irnawati, 2021:5) (Maulana et al., 2024). Researchers Martina & Trisnawati (2023) and Sutanto & Hariadi (2023) both corroborate this assertion.
H2: Profitability has a positive effect on the Firm Value.

The Simultaneous Effect of Capital Structure and Profitability on Firm value

Companies with a high Debt to Equity Ratio (DER) in their capital structures are less attractive to investors since they are more likely to go bankrupt as a result of the high cost of borrowing money. In contrast, a high return on assets (ROA) shows that the company is good at managing its assets and can make a profit, which may increase the value of the company and attract the attention of investors. Two things that might affect the market perception of a company are its profitability and its financial structure. Conversely, if a company's financial structure is too reliable on high levels of debt, it will be able to reap less profit from its high levels of profitability.
H3: Capital Structure and Profitability simultaneously affect the Firm Value

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The role of Corporate Social Responsibility moderates the influence of Capital Structure on Firm value

Theoretically, the corporation must be accountable to all parties involved. All internal and external parties with positive relationships to the company, whether directly or indirectly, are considered stakeholders. According to internal parties, corporate social responsibility (CSR) disclosure is a management approach to shareholders about company information that is transparent, accountable, and closely tied to socially and ecologically responsible business practices. Given that environmental investments are now attracting the attention of investors; this knowledge helps companies attract these investors, who in turn may influence the value of the stock market. A solid reputation for keeping creditors informed about the firm's environmental measures and favorable relationships with creditors might help investors get beyond the firm's high debt levels and see it as a worthwhile investment. The idea that CSR reduces the effect of capital structure on company value is supported by the data provided by Jihadi et al. (2021).

H4: Corporate Social Responsibility (CSR) moderates the relationship between Capital Structure and Firm value.

The role of Corporate Social Responsibility moderates the influence of Profitability on Firm value

CSR activities of a company are not only voluntary activities, but CSR requires the company to make the right decisions by taking into account the consequences of activities for all stakeholders (stakeholder) company. Companies that care about the environment, generally the company is considered mature in preparing future plans, thus giving a positive signal to investors and the community. In general, companies that have high profitability encourage companies to be active in reporting on activities against social responsibility. The corporation accomplishes this to persuade investors that it prioritizes long-term development over short-term earnings by enhancing its reputation, which includes through corporate social responsibility (CSR) initiatives. Increased information disclosure about the company's environmental or corporate social responsibility initiatives can also result from high profitability, which can raise the company's worth. (Nurhasanah & Kahfi, 2023) (Maulana et al., 2023).

H5: Corporate Social Responsibility (CSR) moderates the relationship between Profitability and Firm value.

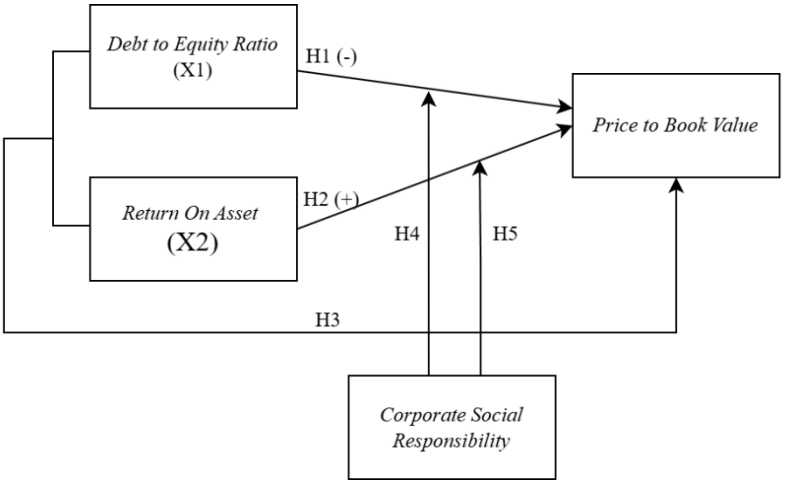


Figure 3. Research Paradigm
Source : Results processed by researchers, 2024

Table 1. Variable Operationalization

VARIABLE	VARIABLE CONCEPT	INDICATOR	SCALE
Capital Structure (x1)	Capital structure is a comparison between the amount of debt and its own capital (Sutrisno, 2017)	$DER = \frac{Total\ Debt}{Total\ Capital}$ x 100%	Ratio
Profitability (X2)	Profitability is a ratio to assess a company's ability to generate profits (Kasmir, 2018)	$ROA = \frac{Net\ Profit}{Total\ Assets}$ x100%	Ratio

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Corporate Sosial Responsibility (Z)	Disclosure *Corporate Social Responsibility* is an index that measures a company's disclosure in terms of social, environmental, and economic impact calculated through the actual number of items (Wulandari & Efendi, 2021)	$CSRID_j = \frac{\sum X_{ij}}{n_j}$	Ratio
Firm value (Y)	Firm value is an investor's perception of the company, often associated with the stock price compared to the book value (Brigham, Eugene F & Houston, 2011)	$PBV = \frac{Price\ per\ share}{Book\ value\ per\ share}$	Ratio

Source: Results processed by researchers, 2024

3. RESEARCH METHODS

Quantitative methods are used in this study. Sugiyono (2018, p.8) defines quantitative research as a positivist-based methodology used to study population or sample levels. It entails using research equipment to gather data and then analyzing that data statistically to see whether the hypotheses are true.

This study's sample includes all 47 banks and other financial firms that will be listed on the Indonesia Stock Exchange from 2020 to 2023. This method is a kind of non-probability sampling called deliberate sampling. A method called "purposive sampling" is used to choose samples according to certain, established criteria (Sugiyono, 2018). The purposive sampling method is used due to its practicality in quantitative research. To learn more about how we choose the businesses to include in our sample, have a look at the table below:

Table 2. Sample Criteria

No.	Description	Amount
1.	Banking companies that are consistently listed on the Indonesia Stock Exchange (IDX) in 2020-2023	47
2.	Banking companies that do not consistently publish Annual Financial Statements in 2020-2023	-2
3.	Banking companies that do not consistently publish their *2020-2023* Sustainability Report	-29
	Total Samples	16
	Multiplied by 4 Years of Observation	64

Source : Results processed by researchers, 2024

Data Processing Engineering

The data processing in this study uses Microsoft Excel 2021 and Eviews 10 software. There are stages in the research data processing process starting at the stage of editing, coding, tabulating or verifying tables (Nazir, 2014).

Data Analysis Techniques

Quantitative, descriptive, and associative methods were used in this investigation. The purpose of descriptive statistics, as stated by Sugiyono (2018; 147), is to look at data by displaying it in its raw form, without drawing any broad inferences or generalizations. This study was able to ascertain the present status of the chosen research variables—business value, capital structure, profitability, and corporate social responsibility—through its descriptive methodology. The researchers in this study used descriptive statistics with an associative strategy for analysis. According to Sugiyono (2018;63), a research topic that investigates the relationship between many factors is known as an associative problem formulation.

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4. RESULTS AND DISCUSSION

Table 3. Descriptive Statistics Results

	PBV	DER	ROA	CSR	DER_CSR	ROA_CSR
Mean	1.321.094	6.213.438	1.444.844	0.353906	2.324.531	0.004375
Median	0.805000	5.780.000	1.390.000	0.365000	1.990.000	0.000000
Maximum	4.860.000	1.608.000	3.450.000	0.770000	9.290.000	0.010000
Minimum	0.380000	2.970.000	0.020000	0.070000	0.290000	0.000000
Std. Dev.	1.178.549	2.812.437	0.801908	0.163810	1.879.739	0.005000
Observations	64	64	64	64	64	64

Source: Data Processing Results *Eviews* 10, Year 2025 (reprocessed)

Table 3 descriptive statistics, which looked at 64 companies' data, came to these conclusions: Based on a range of values from 0.38 to 4.86, the dependent variable, There is a standard deviation of 1.178549 and an average of 1.321094 for the Price-to-Book Value (PBV). The capital structure was represented in the independent variable known as the debt-to-equity ratio (DER). With an average of 6.213438 and a standard deviation of 2.812437, its value ranges from 2.97 to 16.08. Return on Assets (ROA), a non-proprietary metric for profitability, ranges from 0.02 to 3.45, with a mean of 1.444844 and a standard deviation of 0.8019808. The CSR Index (CSRI) ranges from 0.07 to 0.77 and has a standard deviation of 0.163810. It is a moderating variable that evaluates CSR activities. About 0.353906 was the average. For the capital structure, the DER_CSR an interaction term governed by CSR ranges from 0.29 to 9.29, with a standard deviation of 1.879739 and an average of 2.324531. Along the same lines, the ROA_CSR interaction term, which accounts for CSR-modified profitability, ranges from 0.00 to 0.01 and has a standard deviation of 0.005.

After doing model selection experiments, the researchers in this study settled on the Fixed Effect Model (FEM). Consequently, examination of classical assumptions was not carried out. Theoretically, the FEM is thought to meet the demands of classical assumptions by taking care of individual-level heteroscedasticity and auto-correlation in panel data (Gujarati & Porter, 2009). As a result, there is no longer any need to do extra classical assumption tests, and the possibility of bias is significantly reduced. Consequently, using the FEM in this work is considered sufficient to guarantee that the data used fulfills the basic requirements for regression analysis.

Table 4. Results of Multiple Linear Regression Estimation of Model Equation 1 *Dependent Variable: PBV*

Variable	***Coefficient***	***Std. Error***	***t-Statistic***	***P-value***	**Results**
DER	-0.005588	0.063224	-0.088380	0.9300	H_0 *rejected*
ROA	0.154420	0.089523	1.724908	0.0913	H_0 *accepted*
C	1.132701	0.445880	2.540371	0.0145	
R-squared				0.968691	
Adjusted R-squared				0.957121	
F-statistic				83.71983	
Prob(F-statistic)				0.000000	

Source: Results of *Eviews* 10 Data Processing, Year 2025 (reprocessed)

Table 4 displays the results of the t-statistical test, which is a significant test, for each parameter of Model 1. These findings may be understood in the following ways: A coefficient of -0.005588 is associated with the capital structure indicator, the debt to equity ratio (X1). Its p-value of 0.9300 is higher than 0.05 when reduced to 0.4650 since it is a directed, one-tailed hypothesis. This indicates that we accept H0 as the null hypothesis and reject Ha as the alternative. Thus, it may be argued that the company's worth is unrelated to its capital structure.

A profitability metric known as the ROIC coefficient a value of 0.154420 is also included in the data. Since the p-value (0.0913) is lower than the significance threshold (0.05), which is then lowered to 0.0456, the one-tailed hypothesis is rejected. We may conclude that the valuation of the firm and its profitability are positively correlated because the coefficient is positive. It is reasonable to assume that, when taken separately, profitability increases the firm's worth (p-value < 0.05).

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A probability value of 0.000000 and an F-statistic of 83.71983 were produced by the hypothesis test's F-test, both of which fall below the 0.05 alpha level. This illustrates how the independent factors, namely profitability (ROA) and capital structure (DER), work together to affect the firm value, as indicated by PBV.

Table 5. Results of Multiple Linear Regression Estimation of Model Equation 2
Dependent Variable: PBV

Variable	*Coefficient*	*Std. Error*	*t-Statistic*	*P-value*	**Results**
X1	-0.032237	0.062347	-0.517062	0.6078	H_0 *rejected*
X2	0.305899	0.110267	2.774154	0.0082	H_0 *accepted*
Z	0.750129	0.898086	0.835252	0.4082	H_0 *rejected*
X1Z	-0.112567	0.115580	-0.973933	0.3355	H_0 *rejected*
X2Z	28.09199	11.51432	2.439743	0.0189	H_0 *accepted*
C	1.198515	0.458861	2.611935	0.0124	

R-squared	0.973564
Adjusted R-squared	0.961268
F-statistic	79.17842
Prob(F-statistic)	0.000000

Source: Results of *Eviews* 10 Data Processing, Year 2025 (reprocessed)

A p-value of 0.3355 is shown in Table 5 for the combined capital structure and CSR interaction variable. This finding surpasses the 0.05 significant level, suggesting that CSR has no impact on the correlation between capital structure and company value. In addition, the profitability and CSR interaction variable has a p-value of 0.0189, which is less than the 0.05 threshold of significance. In light of these findings, it is reasonable to assume that CSR moderates the relationship between firm value and profitability.

3.1 The Effect of Capital Structure on Firm Value in Banking Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2023

According to the previously mentioned hypothesis test findings, capital structure, as quantified by the debt-to-equity ratio (DER), has no impact on company value, as shown by the price to book value (PBV). The p-value of 0.9300, which is more than the significance threshold of 0.05 when reduced to 0.4650 for a one-tailed directed hypothesis, and the coefficient of -0.005588 lends credibility to this conclusion. Therefore, the capital structure variable has no effect on company value, and the hypothesis is rejected.

Using the previously established hypothesis test, Wardani and Lestari's 2022 study concluded that the debt-to-equity ratio (DER), a metric of capital structure, does not affect the price-to-book value (PBV), a measure of the firm's worth. A coefficient of -0.005588 and a p-value of 0.9300 provide credence to this finding. This p-value is larger than the 0.05 significance criterion for a one-tailed directed hypothesis when decreasing to half, to 0.4650. The capital structure variable has no effect on firm value, thereby disproving the assumption.

3.2 The Effect of Profitability on Firm Value in Banking Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2023

Profitability (ROA) has a positive effect on corporate value (PBV), according to the results of the hypothesis tests cited earlier. The null hypothesis has a significance level of 0.0456 < 0.05, supported by a p-value of 0.0913 divided by two and a coefficient value of 0.154420. Since a company's worth is directly related to its profitability, the premise is true.

Profitability has a positive effect on firm value, as shown in the research and supported by Listiani and Ni'am (2023). One indicator of a business's resource management and revenue generation process is its profitability. Therefore, the stock of the firm will be more attractive to investors, leading to an increase in its value.

3.3 The Simultaneous Effect of Capital Structure and Profitability on Firm Value in Banking Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2023

All of the independent factors have an effect on a company's worth, as shown by its price to book value (PBV), according to the hypothesis test findings. This conclusion is supported by the F-statistic probability

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value, which is fewer than one million at the 0.05 level of significance. Because of this, we might conclude that the alternative hypothesis is more plausible and reject the null hypothesis. Firm value of IDX-listed banking companies from 2020 to 2023 is affected by capital structure and profitability.

The dependent variable is 95.71% explained by the independent variables, as shown by the corrected R-squared value of 0.957121. This means that between 2020 and 2023, the independent variables capital structure and profitability in particular explain 95.71 percent of the variation in firm value for IDX-listed banking organizations. For the other 4.29 percent of the impact, other variables were considered but not included in the current investigation. Therefore, PBV, ROA, and the debt-to-equity ratio (DER) all indicate aspects of a company's financial health that are highly correlated with one another.

3.4 The Effect of Capital Structure on Firm Value with *Corporate Social Responsibility* as a Moderating Variable in Banking Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2023

Using the Corporate Social Responsibility Disclosure Index (CSRDI) as a proxy for CSR, the hypothesis test found that CSR had no moderating effect on the correlation between DER and PBV. The fact that the capital structure (DER) and CSR interaction variable has a probability value of 0.3355 (more than 0.05) lends credence to this idea. It would seem that the association between capital structure and firm value is unaffected by corporate social responsibility (CSR). The results of this research show that corporations may take part in CSR initiatives regardless of their financial health. As a result, shareholders continue to buy the company's stock despite its CSR disclosures. To rephrase, changes in CSR disclosure levels have no bearing on how capital structure impacts a company's value. Nevertheless, a decline in profits is possible if a company's activities are hampered by an unhealthy financial structure. Management may decide to keep its CSR activities under wraps if profits continue to decline. If investors start to lose faith in the firm, its value can fall. Turrohma and Sudiyatno (2023) also discovered that CSR had no moderating influence on the association between capital structure and firm value, which is in line with these findings.

3.5 The Effect of Profitability on Corporate Value with *Corporate Social Responsibility* as a Moderating Variable in Banking Companies Listed on the Indonesia Stock Exchange (IDX) in 2020-2023

The results of the hypothesis test indicate that CSR, as measured by the Corporate Social Responsibility Disclosure Index (CSR), has the potential to enhance both business value (PBV) and profitability (ROA). The fact that the interaction variable has a probability value below 0.05 (0.0189) proves this. Overall, CSR improves the link between overall company value and profitability, suggesting that it functions as a moderator.

This finding suggests that regardless of the extent to which a firm engages in CSR activities, it ultimately increases its value. This suggests that as a firm’s profitability increases, so does its social disclosure. Importantly, a firm’s value is not determined solely by its profit levels; Consumers often prefer companies that demonstrate responsibility and concern for the environment. Highly profitable companies tend to emphasize CSR disclosure to highlight their commitment to long-term impact through improved reputation, which can increase their value. These findings are in line with other studies by Wulandari and Efendi (2021) and Nurhasanah and Kahfi (2023), which also came to the conclusion that CSR moderates the relationship between business value and profitability.

Conclusion

A company's price-to-book value (PBV) may be impacted by its capital structure (DER, or debt-to-equity ratio) and profitability (ROA, or return on assets), which are the focus of this study. Additionally, it analyzed the impact of CSR on IDX-listed banking companies from 2020–2023, using the CSR Disclosure Index. financial institutions that are listed on the IDX. To put it another way, when a business is profitable, its value goes up. The third hypothesis is that the value of IDX-listed banking companies will be determined by the combined impact of profitability and capital structure from 2020 to 2023. Hypothesis 4 states that, during the specified time period, CSR does not influence the connection between capital structure and firm value for IDX-listed banking enterprises. Fifth Hypothesis: IDX-listed financial institutions may reap the benefits of CSR from 2020 to 2023 by reducing the correlation between firm value and profits.

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