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Capital Structure, CSR Disclosure, and Firm Value: The Moderating Role of Profitability

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ABSTRACT

Firm value reflects investors' assessment of a company's financial prospects, risk, and long-term value creation. This study examines the effects of capital structure and corporate social responsibility (CSR) disclosure on firm value and investigates whether profitability moderates these relationships. Using a quantitative explanatory design, the study analyzes secondary data from 21 firms listed on the Indonesia Stock Exchange during 2022–2024, resulting in 63 observations. Firm value is measured by Price-to-Book Value (PBV), capital structure by Debt-to-Equity Ratio (DER), CSR disclosure by an index based on the Global Reporting Initiative (GRI) Standards 2021, and profitability by Return on Assets (ROA). Fixed-effects panel regression with interaction terms is employed to test the direct and moderating relationships. The results show that capital structure has a positive and statistically significant relationship with firm value, indicating that higher leverage is associated with higher market valuation within the observed sample. In contrast, CSR disclosure has no statistically significant relationship with firm value, suggesting that disclosure breadth alone does not sufficiently explain variation in market valuation. Profitability also does not significantly moderate either the capital structure–firm value relationship or the CSR disclosure–firm value relationship. Overall, the findings indicate an asymmetric valuation pattern in which capital structure is more strongly associated with firm value than CSR disclosure, while profitability does not function as a significant contingency variable for either relationship. The study contributes to the literature by providing recent evidence from the Indonesian capital market on the differentiated valuation relevance of financial leverage and CSR disclosure.
Keywords: Capital structure; CSR disclosure; Firm value; Profitability

INTRODUCTION

Firm value represents the market's assessment of a company's current performance, future prospects, and capacity to generate economic benefits. For publicly listed firms, this valuation is particularly important because it reflects how investors interpret both financial information and managerial decisions. Consequently, identifying the factors that explain variation in firm value remains an important issue in corporate finance and accounting research, particularly in emerging markets where information asymmetry and institutional characteristics may influence investor decision-making.

Capital structure is one of the fundamental financial decisions that may influence firm value. It reflects the relative use of debt and equity to finance corporate activities. From the agency perspective, debt can constrain managerial discretion and reduce agency costs by limiting the availability of free cash flow. However, excessive debt can also increase financial distress and agency costs between shareholders and creditors. The underlying study adopts this agency perspective in explaining how financing decisions may influence corporate value. Therefore, the relationship between leverage and firm value is theoretically ambiguous and requires empirical investigation.

The signaling perspective provides an additional explanation. Firms possess more information about their future prospects than external investors, creating information asymmetry between management and capital-market participants. Corporate financial decisions and disclosures may

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therefore function as signals regarding managerial confidence and expected future performance. The study's theoretical framework similarly identifies signaling theory as a mechanism through which corporate information may influence investors' perceptions of firm value.

Beyond financial decisions, corporate social responsibility (CSR) disclosure has increasingly become an important component of corporate transparency. CSR disclosure may communicate a firm's commitment to stakeholders and provide information regarding its economic, environmental, and social activities. From a stakeholder perspective, companies are expected to create value not only for shareholders but also for other stakeholders whose support can affect organizational legitimacy and long-term performance. The underlying research explicitly links CSR with stakeholder support and firm value.

Nevertheless, whether CSR disclosure is incorporated into firm valuation remains debatable. Investors may consider CSR information valuable when it provides credible evidence of superior risk management, reputation, and long-term sustainability. Conversely, disclosure breadth may have limited valuation consequences when the information is perceived as voluntary, difficult to verify, or weakly connected to financial outcomes. Previous Indonesian studies illustrate this inconsistency. Rohmawan et al. (2021) reported no significant effect of CSR on firm value, whereas Kristanti (2022) found a significant effect. More recent evidence also remains mixed: Sedani and Sari (2024) found that CSR disclosure positively affected firm value, while profitability did not moderate the relationship.

Profitability may provide an important contingency in these relationships. Firms with stronger profitability possess greater internal financial resources and may have greater capacity to manage debt and undertake CSR activities. Accordingly, profitability may strengthen the valuation consequences of capital structure or CSR disclosure. However, empirical evidence is inconsistent. Permadani et al. (2021), for example, found that profitability moderated the relationship between capital structure and firm value, whereas other studies reported that profitability failed to perform such a moderating role. Cahyani et al. (2024) and Rasyid (2022) similarly reported that profitability did not moderate the relationship between capital structure and firm value.

Although prior studies have examined capital structure, CSR disclosure, profitability, and firm value, several limitations remain. First, the evidence regarding the effects of capital structure and CSR disclosure on firm value remains inconsistent across studies and research settings. Second, prior research has more often examined the moderating role of profitability in individual relationships rather than simultaneously assessing whether profitability conditions the effects of both financial and non-financial determinants of firm value. Third, evidence combining these relationships within a single panel-data framework for Indonesian listed firms remains relatively limited, particularly for the post-pandemic period of 2022–2024. Addressing these limitations can provide a more integrated explanation of how investors evaluate corporate financing decisions and sustainability-related information under different levels of corporate profitability. Accordingly, this study examines the effects of capital structure and CSR disclosure on firm value and investigates whether profitability moderates each of these relationships among Indonesian listed firms during 2022–2024. By integrating financial and non-financial determinants within a single empirical model, the study seeks to clarify whether profitability represents a boundary condition that alters the valuation effects of financing decisions and CSR disclosure.

The study contributes to the literature in three ways. First, it provides updated evidence from the Indonesian capital market using firm-level panel observations for 2022–2024. Second, it jointly considers capital structure and CSR disclosure as financial and non-financial determinants of firm value. Third, it tests profitability as a moderating mechanism for both relationships, thereby addressing the inconsistent findings reported in previous research. The findings are expected to provide a more nuanced understanding of how investors evaluate financing decisions and sustainability-related disclosures in an emerging-market context.

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LITERATURE STUDY

Agency Theory

Agency theory explains the contractual relationship between principals and agents, in which shareholders delegate decision-making authority to managers. Because managers may pursue objectives that differ from those of shareholders, information asymmetry and conflicts of interest can generate agency costs (Rejeki & Haryono, 2021). The underlying study adopts agency theory as one of the principal theoretical foundations for explaining corporate financial decisions and CSR activities.

From an agency perspective, capital structure can function as a governance mechanism. Debt creates contractual obligations and monitoring by creditors, potentially constraining managerial discretion and reducing the inefficient use of corporate resources. At an appropriate level, debt may therefore contribute to firm value. However, excessive leverage can increase financial distress and conflicts between shareholders and creditors. Consequently, the effect of capital structure on firm value remains an empirical issue.

Agency theory also provides a rationale for CSR activities. Permadani et al. (2021) argue that CSR can contribute to resolving conflicts between managers and stakeholders and may reduce agency costs when CSR activities are aligned with stakeholder interests. Thus, CSR disclosure can potentially reduce information asymmetry and demonstrate managerial accountability to external stakeholders.

Signaling Theory

Signaling theory explains how firms communicate information to external parties under conditions of information asymmetry. The theory, originally associated with Spence (1973), suggests that firms can communicate positive or negative signals through information concerning corporate performance and future prospects. The underlying study identifies signaling theory as a theoretical basis for understanding how corporate disclosures influence investors' perceptions.

Capital structure may constitute a financial signal because financing decisions provide information about management's expectations regarding future cash flows and the firm's ability to meet financial obligations. A firm that is able to utilize debt productively may signal confidence in its future performance. Conversely, excessive leverage may signal financial vulnerability.

CSR disclosure may also function as a non-financial signal. Comprehensive disclosure can communicate managerial commitment to transparency, stakeholder management, and long-term sustainability. However, the effectiveness of CSR as a signal depends on whether investors perceive the information as credible, material, and relevant to future firm performance.

Stakeholder Theory and CSR Disclosure

Stakeholder theory extends the concept of corporate responsibility beyond shareholders to include parties affected by corporate activities. CSR provides a mechanism through which firms communicate their economic, environmental, and social responsibilities to stakeholders. The underlying research argues that stakeholder support represents an important mechanism linking CSR activities, corporate performance, and firm value.

From this perspective, CSR disclosure may generate economic value by strengthening relationships with customers, employees, communities, regulators, investors, and other stakeholders. Improved stakeholder relationships may enhance corporate reputation and legitimacy while reducing non-financial risks.

However, stakeholder benefits may not immediately translate into market-based measures of firm value. Investors may focus more strongly on financial information when CSR disclosure is perceived as voluntary, difficult to verify, or insufficiently connected to future cash flows. This possibility is supported by prior evidence showing inconsistent relationships between CSR and firm value.

Firm Value

Firm value reflects investors' assessment of a company's performance, future prospects, and expected ability to generate economic benefits. In capital markets, firm value is influenced by investors' expectations concerning future cash flows, risk, growth opportunities, and managerial decisions (Brigham & Houston, 2019; Ross et al., 2022). This study measures firm value using **Price-to-Book Value (PBV)**, which compares a company's market price per share with its book value per share. PBV reflects the premium or discount assigned by investors to the company's net assets and is widely used as a market-based indicator of firm value (Brigham & Houston, 2019; Ross et al., 2022). A higher PBV indicates that the market assigns a higher valuation to the company relative to its accounting book value. Firm value is therefore an appropriate outcome variable for examining the market consequences of capital structure and CSR disclosure because both financing decisions and non-financial disclosures can influence investors' expectations and perceptions of future corporate performance (Spence, 1973; Freeman, 1984).

Profitability as a Moderating Variable

Profitability represents a firm's ability to generate earnings from the resources and assets under its control. A profitable company generally possesses greater internal financial resources to finance investment, meet debt obligations, and undertake corporate social responsibility activities. Accordingly, profitability may influence the strength of the relationship between corporate financial decisions, CSR disclosure, and firm value (Brigham & Houston, 2019). From a resource-based perspective, firms with stronger profitability possess greater financial slack, enabling them to implement CSR programs without substantially constraining their core operations. Financial resources may therefore provide firms with greater capacity to undertake and sustain strategic activities that can contribute to competitive advantage and stakeholder value (Barney, 1991). From a signaling perspective, CSR disclosure by profitable firms may also be perceived as more credible because such firms demonstrate sufficient financial capacity to sustain their social and environmental commitments (Spence, 1973).

However, high profitability does not necessarily imply that investors will assign a higher valuation to CSR disclosure or leverage. If investors primarily emphasize direct financial returns, profitability may not strengthen the valuation effect of CSR disclosure. Likewise, profitability may fail to moderate the effect of capital structure when investors evaluate leverage primarily in terms of financial risk, debt-servicing capacity, and expected cash flows rather than profitability alone. This possibility is supported by prior empirical evidence showing that profitability does not consistently moderate the relationships between capital structure, CSR, and firm value (Afifah & Prajawati, 2022; Cahyani et al., 2024; Atanti & Trisnangingsih, 2024).

Capital Structure and Firm Value

Capital structure represents the composition of debt and equity used to finance corporate operations and investment. In this study, capital structure is measured by the Debt-to-Equity Ratio (DER).

Theoretically, debt can affect firm value through several mechanisms. First, debt may provide tax advantages. Second, debt may impose financial discipline on managers and reduce agency costs. Third, debt may provide resources for productive investment when internal funds are insufficient. Nevertheless, excessive debt increases financial risk and financial distress costs.

Empirical evidence in the underlying research remains mixed. Aini (2024) found that capital structure did not significantly affect firm value, whereas other studies reported significant relationships. Cahyani et al. (2024), for example, reported a negative and significant effect of capital structure on firm value in financial-sector firms and found that profitability did not moderate this relationship. In contrast, the literature reviewed in the original study also identifies studies suggesting that capital structure can contribute positively to firm value.

These inconsistent findings indicate that the effect of leverage depends on the firm's ability to manage debt, investment opportunities, financial risk, and market expectations. Based on agency and signaling perspectives, appropriately managed debt may provide financial discipline and signal managerial confidence, thereby increasing firm value.
Accordingly, the following hypothesis is proposed:
H1: Capital structure has a significant effect on firm value.

CSR Disclosure and Firm Value

CSR disclosure represents the extent to which a company communicates its economic, environmental, and social responsibilities to external stakeholders. From stakeholder and signaling perspectives, greater CSR disclosure can improve transparency, reduce information asymmetry, and strengthen stakeholder relationships. However, the empirical relationship between CSR disclosure and firm value remains inconclusive. Rohmawan et al. (2021) found that CSR did not significantly affect firm value, whereas Kristanti (2022) reported a significant effect and found that profitability was able to moderate the CSR–firm value relationship.
Rinofah et al. (2023) similarly reported a positive and significant effect of CSR on firm value and found that profitability strengthened the relationship. In contrast, Atanti and Trisnangingsih (2024) found that CSR did not affect firm value and that profitability was unable to moderate the relationship. These conflicting findings suggest that CSR disclosure does not necessarily produce immediate market value. The effect may depend on the credibility and substance of disclosure, industry characteristics, investor attention, and whether investors perceive CSR activities as economically material. Nevertheless, stakeholder and signaling theories provide a theoretical basis for expecting CSR disclosure to influence firm value. Therefore:
H2: CSR disclosure has a significant effect on firm value.

Profitability as a Moderator of the Capital Structure–Firm Value Relationship

Profitability represents the firm's ability to generate earnings from its assets. A profitable firm generally has greater internal financial resources and stronger capacity to meet debt obligations. Therefore, profitability may alter how investors interpret the firm's capital structure. A profitable firm may use debt more efficiently because it possesses stronger cash-generating capacity to service financial obligations. Under this argument, profitability can strengthen the positive effect of capital structure on firm value.
However, empirical evidence remains inconsistent. Ekawati (2022) and Permadani et al. (2021) reported that profitability strengthened or moderated the relationship between capital structure and firm value. In contrast, Cahyani et al. (2024), Rasyid (2022), and Afifah and Maretha Ika Prajawati (2022) found that profitability did not significantly moderate the relationship. This inconsistency indicates that profitability may operate as a context-dependent rather than universal moderating mechanism. Nevertheless, based on the argument that stronger profitability increases a firm's capacity to use debt productively and manage financial obligations, the following hypothesis is proposed:
H3: Profitability moderates the relationship between capital structure and firm value.

Profitability as a Moderator of the CSR Disclosure–Firm Value Relationship

Profitability may also influence the extent to which CSR disclosure contributes to firm value. Firms with stronger profitability have greater financial capacity to undertake CSR activities and sustain stakeholder-oriented programs. From a resource-based perspective, greater financial resources may enable firms to implement CSR initiatives more consistently and communicate their outcomes more effectively. Empirical evidence, however, remains contradictory. Rinofah et al. (2023) found that profitability strengthened the positive relationship between CSR and firm value. Kristanti (2022) also

reported that profitability moderated the effect of CSR on firm value. Conversely, Rohmawan et al. (2021) reported that profitability did not strengthen the CSR-related market outcome, while Atanti and Trisnangingsih (2024) found that profitability failed to moderate the CSR–firm value relationship.
The inconsistent evidence indicates that profitability alone may not be sufficient to convert CSR disclosure into market value. Investors may require evidence that CSR activities generate economically material benefits rather than merely reflecting a firm's financial capacity to disclose sustainability information. Nevertheless, the theoretical argument that profitable firms possess greater resources to implement and sustain CSR provides a basis for testing the moderating relationship:
H4: Profitability moderates the relationship between CSR disclosure and firm value.

METHOD

Research Design

This study adopts a quantitative explanatory research design. The empirical analysis uses panel data combining cross-sectional observations across firms with annual observations over the 2022–2024 period. The research setting consists of publicly listed companies recorded on the Indonesia Stock Exchange (IDX). The original study identified 94 companies in the relevant population and applied purposive sampling based on the availability and consistency of financial and sustainability information.

Sample Selection

Purposive sampling was applied using the following criteria; the company was listed on the IDX during 2022–2024; The company was not newly listed during the 2022–2024 period; The company did not report losses during the observation period; The company published sustainability reports consecutively during 2022–2024; The company published financial statements consecutively during 2022–2024; The company used the GRI Standards 2021 framework consistently during the observation period. These criteria produced 21 firms and 63 observations.

Variables and Measurement

Firm Value

Firm value is measured using Price-to-Book Value (PBV):

PBV = Market Price per Share / Book Value per Share

PBV represents the premium or discount assigned by the market to the company's accounting book value. The original research explicitly adopts PBV as its measure of firm value.

Capital Structure

Capital structure is measured using DER:

DER = Total Debt / Total Equity

The original dataset records DER values ranging from 0.071989 to 4.963755, with a mean of 0.965102.

CSR Disclosure

CSR disclosure is measured using the GRI Standards 2021 disclosure index:

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$$\mathbf{CSRI_i = \Sigma X_{\gamma i} / n_i}$$

where $X_{\gamma i} = 1$ when disclosure item y is reported and 0 otherwise, while n_i represents the applicable disclosure items, with a maximum of 117 items.

Profitability
Profitability is measured using Return on Assets:
ROA = Profit After Tax / Total Assets

The original dataset reports a minimum ROA of 0.001034, a maximum of 0.204878, and a mean of 0.077941.

Empirical Model
Two panel regression models are estimated.
The baseline model is:

$$\mathbf{PBV_{it} = \alpha + \beta_1 DER_{it} + \beta_2 CSR_{it} + \mu_i + \varepsilon_{it}}$$

The moderation model is:

$$\mathbf{PBV_{it} = \alpha + \beta_1 DER_{it} + \beta_2 CSR_{it} + \beta_3 ROA_{it} + \beta_4 (DER \times ROA)_{it} + \beta_5 (CSR \times ROA)_{it} + \mu_i + \varepsilon_{it}}$$

where μ_i captures firm-specific effects.
The analysis was conducted using EViews 12. Model selection was based on the Chow and Hausman tests. The Chow test produced a probability of 0.0000, favoring the Fixed Effects Model over the Common Effects Model. The Hausman test produced a probability of 0.0413, confirming that the Fixed Effects Model was more appropriate than the Random Effects Model.

RESULTS AND DISCUSSION

Results
Descriptive Statistics
The study contains 63 firm-year observations. The descriptive statistics are presented below.

Table 1. Descriptive Statistics

Variable	Mean	Median	Minimum	Maximum	Std. Dev.
Firm Value (PBV)	2.0624	1.0618	0.0404	9.7939	2.0624
Capital Structure (DER)	0.9651	0.7593	0.0720	4.9638	1.0202
CSR Disclosure	0.6397	0.6581	0.2479	0.9145	0.1722
Profitability (ROA)	0.0779	0.0710	0.0010	0.2049	0.0472

The results indicate substantial heterogeneity across firms. PBV varies considerably, with a maximum almost 243 times the minimum observation. DER also exhibits considerable dispersion, indicating substantial differences in financing structures among firms. CSR disclosure is relatively more concentrated, although the range from 0.2479 to 0.9145 indicates substantial differences in sustainability reporting practices.

Panel Model Selection
The Chow test yielded a cross-section F probability of 0.0000, indicating significant firm-specific effects. The Hausman test subsequently produced a probability of 0.0413, below the 5% threshold. Therefore, the Fixed Effects Model was selected as the appropriate estimator. This result is theoretically meaningful because firms differ systematically in characteristics that may not be

directly observable, including managerial practices, business models, risk profiles, ownership structures, and corporate reputation. Controlling for firm-specific effects therefore improves the identification of within-firm relationships.

Baseline Regression

The baseline Fixed Effects estimation produced:

PBV = 1.9812 + 0.5466 DER − 0.6977 CSR + firm fixed effects

The capital structure coefficient is positive ($\beta = 0.5466$) and statistically significant ($p = 0.0270$). CSR disclosure has a negative coefficient ($\beta = -0.6977$) but is statistically insignificant ($p = 0.6335$). The model therefore provides support for H1 but not H2.

Moderated Regression

The moderation model produces the following estimates:

Table 2. Regression Model

Variable	Coefficient	t-statistic	p-value
Constant	0.7325	0.5964	0.5546
DER	0.5277	1.9240	0.0621
CSR	0.8717	0.5202	0.6060
ROA	24.3185	2.1104	0.0416
DER × ROA	−3.9382	−0.9997	0.3239
CSR × ROA	−28.9729	−1.7016	0.0972

The interaction between DER and ROA is statistically insignificant ($p = 0.3239$), indicating that profitability does not significantly moderate the capital structure–firm value relationship. Similarly, the interaction between CSR and ROA is statistically insignificant at the 5% level ($p = 0.0972$). Thus, both H3 and H4 are rejected.

Coefficient of Determination

The baseline model has an adjusted R^2 of 0.891016, indicating that the model explains approximately 89.10% of the variation in firm value after accounting for the number of predictors. The moderation model increases adjusted R^2 to 0.895303. The relatively small increase in explanatory power suggests that introducing profitability and the interaction terms provides only a limited incremental contribution to explaining firm value.

Discussion

Capital Structure and Firm Value

The empirical results show that capital structure has a positive and statistically significant effect on firm value ($\beta = 0.5466$; $p = 0.0270$). This finding indicates that, within the observed sample, greater reliance on debt financing is associated with higher PBV. The result supports the argument that debt can contribute positively to firm value when it is used to finance productive activities and when the benefits of leverage exceed its associated costs. This finding can be interpreted through agency theory. Debt creates contractual obligations that may constrain managerial discretion and reduce the potential misuse of free cash flow. Consequently, creditors' monitoring and the discipline imposed by debt may improve managerial efficiency and enhance shareholder value. The agency perspective adopted in the underlying research similarly suggests that financing decisions can influence agency costs and ultimately firm value.

The result is also consistent with the signaling perspective. A firm's willingness and ability to employ debt may signal management's confidence in its future cash-generating capacity. When investors believe that a firm can service its debt and convert external financing into productive investment,

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leverage may be interpreted positively. This interpretation is particularly relevant in emerging markets, where investors may rely heavily on observable financial decisions when assessing managerial quality and future prospects.

The finding is consistent with several studies reporting a significant relationship between capital structure and firm value, although the direction of the relationship varies across contexts. For example, Turrohma and Sudiyatno (2023) reported a positive effect of capital structure on firm value, whereas Cahyani et al. (2024) found a negative relationship in financial-sector firms. These differences reinforce the argument that the valuation effect of leverage is context dependent. Therefore, the positive coefficient observed in the present study should not be interpreted as evidence that increasing debt is universally beneficial. Rather, it suggests that investors in the observed firms may perceive the existing level and use of leverage as compatible with value creation. Managers should consequently focus on optimizing debt capacity and the productive allocation of borrowed funds rather than simply maximizing or minimizing leverage.

CSR Disclosure and Firm Value

The results indicate that CSR disclosure does not have a statistically significant effect on firm value ($\beta = -0.6977$; $p = 0.6335$). Although the coefficient is negative, its statistical insignificance indicates that variations in CSR disclosure breadth do not systematically translate into differences in PBV in the observed sample. This result suggests that CSR disclosure quantity alone may not be sufficient to influence market valuation. Investors may distinguish between the existence of disclosure and the substantive economic consequences of CSR activities. Comprehensive reporting does not necessarily imply that CSR initiatives generate measurable improvements in profitability, risk reduction, competitive advantage, or future cash flows.

The finding is consistent with Rohmawan et al. (2021), who reported that CSR did not significantly affect firm value. The underlying study explains that CSR disclosure may have limited valuation effects when disclosure remains voluntary and when investors place greater emphasis on measurable financial information. However, the result differs from Kristanti (2022), who found a significant effect of CSR on firm value, and from Sedani and Sari (2024), who reported a positive effect of CSR disclosure on firm value among Indonesian mining firms. This inconsistency suggests that the market consequences of CSR disclosure may depend on industry characteristics, investor expectations, disclosure quality, and the economic materiality of sustainability activities. The insignificant finding should therefore not be interpreted as evidence that CSR is irrelevant. Instead, it indicates that CSR disclosure breadth, as measured in this study, may be an imperfect proxy for substantive CSR performance. Future research could distinguish between disclosure quantity, disclosure quality, ESG performance, and the materiality of sustainability initiatives.

Profitability as a Moderator of Capital Structure and Firm Value

The interaction between capital structure and profitability is statistically insignificant ($\beta = -3.9382$; $p = 0.3239$). Thus, profitability does not significantly moderate the relationship between capital structure and firm value. The result indicates that the market valuation effect of leverage does not systematically change according to the firm's profitability level. Although profitable firms generally have stronger internal resources and greater capacity to service debt, investors may evaluate leverage primarily in terms of financial risk, expected cash flows, and financing strategy rather than profitability alone. This finding is consistent with Cahyani et al. (2024), Rasyid (2022), and Afifah and Maretha Ika Prajawati (2022), who reported that profitability did not significantly moderate the relationship between capital structure and firm value.

However, the result contrasts with Permadani et al. (2021), who found that profitability was able to moderate the capital structure–firm value relationship. The conflicting findings indicate that profitability may not operate as a universal moderating mechanism. Its role may depend on industry characteristics, leverage levels, investment opportunities, and investor expectations. An important

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implication is that profitability should not automatically be assumed to enhance the value-generating capacity of debt. Instead, the quality and efficiency of debt utilization may be more important than accounting profitability alone.

Profitability as a Moderator of CSR Disclosure and Firm Value

The interaction between CSR disclosure and profitability is negative and statistically insignificant at the 5% level ($\beta = -28.9729$; $p = 0.0972$). Consequently, profitability does not significantly moderate the CSR disclosure–firm value relationship. This result suggests that financially stronger firms do not necessarily receive greater market valuation benefits from broader CSR disclosure. Although profitability provides resources for CSR activities, investors may require evidence that those activities generate economically material outcomes before incorporating them into firm valuation. The finding is consistent with several studies reporting that profitability does not strengthen the relationship between CSR and firm value. Rohmawan et al. (2021), for example, reported that CSR and profitability did not produce the expected strengthening effect on market-based outcomes. More recent evidence from Sedani and Sari (2024) similarly indicates that although CSR disclosure positively affects firm value, profitability does not moderate this relationship.

Nevertheless, the result differs from Rinofah et al. (2023), who found that profitability strengthened the CSR–firm value relationship. This contradiction strengthens the argument that the moderating role of profitability is context specific.

The insignificant moderation may also reflect the distinction between financial capacity and value relevance. A profitable firm may have sufficient resources to undertake CSR activities, but this does not guarantee that investors perceive those activities as material to future cash flows. CSR may generate benefits through stakeholder relationships, reputation, legitimacy, and risk management that materialize over longer periods than the three-year observation window examined in this study.

Theoretical Implications

Taken together, the findings suggest an asymmetric valuation mechanism. Capital structure has a significant association with firm value, whereas CSR disclosure does not. Moreover, profitability does not significantly change either relationship. This pattern indicates that investors in the observed Indonesian firms may place greater weight on directly observable financial decisions than on the breadth of non-financial disclosure. The findings contribute to agency and signaling perspectives by suggesting that financing decisions may provide stronger valuation-relevant signals than CSR disclosure. At the same time, the insignificant CSR result does not invalidate stakeholder theory; rather, it suggests that stakeholder benefits may not immediately translate into market-based valuation measured through PBV. The results therefore support a more nuanced interpretation of corporate value creation: financial leverage may influence market valuation through immediately observable financing and risk mechanisms, whereas CSR may require longer time horizons and more substantive measures of performance before its economic value becomes visible to investors.

CONCLUSION

This study examined the relationships between capital structure, CSR disclosure, and firm value and investigated whether profitability moderates these relationships among Indonesian listed firms during 2022–2024. The findings provide four main conclusions. First, capital structure has a positive and statistically significant relationship with firm value, indicating that higher leverage is associated with higher PBV within the observed sample. This finding is consistent with the view that debt financing may enhance firm value when leverage is accompanied by effective financial management and productive use of external funds. However, the result should not be interpreted as evidence that increasing debt indefinitely enhances firm value.

Second, CSR disclosure does not have a statistically significant relationship with firm value. This finding suggests that the breadth of CSR disclosure based on the GRI Standards 2021 does not, by itself, explain differences in market valuation during the observation period. One possible explanation is that disclosure breadth does not fully capture the quality, credibility, economic materiality, or substantive outcomes of CSR activities. Third, profitability does not significantly moderate the relationship between capital structure and firm value. Thus, differences in profitability do not significantly alter the market valuation association of capital structure. Fourth, profitability also does not significantly moderate the relationship between CSR disclosure and firm value, indicating that stronger profitability does not automatically increase the valuation relevance of broader CSR disclosure. The findings indicate an asymmetric valuation pattern between financial and non-financial corporate determinants. Capital structure is significantly associated with firm value, whereas CSR disclosure is not, and profitability does not significantly condition either relationship. The results suggest that the market valuation relevance of corporate decisions may depend not only on the existence of a particular financial or sustainability practice but also on its perceived economic materiality and ability to generate observable future benefits.

This study has several limitations. First, the analysis is based on 63 observations that satisfy the specified data-availability and sustainability-reporting criteria, which limits the generalizability of the findings. Second, firm value is measured only through PBV; alternative measures such as Tobin's Q could provide complementary evidence. Third, CSR is operationalized through disclosure breadth rather than substantive sustainability performance. Fourth, the three-year observation period may be insufficient to capture CSR benefits that materialize over longer periods. Future research should therefore consider larger and longer panel datasets, alternative measures of firm value, and direct measures of ESG or sustainability performance. Future studies may also examine additional contingency factors, including corporate governance, ownership structure, firm size, financial risk, and institutional characteristics, to provide a more comprehensive explanation of how corporate financial and sustainability decisions are incorporated into firm valuation.

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