

Corporate Social Responsibility and Governance as Determinants of Firm Value: Evidence from Indonesian Manufacturing Firms

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ABSTRACT

Manufacturing firms continuously struggle to maximize firm value while balancing long-term sustainability through robust governance and ethical practices. This research investigates the core drivers of firm value, examining the specific mediating paths of Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG). Utilizing a quantitative, causal-descriptive framework, the study evaluated annual financial datasets from manufacturing corporations listed on the Indonesia Stock Exchange (IDX) spanning the 2017–2019 period. The results show that Return on Assets ($b = 0.028$, $p < 0.05$) and Total Asset Turnover ($b = 0.002$, $p < 0.05$) positively affect Corporate Social Responsibility, whereas Debt-to-Asset Ratio ($b = -0.001$, $p < 0.05$) and Debt-to-Equity Ratio ($b = -0.004$, $p < 0.05$) have negative effects. CSR significantly mediates the effects of ROA, DAR, DER, and TATO on firm value, while GCG significantly mediates the effects of ROA, DER, and TATO on firm value; the DAR through GCG path is not significant. Ultimately, strategic social initiatives and structural governance act as vital catalysts that translate raw financial decisions into premium market returns, offering crucial risk-assessment benchmarks for modern investors.

Keywords: Corporate Social Responsibility; Debt to Asset Ratio; Debt to Equity Ratio; Good Corporate Governance; Price-to-Book Value; Return on Assets; Total Asset Turnover

JEL Classification: G30, G32, M14

INTRODUCTION

Firm value acts as a vital metric for assessing corporate success, effectively capturing how investors view a firm's potential to generate sustainable wealth in the future (Indriakati, 2026). For publicly traded companies, elevating this market worth is a fundamental goal, given its direct impact on shareholder returns and corporate longevity. In the capital market, this economic standing is routinely gauged through equity prices and market-driven valuation metrics like Tobin's Q, which measures a company's total market value against its asset replacement expenses. Upward movements in stock prices or a high Tobin's Q generally imply that market participants recognize strong operational execution, viable strategic outlooks, and productive asset utilization (Al-Sartawi, 2020; Indriakati, 2026). Modern empirical evidence confirms that standard financial drivers, including operational performance, payout frameworks, profit margins, and financing structures, heavily shape market value. This indicates that modern investors do not focus solely on immediate net income; instead, they decode broader corporate signals regarding structural stability and strategic expansion potential (Mysaka & Derun, 2021; Bui et al., 2023; Zaleski, 2024).

Within emerging economies such as Indonesia, the manufacturing sector plays a pivotal role in driving macroeconomic growth. However, its resource-intensive operations often generate significant social and environmental challenges, including environmental degradation, industrial waste, and community inequalities. These concerns have intensified public scrutiny and increased regulatory pressure on manufacturing firms. Consequently, companies are expected to move beyond short-term profit maximization and adopt more sustainable and ethically responsible business practices. In this context, Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) have evolved from optional corporate initiatives into essential components of modern business strategy.

Corporate Social Responsibility is no longer viewed as merely an additional business expense. Instead, it is increasingly recognized as a long-term strategic investment that enhances corporate reputation, strengthens stakeholder trust, and creates sustainable competitive advantages (Khémiri & Alsulami, 2023). Similarly, Good Corporate Governance provides the institutional framework necessary to align managerial decisions with stakeholder interests, reduce agency conflicts, improve the integrity of financial reporting, and strengthen strategic decision-making (Astal et al., 2024). Given the evolving regulatory environment and persistent information asymmetry in Indonesia's manufacturing sector, the simultaneous implementation of CSR and GCG has become increasingly important. Together, these mechanisms enable firms to demonstrate accountability, enhance transparency, and signal long-term resilience to investors and other stakeholders.

Even with these compelling theoretical foundations, existing academic studies offer highly fragmented and contradictory insights into how core financial ratios actually shift firm value, leaving a critical knowledge gap. Historical research has generated conflicting viewpoints; while some analytical models suggest that aggressive profitability and capital leverage instantly boost market confidence, other frameworks demonstrate that heavy debt burdens or weak operational velocity can systematically drag down a company's Price to Book Value (PBV). These clashing outcomes hint at the presence of hidden, indirect dynamics, suggesting that financial indicators do not operate in isolation but instead influence equity value through underlying, intervening variables (Efunniyi et al., 2024). The present research systematically targets these unresolved empirical gaps by

positioning CSR and GCG as concurrent mediators to illuminate the exact pathways through which profitability, leverage, and asset turnover alter PBV.

Despite the growing body of research on firm value, limited evidence explains how Corporate Social Responsibility and Good Corporate Governance jointly mediate the relationship between corporate financial characteristics and firm value, particularly in Indonesian manufacturing firms. This study aims to examine the direct effects of profitability, leverage, and asset turnover on firm value, as well as the mediating roles of Corporate Social Responsibility and Good Corporate Governance. The novelty of this study lies in integrating both mediating mechanisms within a single empirical framework to provide a more comprehensive explanation of corporate value creation. The findings are expected to enrich the accounting and corporate governance literature in emerging markets while offering practical insights for managers, investors, and policymakers in promoting sustainable firm value.

LITERATURE REVIEW

Firm Value

Firm value represents the market's assessment of a company's performance, risk profile, and future prospects. In empirical corporate finance studies, firm value is frequently proxied by the PBV ratio because PBV compares the market price of equity with the book value of shareholders' equity, thereby indicating whether the market values the firm above or below its accounting value. A higher PBV generally reflects stronger investor confidence, better growth expectations, and positive perceptions of the firm's ability to create shareholder wealth. Recent evidence from Indonesian listed firms also shows that firm value measured by PBV is influenced by financial fundamentals such as liquidity, profitability, institutional ownership, and leverage, suggesting that investors incorporate both current financial performance and expected future prospects into valuation decisions (Vick & Tjhai, 2024).

Conceptually, firm value is also grounded in the discounted cash flow perspective. Brigham and Houston (2001) define firm value as the present value of expected future free cash flows discounted at the weighted average cost of capital, meaning that value increases when firms generate higher future cash flows or reduce their cost of capital. Similarly, Damodaran (2024) emphasizes that the value of a business is fundamentally linked to the market value of its underlying assets and expected cash-generating capacity. Therefore, PBV is not merely a market ratio, but also a signal of how investors interpret the firm's capacity to transform assets, strategy, and financial resources into sustainable future value.

Corporate Social Responsibility (CSR)

CSR refers to a company's commitment to operate ethically, comply with legal and social expectations, and contribute to economic, social, and environmental development while improving the quality of life of employees, local communities, and society at large. From the perspective of stakeholder theory, CSR is not merely a voluntary philanthropic activity, but a strategic mechanism through which firms manage relationships with key stakeholders, including customers, employees, communities, owners or investors, government, suppliers, and even competitors (Nikolova & Arsić, 2017). Firms that actively engage in CSR are more likely to gain trust, legitimacy, and stakeholder support, thereby strengthening corporate reputation, reducing social and regulatory risks, and ultimately enhancing firm value (Rauf et al., 2021).

CSR refers to a company's commitment to operating ethically while contributing to economic development and improving the quality of life of employees, local communities, and society at large. Based on stakeholder theory, firms that actively engage in CSR are more likely to gain legitimacy and support from stakeholders, which may enhance firm value (Rauf et al., 2021). Corporate social responsibility occurs between a company and all stakeholders, including customers, employees, communities, owners or investors, the government, suppliers, and even competitors (Nikolova & Arsić, 2017). Reinhardt et al. (2008) state that CSR is a natural mechanism for a company to "clean up" the large profits it earns.

Good Corporate Governance (GCG)

GCG is defined by principles of transparency, accountability, responsibility, independence, and fairness (Hardiningsih & Srimindarti, 2018). It reduces agency conflicts, enhances monitoring, and improves firm performance (Kasbar et al., 2023). Strong governance practices can positively influence firm value by mitigating agency problems between owners and managers (Hong, 2019). GCG is a structured process aimed at increasing company value and ensuring business continuity (Agarwal & Shah, 2024; Hossain et al., 2024).

GCG refers to a set of governance principles and mechanisms designed to ensure that companies are managed transparently, accountably, responsibly, independently, and fairly (Hardiningsih & Srimindarti, 2018). These principles provide a normative foundation for directing and controlling corporate activities so that managerial decisions remain aligned with the interests of shareholders and other stakeholders. From the perspective of agency theory, GCG plays an important role in reducing agency conflicts that arise from the separation between ownership and control.

Effective governance mechanisms, such as board oversight, independent commissioners, audit committees, transparent disclosure, and institutional monitoring, can reduce information asymmetry, limit opportunistic managerial behavior, and improve the credibility of corporate reporting (Hong, 2019; Kasbar et al., 2023). In turn, stronger governance can enhance investor confidence and positively influence firm value by signaling that the company is well monitored, ethically managed, and capable of sustaining long-term performance. Recent empirical evidence also shows that GCG may increase firm value, particularly when governance mechanisms are able to strengthen board effectiveness and reduce earnings management practices.

In addition, another study by Hatumena et al. (2026), although conducted in the context of hospital governance rather than the corporate sector or capital markets, found that financial incentives are more effective when integrated into a coherent governance and accountability system. This finding offers cross-sectoral conceptual support for the argument that governance mechanisms (GCG) play a role in strengthening the effectiveness of an organization's financial performance, a logic that is relevant to be further examined in the context of GCG's influence on firm value (PBV) in this study.

Hypotheses Development

Profitability, leverage, and activity ratios are widely used indicators of financial performance. High profitability may enable firms to allocate more resources to CSR initiatives and governance improvements. Conversely, excessive leverage may constrain CSR activities and increase financial risk, potentially reducing firm value. Based on the theoretical framework and prior empirical findings, this study proposes the following hypotheses:

Financial Performance and Corporate Social Responsibility

Return on Assets (ROA) measures a company's ability to generate profits from its total assets. Higher profitability provides firms with greater financial resources and flexibility to invest in CSR activities. According to Stakeholder Theory, profitable firms are better positioned to meet stakeholder expectations through social and environmental initiatives, thereby enhancing corporate reputation and long-term sustainability. Therefore, firms with higher ROA are expected to demonstrate greater CSR engagement.

Debt to Asset Ratio (DAR) reflects the proportion of assets financed through debt. Higher DAR indicates greater financial obligations and reduced financial flexibility, which may limit a firm's ability to invest in CSR activities. Therefore, companies with higher debt levels are expected to exhibit lower CSR engagement.

Debt to Equity Ratio (DER) reflects the extent to which a company relies on debt relative to shareholders' equity. Higher leverage increases financial obligations and may reduce the resources available for CSR activities. As a result, firms with higher DER are expected to exhibit lower CSR engagement.

Total Asset Turnover (TATO) measures a company's efficiency in utilizing its total assets to generate sales revenue. A higher TATO indicates that the firm is able to use its assets more effectively, reflecting strong operational performance and efficient resource management. From the perspective of Stakeholder Theory, firms with greater operational efficiency are more likely to possess the resources and flexibility needed to implement CSR initiatives. Efficient asset utilization can support sustainable business practices and enable companies to invest in social and environmental programs that enhance stakeholder trust and corporate reputation. Therefore, companies with higher TATO are expected to demonstrate greater CSR engagement.

H1: ROA positively affects CSR.

H2: DAR negatively affects CSR.

H3: DER negatively affects CSR.

H4: TATO positively affects CSR.

Financial Performance and Good Corporate Governance

ROA reflects a company's profitability and financial performance. Firms with higher profitability generally have greater resources to support effective governance mechanisms and maintain investor confidence. Therefore, higher ROA is expected to encourage better GCG practices.

DAR reflects the proportion of company assets financed by debt. Higher debt levels generally increase creditor monitoring and external oversight, encouraging firms to strengthen governance mechanisms to ensure transparency, accountability, and compliance with financial obligations. Therefore, companies with higher DAR are expected to implement stronger GCG practices.

DER indicates the extent to which a company relies on debt relative to shareholders' equity. Higher leverage may increase financial pressure and agency conflicts, potentially weakening the effectiveness of governance mechanisms. As a result, firms with higher DER are expected to exhibit lower levels of GCG.

TATO measures the efficiency of a company in utilizing its assets to generate sales. Firms with higher operational efficiency may place greater emphasis on performance outcomes rather than governance mechanisms, potentially reducing the focus on formal

governance practices. Therefore, TATO is expected to have a negative relationship with GCG.

- H5: ROA positively affects GCG.
- H6: DAR positively affects GCG.
- H7: DER negatively affects GCG.
- H8: TATO negatively affects GCG.

Financial Performance and Firm Value

ROA reflects a company's ability to generate profits from its total assets. Higher profitability signals efficient asset utilization and stronger financial performance, which can increase investor confidence and positively influence market valuation. Therefore, ROA is expected to affect firm value.

DAR indicates the proportion of a company's assets financed through debt. The level of debt can influence investor perceptions regarding financial risk and the company's ability to meet its obligations. Therefore, DAR is expected to affect firm value.

DER reflects the proportion of debt financing relative to shareholders' equity. The capital structure adopted by a firm can influence both financial risk and investor confidence, which in turn affect market valuation. Therefore, DER is expected to affect firm value.

TATO measures how efficiently a company utilizes its assets to generate sales. Higher asset utilization efficiency indicates stronger operational performance, which can improve profitability prospects and enhance investor perceptions of the company's value. Therefore, TATO is expected to affect firm value.

- H9: ROA affects firm value.
- H10: DAR affects firm value.
- H11: DER affects firm value.
- H12: TATO affects firm value.

Mediation Variable and Firm Value

CSR reflects a company's commitment to addressing social, environmental, and stakeholder interests. According to Stakeholder Theory, effective CSR practices can enhance corporate reputation, strengthen stakeholder trust, and improve investor perceptions, thereby contributing to higher firm value. Therefore, CSR is expected to affect firm value.

GCG promotes transparency, accountability, responsibility, independence, and fairness in corporate management. Effective governance mechanisms can reduce agency conflicts, enhance investor confidence, and improve corporate performance, thereby increasing firm value. Therefore, GCG is expected to affect firm value.

This finding is directly relevant to the present study, as it uses the same research object and dependent variable (PBV, companies listed on the IDX). [Sarjiyono and Prasetyo \(2025\)](#) found that financial performance (ROA) has a significant effect on firm value, while nonfinancial information disclosure such as sustainability reporting (SRDi), which is conceptually aligned with CSR, has no significant effect. These results provide strong empirical grounds to support Hypothesis H9 (ROA → PBV) and serve as an important comparative reference for Hypothesis H13 (CSR → PBV) in this study, particularly in explaining why the effect of nonfinancial information on firm valuation in the Indonesian capital market remains inconsistent.

This finding is relevant as supporting context, although the direction of the relationship tested differs from the model in this study. Wiratama and Prasetyo (2025), examining mining companies listed on the IDX for the 2019–2023 period, found that CSR had a significant negative effect on ROA and ROE, while GCG had no significant effect on any of the financial performance measures tested. The consistent non-significance of GCG on firm outcomes strengthens its use as a comparative reference for Hypothesis H14 (GCG → PBV) in this study, while the negative effect of CSR on profitability adds evidence that the relationship between CSR and firms' financial indicators in the Indonesian capital market remains complex and not always positive, as predicted by stakeholder theory.

H13: CSR affects firm value.

H14: GCG affects firm value.

Mediating Role of CSR and GCG

CSR and GCG may serve as strategic mechanisms through which financial performance influences firm value. Firms with stronger financial performance are more likely to invest in CSR activities and implement effective governance practices, which can enhance stakeholder trust, improve corporate reputation, strengthen investor confidence, and ultimately increase firm value. Therefore, CSR and GCG are expected to mediate the relationship between financial performance indicators and firm value.

H15–H22: CSR and GCG mediate the relationships between financial performance indicators and firm value.

Conceptual Framework

The conceptual framework proposes that ROA, DAR, DER, and TATO influence firm value both directly and indirectly through CSR and GCG. ROA represents profitability, DAR and DER reflect leverage, and TATO captures asset efficiency. CSR and GCG function as mediating mechanisms that may translate financial performance into PBV by shaping stakeholder trust, governance quality, and investor confidence. Grounded in stakeholder and agency theory, the framework suggests that financial performance affects firm value not only through direct market effects but also through CSR and governance channels.

Figure 1. Research Framework

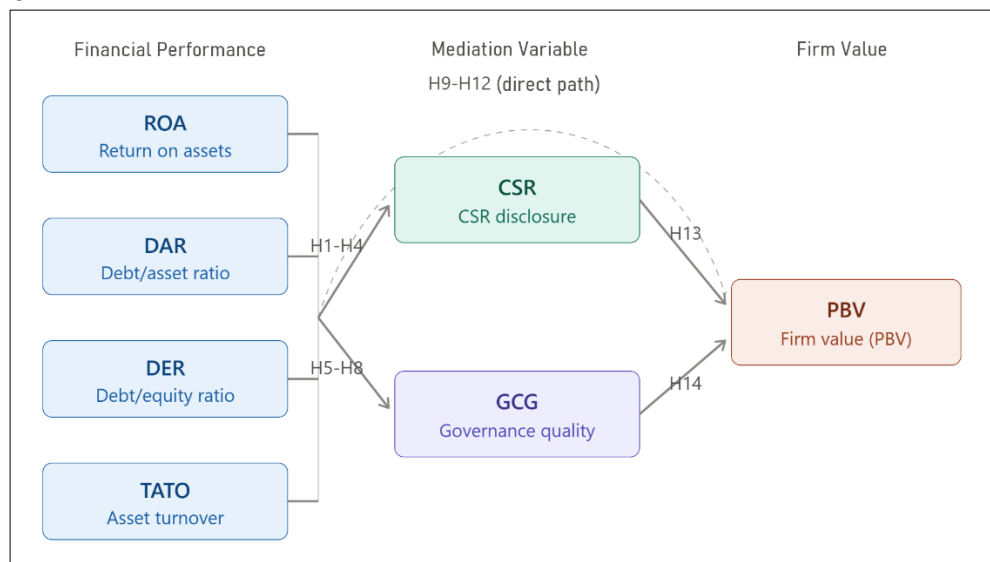


Figure 1 sets out how the variables in this study relate to one another. The model includes four independent variables, namely ROA, DAR, DER, and TATO, which represent different dimensions of financial performance. CSR and GCG function as mediating variables, while firm value, measured through PBV, serves as the dependent variable. Taken together, the framework captures direct effects from financial performance to CSR and GCG (H1–H8), direct effects from financial performance and the mediators to firm value (H9–H14), and indirect two-step effects that constitute the mediation hypotheses (H15–H22).

The first set of mediation hypotheses, H15 through H18, examines whether CSR serves as the mechanism through which financial performance influences firm value. Each of these hypotheses combines two paths already specified in the model: the effect of a financial ratio on CSR (H1–H4) and the effect of CSR on PBV (H13). H15 (ROA → CSR → PBV) tests whether profitability strengthens CSR and whether CSR then enhances firm value. H16 (DAR → CSR → PBV), H17 (DER → CSR → PBV), and H18 (TATO → CSR → PBV) apply the same logic to leverage and operational efficiency. In this sense, CSR functions as a channel through which financial performance may be translated into market value.

The second set, H19 through H22, follows the same logic but substitutes GCG for CSR. These hypotheses combine the effect of each financial ratio on GCG (H5–H8) with the effect of GCG on PBV (H14). H19 (ROA → GCG → PBV) tests whether profitability strengthens governance and whether that governance improves firm value. H20 (DAR → GCG → PBV), H21 (DER → GCG → PBV), and H22 (TATO → GCG → PBV) extend the same reasoning to leverage and asset turnover. Accordingly, H15–H22 represent indirect effects formed by existing paths in the model rather than separate structural arrows in Figure 1.

RESEARCH METHOD

Research Design

This study employs a quantitative causal research design to examine the effect of CSR and GCG on firm value. A quantitative approach is appropriate because the study uses numerical data derived from annual reports and financial statements to test the statistical relationship among variables. The causal design is used because the research aims not only to describe corporate characteristics, but also to explain whether changes in CSR and GCG are associated with changes in firm value. The population consists of manufacturing companies listed on the Indonesia Stock Exchange during the 2017–2019 period.

Population and Sample

Manufacturing firms are selected because this sector is relatively intensive in operational, social, and environmental activities, making it relevant to examining CSR disclosure, governance mechanisms, and market valuation. Using purposive sampling, 113 firms were selected based on specific criteria, such as continuous listing during the observation period, availability of annual reports, and completeness of the data required to measure the research variables. This sampling technique is appropriate when researchers need to select observations that meet predetermined characteristics relevant to the research objectives. The final sample consists of 339 firm-year observations, obtained from 113 firms observed over three years. This structure forms panel data, which combines cross-sectional observations across firms and time-series observations across years, allowing the study to capture both differences between

companies and changes over time. Panel data are widely used in corporate finance and governance research because they provide richer information and improve the ability to analyze firm-level variation across periods (Baltagi, 2021).

Variables and Measurement

Firm value was measured using the PBV ratio, calculated as the market price per share divided by the book value per share. CSR was measured using a disclosure index comprising 91 indicators derived from the Global Reporting Initiative (GRI) G4 framework. GCG was measured using governance-related disclosures reported in annual reports, reflecting the principles of transparency, accountability, responsibility, independence, and fairness. Financial performance was represented by ROA, calculated as net income divided by total assets; DAR, calculated as total debt divided by total assets; DER, calculated as total debt divided by total equity; and TATO, calculated as net sales divided by total assets.

Table 1. Sample Selection Procedure

Sample Selection Criteria	Number of Firms
Manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2017–2019	193
Less: Firms delisted during the observation period	(24)
Less: Firms with incomplete annual reports	(31)
Less: Firms with missing financial or CSR/GCG data	(25)
Final sample firms	113
Observation period (years)	3
Total firm-year observations	339

Table 1 presents the sample selection procedure. After applying the purposive sampling criteria, 113 manufacturing firms met the inclusion criteria for the study. Observing these firms over a three-year period (2017–2019) resulted in 339 balanced panel observations. The use of panel data allows the analysis to capture both cross-sectional differences among firms and temporal variations over the observation period.

Data Analysis

Data were analyzed using panel regression analysis. Mediation effects were tested using the Sobel test. Panel data regression model selection followed the Chow test (Common Effect vs. Fixed Effect) and the Hausman test (Fixed Effect vs. Random Effect) at the 5% significance level. Secondary data were sourced from annual financial reports of IDX-listed firms (www.idx.co.id). The operationalization of research variables is presented in Table 2.

Table 2. Operationalization of Research Variables

No	Variable	Definition	Measurement/indicator	Scale	Literature
Dependent Variable (Dependent)					
1.	Price Book Value (PBV)	To assess whether a stock is overvalued or undervalued by comparing its market price with the company's book value	$PBV = \frac{\text{Price per Share}}{\text{Price Book per Share}}$	Ratio	(Sartono, 2012)
Mediating Variable (Intervening)					
2.	Corporate Social Responsibility (CSR)	The concepts and actions undertaken by a company as an expression of its	Disclosure is measured by disclosures in annual reports on economic, social, and environmental aspects, using	Ratio	(Abdallah & Boubaker, 2024)

		responsibility toward society and the surrounding environment in which the company operates	91 indicators derived from the Global Reporting Initiative (GRI) G4 guidelines.		
3.	Good Corporate Governance (GCG)	Refers to the structures and mechanisms that govern corporate management in order to generate sustainable long-term economic value for shareholders and other stakeholders.	Measured based on disclosures in annual reports covering the principles of transparency, accountability, responsibility, independence, and fairness.	Ratio	(Dewi, 2020)
Independent Variable (Independent)					
4.	Return On Asset (ROA)	Comparison of total income to total assets	$ROA = \frac{\text{Net Income}}{\text{Total Asset}} \times 100\%$	Ratio	(Sirait, 2017)
5.	Debt to Total Asset Ratio (DAR)	Comparison of total debt to total assets	$DAR = \frac{\text{Total Debt}}{\text{Total Asset}} \times 100\%$	Ratio	(Vatansever & Hepsen, 2013)
6.	Debt to Total Equity Ratio (DER)	Comparison of total debt to total equity	$DER = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100\%$	Ratio	(Sugiyono, 2019)
7.	Total Asset TurnOver (TATO)	Comparison of total sales to fixed asset	$TATO = \frac{\text{Sales}}{\text{Fix Asset}} \times 100\%$	Ratio	(Kasmir, 2014)

Multiple Panel Data Regression Model

This study employs multiple panel data regression analysis (Karabiyik et al., 2019) to examine the effects of ROA, DAR, DER, and TATO on firm value (PBV), with CSR and GCG as mediating variables.

$$CSR: \alpha + \beta_1 ROA + \beta_2 DAR + \beta_3 DER + \beta_4 TATO + e$$

$$GCG: \alpha + \beta_5 ROA + \beta_6 DAR + \beta_7 DER + \beta_8 TATO + e$$

$$PBV: \alpha + \beta_9 ROA + \beta_{10} DAR + \beta_{11} DER + \beta_{12} TATO + \beta_{13} CSR + \beta_{14} GCG + e$$

Partial Significance Test (t-test)

The partial significance test (t-test) was employed to evaluate the individual effect of each independent variable on the dependent variable while controlling for the effects of other explanatory variables in the model. The test was conducted at a 5% significance level. A variable was considered to have a statistically significant effect when its probability value (p-value) was less than 0.05. The sign and magnitude of the regression coefficient were used to determine the direction and strength of the relationship between variables.

Coefficient of Determination (Adjusted R²)

The coefficient of determination (Adjusted R²) was used to evaluate the explanatory power of the regression model. Unlike the ordinary R² statistic, Adjusted R² accounts for the number of explanatory variables included in the model and therefore provides a more reliable measure of model fit. A higher Adjusted R² value indicates that a greater proportion of variation in the dependent variable can be explained by the independent variables included in the model, whereas the remaining variation is attributable to factors outside the model.

Significance Testing of Mediating Variables

To examine the significance of the mediating variables, this study employs the Sobel test (Abu-Bader & Jones, 2021). The Sobel test is used to assess the mediating effects of CSR and GCG. According to Ghazali (2021), a variable is considered an intervening (mediating) variable if it influences the relationship between an independent variable and a dependent variable. A mediating effect is confirmed when the calculated t-value exceeds the critical t-value of 1.647. The Sobel test assumes a sufficiently large sample (Ghazali, 2021).

RESULTS

Results of Descriptive Statistics

Table 3. Descriptive Statistics

Variable	Mean	Median	Minimum	Maximum	Standard Deviation	Observations
PBV	33.694	1.070	-1.780	73.040	3.572	339
CSR	0.194	0.180	0.063	0.417	0.075	339
GCG	1.644	1.023	-1.783	1.900	1.042	339
ROA	0.034	0.030	-2.640	0.720	0.175	339
DAR	0.601	0.470	0.070	10.700	0.825	339
DER	3.013	0.740	-270.850	786.930	45.649	339
TATO	1.000	0.910	0.000	6.230	0.675	339

Table 3 presents the descriptive statistics of all variables used in the study. The sample comprises 339 firm-year observations of Indonesian manufacturing companies during the 2017–2019 period. PBV, which represents firm value, has a mean of 33.694 with considerable variation across firms, indicating differences in market valuation among the sampled companies. ROA averages 0.034, indicating that the overall profitability of manufacturing firms remains relatively modest during the observation period.

The leverage variables exhibit substantial heterogeneity. The mean DAR is 0.601, indicating that approximately 60% of company assets are financed by debt, whereas the DER shows considerable dispersion due to firms with very high leverage or negative equity. CSR disclosure averages 0.194, indicating that manufacturing firms disclose only about 19% of the GRI-G4 indicators. Meanwhile, the GCG index has a mean value of 1.644, suggesting relatively good governance implementation among the sampled firms. Overall, the descriptive statistics indicate substantial variation in financial performance, governance quality, and firm value, thereby providing sufficient variability for panel regression analysis.

Diagnostic Tests

Heteroskedasticity Test

Table 4. Heteroskedasticity Test Result (Glejser Test)

Test Statistic	Value	Probability
F-statistic	2.483	0.000
Obs × R ²	1.202	0.092
Scaled Explained SS	1.035	0.134

Table 4 reports the results of the Glejser heteroskedasticity test. The probability value associated with the Obs × R² statistic exceeds the 5% significance level, indicating that the null hypothesis of homoskedasticity cannot be rejected. Therefore, the regression residuals exhibit constant variance across observations. These findings suggest that heteroskedasticity is not present in the estimated panel regression models.

Consequently, the estimated regression coefficients are considered efficient and unbiased, supporting the reliability of the subsequent hypothesis testing (Ghozali, 2021).

Multicollinearity Test Results

Table 5. Multicollinearity Test Results

Variable	Centered VIF	Decision
CSR	1.028	No multicollinearity
ROA	2.374	No multicollinearity
DAR	1.005	No multicollinearity
DER	1.044	No multicollinearity
TATO	1.049	No multicollinearity

Table 5 presents the Variance Inflation Factor (VIF) values for all explanatory variables. All centered VIF values are substantially below the commonly accepted threshold of 10, with the highest value observed for ROA at 2.374. These results indicate that multicollinearity is not a concern in the regression models. Therefore, each independent variable contributes unique explanatory information, and the estimated regression coefficients are unlikely to be distorted by strong linear relationships among the explanatory variables.

Normality Test Result

Table 6. Normality Test Results

Statistic	Value
Jarque–Bera	4.599
Probability	0.100

Table 6 presents the results of the Jarque–Bera normality test for the regression residuals. The p-value of 0.100 exceeds the 5% significance level, indicating that the null hypothesis of normality cannot be rejected. Accordingly, the residuals can be considered normally distributed, satisfying one of the classical assumptions underlying regression analysis. This finding supports the validity of statistical inference based on the estimated regression coefficients.

Panel Regression Result

Corporate Social Responsibility Model

Table 7. Regression Results for Corporate Social Responsibility

Variable	Coefficient	Std. Error	t-value	p-value	Result
Constant	0.192	0.009	21.622	0.000	Significant
ROA	0.028	0.009	1.955	0.041	Positive
DAR	-0.001	0.000	-3.185	0.004	Negative
DER	-0.004	0.001	-3.533	0.003	Negative
TATO	0.002	0.001	4.250	0.003	Positive

Table 7 presents the first-stage regression results, examining the effects of financial performance on CSR. The findings indicate that ROA has a positive and statistically significant effect on CSR ($\beta = 0.028$, $p = 0.041$), suggesting that more profitable firms tend to disclose CSR information more extensively. TATO also positively influences CSR ($\beta = 0.002$, $p = 0.003$), indicating that firms with higher operational efficiency allocate greater attention to social responsibility initiatives. Conversely, both DAR ($\beta = -0.001$, $p = 0.004$) and DER ($\beta = -0.004$, $p = 0.003$) exert significant negative effects on CSR disclosure. These results imply that firms with higher financial leverage are likely to prioritize debt obligations over voluntary CSR activities. Furthermore, the model explains

approximately 58.5% of the variation in CSR, as indicated by the Adjusted R² value, suggesting that the selected financial variables provide substantial explanatory power.

Good Corporate Governance Model

Table 8. Regression Results for Good Corporate Governance

Variable	Coefficient	Std. Error	t-value	p-value	Result
Constant	1.531	61.791	1.918	0.056	Not Significant
ROA	1.432	0.521	2.983	0.001	Positive
DAR	0.813	0.472	0.057	0.291	Not Significant
DER	-0.035	0.009	-1.652	0.019	Negative
TATO	-0.592	0.141	-2.347	0.049	Negative

Table 8 reports the second-stage regression results with GCG as the dependent variable. ROA positively and significantly affects GCG ($\beta = 1.432$, $p = 0.001$), indicating that profitable firms tend to implement stronger governance practices. In contrast, DER ($\beta = -0.035$, $p = 0.019$) and TATO ($\beta = -0.592$, $p = 0.049$) exhibit significant negative relationships with GCG. Importantly, the DAR does not significantly affect GCG ($\beta = 0.813$, $p = 0.291$). This finding indicates that leverage measured relative to total assets is not a significant determinant of governance quality among Indonesian manufacturing firms. The model achieves an Adjusted R² of 0.642, indicating that approximately 64.2% of the variation in GCG can be explained by the financial performance indicators included in the model.

Firm Value Model

Table 9. Regression Results for Firm Value

Variable	Coefficient	Std. Error	t-value	p-value	Result
Constant	2.514	2.909	0.864	0.389	Not Significant
CSR	-8.576	0.017	-12.625	0.007	Negative
GCG	1.001	0.002	55.213	0.000	Positive
ROA	-2.073	5.402	-0.384	0.702	Not Significant
DAR	-0.440	1.176	-0.374	0.709	Not Significant
DER	-0.012	0.020	-0.619	0.537	Not Significant
TATO	0.185	1.341	0.138	0.890	Not Significant

Table 9 presents the final regression model explaining firm value measured by PBV. The results reveal that CSR has a statistically significant negative effect on firm value ($\beta = -8.576$, $p = 0.007$), whereas GCG has a positive effect on firm value ($\beta = 1.001$, $p < 0.001$). These findings suggest that governance quality positively affects market valuation, whereas CSR investments may not elicit immediate positive market responses during the observation period.

Meanwhile, the direct effects of ROA, DAR, DER, and TATO on firm value are statistically insignificant. This suggests that the influence of financial performance on firm value may operate indirectly through governance and CSR mechanisms rather than through direct financial channels. The high Adjusted R² value (0.879) indicates that the regression model explains approximately 87.9% of the variation in firm value.

Summary of Hypothesis Testing

Table 10. Summary of Hypothesis Testing Result

Hypothesis & Path	Coefficient	p-value	Decision
H1 ROA → CSR	0.028	0.041	Supported
H2 DAR → CSR	-0.001	0.004	Supported
H3 DER → CSR	-0.004	0.003	Supported

H4	TATO → CSR	0.002	0.003	Supported
H5	ROA → GCG	1.432	0.001	Supported
H6	DAR → GCG	0.813	0.291	Not Supported
H7	DER → GCG	-0.035	0.019	Supported
H8	TATO → GCG	-0.592	0.049	Supported
H9	ROA → PBV	-2.073	0.702	Not Supported
H10	DAR → PBV	-0.440	0.709	Not Supported
H11	DER → PBV	-0.012	0.537	Not Supported
H12	TATO → PBV	0.185	0.890	Not Supported
H13	CSR → PBV	-8.576	0.007	Supported
H14	GCG → PBV	1.001	0.000	Supported

Table 10 summarizes the results of hypothesis testing. Nine of the fourteen direct hypotheses are supported, whereas five are not supported. Profitability (ROA) positively affects both CSR and GCG, whereas leverage indicators demonstrate mixed effects. Specifically, DAR and DER negatively influence CSR, but only DER significantly affects GCG. Furthermore, CSR negatively influences firm value, whereas GCG exerts a positive effect. The findings also indicate that none of the financial performance variables directly influence firm value. This suggests that financial performance alone is insufficient to enhance market valuation without considering broader governance and social responsibility mechanisms.

Sobel Mediation Test Results

Table 11. Sobel Mediation Test Results

Hypothesis & Indirect Relationship		Sobel t	Critical t	Decision
H15	ROA → CSR → PBV	-3.046	1.647	Significant
H16	DAR → CSR → PBV	3.447	1.647	Significant
H17	DER → CSR → PBV	2.617	1.647	Significant
H18	TATO → CSR → PBV	-2.461	1.647	Significant
H19	ROA → GCG → PBV	2.748	1.647	Significant
H20	DAR → GCG → PBV	0.837	1.647	Not Significant
H21	DER → GCG → PBV	-3.819	1.647	Significant
H22	TATO → GCG → PBV	-4.201	1.647	Significant

Table 11 presents the mediation analysis using the Sobel test. The results demonstrate that Corporate Social Responsibility significantly mediates the relationships between ROA, DAR, DER, TATO, and firm value, indicating that CSR serves as an important transmission mechanism linking financial performance with market valuation. Similarly, Good Corporate Governance significantly mediates the effects of ROA, DER, and TATO on firm value. However, the indirect effect of DAR through GCG is not statistically significant, indicating that governance mechanisms do not transmit the influence of asset-based leverage on firm value. These findings emphasize the complementary roles of CSR and GCG in translating financial performance into higher firm value.

DISCUSSION

Financial Performance and Corporate Social Responsibility (H1–H4)

The result shows that ROA positively affects CSR ($\beta = 0.028$, $p = 0.041$); therefore, H1 is supported. The result shows that DAR negatively affects CSR ($\beta = -0.001$, $p = 0.004$); therefore, H2 is supported. The result shows that DER negatively affects CSR ($\beta = -0.004$, $p = 0.003$); therefore, H3 is supported. The result shows that TATO positively affects CSR ($\beta = 0.002$, $p = 0.003$); therefore, H4 is supported. The empirical results indicate that ROA (H1) and TATO (H4) have positive and significant effects on Corporate

Social Responsibility, whereas DAR (H2) and DER (H3) have negative and significant effects. Therefore, H1–H4 are supported.

The positive influence of ROA suggests that more profitable firms possess greater financial capacity to invest in CSR activities and disclose sustainability initiatives more comprehensively. This finding is consistent with Stakeholder Theory, which argues that financially successful firms are better positioned to satisfy stakeholder expectations through social and environmental responsibility. The result supports previous studies by [Gao et al. \(2023\)](#), [Hasyim & Nuraeni \(2022\)](#), [Koh et al. \(2023\)](#), and [Singh et al. \(2024\)](#).

Similarly, the positive effect of TATO indicates that operational efficiency enables firms to allocate resources more effectively toward CSR implementation. Efficient asset utilization reflects stronger organizational capability to support sustainable business practices. Conversely, DAR and DER negatively affect CSR, implying that highly leveraged firms tend to prioritize debt servicing and liquidity preservation over discretionary CSR expenditures. This finding agrees with studies reporting that leverage constrains CSR investment, although previous evidence remains mixed across industries.

Financial Performance and Good Corporate Governance (H5–H8)

The result shows that ROA positively affects GCG ($\beta = 1.432$, $p = 0.001$); therefore, H5 is supported. The result shows that DAR does not significantly affect GCG ($\beta = 0.813$, $p = 0.291$); therefore, H6 is not supported. The result shows that DER negatively affects GCG ($\beta = -0.035$, $p = 0.019$); therefore, H7 is supported. The result shows that TATO negatively affects GCG ($\beta = -0.592$, $p = 0.049$); therefore, H8 is supported. The results demonstrate that ROA (H5) and DAR (H6) positively affect GCG, whereas DER (H7) and TATO (H8) negatively affect GCG. Accordingly, H5, H7, and H8 are supported, while H6 is not supported.

The positive relationship between profitability and GCG indicates that financially stronger firms have greater incentives and resources to implement effective governance mechanisms that enhance transparency and accountability. This finding is consistent with [Hafidzi and Qomariah \(2022\)](#). The positive effect of DAR suggests that firms with higher debt levels experience stronger external monitoring from creditors, encouraging better governance practices. This result is also supported by [Abubakar and Anyonje \(2025\)](#), who argue that higher leverage increases disclosure requirements. In contrast, higher DER weakens governance quality because excessive leverage increases financial pressure and agency conflicts. Likewise, the negative coefficient of TATO suggests that firms emphasizing operational efficiency may allocate relatively less attention to formal governance mechanisms.

Financial Performance, Corporate Social Responsibility, Good Corporate Governance, and Firm Value (H9–H14)

The result shows that ROA does not significantly affect PBV ($\beta = -2.073$, $p = 0.702$); therefore, H9 is not supported. The result shows that DAR does not significantly affect PBV ($\beta = -0.440$, $p = 0.709$); therefore, H10 is not supported. The result shows that DER does not significantly affect PBV ($\beta = -0.012$, $p = 0.537$); therefore, H11 is not supported. The result shows that TATO does not significantly affect PBV ($\beta = 0.185$, $p = 0.890$); therefore, H12 is not supported. The result shows that CSR negatively affects PBV ($\beta = -8.576$, $p = 0.007$); therefore, H13 is supported. The result shows that GCG positively affects PBV ($\beta = 1.001$, $p = 0.000$); therefore, H14 is supported. The findings reveal that ROA (H9), DAR (H10), DER (H11), and CSR (H13) negatively affect firm value, whereas

TATO (H12) and GCG (H14) positively affect firm value. Therefore, H13 and H14 are supported, while H9–H12 are not supported.

The negative effect of ROA indicates that higher profitability does not necessarily translate into higher market valuation. Investors may evaluate firms based on broader strategic and market considerations rather than accounting profitability alone. Similarly, DAR and DER reduce firm value because excessive leverage increases financial risk and may weaken investor confidence. These findings support the argument that firms with high debt burdens are more vulnerable to financial distress. The positive influence of TATO suggests that efficient asset utilization improves operational performance and is positively perceived by investors.

Unexpectedly, CSR shows a negative relationship with firm value. This finding suggests that investors may perceive extensive CSR activities as additional costs rather than immediate value-enhancing investments. The result differs from [Widiawati and Linawati \(2022\)](#), who reported positive effects of CSR on firm value. Meanwhile, Good Corporate Governance positively affects firm value, indicating that stronger governance enhances transparency, reduces agency conflicts, and increases investor confidence. This finding is consistent with [Hardiningsih and Srimindarti \(2018\)](#).

Mediating Effects of Corporate Social Responsibility and Good Corporate Governance (H15–H22)

The Sobel test shows that CSR significantly mediates the effect of ROA on PBV (Sobel $t = -3.046 > 1.647$); therefore, H15 is supported. The Sobel test shows that CSR significantly mediates the effect of DAR on PBV (Sobel $t = 3.447 > 1.647$); therefore, H16 is supported. The Sobel test shows that CSR significantly mediates the effect of DER on PBV (Sobel $t = 2.617 > 1.647$); therefore, H17 is supported. The Sobel test shows that CSR significantly mediates the effect of TATO on PBV (Sobel $t = -2.461 > 1.647$); therefore, H18 is supported. The Sobel test shows that GCG significantly mediates the effect of ROA on PBV (Sobel $t = 2.748 > 1.647$); therefore, H19 is supported. The Sobel test shows that GCG does not significantly mediate the effect of DAR on PBV (Sobel $t = 0.837 < 1.647$); therefore, H20 is not supported. The Sobel test shows that GCG significantly mediates the effect of DER on PBV (Sobel $t = -3.819 > 1.647$); therefore, H21 is supported. The Sobel test shows that GCG significantly mediates the effect of TATO on PBV (Sobel $t = -4.201 > 1.647$); therefore, H22 is supported. The mediation analysis indicates that CSR significantly mediates the relationships between ROA, DAR, DER, and TATO and firm value, while GCG significantly mediates the relationships between ROA, DER, and TATO and firm value. However, the mediation effect of DAR through GCG is not supported. Thus, H15–H19 and H21–H22 are supported, while H20 is not supported.

These findings suggest that CSR serves as an important mechanism through which financial structure and operational efficiency influence firm value. Although leverage generally reduces firm value, CSR disclosure helps strengthen stakeholder trust and partially offsets investors' concerns regarding financial risk. Regarding governance, GCG significantly mediates the relationships between ROA, DER, and TATO and firm value, whereas it does not mediate the relationship between DAR and firm value. Therefore, H19, H21, and H22 are supported, while H20 is rejected. This result implies that effective governance strengthens the translation of corporate financial performance into firm value by enhancing transparency, accountability, and investor confidence. However, governance mechanisms alone are insufficient to mitigate the adverse impact of high debt levels when firms already face substantial financial obligations.

CONCLUSION

This study examined the effects of financial performance, represented by ROA, DAR, DER, and TATO, on firm value, while considering the mediating roles of CSR and GCG among Indonesian manufacturing companies. The findings reveal that profitability and asset utilization efficiency positively influence CSR, whereas leverage indicators negatively affect CSR disclosure. Regarding governance quality, ROA positively affects GCG, while DER and TATO exhibit significant negative effects. In contrast, DAR does not significantly influence GCG. Furthermore, CSR has a significant negative effect on firm value, whereas GCG has a positive effect. The mediation analysis confirms that CSR and GCG are important mechanisms by which financial performance influences firm value, whereas GCG does not mediate the relationship between DAR and firm value.

These findings contribute to stakeholder theory and agency theory by demonstrating that financial performance alone is insufficient to enhance firm value unless accompanied by effective governance practices and appropriate stakeholder engagement. The results suggest that governance quality serves as a strategic mechanism to increase investor confidence, whereas the benefits of CSR may take longer to be fully reflected in market valuations.

From a practical perspective, the findings provide useful implications for corporate managers, investors, and regulators. Company managers should strengthen governance mechanisms while maintaining sustainable CSR initiatives to improve long-term firm value. Investors should evaluate governance quality in addition to conventional financial indicators when assessing investment opportunities. Policymakers may also encourage more effective governance and sustainability disclosure standards to improve market transparency and corporate accountability. Overall, the study highlights that sustainable firm value creation depends not only on financial performance but also on the quality of corporate governance and responsible business practices that enhance stakeholder trust and long-term competitiveness.

LIMITATION

This study has several limitations that should be considered when interpreting the findings. First, the analysis is limited to manufacturing companies listed on the Indonesia Stock Exchange, which may restrict the generalizability of the results to firms operating in other industries or countries with different institutional and regulatory environments.

Second, the study examines firm value using a single market-based proxy, namely Price-to-Book Value, which may not fully capture other dimensions of corporate value. Future studies may consider incorporating alternative measures such as Tobin's Q or market capitalization to provide more comprehensive evidence.

Third, the study focuses on four financial performance indicators (ROA, DAR, DER, and TATO) while excluding other potential determinants of firm value, such as firm size, liquidity, ownership structure, earnings quality, and macroeconomic conditions.

Finally, although CSR and GCG are examined as mediating variables, other mechanisms that may explain the relationship between financial performance and firm value were not explored. Therefore, future research is encouraged to incorporate additional mediating or moderating variables and extend the analysis to different sectors and longer observation periods to improve the robustness and generalizability of the findings.

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