



Corporate social responsibility and firm value: Profitability as moderator in mining sector

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ABSTRACT

This study examines the impact of Corporate Social Responsibility (CSR) on firm value, with profitability as a moderating variable, focusing on mining sector companies (oil and gas, coal, minerals, and gold) listed on the Indonesia Stock Exchange (IDX) from 2020 to 2024. Employing a quantitative approach, the research utilizes secondary data analyzed through multiple linear regression and Moderated Regression Analysis (MRA) in Jamovi, with samples selected via purposive sampling. The results demonstrate that CSR positively and significantly enhances firm value, while profitability further strengthens this relationship. These findings highlight the synergistic role of CSR and profitability in maximizing firm value, offering practical insights for mining companies to align social responsibility initiatives with financial performance to attract investor and stakeholder confidence.

Keywords: *CSR, Profitability, Firm Value, Price to Book Value, Return on Equity.*

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Abstrak

Studi ini mengkaji dampak Tanggung Jawab Sosial Perusahaan (CSR) terhadap nilai perusahaan, dengan profitabilitas sebagai variabel moderasi, dengan fokus pada perusahaan sektor pertambangan (minyak dan gas, batu bara, mineral, dan emas) yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2020 hingga 2024. Dengan menggunakan pendekatan kuantitatif, penelitian ini memanfaatkan data sekunder yang dianalisis melalui regresi linier berganda dan Analisis Regresi Termoderasi (MRA) di Jamovi, dengan sampel dipilih melalui purposive sampling. Hasilnya menunjukkan bahwa CSR secara positif dan signifikan meningkatkan nilai perusahaan, sementara profitabilitas semakin memperkuat hubungan ini. Temuan ini menyoroti peran sinergis CSR dan profitabilitas dalam memaksimalkan nilai perusahaan, menawarkan wawasan praktis bagi perusahaan pertambangan untuk menyelaraskan inisiatif tanggung jawab sosial dengan kinerja keuangan untuk menarik kepercayaan investor dan pemangku kepentingan.

Kata Kunci: *CSR, Profitability, Firm Value, Price to Book Value, Return on Equity*

1. Introduction

Corporate Social Responsibility (CSR) has significantly evolved since its emergence in the 1950s. Initially viewed as corporate philanthropy or voluntary acts of goodwill, CSR focused primarily on businesses' moral obligations to society. Over the decades, its scope broadened to systematically include social, environmental, ethical, human rights, and consumer concerns into core business operations and strategic decision-making. This evolution reflects the changing societal expectations and management practices throughout different periods. For instance, the 1960s were influenced by larger social movements. In comparison, the 1970s saw the introduction of structured management approaches to address CSR challenges. By the 1980s, stakeholder responsiveness became more important, and the 1990s marked the integration of CSR into strategic management literature as a conventional concept. In the 21st century, CSR solidified its role as a critical strategic imperative, with businesses increasingly aligning their sustainability efforts and societal impact with long-term competitiveness (Falcó et al., 2022; Moura-Leite & Padgett, 2011; Yevdokimova et al., 2018).

Several critical factors drive the increasing urgency to advance Corporate Social Responsibility (CSR) research. First, CSR has become increasingly relevant in recent decades due to rising societal and environmental challenges, along with heightened expectations for businesses to address these issues proactively (Pizarro et al., 2022). Stakeholders now demand that corporations go beyond simply maximizing profits and actively contribute to societal well-being, making CSR a strategic necessity rather than a discretionary choice (Karácsony, 2020; Mattila, 2006). Second, the interdisciplinary nature of CSR encompasses management, ethics, environmental science, and economics, highlighting its complexity. This complexity requires comprehensive frameworks to analyze its multifaceted impacts on various stakeholders (Ferramosca & Verona, 2020). Moreover, the interdependence between business viability and societal welfare emphasizes the need for rigorous CSR research. Companies that align their operations with societal needs can not only reduce risks but also enhance their long-term competitiveness and legitimacy. Therefore, continuous investigation into effective CSR practices is essential for navigating this interconnected relationship and promoting sustainable value creation for both businesses and communities (Mattila, 2006).

The urgency of researching CSR is highlighted by significant variations in its implementation across different geographic areas and industries, which require tailored, region-specific frameworks. Comparative studies show stark differences in the evolution of CSR between developed countries, such as the United States, where regulatory environments shape practices, and developing nations like India, where grassroots socioeconomic needs often drive initiatives. Furthermore, CSR faces unprecedented challenges due to global disruptions, notably the COVID-19 pandemic, which has led to a shift from global programs to more localized responses. These crises reveal the weaknesses of static CSR models and highlight the need for agile, evidence-based strategies that can effectively address emerging societal priorities. Together, these factors—contextual diversity and evolving global challenges—emphasize the critical necessity for ongoing academic research to create adaptable and impactful CSR approaches that resonate across borders and in times of crisis (Bhaduri & Selarka, 2016; Lopata & Rogatka, 2021; Mishra, 2019).

The existing literature generally confirms CSR positively affects business economic performance without diminishing shareholder value (Schiebel & Pöchtrager, 2003). However, this relationship presents several complexities that have not been fully explored. First, despite extensive research on the connection between CSR and firm value, there remain significant theoretical and empirical gaps regarding the risk-return trade-off associated with CSR investments. Evidence suggests that while CSR can enhance firm value, it also increases the variability of expected value distributions. This means that the potential for value enhancement from CSR is contingent upon a firm's risk management capabilities and the availability of redeployable slack resources (Lu et al., 2023). Second, the focus on short-term financial metrics has overshadowed the investigation into the long-term impacts of CSR. Research indicates that sustained engagement in CSR yields greater valuation benefits, particularly in family-owned businesses (Kim, 2010; Noor et al., 2020). Third, various contextual factors—including regional stakeholder pressures, ownership structures, and industry characteristics—play a critical role in shaping the CSR-value relationship. For example, areas with intense stakeholder engagement tend to show stronger correlations between CSR and firm value (Zeng et al., 2017). In contrast, this effect diminishes in state-owned or financially distressed companies. Additionally, sector-specific analyses reveal unique patterns; in the telecommunications industry, corporate governance mechanisms appear to have a more significant impact on valuation than CSR initiatives (Zeng et al., 2017). Hence, the present study aims to address these gaps, which is essential for developing contingency-based models that clarify the conditions under which CSR can create firm value.

Specifically, this study proposes profitability as a moderator of the influence of CSR on firm value. While the relationship between CSR and firm value has been widely examined, the moderating role of profitability in this dynamic remains understudied and yields nuanced insights. Empirical evidence suggests profitability generally enhances CSR's value-creation potential, as demonstrated in Indonesian and Malaysian pharmaceutical companies (Hermawan et al., 2023) and mining sector firms (Handayati et al., 2022), where profitable organizations more effectively convert CSR activities into firm value. However, this moderating effect exhibits complexity - high earnings management practices can attenuate the positive CSR-value relationship (Khuong & Anh, 2023). At the same time, firm life cycle stages introduce additional contingencies, with growth-stage (typically more profitable) firms deriving greater CSR benefits

than declining firms. Notably, some studies challenge this positive moderation, finding insignificant CSR-value relationships when accounting for profitability metrics like ROA and ROE (Source 5), suggesting context-dependent effects. Sectoral analyses further complicate this picture, as seen in the energy sector where CSR expenditures and disclosures interact with profitability to enhance financial performance (Shukla & Geetika, 2022). Hence, these findings collectively highlight that profitability's moderating role operates along a continuum of influence rather than following deterministic patterns, contingent upon organizational, temporal, and industry-specific factors that warrant deeper theoretical and empirical exploration.

2. Literature review

This study is based on two theories to clarify the relationship between CSR and firm value, and the role of profitability as a conditional moderator. According to legitimacy theory, CSR activities can be seen as strategic initiatives that allow firms to align with societal expectations. Profitable firms typically have more resources to invest in efforts that build legitimacy, which in turn mitigates regulatory risks and enhances stakeholder perceptions. This argument alignment is particularly beneficial for highly profitable firms that face increased public scrutiny. CSR activities help firms gain positive stakeholder responses, which enhances their legitimacy and, consequently, their firm value. Furthermore, based on evidence from Chinese manufacturing firms, where CSR was found to affect firm value positively (Noor et al., 2020). Moreover, firms use CSR disclosure as a strategy to signal their legitimacy, especially after adverse events like financial restatements. Improved CSR disclosure quality can protect corporate reputation and mitigate firm value losses (Zhang et al., 2021). On the other hand, signaling theory suggests that CSR serves as a credible indicator of the unobservable quality of a firm. This signaling mechanism is more effectively leveraged by profitable companies that can sustain visible and impactful initiatives (Nguyen, 2025). Together, these theories highlight an important point: profitability not only allows for increased investment in CSR but also enhances the credibility of CSR initiatives, serving both as a legitimacy tool (by demonstrating the firm's capacity for compliance) and as a quality signal (by showcasing long-term commitment).

Corporate social responsibility and firm value

Firm value refers to the total worth of a company as perceived by investors and stakeholders. It is often linked to stock prices and reflects the company's success in achieving its financial and operational objectives. Several factors can influence firm value, including capital structure, profitability, asset turnover, and financial ratios. It serves as an indicator of management's performance in maximizing shareholder wealth. It is a crucial measure for evaluating a company's market position and future potential (Ishak et al., 2024; Melina & Endri, 2024).

The potential of CSR to create value can be understood through four interconnected channels, which together highlight the moderating role of profitability. First, stakeholder theory (Freeman, 1984) explains how CSR enhances relational capital. Profitable firms tend to increase positive responses from stakeholders, such as consumer loyalty and investor confidence, while also reducing the risks of reputational damage (Feng et al., 2022; Lenz et al., 2017; Noor et al., 2020). Second, from the perspective of the resource-based view, CSR improves investment efficiency and innovation output (Cook et al., 2019). This effect is particularly significant in state-owned enterprises (Noor et al., 2020). Additionally, research indicates that firms with superior

CSR performance demonstrate greater investment efficiency and innovation output, as evidenced by patent generation, which in turn contributes to improved profitability and enhanced firm valuation (Cook et al., 2019). From a market perception standpoint, CSR initiatives act as credible indicators of product quality, thereby improving market perceptions and indirectly increasing firm value. Longitudinal studies show that sustained engagement in CSR generates substantial value creation benefits, with especially notable effects in family-owned businesses (Bardos et al., 2020). Importantly, CSR can serve as a source of competitive advantage in highly contested industries, where peer effects amplify the value-enhancing potential of corporate social initiatives (Liu & Wu, 2016). Collectively, these multidimensional mechanisms illustrate how CSR goes beyond mere compliance to become a strategic driver of value for modern corporations.

Profitability moderate the relationship corporate social responsibility and firm value

The moderating effect of profitability on the relationship between corporate social responsibility (CSR) and firm value reveals significant contingencies. Profitable firms typically have a greater financial capacity to invest in CSR initiatives without jeopardizing their operational stability. This investment can strengthen stakeholder relationships and enhance firm value (Hermawan et al., 2023). However, this positive moderation is context-dependent. For instance, some studies on Indonesian manufacturing firms found no significant moderating effect of profitability—measured by ROA or ROE—on the CSR-value relationship. This suggests that institutional factors or industry characteristics may sometimes override the financial capacity in specific markets.

Additionally, there is the possibility of diminishing returns when CSR expenditures become excessive about operating costs. Instances where high CSR scores coincided with increased operating expenses have negatively impacted profitability (Lee & Yang, 2021). This observation aligns with the resource-based view, which emphasizes the importance of optimal rather than maximal resource allocation. In such cases, the marginal costs of CSR investments may eventually outweigh their benefits. Overall, prior studies indicate that while profitability often enhances the value-adding potential of CSR, its moderating role is constrained by various factors, including institutional context, industry dynamics, and the proportionality of expenditures. The relationship between profitability and firm value in the context of CSR can be influenced by various external factors, including economic conditions and industry characteristics. During economic downturns, highly profitable firms may utilize their financial resilience to continue their CSR initiatives, thereby safeguarding their firm value. On the other hand, in highly competitive industries, the advantages of CSR are likely to be more significant for profitable companies, as they possess the capacity to invest in social initiatives over the long term (Buchanan et al., 2018; Hamza et al., 2024).

3. Methods

This study aims to empirically examine the impact of Corporate Social Responsibility (CSR) on firm value, with a specific focus on investigating profitability as a moderating variable in this relationship. To achieve this objective, the research adopts a quantitative approach, utilizing numerical data and statistical analysis to test the hypothesized relationships (Hendryadi et al.,

2025). The methodological framework employs Moderated Regression Analysis (MRA). This robust statistical technique allows for the examination of interaction effects between independent and moderating variables. The analysis proceeds in two key stages: first, evaluating the direct effect of CSR on firm value, and second, testing whether profitability significantly moderates this relationship through the inclusion of an interaction term ($\text{CSR} \times \text{Profitability}$) in the regression model.

Data Collection

The research relies on secondary data sourced from official entities, including the Indonesia Stock Exchange (IDX) and the corporate websites of mining sector companies (oil & gas, coal, minerals, and gold) listed on the IDX. The dataset spans five years (2020–2024) to ensure relevance and capture recent trends in corporate social responsibility (CSR) disclosures and financial performance.

Population and Sample Selection

The study concentrated on companies within the mining sector that are listed on the Indonesia Stock Exchange (IDX). A purposive sampling approach was utilized, guided by specific selection criteria to ensure the relevance and quality of the data. The sample was restricted to companies that maintained continuous listing status throughout the observation period from 2020 to 2024, reported positive profitability (indicating a non-loss status), and demonstrated transparency through published sustainability reports or disclosures of corporate social responsibility (CSR) activities. Additional criteria included active trading status (excluding suspended companies) and the availability of an official company website for data verification purposes. This approach ensured that all selected firms adhered to rigorous standards regarding financial viability, reporting transparency, and data accessibility.

4. Results and discussion

4.1. Descriptive Statistics

Table 1 presents descriptive statistics for three key variables in the study. Corporate Social Responsibility (CSR) shows a mean score of 0.385 with a standard deviation of 0.233, indicating that on average, companies disclose about 38.5% of their CSR activities, with individual company scores typically varying by $\pm 23.3\%$ from this average. Profitability has a lower mean of 0.205 (20.5%) with a similar standard deviation of 0.238, suggesting that while profitability levels are moderate overall, there is substantial variation among firms ($\pm 23.8\%$). The most notable finding is for Firm Value, which has a much higher average of 1.51 with a significant standard deviation of 1.28, revealing two important insights: first, that companies generally have firm values exceeding their book values (as indicated by the mean above 1), and second, that there is extensive variation in firm performance across the sample ($\pm 128\%$ from the mean). The relatively high standard deviations for all variables compared to their means suggest considerable diversity in how companies perform across these three measures, which could be due to industry differences, varying business strategies, or other firm-specific factors.

Table 1. Descriptive Statistics

Variable	Mean	Std. Deviasi
CSR	0.385	0.233
Profitability	0.205	0.238
Firm value	1.51	1.28

4.2. Moderated Regression Analysis

The results of the moderated regression analysis in Table 2 reveal several important findings regarding the model's predictive power and statistical significance. The R-squared value in Model 1, 0.088, indicates that the CSR and Profitability variables together explain approximately 8.8% of the variation in the dependent variable, while factors outside the model explain the remaining 91.2%. When the interaction between CSR and Profitability is included in Model 2, the R-squared value increases significantly to 0.230, meaning the model now explains 23% of the variation in the dependent variable. This 14.2 percentage point increase indicates that the interaction effect between CSR and Profitability makes a substantial contribution to predicting the dependent variable. The consistent F-statistic value of 10.5 for both models indicates that both the model without interaction and the model with interaction are statistically significant in predicting the dependent variable compared to the null model. Although the F-statistic value remains unchanged, the increase in R-squared in Model 2 confirms that the addition of the interaction variable not only improves the model's predictive power but also maintains its overall statistical significance.

Table 2. Moderated regression analysis

Variable	Const.	Std. Error	T statistic	Prob
CSR	1.43	0.462	3.10	0.002
Profitability	1.55	0.452	3.43	<.001
Interaction	4.17	1.670	2.50	0.012
	Model 1	Model 2		
R square	0.088	0.230		
F-statistics	10.5	10.5		

Main Effects (Model 1)

Both CSR (Corporate Social Responsibility) and Profitability have statistically significant positive effects on the dependent variable. The coefficient for CSR is 1.43, with a standard error of 0.462, resulting in a t-statistic of 3.10 and a p-value of 0.002, indicating strong significance. Similarly, Profitability has a coefficient of 1.55 (standard error = 0.452), a t-statistic of 3.43, and a p-value of less than 0.001, reinforcing its significant positive influence. Model 1 explains 8.8% of the variance in the dependent variable ($R^2 = 0.088$).

Interaction Effect (Model 2)

When the interaction term between CSR and Profitability is introduced, the explanatory power of the model increases substantially to 23.0% ($R^2 = 0.230$). The interaction term itself is

statistically significant, with a coefficient of 4.17 (standard error = 1.670), a t-statistic of 2.50, and a p-value of 0.012. This indicates that the relationship between CSR and the dependent variable is dependent on the level of Profitability (or vice versa).

Simple Slope Plot

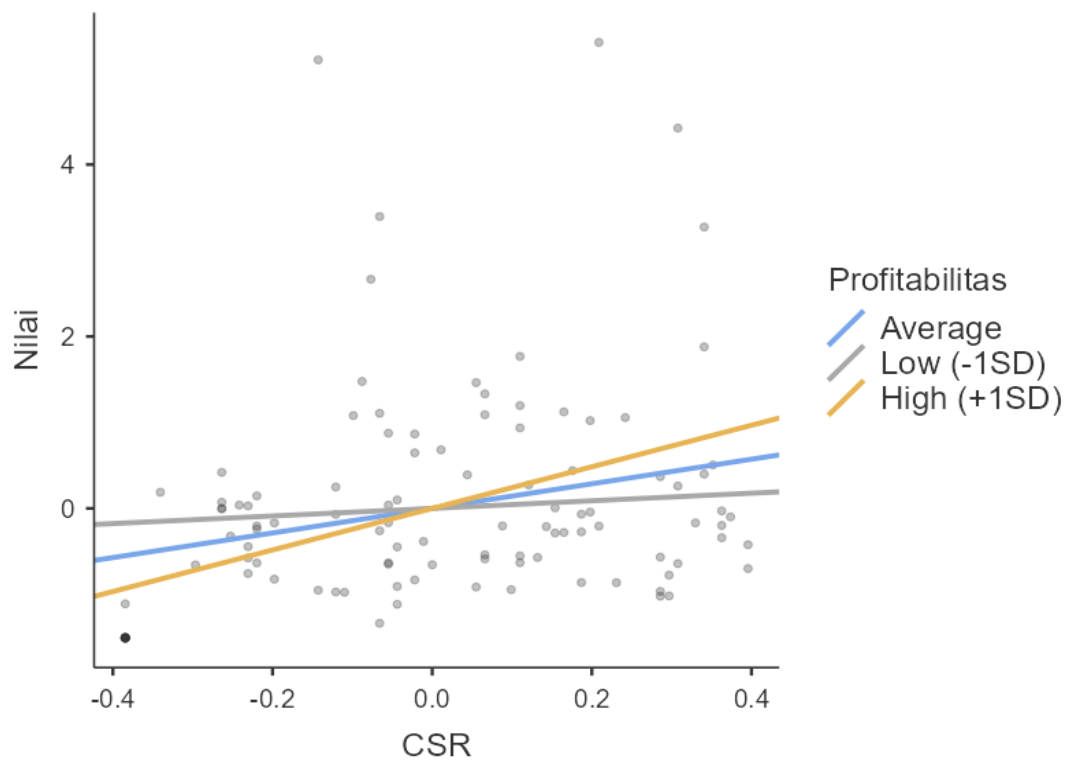


Figure 1. Simple slope analysis

The results of the Simple Slope Analysis are illustrated in a Simple Slope Plot. The plot reveals that the slope of the CSR-Value line is steepest at high profitability (represented by the yellow line), followed by the line for average profitability (the blue line). In contrast, the line for low profitability (shown in grey) is nearly flat. These results indicate that the impact of Corporate Social Responsibility (CSR) on Value is very weak in companies with low profitability.

4.3. Discussion

The findings of this study reveal that CSR has a positive and significant impact on firm value. The analysis shows that more intensive CSR practices are correlated with increased firm value, indicating that a company's commitment to social responsibility is not only philanthropic but also has strategic value in enhancing positive perceptions among investors and stakeholders. Theoretically, this finding supports the stakeholder theory perspective, which states that CSR practices can create added value for a company by enhancing its reputation and social legitimacy (Freeman, 1984). Moreover, the findings support stakeholder theory (Boas & Machado, 2024; Fernández & Rajagopal, 2016; Noor et al., 2020) which suggests that corporate social

responsibility activities enhance firm value by fostering stronger relationships with key stakeholders, including customers, employees, and communities.

Practically, this finding offers important implications for corporate management. First, investing in CSR programs is not only an ethical obligation but also a strategic investment that can enhance firm value. Second, companies need to effectively communicate CSR activities to stakeholders to maximize their positive impact on market valuation. Third, these findings encourage regulators to consider policies that encourage more transparent and measurable CSR practices. For investors, these findings suggest considering CSR performance as a factor in investment decision-making, as it can be an indicator of long-term company value. This research strengthens the empirical evidence on the role of CSR in corporate value creation, while highlighting the importance of institutional context and industry characteristics in understanding this relationship.

The findings of this study reveal that profitability significantly strengthens the positive effect of Corporate Social Responsibility (CSR) on firm value, confirming the moderating role of financial performance in this relationship. This suggests that CSR initiatives generate greater value enhancement for firms with strong profitability, likely because financially stable companies can allocate resources more strategically toward CSR programs that yield long-term reputational and competitive benefits. Theoretically, this result supports both the resource-based view (RBV), which posits that firms with superior financial performance are better positioned to leverage CSR as a value-creating resource, and stakeholder theory, which emphasizes that profitable firms face greater expectations for responsible business conduct. However, the RBV also cautions against excessive CSR expenditures, as diminishing returns may occur when CSR costs disproportionately increase operating expenses, potentially eroding profitability (Lee & Yang, 2021). These results highlight the importance of optimal—rather than maximal—resource allocation in CSR strategy.

From a practical perspective, these findings offer important insights for corporate managers and investors. First, companies should integrate CSR strategies with financial performance objectives, recognizing that CSR investments are most impactful when supported by—and proportional to—strong profitability. Second, investors may consider both CSR performance and profitability when evaluating firms, as the combination of these factors appears to drive superior valuation, particularly in competitive industries where profitable firms can sustain long-term CSR commitments (Buchanan et al., 2018; Hamza et al., 2024). The moderating effect of profitability may also vary with external factors; for instance, during economic downturns, financially resilient firms can maintain CSR initiatives, thereby preserving firm value despite market volatility.

5. Conclusion

This study demonstrates that CSR positively and significantly enhances firm value, with profitability serving as a key moderator that strengthens this relationship. The findings validate stakeholder theory by showing how CSR builds value through improved stakeholder relationships, while also supporting the resource-based view in highlighting how financially stable firms can more effectively leverage CSR as a strategic asset. Notably, the research reveals that the value-creation potential of CSR is optimized when balanced against profitability

considerations, as excessive CSR expenditures may lead to diminishing returns. These insights suggest that CSR should be implemented as a strategic, rather than purely philanthropic, initiative—particularly in competitive industries where profitable firms can sustain long-term CSR commitments. For practitioners, this implies the need to align CSR investments with financial capacity while maintaining transparent communication with stakeholders to maximize valuation benefits.

Limitations and Future Research

This study is limited by its focus on listed mining companies in Indonesia, which may restrict the generalizability of findings to other sectors or geographical contexts. Additionally, the research period (2020-2024) coincided with unique global economic conditions that could influence CSR's value-creation dynamics. Future studies could expand this work by incorporating cross-industry comparisons, examining nonlinear relationships between CSR expenditures and firm value, and exploring how institutional factors (e.g., regulatory environments or cultural norms) shape the profitability-CSR-value nexus. Longitudinal analyses tracking CSR's value impact across business cycles also help refine the understanding of optimal CSR investment strategies under varying economic conditions.

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CSR, firm value, profitability

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