

Corporate Social Responsibility, Profitability, and Firm Size as Determinants of Firm Value: Evidence from Manufacturing Companies Listed on the Indonesia Stock Exchange with Tax Avoidance as a Mediating Variable (2020–2024)

Amelia Dwi Wirantika, Nurul Aini, Sarah Yuliarini
Universitas Wijaya Kusuma Surabaya
Ameliadwi02@gmail.com

ABSTRACT

This study examines the effect of Corporate Social Responsibility (CSR), profitability, and firm size on firm value with tax avoidance as a mediating variable. The study employs a quantitative approach using secondary data collected from manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. A purposive sampling technique was applied, resulting in 110 companies and 550 firm-year observations. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.

The findings reveal that CSR has a positive and significant effect on firm value and tax avoidance. Tax avoidance also significantly influences firm value. Furthermore, tax avoidance mediates the relationship between CSR and firm value as well as between profitability and firm value. However, profitability and firm size do not significantly affect firm value, while firm size does not significantly affect tax avoidance. The results suggest that CSR practices contribute to enhancing company value both directly and indirectly through responsible tax management. This study contributes to the literature on corporate sustainability, taxation strategy, and firm valuation in emerging markets.

Keywords: Corporate Social Responsibility, Profitability, Firm Size, Tax Avoidance, Firm Value, PLS-SEM.

i. INTRODUCTION

In the era of globalization and increasingly competitive business environments, companies are expected not only to achieve economic objectives but also to fulfill their social and environmental responsibilities as part of a sustainable business strategy. Corporate Social Responsibility (CSR) has become an essential instrument through which companies address stakeholder expectations and maintain social legitimacy. The implementation of CSR is believed to enhance corporate reputation, strengthen investor confidence, and create long-term value for the company.

Firm value is an important indicator that reflects investors' perceptions of a company's performance and future prospects. A high firm value indicates strong market confidence in the company's ability to generate profits and sustain its business operations. Therefore, factors influencing firm value continue to attract considerable attention in accounting and finance research.

Empirical studies examining the relationship between CSR and firm value have produced mixed results. Rahmantari et al. (2019), Sugianto et al. (2021), and Machmuddah and Sari (2020) found that CSR has a positive and significant effect on firm value because it enhances corporate image and investor trust. In contrast, Kamaliah (2020), Adiputra and Hermawan (2020), and Marc et al. (2022) reported that CSR has no significant effect on firm value. These inconsistent findings indicate the existence of a research gap regarding the effectiveness of CSR in enhancing firm value.

Besides CSR, profitability is another internal factor frequently associated with firm value. High profitability reflects a company's ability to generate earnings through the efficient utilization of its assets. Zuhroh (2019) and Margono and Gantino (2021) demonstrated that profitability positively affects firm value. However, Pratama and Wiksuana (2018) reported that profitability may negatively affect firm value. Such inconsistencies suggest the presence of additional factors that may explain the relationship between profitability and firm value.

Another factor that may influence firm value is firm size. Larger firms generally possess greater access to financing, more substantial resources, and better operational stability. Studies by Azzam and Zaidan (2023), Bozkurt and Yildirim (2021), and Hidayat and Lim (2020) found that firm size positively influences firm value. Conversely, Cheryta et al. (2017), Sintyana and Artini (2018), and Hirdinis (2019) reported that firm size either has no effect or even a negative effect on firm value.

One variable that may explain the inconsistent relationships among CSR, profitability, firm size, and firm value is tax avoidance. Tax avoidance refers to legal tax-planning strategies undertaken by companies to minimize tax expenses, thereby increasing after-tax profits and corporate cash flows. Desai and Dharmapala (2009), Margono and Badri (2023), and Sidiq and Hartono (2022) found that tax avoidance positively affects firm value through improved tax efficiency. In contrast, Chen, Hu, and Wang (2014) as well as Wahab and Holland (2012) argued that aggressive tax avoidance practices may create reputational risks and reduce investor confidence, ultimately lowering firm value.

A recent phenomenon highlighting the importance of this issue is the misuse of CSR funds at PT Timah involving Harvey Moeis, as reported by CNN Indonesia (2024).

Funds that were intended for community empowerment and sustainable development programs were allegedly misappropriated for personal interests. This case illustrates that CSR implementation does not always reflect genuine social responsibility and may adversely affect a company's reputation if not supported by sound corporate governance.

Given the inconsistencies in previous research findings and the importance of understanding the mechanisms that drive firm value creation, this study aims to examine the effects of Corporate Social Responsibility (CSR), profitability, and firm size on firm value, with tax avoidance serving as a mediating variable.

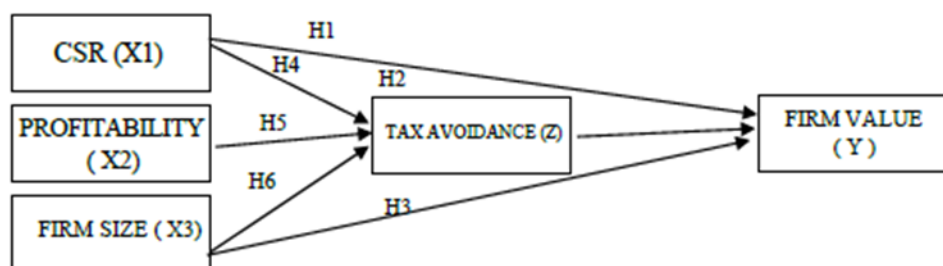
This study is expected to contribute to the development of several theoretical perspectives. First, Stakeholder Theory suggests that companies are responsible not only to shareholders but also to all stakeholders. By fulfilling stakeholder expectations through CSR activities, companies can gain support that contributes to enhanced firm value. Second, Legitimacy Theory argues that companies seek legitimacy from society by engaging in activities that are consistent with social norms and expectations. CSR disclosure serves as an important mechanism through which companies obtain and maintain such legitimacy. Third, Signaling Theory explains that companies provide signals to investors through corporate information disclosure. CSR practices, profitability performance, and taxation policies may serve as signals regarding corporate quality and future prospects.

Furthermore, this study is expected to provide practical implications for corporate management, investors, and regulators in supporting sustainable firm value creation.

ii. METHOD

This study employs a quantitative approach using secondary data obtained from the annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The study aims to examine the effects of Corporate Social Responsibility (CSR), Profitability, and Firm Size on Firm Value, with Tax Avoidance serving as a mediating variable.

Data analysis was conducted using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach with the assistance of SmartPLS 4 software. This method was selected because it is capable of analyzing complex structural models and testing both direct and indirect relationships among variables simultaneously. In addition, PLS-SEM is suitable for predictive research and mediation analysis involving multiple constructs.



2.1 Conceptual Framework

The population of this study consists of all manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sample was selected using a purposive sampling technique based on the following criteria:

- Manufacturing companies listed on the IDX during the 2020–2024 period.
- Companies that consistently published complete annual financial reports throughout the observation period.
- Companies with complete data related to all research variables.
- Companies that did not experience consecutive losses during the observation period.
- Companies that used the Indonesian Rupiah (IDR) as the reporting currency in their financial statements.

Based on these criteria, 110 companies out of a total population of 193 manufacturing companies met the sample requirements. Given the five-year observation period, the study obtained a total of 550 firm-year observations

2.1 Variable Measurement

Independent Variable

1. Corporate Social Responsibility (CSR) is measured using the Corporate Social Responsibility Index (CSRI) = $\frac{\sum X_{ij}}{N}$
2. Profitability (PROF) is measured using Return on Assets (ROA) = $\frac{\text{Net Income}}{\text{Total Asset}}$
3. Firm Size (SIZE) is measured using the natural logarithm of total assets (Ln Total Assets).

Mediating Variable is Tax Avoidance (TA) is measured using the Effective Tax Rate (ETR) /Cash Effective Tax Rate (CETR).

Dependent Variable which capture the extent of a firm's tax avoidance practices. Firm Value (FV) is measured using Tobin's Q, which represents the ratio of a firm's market value to the replacement cost or book value of its assets.

$$\text{Tobins'Q} = \frac{\text{Market Value of Asset}}{\text{Asset Value}}$$

2.2 Data Analysis Technique

The data analysis in this study is conducted in three main stages:

1. Measurement Model Assessment (Outer Model), which includes the evaluation of convergent validity, discriminant validity, composite reliability, and Cronbach's alpha to ensure the validity and reliability of the measurement instruments.
2. Structural Model Assessment (Inner Model), which involves examining the coefficient of determination (R^2), effect size (f^2), and the relationships among latent variables.
3. Hypothesis Testing. Hypotheses are tested using the bootstrapping procedure. A hypothesis is considered statistically significant when the t-statistic exceeds 1.96 and the p-value is less than 0.05.

iii. RESULTS AND DISCUSSION

1. Measurement Model Assessment

	CSR (X1)	FV (Y)	PROF (X2)	SIZE (X3)	TA (Z)
CSR	1,000				
FIRM VALUE		1,000			
PROF			1,000		
SIZE				1,000	
TA					1,000

3.1 Outer Loadings

	CSR (X1)	Firm Value (Y)	Profitability (X2)	Firm Size (X3)	Tax Avoidance (Z)
CSR (X1)	1,000				
Firm Value (Y)	0,125	1,000			
Profitability (X2)	0,214	0,542	1,000		
Firm Size (X3)	0,187	0,331	0,296	1,000	
Tax Avoidance (Z)	0,108	0,264	0,176	0,241	1,000

3.2 Cross Loading

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Carbon Emission Disclosure (X2)	1,000	1,000	1,000	1,000
Eco-Efficiency (X1)	1,000	1,000	1,000	1,000
Moderating Effect 1	1,000	1,000	1,000	1,000
Moderating Effect 2	1,000	1,000	1,000	1,000
Nilai Perusahaan (Y)	1,000	1,000	1,000	1,000
Profitabilitas (M)	1,000	1,000	1,000	1,000

3.3 Reliability Test

The measurement model evaluation demonstrates that all constructs exhibit satisfactory levels of validity and reliability. The outer loading values, Average Variance Extracted (AVE), Cronbach's Alpha, and Composite Reliability coefficients are above the recommended cut off values. These results confirm the adequacy of the measurement model and indicate that all constructs are appropriate for further structural model assessment.

3.2 Structural Model Assessment

3.4 R-Square

	R-square	R-square adjusted	The
FV (Y)	0,062	0,026	
TA (Z)	0,032	0,048	

coefficient of determination (R^2) for Firm Value is 0.062, indicating that Corporate Social Responsibility (CSR), Profitability, Firm Size, and Tax Avoidance jointly explain 6.2% of the variance in Firm Value. Meanwhile, the R^2 value for Tax Avoidance is 0.032, suggesting that CSR, Profitability, and Firm Size explain 3.2% of the variance in Tax Avoidance.

Hipotesis	Hubungan Antar Variabel	Keputusan
H1	CSR → Firm Value	Diterima
H2	Profitabilitas → Firm Value	Ditolak
H3	Firm Size → Firm Value	Ditolak
H4	CSR → Tax Avoidance → Firm Value	Diterima
H5	Profitabilitas → Tax Avoidance → Firm Value	Diterima
H6	Firm Size → Tax Avoidance → Firm Value	Ditolak

The findings reveal that Corporate Social Responsibility (CSR) has a positive and significant effect on Firm Value. This result is consistent with Stakeholder Theory proposed by Freeman (1984), which argues that firms should consider the interests of all stakeholders to create long-term value. Through extensive CSR disclosure, companies can strengthen stakeholder trust, thereby enhancing firm value. The findings are also supported by Legitimacy Theory (Suchman, 1995), which suggests that firms seek social legitimacy by aligning their activities with societal norms and expectations. A higher level of CSR disclosure improves public acceptance and corporate reputation, ultimately contributing to greater firm value. Furthermore, the results are in line with Signaling Theory (Spence, 1973; Ross, 1977), which posits that CSR disclosure serves as a positive signal regarding management quality and future corporate prospects. These findings are consistent with previous studies by Rahmantari et al. (2019), Machmuddah and Sari (2020), Sugianto et al. (2021), and Yanti (2022), all of which reported a positive and significant relationship between CSR and firm value. Profitability does not have a significant effect on Firm Value. This finding suggests that investors do not assess firms solely based on their ability to generate profits but also consider other factors, such as growth opportunities, industry conditions, business risks, and sustainability performance. Consequently, the results provide limited support for Signaling Theory, which suggests that high profitability should signal favorable future prospects to investors. In this study, however, profitability alone does not appear sufficient to increase firm value. The finding is more consistent with Stakeholder Theory, which emphasizes that corporate success is determined not only by financial performance but also by the firm's ability to satisfy stakeholder expectations. Therefore, high profitability may not necessarily translate into higher firm value when it is not accompanied by

strategies that enhance investor confidence. Firm Size is not found to have a significant effect on Firm Value. This finding indicates that larger asset ownership does not necessarily lead to higher firm value unless the assets are managed efficiently and productively. According to Stakeholder Theory, investors are more concerned with a firm's ability to create value than with its scale of operations. Therefore, firm size is not the sole criterion considered in investment decisions. This result is consistent with the findings of Goka et al. (2018), who reported that firm size has no significant impact on firm value, suggesting that investors place greater emphasis on corporate performance than on the magnitude of assets owned. The results further indicate that Tax Avoidance mediates the relationship between Corporate Social Responsibility (CSR) and Firm Value. This finding implies that firms with strong CSR commitments tend to manage their tax obligations more effectively, which subsequently contributes to enhanced firm value. In addition, effective CSR practices strengthen stakeholder trust and improve corporate reputation among investors. This result supports both Stakeholder Theory and Legitimacy Theory, which propose that firms attempt to fulfill stakeholder expectations and gain social legitimacy through responsible business practices. The finding is consistent with the studies of Evertsson (2016) and Chen, Hu, and Wang (2014), which suggest that tax avoidance plays an important role in explaining the relationship between CSR and firm value. The findings also demonstrate that Tax Avoidance mediates the effect of Profitability on Firm Value. This suggests that highly profitable firms are more capable of implementing effective tax planning strategies, thereby increasing after-tax earnings and enhancing firm value. This result is consistent with Signaling Theory, which argues that efficient corporate management provides a positive signal regarding a firm's performance and future prospects. Moreover, from the perspective of Agency Theory, tax savings may increase shareholder wealth through higher profitability and stronger cash flows. These findings are in line with the studies of Desai and Dharmapala (2009), Sidiq and Hartono (2022), and Margono and Badri (2023), which found that tax avoidance can strengthen the influence of profitability on firm value. However, Tax Avoidance does not mediate the relationship between Firm Size and Firm Value. This finding indicates that company size does not directly determine the effectiveness of tax management in enhancing firm value. Although larger firms generally possess more resources, these resources do not necessarily generate tax benefits that increase firm value. According to Legitimacy Theory, large firms are subject to greater scrutiny from regulators and the public, making them more cautious in engaging in tax avoidance activities. Consequently, Tax Avoidance does not serve as an intervening mechanism between Firm Size and Firm Value. This result reinforces the argument that firm size is not a primary determinant of firm value through tax avoidance practices.

iv. CONCLUSION

The results indicate that CSR positively and significantly affects Firm Value, whereas Profitability and Firm Size do not exhibit significant direct effects on Firm Value. Tax Avoidance is found to mediate the effects of CSR and Profitability on Firm Value but does not mediate the relationship between Firm Size and Firm Value. These findings highlight the importance of CSR engagement and effective tax management in enhancing firm value within Indonesian manufacturing firms. Practically, firms should

strengthen CSR initiatives and maintain transparent tax management practices to support long-term value creation. Investors are also advised to consider CSR disclosures and tax policies when evaluating investment opportunities. Future research should incorporate additional variables, such as Good Corporate Governance, Leverage, Growth Opportunities, and the Investment Opportunity Set (IOS), to achieve greater predictive accuracy and provide a more comprehensive explanation of Firm Value.

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