Bulletin of Social Science and Community Development
ISSN: 3025-6798 | Journal's DOI: 10.61436/bsscd
Homepage: https://imrecsjournal.com/journals/index.php/bsscd

Does CSR Disclosure Play a Role in Moderating the Effects of Profitability and Free Cash Flow on Firm Value?

Hafizatun Nufus, Muhammad Arfan*, Mulia Saputra
Department of Accounting, Universitas Syiah Kuala, Indonesia

ARTICLE INFO
Article History:
Received: 01 July 2026
Accepted: 20 July 2026:
Published: 27 July 2026

Keywords:
Firm value;
Profitability;
Free cash flow;
CSR disclosure;
Consumer cyclicals.

Corresponding Author:
arfan_rais@usk.ac.id

ABSTRACT
This study aims to examine the role of CSR disclosure in moderating the effects of profitability and free cash flow on firm value among companies in the consumer cyclical sector listed on the Indonesia Stock Exchange (IDX) during the 2021–2023 period. The sample was selected using purposive sampling, comprising 39 companies and 117 observations over 3 years (2021–2023). This study employs a quantitative approach using secondary data sourced from annual financial statements and sustainability reports. The data were analyzed using a fixed-effects model and moderated regression analysis. The results indicate that profitability has no effect, whereas free cash flow has a negative effect on firm value. Furthermore, CSR disclosure does not moderate the effect of profitability; however, it does moderate the effect of free cash flow by weakening its negative impact on firm value. Thus, it can be concluded that CSR disclosure does not play a role in moderating the effect of profitability on firm value. However, it does play a role in moderating the negative effect of free cash flow on firm value. These findings suggest that investors will hold a negative perception of companies with high levels of free cash flow; however, this negative perception will diminish when the company discloses a high level of CSR.

To cite this article:
Nufus, H., Arfan, M., & Saputra, M. (2026). Does csr disclosure play a role in moderating the effects of profitability and free cash flow on firm value?. *Bulletin of Social Studies and Community Development*, *5*(3), 121-132. doi: https://doi.org/10.61436/bsscd/v5i3.pp121-132

■ INTRODUCTION

Firm value is a key indicator that reflects a business entity's performance and its prospects for sustainability in the capital market. Companies always strive to maintain and increase their firm value to ensure the sustainability of their operations (Diantimala et al., 2021). In the consumer cyclicals sector, a company's value is heavily influenced by the economic cycle due to the nature of its products, which are sensitive to changes in consumer purchasing power (Indonesia, 2024). These conditions have led investors to view the fundamental factors affecting a company's value more critically compared to defensive sectors. Additionally, stock prices in the consumer cyclicals sector are highly sensitive to economic conditions. Stock prices tend to surge during periods of economic expansion but decline during recessions. One way to measure a company's valuation is by analyzing the price-to-book value (PBV) ratio, which compares a company's stock price to its book value. A healthy PBV ratio typically exceeds one, meaning the stock's market value is greater than its book value (Goklas & Thamrin, 2023). Figure 1 below shows the number of companies in the cyclical consumer goods sector from 2021 to 2023 with a PBV ratio below 1.

Figure 1 shows that in 2021, there were 40 companies in the cyclical consumer sector with a PBV ratio below 1. This figure was derived by calculating the PBV ratio by dividing the year-end closing stock price by the book value of equity per share, as reported in financial statements filed with the Indonesia Stock Exchange (IDX), and then filtering for PBV values below 1. The number of companies with a PBV ratio below 1 continued to rise through 2023, reaching 45 companies in 2022 and 53 companies in 2023. This trend has impacted companies in the cyclical consumer sector, as enterprise value is a key indicator of a company's overall performance. In this context, companies are not only required to achieve strong financial performance but also to demonstrate accountability and sustainability practices that can strengthen market confidence. Consequently, several factors, including profitability, free cash flow, and CSR disclosures, are considered to play a significant role in influencing firm value.

Among the various factors that influence a firm's value, profitability is considered a crucial determinant because it reflects a

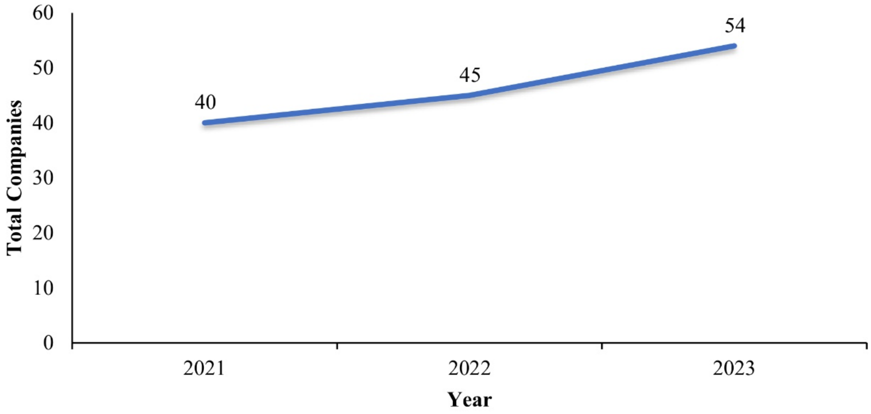

Figure 1. Companies in the consumer cyclical subsector with a price-to-book (pbv) ratio below 1. source: idx.co.id (data processed)

company's ability to generate profits and maintain operational performance. Profitability also reflects the extent to which a company can generate profits from its total sales, total assets, or capital. Therefore, if profitability ratios increase, this indicates that the company is becoming more effective at generating profits. A high level of profitability is a key factor that attracts investors because it provides an important indication of the potential for future returns for shareholders (Nahak & Giri, 2023).

According to signaling theory (Spence, 1972), companies with high profitability send positive signals to investors, thereby increasing investor confidence in investing (Sukirno, 2019). Companies with high profitability demonstrate that they can manage their assets effectively and efficiently (Kurniansyah et al., 2021). Psychologically, this increases investors' interest in expanding their stock investments. Investors' actions also encourage prospective investors to invest their funds in stocks due to rising profit expectations. These rising expectations among investors and prospective investors drive stock prices higher, thereby increasing firm value (Akhmadi et al., 2022). Several previous studies, such as those by Feriani & Amanah (2017) and Ferdiansah et al. (2023), found that profitability has a positive effect on firm value. Increased corporate profitability makes investors more confident in the security and sustainability of their investment returns. However, studies conducted by Ginanjar & Mildawati (2020), Jaziro & Subardjo (2023), and Handini & Susilo (2025) indicate that profitability does not affect firm value.

Another factor believed to influence a firm's value is free cash flow. Free cash flow reflects a company's ability to achieve growth, expand its operations, or distribute profits to shareholders, which in turn enhances its investment appeal (Ali, 2019). High free cash flow in a company indicates strong performance, which in turn increases the company's value (Ferdiansah et al., 2023). Based on signaling theory (Spence, 1972), companies use financial information to signal to investors about prospects. In this context, high free cash flow is viewed as a positive signal, as companies with high free cash flow have the financial flexibility to pay dividends, repay debt, or invest in business development (Ali, 2019). Several previous studies, such as Ali (2019), Lating et al. (2019), and Rengganis et al. (2023), have shown that free cash flow has a positive effect on firm value, as companies with strong free cash flow have the financial flexibility to pay dividends, repay debt, or invest in business development (Ferdiansah et al., 2023). However, studies conducted by Hendro & Wardhani (2015) and Li et al. (2025) indicate that free cash flow has a negative effect on firm valuation. This occurs because substantial free cash flow within a company can trigger agency problems (Jensen, 1986). Agency problems in the context of a company possessing excess free cash flow arise due to differing interests regarding that free cash flow: principals have an interest in receiving free cash flow in the form of dividends, while management tends to act opportunistically, withholding the use of free cash flow to implement policies that benefit themselves at the expense of investors' interests (Hendro & Wardhani, 2015). These conflicting interests fuel market skepticism; excessive free cash flow is met with a negative response, thereby reducing the company's value (Yendi et al., 2016). Companies that tend to retain free cash flow as an internal funding source rather than distributing it to investors will affect market valuation, as investors perceive such retention as a signal of potential agency problems that reduce the company's value. However, this impact is not immediate, as the effectiveness of free cash flow utilization can only be assessed after it has been realized (Diantimala et al., 2021). As a result, investors lack adequate information regarding the purpose and effectiveness of the use of funds retained by management, thereby widening the information asymmetry between management as the internal party and investors as the external party. This asymmetry has the potential to trigger agency problems (Jensen, 1986) because investors cannot directly monitor whether free cash flow is allocated to increase firm value or is instead used solely for managerial interests. This information asymmetry underscores the need for transparency mechanisms to reduce the information gap and align the interests of both parties.

CSR disclosure is viewed as a transparency mechanism that can reduce information asymmetry between management and investors (Rahmawati et al., 2024). CSR disclosure can explain how retained earnings are used, as it demonstrates that companies allocate these funds not only for internal needs but also for activities with social and environmental value as part of their commitment to sustainability (Li et al., 2025). Companies with high CSR disclosure scores are considered to have a long-term commitment and strong governance, thereby building investor trust (Afifah et al., 2017). High-quality CSR disclosure is believed to reduce information asymmetry between management and investors, thereby minimizing the perception of opportunistic behavior by management in managing free cash flow (Yendi et al., 2016).

Previous studies have thoroughly examined the determinants of firm value, particularly the roles of profitability, free cash flow, and CSR disclosure. However, the findings of these previous studies remain inconsistent. Some studies indicate that profitability and free cash flow have a positive effect on firm value (Ali, 2019; Ferdiansah et al., 2023; Feriani & Amanah, 2017; Lating et al., 2019; Rengganis et al., 2023), while other studies report insignificant or even contradictory results, in which free cash flow has a negative effect on firm value due to the tendency of firms to retain free cash flow as an internal source of funds rather than distributing it to investors, as well as agency problems stemming from concerns about opportunistic actions by management to enrich themselves (Ginanjar & Mildawati, 2020; Handini & Susilo, 2025; Hendro & Wardhani, 2015; Jaziro & Subardjo, 2023; Li et al., 2025; Yendi et al., 2016). Similarly, research on CSR disclosure has also yielded mixed findings regarding its impact on firm value. This inconsistency suggests that the relationship between financial performance and firm value may be influenced by other factors that have not yet been fully explored. Furthermore, most previous studies have primarily treated CSR disclosure as an independent variable that directly affects firm value (Handayati et al., 2022; Putri & Budiyanto, 2010; Saragih & Purba, 2019; Wahyuni, 2018).

Furthermore, research focusing on the cyclical consumer goods sector remains relatively limited compared to studies conducted in the manufacturing, banking, or non-cyclical sectors. This sector has unique characteristics due to its high sensitivity to economic conditions and changes in consumer purchasing power, which can influence how investors evaluate a company's value. Therefore, this study offers a unique perspective by examining the moderating role of CSR disclosure in the relationship between profitability, free cash flow, and firm value in consumer cyclical companies. This sector has received relatively little attention in previous research.

Thus, this study contributes to the literature by examining the relationship between profitability, free cash flow, corporate social responsibility, and firm value in the consumer cyclical sector. Accordingly, this study is guided by the following research questions: First, does profitability have a positive effect on firm value? Second, does free cash flow affect firm value? Third, does corporate social responsibility act as a moderator that strengthens the positive effect of profitability on firm value? Fourth, does corporate social responsibility act as a moderator that weakens the negative effect of free cash flow on firm value?

This study is expected to make both theoretical and practical contributions. Theoretically, this study enriches the literature on firm value by examining the moderating role of CSR disclosure in the relationship between profitability, free cash flow, and firm value, particularly in the consumer cyclical sector, which has thus far been relatively under-explored. Practically, these findings are expected to provide insights for companies, investors, and policymakers regarding the importance of financial performance and CSR disclosure in enhancing firm value and strengthening investor confidence.

■ METHOD

Population and Sample

The study population comprised all 127 companies in the cyclical consumer goods sector listed on the IDX during the 2021–2023 period. The sampling technique used was purposive sampling with the following criteria: (1) companies listed consecutively from 2021 to 2023 on the IDX, (2) companies that published publicly accessible annual financial statements and sustainability reports, (3) companies with positive free cash flow during the observation period, and (4) companies that were not delisted during the study period. Based on these criteria, 39 companies were identified as eligible for the sample, resulting in a total of 117 observations in the panel data (Gujarati & Porter, 2009).

The exclusion of 21 companies that did not disclose Corporate Social Responsibility (CSR) initiatives was a necessary methodological step because the CSR Disclosure variable is measured using a disclosure index based on the Global Reporting Initiative (GRI), which requires that CSR-related information be available in annual reports and/or sustainability reports. Companies that do not disclose any CSR information cannot be assigned a valid disclosure score; therefore, including them in the analysis would introduce measurement error and reduce the validity of the CSR variable. Therefore, the generalizability of these research results is limited to cyclical consumer goods companies listed on the Indonesia Stock Exchange that disclosed CSR information during the study period and should not be extended to companies that do not report on CSR activities.

Research Design

This study employed a quantitative causal-associative approach, a type of research in which the researcher seeks to identify the causes of one or more issues. The study aims to examine the effects of profitability and free cash flow on firm value, as well as the role of CSR disclosure as a moderator variable. This study was conducted on companies in the cyclical consumer goods sector listed on the Indonesia Stock Exchange (IDX), with an observation period from 2021 to 2023. This period was selected because in 2021, the Indonesia Stock Exchange (IDX) began implementing its latest industry classification system, the IDX Industrial Classification (IDX-IC), which replaced the previous classification. Through this system, the consumer cyclical sector was officially introduced. Therefore, the study period begins in 2021 to ensure that the research subjects align with the currently applicable sector classification. In addition, the sampling for this period was also based on the fluctuating economic conditions following the COVID-19 pandemic, making it relevant to examine investors' perceptions of free cash flow management practices and CSR disclosures.

Variable and Measurement

The dependent variable in this study is firm value, measured using the Price-to-Book Value (PBV) ratio, which is the ratio of a stock's market price to its book value per share (Luthfiah & Suherman, 2018). PBV was chosen because the original concept of Tobin's Q, which compares the market value of an asset to its replacement cost, cannot be applied in Indonesia due to a lack of replacement cost data (Lindenberg & Ross, 2008). Therefore, PBV is a more appropriate ratio because it directly measures the market's valuation of a company's equity.

The first independent variable is profitability, represented by Return on Assets (ROA), which is the ratio of net income after

Table 1. Research sampling stage

Research Sample Criteria	**Sample Size of the Study**
Companies in the consumer cyclicals sector listed on the Indonesia Stock Exchange for three consecutive years (2021–2023).	127
Companies in the consumer cyclicals sector that do not report on their corporate social responsibility initiatives	(21)
Companies in the consumer cyclicals sector that reported negative free cash flow during the 2021–2023 observation period	(67)
Number of Companies	39
Number of companies over three years (observation period)	117

taxes to total assets (Butar-butar et al., 2021). The second independent variable is free cash flow (FCF), calculated as the difference between operating cash flow (CFO) and investing cash flow (CFI), divided by total assets (Agustia & Suryani, 2018; Putri et al., 2024) Next, the moderating variable is CSR Disclosure (CSRD), which was measured using a disclosure index based on the GRI Standards through content analysis. Each disclosure item was assessed using a dummy variable, which takes a value of 1 if the item is disclosed in the company's annual report or sustainability report, and a value of 0 if it is not disclosed. The CSRD index was then calculated as the ratio of the number of items disclosed by the company to the total number of items expected to be disclosed based on the GRI Standards (Afifah et al., 2017; Saragih & Purba, 2019). This study used firm size, leverage, and firm age as control variables. Firm size was measured using the natural logarithm of total assets (Ispriyahadi & Abdulah, 2021; Luthfiah & Suherman, 2018; Utami, 2023; Shahnia et al., 2020).

This study used firm size, debt ratio, and firm age as control variables, with firm age measured as the difference between the year of the study and the year the firm was established. The debt ratio was calculated as total debt divided by total assets, while firm size was measured using the natural logarithm of total assets. Leverage was measured by the debt ratio, which is total liabilities divided by total assets (Luthfiah & Suherman, 2018; Ispriyahadi & Abdulah, 2021; Syah et al., 2024). Company age was measured as the difference between the year of the study and the year the company was established (Luthfiah & Suherman, 2018; Ispriyahadi & Abdulah, 2021; Syah et al., 2024).

Data Analysis Technique

Data analysis was conducted using panel data regression with EViews 12 software. The analysis began with descriptive statistics to examine the data characteristics, followed by the selection of the best estimation model: common effects, fixed effects, or random effects, using the Chow test, the Hausman test, and the Lagrange multiplier test. Once the model was selected, classical assumption tests were conducted, including tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. Hypothesis testing was performed using moderated regression analysis to examine the role of CSR disclosure in moderating the effects of profitability and free cash flow on firm value. Hypothesis testing utilized the following multiple linear regression equation:

$$PBV = \alpha + b_1\,PROF + b_2\,FCF + b_3\,CSRD + b_4(PROF.CSRD) + b_5\,(FCF.CSRD) + b_6\,Sz + b_7\,Lev + b_8\,Ag + \varepsilon$$

The interpretation of the results is based on the regression coefficients, the significance of the t-statistic at a 5% significance level, and the coefficient of determination to assess the ability of the independent variables to explain the variation in firm value.

■ RESULTS AND DISCUSSION

Panel Data Regression Model Selection

This study uses panel data regression, which offers three main approaches to analysis: the Fixed Effects Model (FEM), the Random Effects Model (REM), and the Common Effects Model (CEM). The Chow test was used to determine whether the Common Effects Model (CEM) or the Fixed Effects Model (FEM) is the more appropriate model.

The Chow test results in Appendix 1 (Table A1) indicate a cross-section F-statistic of 11.5477 with a p-value of 0.000, leading to the rejection of the null hypothesis. These results suggest that the Fixed Effects Model is more appropriate than the Common Effects Model. The cross-section Chi-square statistic also supports this conclusion, with a value of 232.0795 (p-value = 0.000). The next step in the model selection process was the Hausman test to determine whether the Fixed Effects Model (FEM) or the Random Effects Model (REM) was more appropriate. As presented in Appendix 1 (Table A2), the Hausman test produced a Chi-square statistic of 232.079 with a p-value of 0.0001. Since the p-value is below the 0.05 significance level, the null hypothesis was rejected, indicating that the Fixed Effects Model is preferred over the Random Effects Model. Given that both the Chow test and the Hausman test consistently supported the Fixed Effects Model, the Lagrange Multiplier (LM) test was not conducted. Therefore, the Fixed Effects Model was selected for the subsequent panel data regression analysis.

Classical Assumption Tests

After determining the Fixed Effects Model (FEM) as the best estimation model through the Chow and Hausman tests, the next step is to conduct classical assumption tests. These tests aim to ensure that the regression model used meets the Best Linear Unbiased Estimator (BLUE) criteria so that the parameter estimates are consistently unbiased. The classical assumption tests in this study include the normality test, the autocorrelation test, the multicollinearity test, and the heteroscedasticity test.

Normality Test

The first classical assumption test is the normality test, which aims to determine whether the residuals from the regression model are normally distributed. The normality test is conducted using the Jarque-Bera (J-B) test. The data are considered normally distributed if the p-value is greater than or equal to $\alpha = 0.05$. However, if the residuals are not normally distributed, the p-value is less than $\alpha = 0.05$.

Based on the results of the normality test using the Jarque-Bera test in Figure 2, a probability value of 0.141777 was obtained. This value is greater than the significance level of $\alpha = 0.05$, so it can be concluded that the residuals from the panel data regression model in this study are normally distributed. The fulfillment of the normality assumption indicates that the parameter estimates are unbiased and that the statistical tests can be used validly. Thus, the regression model used is suitable for proceeding to the next stage of analysis.

Autocorrelation Test

The second classical assumption test was the autocorrelation test, which was conducted using the Durbin–Watson (DW) statistic to examine whether the regression residuals were serially correlated. As reported in Appendix B (Table A3), the Durbin–Watson statistic is 2.0671. Since the DW value falls within the acceptance region ($dU < DW < 4 - dU$), the regression model is free from autocorrelation. Therefore, the assumption of independent residuals is satisfied.

Multicollinearity Test

The multicollinearity test was conducted using the correlation matrix among the independent variables to determine whether strong linear relationships existed among the explanatory variables in the panel data regression model. The detailed results are presented in Appendix B (Table A4). The correlation coefficients among the independent variables were all below the recommended threshold of 0.85, indicating that the regression model does not suffer from multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test was conducted using the Breusch-Pagan-Godfrey test to examine whether the variance of the regression residuals was constant across observations. The detailed results are presented in Appendix B (Table A5). Based on the results of the Breusch-Pagan-Godfrey test, the Obs*R-squared value was 8.941 with a Chi-Square probability of 0.347. Since this probability value is greater than $\alpha = 0.05$, it can be concluded that the regression model does not exhibit heteroscedasticity. Overall, the results of the classical assumption tests presented in Appendix (Tables A3–A5) indicate that the regression model satisfies the required assumptions. Specifically, the model is free from autocorrelation, multicollinearity, and heteroscedasticity, indicating that the data are appropriate for subsequent panel data regression analysis.

Moderated Regression Analysis (MRA) result

After all classical assumption tests were met and the Fixed Effects Model (FEM) was selected as the best estimation model through the Chow and Hausman tests, the next step was to test the hypotheses using Moderated Regression Analysis (MRA). This test aims to

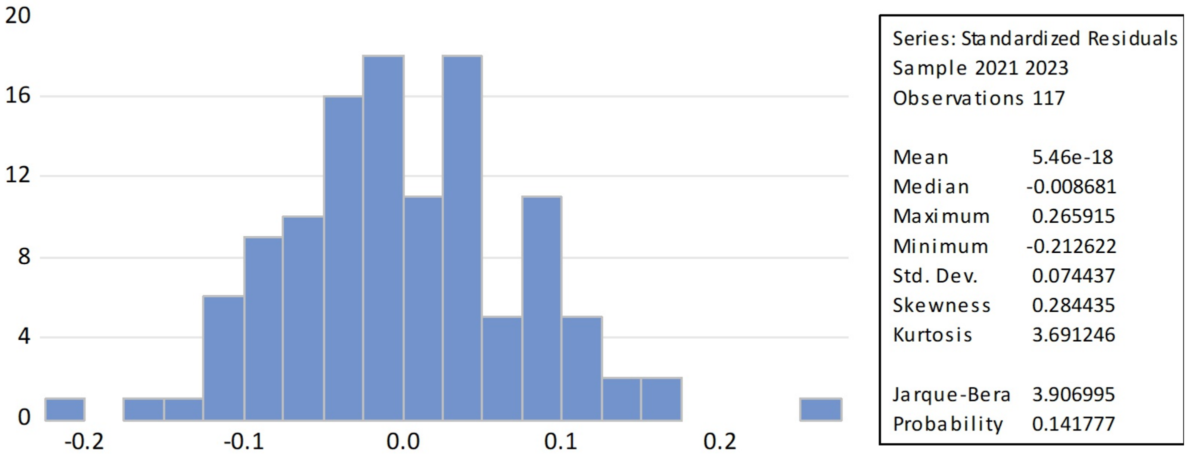

Figure 2. Normality test results

Table 2. Results of the moderated regression analysis

Variable	Coeficient	Std. Error	t-Statistic	Prob
C	0.599	3.120	0.191	0.848
PROF	0.005	0.009	0.533	0.595
FCF	-0.825	0.350	-2.355	0.021
CSRD	-0.681	0.280	-2.427	0.017
CSRD*PROF	0.006	0.025	0.252	0.801
CSRD*FCF	2.690	1.142	2.354	0.021
SZ	0.010	0.112	0.092	0.926
LEV	0.827	0.172	4.784	0.000
AG	-0.018	0.014	-1.289	0.201
F-statistik	15.590			
Sig. (F-statistik)	0.000			
R-squared	0.911			
Adjusted R-squared	0.852			

analyze not only the direct effects of the independent variables profitability, free cash flow, and other control variables on firm value but also to examine the role of CSR disclosure as a moderator of these relationships. By incorporating the moderator variable into the model, this study can determine whether CSR disclosure strengthens or weakens the effects of profitability and free cash flow on firm value. The results of the Moderated Regression Analysis (MRA) using the Fixed Effects Model (FEM) to examine the effects of profitability, free cash flow, control variables, and the role of CSR disclosure on firm value are presented in Table 2.

Based on the results of the regression analysis using the FEM model in Table 2 above, the linear regression model with moderator variables can be formulated as follows:

$$FV_{it} = 0.599 + 0.005\ Prof\ it - 0.825\ Fcf\ it - 0.681\ Csr\ it + 0.006\ Csr{*}Prof\ it + 2.690\ Csr{*}Fcf\ it + 0.010\ Sz\ it + 0.827\ Lev\ it - 0.018\ Ag\ it + \varepsilon i$$

The Effect of Profitability on Firm Value

Based on Table 2, profitability has no effect on firm value ($\beta1 = 0.005$, Sig. = $0.595 > \alpha$). The absence of an effect of profitability on firm value implies that investors in the cyclical consumer goods sector do not view profits as a key indicator when assessing a company's prospects. This sector is highly sensitive to changes in consumer purchasing power, so investors place greater emphasis on a company's ability to weather economic fluctuations (Indonesia, 2024). From the perspective of signaling theory, profitability should serve as a positive signal regarding a company's performance. However, the results of this study indicate that profitability does not affect firm value in the consumer cyclical sector. This lack of significance is due to the characteristics of the consumer cyclical sector, which is heavily influenced by the economic cycle and consumer purchasing power. High profitability in a single period does not necessarily reflect future revenue stability. When economic conditions weaken, profits can drop drastically. Therefore, investors do not use profitability as a primary indicator in evaluating companies. Furthermore, profitability is tied to funding a company's operational activities. This situation causes investors to pay less attention to profitability information when determining their assessment of a company's value. This finding aligns with the research by Feriani & Amanah (2017), which states that profitability is not a relevant determinant of firm value in sectors where revenue is heavily influenced by changes in consumer purchasing power.

The Effect of Free Cash Flow on Firm Value

Meanwhile, free cash flow has a significant negative effect on firm value ($\beta2 = -0.825$, Sig. = $0.021 < 0.05$). The negative effect of free cash flow on firm value provides empirical evidence of agency problems, as explained in agency theory (Jensen, 1986). Excess free cash flow increases agency costs because it provides managers with the opportunity to allocate funds to activities that do not maximize shareholder value (Jensen, 1986). Investors are concerned that excess free cash flow will be used by management for personal gain or inefficient investments, rather than to increase value for shareholders (Hendro & Wardhani, 2015). The results of this study are consistent with those of Li et al. (2025), who found that free cash flow has a negative effect on firm value. The negative effect of free cash flow on firm value stems from concerns about opportunistic actions taken by management to enrich themselves.

The Moderating Role of CSR Disclosure on the Relationship between Profitability and Firm Value

CSR disclosure has a negative effect on firm value, with a coefficient of -0.681 and a p-value of 0.017. The negative effect of CSR disclosure on firm value stems from investors' perception that the costs of CSR disclosure outweigh the benefits, thereby weighing on the firm's profits. This can be explained through the perspective of stakeholder theory (Parmar et al., 2010), which states that management faces diverse and often conflicting demands from various stakeholders. Management's efforts to meet the demands of non-financial stakeholders such as the community and the environment through CSR disclosure require a significant allocation of corporate resources. This diversion of resources away from shareholders as the primary stakeholders gives rise to a conflict of interest. When the costs incurred to meet these demands exceed the economic benefits perceived by shareholders, investors view CSR disclosure as an action that reduces their well-being, thereby diminishing the company's value.

The Moderating Role of CSR Disclosure on the Relationship between Free Cash Flow and Firm Value

Furthermore, CSR disclosure does not moderate the effect of profitability on firm value, as indicated by the interaction probability value for ROA_CSRD of 0.801, which is greater than α = 0.05. The insignificant role of CSR disclosure as a moderator may be due to the fact that CSR disclosure in consumer cyclical companies is largely still a mere formality and has not yet been integrated into business strategy. Consequently, investors view it as a cost rather than a valuable investment (Nurlela & Islahuddin, 2008).

However, CSR disclosure was found to act as a moderator by weakening the negative effect of free cash flow on firm value, with the FCF_CSRD interaction having a coefficient of 2.690 and being significant at the 0.021 level. As illustrated in the simple slope plot in Figure 3, the slope of free cash flow on firm value is negative and steep under low CSR disclosure. However, it turns positive and considerably flatter under high CSR disclosure, confirming that after CSR disclosure is interacted with free cash flow, the coefficient becomes positive. This condition can be explained through agency theory, which posits that high levels of CSR disclosure function as an external monitoring mechanism that curbs managers' opportunistic behavior.

The results of this study indicate that CSR disclosure plays a crucial role in mitigating the negative impact of free cash flow on the value of cyclical consumer firms. This change in the direction of the coefficient, as reflected in the divergence between the two slopes in Figure 3, implies that the higher the level of CSR disclosure, the lower the negative impact of free cash flow on firm value. Transparency in CSR disclosures makes the use of excess free cash flow more accountable and easier for stakeholders and the public to monitor, as every allocation of funds has the potential to be highlighted in sustainability reports, thereby reducing managers' opportunities to engage in overinvestment, perquisite consumption, or empire building, which harms shareholders.

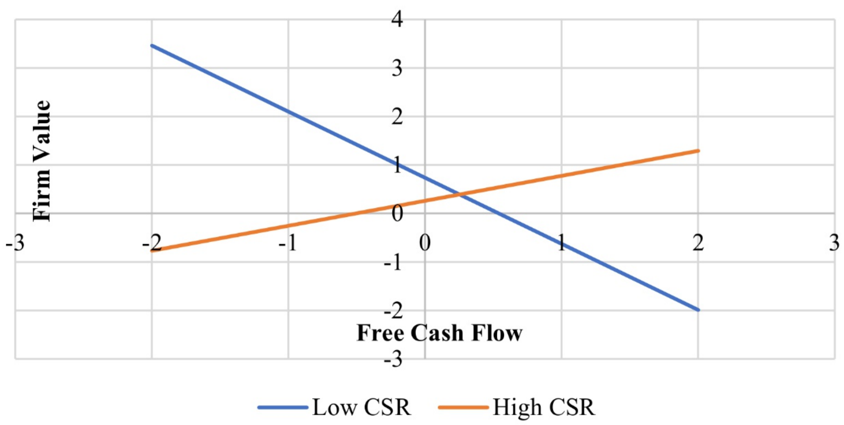

Figure 3. Simple slope plot of the moderating effect of csr disclosure on the relationship between free cash flow and firm value

Thus, even though CSR disclosures are directly viewed by the market as wasteful, their role as a moderating variable actually creates a disciplinary effect on managers and helps mitigate agency costs arising from excess cash flow, which ultimately weakens the negative impact of free cash flow on firm value. Among the control variables, only leverage had a significant positive effect on firm value, with a significance level of 0.000. The positive effect of leverage on firm value supports the trade-off theory (Kraus & Litzenberger, 1973), which states that the use of debt generates tax savings from interest expenses, thereby increasing the free cash flow available to shareholders. Furthermore, this finding is also consistent with signaling theory (Spence, 1972), as the decision to increase debt is perceived by the market as a positive signal of management's confidence in the company's prospects and ability to generate profits to meet future obligations.

The adjusted R^2 value of 0.852 indicates that 85.2% of the variation in firm value can be explained by the variables in this study. In comparison, the remaining 14.8% is explained by other variables outside the model. An F-statistic of 15.590 with a p-value of 0.000 indicates that this model is a good fit and that the independent variables collectively have a significant effect on firm value. The role of CSR disclosure in mitigating the negative impact of free cash flow on firm value indicates that a high level of CSR transparency can reduce information asymmetry between management and investors (Gray et al., 1995). When companies transparently report the allocation of free cash flow through CSR disclosures, investors become confident that these funds are managed for responsible and sustainable activities (Afifah et al., 2017). Thus, CSR disclosure serves as a monitoring mechanism that reduces investor concerns about the potential misuse of free cash flow by management for personal gain. This finding expands upon the research results of Handayati et al. (2022), which only considered CSR disclosure as an independent variable that directly influences firm value. This study demonstrates that, in addition to having a direct effect, CSR disclosure also acts as a moderating variable that weakens the negative impact of free cash flow on firm value, thereby providing new empirical evidence regarding the role of CSR disclosure in the context of agency problems. CSR disclosure does not moderate the effect of profitability because profitability itself is not a concern for investors in this sector. CSR disclosure is effective only as a control mechanism to reduce agency costs arising from free cash flow, not from profitability, because profitability does not create agency conflicts; thus, CSR transparency is irrelevant to the relationship between profitability and firm value (Saragih & Purba, 2019). Therefore, the role of CSR disclosure as a moderating variable is only evident in the context of free cash flow and does not apply to profitability.

Theoretically, this study supports signaling theory and agency theory by demonstrating that CSR disclosure serves as a mechanism to reduce agency costs associated with free cash flow in the cyclical consumer goods sector. In practice, management needs to improve the quality of CSR disclosures, particularly regarding the use of free cash flow and social and environmental impacts, to maintain investor confidence. Further research is expected to examine which components of CSR disclosure are most effective in reducing investors' negative perceptions of free cash flow.

■ CONCLUSION

The results of this study indicate that free cash flow has a statistically significant effect on firm value. At the same time, profitability does not show a significant effect in the model tested for the consumer cyclical sector. The novelty of this study lies in demonstrating the moderating role of CSR disclosure in the relationship between free cash flow and firm value, a relationship that has not been extensively examined in sectors sensitive to economic cycles, thereby enriching the development of agency theory and signaling theory (Spence, 1972) in the context of sustainability disclosure. For management, improving the quality of CSR disclosure, particularly regarding the allocation and impact of free cash flow usage, should be prioritized to maintain investor confidence. Future research is encouraged to explore which dimensions of CSR disclosure are most effective in mitigating agency costs and to extend the observation period to capture the dynamics of different economic cycles.

This study has several limitations. First, CSR disclosure was measured using a binary (dummy) disclosure index, in which each indicator was assigned a value of 1 if disclosed and 0 if not. Although this approach has been widely used in previous studies and provides an objective measure of disclosure practices, it captures only the presence or absence of disclosure, not its quality, depth, or completeness. As a result, this measurement may not fully reflect the actual quality of corporate social responsibility practices, and measurement approaches that can accommodate companies with negative FCF. Therefore, future research is advised to use more comprehensive CSR assessment methods, such as weighted disclosure indices, content analysis based on disclosure quality, or ESG rating measures, to provide a more in-depth evaluation of corporate sustainability practices. Second, this study has limitations related to the sampling procedure, in which 67 of 127 companies were excluded because they reported negative free cash flow (FCF). This exclusion criterion has the potential to introduce selection bias, meaning that the study's findings can only be generalized to companies in the consumer cyclicals sector with positive FCF, rather than to the broader population of companies in that sector. Future research is encouraged to consider alternative

■ REFERENCES

Afifah, N., Astuti, S. W. W., & Irawan, D. (2017). *Pengaruh corporate social responsibility (CSR) dan reputasi perusahaan terhadap nilai perusahaan* [The influence of corporate social responsibility (CSR) and corporate reputation on corporate value]. *Jurnal Ekonomi dan Keuangan*, *5*(32), 346–364. https://doi.org/10.24034/j25485024.y2021.v5.i3.4644

Agustia, Y. P., & Suryani, E. (2018). *Pengaruh ukuran perusahaan, umur perusahaan, leverage, dan profitabilitas terhadap manajemen laba (Studi pada perusahaan pertambangan yang terdaftar di Bursa Efek Indonesia periode 2014-2016)* [The influence of company size, company age, leverage, and profitability on earnings management (Study of mining companies listed on the Indonesia Stock Exchange for the period 2014-2016)]. *Jurnal Akuntansi Riset*, *10*(1), 63–74.

Akhmadi, A., Mulyani, A. S., & Noviansyah, N. (2022). Capital structure, profitability, and firm values. *Jurnal Riset Akuntansi Terpadu*, *15*(2), 180–194.

Ali, M. M. A. R. A. (2019). Effect of free cash flow on firm value. *University of Thi-Qar Journal*, *19*(2), 1–26.

Butar-butar, T. T. R., Fachrudin, K. A., & Silalahi, A. S. (2021). Analysis of the effect of profitability and leverage on firm value with dividend policy as an intervening variable in Business Index Companies-27, 2016-2019 period. *International Journal of Research and Review*, *8*(2), 264–269.

Diantimala, Y., Syahnur, S., Mulyany, R., & Faisal, F. (2021). Firm size sensitivity on the correlation between financing choice and firm value. *Cogent Business and Management*, *8*(1). https://doi.org/10.1080/23311975.2021.1926404

Ferdiansah, Y. D., Liyundira, F. S., & Paramita, R. W. D. (2024, January). The Influence of Profitability, Leverage, and Free Cash Flow on Firm Value With Dividend Policy as A Moderation Variable (Empirical Study of Consumption Goods Industry Sector Companies on The IDX Period 2019–2021). In *Conference on SDGs Transformation through the Creative Economy: Encouraging Innovation and Sustainability (TCEEIS 2023)* (pp. 68–74).

Feriani, L. Z., & Amanah, L. (2017). *Pengaruh free cash flow dan profitabilitas terhadap nilai perusahaan dengan kebijakan dividen sebagai variabel intervening* [The effect of free cash flow and profitability on company value with dividend policy as an intervening variable]. *Jurnal Ilmu dan Riset Akuntansi*, *6*(12), 1–19.

Ginanjar, P. W., & Mildawati, T. (2020). *Pengaruh free cash flow, profitabilitas, leverage dan kebijakan deviden terhadap nilai perusahaan* [The influence of free cash flow, profitability, leverage and dividend policy on company value]. *Jurnal Ilmu dan Riset Akuntansi*, *9*, 1–17.

Goklas, A., & Thamrin, H. (2023). Effect of financial performance on firm value in pharmaceutical sub-sector companies on the IDX. *Journal of Economics, Finance and Management Studies*, *06*(02), 707–716. https://doi.org/10.47191/jefms/v6-i2-15

Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability Journal*, *8*(2), 47–77.

Gujarati, D. N., & Porter, D. C. (2009). *Basic econometrics* (5th ed.). McGraw-Hill Series.

Handayati, P., Sumarsono, H., & Narmaditya, B. S. (2022). Corporate social responsibility disclosure and Indonesian firm value: the moderating effect of profitability and firm's size. *Journal of Eastern European and Central Asian Research*, *9*(4), 703–714. https://doi.org/10.15549/jeecar.v9i4.940

Handini, E. D., & Susilo, D. E. (2025). Analyzing profitability, firm size, and capital structure's impact on firm value. *Journal of Accounting Science*, *9*(1), 114–134. https://doi.org/10.21070/jas.v9i1.1953

Hendro, & Wardhani, R. (2015). *Pengaruh agency cost of free cash flow terhadap tingkat pendistribusian kas , persistensi kas , dan tata kelola perusahaan* [The influence of agency cost of free cash flow on the level of cash distribution, cash persistence, and corporate governance]. *Jurnal Akuntansi dan Keuangan*, *17*(1), 41–56. https://doi.org/10.9744/jak.17.1.41-56

Indonesia, K. (2024). *KADIN Indonesia – data dan statistik*. 2024. https://kadin.id/data-dan-statistik/profil-ekonomi-indonesia/#:~:text=Ekonomi Indonesia tahun 2024 tumbuh,tumbuh sebesar 7%2C95 persen.

Ispriyahadi, H., & Abdulah, B. (2021). Effect of profitability, leverage and firm size on firm value. *Journal of Business, Management, and Accounting*, *3*(2), 64–80.

Jaziro, I. N., & Subardjo, A. (2023). *Pengaruh profitabilitas terhadap nilai perusahaan dengan kebijakan dividen sebagai variabel moderating* [The effect of profitability on company value with dividend policy as a moderating variable]. *Jurnal Ilmu dan Riset Akuntansi*, *12*(2), 1–15.

Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review*, *76*(2), 323–329.

Kraus, A., & Litzenberger, R. H. (1973). A state-preference model of optimal financial leverage. *The Journal of Finance*, *28*(4), 911–922.

Kurniansyah, F., Saraswati, E., & Rahman, A. F. (2021). Corporate governance, profitability, media exposure, and firm value: the mediation role of environmental disclosure. *Jurnal Minds: Manajemen Ide dan Inspirasi*, *8*(1), 69. https://doi.org/10.24252/minds.v8i1.20823

Lating, A. I. S., Ngumar, S., & Mildawati, T. (2019). *Pengaruh kinerja keuangan terhadap nilai perusahaan dengan sustainability report sebagai variabel moderating* [The influence of financial performance on company value with sustainability reports as a moderating variable]. *Jurnal Ekonomi-Manajemen-Akuntansi*, *15*(1), 129–144.

Li, S., Tanniah, F., & Abduh, A. (2025). Effect of share price, free cash flow, debt policy, leverage, company growth on the company value of food and beverage sub-sector companies for the period 2021-2023. *Journal of Economic Business and Accounting*, *8*(5), 806–814.

Lindenberg, E. B., & Ross, S. A. (2008). *Tobin's q ratio and industrial organization*. *54*(1), 1–32.

Luthfiah, A. A., & Suherman, S. (2018). The effects of financial performance toward firm value with ownership structure as moderating variable (The study on manufacturing companies listed in Indonesia stock exchange in the period Of 2012-2016). *Journal of Business and Behavioural Entrepreneurship*, *2*(1), 18–27. https://doi.org/10.21009/jobbe.002.1.03

Nahak, F. M. T., & Giri, E. F. (2023). *Profitabilitas merupakan sinyal penting yang menjelaskan nilai perusahaan* [Profitability is an important signal that explains the value of a company]. *Jurnal Aplikasi Manajemen*, *34*(2), 113–128.

Nurlela, R., & Islahuddin, I. (2008). *Pengaruh corporate social responsibility terhadap nilai perusahaan dengan prosentase kepemilikan manajemen sebagai variabel moderating (studi empiris pada perusahaan yang terdaftar di Bursa Efek Jakarta)* [The influence of corporate social responsibility on company value with the percentage of management ownership as a moderating variable (an empirical study on companies listed on the Jakarta Stock Exchange)]. *Simposium Nasional Akuntansi XI Pontianak*.

Parmar, B. L., Freeman, R. E., Harrison, S., Wicks, A. C., Purnell, L., & Colle, S. De. (2010). The academy of management annals stakeholder theory : the state of the art. *The Academy of Management Annals*, *4*(1), 403–445.

Putri, M. A. N., Yuni, S., Kuberteria, A., Asi, O. Y., Fransiska, C., & Cristina, I. (2024). *Pengaruh free cash flow dan leverage terhadap kinerja keuangan dengan likuiditas sebagai pemoderasi pada perusahaan industri barang konsumsi yang terdaftar di Bursa Efek Indonesia periode 2020-2022* [The effect of free cash flow and leverage on financial performance with liquidity as a moderator in consumer goods industry companies listed on the Indonesia Stock Exchange for the 2020-2022 period]. *Jurnal Ekonomi, Manajemen, Akuntansi dan Bisnis*, *2*(3), 209–223. https://doi.org/10.59246/muqaddimah.v2i3.956

Putri, Z. B., & Budiyanto, B. (2010). Pengaruh corporate social responsibility terhadap nilai perusahaan dengan kepemilikan manajerial sebagai variabel moderating. *Jurnal Ilmu dan Riset Manajemen*, *7*(3), 1–16.

Rahmawati, N., Mawaddah, D., & Putri, R. (2024). *Peran corporate social responsibility (CSR) dalam meningkatkan transparansi dan akuntabilitas* [The role of corporate social responsibility (CSR) in increasing transparency and accountability]. *Jurnal Imiah Penelitian Mahasiswa*, *2*(6), 57–67.

Rengganis, R. M. Y. D., Mirayani, L. P. M., & Bagiana, I. K. (2023). *Pengaruh free cash flow pada nilai perusahaan dengan investment opportunity set sebagai pemediasi* [The effect of free cash flow on company value with investment opportunity set as a mediator]. *Jurnal Ekonomi Bisnis, Manajemen dan Akuntansi*, *3*(3), 938–948.

Saragih, J. L., & Purba, T. L. (2019). *Pengaruh corporate social responsibility terhadap nilai perusahaan pada perusahaan industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia* [The influence of corporate social responsibility on company value in basic and chemical industry companies listed on the Indonesia Stock Exchange]. *JRAK*, *5*(1), 71–86.

Shahnia, C., Purnamasari, E. D., Hakim, L., & Endri, E. (2020). Determinant of profitability: Evidence from trading, service and investment companies in Indonesia. *Accounting*, *6*(5), 787–794. https://doi.org/10.5267/j.ac.2020.6.004

Spence, M. (1972). Job market signaling. *The Quarterly Journal of Economic*, *87*(3), 355–374. https://doi.org/https://doi.org/10.2307/1882010

Sukirno, S. (2019). *Mediasi kebijakan deviden pada pengaruh profitabilitas terhadap nilai perusahaan BUMN yang listing periode 2014-2018* [Mediation of dividend policy on the influence of profitability on the value of listed state-owned companies in the 2014-2018 period]. *Telaah Bisnis*, *20*(1), 11–22.

Syah, A. A., Aris, M. A., & Surakarta, U. M. (2024). *Moderating Dividend Policy Variables: Leverage , Profitabilitas , Dan Likuiditas : Pengaruhnya Terhadap Nilai Perusahaan Dengan Moderating Variabel Kebijakan Dividen*. *5*(2), 5476–5490.

Utami, S. W. (2023). The effect of financial performance and capital structure on company value with company size as a moderation variable. *Asian Journal of Economics, Business and Accounting*, *23*(24), 112–123. https://doi.org/10.9734/AJEBA/2023/v23i241191

Wahyuni, S. F. (2018). *Pengaruh corporate social responsibility terhadap nilai perusahaan dengan profitabilitas sebagai variabel moderating* [The influence of corporate social responsibility on company value with profitability as a moderating variable]. *Jurnal Ilmiah Magister Manajemen*, *1*(1), 109–117.

Yendi, C., Kadang, K., & Negoro, P. (2016). *Analisis pengaruh faktor-faktor pada agency problems dan keputusan stock repurchase di Indonesia* [Analysis of the influence of factors on agency problems and stock repurchase decisions in Indonesia]. *Jurnal Sains dan Seni*, *5*(1), 6–10.