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The effect of corporate social responsibility, activity ratio, and capital structure on profitability of companies listed in the Jakarta Islamic Index

Taufiq Agus Santoso[1], Yuli Andriansyah[1,2] & Iman Bastanifar[3]

[1]Program Studi Ekonomi Islam (S1), Universitas Islam Indonesia, Yogyakarta, Indonesia
[2]Program Studi Ilmu Ekonomi (S3), Fakultas Bisnis dan Ekonomi, Universitas Islam Indonesia, Yogyakarta, Indonesia
[3]Department of Economics, University of Isfahan, Isfahan, Iran

ABSTRAK

Introduction

Corporate profitability remains a critical focus for businesses operating within Islamic finance frameworks, where ethical and financial principles coexist. This study examines the influence of Corporate Social Responsibility (CSR), capital structure, and activity ratio on the profitability of companies listed on the Jakarta Islamic Index (JII) from 2012 to 2017. The study aims to clarify the complex interactions among these variables and their implications for financial performance in Sharia-compliant firms.

Objectives

The primary objective of this research is to analyze the individual and collective effects of CSR, capital structure, and activity ratio on profitability, measured by Return on Equity (ROE). The study seeks to provide actionable insights for managers and policymakers in Islamic finance, while contributing to the academic discourse on corporate performance determinants.

Method

This quantitative study employs secondary data from the financial statements of 13 JII-listed firms over five years. CSR is measured through Islamic Social Reporting, capital structure by Debt-to-Equity Ratio, and activity ratio by Total Asset Turnover. Multiple regression analysis using econometric tools tests the hypotheses, supported by descriptive and inferential statistical methods.

Results

The findings reveal that CSR does not have a direct significant impact on profitability, while capital structure negatively influences financial

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Contact: Yuli Andriansyah ✉ yuliandriansyah@uii.ac.id

performance due to risks associated with debt. Conversely, activity ratio positively affects profitability, highlighting the importance of operational efficiency. Collectively, these variables significantly shape financial outcomes in Sharia-compliant firms.

Implications

The study underscores the need for an integrated approach to balancing ethical commitments, financial strategies, and operational practices to achieve sustainable profitability. The findings provide valuable guidance for improving corporate strategies in Islamic finance and advancing the field's literature.

Originality/Novelty

This research uniquely integrates CSR, capital structure, and activity ratio within the context of JII-listed firms, offering a comprehensive perspective on profitability dynamics in Islamic finance. It contributes to both theoretical and practical understandings of financial performance in Sharia-compliant businesses.

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INTRODUCTION

In recent years, the dynamics of corporate performance within fluctuating economic landscapes have attracted significant academic and professional attention. As businesses navigate increasingly complex markets, profitability remains a critical metric of success. In Indonesia, a notable anomaly occurred during 2017—a period marked by declining consumer purchasing power. Surprisingly, companies listed on the Indonesia Stock Exchange reported substantial increases in net profits, with overall corporate earnings rising by 22.7% compared to 2016. This paradox raises questions about the mechanisms that enable firms to thrive despite unfavorable macroeconomic conditions. Several studies suggest that factors such as Corporate Social Responsibility (CSR), capital structure, and operational efficiency play pivotal roles in determining profitability. For example, CSR initiatives, often framed as ethical imperatives, are argued to generate long-term financial benefits by enhancing corporate legitimacy and stakeholder relationships (Ahn & Park, 2018; M. Kim et al., 2018; Zheng et al., 2015). Simultaneously, effective capital structuring and activity management underpin operational resilience (Chowdhury et al., 2019; Linnenluecke, 2017; Zighan et al., 2022), which is critical for maintaining profitability amid market uncertainties.

CSR, an integral component of modern business strategies, has been linked to improved corporate reputations and financial performance. Implementing CSR policies addresses societal and environmental concerns while reinforcing corporate accountability. Scholars argue that CSR practices yield both tangible and intangible benefits, from enhanced consumer loyalty (Contini et al., 2020; Mandhachitara &

Poolthong, 2011; Servera-Francés & Piqueras-Tomás, 2019) to mitigated regulatory risks (Benlemlih & Girerd-Potin, 2017; Jo & Na, 2012; Karwowski & Raulinajtys-Grzybek, 2021). Moreover, regulatory frameworks in Indonesia, including the 2007 Limited Liability Company Law and the 2007 Investment Law, emphasize CSR obligations, underscoring its relevance in the national context. However, empirical findings regarding CSR's direct impact on profitability are inconsistent. While some research demonstrates a positive correlation (Alshurafat et al., 2023; Kesari & Rawat, 2023; Ngollo & Mwenda, 2023), others suggest negligible effects (Lopatta et al., 2024; Ransariya & Bhayani, 2022; Xue et al., 2023), reflecting the complexity of this relationship across varying industries and contexts.

Capital structure and activity ratios are equally critical in understanding corporate profitability. Capital structure, often represented by the Debt-to-Equity Ratio (DER), influences a firm's financial stability and operational strategy. A higher DER may signal aggressive debt financing, which can amplify returns under favorable conditions but also exacerbate risks during economic downturns (Agustin et al., 2022; Nukala & Prasada Rao, 2021; Susilawati et al., 2022). Similarly, activity ratios such as Total Asset Turnover (TATO) highlight the efficiency with which companies utilize assets to generate revenue. Previous research illustrates that firms with higher TATO ratios tend to achieve superior financial performance (Patin et al., 2020; Purbaningrum & Lestari, 2022; Yulinda, 2022), emphasizing the importance of resource optimization in competitive markets. Despite these insights, the interplay between these variables and profitability remains underexplored, particularly within the Jakarta Islamic Index (JII) framework, which adheres to Sharia principles and reflects unique operational constraints.

The primary research problem addressed in this study is the interplay between CSR, capital structure, and activity ratios in determining the profitability of JII-listed companies from 2012 to 2017. While prior research underscores the importance of these factors individually, their collective influence and relative weight in Sharia-compliant firms are less understood. General solutions to enhance profitability typically involve optimizing financial practices, refining CSR strategies, and increasing operational efficiency. However, these approaches are often sector-specific and may not account for the nuanced requirements of firms operating within Islamic finance frameworks.

A review of existing literature reveals diverse findings concerning these determinants of profitability. For instance, CSR, proxied through Islamic Social Reporting (ISR), has been examined as a tool for enhancing transparency and aligning corporate practices with ethical principles (Jihadi et al., 2021; Susbiyani et al., 2022; Wijayanti & Setiawan, 2022). Studies suggest that CSR disclosures improve stakeholder trust and contribute to long-term sustainability, yet their direct impact on short-term profitability is debatable. On the other hand, capital structure studies frequently highlight the significance of balancing equity and debt to achieve optimal financial leverage. While some scholars report positive correlations between DER and profitability (Ashishkumar & Shah, 2022; Sudirja, 2022; Sukma et al., 2022), others caution against over-reliance on debt due to heightened financial risks (Desy, 2022; Ghardallou, 2022; Indriyani & Mudjijah, 2022). Similarly, activity ratios are widely acknowledged for their predictive

value concerning corporate earnings (J.-H. Kim, 2023), although empirical evidence suggests variability across industries and contexts (Janie & Rosyati, 2022; Simorangkir et al., 2022).

Notably, studies focusing on JII-listed companies provide valuable insights into the distinctive challenges and opportunities within Sharia-compliant financial ecosystems. For example, Harahap et al. (2017) investigated the relationship between ISR and profitability in JII firms, demonstrating significant positive effects under certain conditions. These findings align with broader research on Islamic finance, which emphasizes ethical practices and sustainable growth as integral to financial success. However, gaps remain in understanding the cumulative impact of CSR, capital structure, and activity ratios within this niche market. Specifically, inconsistencies in findings across similar studies underscore the need for a more integrative approach that considers these variables simultaneously.

The objective of this study is to analyze the combined effects of CSR, capital structure, and activity ratios on the profitability of JII-listed companies over a five-year period. This research is novel in its holistic approach, which integrates three critical determinants within the context of Sharia-compliant businesses. By employing secondary data and advanced regression analysis techniques, the study aims to provide robust empirical evidence to address existing research gaps. Furthermore, the findings will contribute to both academic discourse and practical decision-making by offering actionable insights for managers and policymakers operating within Islamic financial frameworks. Ultimately, this research seeks to deepen our understanding of profitability dynamics and foster more resilient business practices in the face of evolving economic challenges.

LITERATURE REVIEW

The Influence of Corporate Social Responsibility on Public Company Profitability

The relationship between Corporate Social Responsibility (CSR) and public company profitability has gained significant attention within the academic and business communities. A comprehensive analysis of the available literature indicates that CSR activities are often associated with positive financial performance, although the nature of this relationship can vary depending on several factors, including firm type, governance structures, and operational contexts.

Research has established that implementing CSR initiatives can lead to enhanced profitability for companies. For instance, a study by Saeed et al. (2023) reveals that CSR has a favorable effect on profitability and stock returns, arguing that it should be integrated into long-term business strategies rather than viewed as an optional activity. Similarly, Ramayah et al. (2022) indicate that while some critics believe CSR diverts focus from profit maximization, it can simultaneously boost profitability by improving employee commitment and corporate reputation. This interplay suggests that CSR activities not only fulfill ethical obligations but can tangibly enhance a company's financial metrics.

Moreover, findings from Ebaid's (2022) research underscore that corporate governance mechanisms significantly influence CSR disclosure, which, in turn, correlates with improved profitability metrics. Incorporating effective governance practices can enhance transparency and foster a culture of social responsibility that resonates with stakeholders, further leading to enhanced financial performance. Additionally, Wu et al. discuss how the relationship between CSR engagement and profitability is moderated by firm type, indicating that the positive outcomes of CSR investments may depend on contextual factors unique to each company (Wu et al., 2021).

The concept of stakeholder theory also plays a pivotal role in linking CSR to profitability. Ananzeh highlights that strategic CSR activities enhance stakeholder satisfaction, which is essential for sustainable financial growth (Ananzeh, 2024). In line with this, Lech points out that businesses that prioritize CSR can leverage competitive advantages, translating social responsibility efforts into financial gains (Lech, 2013). This perspective aligns with findings from Cho et al. (2019), who affirm a systematic relationship between CSR performance and corporate financial success.

Notably, while many studies consistently find a positive correlation between CSR and profitability, others suggest that firms must strike a balance. A study by Varenova et al. (2013) questions whether the relationship is one of trade-off or synergy, positing that excessive focus on CSR could detract from financial performance if not managed judiciously. This suggests that while CSR can drive profitability, the execution of these initiatives must be aligned with broader business goals to avoid potential pitfalls.

The evidence strongly supports the assertion that CSR influences public company profitability positively. However, the extent and nature of this relationship are contingent on various factors, including governance structures, firm types, and stakeholder engagement. Thus, companies should strategically integrate CSR into their core operations to leverage its full potential for enhancing profitability.

The Influence of Activities Ratio on Public Company Profitability

The relationship between activity ratios and the profitability of public companies is an important area of financial study that influences corporate management strategies and investor decisions. Activity ratios measure a company's efficiency in utilizing its assets to generate revenue and can significantly affect profitability metrics such as Return on Assets (ROA) and Return on Equity (ROE).

Several studies establish a direct link between activity ratios and profitability. For instance, Khalifaturofi'ah & Setiawan (2024) provide evidence indicating that although profitability measures like ROA and ROE do not significantly impact firm value, the activity ratio positively affects firm value. This suggests that companies that effectively manage their operational resources achieve better profitability outcomes. Similarly, Agustina et al. Agustina et al. (2024) demonstrate that optimal management of working capital in cooperative businesses enhances activity ratios, which, in turn, boosts profitability. This establishes a connection between operational efficiency as indicated by activity ratios and profitability results.

In a broader context, previous analysis emphasizes the importance of profitability, liquidity, and activity ratios as vital tools for evaluating financial performance across industries (Hamsyah et al., 2023; Supit & Koapaha, 2023). Other studies reveal that higher activity ratios typically correlate with stronger profitability metrics (Arsyad et al., 2021; Dayi, 2020). This relationship is particularly critical in fast-paced industries, where minimizing operational costs while maximizing output is essential. Furthermore, research by Hofmann & Sertori (2020) discusses that although better liquidity ratios may influence profitability, it is the efficient utilization of resources signified by activity ratios that underpins sustained profitability, even in challenging conditions. This is also reflected in the findings of Gharaibeh & Khaled (2020), which show that operational efficiency, as represented by activity ratios, significantly impacts ROA.

Additionally, Dokiienko (2021) and Valášková et al. (2018) highlight the significant role of activity ratios in shaping profitability outcomes across sectors, underscoring the importance of efficient asset management. The interactions among these ratios not only affect immediate profitability but also contribute to longer-term strategic positioning in the market. In summary, the influence of activity ratios on the profitability of public companies is characterized by a strong correlation, where heightened operational efficiency translates into improved profitability metrics. The studies cited present a comprehensive perspective that underscores the necessity for firms to maintain effective management of their operational activities to ensure sustainable profitability.

The Influence of Capital Structure on Public Company Profitability

The influence of capital structure on the profitability of publicly listed companies has been a significant area of research, reflecting the complex interplay among leverage, financial performance, and various determinants influenced by industry characteristics and management practices. Capital structure refers to the mix of debt and equity financing that a firm utilizes, and it can profoundly impact profitability metrics such as Return on Assets (ROA) and Return on Equity (ROE).

Several studies indicate a negative relationship between capital structure and profitability. For instance, Batra & Kalia (2016) demonstrate that an increase in the debt-equity ratio typically corresponds to a decrease in corporate profits, suggesting that higher leverage can lead to financial strain that outweighs potential returns. This observation is further supported by the findings of Hrynyuk et al. (2023), who emphasize that effectively managing capital requires careful consideration of the balance between financial risk and profitability. The notion that debt can magnify risks, particularly in fluctuating market conditions, aligns with the perspectives presented by Eckbo & Kisser (2021), highlighting that firms with lower profitability are less likely to maintain high levels of debt.

Moreover, various empirical analyses suggest that different industry contexts can lead to varying impacts of capital structure on profitability. For example, in the case of high-tech firms, Spitsin et al. (2020) found that while profitability can improve capital structure by reducing borrowing, company growth often necessitates greater leverage,

creating a delicate balance. This dual effect underscores the importance of industry characteristics in determining how capital structure influences financial performance. Additionally, Mustilli et al. (2018) reported that larger firms with more tangible assets tend to have more favorable capital structures, which can enhance their profitability through improved cash flow dynamics.

Research has also indicated that profitability itself may influence capital structure decisions. A study by Ghose & Kabra (2019) found that higher profitability levels drive firms towards lower leverage, suggesting a reverse causality where firms with strong profit performance opt for less debt as a safeguard against potential financial distress. This finding is echoed through various studies that use empirical data across different regions, such as the exploration by Panda et al. (2023), which concluded that firm characteristics, including profitability, significantly dictate capital structure decisions in manufacturing firms.

Overall, the evidence is clear that capital structure plays a crucial role in shaping the profitability of firms. The balance between debt and equity is influenced not only by external market conditions but also by internal firm performance metrics. As capital structures evolve, firms must continuously assess their financial strategies to optimize profitability while minimizing risks associated with high leverage.

Profitability of Companies Listed in the Jakarta Islamic Index

The profitability of companies listed on the Jakarta Islamic Index (JII) can be influenced by various factors, including financial performance metrics, macroeconomic variables, corporate governance, and socio-environmental considerations. An examination of multiple studies reveals that profitability is intricately linked to corporate governance and the inherent characteristics of firms.

Studies indicate a correlation between profitability and firm-specific characteristics such as size, asset management, and financial risks. For instance, Kismawadi (2024) explores how factors like size, asset quality, and inflation impact the financial performance of JII firms, suggesting that larger firms with better asset management tend to perform more profitably. Furthermore, Yazid et al. (2024) reveal that companies with sound corporate governance frameworks generally exhibit higher profitability, suggesting that effective governance mechanisms can bolster external trust and, consequently, investor confidence leading to better financial performance.

Moreover, macroeconomic factors play a critical role in shaping profitability in the context of the JII. Widagdo et al. (2020) discuss how financial ratios and macroeconomic conditions affect Islamic stock returns, suggesting that variables like GDP growth and inflation can significantly influence profitability. This is further backed by Abdullah et al. (2020), who note that macroeconomic stability contributes to improved financial performance of firms within the JII, underscoring the relevance of external economic conditions.

Research into corporate social responsibility (CSR) reveals its positive impact on the financial performance of firms listed in the JII. Ramadhan et al. (2019) highlight that higher levels of CSR disclosure correlate with enhanced profitability, indicating that

firms that actively engage in social responsibility are often viewed favorably by investors, ultimately boosting their financial results. Insights from the study by Mas'ud et al. (2023)emphasize the importance of good corporate governance as a moderating factor influencing firms' profitability levels in the Jakarta Islamic Index context, suggesting that adherence to Sharia principles inherently provides a framework that can improve financial outcomes. Additionally, the research conducted by Ferriswara et al. (2022) confirms the predictive capacity of corporate governance and capital structure on profitability outcomes, highlighting a vital area for companies seeking to enhance their financial performance.

It becomes evident that the profitability of companies within the Jakarta Islamic Index is not solely a product of internal performance metrics but is significantly influenced by external economic conditions, governance structures, and CSR activities. This multi-faceted nature of profitability underlines the complexity of financial performance within Islamic markets, providing avenues for further exploration and practical application for both businesses and investors.

Integrating Findings: Gaps and Opportunities

The literature reviewed highlights the intricate relationships between CSR, capital structure, activity ratios, and profitability. While each factor independently influences financial performance, their combined impact remains underexplored. Moreover, the distinct context of JII-listed firms adds layers of complexity to these relationships, requiring tailored analytical frameworks.

Gaps in existing research underscore the need for integrative studies that consider these variables holistically. For instance, while CSR is widely acknowledged as a driver of stakeholder trust, its direct impact on profitability remains contested, particularly in Sharia-compliant firms. Similarly, the interplay between capital structure and profitability is influenced by industry-specific factors and regulatory constraints. Finally, the role of activity ratios in shaping financial outcomes requires further exploration, particularly in asset-intensive sectors.

This study addresses these gaps by examining the combined effects of CSR, capital structure, and activity ratios on profitability within the context of JII-listed companies. By adopting a holistic approach, the research aims to provide actionable insights for managers and policymakers, contributing to both academic discourse and practical decision-making in Islamic finance.

METHOD

Research Design

The study adopts a quantitative research design to evaluate the relationships between CSR, capital structure, activity ratios, and profitability. Specifically, it employs a causal-comparative approach to identify and measure the effects of these variables on financial performance. This design facilitates a robust analysis of empirical data, allowing the study to isolate the impacts of individual variables while assessing their

collective influence. The methodological framework is guided by prior studies in corporate finance and Islamic finance, ensuring both academic rigor and relevance.

Data Collection

The research relies on secondary data sourced from the annual reports and financial statements of companies listed in the Jakarta Islamic Index (JII) over a five-year period (2012–2017). These documents provide critical information on financial metrics, CSR activities, and other relevant variables. Data collection adheres to established protocols to ensure accuracy and reliability, with special attention given to metrics directly relevant to the study's hypotheses. Sources include publicly available reports from the Indonesia Stock Exchange and company disclosures, as well as proprietary databases.

Sampling Technique

The study employs purposive sampling to select companies for analysis. This non-random method is suited for identifying firms that meet specific criteria, such as inclusion in the JII during the specified period. The sampling process ensures that the selected companies represent diverse industries within the Islamic finance framework, providing a comprehensive perspective on the research questions. A total of 13 companies are included in the sample, reflecting their consistent listing in the JII and the availability of complete financial and CSR data for the study period.

Variables

The study incorporates four key variables:

1. Dependent Variable:
    - Profitability, measured by Return on Equity (ROE). ROE serves as a robust indicator of a company's ability to generate returns from shareholder investments, aligning with prior research on financial performance (Candrayanthi & Saputra, 2013).
2. Independent Variables:
    - Corporate Social Responsibility (CSR): CSR activities are proxied by the Islamic Social Reporting (ISR) index, which evaluates CSR disclosures based on six themes: investment and finance, governance, products and services, labor, social, and environmental factors (Sofyani et al., 2012).
    - Capital Structure: Represented by the Debt-to-Equity Ratio (DER), this metric reflects the proportion of debt financing relative to equity, indicating a firm's financial leverage (Violita & Sulasmiyati, 2017).
    - Activity Ratios: Proxied by Total Asset Turnover (TATO), this variable measures how efficiently a company uses its assets to generate revenue, a critical aspect of operational efficiency (Esthirahayu, 2014).

Analytical Methods

The study employs multiple regression analysis to evaluate the relationships between the independent variables (CSR, DER, TATO) and the dependent variable (ROE). This

method is well-suited for quantifying the impact of multiple predictors on a single outcome, providing insights into both individual and collective influences. Data analysis is conducted using EViews 10, a statistical software package designed for econometric modeling.

1. Descriptive Statistics:
   Descriptive analysis is performed to summarize the key characteristics of the data, including mean, standard deviation, and range. This step ensures a clear understanding of the dataset before proceeding with inferential analysis.
2. Classical Assumption Tests:
   To validate the regression model, the study conducts several assumption tests:
   - Normality Test: Ensures that residuals are normally distributed.
   - Multicollinearity Test: Examines correlations among independent variables to avoid redundancy.
   - Heteroscedasticity Test: Checks for consistent variance of residuals across observations.
   - Autocorrelation Test: Identifies potential dependencies among residuals.
3. Hypothesis Testing:
   The study tests its hypotheses using:
   - t-Tests: Assess the significance of individual predictors (CSR, DER, TATO) on profitability.
   - F-Test: Evaluates the overall significance of the regression model, testing whether the independent variables collectively influence ROE.
   - Coefficient of Determination (R^2): Measures the proportion of variance in ROE explained by the model.

Model Specification

The multiple regression model used in the study is specified as follows:

$$ROE = \beta_0 + \beta_1 CSR + \beta_2 DER + \beta_3 TATO + \epsilon$$

Where:

- β_0 represents the intercept.
- β_1,β_2, and β_3 are the coefficients for CSR, DER, and TATO, respectively.
- ϵ denotes the error term.

This model allows for the estimation of individual and collective impacts of the independent variables on the dependent variable, aligning with the study's objectives.

RESULTS

General Overview of the Research Object

This study focuses on analyzing the relationship between Corporate Social Responsibility (CSR), capital structure, and activity ratios with corporate profitability. The research employs a descriptive analysis, hypothesis testing, and classical

assumption tests, which are then interpreted using multiple linear regression. To ensure accuracy and reliability, the study utilizes EVIEWS version 10 and Microsoft Excel 2016 as analytical tools. The selected companies in this study are those listed on the Jakarta Islamic Index (JII), an index that tracks the most liquid Sharia-compliant stocks listed on the Indonesia Stock Exchange (IDX). Since its launch on July 3, 2000, JII has been a benchmark for Islamic investment in Indonesia, consisting of the top 30 Sharia-compliant stocks based on strict selection criteria.

The selected sample in Table 1 consists of companies across multiple industries, including (1) the basic industry and chemicals sector with a cement subsector, (2) the mining sector focusing on coal mining, (3) the diversified industry sector covering automotive and its components, (4) the consumer goods sector specializing in pharmaceuticals, (5) the consumer goods sector dedicated to household goods and cosmetics, (6) the infrastructure, utilities, and transportation sector with a telecommunications subsector, (7) the infrastructure, utilities, and transportation sector focusing on energy, (8) the trade, services, and investment sector specializing in miscellaneous goods, (9) the consumer goods sector covering food and beverages, (10) the agriculture sector with a plantation subsector, (11) the trade, services, and investment sector in the wholesale subsector, and (12) the property, real estate, and construction sector within the real estate subsector.

Table 1

Code and Names of Sample Companies

Code	Company Name
SMGR	PT Semen Indonesia
ADRO	Adaro Energy Tbk
ASII	Astra International
KLBF	Kalbe Farma
UNVR	PT Unilever Indonesia
TLKM	PT Telekomunikasi Indonesia
PGAS	Perusahaan Gas Negara
AKRA	AKR Corporindo
INDF	Indofood Sukses Makmur Tbk
ICBP	Indofood CBP Sukses Makmur Tbk
LSIP	PT PP London Sumatra Indonesia
UNTR	PT United Tractors
LPKR	Lippo Karawaci

Source: Primary data. Authors' analysis.

The companies included in the sample were selected based on their consistent listing on the JII and their publication of both annual and sustainability reports from 2013 to 2017. The selection criteria required that the companies be part of the Indonesia Sharia Stock Index (ISSI) for at least six months and rank among the top 60 stocks based on market capitalization over the past year. From these 60 companies, the final 30 were chosen based on the highest average daily transaction value in the regular market. Ultimately, after applying these selection parameters, 13 companies met the

requirements and were included in the study. These companies represent various industries, including basic industries and chemicals, mining, consumer goods, infrastructure, trade and services, and real estate.

The diversity of industries covered in this research provides a broader perspective on how CSR initiatives, capital structure, and activity ratios influence corporate profitability across different sectors. By analyzing a range of industries, this study aims to uncover patterns and variations in financial performance related to sustainability and corporate finance strategies. The inclusion of companies from multiple sectors also ensures that the findings are applicable across various business models, contributing to a comprehensive understanding of corporate financial behavior in the context of the Sharia-compliant stock market.

Descriptive Statistics

The descriptive analysis provides an overview of the dataset's key characteristics, summarizing the independent and dependent variables. Key metrics include CSR (proxied by the Islamic Social Reporting index), capital structure (measured by the Debt-to-Equity Ratio), activity ratios (measured by Total Asset Turnover), and profitability (represented by Return on Equity).

Return on Equity (ROE)

Return on Equity (ROE) is a key financial metric used to assess a company's ability to generate profit relative to shareholders' equity. Over the six-year period analyzed in this study, as in Table 2, the highest ROE was recorded by Perusahaan Gas Negara (PGAS) at 32.78% in both 2012 and 2017, indicating strong profitability during these years. Conversely, Lippo Karawaci (LPKR) reported the lowest ROE at 3.00% in 2016, reflecting weaker financial performance. The data reveal a fluctuating trend across companies, with some showing consistent declines, such as PT Semen Indonesia (SMGR) and Astra International (ASII), while others, like Adaro Energy (ADRO) and Kalbe Farma (KLBF), demonstrated relatively stable performance. The variation in ROE among firms suggests differences in financial strategies, market conditions, and operational efficiencies, highlighting the importance of effective capital utilization and sustainable profitability in maintaining investor confidence.

Table 2

Return on Equity (ROE) (%)

Company	2012	2013	2014	2015	2016	2017
PT Semen Indonesia (SMGR)	24.56	22.29	16.49	14.83	6.62	24.56
Adaro Energy Tbk (ADRO)	7.18	5.62	4.50	9.00	11.81	7.18
Astra International (ASII)	21.00	18.39	12.34	13.08	14.82	21.00
Kalbe Farma (KLBF)	23.18	21.61	18.81	18.86	17.30	23.18
PT Unilever Indonesia (UNVR)	23.18	21.61	18.81	18.86	17.30	23.18
PT Telekomunikasi Indonesia (TLKM)	26.21	24.90	24.96	27.64	23.90	26.21
Perusahaan Gas Negara (PGAS)	32.78	25.23	12.32	9.73	4.64	32.78
AKR Corporindo (AKRA)	11.48	13.26	14.53	12.97	15.90	11.48
Indofood Sukses Makmur Tbk (INDF)	8.90	12.48	8.60	11.99	11.30	8.90

Indofood CBP Sukses Makmur Tbk (ICBP)	16.85	16.83	17.84	19.63	18.30	16.85
PT PP London Sumatra Indonesia (LSIP)	11.62	12.70	8.49	7.75	9.70	11.62
PT United Tractors (UNTR)	13.46	12.55	7.11	11.98	16.14	13.46
Lippo Karawaci (LPKR)	11.23	17.77	5.41	5.56	3.00	11.23

Notes: Maximum ROE: 32.78 (PGAS, 2012 and 2017); Minimum ROE: 3.00 (LPKR, 2016)

Source: Primary data. Authors' analysis.

Islamic Social Responsibility (ISR) Index

Corporate Social Responsibility (CSR) reflects a company's commitment to ethical business practices, social responsibility, and sustainable operations. Measured using the Islamic Social Responsibility (ISR) Index, the data in Table 3 reveal varying degrees of CSR disclosure among companies. Perusahaan Gas Negara (PGAS) consistently scored the highest ISR index of 0.8 from 2012 to 2017, indicating strong adherence to CSR principles. Conversely, Lippo Karawaci (LPKR) recorded the lowest ISR index at 0.5 between 2012 and 2014, suggesting limited CSR engagement during these years. The ISR scores suggest that larger and more established companies, such as Unilever Indonesia (UNVR), Astra International (ASII), and Telekomunikasi Indonesia (TLKM), maintained relatively high CSR commitments, while companies with lower scores may have faced challenges in CSR implementation or reporting transparency. These findings emphasize the growing importance of CSR in corporate governance and investor decision-making, particularly for companies operating under Sharia-compliant business principles.

Table 3

Islamic Social Responsibility (ISR) Index

Company	2012	2013	2014	2015	2016	2017
PT Semen Indonesia (SMGR)	0.8	0.7	0.7	0.7	0.7	0.7
Adaro Energy Tbk (ADRO)	0.7	0.7	0.6	0.6	0.7	0.6
Astra International (ASII)	0.8	0.7	0.8	0.7	0.8	0.8
Kalbe Farma (KLBF)	0.7	0.7	0.7	0.7	0.7	0.7
PT Unilever Indonesia (UNVR)	0.8	0.7	0.8	0.8	0.8	0.8
PT Telekomunikasi Indonesia (TLKM)	0.8	0.7	0.7	0.7	0.7	0.7
Perusahaan Gas Negara (PGAS)	0.8	0.8	0.8	0.8	0.8	0.8
AKR Corporindo (AKRA)	0.7	0.6	0.6	0.6	0.6	0.6
Indofood Sukses Makmur Tbk (INDF)	0.7	0.6	0.6	0.6	0.6	0.7
Indofood CBP Sukses Makmur Tbk (ICBP)	0.7	0.6	0.6	0.6	0.6	0.7
PT PP London Sumatra Indonesia (LSIP)	0.7	0.7	0.7	0.7	0.7	0.7
PT United Tractors (UNTR)	0.7	0.7	0.7	0.7	0.7	0.7
Lippo Karawaci (LPKR)	0.5	0.5	0.5	0.6	0.6	0.6

Notes: Maximum ISR Index: 0.8 (PGAS, 2012–2017); Minimum ISR Index: 0.5 (LPKR, 2012–2014)

Source: Primary data. Authors' analysis.

Debt to Equity Ratio (DER)

The Debt to Equity Ratio (DER) represents the proportion of debt financing relative to shareholders' equity, serving as a crucial indicator of a company's financial leverage. The data in Table 4 show significant variations in capital structure across firms, with PT

Telekomunikasi Indonesia (TLKM) recording the highest DER of 2.65 in 2017, indicating a substantial reliance on debt. In contrast, PT PP London Sumatra Indonesia (LSIP) maintained the lowest DER at 0.20 in 2012, 2014, and 2017, reflecting a conservative financial strategy with minimal debt exposure. Companies such as Astra International (ASII) and Perusahaan Gas Negara (PGAS) exhibited fluctuating debt levels, suggesting adjustments in their capital structures over time. While higher DER values can indicate growth and expansion financed through debt, excessive reliance on borrowing may increase financial risk. Conversely, companies with lower DER, such as Kalbe Farma (KLBF) and Unilever Indonesia (UNVR), appear to follow a more equity-driven approach, minimizing financial risk but potentially limiting growth opportunities. These findings highlight the importance of balancing debt and equity to optimize financial stability and operational efficiency.

Table 4

Debt to Equity Ratio (DER) (%)

Company	2012	2013	2014	2015	2016	2017
PT Semen Indonesia (SMGR)	22.20	0.41	0.37	0.37	0.45	0.57
Adaro Energy Tbk (ADRO)	0.96	1.11	0.97	0.78	0.72	0.67
Astra International (ASII)	2.90	1.02	0.96	0.94	0.87	0.89
Kalbe Farma (KLBF)	0.28	0.33	0.27	0.25	0.22	0.22
PT Unilever Indonesia (UNVR)	0.28	0.33	0.27	0.25	0.22	0.22
PT Telekomunikasi Indonesia (TLKM)	2.02	2.14	2.11	2.26	2.56	2.65
Perusahaan Gas Negara (PGAS)	0.47	0.60	1.10	1.15	1.16	0.97
AKR Corporindo (AKRA)	1.80	1.73	1.48	1.09	0.96	0.86
Indofood Sukses Makmur Tbk (INDF)	0.74	1.04	1.08	1.13	0.87	0.88
Indofood CBP Sukses Makmur Tbk (ICBP)	0.48	0.60	0.66	0.62	0.56	0.56
PT PP London Sumatra Indonesia (LSIP)	0.20	0.21	0.20	0.21	0.24	0.20
PT United Tractors (UNTR)	0.18	0.61	0.56	0.57	0.50	0.73
Lippo Karawaci (LPKR)	0.60	1.21	1.14	1.18	1.07	0.50

Notes: Maximum DER: 2.65 (TLKM, 2017); Minimum DER: 0.20 (LSIP, 2012, 2014, 2017)

Source: Primary data. Authors' analysis.

Total Asset Turnover (TATO) Ratio

The Total Asset Turnover (TATO) ratio measures a company's efficiency in utilizing its assets to generate revenue. The data in Table 5 indicate that Astra International (ASII) achieved the highest TATO ratio of 2.9 in 2013, demonstrating strong asset utilization during that year. In contrast, Lippo Karawaci (LPKR) consistently recorded the lowest TATO ratio of 0.2 in multiple years, signaling inefficiencies in asset usage. Companies such as Unilever Indonesia (UNVR) and Kalbe Farma (KLBF) maintained relatively high and stable TATO ratios, suggesting efficient asset management strategies. Meanwhile, firms like Adaro Energy (ADRO) and Perusahaan Gas Negara (PGAS) reported lower TATO ratios, likely due to the capital-intensive nature of their industries. The variations in asset turnover ratios highlight differences in business models, operational efficiencies, and industry characteristics, emphasizing the need for strategic asset management to enhance overall financial performance.

Table 5

Total Asset Turnover (TATO) Ratio (%)

Company	2012	2013	2014	2015	2016	2017
PT Semen Indonesia (SMGR)	0.7	0.8	0.8	0.7	0.5	0.6
Adaro Energy Tbk (ADRO)	0.5	0.5	0.5	0.4	0.4	0.4
Astra International (ASII)	0.5	2.9	0.6	0.5	1.9	1.9
Kalbe Farma (KLBF)	1.4	1.4	1.4	1.3	1.3	1.2
PT Unilever Indonesia (UNVR)	1.4	2.4	2.4	2.3	2.4	2.2
PT Telekomunikasi Indonesia (TLKM)	2.3	0.6	0.6	0.6	0.6	0.6
Perusahaan Gas Negara (PGAS)	0.7	0.7	0.6	0.5	0.4	0.5
AKR Corporindo (AKRA)	1.8	1.5	1.5	1.3	1.0	1.1
Indofood Sukses Makmur Tbk (INDF)	0.8	0.7	0.7	0.7	0.8	0.8
Indofood CBP Sukses Makmur Tbk (ICBP)	1.2	1.2	1.2	0.9	1.2	1.1
PT PP London Sumatra Indonesia (LSIP)	0.6	0.5	0.5	0.5	0.4	0.5
PT United Tractors (UNTR)	1.1	0.7	1.7	1.6	0.7	0.8
Lippo Karawaci (LPKR)	0.2	0.2	0.3	0.2	0.2	0.2

Notes: Maximum TATO Ratio: 2.9 (ASII, 2013); Minimum TATO Ratio: 0.2 (LPKR, 2012, 2013, 2015–2017)

Source: Primary data. Authors' analysis.

Classical Assumption Tests

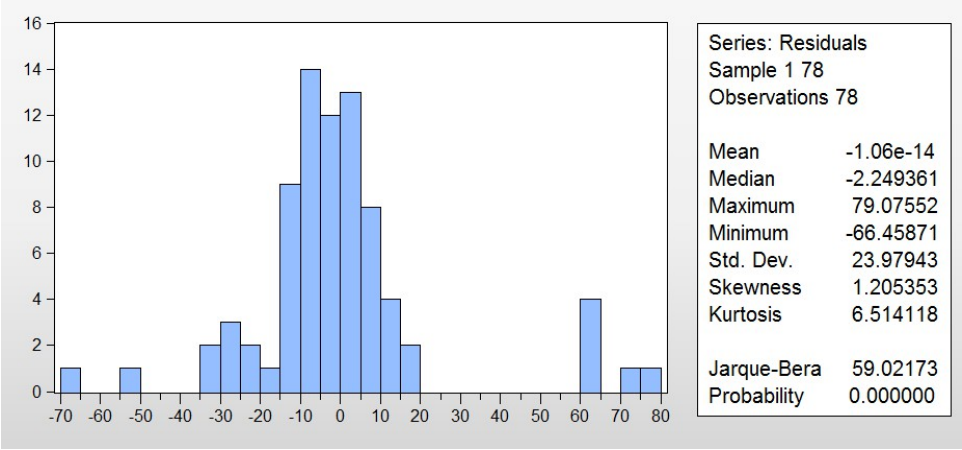
To ensure the validity of the regression model, the data underwent a series of classical assumption tests:

Normality Test

The normality test is conducted to determine whether the residuals in the regression model follow a normal distribution. This is crucial for ensuring that the model produces unbiased and efficient estimators. In this study, the Jarque-Bera (JB) test is applied to assess the distribution of residuals. The results in Figure 1 indicate a probability value of 0.0000, which is less than 0.05, leading to the conclusion that the residuals are not normally distributed. When residuals deviate from normality, the regression model may suffer from inefficiencies, affecting the accuracy and reliability of hypothesis testing. The presence of non-normal residuals suggests the need for corrective measures to align the data with the assumptions of ordinary least squares (OLS) regression.

Figure 1

Initial Normality Test Result

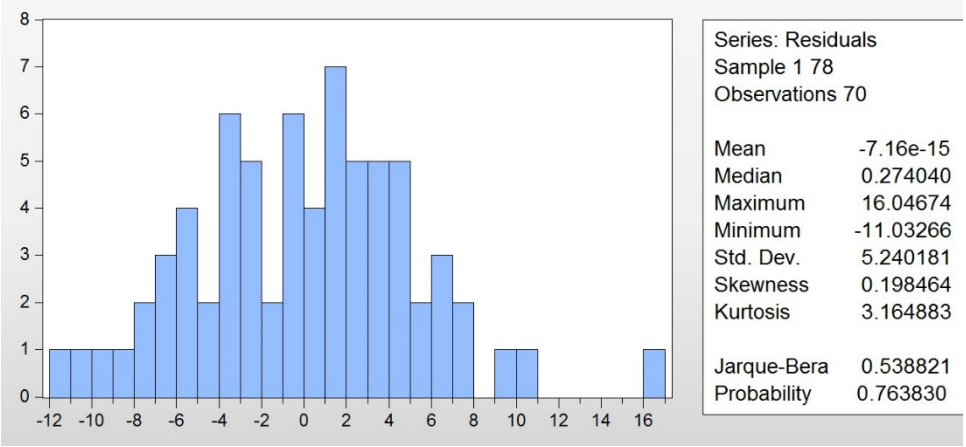


Source: Primary data. Authors' estimation.

To address the issue of non-normality, a normality correction is implemented by removing extreme outliers from the dataset. The studentized residuals method is used to identify outliers, where any residual with an absolute value greater than 3 or less than -3 is considered problematic and subsequently removed. After this adjustment, a second Jarque-Bera test is conducted in Figure 2, yielding a probability value of 0.7638, which is greater than 0.05. This confirms that the residuals now follow a normal distribution, satisfying the assumptions of the regression model. By applying this correction, the study ensures that the statistical analysis remains valid, enhancing the reliability of the findings and supporting more accurate interpretations of the relationships between the variables.

Figure 2

Corrected Normality Test Result



Source: Primary data. Authors' estimation.

Multicollinearity Test

The multicollinearity test is used to assess whether there is a strong linear correlation among the independent variables in the regression model, which can distort the

estimation of regression coefficients. This study employs the Variance Inflation Factor (VIF) and Tolerance Value to detect multicollinearity. A VIF greater than 10 indicates a multicollinearity problem. The results in Table 6 show that the highest VIF value is 1.153996 (ISR) which falls within acceptable limits. Since no variable exhibits a VIF exceeding 10, it can be concluded that no multicollinearity is present in the regression model, ensuring that the independent variables do not excessively overlap in explaining variations in profitability.

Table 6

Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	54.05188	131.7987	NA
ISR	113.7671	144.7669	1.153996
DER	0.015573	1.151967	1.060789
TATO	2.286661	5.464849	1.117818

Source: Primary data. Authors' analysis.

Heteroscedasticity Test

The heteroscedasticity test is conducted to determine whether the variance of residuals in the regression model is constant across all levels of the independent variables. This study uses the White Heteroscedasticity Test, where the Obs*R-Squared probability value is examined. A p-value greater than 0.05 indicates the absence of heteroscedasticity, ensuring that the error variance remains stable. The test results in Table 7 show an Obs*R-Squared value of 13.08348 with a probability of 0.1589, which is greater than 0.05. This confirms that the regression model does not suffer from heteroscedasticity, meaning the assumptions of ordinary least squares (OLS) regression are met, and the model produces reliable estimators.

Table 7

White Heteroscedasticity Test Results

Statistic	Value	Probability	
F-statistic	1.532476	Prob. F(9,60)	0.1574
Obs*R-squared	13.08348	Prob. Chi-Square(9)	0.1589
Scaled explained SS	12.58982	Prob. Chi-Square(9)	0.1821

Source: Primary data. Authors' analysis.

Autocorrelation Test

The Breusch-Godfrey Serial Correlation LM Test presented in Table 8 assesses the presence of autocorrelation in the regression model. Autocorrelation occurs when error terms are correlated across observations, which is common in time-series data but may also appear in cross-sectional data. The LM test evaluates this by comparing the probability value of Obs*R-squared with the significance level of 0.05. If the probability is greater than 0.05, the model is free from autocorrelation; otherwise, autocorrelation is present. In this case, the Obs*R-squared probability (0.0016) is lower than 0.05, indicating the presence of autocorrelation in the model. According to Gujarati (2003),

the implication of autocorrelation is that while the Ordinary Least Squares (OLS) estimator remains unbiased and consistent, its efficiency may be affected, potentially leading to incorrect inferences. Consequently, remedial measures, such as using Generalized Least Squares (GLS) or Newey-West standard errors, may be necessary to correct for this issue and improve the robustness of the model's estimates.

Table 8

Breusch-Godfrey Serial Correlation LM Test

Statistic	Value	Probability	
F-statistic	7.217572	Prob. F(2,64)	0.0015
Obs*R-squared	12.88275	Prob. Chi-Square(2)	0.0016

Source: Primary data. Authors' analysis.

To address the issue of autocorrelation detected in the previous regression model, it is necessary to apply corrective measures to ensure the reliability and efficiency of the estimated parameters. One commonly used method for mitigating autocorrelation is the Heteroskedasticity and Autocorrelation Consistent (HAC) estimator, developed by Newey and West. This approach adjusts standard errors to account for both heteroskedasticity and serial correlation, thereby improving the robustness of statistical inferences. By implementing the Newey-West HAC estimator, the model can produce more reliable standard errors, preventing misleading conclusions and enhancing the validity of hypothesis testing.

Hypothesis Testing

The multiple regression analysis presented in Table 9 provides insights into the impact of Corporate Social Responsibility (ISR), Capital Structure (DER), and Activity Ratio (TATO) on company profitability. The regression equation derived from the model is $Y = -10.92 + 28.67X_1 + 0.98X_2 + 4.76X_3 + D$, indicating the extent to which each independent variable influences profitability. The coefficient for ISR (28.67) suggests that for every unit increase in CSR disclosure, profitability increases by 28.67 units. Meanwhile, the capital structure coefficient (0.98) indicates that a 1% increase in DER leads to a decrease in profitability by 0.98 units, suggesting an inverse relationship between leverage and profitability. On the other hand, the activity ratio coefficient (4.76) shows that an increase in asset turnover by one unit contributes to a 4.76-unit rise in profitability, indicating that efficient asset utilization positively impacts company performance.

Table 9

Multiple Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-10.92061	10.35658	-1.054461	0.2955
ISR	28.67916	15.20493	1.886175	0.0637
DER	0.983100	0.138275	7.109756	0.0000
TATO	4.769872	1.909184	2.498382	0.0150
R-squared		0.592022		

Adjusted R-squared	0.573478
F-statistic	31.92452
Prob(F-statistic)	0.000000

Source: Primary data. Authors' analysis.

The t-test results further evaluate whether these relationships are statistically significant. The CSR variable has a p-value of 0.0637, which is greater than 0.05, and a t-statistic of 1.88, which is lower than the critical t-value (1.671). This means that CSR, when analyzed independently, does not have a significant impact on profitability. However, the capital structure variable (DER) shows a highly significant effect with a p-value of 0.0000 (<0.05) and a t-statistic of 7.109 (>1.671), confirming that leverage plays a crucial role in determining profitability. Similarly, the activity ratio (TATO) exhibits a p-value of 0.0150 (<0.05) and a t-statistic of 2.498 (>1.671), demonstrating that asset turnover significantly influences profitability.

The coefficient of determination (R-squared) measures the goodness-of-fit of the regression model. In this case, the R-squared value is 0.5920, indicating that 59.2% of the variation in profitability can be explained by the independent variables (CSR, capital structure, and activity ratio). The adjusted R-squared value of 0.5735 accounts for the number of predictors in the model, suggesting a slightly lower but still substantial explanatory power. The remaining 40.8% of variation in profitability is influenced by other external factors that are not included in this model.

The F-test assesses whether the independent variables collectively have a significant effect on profitability. The model yields an F-statistic of 31.92, which is far greater than the critical F-value of 2.77, and a p-value of 0.0000 (<0.05). This indicates that CSR, capital structure, and activity ratio jointly have a significant impact on profitability. Since the F-statistic is positive and highly significant, the overall regression model is robust, confirming that these factors collectively explain variations in the dependent variable. Consequently, the model can be considered reliable for further interpretation and decision-making regarding the financial performance of companies.

DISCUSSION

Corporate Social Responsibility and Profitability of Companies in Jakarta Islamic Index

The findings of this study suggest that Corporate Social Responsibility (CSR), as measured by the Islamic Social Reporting (ISR) index, does not have a direct and statistically significant impact on profitability. However, prior research has shown that ISR can positively influence financial performance, particularly Return on Equity (ROE), by fostering corporate transparency, ethical accountability, and stakeholder trust. For instance, Jati et al. (2020) found that Islamic banks with strong ISR practices experienced higher levels of stakeholder confidence, ultimately leading to better financial outcomes. Similarly, Mahmuda & Muktadir-Al-Mukit (2023) observed that robust CSR disclosures in Islamic banks contribute to brand loyalty and customer retention, factors that enhance profitability over time. Furthermore, studies by

Abdelmoneim & Elghazaly (2021) indicate that corporate governance plays a crucial role in strengthening the ISR-ROE relationship, highlighting the importance of strategic oversight in maximizing the financial benefits of CSR initiatives.

While many studies support the positive link between ISR and financial performance, some research presents a more nuanced or even contradictory perspective. Economic conditions, for example, can significantly influence the effectiveness of ISR in driving profitability. Arsad et al. (2021) found that while CSR practices tend to enhance financial performance during periods of economic stability, their impact may be diminished during economic downturns. Additionally, Ghardallou & Alessa (2022) argue that ISR's effect on profitability is contingent on a firm's ability to mitigate risks and navigate regulatory environments effectively. Although no studies outright reject the potential benefits of ISR, these findings suggest that its influence is not universally consistent and may depend on external factors such as governance quality, market conditions, and institutional support.

The implications of these findings extend beyond financial performance, highlighting the strategic importance of ISR in corporate sustainability and long-term growth. As Tsendsuren et al. (2021) note, while the immediate financial gains from CSR initiatives may not always be evident, their long-term benefits—such as strengthened stakeholder relationships and reputational resilience—can contribute to sustained profitability. Moreover, companies operating in emerging markets may find that adherence to ISR principles provides a competitive advantage, attracting ethical investors and enhancing corporate credibility (Alsartawi, 2020). Ultimately, while ISR alone may not guarantee financial success, when combined with strong governance structures and supportive economic conditions, it can serve as both an ethical obligation and a strategic tool for achieving sustainable profitability in Islamic financial institutions.

Activities Ratio and Profitability of Companies in Jakarta Islamic Index

The study's findings indicate a positive and statistically significant relationship between activity ratios, specifically Total Asset Turnover (TATO), and profitability. This aligns with previous research demonstrating that companies with higher asset turnover ratios tend to achieve better financial performance, particularly in terms of Return on Equity (ROE). Aryantini & Jumono (2021) found that firms with efficient asset utilization generate higher income relative to equity, directly enhancing shareholder value. Similarly, Tekin (2021) observed that in Turkey's real estate investment sector, asset turnover plays a crucial role in determining profitability by reflecting how effectively firms convert assets into revenue. Additional studies, such as those by Dimitrić et al. (2019), reinforce this link, highlighting the importance of TATO in sustaining profitability across various industries, including the hospitality sector.

While the majority of research supports the positive impact of TATO on profitability, some studies suggest that external factors can influence this relationship. For example, economic stability plays a significant role in determining the effectiveness of asset turnover in driving ROE. Katusiime (2021) found that financial crises, such as the COVID-

19 pandemic, altered the expected benefits of asset turnover in the banking sector, demonstrating that firms must adapt their asset management strategies to maintain profitability in uncertain conditions. Additionally, Alshiqi & Sahiti (2021) noted that variations in total asset turnover across different banking systems affect profitability, underscoring the importance of considering industry-specific and regional differences. These studies indicate that while TATO is generally a strong predictor of financial success, its impact may vary depending on economic conditions and industry dynamics.

The implications of these findings are significant for both corporate managers and investors. Companies aiming to enhance profitability should prioritize optimizing asset utilization, as efficient asset turnover directly influences ROE and overall financial stability. Additionally, strategic risk management is essential, as demonstrated by research on the banking sector's response to economic crises. Firms must develop adaptive financial strategies to maintain profitability across different market conditions. Moreover, the universal applicability of TATO in predicting ROE, as highlighted by Alshiqi & Sahiti (2021), suggests that businesses across various sectors and regions should integrate asset turnover metrics into their financial planning. Ultimately, improving operational efficiency through better asset management can lead to long-term financial sustainability and increased investor confidence.

Capital Structure and Profitability of Companies in Jakarta Islamic Index

The study reveals a significant negative relationship between the Debt-to-Equity Ratio (DER) and profitability, as measured by Return on Equity (ROE). This finding aligns with prior research indicating that excessive debt can reduce profitability by increasing financial risk and interest obligations. For example, Otekunrin et al. (2020) found that when firms exceed optimal debt levels, their ROE tends to decline due to higher financial costs. Similarly, Nguyen & Nguyen (2020) demonstrated that Vietnamese firms with higher debt reliance experienced lower ROE, emphasizing the importance of maintaining a balanced capital structure. Additionally, Priyan et al. (2024) highlighted that while a moderate level of total debt can improve ROE, excessive long-term debt negatively impacts profitability, suggesting that firms should carefully manage their leverage to sustain financial performance.

On the other hand, some studies argue that debt, when used strategically, can enhance profitability. Serwadda (2019) found a positive correlation between short-term debt and ROE in Ugandan banks, suggesting that leveraging debt effectively can improve returns. Similarly, Perri & Cela (2022) observed that companies in Albania with well-structured liabilities achieved better profitability, reinforcing the idea that a well-calibrated capital structure can optimize financial outcomes. However, research by Ima et al. (2024) highlights a more nuanced view, indicating that while leverage can drive profitability in certain contexts, excessive debt levels may lead to diminishing returns due to increased financial burdens. These studies suggest that the impact of DER on ROE varies based on industry, economic conditions, and firm-specific factors.

The implications of these findings highlight the need for companies to adopt a strategic approach to capital structuring. While debt can serve as a tool for growth, excessive leverage may hinder profitability by increasing financial risks. Businesses must carefully balance debt and equity to ensure sustainable financial performance, taking into account industry-specific dynamics and economic conditions. Furthermore, maintaining an optimal DER can enhance shareholder value and improve long-term stability, as firms with well-managed capital structures are better positioned to navigate market fluctuations. Ultimately, the key takeaway is that capital structure decisions should be made with a comprehensive understanding of their impact on profitability, ensuring financial resilience and long-term success.

Interactions Between Corporate Social Responsibility, Capital Structure, and Activities Ratio

The study highlights the significant influence of Corporate Social Responsibility (CSR), Debt-to-Equity Ratio (DER), and Total Asset Turnover (TATO) on profitability, emphasizing the interconnected nature of these variables. The findings suggest that while CSR alone may not have a direct effect on Return on Equity (ROE), it plays a crucial role in strengthening financial and operational strategies. Previous research supports this view, demonstrating that companies with strong CSR initiatives tend to gain long-term financial stability by enhancing stakeholder trust and corporate reputation (Tarigan et al., 2019; Zhang et al., 2022). Additionally, studies indicate that conservative capital structures and high asset turnover rates can complement CSR initiatives by reducing financial risk and optimizing operational efficiency, ultimately improving profitability (Blinova et al., 2018; Gallego-Álvarez & Quina-Custodio, 2017).

Some studies offer a contrasting perspective, suggesting that CSR investments may not always yield immediate financial benefits, particularly when companies face high leverage. Research by Haţegan et al. (2018) argues that firms with excessive debt obligations may struggle to sustain CSR activities due to financial constraints, potentially diminishing their long-term value. Similarly, Otekunrin et al. (2020) caution that an improperly balanced capital structure can negatively impact profitability, as firms burdened with high DER may experience diminishing returns. However, other scholars, such as Khan et al. (2017), contend that CSR can act as a mitigating factor by improving firm reputation and customer loyalty, which can counterbalance financial risks associated with leverage. These varying perspectives highlight the importance of a strategic and well-integrated approach to CSR, capital structure, and operational efficiency.

The study's findings underscore the necessity for companies to adopt a holistic approach when managing CSR, capital structure, and activity ratios to ensure sustainable profitability. Firms that effectively balance these factors can enhance financial stability, maintain investor confidence, and strengthen their competitive positioning. The research suggests that CSR should not be viewed in isolation but rather as a complementary strategy that, when aligned with sound financial management and operational efficiency, can contribute to long-term success. As stakeholder

expectations evolve, companies must continuously assess their CSR commitments in relation to their financial structure and operational performance to maintain resilience in an increasingly socially conscious business landscape.

CONCLUSION

This study investigated the effects of Corporate Social Responsibility (CSR), capital structure, and activity ratios on the profitability of Jakarta Islamic Index (JII)-listed companies between 2012 and 2017. The findings reveal that CSR does not significantly impact short-term profitability, suggesting its benefits may be more indirect, enhancing stakeholder trust and long-term corporate sustainability. In contrast, capital structure, measured by the Debt-to-Equity Ratio (DER), negatively affects profitability, highlighting the risks of excessive financial leverage, particularly within the ethical constraints of Islamic finance. Activity ratios, proxied by Total Asset Turnover (TATO), positively influence profitability, demonstrating the critical role of operational efficiency in achieving financial success.

The study underscores the interconnectedness of these variables, showing that an integrated approach balancing CSR, financial management, and operational strategies is vital for sustainable profitability. These findings contribute to the growing body of literature on Islamic finance, offering practical insights for managers and policymakers aiming to enhance performance in compliance with Sharia principles. Significantly, the research illuminates unique challenges and opportunities for JII-listed companies, emphasizing the importance of ethical considerations in shaping profitability strategies. Future studies can build on this work to deepen our understanding of the dynamic relationships among these variables, exploring additional contexts and long-term implications.

Limitations of the Study

While this study provides valuable insights, certain limitations warrant consideration. First, the reliance on secondary data from annual reports and financial statements may introduce reporting biases. Differences in CSR disclosure practices and data quality among JII-listed firms could affect the consistency of the findings. Additionally, the CSR metric—Islamic Social Reporting (ISR)—captures only reported practices, potentially overlooking non-disclosed initiatives that might influence profitability. Second, the sample size of 13 firms, although representative of JII-listed companies during the study period, may limit the generalizability of results. The findings may not fully reflect the diversity of industries or the broader economic environment affecting firms outside the JII framework.

Third, the study focuses exclusively on three variables—CSR, capital structure, and activity ratios—while profitability is influenced by other factors such as corporate governance, market dynamics, or innovation strategies. The omission of these variables may restrict the scope of the analysis, leaving potential gaps in understanding the broader determinants of financial performance. Lastly, the study is cross-sectional, examining relationships within a specific timeframe. This approach limits the ability to

assess long-term trends or causal effects, which may yield different insights over extended periods.

Recommendations for Future Research

Future research can address the limitations of this study by expanding its scope and methodological approach. First, incorporating additional variables such as corporate governance, innovation, market conditions, and organizational culture could provide a more comprehensive understanding of profitability determinants in Islamic finance. Examining these factors alongside CSR, capital structure, and activity ratios may reveal more intricate relationships and broader insights. Second, a longitudinal research design could uncover temporal trends and causality among the variables. By analyzing data over a longer timeframe, future studies could explore how these relationships evolve and their long-term implications for financial performance in Islamic finance.

Third, comparative studies between JII-listed firms and non-Islamic companies would illuminate the unique challenges and opportunities within Islamic finance. Such research could identify best practices, enhance understanding of regulatory impacts, and provide actionable insights for managers navigating different financial frameworks. Finally, qualitative methods, such as case studies or interviews, could complement quantitative analyses by exploring the contextual nuances of CSR implementation, financial strategies, and operational efficiency. These approaches could uncover deeper insights into the motivations, challenges, and outcomes experienced by firms pursuing profitability within ethical and regulatory boundaries.

Author Contributions

Conceptualization	T.A.S. & Y.A.	Resources	Y.A.
Data curation	T.A.S. & Y.A.	Software	T.A.S. & Y.A.
Formal analysis	T.A.S., Y.A., & I.B.	Supervision	Y.A.
Funding acquisition	T.A.S. & Y.A.	Validation	T.A.S., Y.A., & I.B.
Investigation	T.A.S. & Y.A.	Visualization	T.A.S. & Y.A.
Methodology	T.A.S. & Y.A.	Writing – original draft	T.A.S., Y.A., & I.B.
Project administration	T.A.S. & Y.A.	Writing – review & editing	T.A.S., Y.A., & I.B.

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Informed Consent Statement

Informed consent was not required for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work, the authors used ChatGPT, DeepL, Grammarly, and PaperPal to translate from Bahasa Indonesia into American English and improve the clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and took full responsibility for the content of the published article.

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