COMPANY PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY: ASSESSING THE ROLE OF CORPORATE GOVERNANCE

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Abstract

This study explores the relationship between firm performance (FP), corporate governance (CG), and corporate social responsibility (CSR) among Indonesian firms. It investigates whether strong FP leads to enhanced CSR activities and examines the mediating role of CG in this dynamic. Using data from 96 publicly listed companies on the Indonesia Stock Exchange (IDX) that published sustainability reports between 2019 and 2022, the study analyzes 384 firm-year observations. The findings indicate that firms with superior financial performance are more likely to engage in substantial CSR initiatives. Moreover, the results highlight the critical role of CG in mediating this relationship, suggesting that effective governance practices ensure that financial success translates into socially responsible actions. This research contributes to the understanding of sustainable business practices in emerging markets by emphasizing the importance of governance in aligning profitability with social responsibility. The insights are valuable for policymakers and corporate leaders aiming to promote sustainability through strong governance frameworks.

Keywords: Firm Performance, Corporate Governance, Corporate Social Responsibility, Big Capitalization Companies, Small Capitalization Companies

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1. INTRODUCTION

The growing emphasis on corporate social responsibility (CSR) in recent decades has fundamentally reshaped the business landscape, compelling firms to balance profitability with social and environmental stewardship (Makhdoom et al., 2023). Amidst escalating stakeholder expectations, companies worldwide are increasingly integrating CSR into their strategic frameworks (Chourasiya et al., 2024; Ratna & Junaidi, 2024). This paradigm shift is particularly pronounced in emerging markets like Indonesia, where regulatory reforms and heightened public awareness have intensified the focus on sustainable business practices.

CSR is generally defined as a company's activities that not only consider economic profit but also encompass the return of social welfare (Javeed & Lefen, 2019). Until a few years ago, there was a common assumption that attention to environmental effects was part of a company's social obligation, with legal, ethical, and pure moral ramifications. Yet, such impacts were divorced from the company's business model and market expectations (Naciti et al., 2022). Thus, CSR

programs challenge companies on how they can also deliver satisfactory economic benefits to stakeholders, besides community and environmental welfare (Cherian et al., 2019).

Indonesia has endeavoured to implement CSR for nearly two decades. However, in practice, most Indonesian companies conduct CSR only at the corporate charity and philanthropy levels without proper corporate governance (CG) implementation (Rinawiyanti et al., 2021).

Wuttichindanon (2017) asserts that companies implement CSR activities due to pressures from their stakeholders, regardless of economic performance, making the disclosure of their management information more common. Moreover, many investors prioritize a company's stock valuation over its CSR reporting (Mądra-Sawicka & Paliszkiewicz, 2020). According to Akben-Selcuk (2019), the need to establish proper control mechanisms is essential to protect the rights of minority shareholders in companies with concentrated ownership structures, as overinvestment in CSR activities can deteriorate a company's financial performance. Previous research indicates that CSR is a driving factor for better firm performance (FP) and CG quality. However, one cannot deny that a failure in the implementation of CSR programs occurs if the company has poor financial conditions and CG rules (Barnett, 2007). From this perspective, CSR is the result, not the cause (Lee & Hu, 2018).

Some studies show the uncertain effectiveness of FP and CG concerning CSR disclosures in various countries. Saudi Arabian companies that implement proper CG rules are capable of enhancing CSR disclosures but cannot rely on profitability to finance CSR program activities (Boshnak, 2022). This is different from the findings of Kludacz-Alessandri and Cygańska (2021), who believe that adequate company financial conditions are sufficient to implement CSR programs in international energy sector companies.

The primary objective of this research is to investigate the influence of FP on CSR in Indonesian companies, with a specific focus on the mediating role of CG. This study aims to understand how effective CG practices can enhance the positive impact of a FP on its CSR activities. This research seeks to provide empirical evidence on the direct and indirect effects of FP and CG on CSR. The findings will contribute to the broader discourse on sustainable business practices and the strategic integration of CSR into CG frameworks in emerging economies like Indonesia.

The theoretical motivation for this study stems from the interplay between FP, CG, and CSR. Existing literature has established various relationships between these variables, but there are notable gaps and areas requiring further exploration, particularly in the context of emerging markets like Indonesia.

This study contributes to the literature in several significant ways: 1) by focusing on companies listed on the Indonesia Stock Exchange (IDX), this research provides valuable empirical data from an emerging market; 2) the study elucidates the mediating role of CG in the FP-CSR relationship, offering insights into how good governance practices can enhance CSR activities; 3) by integrating FP, CG, and CSR into a single analytical framework, the research provides a holistic view of how these elements interact; and 4) practical implications for policymakers and companies.

This study fills critical gaps in the literature by providing a detailed examination of the FP-CSR-CG nexus in an emerging market. It offers empirical evidence and theoretical insights that enhance our understanding of the factors influencing CSR activities, particularly highlighting the crucial role of CG in this process.

This study is organized as follows. Section 2 covers the literature review and hypothesis development. Section 3 outlines the research methodology. Section 4 details the study's results and discussion. Finally, Section 5 concludes the research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory suggests that effective CG mechanisms are crucial to align the interests of managers with those of the shareholders. Effective CG can mitigate agency problems by ensuring that managers act in the best interest of the shareholders, including engaging in CSR activities that can enhance FP in the long term (Jensen & Meckling, 1976).

In relation to this exploration, there is a collaboration and interrelated interests between companies and users of financial statements, such as creditors, investors, and other financial data users. CG plays a crucial role in addressing conflicts of interest between principals and agents. In the context of firm sustainability, agency theory highlights that a board mechanism implementing social sustainability practices will benefit the company (Chams & García-Blandón, 2019).

Stakeholder theory, introduced by Freeman (1984), broadens the focus from shareholders to a broader range of stakeholders, including employees, consumers, suppliers, and the community. CSR activities are a means to address the needs and interests of these diverse stakeholders, thereby enhancing FP by fostering goodwill, loyalty, and long-term sustainability. A sound financial situation reflects the company's ability to balance stakeholder interests effectively, fostering trust and loyalty among employees.

Positive relationships with stakeholders are critical for long-term value development because they allow organizations to listen to and engage with key stakeholders, propagating beliefs and principles aimed at safeguarding all dimensions — economic, social, and environmental (Naciti et al., 2022).

According to legitimacy theory, organizations seek legitimacy by operating within the boundaries and conventions of their particular societies, which is vital for their survival and success. CSR activities are a way for companies to demonstrate their commitment to social norms and values, thereby gaining legitimacy and improving their performance (Suchman, 1995).

When there is a misalignment between organizational practices and societal expectations, a legitimacy gap arises, potentially threatening the organization's reputation and sustainability. CSR activities, supported by robust financial performance, help bridge this gap by signaling a commitment to social and environmental responsibilities.

Moreover, disclosing social responsibility reports is expected to benefit companies by gaining societal legitimacy and increasing future profits (Prayanthi & Budiarso, 2022).

Several studies state that a company's financial condition should be given priority before implementing CSR programs that require costs. Sial et al. (2018) stated that there is governmental pressure for businesses to engage in CSR activities. CSR reporting is influenced by various factors, with the availability of financial resources being a key determinant for conducting CSR activities and reporting (Ali et al., 2022). In line with legitimacy theory, companies with adequate financial conditions will tend to provide social and environmental performance reports to comply with public and government demands. Better company performance generates an economic resource surplus, allowing for greater investment in CSR activities (Lin et al., 2020). It aligns with stakeholder theory that CSR reporting is valuable non-financial information for investors outside of a company's financial statements in evaluating ongoing company activities in developing countries.

Company performance significantly influences CSR reporting. For regulators, the level of CSR reporting functions as a "signal" to enact or amend legislation impacting CSR activities and reporting (Haji et al., 2023).

The declining number of companies engaging in CSR activities and reduced CSR expenditure have raised concerns among policymakers and the government (Wenqi et al., 2022). Established and large companies also risk losing their reputation due to decreased CSR spending. Pradhan and Nibedita (2021) stated that profitability is one of several specific determinants for companies in disclosing CSR, where the managers of the highly profitable and large firms may allocate resources CSR activities, as such investments could generate long-term profits to get more involvement in CSR activities that require cost.

A study in 32 countries by Kludacz-Alessandri and Cygańska (2021) found that companies with higher financial performance tend to engage more in CSR activities, suggesting a positive feedback loop between profitability and social responsibility. Furthermore, Okafor et al. (2021) examined United States (U.S.) tech firms and demonstrated that firms with better financial performance were more likely to invest in CSR, reinforcing the idea that profitable firms have more resources to allocate towards socially responsible initiatives.

The research conducted in Indonesia by Noegroho and Saefatu (2022) reveals that a company's profitability can influence CSR. In other words, when these companies experience an increase or decrease in profitability, it has a positive impact on their CSR activities. Further, Lee and Hu (2018) stated that company performance has a significant impact on the implementation of CSR in 15 countries. Companies that generate more profits have a greater ability to contribute to social welfare.

However, it is important to note that the relationship between corporate performance and CSR can be influenced by various factors, such as corporate culture, organizational values, and stakeholder pressure. Therefore, although there is a positive relationship between corporate performance and CSR, this relationship may not always be linear or direct.

A study by Gu (2023) stated that FP positively impacts CSR within a specific spatial context. It suggests that a firm's CSR performance is influenced by the CSR activities of nearby firms, indicating a spatial spillover effect. This means that when a company engages in CSR activities, it can encourage neighbouring companies to do the same. This is premised on the idea that companies with better financial performance have more resources, particularly slack resources, to invest in CSR initiatives. Thus, it is hypothesised that:

H1: Firm performance has a positive impact on corporate social responsibility.

In Indonesia, there are regulations that require companies to allocate CSR funds oriented more towards community empowerment and capacity-building, as stipulated in the Minister of Environment and Forestry (*LHK*) Regulation No. 1 of 2021[1]. This signifies the adoption of a new paradigm in the implementation of CSR in Indonesia. However, there are still challenges in CSR implementation, such as philanthropic activities that often overlap, lack efficiency, fail to target the right areas, and are poorly planned. Therefore, even though CSR has had a positive impact on society, there is a need for improvements in the implementation and management of CSR to ensure the effectiveness and efficiency of these programs in Indonesia (Prabawani et al., 2023). Furthermore, CG in Indonesia is seen to encompass various aspects such as transparency, accountability, and effective risk management, which contribute to the preparation of sustainability reports (Amidjaya & Widagdo, 2020).

Hence, there is a compelling study by Ying et al. (2021) suggesting that the mediating effect of CG on Ethiopian FP is potent and positively influences CSR, exploring the impact of corporate performance on CSR in Ethiopian businesses, specifically state-owned endowment companies. This study's rationale stems from company-level, societal, and governmental issues that are less aware and face challenges in executing roles, rights, and responsibilities related to CSR activities connected with corporate performance and CG gaps. Ethiopia significantly lags behind developed countries in terms of industrialization, corporate performance, CSR awareness, and CG. Furthermore, CSR has not been widely adopted or investigated in Ethiopia. For this reason, companies view CSR as a responsibility and not as a long-term benefit source for the company, society, and environment. The results suggest that FP is significantly determined by the role of CG. The legitimate support, control, and oversight practices of CG regarding CSR are influential besides the impact of FP on all dimensions, meaning directly, indirectly, and overall (Farooq et al., 2025). This means that companies practicing good social responsibility enhance their external stakeholder connections and also boost the motivation, morale, dedication, and loyalty of their employees, further aiding the company in developing new resources and capabilities for improved FP.

Further, a study by Arora and Dharwadkar (2011) demonstrated that CG mechanisms positively influence the extent and quality of CSR activities. This suggests that effective governance can channel the benefits of financial performance towards CSR. Another study by Jo and Harjoto (2012) provided evidence that CG not only affects CSR directly but also mediates the relationship between financial performance and CSR. Their study emphasized the importance of governance in ensuring that

[1] https://pro.hukumonline.com/a/lt602b705105648/regulation-of-the-minister-of-environment-and-forestry-no-1-of-2021-on-the-company-performance-ratings-assessment-program-for-environmental-management/

financially successful firms engage in responsible business practices.

In Finland, Bhimani et al. (2016) found that strong CG structures are associated with better CSR outcomes. Their study highlighted that firms with high FP and robust governance frameworks were more likely to engage in CSR, suggesting a mediating role of CG. This hypothesis posits that effective CG structures enable firms to translate their financial success into meaningful CSR activities.

In the Indonesian context, where governance reforms and diverse market conditions are prevalent, the mediating role of CG is expected to be significant in linking FP to CSR. By integrating agency theory, stakeholder theory, and legitimacy theory, this hypothesis establishes a comprehensive framework for understanding how CG can influence the extent to which FP impacts CSR, providing a nuanced perspective on the role of governance in fostering responsible business practices. Hence, this study hypothesizes the following:

H2: Corporate governance mediates the relationship between firm performance and corporate social responsibility.

Many executives assume that CSR is only significant for large companies (Hafenbrädl & Waeger, 2017). However, CSR activities may also assist small and medium-sized enterprises significantly. Businesses of all sizes should embrace alternative growth strategies to remain competitive, including CSR.

Large companies make enormous contributions to pollution, waste, greenhouse gas emissions, and natural resource depletion. Companies that implement a CSR program might seek to do business in a more sustainable and ecologically friendly manner (Fatima & Elbanna, 2023). Most businesses may do this by converting to alternative energy sources, employing recycled materials, and allowing staff to volunteer for environmental groups.

While there are numerous examples of CSR activities undertaken by large corporations, there are also significant benefits of social responsibility for small and medium-sized businesses. Small-cap companies can attract more customers by adopting ethical and eco-friendly practices. Customers tend to gravitate towards businesses and brands that reflect their own values (Chiang & Yang, 2018). Small-cap companies may utilize CSR to link their brand with relevant social causes and concerns that are important to their stakeholders.

Small-cap companies may not have large budgets for CSR. However, social responsibility does not always entail donating millions of dollars or planting thousands of trees. There are simpler ways to reap the benefits of social responsibility, such as setting up more recycling bins, minimizing waste, or switching to energy-saving light bulbs (Amaral et al., 2020). Hence, this study hypothesizes the following:

H3: Small-cap companies have lower levels of corporate social responsibility implementation compared to big-cap companies.

3. RESEARCH METHODOLOGY

3.1. Population and sample size

Our study empirically examines companies listed on the IDX that have released sustainable reports from 2019 to 2022. We established a sample of 96 companies, covering a span of four years, with a total of 384 firm-year observations. Financial metrics such as return on asset (*ROA*), return on equity (*ROE*), price-to-earnings ratio (*P/E*), and Tobin's Q (*TQ*) were extracted from the IDX database. Data on FP, CG, and information related to CSR were manually collected from firms' annual reports, available on their respective websites.

The companies that have released sustainable reports were divided into two categories: 1) big-cap companies with market capitalizations of IDR 10 trillion (approximately USD 620 million) or more, and 2) small-cap companies with capitalizations ranging from IDR 900 billion (approximately USD 55 million) to IDR 10 trillion (USD 620 million). This study includes three research categories: 1) big-cap companies, 2) small-cap companies, and 3) a mix of both, as shown in Table 1.

Table 1. Analysis of the sample

Description	*Full sample*	*Big-cap*	*Small-cap*
Sample	96	51	45
Total observation data	384	204	180

3.2. Dependent variable

The corporate social responsibility index (CSRI) was assessed using the Global Reporting Initiative (GRI) Standard 2019 guideline. GRI-Standard serves as a universal framework, offering a standardized method for reporting to ensure a consistent level of transparency. The CSR standard disclosure index is computed using the formula:

$$CSRI = \frac{Number\ of\ items\ disclosed}{Total\ items\ of\ GRI\ Standard} \quad (1)$$

where, the number of items disclosed is assigned a value of 1 if the item is disclosed and 0 if the item is not disclosed. The total number of items in the GRI Standard 2019 is 89.

3.3. Independent variable

The independent variable *FP* utilized in this study encompasses both accounting-based and market-based measures, consisting of *ROA*, *ROE*, *P/E*, and *TQ*. The inclusion of both accounting-based and market-based measures is essential to capture the influence of FP on CSR reporting. Consistent with references from various prior studies, this research adopts the same measurements for *ROA* (Mądra-Sawicka & Paliszkiewicz, 2020), *ROE* (Kludacz-Alessandri & Cygańska, 2021), *P/E* (Ting et al., 2020), and *TQ* (Cho et al., 2019).

3.4. Mediating variable

The assessment of *CG* takes the form of an index, comprising 52 implementation points from the corporate governance index (CGI) tailored for Indonesia by Siagian et al. (2013). Each indicator

contributes 1 point if met and 0 points if not met. The CGI is then derived by summing the indicators to yield a total score for each category, with a maximum achievable score of 100. The 52 points are distributed across five index questions in this CG measurement, namely: 1) shareholders' rights (4 points), 2) equitable treatment of shareholders (4 points), 3) role of stakeholders (4 points), 4) disclosure and transparency (14 points), and 5) responsibility of the board (26 points).

3.5. Model

This study utilizes structural equation modelling (SEM) based on partial least squares (PLS) for all required analytical techniques (Hair et al., 2016). PLS-SEM is suitable for examining complex models with many items and mediating variables in a small sample. This technique is applied to both the measurement model for parametric evaluation and the structure model for hypothesis evaluation in SmartPLS software.

The following regression Eq. (2) is based on Figure 1, which captures the impact of *FP* on the level of *CSR* voluntary reporting mediated by *CG*:

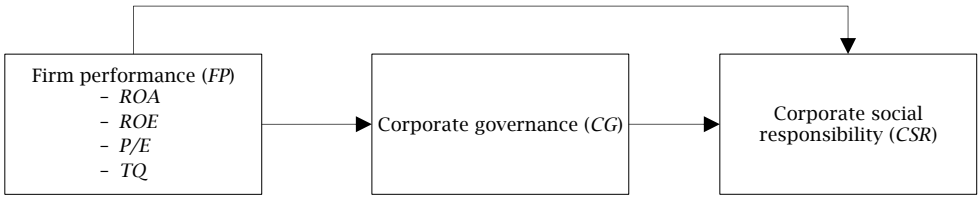
$$Y = \beta_0 + \beta_1 X + \beta_2 M + \varepsilon \quad (2)$$

where, Y as dependent variable (*CSR*), X as independent variable (*FP*), M as mediating variable (*CG*), β_0 = intercept, and ε = the standard error.

The examination of this relationship employs a two-stage approach within the formative perspective model. The study unfolds in two phases: 1) the measurement model and 2) the structural model. Validity and reliability tests are applied for the measurement model, while the structural model is evaluated through the significance of path coefficients (β), assessment result of mediation, criteria quality, and predictive quality. Alternative methods for mediation regression analysis follow a three-step process (Baron & Kenny, 1986), as described in the approach by Itan et al. (2024). In the first step, the mediator is regressed on the independent variable to examine whether a statistically significant relationship exists between them. If a significant relationship is identified, the second step involves regressing the dependent variable on the independent variable. Finally, in the third step, the dependent variable is regressed on both the mediator and the independent variable.

The conceptual framework incorporates the independent variable, the mediating variable, and the dependent variable, as illustrated in Figure 1.

Figure 1. Theoretical framework



4. RESULTS AND DISCUSSION

In this study, an analysis is conducted on three separate entity categories: 1) full sample, 2) big-cap companies, and 3) small-cap companies.

4.1. Measurement model test

The measurement model should be assessed first to ensure the robustness of the tests conducted. This study assesses bootstrapping using 500 test resamples in SmartPLS software to obtain valid individual indicators.

Table 2. Results of convergent validity

Construct	*Items*	*Full sample*				*Big-cap*				*Small-cap*			
		Λ	*α*	*CR*	*AVE*	*Λ*	*α*	*CR*	*AVE*	*Λ*	*α*	*CR*	*AVE*
FP			0.836	0.891	0.673		0.855	0.902	0.699		0.767	0.848	0.583
	P/E	0.730				0.710				0.734			
	ROA	0.861				0.865				0.764			
	ROE	0.783				0.829				0.743			
	TQ	0.896				0.926				0.811			
CG			1.000	1.000	1.000		1.000	1.000	1.000		1.000	1.000	1.000
	CG	1.000				1.000				1.000			
CSR			1.000	1.000	1.000		1.000	1.000	1.000		1.000	1.000	1.000
	CSR	1.000				1.000				1.000			

The composite reliability (CR) values above 0.7 show that all items have internal consistency, and each construct evaluates different concepts. Furthermore, the construct validity was assessed using convergent validity and discriminant validity. Convergent validity can be confirmed by computing the average variance extracted (AVE) for each construct, which should be 0.50. As shown in Table 2, all these criteria were met (i.e., loadings, reliability, and validity), supporting the measurement model.

Table 3 also shows the discriminant validity analysis, which supports the measurement model. Fornell and Larcker's criterion was fulfilled in such a way that the shared variance between pairs of constructs was less than the variance extracted for each construct.

Table 3. Results of discriminant validity

Variable	*CSR*	*FP*	*CG*
Full sample			
CSR	1.000		
FP	0.816	0.820	
CG	0.818	0.795	1.000
Big-cap			
CSR	1.000		
FP	0.824	0.836	
CG	0.818	0.829	1.000
Small-cap			
CSR	1.000		
FP	0.761	0.764	
CG	0.745	0.761	1.000

Table 4. Descriptive statistics

Variable	*Obs.*	*Mean*	*Std. dev*	*Min*	*Max*
Full sample					
CSR	384	0.521	0.095	0.315	0.843
ROA	384	0.053	0.098	-0.631	0.454
ROE	384	0.160	0.497	-4.962	1.451
P/E	384	59.163	241.222	-188.856	2586.650
TQ	384	1.665	1.894	0.350	16.633
CG	384	0.641	0.111	0.519	0.904
Big-cap					
CSR	204	0.549	0.108	0.315	0.843
ROA	204	0.084	0.105	-0.098	0.454
ROE	204	0.260	0.467	-2.543	1.451
P/E	204	102.688	314.348	-121.915	2586.650
TQ	204	2.130	2.415	0.350	16.633
CG	204	0.670	0.128	0.519	0.904
Small-cap					
CSR	180	0.489	0.065	0.315	0.843
ROA	180	0.017	0.075	-0.631	0.205
ROE	180	0.047	0.505	-4.962	1.275
P/E	180	9.835	86.974	-188.856	360.110
TQ	180	1.139	0.722	0.475	4.275
CG	180	0.608	0.075	0.519	0.904

4.2. Descriptive statistics

Table 4 reveals that the average *CSR* is 0.521, indicating that companies in this sample, generally, have a significant commitment to CSR. A standard deviation of 0.095 reflects variation among companies over time, meaning some companies are proactive in their CSR initiatives while others may not fully maximize their potential in this regard.

The average *ROA* is 0.053, indicating that companies generally utilize their assets to generate profits. However, a standard deviation of 0.098 shows significant variation among these companies over the research period, indicating some are very efficient in asset utilization, while others are less efficient or even operating at a loss. The average *ROE* is 0.160, suggesting that, overall, these companies efficiently use their own capital to generate profits. However, a standard deviation of 0.497 reflects significant variability among companies and periods, with some efficiently using their own capital but others having negative values, indicating poor management efficiency or risk. Meanwhile, the average *P/E* ratio of 59.163 suggests that investors are generally willing to pay around 59 times the earnings generated by these companies. However, a high standard deviation of 241.222 indicates significant volatility or uncertainty in investor expectations, likely due to differences in performance or prospects among companies and dynamic changes in investor expectations over time. The average *TQ* is 1.665, indicating positive expectations regarding the company's value relative to the cost of replacing its assets. A standard deviation of 1.894 shows significant variation among companies and over time, suggesting that while some companies consistently maintain investment efficiency, others experience fluctuations, possibly due to changes in strategy or market conditions.

The average *CG* score is 0.641 on a scale likely ranging from 0 to 1, indicating that companies in this sample, generally, have a fairly good level of CG. However, a standard deviation of 0.111 indicates variation; some companies have room for improvement, while others may have already achieved or approached 'best practices' in CG.

As presented in Table 4, overall, big-cap companies have a higher average performance score compared to small-cap companies, which includes *ROA*, *ROE*, *P/E*, and *TQ*. However, in terms of standard deviation, big-cap companies exhibit higher financial performance variability, indicating that not all companies in this group can manage their financial activities stably. Small-cap companies tend to be more stable in managing their financial activities.

The average *CG* and *CSR* values for big-cap companies are higher, at 0.670 and 0.549, respectively, and they also have higher value variability, at 0.128 and 0.108. This indicates that not all companies in this group can meet all CG and CSR-related regulations well due to the stringent and binding nature of these regulations. Meanwhile, small-cap companies have lower average *CG* and *CSR* values, at 0.608 and 0.489, and also exhibit smaller variability in *CG* and *CSR* values, at 0.075 and 0.065. This shows that small-cap companies find it even more challenging to meet CG and CSR requirements and regulations.

4.3. Discussion and research results

This study analyses three separate entity categories: 1) listed companies on the IDX that have released sustainability reports, 2) large-cap companies, and 3) small-cap companies.

4.3.1. The positive impact of firm performance on CSR

The results presented in Table 5 demonstrate a positive and statistically significant association between *FP* and *CSR* for the full sample. To determine the statistical significance of path coefficients (β), a bootstrapping technique with 500 resamples was applied using SmartPLS software.

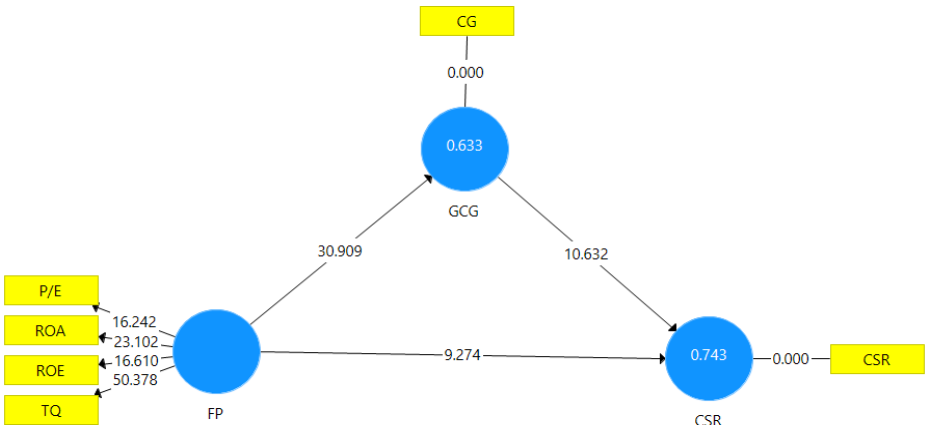
Table 5. Results of the path coefficients analysis test

Hypothesized path	*Path coefficient*	*Std. dev.*	*t-statistics*	*p-values*	*Result*
Full sample					
H1: FP→CSR	0.450	0.049	9.274	0.000	Supported
H2: FP→CG→CSR	0.366	0.032	11.322	0.000	Supported
Big-cap					
H1: FP→CSR	0.465	0.063	7.432	0.000	Supported
H2: FP→CG→CSR	0.358	0.043	8.425	0.000	Supported
Small-cap					
H1: FP→CSR	0.461	0.085	5.450	0.000	Supported
H2: FP→CG→CSR	0.300	0.075	3.998	0.000	Supported

Note: significant at t-values > 1.96 and p-values < 0.05.

As reported in Table 5 and Figure 2, the results show that each indicator of *FP* towards *CSR* is *ROA*, *ROE*, *P/E*, and *TQ*, which overall are greater than 1.96, with a p-value of 0.000, less than 0.05. Thus, this finding supports *H1*, related to *FP* has a significant positive impact on *CSR* (β = 0.450, t-value = 9.274, p-value = 0.00). Consequently, company managers can allocate resources to CSR activities, as such investment might benefit in terms of generating sustainable long-term profits larger than merely maximizing company profits (Pradhan & Nibedita, 2021).

Figure 2. Structural model for full sample



According to the legitimacy theory, companies must have adequate financial conditions to carry out more CSR activities and report to meet the expectations of the public and government (Sial et al., 2018). Companies with stronger financial performance have the resources to engage in CSR activities, which serve as symbolic and substantive acts to align with societal norms and maintain legitimacy. Without adequate financial conditions, firms may struggle to invest in CSR initiatives, risking their alignment with public and governmental expectations. CSR activities, supported by robust financial performance for social and environmental responsibilities.

Companies need to generate profitability from quality products/services to fund CSR programs that meet stakeholder expectations. This finding provides a way for companies to strategically implement CSR to give back to the community and establish a new integrated approach for business sustainability while also protecting shareholders' rights and satisfying stakeholders (Lee & Hu, 2018). It also supports the legitimacy theory, as financially successful firms are more inclined to engage in CSR to maintain public trust and meet societal expectations. Companies with strong financial performance should strategically allocate resources to CSR, viewing it not merely as a compliance requirement but as an opportunity to enhance reputation and foster stakeholder trust.

4.3.2. The mediating impact of corporate governance on the relationship between firm performance and CSR

In the case where *CG* mediates the relationship between *FP* and *CSR*, as presented in Table 5 and Figure 2, the study finds that the t-statistic value is greater than 1.96, and the p-value is 0.000, which is less than 0.05. As a result, the study supports *H2* (β = 0.366, t-value = 11.322, p-value = 0.00). This study aligns with the research by Ying et al. (2021), emphasizing the need for external stakeholder connections as well as the motivation, morality, dedication, and loyalty of employees. These factors can provide internal utility by assisting companies in developing new resources and capabilities for improved FP, funding more CSR activities, and generating business sustainability.

Table 6. Assessment result of mediation: Corporate governance as mediator

Company types	*Direct effect*	*Indirect effect*	*Total effect*	*VAF range*	*Mediation*
Full sample	0.450	0.366	0.816	0.449	Partial
Big-cap	0.465	0.358	0.824	0.434	Partial
Small-cap	0.461	0.300	0.761	0.394	Partial

Note: Independent variable: FP, mediating variable: CG, dependent variable: CSR.

Moreover, the value of the total effect needs to be determined for the calculation of variance accounted for (VAF). The total effect of *FP* on *CSR* has been calculated and can also be ascertained by the software results, as shown in Table 6. Therefore, dividing the indirect effect by the total effect calculates VAF, and in the present study, it is 0.366/0.816, which comes out to be 0.449. Hair et al. (2013) provide recommendations for determining the type of mediation: 1) no mediation (0 < VAF < 0.2), 2) partial mediation (0.2 <= VAF <= 0.8), and 3) full mediation (VAF > 0.8). Thus, this VAF value depicts partial mediation (0.2 <= 0.449 <= 0.8). The full sample, big-cap, and small-cap indicate full mediation effects, and it is concluded that *CG* partially mediates the relationship between *FP* and *CSR* intentions, as hypothesized in *H2*.

The mediating role of *CG* in the *FP-CSR* relationship indicates that governance mechanisms ensure that profits are not merely reinvested for financial gains but also directed towards socially responsible initiatives. The results are consistent with stakeholder theory, which posits that firms with strong governance structures are better able to balance the interests of various stakeholders (Freeman, 1984). The positive impact of *FP* on *CSR*, mediated by *CG*, suggests that firms consider stakeholder interests when they are financially healthy and well-governed. The findings also support legitimacy theory, which suggests that firms engage in *CSR* to maintain legitimacy within their societal context (Suchman, 1995). The significant role of *CG* in mediating the *FP-CSR* relationship highlights that good governance helps firms align their activities with societal norms and values, thereby enhancing their legitimacy. The partial mediation role of *CG* highlights the relevance of agency theory, emphasizing that effective governance mechanisms align management decisions with shareholder and stakeholder interests, leading to more consistent *CSR* engagement. It also aligns with stakeholder theory, where governance structures ensure that *CSR* strategies address diverse stakeholder expectations.

4.3.3. The lower levels of CSR implementation of small-cap companies compared to big-cap companies

Table 5, Figure 3, and Figure 4 show that the path coefficient and t-statistic values for big-cap companies are higher (β = 0.465, t-value = 7.432, p-value = 0.00) compared to small-cap companies (β = 0.461, t-value = 5.450, p-value = 0.00). This indicates that big-cap companies have a greater influence of *FP* on *CSR* compared to small-cap companies.

Figure 3. Structural model for big-cap companies

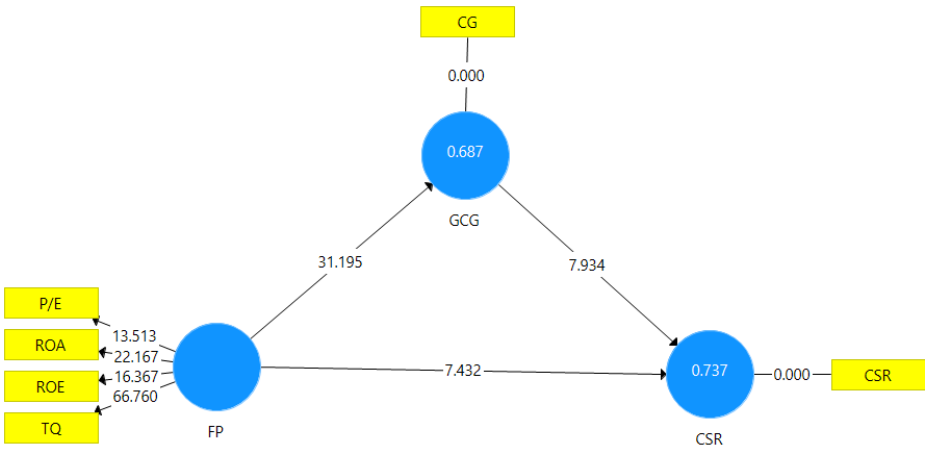


Figure 4. Structural model for small-cap companies

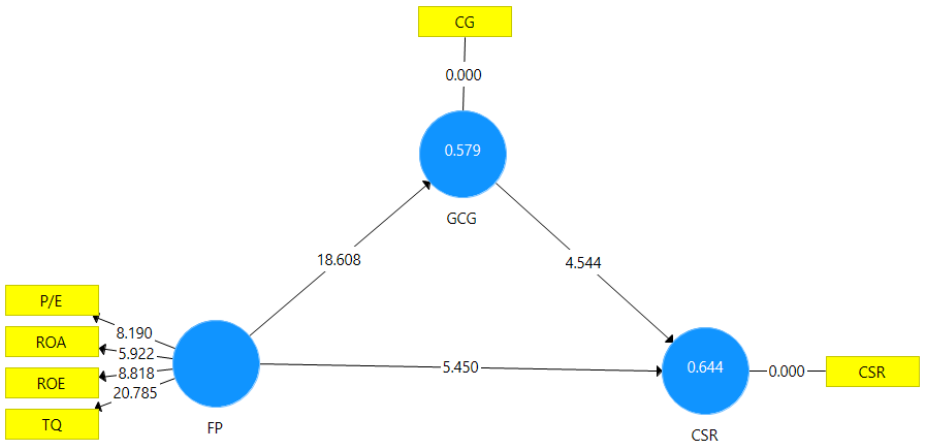


Table 7. Independent sample t-test

Variable	*Levene's test for equality of variances*	*t-test for equality of means*
CSR	0.000	0.000

Table 8. Performance mean of big-cap and small-cap companies

Variable	*Mean*
CSR:	
Big-cap companies	0.549
Small-cap companies	0.489

The outcome of Levene's test for equality of variances, as presented in Table 7, reveals a noteworthy value of 0.000, which is less than the significance level $\alpha = 0.05$. This indicates a significant difference in variance between big-cap companies and small-cap companies. Additionally, the t-test for equality of means yields a significant value of 0.000, also below the $\alpha = 0.05$ threshold. This implies that big-cap companies exhibit higher levels of CSR implementation compared to those of small-cap companies.

Table 8 reveals that big-cap companies have an average value of 0.549, which is higher compared to small-cap companies with an average of 0.489. Consequently, this test's outcomes indicate that small-cap companies tend to exhibit lower levels of CSR implementation compared to those of big-cap companies, thereby confirming hypothesis *H3*.

Companies with more available resources are better positioned to invest in discretionary activities such as CSR. Big-cap companies typically have greater financial slack due to their larger scale, higher revenues, and better access to capital. This allows them to allocate more resources to CSR activities without jeopardizing their financial health. Small-cap companies, on the other hand, often operate with tighter margins and fewer slack resources, making it more challenging for them to engage in extensive CSR activities.

Legitimacy theory suggests that larger companies face greater public visibility and scrutiny, which compels them to engage in CSR to maintain their legitimacy and social license to operate (Xue et al., 2024). Big-cap companies are often under more pressure from stakeholders, including the government, media, and the public, to demonstrate socially responsible behaviour. As a result, they are more likely to implement comprehensive CSR initiatives to align with societal expectations and protect their reputation. Small-cap companies, with lower public profiles, may not feel the same level of pressure to engage in CSR to maintain legitimacy.

Big-cap companies typically have a more extensive and diverse stakeholder base, which increases the demand for CSR activities (Amimakmur et al., 2024). These companies must address the needs of multiple stakeholders, many of whom expect significant CSR engagement. In contrast, small-cap companies, with fewer resources and a narrower stakeholder base, may focus primarily on financial survival and growth, deprioritizing CSR initiatives. Small-cap companies should adopt cost-effective CSR strategies, such as local community engagement and environmental conservation initiatives, to build brand equity without overstretching their limited resources.

5. CONCLUSION

This study investigates the relationship between FP and CSR disclosure and the mediating role of CG in Indonesia to evaluate the indirect relationship between FP and CSR disclosure. The research results indicate that FP has a significant positive influence on CSR disclosure. Additionally, CG shows a significant positive mediating effect on both the direct and indirect relationships between FP and CSR disclosure. Furthermore, the findings indicate that small-cap companies tend to exhibit lower levels of CSR implementation compared to large-cap companies.

The empirical findings align with and extend the existing literature on the relationships between FP, CG, and CSR. Our findings corroborate their results, showing that strong CG is associated with better CSR outcomes. Firms with high financial performance and robust governance frameworks indeed engage more in CSR activities.

In line with agency theory, CG is a crucial component in enhancing financial effectiveness, encompassing the evolving relationship among organization executives, its top managerial staff, investors, and various partners. The precise practice of CSR by companies can motivate efforts towards good corporate finances, productive corporate operations, and foster good relationships between investors and company stakeholders. This aligns with stakeholder theory, which considers the financial interests of both the company and its stakeholders in the CSR program.

The data underscores the importance of financial health as a prerequisite for CSR engagement. This finding has practical implications for corporate managers, who should integrate CSR into their strategic planning processes to maximize its value for stakeholders and enhance reputational gains.

The study enriches agency theory, stakeholder theory, and legitimacy theory by demonstrating how CG mediates the impact of financial performance on CSR. It highlights the critical role of governance in aligning financial success with social responsibility. This research also adds to the existing body of literature by providing empirical evidence from a developing country context, specifically Indonesia. It supports the generalizability of previous findings and extends them to a new setting.

Limitations in this research include the measurement of CG and CSR variables in the form of an index of questions that depict the overall influence between these variables without detailing various aspects of each variable from economic, social, and environmental perspectives, different from the FP variable which includes four indicators each detailing the varied functions of FP affecting the role of CG and CSR disclosure. CSR priorities and societal expectations change over time. CSRI methodologies may not adapt quickly enough to reflect these evolving standards. Some CSR indices may emphasize short-term performance or achievements, potentially overlooking long-term sustainability efforts or challenges. Companies with robust disclosure practices may score higher, even if their actual CSR performance is mediocre, creating a skewed picture of their true impact. Additionally, the relatively small sample size of the study in Indonesia and a research period of only four years are not sufficient to explain the impact of the relationship between variables in this research model.

Future research could employ longitudinal designs to examine how the relationships between FP, CG, and CSR evolve over time. This would provide deeper insights into the causality and temporal dynamics of these relationships. Conducting comparative studies across different countries or regions could help generalize the findings and understand how different regulatory and market environments influence the FP-CG-CSR nexus.

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