**Article Type:** Research Paper

Disclosure of Corporate Social Responsibility, Company Performance, and Corporate Reputation as the Mediating Role: Indonesian Context

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THIS ARTICLE IS AVAILABLE IN:

<http://journal.umy.ac.id/index.php/ai>

DOI: [10.18196/jai.v22i3.12190](https://doi.org/10.18196/jai.v22i3.12190)

CITATION:

Andayani, W. (2021). Disclosure of Corporate Social Responsibility, Company Performance, and Corporate Reputation as the Mediating Role: Indonesian Context. *Journal of Accounting and Investment*, 22(3), 581-601.

ARTICLE HISTORY**Received:**

02 July 2021

Revised:

20 July 2021

06 Sep 2021

Accepted:

06 Sep 2021

Abstract:

Research aims: This study aims to provide new empirical evidence regarding CSR practices and their impacts on firm performance and corporate reputation in the context of a developing country region, namely Indonesia.

Design/Methodology/Approach This research samples were 70 companies listed on the Indonesia Stock Exchange with five years of observation. This study used secondary data, which already exists and was obtained from the Indonesia Stock Exchange's official website. Also, Partial Least Square was employed to test the hypothesis's parameter estimates.

Research findings: The results revealed that CSR disclosure could improve firm performance but could not increase corporate reputation. Thus, companies that carry out CSR activities and pay attention to stakeholders mean that they (employees, customers, suppliers, investors, etc.) will contribute to the company's economic performance. The results of this study also uncovered that the level of investor awareness of corporate reputation was still low. Investors were only oriented to short-term investments and did not care about the long-term viability of the company. It showed that corporate reputation did not fully mediate the relationship between CSR disclosure and company performance.

Theoretical contribution/Originality: As this study develops scientific research in the fields of CSR, corporate performance, and corporate reputation as the mediating role, the findings of this research support the stakeholder theory that a company not only increases profits but also should be accountable to all stakeholders. Besides, corporate reputation partially mediated the relationship between CSR and firm performance. It indicated that in Indonesia, concern for corporate reputation was still low.

Keywords: Corporate Social Responsibility; Disclosure; Corporate Reputation; Firm Performance; Indonesia; Stakeholder Theory

Introduction

Corporate Social Responsibility (CSR) is a company's effort to fulfill triple bottom line responsibilities in business practice (Du & Vieira, 2012; Elkington, 1998; Zhang, Oo, & Lim, 2019). In the last few decades, CSR has not only become a philanthropic attribute but also become the company's obligation to stakeholders (Carroll & Shabana, 2010). CSR disclosure provides additional information to stakeholders (Su and Lee, 2013) and is an effective strategy and a company's competitive advantage to improve

firm performance and reputation (Baskin, 2006; Perrini & Vurro, 2014; Porter & Kramer, 2006; Siueia, Wang, & Deladem, 2019). Even so, some researchers still provide mixed empirical results. It makes this research topic important and interesting to be studied in more depth.

This research was conducted to develop scientific research in the fields of disclosure of corporate social responsibility, corporate performance, and corporate reputation as the mediating role. There is a research gap; there is still debate (controversy) over the empirical studies' results regarding the relationship between CSR, firm performance, and corporate reputation. Some studies showed that CSR was positively related to firm performance (Reverte, Gómez-Melero, & Cegarra-Navarro, 2016; Wang & Sarkis, 2017). Other studies suggested that increased CSR activity was not always followed by the increased firm performance (Agustinus, 2020), even showing insignificant results (Barnett & Salomon, 2012; Lin et al., 2019; McWilliams, Siegel, & Teoh, 1999). In addition, research focusing on the relationship between CSR disclosure and corporate reputation is still new, has not been widely used (Golob et al., 2013; Pérez, & Rodríguez del Bosque, 2015), and has mixed research results (Baraibar-Diez & Luna Sotorrío, 2018; Orlitzky, Siegel, & Waldman, 2011). The various inconclusive findings are probably because the studies were conducted in different locations (countries and regions) (Gardberg & Fombrun, 2006; Madorran & Garcia, 2016). Therefore, studying CSR practices in developing countries is crucial, considering that these regions usually lag behind developed countries (Jayanti & Rajeev Gowda, 2014).

For that reason, this study aims to provide new empirical evidence regarding CSR practices and their impacts on firm performance and corporate reputation in the context of a developing country region, namely Indonesia. From the Stakeholder Theory, CSR disclosure is a form of a dialogue between company ethics and stakeholders to gain legitimacy and contribute to corporate reputation (Colleoni, 2013; Mallin & Michelon, 2011; Othman, Darus, & Arshad, 2011; Pérez, & Rodríguez del Bosque, 2015). Besides, this research samples were 70 companies listed on the Indonesia Stock Exchange with five years of observation. The current research found that CSR disclosure quality could improve firm performance. However, CSR disclosure did not affect corporate reputation. The test results also proved empirically that corporate reputation could improve firm performance but could not mediate the relationship between CSR disclosure and firm performance.

Theoretically, this research succeeds in confirming the Stakeholder Theory, which provides the main reasons for companies to disclose CSR to improve firm performance and corporate reputation. In practical terms, this study's results provide a challenge for managers to be serious in carrying out CSR practices so that CSR's impacts can improve firm performance.

The remainder of this paper is organized as follows. First, it describes the relevant literature review used to formulate a hypothesis. In the second part, this paper describes the research method. The third part discusses the research results. In the last

part, the researcher draws a conclusion, describes limitations, and provides suggestions for further research.

Literature Review and Hypotheses Development

Corporate Social Responsibility (CSR) in Indonesia

In Indonesia, CSR is controlled by a number of regulations. Article 74 states that companies that carry out their business activities in the field of natural resources are obliged to conduct social and environmental responsibilities (Law No. 40, 2007). Government Regulation No. 47 of 2012 article 3 also states that social and environmental responsibility is an obligation for companies that run their business in the field of natural resources. Also, Regulation of the Minister of State-Owned Enterprises (SOE) No. Per-05/MBU/04/2021 concerning SOE Social and Environmental Responsibility Program, Article 2 states that SOEs are required to implement Social and Environmental Responsibility (TJSL) programs.

The implementation of CSR in Indonesia, for example, is carried out by PT. Bank Negara Indonesia (BNI) Tbk. In 2020, BNI carried out CSR by providing assistance to victims of natural disasters and non-natural disasters, including disasters caused by epidemics. BNI also provides assistance for handling COVID-19, education and training in improving health, developing public facilities and infrastructure, worship facilities, and nature conservation. In this regard, the CSR program is carried out economically, socially, and environmentally to support the Social Development Goals (SDGs) (Kontan.co.id, 2021).

In addition, PT. Pupuk Indonesia Group, during 2020, carried out the Partnership and Community Development Program (PKBL) by providing working capital assistance for Micro, Small, and Medium Enterprises (MSME). PT. Pupuk Indonesia Persero conducted partnership programs and empowered the community and the environment through the PKBL programs (Antara, 2021). PT. Pupuk Indonesia is also committed to preserving the environment by improving economic performance.

Companies in Indonesia carry out CSR with a Corporate Shared Value approach so that all stakeholders (interested parties) obtain mutual benefits and can grow sustainably. In the sustainable development concept, the business world is not only faced with company values or economic conditions but puts forward the concept proposed by John Elkington in 1998, known as the Triple Bottom Line, including profit, planet, and people. Consequently, companies that want to grow sustainably do not only pursue profit but must also pay attention to financial, economic, social, and environmental aspects.

Corporate Social Responsibility (CSR)

A stakeholder is any group or individual who can affect or is affected by achieving the company's goals (Freeman, 1984). The company's stakeholders include shareholders, creditors, employees, customers, suppliers, interested public groups, and government

bodies. Companies that want to be successful in the long run must meet stakeholder demands. There are two groups of stakeholders: the main and secondary stakeholders (Clarkson, 1995). The main stakeholders are stakeholder groups whose presence will affect the company's going concerns, consisting of customers, employees, managers, governments, suppliers, and creditors. Furthermore, companies can influence secondary stakeholders, which are not directly involved in the company's operations, such as competitors, the media, local communities, and non-governmental organizations (NGOs). In addition, the company's primary objective is to balance any conflict in demands from stakeholders of the company. Thus, the stakeholder concept's corporate planning and business policy model focuses on developing and evaluating corporate strategic decisions by groups whose support is required for the corporation to continue to exist. However, stakeholder groups are considered a constraint on management's strategy to match corporate resources with its environment. These stakeholders include customers, owners, suppliers, and public groups (Hah & Freeman, 2013).

Stakeholder theory primarily views the company from its perspective and the stakeholder's perspective directly to the company. Stakeholder theory states that the company has a responsibility to operate in all stakeholders' interests (Freeman, 1984). On the other hand, CSR sees the company from other perspectives - the broader community (Freeman & Dmytriyev, 2017). Furthermore, CSR prioritizes corporate responsibility to the community, employees, and customers compared to stakeholder investors and suppliers. Stakeholder theory is utilized as a useful tool to guide how a company must operate. Stakeholder theory also defines corporate responsibility to all stakeholders, such as customers, employees, funders, suppliers, and the community (Hah & Freeman, 2013).

Wood (1991) explained that CSR is a set of CSR principles responding to the community, policies, programs, and their impacts on the corporate responsibility to society. Hemingway (2002) defined CSR as a condition for companies to carry out corporate social responsibility to improve firm performance and be responsible for the company's social and environment. Companies should not only focus on the financial aspects but also pay attention to social and environmental aspects. Mal and Chauhan (2014) asserted that CSR is an integral component of company operations. The company voluntarily contributes to the environment in financial, environmental, moral, and social investment assistance. The company must also be responsible for all activities that affect the environment and society. Accordingly, CSR manifests greater sustainability to achieve sustainability goals (Jenkins and Obara, 2006). CSR is also corporate media for forming attitudes and strategies towards stakeholders. On the one hand, organizations must be environmentally responsible for business ethics, and on the other hand, the public wants corporate transparency.

CSR, Firm Performance, and Corporate Reputation

CSR disclosure is essential to study since the factors influencing CSR disclosure can be identified to enhance corporate reputation. CSR information disclosure consists of stand alone reports, assurance, and guidelines to improve quality of disclosure. Stand alone

reports focus on social and environmental information aimed at stakeholders (Anugerah, Saraswati, & Andayani, 2018; Dhaliwal et al., 2014). In addition, assurance services can increase CSR reporting credibility (Anugerah et al., 2018; Casey & Grenier, 2015; Cohen & Simnett, 2014; Hąbek & Wolniak, 2015; Wong & Millington, 2014). The third, reporting guideline, directs the report's preparation, namely the Global Reporting Initiative (GRI). GRI is a conceptual reporting framework that can be used as a guide for standardizing sustainable reports internationally (Bebbington, Kirk, & Larrinaga, 2012; Mahoney et al., 2013). The GRI guidelines are employed to prepare sustainability reports to increase the information credibility disclosed by the company.

Theoretically, there is still debate about the role of CSR activities in improving firm performance. The neoclassical theory reveals that CSR disclosure has a negative relationship with firm performance. Corporate responsibility activities to the community in CSR activities incur additional costs that can hinder the company's main goals (Bird et al., 2007; Akben Selcuk, & Kiyamaz, 2017). Although CSR practices can enhance company managers' image, it is at the expense of shareholders' interests (Cennamo et al., 2012). Therefore, those who oppose CSR practices usually claim that CSR activities will waste human resources so that companies cannot maximize profits (Freeman & Dmytriiev, 2017; Karnani, 2011). This thinking is confirmed by Nakamura's (2015) research, which revealed that environmental investment reduced a company's economic performance. Also, investment related to labor did not improve economic performance; only social investment could improve firm performance.

Contrary to these empirical studies' results, other researchers verified that the relationship between CSR practices and company performance is positive. Proactive companies in supporting social responsibility and environmental sustainability have a much higher profit measure and a lower measure of short-term liquidity than the industries and sectors they operate (DiSegni, Huly, & Akron, 2015). Previous studies documented that corporate social behavior not only elicited positive responses from employees (Gao & He, 2017; Rupp et al., 2018) and suppliers (Govindan, Shankar, & Kannan, 2018) but also received appreciation from investors and financial analysts (Lin et al., 2019). Besides, the company gets indirect benefits in the form of a positive reputation that directly impacts overall company performance (Ali et al., 2020; Famiyeh, 2017). Also, companies have a lower risk of adverse events and can reduce the threat of fines or lawsuits arising from adverse events or illegal actions that harm or damage their reputation (Lee, Chang, & Lee, 2017). This thinking supports Tsoutsoura's (2004) research, which stated that corporate social responsibility reduced the risk of adverse events.

These various debates have an impact on the results of empirical studies. Empirical studies regarding the relationship between financial performance and CSR, both long and short term, produce inconsistent empirical test results (Lu et al., 2014). Several studies related to CSR have shown that CSR was positively related to corporate financial performance (Kim, Kim, & Qian, 2018; Reverte et al., 2016). Nonetheless, other studies showed a mixed or insignificant relationship (Barnett & Salomon, 2012; McWilliams et al., 1999). In particular, academics with management backgrounds regularly found

positive evidence, whereas academics from economics and finance backgrounds usually uncovered unfavourable or insignificant results (Su & Lee, 2013).

In developing countries, the impact of CSR disclosure on corporate financial performance is more substantial than in more developed capital markets. In addition, investors' limitations in accessing information through public disclosures or media reports make information about CSR practices useful for evaluating corporate value (Su & Lee, 2013). Investors may value companies with more CSR practices. This phenomenon indicates that the company has superior capabilities to other companies. Thus, CSR is a valuable tool for improving firm performance (Lin et al., 2019; Su et al., 2016). The relationship between CSR disclosure with corporate reputation and firm performance is that companies that disclose CSR will have a good reputation using scarce resources to earn returns (Barney, 1991).

Donaldson and Preston (1995) affirmed that companies must pay attention to stakeholders (shareholders, creditors, suppliers, employees, government, customers, society, analysts, and other parties). Stakeholder theory shows that the organization (company) is influenced by stakeholders, and the company must provide benefits to stakeholders. By doing CSR, the company pays attention to stakeholders, while the stakeholders will contribute to the company's economic performance. Thus, the following hypothesis was formulated:

H₁: CSR disclosure has a positive effect on firm performance.

Improving reputation is one of the main goals of companies willing to invest in CSR practices (Aguilera-Caracuel & Guerrero-Villegas, 2017). Reputation is an intangible resource used to strengthen the company's image (Porter & Kramer, 2006). Corporate reputation is also in the organizational position, goodwill, self-esteem, organizational identity, corporate image, brand, and prestige (Wartick, 2002). From a management point of view, firm reputation is a critical construct interpreted as the stakeholder's perception of the company as a whole (Walsh & Wiedmann, 2004). Corporate reputation is also the extrinsic motivation for developing socially responsible activities.

In academic literature, reputation can be defined as a company's capacity to fulfill the interests of its stakeholders or a collection of stakeholders (Walker, 2010). Reputation, in this case, refers to two things. First, the corporate reputation level is determined by its problems, such as behavior in dealing with environmental, social, employee, corporate governance, product quality, or other problems. Second, the term reputation varies for specific interests, such as consumers, investors, or government (Aguilera-Caracuel & Guerrero-Villegas, 2017). Thus, a good reputation will increase the confidence of interest groups in the company and augment the competitiveness of a sustainable company (Baskin, 2006; Melo & Garrido-Morgado, 2012).

The direct relationship between CSR and company reputation has been extensively studied. CSR disclosure is a tool for companies to show that they have social

responsibility and concern for their stakeholders from a resource perspective. Reputation will increase when companies actively participate in CSR activities (Lai et al., 2010) and have strong relationships with local communities (Brammer & Pavelin, 2005). Companies with philanthropic behavior are considered more socially responsible with customers and employees (Park, Lee, & Kim, 2014). CSR practices and reporting also increase customer satisfaction and employee commitment and attract investors to invest in the company (Bayoud et al., 2012) to improve its reputation indirectly.

In developing countries, CSR practices signal to stakeholders that the company has paid attention to the needs of stakeholders (Su et al., 2016). The company's philanthropic activities allow for increased sustainability and economic development in these countries. Philanthropic initiatives are most welcome when the government does not have sufficient resources to implement social welfare projects. Companies can promote economic development and sustainability in these countries through these activities to enhance their reputation (Aguilera-Caracuel & Guerrero-Villegas, 2018). Therefore, empirical research consistently found that CSR practices improved corporate reputation (Famiyeh, 2017; Islam et al., 2021). Companies that disclose CSR will have a good reputation in using scarce resources to earn returns (Barney, 1991). Thus, the following hypothesis was put together:

H₂: CSR disclosure has a positive effect on corporate reputation.

Moreover, corporate reputation is a perception that represents the company's past actions and describes the company's prospects, which are attractive to stakeholders compared to competing companies (Fombrun, Gardberg, & Sever, 2000). Corporate reputation is the respect that a person has for a company (Dowling, 2016). The corporate reputation also gives positive results to the firm performance (Weigelt & Camerer, 1988).

In addition, corporate reputation is the corporate's emotional capital, which illustrates stakeholders' perceptions reflected in the company's activities (Walsh, Schaarschmidt, & Teng, 2019). Corporate reputation is also considered a stakeholder reaction to various organizational actions, good or bad, and strong or weak. Repeated interactions and experiences between the company and stakeholders will create a corporate reputation (Esen, 2013; Martín-de Castro et al., 2019). Therefore, stakeholders are a significant aspect of corporate reputation.

Some researchers have uncovered that corporate reputation positively correlated with firm performance (Rindova, Williamson, & Petkova, 2010). Companies with relatively good reputations could better maintain superior earnings results over time (Park et al., 2014). Thus, corporate reputation had a positive influence on overall performance (Famiyeh, 2017). Companies that disclose CSR will have a good reputation in using scarce resources to earn returns (Barney, 1991). Thus, the following hypothesis was proposed:

H₃: Corporate reputation has a positive effect on firm performance.

This corporate reputation generates trust from stakeholders. Corporate reputation also increases investor satisfaction and loyalty as well as customer, employee, and other stakeholders' satisfaction (González-Rodríguez et al., 2019; Zavyalova et al., 2016). According to the Stakeholder Theory, the better the company manages its relationships with stakeholders, the more successful it will be over time (Barnett & Salomon, 2012). Nonetheless, the results of other studies have found that an excellent reputation doesn't mean satisfying all stakeholders. Differences in the region's context (country) or stakeholders' location also determine stakeholder perceptions of the corporate reputation. This condition causes inconclusive findings (Madorran & Garcia, 2016).

In developing countries, CSR practices are a company's response to company actions considered detrimental to society and the environment. More significant uncertainty and heterogeneity in their economic, political, regulatory, or social environment (O'Connor, Vera-Muñoz, & Chan, 2011; Wanderley et al., 2008) led to increased stakeholder demands (Bhaumik, Driffield, & Zhou, 2016). To overcome these social and political uncertainties, companies can use CSR activities as a buffer to generate social capital (Ghoul, Guedhami, & Kim, 2017). Companies that disclose CSR will have a good reputation in using scarce resources to earn returns (Barney, 1991). At the same time, social capital is a company advantage that can change reputation into financial performance. Corporate reputation is seen as mediating the relationship between CSR practices and company performance. Thus, the following hypothesis was drawn up:

H₄: The relationship between CSR Disclosure and Corporate Performance mediated by Corporate Reputation.

Figure 1 illustrates the framework that underpins this study. This framework is based on Stakeholder Theory.

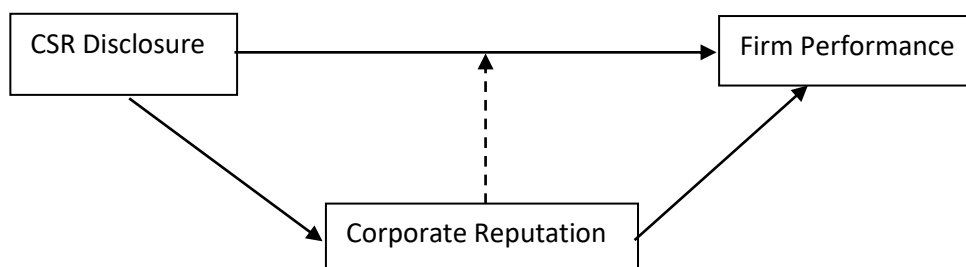


Figure 1 Conceptual Framework

Research Method

This study used secondary data, which already exists and was obtained from the Indonesia Stock Exchange (www.idx.co.id) and the Jakarta Stock Industrial Classification from 2014 to 2018. There were seventy companies for each year, so that the total was three hundred fifty (350) companies for five years. In addition, the issuers were listed on IDX during the observation period and disclosed social and environmental information in a row for five years, both in annual reports and sustainability reports. From these criteria, the number of samples was 350 companies.

The Operational Definition of Variable

Firm performance and market value

The financial performance variable was measured by Return on Assets (ROA) and Return on Investment (ROE), which are accounting-based performance measures, and Tobin's Q as market-based performance measures (Cheng, Lin, & Wong, 2015). ROA is the ratio of profit before tax to the average total assets of the company. High ROA indicates that the company has higher wealth.

$$\text{ROA} = \frac{\text{Net Profit Before Tax}}{\text{Total Asset}} \quad (1)$$

Meanwhile, ROE measures firm performance in the aspect of profitability after tax. ROE is a measure of net income about shareholder equity. The formula calculates ROE:

$$\text{ROE} = \frac{\text{Net Profit After Tax}}{\text{Equity}} \times 100\% \quad (2)$$

Market value

The Q ratio (Tobin's Q) equals the market value of a Company divided by its assets replacement cost. The Q ratio is a performance measure of investment opportunities. A high Q ratio is greater than 1, implies that a firm stock is more expensive than the replacement cost of its assets. It shows that investors are willing to pay more for company assets because management is expected to produce better performance in the future. Tobin's Q was calculated by:

$$\text{Tobin's Q} = \frac{\text{MVE} + \text{PS} + \text{DEBT}}{\text{Total Aset}} \quad (3)$$

Corporate reputation

In this study, the corporate reputation used the GRI guidelines model (Arshad, Othman, & Othman, 2012). The model uses the initial version as Reputation Quotient SM, a metric used by the Reputation Institute and Australia's Reputation Index to measure its reputation. Financial criteria for measuring company reputation include seven dimensions: products and services, performance, citizenship, workplace, corporate

governance, leadership, and innovation. The citizenship, workplace, and corporate governance dimensions are related to CSR. Based on the description above, measuring corporate reputation was by scoring the company's reputation dimensions and adding up the scores. The company's reputation was also measured by reputation attributes, including (Vitezic, 2011): (1) Product quality and service. (2) Corporate vision and strategy. (3) Management leadership quality. (4) Labor power. (5) Corporate social responsibility. (6) Corporate governance.

Based on the description above, this study then employed the corporate reputation measures as follows: (1) Corporate governance. (2) Ethics and integrity. (3) Market presence. (4) Local people. (5) Leadership quality or management quality. (6) Product quality or product responsibility. (7) Labor force. (8) Corporate social responsibility. (9) Company vision and strategy. (10) Corporate innovation. (11) Awards received by the company. If the company had all the corporate reputation dimensions, it would be given 1 (one) and 0 (zero) otherwise. The score was summed based on the corporate reputation dimensions above.

CSR disclosures

The dependent variable in this study was the CSR disclosure quality by Michelin, Pilonato and Ricceri (2015). Disclosure quality measurements are relative quantity index, density index, accuracy index and managerial orientation index. Relative quantity is a measurement of the number of items a company expresses in comparison to other similar companies. The following formula shows how relative quantity is calculated.

$$RQT_{it} = DISC_{it} - \widehat{DISC}_{it} \quad (4)$$

RQT_{it} = Relative quantity index for the company i in year t, Discit = The number of items disclosed by the company i in year t, = Estimated level of company disclosure i in year t.

Density calculates the number of sentences relevant to the GRI G4 core options compared to the number of sentences issued. The following formula shows the calculation for Density:

$$DEN_{it} = \frac{1}{K_{it}} \sum_{j=1}^{K_{it}} CSR_{ijt} \quad (5)$$

DEN_{it} = Density index for company i in t, Kit = The number of items disclosed by the company i in year t, CSR_{it} = The value is 1 (one) if sentence j contains CSR information on company i in year t, and conversely, the value is 0 (zero).

Accuracy estimates how a company discloses information, such as disclosing information in qualitative, quantitative, or monetary sentence form (in currency). Accuracy calculation can be shown in the following formula:

$$ACC_{it} = \frac{1}{n_{it}} \sum_{j=1}^{n_{it}} (w * CSR_{ijt}) \quad (6)$$

ACC_{it} = Accuracy index for the company i in year t , nit = Number of sentences containing CSR information in the company report i in year t , $CSRI_{jt}$ = The value is 1 (one) if sentence j contains CSR information on company i in year t , and conversely, the value is 0 (zero), W = The value is one if the sentence j in the company report i in year t is in the form of qualitative and is worth two if the sentence j in the company report i in year t is monetary.

Managerial orientation gauges a company's approach in the disclosure of CSR information. This can be achieved by using the Boilerplate approach or the committed approach. A Boilerplate approach is when a company expresses expectations and hypotheses in providing hope for the future and revealing results providing rules, initiatives and strategies. A committed approach is when a company tends to express future goals and targets by disclosing current results and outputs. Managerial orientation is shown in the calculation below.

$$MAN_{it} = \frac{1}{nit} \sum_{j=1}^{nit} (OBI_{ijt} * RES_{ijt}) \quad (7)$$

MAN_{it} = Managerial orientation index for the company i in year t , nit = Number of sentences containing CSR information in company report i in year t , OBI_{jt} = The value is 1 if sentence j on the company report i in year t contains CSR information in the form of targets and objectives; otherwise, the value is 0, RES_{jt} = The value is 1 if sentence j on the company report i in year t contains CSR information in the form of results and outputs and is 0 otherwise.

The four indices were then synthesized using the following formula:

$$Quality_{it} = \frac{1}{4(RQT_{sit} + DEN_{sit} + ACC_{sit} + MAN_{sit})} \quad (8)$$

$Quality_{it}$ = The disclosure quality obtained from combining the four indices whose values have been standardized, RQT_{sit} = Standardized relative quantity index for the company i in year t , DEN_{sit} = Standardized density index for company i in year t , ACC_{sit} = Standardized accuracy index for company i in year t , and MAN_{sit} = Standardized managerial orientation index for the company i in year t .

Furthermore, the content of environmental items included materials, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance, transport, overall, supplier environmental assessment, and environmental grievance mechanisms (GRI, 2013; Michelon et al., 2015). Social items comprised employment, labor/management relations, occupational health and safety, staff development, diversity and equality, equal wages, supplier assessment for labor practices, and grievance mechanisms. Besides, human rights covered investment, non-discrimination, freedom of association and collective bargaining, child labor, forced or compulsory labor, security practices, indigenous rights, assessment, supplier, human rights assessment, and grievance mechanisms. The society included local people, anti-corruption, public policy, anti-competitive behavior, compliance, supplier assessment

and grievance mechanisms for impacts on society. Meanwhile, product responsibility consisted of customer health and safety, product and service labeling, marketing communications, customer privacy, and compliance.

Data Analysis

This research utilized the Partial Least Square (PLS) - Structural Equation Model (SEM) to test the model's fit (goodness-of-fit) and the hypothesis's parameter estimates. Although, in general, SEM is used for confirmatory analysis, SEM can be used to test a theory (Hair et al., 2014). This study also employed a Partial Least Square (SEM-PLS) approach to test validity, reliability, and hypotheses. SEM-PLS is an approach in SEM that does not require data to be normally distributed. SEM-PLS is an alternative when a study is faced with situations: (1) small sample size, (2) lack of theoretical support, (3) predictive accuracy as the most important thing, and (4) uncertain model specifications.

Result and Discussion

There are two types of validity in PLS-SEM: convergent validity and discriminant validity. Convergent validity means that a set of indicators represents one latent variable and the underlying latent variable. This representation can be demonstrated through unidimensionality, which can be expressed using the average value of the variance extracted (Average Variance Extracted/AVE). The AVE value is at least 0.5. This value illustrates adequate convergent validity, which means that one latent variable can explain more than half the variance of its indicators on average. Meanwhile, discriminant validity is an additional concept, which indicates that two conceptually different concepts must demonstrate adequate distinction. The point is that the combined set of indicators is expected not to be unidimensional. The second criterion for discriminant validity is the "loading" for each indicator, which is expected to be higher than the respective "cross-loading." If the Fornell-Larcker criterion assesses its validity discriminant at the construct level (latent variable), then 'cross-loading is possible at the indicator level.

Furthermore, a reliability test shows whether an instrument used to obtain information can be trusted to reveal information in the field as a data collection tool. A questionnaire is reliable if a person's answer to a statement is consistent over time. The reliability of the measurement model was tested through the value of Cronbach's alpha and composite reliability (CR), which must reach a minimum score of more than 0.7 so that the research instrument can be said to be reliable.

Table 1 Validity and Reliability Tests

Variables	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
CSR_disc	1.000	1.000	1.000
Corporate_Reputation	1.000	1.000	1.000
Firm Performance	0.816	0.891	0.733

The analysis revealed that all variables' Average Variance Extracted scores were above 0.5 and met the convergent validity requirement (Table 1).

Table 2 Outer Loading

Variables	CSR Disclosure	Firm Reputation	Firm Performance
Corporate Reputation		1.000	
CSR Disclosure	1.000		
ROA			0.896
ROE			0.783
TobinQ			0.886

Table 2 also shows that the outer loading values of all indicators in all variables were above 0.5. Hence, it can be stated that all indicators were valid (Hair et al., 2014). Following the convergent validity test, the discriminant validity test was conducted.

Table 3 Fornell-Larcker Criterion

Variables	CSR Disclosure	Firm Reputation	Firm Performance
Corporate Reputation	1.000		
CSR Disclosure	0.028	1.000	
Firm Performance	0.048	0.083	0.856

According to the Fornell-Larcker criteria, each indicator's cross-loading value exceeded other indicators (Table 3). Moreover, the Cronbach's alpha values in all variables were above 0.7, which was reliable and indicated that the instrument used in this study was consistent (Table 1). Finally, the Table 4 depicts the hypotheses testing results.

Table 4 Hypotheses Testing Results

Relationship	Coefficient	SD	t-Value	P-Value	Description
Direct Effect					
CSR Disclosure -> Corporate Performance	0.046	0.018	2.557	0.011	H ₁ is accepted
CSR Disclosure > Corporate Reputation	0.028	0.046	0.601	0.548	H ₂ is rejected
Corporate Reputation -> Firm Performance	0.082	0.036	2.253	0.025	H ₃ is accepted
Indirect Effect					
CSR Disclosure -> Firm Reputation -> Firm Performance	0.002	0.004	0.522	0.602	H ₄ is rejected

Discussion

The H₁ indicates that CSR disclosure has a positive effect on company performance. The results of H₁ testing showed that the p-value was less than 0.05 (0.011). It means that CSR disclosure had a positive effect on firm performance. Thus, the first hypothesis was

accepted. Concerning this, proactive companies in supporting social responsibility and environmental sustainability have a much higher profit measure and a lower short-term liquidity measure than the industries and sectors they operate (DiSegni et al., 2015). Corporate social behavior gets positive responses from employees, customers, suppliers, investors, and financial analysts (Gao & He, 2017; Govindan et al., 2018; Lin et al., 2019; Rupp et al., 2018). In developing countries, the impact of CSR disclosure on firm performance is more substantial than in more developed capital markets. Investors' limitations in accessing information through public disclosures or media reports make information about CSR practices useful for evaluating corporate value (Su & Lee, 2013). Thus, CSR is a valuable tool for improving a company's financial performance (Lin et al., 2019; Su et al., 2016; Su & Lee, 2013).

The second hypothesis predicts that CSR disclosure has a positive effect on corporate reputation. The result revealed that the p-value was more than 0.05 (0.548). It signifies that CSR disclosure did not affect corporate reputation. Thus, the second hypothesis was rejected. This fact indicates that so far, the company has carried out CSR activities only to comply with regulations set by the government. CSR activities carried out by companies in Asian countries are based on an obligation to disclose this information (Lin et al., 2019). CSR disclosure is only an attempt by the company to gain legitimacy (Cho, Lee, & Pfeiffer, 2013). It is not uncommon for companies that have complied with government regulations to greenwashing (Mahoney et al., 2013). Given that CSR disclosure is an obligation (not voluntary), this activity will not improve its reputation.

The third hypothesis asserts that corporate reputation has a positive effect on firm performance. The results of hypothesis testing uncovered that the p-value was less than 0.05 (0.025). It denotes that corporate reputation had a positive effect on firm performance. Thus, the third hypothesis was accepted. Corporate reputation is created from repeated interactions and experiences between the company and stakeholders (Martín-de Castro et al., 2019). Reputation can also be interpreted as a company's capacity to fulfill its interests and increase its stakeholders' trust (Walker, 2010). A good reputation will increase a sustainable company (Melo & Garrido-Morgado, 2012). Companies with relatively good reputations can also better maintain superior earnings results over time. Thus, company reputation has a significant positive effect on overall performance (Famiyeh, 2017).

The fourth hypothesis proposes that firm reputation mediates the relationship between CSR disclosure and firm performance. The results of hypothesis testing showed that the p-value was more than 0.05 (0.602). It means that corporate reputation did not mediate the relationship between CSR disclosure and firm performance. Thus, the fourth hypothesis was rejected. The results of this study indicate that the investor awareness level of the company's reputation was still low. Investors were only oriented to short-term investments and did not care about the long-term viability of the company. It also shows that corporate reputation did not fully mediate the relationship between CSR disclosure and firm performance. However, the direct relationship between CSR disclosure and firm performance was accepted in hypothesis 1. The direct relationship between corporate reputation and firm performance was also accepted in hypothesis 3.

It supports Stakeholder Theory that the company not only increases profits for itself but also must be responsible for all stakeholders (Marshall, 2007; Donaldson & Dunfee, 1994).

Conclusion

The paper develops scientific research in the fields of CSR, corporate performance, and corporate reputation as the mediating role. The findings in this research support the Stakeholder Theory that the company not only increases profits but also must be responsible for all stakeholders. Besides, corporate reputation partially mediated the relationship between CSR and firm performance. It indicates that in Indonesia, concern for corporate reputation was still low.

Theoretically, this study's results imply that the Stakeholder Theory is a robust theoretical lens underlying the importance of corporate CSR practices, especially in developing countries. Disclosure of CSR information is a form of a dialogue between company ethics and stakeholders to gain legitimacy and contribute to generating corporate reputation. Stakeholders must feel confident and believe that the company has a social contract and behavior standards. It can also be said that CSR activities are the answer to the needs of these stakeholders. This study also provides a new perspective that contradicts the traditional view that CSR disclosure can improve firm performance through corporate reputation. In this study, although CSR disclosure could improve firm performance, it could not improve corporate reputation.

This research also has practical implications. Stakeholder demands for companies to implement quality CSR practices challenge company managers to improve CSR practices. For example, a company can carry out "right and fair" business practices so that disclosures exceed the required criteria. CSR disclosure can also send signals to stakeholders about its quality to improve firm performance and reputation. However, companies cannot rely solely on CSR practices as a powerful tool to improve performance and reputation. Overall, managers must pay attention to the company's business model and core competencies to maintain a sustainable competitive advantage.

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