

## DOES OWNERSHIP MODERATE THE FINANCIAL PERFORMANCE AND CSR DISCLOSURE LINKAGE?

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### ABSTRAK

Penelitian ini menganalisis pengaruh kinerja keuangan terhadap pengungkapan CSR dengan mempertimbangkan peran moderasi struktur kepemilikan pada industri kontroversial di negara berkembang. Menggunakan 102 observasi firm-year perusahaan terdaftar di Bursa Efek Indonesia periode 2019–2023 dan regresi panel Random-Effects GLS, hasil menunjukkan bahwa ROA berpengaruh positif terhadap pengungkapan CSR, mendukung teori legitimasi. Namun, kepemilikan manajerial memperlemah hubungan tersebut, sedangkan kepemilikan institusional, keluarga, dan asing tidak menunjukkan efek moderasi signifikan. Temuan ini menegaskan peran karakteristik kepemilikan dalam praktik pengungkapan CSR serta memberikan implikasi bagi regulator dan investor dalam meningkatkan akuntabilitas perusahaan dengan dominasi kepemilikan manajerial.

**Kata Kunci:** Tanggung jawab sosial perusahaan, pengungkapan, kinerja keuangan, struktur kepemilikan

### ABSTRACT

*This study examines the effect of financial performance on corporate social responsibility (CSR) disclosure by considering the moderating role of ownership structure, including institutional, family, foreign, and managerial ownership. The research is motivated by inconsistent empirical findings regarding the relationship between profitability and CSR disclosure in developing countries, particularly in controversial industries facing high legitimacy pressures. The sample consists of 102 firm-year observations of companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The analysis employs Random-Effects Generalized Least Squares (GLS) panel regression with a lag-1 ROA as the k-test variable. The results reveal that Return on Assets (ROA) has a positive effect on CSR disclosure, consistent with legitimacy theory, which posits that sound financial performance enhances social transparency. However, managerial ownership weakens this relationship, whereas institutional, family, and foreign ownerships do not exhibit significant moderating effects. These findings underscore the importance of ownership characteristics in influencing CSR disclosure practices and provide implications for regulators and investors in strengthening corporate accountability, particularly in firms with dominant managerial ownership.*

**Keywords:** Corporate social responsibility, disclosure, financial performance, ownership structure

## **1. Introduction**

The correlation between corporate financial performance and corporate social responsibility (CSR) disclosure has emerged as a pivotal area of inquiry in sustainability accounting, driven by the need to reconcile economic objectives with societal accountability (Hang & Ngoc, 2018; Kordlouie & Shahverdi, 2018; Machdar, 2019; Nollet et al., 2016). Empirical studies grounded in stakeholder theory and the resource-based view framework reveal that firms exhibiting stronger profitability indicators, such as Return on Assets (ROA) and operating cash flows, tend to allocate greater resources to CSR disclosure initiatives (Al-Shammari et al., 2022; Brower & Mahajan, 2013). For instance, prominent sectors such as retail and consumer goods demonstrate a significant positive association between CSR engagement and financial performance. This relationship is attributed to increased public exposure and customer engagement, which amplify the benefits derived from CSR programs (Arian et al., 2023; Hamdy et al., 2024).

Kludacz-alessandri & Cygańska (2021) found that companies in the energy sector implementing CSR strategies tend to achieve higher ROA and EBIT, suggesting that CSR activities can enhance financial performance by improving operational efficiency and profitability. Given the substantial ecological footprint of the energy sector, the risks associated with environmental and social issues are particularly salient (Vishwanathan & Duran, 2018). Therefore, it is natural for firms in this sector to allocate sufficient resources to risk mitigation strategies, including CSR disclosure. This issue has gained increasing urgency as capital markets and regulators heighten expectations for high-quality sustainability disclosures that are both decision-useful and socially relevant.

Ownership structures, including institutional, managerial, foreign, and family ownership, introduce critical contingencies into the relationship between financial performance and CSR (Ahmad et al., 2023; Bouzgarrou et al., 2022; Dakhli, 2021; Farooq & Noor, 2023). Institutional investors often encourage corporations to disclose more social initiatives to gain public legitimacy and ensure long-term stability (Dakhli, 2021). However, the entrenchment effect of insider ownership can weaken the relationship between CSR and financial constraints, indicating that higher managerial ownership may lead to conflicts of interest with institutional investors (Farooq & Noor, 2023). Conversely, greater foreign ownership has been found to attenuate the relationship between CSR activities and earnings management, suggesting that foreign investors promote ethical corporate practices (Ahmad et al., 2023). Furthermore, institutional investors may negatively moderate the association between family ownership and CSR, implying that family-controlled firms often face challenges in aligning their CSR activities with institutional expectations (Bouzgarrou et al., 2022).

Institutional ownership tends to strengthen (positively moderate) the relationship between financial performance and CSR disclosure because investor monitoring renders disclosure a credible channel through which CSR efforts are conveyed (Zhou et al., 2024). Family ownership, on the other hand, may suppress CSR reporting, highlighting a governance mechanism through which family control constrains disclosure responsiveness to performance (Cabeza-García et al., 2017). Empirical evidence also shows that firms with higher levels of foreign ownership are more inclined to expand CSR disclosure, as

foreign investors expect that financial performance be matched by credible sustainability reporting (Garanina & Aray, 2021). Collectively, these findings suggest that ownership structure functions not merely as a control variable but as an active governance mechanism that determines whether firms translate financial strength into CSR disclosure. Accordingly, it is both theoretically and empirically essential to investigate the moderating role of ownership structure in the relationship between financial performance and CSR disclosure.

Despite extensive research into CSR and financial outcomes, relatively little is known about how heterogeneous ownership types systematically moderate this relationship, leaving a significant gap in the literature. This study addresses that gap by examining how different ownership types influence the strength and direction of the CSR–performance relationship (Tarighi et al., 2022). To the best of our knowledge, the moderating effects of ownership structure on the relationship between corporate financial performance (CFP) and CSR disclosure (CSR D) have not been comprehensively examined, making it difficult to generalize prior findings across contexts. This study is therefore novel in integrating financial performance, CSR disclosure, and multiple ownership types into a single moderated model, an approach that has not been undertaken in previous research. By doing so, this study contributes theoretically by extending stakeholder and legitimacy frameworks to account for owners’ influence on CSR strategies, while offering practical implications for managers (to tailor disclosure strategies to ownership characteristics) and policy implications (to inform CSR and governance regulations that account for ownership diversity).

## **2. Literature Review and Hypothesis Development**

This study draws upon Agency Theory (Jensen & Meckling, 1976) and Legitimacy Theory (Deegan, 2002; Suchman, 1995) as its primary theoretical foundations, complemented by Slack Resources Theory (Waddock et al., 1997) as a supporting framework. Agency Theory posits that managers act as agents on behalf of shareholders and are motivated to reduce information asymmetry and agency costs through transparent reporting. CSR disclosure, therefore, serves as a governance mechanism that signals ethical conduct, accountability, and responsible decision-making. Ownership structure plays a pivotal role in this process, as different ownership types exert varying levels of control and influence over managerial incentives. Institutional and foreign investors generally enhance transparency by demanding high-quality disclosures, whereas concentrated managerial ownership may reduce external monitoring and weaken the motivation to disclose (Dakhli, 2021; Haniffa & Cooke, 2005). Consequently, CSR disclosure can be viewed as both an accountability mechanism and a strategic managerial tool to align internal governance practices with shareholder expectations.

At the same time, Legitimacy Theory provides a complementary explanation, viewing CSR disclosure as a means of maintaining alignment between corporate behavior and societal norms. Firms voluntarily disclose social and environmental information to sustain legitimacy, particularly when subjected to public scrutiny regarding sustainability performance (Suchman, 1995). CSR reporting enables firms to demonstrate ethical

awareness and social contribution, thereby legitimizing their continued operations within society (Rojas Molina et al., 2023). Financial performance plays a critical role in this dynamic. Profitable firms possess greater discretion and capacity to invest in CSR activities and signal their social responsibility through disclosure (Platonova et al., 2018). Conversely, financially constrained firms may use CSR communication strategically to divert attention from weak financial results and restore stakeholder confidence (S. Ali et al., 2019; W. Ali et al., 2017). From the perspective of Slack Resources Theory, financial strength provides both the capacity and motivation for firms to engage in legitimacy-seeking CSR disclosure. Taken together, these theoretical perspectives offer a cohesive framework explaining how governance incentives, legitimacy pressures, and financial capacity interact to shape firms' CSR disclosure behavior.

The relationship between financial performance and corporate social responsibility (CSR) disclosure has been extensively examined, with empirical evidence spanning more than four decades. Early studies established that financial success enables firms to engage more actively in social initiatives, while socially responsible behavior, in turn, enhances reputation and long-term profitability (Preston & O'Bannon Douglas P, 1997; Waddock et al., 1997). Subsequent research has confirmed this reciprocal relationship across diverse contexts and industries. A meta-analysis encompassing 223 studies conducted between 1984 and 2023 found a strong positive correlation between CSR engagement and financial performance, particularly in developing economies where CSR disclosure signals financial stability and ethical commitment to investors (Li et al., 2025). Evidence from China indicates that profitable firms tend to present more comprehensive CSR disclosures to strengthen credibility and stakeholder confidence (Huang et al., 2023). Similarly, in Vietnam, Nguyen et al. (2023) reported that environmental disclosure increases firm value, whereas employee-related reporting may exert a negative effect, suggesting that the nature and content of CSR disclosure can influence market reactions. Research in Indonesia further revealed that profitability and cash flow are significant predictors of CSR reporting, reflecting how financial strength facilitates compliance with both regulatory expectations and stakeholder demands (Garanina, 2024; Wilestari et al., 2021). Consistent findings appear in cross-sectoral analyses: Otero-González et al. (2021) observed that financially stable firms expand CSR reporting due to greater resource availability and heightened exposure to global investor scrutiny, while Kludacz-alessandri & Cygańska (2021) demonstrated that energy companies with higher ROA and EBIT values exhibit stronger CSR performance. Evidence from emerging economies reinforces these patterns. Obi (2020), for example, found that profitability and firm size significantly drive CSR activities among Nigerian firms, indicating that the financial-CSR linkage persists even under weaker institutional conditions. Collectively, these studies suggest that robust financial performance not only provides firms with the capacity to implement CSR programs but also motivates them to communicate such efforts transparently as part of broader stakeholder engagement strategies.

Despite the predominance of evidence supporting a positive link, several studies highlight inconsistencies, suggesting that the strength and direction of the relationship may vary across contexts. Some financially constrained firms may use CSR disclosure as an

impression-management tool to mitigate reputational risks rather than as a genuine expression of social commitment (Cardillo & Basso, 2025; Otero-González et al., 2021). Longitudinal analyses further reveal that the effect of CSR disclosure on performance evolves over time, shaped by changing stakeholder expectations, market competition, and regulatory reforms (Rehman et al., 2020). For instance, Uyar et al. (2024) observed that firms with strong profitability disclose CSR initiatives to highlight ethical conduct, whereas financially weaker firms employ CSR narratives to maintain legitimacy. Wilestari et al. (2021) additionally found that ownership characteristics, such as family control, may dampen CSR disclosure, even among profitable firms, due to differing priorities regarding cost control and managerial discretion.

Ownership structure constitutes one of the most critical determinants of a company's CSR disclosure strategy and its relationship with financial performance. Empirical evidence demonstrates that various ownership types, family, institutional, foreign, and managerial, shape disclosure practices differently based on their objectives, monitoring mechanisms, and risk perceptions. Family ownership is often associated with a long-term orientation and strong relational ties with local communities, thereby encouraging socially responsible behavior. However, CSR-related disclosure among family-controlled firms tends to vary with generational control and managerial autonomy, as some family firms prioritize confidentiality and cost efficiency over extensive external reporting (Cardillo & Basso, 2025; Nurleni et al., 2018). Institutional ownership has been shown to enhance CSR disclosure, as institutional investors generally value transparency, sustainability, and sound risk management as indicators of responsible governance (Sharma & Chakraborty, 2024; Uyar et al., 2024). Likewise, foreign ownership typically leads to higher-quality CSR reporting, as global investors encourage the adoption of international reporting standards and best practices in sustainability (C. C. Lin & Nguyen, 2022; Liu & Sun, 2025). Conversely, managerial ownership often produces mixed effects: when managers hold substantial equity stakes, they may either promote CSR disclosure to signal accountability or restrict transparency to protect private interests (Nurleni et al., 2018). Collectively, these findings underscore that ownership composition plays a pivotal role in determining both the extent and the strategic intent of CSR disclosure across different governance settings.

Despite extensive empirical inquiry, several limitations persist in the current literature. Many studies have concentrated predominantly on developed economies, offering limited insight into emerging markets where institutional enforcement and stakeholder expectations differ significantly (Garanina, 2024; C. C. Lin & Nguyen, 2022). Moreover, previous research has often examined individual ownership types in isolation, overlooking potential interactions among multiple ownership forms that may jointly influence CSR reporting practices. Methodological inconsistencies, particularly in measuring CSR disclosure and firm performance, further hinder cross-study comparability (Nurleni et al., 2018; Sharma & Chakraborty, 2024). Recent studies emphasize that ownership heterogeneity may moderate the relationship between financial performance and CSR disclosure, as different owners prioritize distinct legitimacy and accountability objectives (R. Ali et al., 2024; Liu & Sun, 2025). In response, the present study investigates the moderating effects of family, institutional, foreign, and managerial ownership on the



relationship between financial performance and CSR disclosure in an emerging-market context. The primary objective is to deepen the empirical understanding of how ownership composition influences sustainability reporting and to offer a more context-sensitive explanation of firm behavior across diverse governance environments.

From a theoretical standpoint, Agency Theory posits that managers act as agents for shareholders and are expected to disclose relevant information to reduce information asymmetry and minimize agency costs (Haniffa & Cooke, 2005; Jensen & Meckling, 1976). CSR disclosure functions as a key governance mechanism, signaling accountability, ethical behavior, and transparency to stakeholders. Complementing this, Legitimacy Theory suggests that firms engage in CSR disclosure to align their activities with prevailing social norms and to preserve organizational legitimacy within the broader societal context (Deegan, 2002; Suchman, 1995). Firms with strong financial performance have greater discretion and resources to pursue legitimacy-enhancing activities, including CSR initiatives that strengthen corporate reputation and stakeholder trust (Alobaid et al., 2024; Garanina, 2024). Empirical evidence supports this argument: profitability and cash flow significantly influence CSR disclosure because financial strength enables firms to allocate surplus resources to socially responsible investments (Otero-González et al., 2021; Wilestari et al., 2021). Similarly, research in developing economies demonstrates that profitable firms disclose more CSR information as a means of signaling financial stability and social accountability to investors and regulators (Huang et al., 2023; Li et al., 2025; Nguyen et al., 2023). This argument aligns with Slack Resources Theory, which asserts that firms with greater profitability possess both the capacity and motivation to engage in CSR practices, using disclosure as a strategic vehicle to sustain stakeholder confidence and institutional legitimacy (Waddock et al., 1997).

Conversely, Legitimacy Theory also acknowledges that CSR communication can serve a remedial or symbolic function when firms experience financial strain. In such situations, CSR reporting may be driven more by impression management than by genuine social commitment (Cardillo & Basso, 2025). Firms facing declining profitability may strategically employ CSR disclosure to divert attention from weak financial outcomes or to restore legitimacy after negative performance signals. Moreover, governance attributes such as ownership structure can influence how financial performance translates into CSR disclosure (Obi, 2020). For example, Wilestari et al. (2021) found that family-controlled firms often limit CSR activities despite profitability, prioritizing cost efficiency and internal value preservation over external legitimacy signaling. Nonetheless, the majority of empirical evidence suggests a positive association between financial performance and CSR disclosure. Firms with stronger financial outcomes tend to legitimize their operations through more extensive CSR reporting, both as a governance mechanism that mitigates agency conflicts and as a strategic tool to strengthen societal approval. Accordingly, drawing on these theoretical and empirical insights, this study proposes the following hypothesis:

H<sub>1</sub>: Financial performance is positively associated with CSR disclosure.

Agency Theory provides a foundational explanation of how ownership structure influences corporate decision-making, particularly regarding Corporate Social

Responsibility (CSR) disclosure. Different ownership types impose distinct monitoring pressures and governance incentives that determine how firms allocate financial resources and communicate their social performance (Jensen & Meckling, 1976). When integrated with Slack Resources Theory, which posits that profitable firms possess greater discretionary capacity to invest in socially responsible initiatives (Waddock et al., 1997), ownership composition becomes a critical determinant of whether those financial resources are directed toward CSR engagement. Within this framework, Legitimacy Theory adds an interpretive dimension, suggesting that firms often use CSR disclosure as a strategic means to align with societal expectations and maintain stakeholder credibility (Suchman, 1995). Consequently, ownership structures shape how financial performance is transformed into legitimacy-driven CSR activities, influencing both the extent and authenticity of corporate disclosure.

The presence of institutional investors tends to reinforce the positive relationship between financial performance and CSR disclosure by enhancing managerial monitoring and promoting governance transparency. Institutional investors typically demand higher levels of accountability, sustainability reporting, and ethical oversight, ensuring that financial success is reflected in responsible corporate conduct (Rehman et al., 2020). They often encourage management to strategically allocate available slack resources toward CSR initiatives that not only strengthen the firm's reputation and stakeholder trust but also narrow information asymmetry between the company and external stakeholders, thereby fostering greater transparency (S. Ali et al., 2019; C. C. Lin & Nguyen, 2022; Sharma & Chakraborty, 2024). The presence of institutional shareholders thus reinforces the link between profitability and CSR disclosure, as these investors regard social transparency as an extension of sound governance and long-term value creation.

Family ownership introduces a more nuanced and variable moderating effect. Family-controlled firms often prioritize the preservation of socioemotional wealth, reputational continuity, and intergenerational legitimacy (Sahasranamam et al., 2020). However, they also tend to be cautious in financial and disclosure decisions, particularly when CSR initiatives are perceived as costly or unnecessary for maintaining internal legitimacy. Under Slack Resources Theory, family firms with strong profitability may still limit CSR disclosure to conserve financial flexibility or protect privacy (Wilestari et al., 2021). Empirical evidence indicates that while family firms engage in CSR to maintain local trust, they often favor informal community involvement over extensive public reporting (S. Ali et al., 2019). Consequently, family ownership may attenuate the extent to which financial performance translates into comprehensive CSR disclosure, reflecting their distinct strategic and cultural priorities.

Managerial ownership affects CSR disclosure through a dual mechanism of incentive alignment and managerial entrenchment. When managers hold a moderate equity stake, they are incentivized to align CSR activities with the firm's long-term sustainability goals and stakeholder expectations, thereby promoting responsible behavior that supports both profitability and legitimacy (Ali et al., 2019; Guo & Shen, 2019). However, when managerial ownership becomes excessively concentrated, self-serving behavior may emerge, with CSR disclosure being selectively used to protect managerial reputation rather

than to enhance transparency (Alobaid et al., 2024). From the perspective of Agency Theory, such concentration weakens external monitoring, while Slack Resources Theory suggests that financial resources may be diverted toward symbolic rather than substantive CSR engagement. Empirical studies corroborate that high managerial ownership often leads to inconsistent or limited CSR disclosure, particularly when managerial discretion outweighs stakeholder pressure (Nurleni et al., 2018).

Foreign investors, by contrast, typically require firms to adhere to higher standards of accountability, ethical conduct, and environmental transparency. Their presence exerts substantial pressure on firms to allocate financial slack toward initiatives that demonstrate compliance with international norms and sustainability expectations. This not only strengthens corporate credibility among global stakeholders but also enhances competitiveness in international markets (Hanifah & Umaimah, 2024; Ogboro & Osazuwa, 2023). Prior evidence shows that foreign ownership enhances CSR disclosure by transferring global best practices and reinforcing governance mechanisms that ensure conformity with international reporting frameworks (Liu & Sun, 2025; Nguyen et al., 2023; Wilestari et al., 2021). Therefore, firms with higher profitability and greater foreign investment are more likely to engage in proactive CSR disclosure to maintain legitimacy in both domestic and global contexts. Drawing upon the theoretical and empirical insights discussed, the following hypotheses are proposed:

- H<sub>2a</sub>: Institutional ownership positively moderates the relationship between financial performance and CSR disclosure.
- H<sub>2b</sub>: Family ownership negatively moderates the relationship between financial performance and CSR disclosure.
- H<sub>2c</sub>: Managerial ownership negatively moderates the relationship between financial performance and CSR disclosure.
- H<sub>2d</sub>: Foreign ownership positively moderates the relationship between financial performance and CSR disclosure.

### **3. Research Method**

The population of this study comprises all non-financial firms publicly listed on the Indonesia Stock Exchange (IDX), representing a broad range of industries outside the financial sector that operate within controversial industries during the 2019–2023 period. Controversial industries refer to sectors such as tobacco, alcohol, mining, oil and gas, chemicals, and gambling, which are commonly subject to heightened societal and environmental scrutiny (Fatemi et al., 2015; Jansen et al., 2024). The sample was determined using a purposive sampling method based on several criteria. Eligible firms were those that maintained continuous listings on the Indonesia Stock Exchange (IDX) throughout the observation period, published comprehensive and consecutive annual and/or sustainability reports, operated within controversial sectors as classified by industry codes, and disclosed complete data on financial performance, CSR, and ownership structures (institutional, family, and managerial). Secondary data were obtained from company annual reports and sustainability reports available on the IDX website and official corporate sources, resulting in a final sample of 102 firm-year observations, subject



to data availability. Focusing on controversial industries enables a more rigorous examination of Legitimacy Theory, as companies within these sectors are under greater pressure to justify their operations through CSR disclosure in response to performance outcomes and stakeholder expectations (Ali et al., 2017; García-Sánchez et al., 2022). The five-year longitudinal scope further enhances the empirical robustness and contextual relevance of this study, aligning with calls for extended, industry-specific CSR research in emerging markets such as Indonesia.(Ali et al., 2019).

**Table 1. Sample Selection**

<b>Panel A: Sample selection process</b>	
<b>Selection criteria</b>	<b>Observations</b>
Controversial industry companies listed on the Indonesia Stock Exchange from 2019 to 2023	10
<b>Excluded:</b>	
Companies that do not present annual reports mandatory, integrated annual reports, or sustainability reports	(7)
Companies that do not provide complete information related to the variables being tested for the 2019–2023 period	
Total companies	54
Total observation data	178

Table 2 represent the definition and measurement from every variable of this study. CSR disclosure is defined as the extent to which companies communicate their environmental, social, and governance-related practices to stakeholders, in line with legitimacy theory (García-Sánchez et al., 2022). CSR disclosure is measured using a CSR Disclosure Index based on the Global Reporting Initiative (GRI) Standards. The index includes key CSR elements (economic, environmental, labor practices, human rights, society, and product responsibility). A content analysis approach is applied to annual and sustainability reports, assigning a binary score (1= disclosed, 0= not disclosed) for each item. The total CSR score is calculated as the ratio of items disclosed to total items evaluated (Kasbun et al., 2016).

Financial performance represents a firm's profitability and its capacity to generate economic value. In this study, Return on Assets (ROA) is used as the proxy for financial performance, expressed as net income divided by total assets ( $ROA = \text{Net Income} \div \text{Total Assets}$ ) Following prior research (Ali et al., 2024; Li et al., 2025; Pham & Tran, 2020), ROA is selected because it effectively captures management efficiency in asset utilization, a particularly relevant measure for firms in controversial industries where responsible and transparent asset use is crucial.

The moderating variable, ownership type, is operationalized through four ownership structures: institutional, family, foreign, and managerial ownership. Institutional ownership is measured as the proportion of outstanding shares held by institutional investors, including mutual funds and pension funds, reflecting external monitoring and governance pressure (Rehman et al., 2020). Family ownership is defined as the proportion of shares owned by founding families or their affiliated parties, representing long-term control and potential socioemotional wealth considerations that may shape CSR strategies (Garanina, 2024). Managerial ownership refers to the proportion of shares held by directors and top

executives, aligning managerial interests with those of shareholders and thereby potentially influencing CSR engagement ((Guo & Shen, 2019). Foreign ownership, where applicable, is measured as the proportion of shares held by foreign investors, reflecting international capital participation and possible exposure to global CSR norms. To empirically assess the moderating role of ownership type, interaction terms between ROA and each ownership structure are constructed and incorporated into the regression models. To examine moderating effects, interaction terms between ROA and each ownership type are constructed and tested within the regression model.

**Table 2. Variables Measurement**

Variables	Abbreviations	Measurement / Operational Definition	References
Dependent Variable			
CSR Disclosure	CSR D	CSR D, measured as the ratio of disclosed CSR items to the total expected CSR items, based on the Global Reporting Initiative (GRI) Standards. $CSR D = (\text{Number of CSR items disclosed}) / (\text{Total CSR items expected})$	Ali et al., (2024); Alobaid et al., (2024); Garanina, (2024); Ogboro & Osazuwa, (2023)
Independent Variables			
Financial Performance	ROA	Return on Assets: Net Income divided by Total Assets. $ROA = \text{Net Income} / \text{Total Assets}$	Alobaid et al., (2024); Fiana & Endri, (2025); Ogboro & Osazuwa, (2023); Sharma & Chakraborty, (2024)
Family Ownership	Own_Fam	Percentage of shares held by founding family members or their affiliates relative to total outstanding shares.	Ogboro & Osazuwa, (2023); Sahasranamam et al., (2020)
Institutional Ownership	Own_Inst	Percentage of equity held by institutional investors (e.g., banks, funds, insurance companies).	Lin et al., (2023); Nurleni et al., (2018); Ogboro & Osazuwa, (2023)
Foreign Ownership	Own_For	Percentage of shares held by foreign investors.	Alobaid et al., (2024); C. C. Lin & Nguyen, (2022)
Managerial Ownership	Own_Man	Percentage of shares owned by directors or managers.	C. C. Lin & Nguyen, (2022); Nurleni et al., (2018)
Control Variables			
Liquidity	Liq	Current Ratio: Current Assets divided by Current Liabilities.	Uyar et al. (2024)
Firm Age	Firm_Age	The number of years since incorporation.	Fiana & Endri, (2025); Garanina, (2024); Sharma & Chakraborty, (2024)
Firm Size	Fir_Size	Total assets at the end of the fiscal year.	R. Ali et al., (2024); Alobaid et al., (2024); Wilestari et al., (2021)
Leverage	DAR	Debt-to-Asset Ratio: Total Debt divided by Total Assets.	Pham & Tran (2020)

Notes: created by author

To isolate the effects of the main variables and enhance the robustness of the model, several control variables were incorporated based on their theoretical and empirical

relevance to CSR disclosure. The Debt-to-Asset Ratio (DAR), calculated as total liabilities divided by total assets, captures the firm's leverage position, which may either constrain or encourage CSR disclosure depending on the firm's reputational risk considerations (Barokah & Nindya Sari, 2024). Liquidity, defined as current assets divided by current liabilities, reflects a firm's short-term financial flexibility, which can influence its capacity to allocate resources toward CSR initiatives (Uyar et al., 2024). Firm size, measured as the natural logarithm of total assets, controls for visibility and stakeholder pressure, as larger firms are typically subject to greater public scrutiny and thus tend to engage more extensively in CSR disclosure (Alobaid et al., 2024). Finally, firm age, measured as the number of years since establishment, accounts for organizational maturity, which is often associated with stronger CSR traditions, accumulated experience, and more established reporting practices (Alobaid et al., 2024). Together, these control variables ensure that the effects of the primary independent and moderating variables on CSR disclosure are estimated accurately and without omitted-variable bias.

The empirical analysis was conducted using Stata 17 statistical software. A multi-stage analytical approach was employed to ensure comprehensive and reliable findings. First, descriptive statistics and Pearson pairwise correlations were generated to provide an overview of the data distribution and to explore preliminary associations among the study variables. The correlation matrix also served as an initial diagnostic tool for detecting potential multicollinearity. Second, multicollinearity diagnostics were formally assessed using the Variance Inflation Factor (VIF) following the estimation of ordinary least squares (OLS) regressions. The results indicated that all VIF values were well below the critical threshold of 10, confirming the absence of multicollinearity concerns (Hair et al., 2019).

Third, the study employed panel data regression analysis to test the research hypotheses. Both fixed-effects and random-effects models were estimated, and the Hausman specification test was subsequently applied to determine the most appropriate model for the dataset. Finally, moderation effects were examined by incorporating interaction terms between ROA and each ownership structure variable (institutional, family, foreign, and managerial). Stata's factor-variable notation was utilized to estimate the conditional effects of profitability on CSR disclosure across different levels of ownership. All models included the control variables, firm size, firm age, leverage (DAR), and liquidity, to mitigate the risk of omitted-variable bias. Furthermore, robust standard errors were applied throughout the regression analyses to ensure the consistency and reliability of the parameter estimates. The regression equation used in this study is:

$$CSR_{D\_it} = \beta_0 + \beta_1 ROA\_it + \beta_2 OWN\_it + \beta_3 (ROA\_it \times OWN\_it) + \beta_4 DAR\_it + \beta_5 LIQ\_it + \beta_6 SIZE\_it + \beta_7 AGE\_it + \varepsilon\_it$$

CSR<sub>D</sub>\_it : Corporate Social Responsibility Disclosure Index for firm i in year t.  
 ROA\_it : Return on Assets (financial performance)  
 OWN\_it : Ownership type (institutional, family, Foreign and managerial ownership)

ROA_it × OWN_it	: Interaction term representing moderation effect
DAR_it	: Debt to Asset Ratio (control variable)
LIQ_it	: Liquidity (control variable)
SIZE_it	: Firm Size (log of total assets)
AGE_it	: Firm Age (years since establishment)
$\beta_0$	: Intercept
$\beta_1$ to $\beta_7$	: Regression coefficients
$\varepsilon_1$	: Error term for firm

#### 4. Results and Discussion

Table 3 presents the descriptive statistics for the variables examined in this study, encompassing 3,212 firm-year observations from companies listed on the Indonesia Stock Exchange during the 2019–2023 period. The mean value of CSR Disclosure is 0.459, with a standard deviation of 0.228, indicating a moderate level of variation in corporate social responsibility reporting practices among firms. Financial performance, as measured by return on assets (ROA), has an average value of 0.079, ranging from -0.95 to 0.62, which suggests a considerable dispersion in firms' profitability levels. The average debt-to-asset ratio (DAR) is 0.417, indicating that while some firms are entirely equity-financed, others exhibit a high degree of leverage, with DAR values reaching up to 2.06. Firm age varies substantially, with a mean of 18.41 years and a maximum of 42 years, reflecting differences in firms' life cycles. Firm size, proxied by the natural logarithm of total assets, has a mean of 29.906 and a relatively low standard deviation (SD = 1.768), suggesting limited variation in firm scale across the sample. Liquidity exhibits an average value of 2.946, although some firms hold exceptionally high levels of liquid assets, with a maximum of 94.12. Regarding ownership structure, managerial ownership (Man\_Own) averages 4.735%, family ownership (Fam\_Own) 11.392%, and foreign ownership (For\_Own) 29.941%, while institutional ownership (Ins\_Own) is the highest at 80.942%, indicating strong external monitoring and governance influence. Overall, these descriptive statistics underscore the heterogeneity among firms in terms of structure, governance, and financial characteristics, factors that are critical for understanding and interpreting the relationships explored in this study.

**Table 3. Statistics Descriptive**

Variables	Obs.	Mean	Median	Minimum	Maximum	Std.Dev
CSR Disclosure	178	0.459	0.42	0.06	1	0.228
Financial Performance (ROA)	178	0.079	0.07	-0.95	0.62	0.151
Debt to Asset Ratio (DAR)	178	0.417	0.37	0	2.06	0.262
Firm Age	178	18.411	17	0	42	10.604
Firm Size	178	29.906	30.47	25.55	32.77	1.768
Liquidity	178	2.946	1.69	0.04	94.12	8.438
Man_Own	178	4.735	0	0	63.14	13.625
Fam_Own	178	11.392	0	0	86.94	25.103
For_Own	178	29.941	19.54	0	97.7	31.163
Ins_Own	178	80.942	91.32	0	100	26.374

Refer to Table 4 for further details. The Pearson correlation analysis reveals that ROA exhibits a significant positive correlation with CSR disclosure, whereas the control variables, firm size, firm age, leverage (DAR), and liquidity, demonstrate only weak to moderate correlations. Although these correlation coefficients provide preliminary insights into the relationships among variables, correlation analysis alone is insufficient to eliminate the potential presence of multicollinearity among the independent and control variables. To further examine this issue, a Variance Inflation Factor (VIF) test was conducted to assess the degree of multicollinearity. The results of this diagnostic test, presented in Table 4, illustrate the collinearity levels within the regression model. The VIF values for all variables fall well below the conventional threshold of 10, indicating the absence of multicollinearity concerns. Consequently, the regression model is deemed statistically sound and suitable for reliable interpretation (Hair, et al., 2019).

**Table 4. Pearson Correlation Matrix**

Variables	(1) CSRD	(2) ROA	(3) Own_Fam	(4) Own_Inst	(5) Own_For
(1) CSRD	1.000				
(2) ROA	0.277***	1.000			
(3) Own_Fam	-0.219**	0.097	1.000		
(4) Own_Inst	0.194**	-0.009	-0.426***	1.000	
(5) Own_For	0.14	0.191**	-0.325***	0.310***	1.000
(6) Own_Man	-0.133	0.154*	0.192**	-0.462***	-0.165*
(7) FirmSize	0.518***	0.155*	-0.260***	0.246***	0.05
(8) FirmAge	0.239**	0.025	-0.307***	0.237**	0.442***
(9) Liquidity	0.018	-0.081	-0.045	0.053	-0.06
(10) DAR	-0.103	-0.367***	-0.109	0.065	-0.168*
Variables	(6) Own_Man	(7) FirmSize	(8) FirmAge	(9) Liquidity	(10) DAR
(6) Own_Man	1.000				
(7) FirmSize	-0.089	1.000			
(8) FirmAge	-0.171*	0.141	1.000		
(9) Liquidity	-0.036	0.012	0.052	1.000	
(10) DAR	-0.027	0.034	-0.028	-0.006	1.000

Note. Pearson correlation coefficients are reported.  $p < .10$ , \*  $p < .05$ , \*\*  $p < .01$ , \*\*\*  $p < .001$ .

The results presented in Table 6 indicate that in Model 1 (baseline), ROA exhibits a statistically significant and positive effect on CSR disclosure (coefficient = 0.316,  $p = 0.021$ ), suggesting that more profitable firms are more likely to engage in extensive CSR reporting. In Model 2 (with moderating variables), the positive and significant influence of ROA persists (coefficient = 0.807,  $p = 0.021$ ), thereby confirming the robustness of this relationship even after accounting for interactions with ownership structure variables. Among the moderating variables, only managerial ownership significantly strengthens the relationship between ROA and CSR disclosure (coefficient = 0.069,  $p = 0.011$ ), indicating that higher managerial ownership motivates managers to align firm profitability with greater CSR transparency. Conversely, the moderating effects of family ownership ( $p = 0.999$ ), institutional ownership ( $p = 0.323$ ), and foreign ownership ( $p = 0.386$ ) are statistically insignificant, suggesting that these ownership types do not meaningfully alter



the profitability–CSR disclosure linkage. With respect to the control variables, firm size demonstrates a consistently positive and significant effect on CSR disclosure (coefficient = 0.059,  $p = 0.000$ ), implying that larger firms are more inclined to disclose CSR information due to heightened public scrutiny and stakeholder expectations. Meanwhile, firm age ( $p = 0.015$ ), leverage (DAR) ( $p = 0.614$ ), and liquidity ( $p = 0.594$ ) do not exhibit significant effects across both models. Collectively, these findings underscore that profitability and managerial ownership serve as key determinants of CSR disclosure, whereas other ownership structures and firm characteristics exert comparatively limited influence.

**Table 5. Variance Inflation Factor (VIF) Results**

Variable	VIF	1/VIF
Institutional Ownership (Own_Inst)	1.6	0.626
Foreign Ownership (Own_For)	1.49	0.669
Family Ownership (Own_Fam)	1.42	0.702
Managerial Ownership (Own_Man)	1.33	0.754
Firm Age	1.32	0.759
Return on Assets (ROA)	1.31	0.764
Debt to Asset Ratio (DAR)	1.21	0.83
Firm Size	1.17	0.857
Liquidity	1.02	0.977
<b>Mean VIF</b>	<b>1.32</b>	

Notes: All VIF values are well below the common threshold of 10, indicating that multicollinearity is not a concern in this study.

**Table 6. Random-Effects GLS Regression Results**

Variable	Model 1 (Baseline)	Model 2 (Moderators)
ROA	0.3164	0.8068
	0.021**	0.021**
ROA * Family Ownership		0.00001
		0.999
ROA * Institutional Own.		-0.0029
		0.323
ROA * Foreign Ownership		-0.0028
		0.386
ROA * Managerial Own.		-0.0115
		0.069***
Debt to Asset Ratio (DAR)	-0.0414	-0.0426
	0.574	0.614
Firm Size	0.0587	0.0603
	0.000	0.000
Firm age	0.0052	0.005
	0.01	0.015
Liquidity	0.0008	0.0009
	0.647	0.594

Note. Random-effect regression result are reported  $p < 0.10$ , \*\*\*  $p < 0.05$ , \*\*  $p < 0.01$ .\*

The empirical evidence presented in Table 6 indicates that financial performance exerts a significant positive influence on CSR disclosure. This finding suggests that firms

with higher profitability are generally more inclined to engage in a variety of strategic and socially responsible activities, utilizing transparent CSR reporting as a deliberate mechanism to maintain organizational legitimacy and reinforce stakeholder trust. This observation aligns with the propositions of Legitimacy Theory, which posits that firms disclose CSR information to demonstrate conformity with societal expectations and reinforce their legitimacy, as well as with Slack Resources Theory, which asserts that financial success provides firms with surplus resources to invest in CSR initiatives (Otero-González et al., 2021; Waddock et al., 1997). The results are consistent with previous empirical findings from emerging markets, including Indonesia, where financially robust firms tend to allocate greater resources toward CSR initiatives to strengthen legitimacy and enhance competitiveness (Garanina, 2024; Wilestari et al., 2021). However, these findings contrast with prior studies reporting insignificant or negative associations between profitability and CSR disclosure, particularly in contexts characterized by financial constraints, stringent regulatory requirements, or institutional weaknesses. In such environments, firms may prioritize short-term financial survival over long-term social commitments, thereby diminishing the observed link between profitability and CSR engagement (Cardillo & Basso, 2025; Pham & Tran, 2020). This divergence suggests that the strength of institutional frameworks and prevailing disclosure norms play a crucial role in shaping the relationship between financial performance and CSR disclosure.

The moderating analysis further reveals that managerial ownership significantly attenuates the positive association between profitability and CSR disclosure. This finding implies that when managers hold substantial equity stakes, they may prioritize internal control and personal incentives over broader stakeholder accountability. The result supports the tenets of Agency Theory, which cautions that concentrated managerial ownership can give rise to entrenchment effects, thereby reducing transparency in CSR reporting (Dakhli, 2021; Nurleni et al., 2018). Nevertheless, this finding partially contrasts with studies that report a positive alignment effect under moderate ownership levels, where managerial interests coincide with long-term shareholder goals and CSR engagement (S. Ali et al., 2019; Guo & Shen, 2019). This suggests a potential non-linear relationship: managerial ownership may either promote or suppress CSR disclosure depending on the balance between incentive alignment and managerial discretion, a dynamic particularly salient in firms operating within weaker governance regimes.

In contrast, family, institutional, and foreign ownership do not exhibit significant moderating effects, indicating that these ownership types neither amplify nor constrain the profitability–CSR relationship. This result corroborates the findings of Salehi et al. (2017) and Garanina & Aray (2021), who observed that ownership heterogeneity does not necessarily translate into governance influence over disclosure practices. Within the Indonesian context, institutional investors may adopt a passive stance, focusing primarily on financial returns rather than sustainability oversight, while foreign investors tend to prioritize profit repatriation and regulatory compliance efficiency over legitimacy-seeking CSR activities (Liu & Sun, 2025; Ogboro & Osazuwa, 2023; Rehman et al., 2020). Although family-owned firms are often motivated by socioemotional wealth and local legitimacy concerns, they may engage in CSR disclosure primarily when prompted by

reputational or regulatory pressures (Cardillo & Basso, 2025; Wilestari et al., 2021). Collectively, these findings affirm that while financial performance remains the principal driver of CSR disclosure, the moderating effects of ownership structures are heterogeneous, thereby supporting an integrative theoretical perspective that combines insights from Legitimacy Theory, Agency Theory, and Slack Resources Theory in explaining corporate behavior in emerging markets.

To ensure the stability and robustness of these results across time, a robustness analysis was conducted using the one-year lagged value of Return on Assets (L1.ROA) as the primary independent variable. This lag structure captures the potential temporal delay between a firm's financial performance and its CSR disclosure decisions, thereby addressing endogeneity concerns. This approach aligns with prior studies suggesting that CSR initiatives are often based on prior-year profitability (Waddock & Graves, 1997; Platonova et al., 2018; Li et al., 2025). By incorporating a lagged profitability measure, this analysis enhances the causal inference of the model, mitigates simultaneity bias, and ensures that the observed relationships remain consistent and reliable across different time periods, thereby increasing the credibility of the empirical findings.

**Table 7. Random-Effects Robustness Test Results**

Variables	Model 1 (Baseline)	Model 2 (Moderator)
L1.ROA	<b>0.413</b> <b>0.008**</b>	<b>0.494 **</b> <b>0.004**</b>
ROA × Family Ownership		0.005 0.414
ROA × Institutional Own.		−0.001 0.566
ROA × Foreign Ownership		0.004 0.204
ROA × Managerial Own.		<b>−0.013</b> <b>0.072*</b>
Firm Size	0.072 0.000	0.078 0.000
Firm age	0.005 0.033	0.004 0.078
Liquidity	−0.000 0.914	−0.000 0.894
Debt to Asset Ratio (DAR)	−0.007 0.931	−0.023 0.822

Notes: Significance levels are denoted as \*  $p < 0.10$ ; \*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$ .

The statistical results presented in Table 7 indicate that the lagged value of Return on Assets (L1.ROA) maintains a positive and statistically significant relationship with CSR disclosure ( $\beta = 0.413$ ,  $p < 0.05$  in Model 1;  $\beta = 0.494$ ,  $p < 0.05$  in Model 2). This consistent association suggests that firms exhibiting stronger financial performance in the preceding period are more likely to enhance the scope and depth of their CSR reporting in subsequent periods. Such a finding reinforces the premise that prior profitability provides firms with the financial flexibility and slack resources necessary to sustain long-term social and environmental initiatives. These results corroborate the Slack Resources Theory, which

posits that financially successful firms possess the discretionary resources required to engage in socially responsible activities that strengthen stakeholder relations and corporate legitimacy (Waddock & Graves, 1997; Otero-González et al., 2021). The persistent positive effect of prior financial performance on CSR disclosure further supports the argument that CSR serves as a legitimacy-seeking mechanism, facilitated by a firm's financial capacity to invest in initiatives that enhance its public image, reinforce institutional credibility, and maintain stakeholder trust (Suchman, 1995; Deegan, 2002).

With respect to the moderating effects, the robustness analysis yields results that are broadly consistent with the main findings. Managerial ownership continues to negatively moderate the relationship between financial performance and CSR disclosure ( $\beta = -0.013$ ,  $p < 0.10$ ), suggesting that high managerial equity concentration may weaken incentives for transparent CSR reporting due to entrenchment behavior (Jensen & Meckling, 1976; Dakhli, 2021). Meanwhile, family, institutional, and foreign ownership remain statistically insignificant, reaffirming their limited moderating influence on the profitability–CSR nexus. Overall, the robustness analysis confirms that the principal findings remain stable across different model specifications and time frames, thereby reinforcing the reliability, validity, and generalizability of the study's empirical results.

## **5. Conclusions, Implications, and Limitations**

This study provides empirical evidence that financial performance significantly enhances Corporate Social Responsibility Disclosure (CSR) among controversial industries listed on the Indonesia Stock Exchange (IDX). Firms exhibiting stronger profitability, as reflected by higher Return on Assets (ROA), tend to disclose CSR activities more extensively as part of their efforts to maintain legitimacy and strengthen stakeholder trust. This finding supports both Legitimacy Theory and Slack Resources Theory, suggesting that profitable firms possess not only the incentive but also the capacity to invest in socially responsible initiatives (Obi, 2020; Otero-González et al., 2021; Wilestari et al., 2021). In contrast, the moderating analysis reveals that family, institutional, and foreign ownership exert no significant influence on the relationship between financial performance and CSR disclosure, indicating their limited governance role in promoting social transparency. However, managerial ownership demonstrates a significant negative moderating effect, implying that concentrated managerial control may weaken CSR engagement due to potential entrenchment and reduced accountability (Dakhli, 2021; Nurleni et al., 2018). Collectively, these findings highlight that while profitability fosters legitimacy-oriented CSR disclosure, internal governance characteristics, particularly managerial ownership, can either enable or constrain this process.

From a theoretical perspective, this study contributes to the understanding of how financial and ownership structures interact to shape CSR disclosure behavior in emerging markets. It reinforces Legitimacy Theory by demonstrating that profitable firms use CSR as a signaling mechanism to maintain social acceptance, while Agency Theory helps explain how concentrated managerial ownership may undermine this legitimacy process. From a practical standpoint, the results underscore the need for stronger governance

oversight in firms with high managerial ownership concentration to ensure that profitability-driven CSR initiatives remain transparent, credible, and aligned with stakeholder interests. Regulators are encouraged to design CSR disclosure frameworks that incorporate ownership composition as a key governance consideration, while investors may utilize such information to assess firms' long-term sustainability orientation and accountability practices.

This study is not without limitations. The analysis focuses exclusively on controversial industries in Indonesia, which may limit the generalizability of the findings to other sectors or institutional contexts. Future research could extend this investigation through cross-country or cross-industry comparisons, integrating additional variables such as market valuation, board diversity, or public sentiment to capture broader legitimacy dynamics. Combining quantitative methods with qualitative approaches (e.g., executive interviews or content analysis) would also provide deeper insights into the strategic motivations underpinning CSR disclosure decisions.

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