**Proceeding International Conference on Economic Business Management, and Accounting (ICOEMA) 2025**
**Doctoral Program in Economics**
**University of August 17, 1945 Surabaya**

# The Influence of Corporate Reputation and Stakeholder Involvement on Financial Performance with Corporate Social Responsibility as an Intervening Variable

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Received: April 2025; Accepted: April 2025; Published:June 2025
**Permalink/DOI:**

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## Abstract

This study aims to examine the impact of corporate reputation and stakeholder involvement on financial performance, with Corporate Social Responsibility (CSR) serving as an intervening variable. CSR, which reflects a company's social responsibility, is suspected of acting as a bridge that strengthens the relationship between corporate reputation and stakeholder involvement, and financial performance. In the highly competitive business era, corporate reputation and stakeholder involvement, particularly in achieving optimal financial performance, are important factors that influence a company's success. The study uses secondary data from the annual reports of companies listed on the Indonesia Stock Exchange (IDX) and employs path analysis to test the causal relationships between variables. The results show that corporate reputation has a significant effect on financial performance, stakeholder involvement has no effect on financial performance and hypothesis testing using path analysis shows that CSR cannot mediate the relationship between corporate reputation and stakeholder involvement on financial performance.

**Keywords:** *Corporate Reputation, Stakeholder Involvement, Financial Performance, Corporate Social Responsibility, Intervening Variable*

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## INTRODUCTION

In an era of increasingly tight business competition, companies are required to not only focus on achieving financial targets, but also build a strong reputation and involve various stakeholders in every activity. A company's reputation is a representation of the company's past performance and behavior, which can affect stakeholder trust and the company's business continuity in the future. A good reputation has been proven to increase stakeholder attention and trust, which ultimately has a positive impact on the company's financial performance.

In addition to reputation, stakeholder involvement is also an important factor that cannot be ignored. Stakeholder theory states that the survival of a company is highly dependent on the support of stakeholders, both internal and external. Pressure and expectations given by stakeholders encourage companies to adapt and improve performance, including in financial and social aspects. The greater the involvement and pressure of stakeholders, the greater the company's efforts to meet their expectations, which can ultimately improve the company's profitability and financial performance.

On the other hand, Corporate Social Responsibility (CSR) has become one of the main strategies of companies to build reputation and meet stakeholder expectations. Disclosure and implementation of CSR not only improve the company's image in the eyes of the public, but also proven to have a positive influence on financial performance. CSR acts as an intervening variable that can strengthen the relationship between corporate reputation, Stakeholder Involvement, and financial performance. Previous studies have shown that companies that actively implement CSR tend to have better financial performance and higher company value.

Based on the description above, this study aims to analyze the influence of corporate reputation and stakeholder involvement on financial performance with Corporate Social Responsibility as an intervening variable. This study is expected to provide theoretical and practical contributions for companies in formulating effective strategies to improve financial performance through strengthening reputation, stakeholder involvement, and optimal implementation of CSR.

## METHOD

Data Types and Sources

- Data Type: Documentation data, annual reports by the energy sector listed on the Indonesia Stock Exchange during the 2022-2023 period periodically.
- Data Source: Data obtained from annual reports published on www.idx.co.id for the period 2022-2023.

Research Variables

- Independent variables: Corporate Reputation and Stakeholder Involvement
- Intervening variable: Corporate Social Responsibility (CSR)
- Dependent variable: Financial Performance

Population and Sample

- Population: Energy sector companies listed on the Indonesia Stock Exchange during the period 2022-2023.
- Sample: Selected using purposive sampling method based on the following criteria:
  1. An energy sector company listed on the Indonesia Stock Exchange and regularly publishes annual reports for the 2022-2023 period.
  2. Energy sector companies reporting corporate social responsibility (CSR) for the 2022-2023 period.

Method of collecting data

The data collection method in this study is the documentation technique. The documentation data collected by the researcher is the annual report published periodically by energy sector companies listed on the IDX for the period 2022-2023.

Operational Definition and Measurement of Variables

1. Financial performance

   Financial performance is a picture of the financial condition of a company that can be analyzed using various analysis tools so that stakeholders or report users can find out the financial condition of the company within a certain period of time. The company's financial condition can show how good or bad the company is in managing its various assets. In terms of financial performance, the data used in this study has a time difference of 1 (one) year from the company's reputation so that the financial performance data used has a difference of one year longer than the company's reputation. The variables in this study are measured based on the measuring instruments used by previous researchers such as Blajer-Gołębiewska (2014), Blajer-Gołębiewska & Kozłowski (2016), Kaur & Singh (2020) is ROA. The formula used in measuring a company's ROA is:

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

2. Corporate Reputation

   Corporate reputation is the perception and assessment of stakeholders (such as customers, employees, investors, and the general public) towards a company based on experience, available information, and company performance in various aspects, including ethics, financial performance, social responsibility, and innovation. This reputation reflects the company's image and can influence consumer decisions, loyalty, and investor attraction. Measuring corporate reputation using an annual report can be done by analyzing several key elements, namely:

   - Financial Performance: Net profit, revenue, growth, and other financial ratios.
   - CSR initiatives: Spending on social activities, sustainability, and environmental programs.
   - Transparency and Accountability: Quality of information presented, clarity and openness in reports.

   Reputation Index = (W1.K1 + W2.K2 + W3.K3) / (W1+W2+W3)

   Information:

   - W1,W2,W3: Weight given to each element (Financial Performance, CSR Initiatives, Transparency).
   - K1,K2,K3: Scores given to each element based on the analysis of the annual report.

3. Stakeholder Involvement

   Stakeholder Involvement in this study is defined as the level of active participation, interaction, and communication carried out by the company with various stakeholders in the decision-making process, program implementation, and company performance evaluation. Stakeholders include internal stakeholders (employees, management, shareholders) and external stakeholders (customers, suppliers, government, local communities, non-governmental organizations, media). This engagement reflects the company's efforts to understand and respond to stakeholder needs and expectations, and build sustainable and mutually beneficial relationships.

   In general, the stakeholder involvement formula in this research can be formulated as follows:

   Stakeholder Involvement = f (Ownership Concentration, Effective Tax Rate, Leverage, Employee Compensation)

   Where:
   - Ownership Concentration is measured as the percentage of share ownership by major shareholders.
   - Effective Tax Rate is calculated as tax expense divided by profit before tax.
   - Leverage is calculated as total debt divided by total assets.
   - Employee Compensation is measured by the total compensation costs incurred by the company.

4. Corporate Social Responsibility

   Corporate Social Responsibility Disclosure (CSRD) is measured using the Compound CSR Index. In this study, Corporate Social Responsibility Disclosure (CSRD) is an intervening variable. Here, the intervening variables in the form of CSR (economy, environment, labor, human rights, products, and society) are measured simultaneously and partially for their influence on the dependent variable. According to Bahri (2016), CSR can be measured in the following ways:

   $$\mathrm{CSRj} = \frac{\Sigma \mathrm{Xij}}{\mathrm{Nj}}$$

   Information:

   CSRj: a broad index of corporate social and environmental responsibility disclosures

   $\sum$Xij : Y value = if item i is disclosed

   T value = if item i is not disclosed

   Nj : number of items of company j, Nj = 91

   Source: Global Reporting Initiative G4

## RESULTS AND DISCUSSION

Based on the analysis using the Smart PLS approach, the following are the main findings:

1. The Influence of Corporate Reputation (X1) on Financial Performance (Y):
   The test results show that corporate reputation (X1) has a significant direct influence on financial performance (Y) with a positive path coefficient value and p-value < 0.05.
2. The Influence of Stakeholder Involvement (X2) on Financial Performance (Y):
   Stakeholder involvement (X2) does not have a significant effect on financial performance (Y) either directly or through CSR (Z) as a mediating variable.
3. Corporate Social Responsibility (Z) as a Mediating Variable:
   CSR (Z) does not provide a significant mediation effect on either the relationship between X1 and Y or between X2 and Y. In other words, CSR functions more as a supporting element that does not have a direct or mediating impact in the context of this study.

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P Values |
|---|---|---|---|---|---|
| **X1 -> Y** | 0.849 | 0.841 | 0.055 | 15,492 | **0,000** |
| **X1 -> Z** | -0.019 | -0.011 | 0.127 | 0.151 | **0.880** |
| **X2 -> Y** | 0.026 | 0.025 | 0.071 | 0.364 | **0.716** |
| **X2 -> Z** | -0.186 | -0.178 | 0.117 | 1,595 | **0.111** |
| **Z -> Y** | -0.069 | -0.074 | 0.074 | 0.931 | **0.352** |

These findings strengthen the theory that corporate reputation plays an important role in influencing financial performance, while CSR and Stakeholder Involvement are only effective in certain contexts:

1. Relevance of Corporate Reputation: A good reputation increases stakeholder trust, especially customers and investors. This is consistent with Rahmawati's (2021) research which shows that corporate reputation is the main determinant of financial performance compared to CSR directly.
2. Stakeholder Involvement and CSR: Although CSR is often viewed as a strategic move to improve a company's image, this study shows that without strong reputation support, CSR and Stakeholder Involvement cannot directly improve financial performance. This could be due to CSR implementation that is not integrated with business strategy or lack of public awareness of the initiative.
3. Practical Implications: Companies need to focus more on reputation management by utilizing CSR initiatives as a supporting tool, not as the main goal.

## CONCLUSION

1. Corporate reputation was found to have an effect on corporate financial performance but was not mediated by CSR.
2. Stakeholder involvement does not affect financial performance either directly or mediated by CSR.

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