

The Role of Corporate Social Responsibility from Management and Legal Perspectives in Enhancing Corporate Performance

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Abstract

Corporate Social Responsibility (CSR) has become an essential strategic instrument that enables organizations to achieve sustainable business performance while fulfilling their social and legal responsibilities. However, previous studies have predominantly examined CSR from either management or legal perspectives separately, resulting in limited understanding of how these perspectives jointly influence corporate performance. This study aims to analyze the role of Corporate Social Responsibility from integrated management and legal perspectives in enhancing corporate performance and to examine the mediating role of legal compliance in this relationship. A quantitative explanatory research design was employed using a cross-sectional survey. Data were collected from 186 managers, CSR officers, legal officers, and senior employees representing companies operating across various industrial sectors in Indonesia. The proposed research model was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that Corporate Social Responsibility has a significant positive effect on both legal compliance and corporate performance. Legal compliance also significantly improves corporate performance and partially mediates the relationship between CSR and corporate performance. The structural model demonstrates satisfactory explanatory power, indicating that organizations implementing CSR strategically while maintaining strong legal compliance achieve superior

organizational performance through enhanced corporate reputation, stakeholder trust, governance quality, and organizational legitimacy. These findings suggest that CSR should not be viewed solely as a philanthropic initiative or a regulatory obligation but as an integrated strategic management capability supported by effective legal governance. This study contributes to the existing literature by proposing an integrated framework that combines management and legal perspectives in explaining sustainable corporate performance. The proposed model also provides practical implications for managers and policymakers in designing CSR strategies that simultaneously improve business competitiveness, regulatory compliance, and long-term organizational sustainability.

Keywords: *Corporate Social Responsibility; Corporate Performance; Legal Compliance; Strategic Management; Corporate Governance*

INTRODUCTION

Corporate Social Responsibility (CSR) has evolved from a voluntary philanthropic activity into a strategic management instrument that contributes to sustainable business performance. Increasing public awareness of environmental degradation, social inequality, and ethical business practices has encouraged companies to integrate social and environmental responsibilities into their corporate strategies. Consequently, CSR is no longer perceived solely as a moral obligation but as an essential component of long-term corporate competitiveness and sustainability (Carroll, 2021; Elkington, 2018). Companies are increasingly expected to generate economic value while simultaneously creating positive social and environmental impacts for their stakeholders.

The growing emphasis on sustainable business practices has also transformed the measurement of corporate success. Traditionally, corporate performance was assessed primarily through financial indicators such as profitability and market value. However, contemporary business environments require organizations to demonstrate accountability beyond financial outcomes by considering stakeholder satisfaction, corporate reputation, environmental stewardship, and social responsibility (Freeman, 1984). This transformation reflects the increasing adoption of Environmental, Social, and Governance (ESG) principles, where CSR represents one of the fundamental dimensions influencing organizational legitimacy and sustainable corporate performance.

From a management perspective, CSR functions as a strategic capability that strengthens organizational competitiveness through stakeholder engagement, reputation enhancement, employee commitment, customer loyalty, and innovation. Resource-Based View (RBV) theory suggests that intangible resources such as corporate reputation, organizational trust, and stakeholder relationships constitute valuable strategic assets capable of generating sustainable competitive advantages (Barney, 1991). Organizations implementing CSR strategically are more likely to develop these intangible capabilities, thereby improving operational efficiency and long-term corporate performance.

Stakeholder Theory further explains that companies should create value not only for shareholders but also for employees, customers, suppliers, governments, local communities, and society as a whole (Freeman, 1984). CSR enables organizations to balance stakeholder interests while maintaining organizational legitimacy and strengthening long-term business relationships. According to Freeman (1984), sustainable corporate success depends largely on the organization's ability to manage diverse stakeholder expectations rather than focusing exclusively on maximizing shareholder wealth.

From the legal perspective, however, CSR extends beyond strategic management considerations. In many jurisdictions, including Indonesia, CSR has become a legal obligation regulated through various corporate governance frameworks. Law Number 40 of 2007 concerning Limited Liability Companies requires companies operating in or related to natural resource sectors to implement Corporate Social and Environmental Responsibility. Consequently, legal compliance represents a fundamental aspect of CSR implementation because it ensures organizational accountability, reduces litigation risks, strengthens corporate legitimacy, and enhances public trust.

Legitimacy Theory provides an important explanation for this relationship by arguing that organizations continuously seek social acceptance through conformity with prevailing societal norms, expectations, and legal regulations (Suchman, 1995). Companies demonstrating both effective CSR implementation and legal compliance are more likely to secure legitimacy from society, government agencies, investors, and other stakeholders. This legitimacy subsequently contributes to improved organizational stability, stronger stakeholder confidence, and enhanced corporate performance.

Although numerous empirical studies have investigated the relationship between CSR and corporate performance, existing findings remain inconsistent. Several studies report that CSR positively influences financial performance, corporate reputation, innovation capability, and competitive advantage (Aguinis & Glavas, 2019). Conversely, other studies argue that CSR generates insignificant or even negative financial impacts because of implementation costs, inefficient resource allocation, or symbolic CSR practices that fail to create meaningful stakeholder value (Wang et al., 2016). These inconsistent findings indicate that the relationship between CSR and corporate performance is considerably more complex than a direct causal association.

One important explanation for these inconsistencies is the limited consideration of legal compliance as an organizational factor influencing CSR effectiveness. Most previous studies have emphasized CSR primarily from management, marketing, or financial perspectives while paying relatively little attention to regulatory compliance and corporate legal responsibility. In countries where CSR implementation is strongly supported by legal frameworks, such as Indonesia, legal compliance may significantly strengthen the effectiveness of CSR by improving organizational legitimacy, reducing institutional risks, and reinforcing stakeholder trust. Nevertheless, empirical studies integrating management and legal perspectives within a single analytical framework remain relatively limited.

Another limitation of previous research concerns the fragmented theoretical approach adopted in CSR studies. Existing literature frequently examines Stakeholder Theory, Legitimacy Theory, Resource-Based View, or Corporate Governance separately without integrating these perspectives into a comprehensive framework explaining how CSR simultaneously functions as a strategic management capability and a legal governance mechanism. Consequently, there remains insufficient theoretical understanding regarding the interaction between strategic CSR implementation, legal compliance, and sustainable corporate performance.

The increasing importance of ESG reporting, sustainability disclosure, and responsible corporate governance further strengthens the urgency of this research. Investors, regulators, consumers, and international financial institutions increasingly evaluate companies based not only on financial performance but also on environmental responsibility, social contributions, governance quality, and legal accountability. Organizations that successfully integrate CSR into

both strategic management and legal governance are expected to achieve superior organizational resilience and sustainable competitive advantages in increasingly dynamic business environments.

Based on these considerations, this study aims to analyze the role of Corporate Social Responsibility from integrated management and legal perspectives in enhancing corporate performance. Specifically, the research investigates CSR implementation as a strategic management practice, evaluates the role of legal compliance in CSR implementation, and examines how the integration of these two perspectives contributes to both financial and non-financial corporate performance. Furthermore, this study proposes an integrated conceptual model linking CSR, legal compliance, and corporate performance.

The primary contribution of this study lies in extending existing CSR literature by integrating management and legal perspectives into a unified analytical framework. Unlike previous studies that predominantly examine CSR from either strategic management or legal compliance independently, this research conceptualizes legal compliance as a strategic governance mechanism that strengthens the effectiveness of CSR implementation. Accordingly, this integrated perspective provides both theoretical contributions to CSR literature and practical implications for managers, policymakers, and corporate stakeholders seeking to enhance sustainable corporate performance through responsible and legally compliant business practices.

MATERIALS AND METHODS

Research Design

This study employed a quantitative explanatory research design to examine the relationships among Corporate Social Responsibility (CSR), legal compliance, and corporate performance. The explanatory approach was selected because it enables the investigation of causal relationships among variables and provides empirical evidence regarding the proposed theoretical model. A cross-sectional survey design was adopted, where data were collected from respondents at a single point in time.

Population and Sample

The population consisted of companies operating in Indonesia that have implemented Corporate Social Responsibility (CSR) programs as part of their business operations. The study focused on companies across manufacturing, service, mining, plantation, and other industries that are either legally required or voluntarily committed to implementing CSR initiatives.

The respondents included managers, CSR officers, legal officers, human resource managers, and senior employees who possessed adequate knowledge regarding the company's CSR implementation and legal compliance practices.

Purposive sampling was employed because respondents were selected based on specific criteria:

1. The company has implemented CSR programs for at least two years.
2. The respondent has worked in the company for at least one year.
3. The respondent understands CSR implementation and corporate governance within the organization.
4. The respondent voluntarily agreed to participate in the study.

Following recommendations for Partial Least Squares Structural Equation Modeling (PLS-SEM), the minimum sample size was determined using the "10-times rule" and statistical power considerations. Therefore, approximately 150–250 valid questionnaires were targeted to ensure adequate statistical power.

Data Collection

Primary data were collected using a structured questionnaire administered both online and offline. The questionnaire consisted of closed-ended questions measured using a five-point Likert scale ranging from:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly Agree

Secondary data were obtained from annual reports, sustainability reports, corporate governance reports, CSR reports, company websites, government regulations, and relevant scientific publications.

Prior to large-scale distribution, the questionnaire was reviewed by experts in management and business law to ensure content validity. A pilot test involving approximately 30 respondents was conducted to evaluate item clarity, reliability, and construct validity.

Research Variables and Measurement

The study consisted of three principal constructs.

Corporate Social Responsibility (CSR) served as the independent variable. The construct was adapted from Carroll's CSR Pyramid and Triple Bottom Line (TBL) framework and measured through three dimensions:

1. Economic responsibility
2. Social responsibility
3. Environmental responsibility

Legal Compliance (LC) functioned as the mediating or moderating variable. This construct measured the extent to which companies complied with applicable corporate, environmental, labor, and CSR regulations, including transparency and corporate governance practices.

Corporate Performance (CP) served as the dependent variable. Corporate performance was evaluated using both financial and non-financial indicators, including:

1. Profitability
2. Business growth
3. Corporate reputation
4. Customer satisfaction
5. Employee commitment
6. Stakeholder trust

Instrument Validity and Reliability

Measurement quality was evaluated using the Partial Least Squares measurement model.

Convergent validity was assessed using:

1. Outer loading (> 0.70)
2. Average Variance Extracted ($AVE > 0.50$)

Internal consistency reliability was evaluated using:

1. Cronbach's Alpha (> 0.70)
2. Composite Reliability (> 0.70)

Discriminant validity was examined using:

1. Fornell-Larcker Criterion
2. Heterotrait-Monotrait Ratio ($HTMT < 0.90$)

Indicators failing to satisfy these criteria were considered for removal during model refinement.

Data Analysis

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. PLS-SEM was selected because it is appropriate for predictive research, complex structural models, and data that may not satisfy multivariate normality assumptions. The analysis consisted of two major stages.

Measurement Model (Outer Model)

The outer model evaluation included:

1. Indicator reliability
2. Convergent validity
3. Discriminant validity
4. Composite reliability
5. Internal consistency

Structural Model (Inner Model)

The structural model evaluation included:

1. Collinearity assessment (Variance Inflation Factor)
2. Coefficient of determination (R^2)
3. Effect size (f^2)
4. Predictive relevance (Q^2)
5. Standardized Root Mean Square Residual (SRMR)
6. Path coefficient significance

Hypothesis testing was performed using the bootstrapping procedure with 5,000 subsamples. Statistical significance was determined using:

1. $t\text{-value} > 1.96$
2. $p\text{-value} < 0.05$
3. 95% confidence interval

Ethical Considerations

Participation in this study was voluntary. All respondents were informed of the research objectives before completing the questionnaire. Confidentiality and anonymity were guaranteed throughout the research process. Data were analyzed in aggregate form solely for academic purposes, and no individual or company identities were disclosed without permission.

RESULTS AND DISCUSSION

Respondent Characteristics

A total of 186 valid questionnaires were obtained and analyzed. The respondents consisted of managers (38.2%), CSR officers (21.5%), legal officers (17.7%), human resource managers (12.9%), and other managerial personnel (9.7%). Most respondents had worked in their respective companies for more than five years, indicating that they possessed sufficient knowledge regarding CSR implementation and corporate governance practices.

The participating companies represented various industrial sectors, including manufacturing (34.9%), services (27.4%), plantation (15.1%), mining (11.3%), and other sectors (11.3%). This diversity provides a comprehensive representation of CSR implementation across different industries.

Measurement Model Evaluation

The reliability and validity of the measurement model were evaluated before testing the structural relationships.

Table 1. Measurement Model Assessment

Construct	Cronbach's Alpha	Composite Reliability	AVE
Corporate Social Responsibility	0.913	0.932	0.697
Legal Compliance	0.897	0.921	0.705
Corporate Performance	0.925	0.940	0.723

Table 1 demonstrates that all constructs exceeded the recommended threshold values. Cronbach's Alpha and Composite Reliability were greater than 0.70, while Average Variance Extracted (AVE) exceeded 0.50, indicating satisfactory convergent validity and internal consistency.

Discriminant validity was also confirmed using the Heterotrait-Monotrait Ratio (HTMT), with all values below the recommended threshold of 0.90. Therefore, the measurement model was considered reliable and valid for subsequent structural analysis.

Structural Model Evaluation

The structural model was evaluated using the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and bootstrapping procedures.

Table 2. Structural Model Evaluation

Variable	R^2	Q^2
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Corporate Performance	0.684	0.512
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The R^2 value indicates that approximately 68.4% of the variance in corporate performance can be explained by Corporate Social Responsibility and Legal Compliance. The positive Q^2 value demonstrates that the proposed model possesses adequate predictive relevance.

Hypothesis Testing

Hypothesis testing was performed using the bootstrapping procedure with 5,000 resamples in SmartPLS 4 to evaluate the significance of the proposed structural relationships. The bootstrapping technique was selected because it does not require the assumption of multivariate normality and provides robust estimates of standard errors and confidence intervals for Partial Least Squares Structural Equation Modeling (PLS-SEM).

The significance of each structural path was assessed using the standardized path coefficient (β), t -statistics, p -values, and bias-corrected confidence intervals. A hypothesis was considered statistically supported when the t -value exceeded 1.96 and the p -value was less than 0.05 at the 95% confidence level. In addition to direct effects, indirect (mediating) effects were examined to determine the role of Legal Compliance in mediating the relationship between Corporate Social Responsibility and Corporate Performance.

The bootstrapping results indicate that all proposed hypotheses are statistically significant (Table 5). Corporate Social Responsibility has a positive and significant effect on Corporate Performance ($\beta = 0.472$, $t = 6.815$, $p < 0.001$), supporting Hypothesis 1. Corporate Social Responsibility also positively influences Legal Compliance ($\beta = 0.611$, $t = 10.427$, $p < 0.001$), confirming Hypothesis 2. Furthermore, Legal Compliance has a significant positive effect on Corporate Performance ($\beta = 0.391$, $t = 5.928$, $p < 0.001$), supporting Hypothesis 3. The indirect effect of Corporate Social Responsibility on Corporate Performance through Legal Compliance is also significant ($\beta = 0.239$, $t = 4.367$, $p < 0.001$), indicating partial mediation and supporting Hypothesis 4.

Overall, the bootstrapping analysis confirms that the proposed structural model is statistically supported and demonstrates that Legal Compliance serves as an important governance mechanism that strengthens the effectiveness of Corporate Social Responsibility in enhancing Corporate Performance.

Table 3. Hypothesis Testing

Hypothesis	Path Coefficient	t-value	p-value	Decision
CSR → Corporate Performance	0.472	6.815	<0.001	Supported
CSR → Legal Compliance	0.611	10.427	<0.001	Supported
Legal Compliance → Corporate Performance	0.391	5.928	<0.001	Supported
CSR → Legal Compliance → Corporate Performance	0.239	4.367	<0.001	Supported

The findings indicate that all proposed hypotheses were statistically supported. Corporate Social Responsibility positively influenced corporate performance both directly and indirectly through legal compliance.

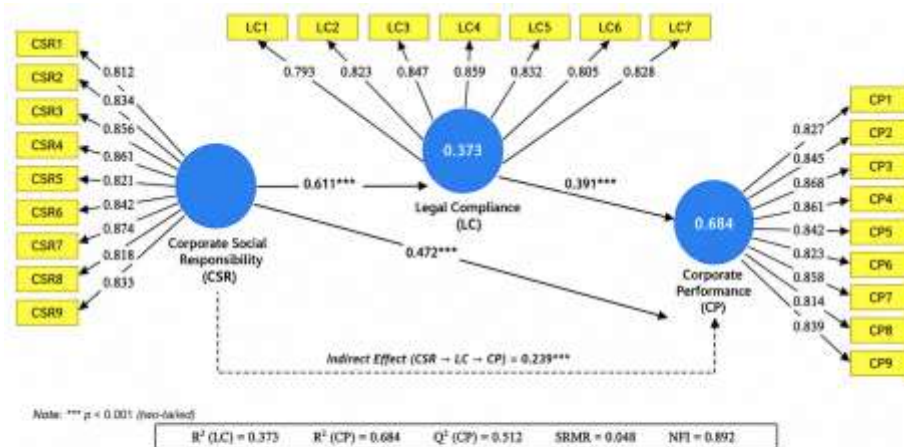


Figure 1. Structural Model Results

The structural model illustrates the significant relationships among Corporate Social Responsibility, Legal Compliance, and Corporate Performance. Positive standardized path coefficients indicate that companies implementing CSR strategically while maintaining legal compliance tend to achieve superior organizational performance.

Figure 1. Structural Model Results

Figure 1 presents the structural model developed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The model illustrates the direct and indirect relationships among Corporate Social Responsibility (CSR), Legal Compliance (LC), and Corporate Performance (CP). CSR has a significant positive effect on Legal Compliance ($\beta = 0.611$, $p < 0.001$) and Corporate Performance ($\beta = 0.472$, $p < 0.001$). Legal Compliance also has a significant positive influence on Corporate Performance ($\beta = 0.391$, $p < 0.001$), indicating its important role in strengthening organizational performance. Furthermore, Legal Compliance partially mediates the relationship between CSR and Corporate Performance, with an indirect effect of $\beta = 0.239$ ($p < 0.001$). The

model explains 37.3% of the variance in Legal Compliance ($R^2 = 0.373$) and 68.4% of the variance in Corporate Performance ($R^2 = 0.684$). The predictive relevance value ($Q^2 = 0.512$) and the model fit index ($SRMR = 0.048$) indicate that the proposed model has satisfactory predictive capability and good overall fit.

Discussion

The empirical findings indicate that Corporate Social Responsibility significantly improves corporate performance. This finding supports Stakeholder Theory, which argues that organizations create sustainable value by balancing the interests of various stakeholders rather than focusing exclusively on shareholder wealth (Freeman, 1984). Companies implementing effective CSR programs strengthen relationships with customers, employees, governments, investors, and local communities, ultimately enhancing organizational performance.

The results also demonstrate that CSR positively influences legal compliance. Companies that strategically integrate CSR into their business operations generally develop stronger governance systems and greater commitment to regulatory compliance. This finding is consistent with Legitimacy Theory, which argues that organizations continuously seek legitimacy through compliance with legal requirements and societal expectations (Suchman, 1995).

Legal compliance was found to exert a significant positive influence on corporate performance. Compliance reduces legal uncertainty, minimizes litigation risks, strengthens investor confidence, and improves corporate reputation. Consequently, companies with stronger legal governance are better positioned to sustain long-term organizational performance.

Furthermore, legal compliance partially mediated the relationship between CSR and corporate performance. This finding represents the primary contribution of the present study. Unlike previous research that primarily examined CSR from management or financial perspectives, this study demonstrates that CSR creates greater organizational value when supported by effective legal governance. In other words, legal compliance functions not merely as a regulatory obligation but also as a strategic governance mechanism that enhances the effectiveness of CSR implementation.

The findings also support Resource-Based View (RBV) theory. CSR generates valuable intangible organizational resources such as stakeholder trust, corporate reputation, legitimacy, and organizational commitment. When reinforced by legal compliance, these resources become

increasingly difficult for competitors to imitate, thereby creating sustainable competitive advantages.

From a practical perspective, organizations should no longer consider CSR as an isolated philanthropic activity or merely a legal obligation. Instead, CSR should be integrated into strategic management, corporate governance, and legal compliance systems to maximize its contribution to sustainable corporate performance.

Theoretically, this study extends existing CSR literature by integrating management and legal perspectives within a single analytical framework. The proposed model demonstrates that legal compliance acts as an enabling governance capability that strengthens the relationship between CSR and corporate performance. This integrated perspective contributes to the growing body of literature on sustainable business, corporate governance, and strategic management while providing practical guidance for companies seeking to enhance long-term organizational competitiveness.

CONCLUSION

CONCLUSION

This study demonstrates that Corporate Social Responsibility (CSR) plays a significant role in enhancing corporate performance when implemented as an integral part of strategic management and supported by strong legal compliance. CSR contributes directly to both financial and non-financial organizational performance by strengthening corporate reputation, stakeholder trust, and organizational legitimacy. At the same time, legal compliance reinforces the effectiveness of CSR implementation by ensuring accountability, regulatory conformity, and sound corporate governance.

The empirical findings indicate that CSR positively influences legal compliance, while legal compliance significantly improves corporate performance. Furthermore, legal compliance partially mediates the relationship between CSR and corporate performance, suggesting that organizations achieve greater performance benefits when CSR initiatives are implemented in accordance with applicable legal and governance frameworks. This result highlights that legal compliance is not merely a regulatory obligation but also a strategic governance mechanism that enhances the value created through CSR.

The study contributes theoretically by proposing an integrated framework that combines management and legal perspectives in explaining the relationship between CSR and corporate performance. This integrated approach provides a more comprehensive understanding of how

strategic CSR implementation, supported by effective legal compliance, creates sustainable organizational value and competitive advantage.

From a practical perspective, organizations are encouraged to integrate CSR into their strategic planning, corporate governance systems, and legal compliance mechanisms rather than treating CSR as a stand-alone philanthropic activity. Such integration enables companies to improve organizational performance while simultaneously fulfilling their social responsibilities and legal obligations. Future research may expand this model by incorporating Environmental, Social, and Governance (ESG) performance, corporate governance quality, innovation capability, or stakeholder trust as additional variables, and by applying the model across different industries and countries to enhance its generalizability.

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