Leading Responsibly, Performing Better: How Transformational and Ethical Leadership Shape CSR and Financial Performance in Indonesia

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ABSTRACT

Grounded in Resource Based View (RBV), this study aims to analyze the effect of Transformational Leadership (TLe), Organizational Culture (OC), and Ethical Leadership (EL) on Corporate Social Responsibility (CSR), as well as the effect of CSR on Financial Performance (FP) of companies in Indonesia, an emerging market where CSR-related leadership remained less explored at the level of employees. A quantitative approach was used with a survey method was utilized to collect data. Online questionnaire distributed through various social media platform had collected 362 data from employees of various company sectors in Indonesia. Sample was drawn using purposive sampling method with criterion employee that has worked for at least one year with education beyond high school. Data analysis was conducted using descriptive statistics and the SEM-PLS method. The results show that the transformational leadership, ethical leadership and organizational cultures have a positive and significant effect on CSR. CSR is also proven to positively affect the company's financial performance. This study is limited to a small sample size and is dominated by staff-level respondents, thus under-representing the managerial perspective. Future studies are recommended to use mixed methods and a more diverse range of respondents. This study presents an integrated model that connects Transformational Leadership, Ethical Leadership, Organizational Culture, CSR, and Financial Performance in one framework.

Keywords: Corporate Social Responsibility, Ethical Leadership, Financial Performance, Organizational Culture, Transformational Leadership.

Introduction

Business is becoming more modern and complex, and organizations must consider aspects such as social responsibility and sustainability in addition to financial profit. In practice, however, implementation seems to be far from uniform. Only four out of 89 financial sector sectors reviewed by the Financial Services Authority (OJK) obtained an "Excellent" sustainability reporting rating (Septiani & Akbar, 2026). Broader evidence confirms that the proliferation of non-financial reporting among listed companies lags mandatory social responsibility disclosure, with quality sharply across industries (Sebrina et al., 2023). The figures could most probably describe corporate self reported social responsibility performance; not necessarily how CSR is actually implemented by the employees. Some firms seem to view CSR as little more than a legal obligation under Law No. 40/2007 and OJK Regulation No. 51/POJK.03/2017- diverge significantly: while other enterprises approach compliance as a formal obligation, others embed responsible practices to day-to-day operations. This divergence suggests that statutory obligation is insufficient to drive meaningful implementation, underscoring the decisive role of internal leadership behaviors and prevailing cultural norms.

Two types of leadership are commonly invoked to elucidate this pattern; they are transformational leadership and ethical leadership. Transformational leadership operates by inspiring and motivating employees toward a shared vision that surpasses self-interest (Benmira & Agboola, 2021). Ethical leadership operates through moral role-modeling – leaders who are seen to act with fairness and integrity make ethical,

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socially responsible conduct (Bouichou et al., 2022; N. T. T. Nguyen et al., 2021). Since vision-driven inspiration and moral role-modelling are distinct mechanisms, it is not obvious that they equally contribute to CSR, which is one reason this study examines them as separate predictors rather than treating "leadership" as a single undifferentiated construct.

This study is motivated by the following gaps. Prior studies on leadership, CSR, and financial performance report evidence for each of these relationships individually but rarely test them together within a single direct-effect model. On the leadership-CSR path, Ahsan (2024) found that transformational leadhership significantly predicts CSR performance among manufacturing firms in Italy, and that organizational culture is likewise a significant driver of CSR performance. Separately, Alkhadra et al. (2023) reported that ethical leadership positively predicts CSR among service-sector employees in Jordan, along with a similar positive effect of organizational culture on CSR. On the CSR-financial performance link, CSR was found to significantly enhance financial performance in both Morrocan firms (Bouichou et al., 2022) and Pakistani firms (Butt et al., 2022), and CSR performance was similarly linked to improved financial outcomes among Italian manufacturing firms (Ahsan, 2024). However, other research complicates the result: C. T. Nguyen et al. (2022) found that the overall effect of CSR on financial performance among Vietnamese listed firms was weak or even negative depending on the CSR dimension examined, suggesting that the CSR-financial performance relationship is not uniformly positive across context. Taken together, these studies confirm that transformational leadership, ethical leadership, and organizational culture each relate to CSR. Moreover, this evidence is scattered across various countries, sectors, and model specifications. As far as author knowledge, no study to date has examined transformational leadership, ethical leadership, and organizational culture as simultaneous director predictors of CSR performance, nor tested this alongsire CSR's direct effect on financial performance, within a single model in Indonesian context. This study addresses this gap by testing these four relationships directly in Indonesian companies using survey data from staff-lelvel employees, who experience and involves CSR firsthand.

These inconsistencies can be read through the Resource-Basd View (RBV), which maintains that firms build sustainable advantage from resources that are valuable, rare, and difficult for competitors to copy (Barney, 1991). Leadership behavior and organizational culture fit this description: both are firm-specific and socially embedded, not something a competitior can simply acquire or replicate (Anning-Dorson, 2021). In this framework, CSR is the mechanism that converts these resources into stakeholder trust and, eventually, firm performance (Zhang et al., 2026). RBV is therefore connects the leadership, and organizational culture, as valuable resources, to CSR, to firm-level outcomes.

This study test empirically transformational leadership, ethical leadership, and organizational culture together as predictors of CSR, and CSR as a predictor of employees perceived financial performance, drawing on staff-level respondents from Indonesian organizations. In doing so, it offers a theoretical contribution by integrating three resources that prior work has largely examined apart, and a practical one by helping manager sees which leadership style(s) or organizational culture is worth prioritizing when building CSR into everyday practice

Literature Review

Resource Based Theory (RBV)

Resource-Based View (RBV) Theory stands that organizations hold distinct resources, capabilities or routines that are not easily mobilized across firms, to remain competitive. Having sets of unique, scarce and strategic resources are what differ them than their competitors (Barney, 1991). Leadership and organizational culture have been recognized as specific organizational intangible resources (Ahsan, 2024; Eshete & Kassahun, 2026). RBV, however, does not treat these resources as valuable on their own; their value is only fulfilled through organizational capabilities that transform them into outcomes stateholders recognize (Barney, 1991).

This study places CSR as that conversion mechanism: transformational leadership, ethical leadhersip, and organizational culture supply the values and behavioral norms, while CSR performance is the capability through which those resources are translated into stakeholder-facing action (Barauskaite & Streimikiene, 2021). CSR is therefors not automatically a competitive advantage – it becomes one only when it is difficult to imitate, which is more likeky when it is imbedded in leadership and culture rather than adopted as generic policy (Barauskaite & Streimikiene, 2021). This characteristic matters since it allows CSR, in turn, to generate financial returns: RBV predicts that resource uniqueness produces superior performance only when the resulting capability is genuinely difficult to copy, not whenever CSR is simply exist (Barney, 1991).

Transformational Leadership

Transformational leadership is a leadership approach that encourages and inspires followers to reach greater objectives by realizing their potential (Bakker et al., 2023; Zahari et al., 2024). Transformational leadership consists of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Zahari et al., 2024). Ferine et al. (2021) assert that transformational leadership emphasizes emotional bonds with team members in order to promote constructive change inside the company. Benmira & Agboola (2021) discovered that transformational leadership boosts organizational effectiveness, job satisfaction, and organizational commitment in relation to organizational performance. Bakker et al. (2023) further show this operates day-to-day: on days when leaders exhibit transformational behaviors, followers report greater use of personal strength and initiative, which in turn predicts work engagement and performance.

Because this leadhership style operates by reshaping and inspiring the followers, its influence has laso been examined beyond conventional performance results, extending into how organization orient themselves toward social and environmental priorities. Transformational leadership – sustainable – performance literature found that transformational leadership to be among the most-studied styles in this area, most often linked to environmental performance outcomes (Piwowar-Sulej & Iqbal, 2023).

Ethical Leadership

Ethical leadership as a leadership style that prioritizes moral principles, ethical ideals, and integrity in action, and role-modelling in daily conduct (Bouichou et al., 2022; N. T. T. Nguyen et al., 2021). It is often discussed alongside transformational leadership in the literature, but the two constructs answer different questions: transformational leadership addresses how leaders inspire followers toward an ambitious future, while ethical leadership addresses how leaders ensure that decisions and everyday behavior are carried out rightly in the present (N. T. T. Nguyen et al., 2021). The former operates through aspiration, the latter through moral obligation and consistency. A systematics review in tourism and hospitality confirms this normative character, finding among other conservation of resource theory is predominantly used to explain how the ethical leadership shapes follower atitudes and behavior (Hoang et al., 2023).

This grounding in consistent, principled conduct has been associated with more open and accountable workplaces (Alkhadra et al., 2023), stronger employee engagement and well-being – for instance, through the sequential pathway of perceived organizational support and perceived ethical-philanthropic CSR (Ilyas et al., 2023) and improved organizational and governance performance more broadly, including in public sector settings where ethical leadership has has been evidenced to strengthen ethical culture and reduce integrity violation relevant to ESG compliance (Zahari et al., 2024).

In this study, ethical leadership is measured using items adapted from (N. T. T. Nguyen et al., 2021) Ethical Leadership Scale – one of the most widely validated instruments in this literature. The items capture manager's personal ethical conduct, fairness in decision making, and openness in communicating and enforcing ethical standards, providing a beahvrioally grounded operationalization of the normative role described above.

Organizational Culture

Because it represents the common beliefs, customs, and values of its members, organizational culture plays a critical role in determining how members of an organization think and act (Espasandín-Bustelo et al., 2021; Ferine et al., 2021). Unlike leadership, which depends on specific individuals, culture operates as a persistent behaviorial norm that sharps decision across the organization, strengthening both internal cohesion and adaptability to external change (Assoratgoon & Kantabutra, 2023; Ferine et al., 2021).

In this study, organizational culture is measured through nine items adapted from (Ahsan, 2024), spanning three underlying orientations: a collaborative orientation (team building, a cooperative spirit, and shared purpose among employees), social-value orientation (balancing economic and social profit and contributing to the wider community), and an innovation orientation (oenness to change and the adoption of new technology). The social-value orientation captures culture as an underlying disposition – what the organization values and is generally inclined toward – which is conceptually distinct from CSR performance in this study, which captures the organization's specific operationalized initiatives. The former describes orientation; the latter describes concrete practice.

Corporate Social Responsibility (CSR)

CSR reflects an organization's commitment to sustainable economic growth by considering social and environmental obligations, broadening accountability beyond shareholders to a set of stakeholders (Ashurov et al., 2024; González-Rodríguez et al., 2019). Because CSR Has been inconsistenly operationalized in the literature, the specific dimension used matter for interpreting findinds: prior studies have measured it through disclosure-oriented scale (Alkhadra et al., 2023), through a narrower ethical-philanthropic conceptualization (Ilyas et al., 2023), and through governance-linked environmental/social performance drawn from archival compensation and committee data rather than employee perception (Radu & Smaili, 2022).

Consistent with a staff-perception survey design, this study operationalizes CSR performance along three dimentsions employees can directly observe, reflecting the triple-bottom-line view of environment, social, and economic value creation (Ahsan, 2024; N. T. T. Nguyen et al., 2021). Environmental performance reflects the organization's resource efficiency and impact-reduction initiatives; social performance is broader than ethics alone, combining internatl stakeholder concers such as employee development with external ones such as ethical conduct and customer satisfaction, rather than a narrower philanthropic framing (Ilyas et al., 2023). Economic performance – captured by a single item on sustainable, future-oriented growth – is treated as a supplementary indicator alongside the more rosbustly measured environmenta and social dimensions (Ahsan, 2024). This approach differs from disclosure-based indices employees cannot observe (González-Rodríguez et al., 2019),though it partially parallels the environtal/social split used in governance-based CSR research drawing on archival rather than perceptual data (Radu & Smaili, 2022).

Financial Performance

Financial performance portrays an organizational capacity in utilizing its assets (Timothy, 2022). It encompasses performance of income, profit, and value for shareholders. Financial performance is central to evaluate present organization's health, but also affects strategic decisions (Ibrahimov et al., 2025). Metrics like revenue growth, return on equity (ROE), and return on assets (ROA) are used to gauge financial performance. Businesses who make CSR investments see a notable boost in their bottom line (Kludacz-Alessandri & Cygańska, 2021). A company's competitiveness in the global market is strengthened when it has a favorable reputation as a result of implementing CSR (Ye et al., 2021).

According to González-Rodríguez et al. (2019), CSR enhances the company's relationships with important stakeholders, which leads to higher profitability and more stable finances. Businesses with a high level of social participation are less likely to face financial difficulties (Okafor et al., 2021). Furthermore, it was discovered that ethical and transformational leadership positively impacted financial performance, both directly and through the mediation of CSR and corporate culture (Ahsan, 2024; Espasandín-Bustelo et al., 2021). Businesses that have an organizational culture that encourages social responsibility and innovation do better financially than those that do not (Ang et al., 2022). Although financial performance predominantly internally measured, thus ignoring other stakeholders (Zhao, 2023), nevertheless, the primary metric for evaluating the effective integration of organizational culture, transformational leadership, ethical leadership, and CSR into business strategy is financial performance.

Hypothesis Development

Transformational Leadership and CSR

A strong vision, individualized attention, and intellectual stimulation for followers are all components of transformational leadership, which may inspire, motivate, and promote beneficial changes inside the business. This leadership style is said to be crucial in determining the organization's social orientation and impacting its CSR policies and procedures. Transformational leaders may use their charismatic appeal, inspiration, and attention to ethical ideals to create corporate cultures that promote sustainability and social responsibility (Ahsan, 2024). Transformational leadership is a crucial tool to inspire and motivate employees to achieve organizational objectives (Aldossari & Alanizan, 2025; Bakker et al., 2023).

This is consistent with evidence that transformation leadership positively predicts employee CSR participation, a relationship confirmed through AI-enhanced analysis of survey data (Ata et al., 2025), and with findings that green transformational leadership has a direct positive relationship with CSR, which in turn mediates its effect on task performance in time-lagged data from the hospitality sector (Moin et al., 2024). Taken together, this suggests transformational leadership shapes CSR through vision-setting rather than through formal policy alone, predicting organizational-level CSR engagement rather than only individual performance outcomes (Ahsan, 2024; Manzoor et al., 2019).

Transformational leadership prioritizes environmental efforts fostering social learning culture which are observed and followed by employees (Deng et al., 2022). Therefore, transformational leadership encourages the implementation of CSR by making it an integral part of achieving the organization's strategic goals.

Based on the description above, it is compiled:

H_1: Transformational Leadership has a positive effect on CSR performance.

Ethical Leadership and CSR

The significance of moral and ethical principles in decision-making and the conduct of leaders and followers on a daily basis is emphasized by ethical leadership (N. T. T.

Nguyen et al., 2021). When doing business, ethical leaders put justice, integrity, and social responsibility above everything else in addition to accomplishing company goals (Bouichou et al., 2022; Hoang et al., 2023). Since ethical leaders typically push firms to act ethically toward the environment and society, they play a significant role in CSR context (Ilyas et al., 2023; Kongjue & Yuxiang, 2024). The company's dedication to executing CSR initiatives is further reinforced by ethical leadership, which aids in creating an organizational culture that upholds sustainability and social values (Alkhadra et al., 2023; Espasandín-Bustelo et al., 2021).

Numerous research has demonstrated that moral leadership greatly enhances the caliber of CSR implementation across a range of enterprises (Hoang et al., 2023; Kongjue & Yuxiang, 2024). By fostering trust between businesses and stakeholders, leaders who conduct ethically can promote active engagement in long-term CSR initiatives (Bouichou et al., 2022; Ilyas et al., 2023).

Based on the description above, it is developed:

H_2: Ethical leadership has a positive effect on CSR performance.

Organizational Culture and CSR

Espasandín-Bustelo et al. (2021) posits that organizational culture is a collection of values, beliefs, and practices that all members of the company share and that affect how they act and make choices. Building a work environment that encourages sustainability and pro-social conduct, including the application of CSR, starts with a strong corporate culture (Jaakson et al., 2009). A strong organizational culture tends to create an environment where social responsibility is seen as an intrinsic part of the company's identity (Christian et al., 2022), thus influencing organizational commitment to CSR.

According to González-Rodríguez et al. (2019), corporate cultures that value cooperation and creativity, such clan and adhocracy cultures, greatly promote the adoption of CSR practices, particularly those pertaining to workers and clients. This is consistent with Ahsan (2024) who claimed that because sustainable organizational ideals have been ingrained in the everyday culture, a transformational organizational culture may motivate staff to actively participate in CSR projects. Additionally, the interests of stakeholders, such as society and the environment, are frequently given priority in corporate cultures that place a strong emphasis on social responsibility and harmony (Muralidhar et al., 2024).

Businesses that prioritize community welfare, environmental issues, and ethical ideals in their corporate culture are more likely to adopt CSR consistently and strategically (Kongjue & Yuxiang, 2024; Radu & Smaili, 2022). Accordingly, organizational culture influences not only the presence of CSR practices but also how much of them are absorbed and applied in a sustainable way (Ahsan, 2024).

Based on the above description, it is developed:

H3: Organizational Culture has a positive effect on CSR performance

CSR and Financial Performance

Based on the RBV Theory, companies can achieve competitive advantage through resources that are valuable, rare, and difficult to imitate (Barney, 1991). CSR, as an intangible resource, can create added value for companies by strengthening reputation, increasing customer loyalty, and reducing operational risks (Barauskaite & Streimikiene, 2021). The study by Huang et al. (2020) shows that effective CSR practices are positively correlated with financial performance, as companies committed to social responsibility tend to attract more investors and consumers who care about sustainability issues.

In addition, the integration of CSR in business operations can create cost efficiency through sustainable resource management, such as waste reduction and energy optimization (Truong et al., 2025). CSR increases customer satisfaction, which in turn leads to increased sales and profitability (Alcivar-Soria, 2024). Furthermore, Franco et al. (2020) found that companies with high CSR performance tend to have better financial stability, especially in the long run.

However, Ramzan et al. (2021) highlight that the relationship between CSR and financial performance may vary depending on the industry context and external factors. Nonetheless, Barauskaite & Streimikiene (2021) a meta-analysis concluded that the majority of empirical evidence supports the positive effect of CSR on financial performance, especially when CSR is implemented strategically and measurably.
Based on the above description, it is developed:
H_4: CSR has a positive effect on Financial Performance.

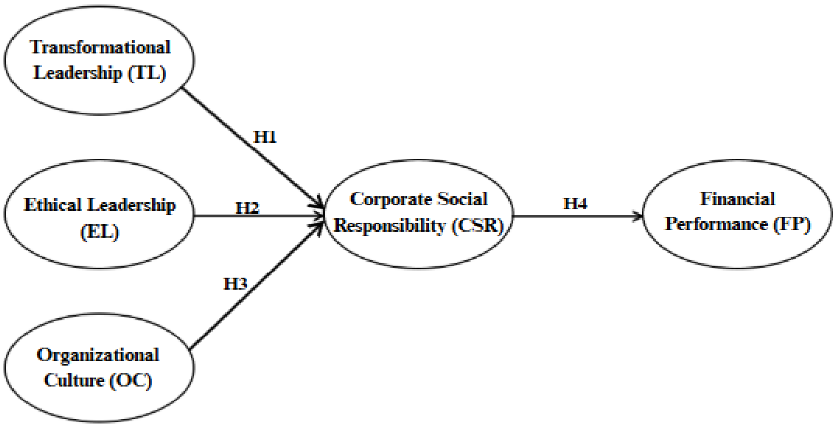

Figure 1. Research Framework

Methodology

To evaluate empirically the proposed relationships, this research adopted a quantitative research design using self-administered survey conducted online (Espasandín-Bustelo et al., 2021). The survey method was opted (Ahsan, 2024; Kaur Bagga et al., 2023) for its effectiveness in capturing primary data from the organizational members and methodologically measuring perceptional construct, such as leadership style, Organizational Culture and CSR (Ferine et al., 2021). The data obtained through this survey describes the direct views of individuals, from management to employees, who play roles in the organization, thus providing a more accurate and relevant picture (Ilyas et al., 2023). This is important given the research model that requires comprehensive data (Ahsan, 2024a).

Collection of data was administered digitally via various instant messaging and social media platforms, such as WhatsApp, Telegram, Instagram, and Line. Questionnairs in gform were distributed during March – May 2025.

The study population is business organization’s employees in all sectors in Indonesia. The sample was taken using purposive sampling method with the criteria of having worked for at least one year in the current workplace so that they have experienced how leadership is in the company, how the culture is applied and the value of CSR as well as understanding of the company's financial performance indicators. This survey obtained about 362 respondents and all of them were company employees who had at least 1 year of work experience at the current company and had education beyond high school (SMA/ SMK).

Given that the Partial Least Square Structural Equation Model (PLS-SEM) was utilized to analyze the data and unknown number of populations, the sample size was determined using the 10-Times Rule methodology (Hair et al., 2021) and G*Power software (Faul et al., 2009) for more accurate reference. The minimum requirement based on numbers of paths are 40, therefore the final sample 362 was more than the minimum required.

Latent variables were operationalized based on multiple-scale instruments adapted from previous research, ranked on 5-point Likert scale ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree"). Transformational Leadership variable is measured by utilizing a 6-item instrument adapted from Ahsan (2024). An example of this construct question is "The leader motivates employees to be team players", coded as TLe1 item. Organizational Culture is measured by a 9 items instrument adapted from Ahsan (2024) (e.g., OC2: "The organization supports collaboration spirit"). The Ethical Leadership is measured by a 10 items scale adapted from N. T. T. Nguyen et al. (2021) (e.g.: EL10: "When making decisions, our senior managers ask, "what is the right thing to do in terms of business ethics?""). The CSR is measured by a 10 items instrument adapted from Ahsan (2024) and N. T. T. Nguyen et al. (2021) (e.g., CSREP1: "The organization has the initiative to reduce, reuse, and recycle"). The Financial Performance construct is measured by a 3 items instrument adapted from Ahsan (2024).

Participation in this research was purely voluntary. An informed consent was disclosed at the beginning of the digital questionnaire, informing study objective, and confirming data anonymity.

Analysis and Discussion

Result

Table 1 shows that the majority of this study's respondents are female (60.50%) and are in the productive age range, specifically 29-37 years (39.50%) and 21-28 years (38.67%). Most have a bachelor's degree (71.82%) and have 1 to 6 years of workng experience (54.97%). The length of work in the current company mostly ranges from 2 to 5 years. Sample was dominated by staff (64.36%), and the majority work in companies having 51 - 300 employees (37.29%). Respondents are spread across various industry sectors, with the highest proportion in manufacturing (15.47%), finance (14.09%), and information and communication (11.88%).

Table 2 shows descriptive statistics (mean, standard deviation) and initial loading factors for all measurement items purification; items with loadkings below threshold that led to AVE below threshold were subsequently removed (see Table 4). The mean score for all constructs ranges from 4.11 to 4.69, indicating an overall high and favorable participants' perception towards leadership practices, organizational culture, CSR initiatives, and financial performance. Indicator loading ideally exceeds 0.70, though loading ranging 0.40 to 0.70 are acceptable given the AVE and composite reliability meet the established threshold. As portrayed in Table 2, the Transformational Leadership variable, the highest value is shown by TLe6 (0.708) and the lowest by TLe4 (0.460), but the overall mean score is quite high, between 4.12 to 4.33. For Organizational Culture, indicator OC6 has the highest loading factor of 0.717, while OC9 has the lowest value (0.508). All indicators are considered valid and receive positive responses from respondents, with mean values ranging from 4.16 to 4.33. On the Ethical Leadership variable, indicator EL10 recorded the highest loading factor of 0.710, and EL4 the lowest at 0.456. Despite the difference in values, the average mean score remains high, ranging from 4.11 to 4.69. The CSR variable shows that indicator CSREP1 has the highest loading (0.730) and CSRSP5 the lowest (0.355). Finally, on the Financial Performance variable, all indicators have good loading factors, between 0.692 and 0.742, as well as high mean scores, between 4.38 and 4.45. This indicates that respondents assess the company's financial performance positively.

Based on the results of the reliability and construct validity tests in Table 3, all variables in this study have a Composite Reliability value above 0.7, which indicates that the instrument has good internal consistency. The highest CR value is found in the Organizational Culture variable of 0.831, while the lowest value is shown by Financial Performance of 0.761, but still in the acceptable category. Meanwhile, the Cronbach's Alpha results show that most variables have a fairly good level of internal reliability, which is close to or exceeds 0.7. The Ethical Leadership variable shows the highest value of 0.700, followed by Transformational Leadership at 0.688 and Organizational Culture at 0.695. However, the Financial Performance variable obtained a Cronbach's Alpha value of 0.537 which indicates a low level of internal reliability.

Table 1. Demographic attributes

Construct	Distribution	Frequency	Percentage (%)
Gender			
	Male	143	39.50
	Female	219	60.50
Age			
	21-28	140	38.67
	29-37	143	39.50
	38-46	49	13.54
	47-54	27	7.46
	55-60	3	0.83
Education Level			
	Diploma I – Diploma IV	46	12.71
	Bachelor's Degree	260	71.82
	Master's Degree	51	14.09
	Doctoral Degree	4	1.10
	Others	1	0.28
Job Experience (Year)			
	1-6	199	54.97
	7-12	104	28.73
	13-18	40	11.05
	19-24	16	4.42
	25-30	3	0.83
Job Experience at Current Company (Year)			
	1-5	241	66.57
	6-10	105	29.00
	11-15	11	3.03
	16-20	4	1.10
	>20	1	0.28
Job Title			
	Staff	233	64.36
	Supervisor	42	11.60
	Manager	46	12.71
	Senior Manager	30	8.29
	General Manager	10	2.76
	Others	1	0.28
Firm size (employees)			
	<50	47	12.98
	51-100	135	37.29
	101-300	115	31.77
	301-1000	44	12.15
	1001-5000	19	5.25
	>5000	2	0.55
Industri Sectors			
	Processing industry and manufacturing	56	15.47
	Finance, banking, insurance	51	14.09
	Information and communication	43	11.88
	Wholesale and retail	37	10.22
	Transport and warehouse	36	9.94
	Hotel and restaurant	31	8.56
	Others	108	29.83
	Total	362	100.00

Table 2. Descriptive Statistics dan Initial Loading factor

Code	Loading Factor	SD	Mean
TLe1	0.693	0.804	4.24
TLe2	0.696	0.869	4.24
TLe3	0.602	0.765	4.12
TLe4	0.460	0.802	4.28
TLe5	0.673	0.757	4.20
TLe6	0.708	0.785	4.33
OC1	0.669	0.869	4.21
OC2	0.659	0.792	4.33
OC3	0.579	0.790	4.19
OC4	0.610	0.786	4.28
OC5	0.610	0.835	4.18
OC6	0.717	0.880	4.22
OC7	0.627	0.805	4.16
OC8	0.596	0.800	4.28
OC9	0.508	0.764	4.30
EL1	0.606	0.772	4.20
EL2	0.528	0.684	4.37
EL3	0.545	0.822	4.13
EL4	0.456	0.736	4.30
EL5	0.612	0.758	4.24
EL6	0.669	0.766	4.31
EL7	0.645	0.826	4.11
EL8	0.574	0.687	4.42
EL9	0.634	0.878	4.69
EL10	0.710	0.893	4.30
CSREP1	0.730	0.839	4.29
CSREP2	0.594	0.746	4.20
CSREP3	0.595	0.749	4.27
CSRSP1	0.551	0.750	4.20
CSRSP2	0.487	0.756	4.30
CSRSP3	0.603	0.777	4.19
CSRSP4	0.649	0.853	4.20
CSRSP5	0.355	0.683	4.43
CSREC1	0.555	0.750	4.36
FP1	0.742	0.676	4.38
FP2	0.692	0.696	4.40
FP3	0.727	0.673	4.45

Note: Italized items were dropped in subsequent analysis due to the loading below the AVE threshold

Table 3. Cronbach alpha, composite reliability and AVE

	Cronbach's Alpha	Composite Reliability	AVE
TLe	0.688	0.809	0.515
EL	0.700	0.816	0.526
OC	0.695	0.831	0.621
CSR	0.662	0.816	0.596
FP	0.537	0.761	0.515

In addition, the AVE test results also show that all constructs have met the convergent validity criteria with values above 0.5. This implies that the indicators on each variable can explain the latent variable adequately. In addition, the results of the cross-loading analysis in Table 4 demonstrate that all indicators show the highest loading factor value on the origin construct compared to other constructs. This exhibits that each indicator can measure its variable precisely and does not overlap between constructs.

Table 4. Cross Loading

	Variables				
	TLe	EL	OC	CSR	FP
TLe1	**0.689**	0.374	0.300	0.382	0.389
TLe2	**0.771**	0.489	0.435	0.465	0.360
TLe5	**0.677**	0.468	0.362	0.333	0.366
TLe6	**0.728**	0.442	0.424	0.431	0.303
EL6	0.413	**0.718**	0.457	0.466	0.369
EL7	0.429	**0.699**	0.457	0.425	0.384
EL9	0.485	**0.676**	0.446	0.408	0.339
EL10	0.472	**0.802**	0.575	0.561	0.395
OC 2	0.419	0.501	**0.783**	0.519	0.428
OC 4	0.473	0.513	**0.755**	0.458	0.421
OC 6	0.380	0.573	**0.825**	0.539	0.378
CSREP 1	0.479	0.498	0.495	**0.819**	0.471
CSREP 3	0.307	0.425	0.450	**0.725**	0.361
CSRSP 4	0.508	0.567	0.540	**0.771**	0.386
FP 1	0.458	0.404	0.317	0.381	**0.729**
FP 2	0.303	0.352	0.455	0.432	**0.731**
FP 3	0.290	0.346	0.323	0.306	**0.691**

In the transformational leadership variable, indicators TLe1, TLe2, TLe5 and TLe6 have the highest loading factor on the construct. Similarly, the ethical leadership variable, where indicators EL6, EL7, EL9, and EL10 show the highest values, especially EL10 with a value of 0.802. The organizational culture variable also shows good discriminant validity through indicators OC2, OC4, and OC6. The same is seen in CSR and financial performance, where all indicators have the highest loading on their respective constructs. It can be concluded that all indicators in this study meet the criteria of discriminant validity and can be used to accurately measure the intended constructs.

Table 5. Hypothesis Testing

	Path	*β*	t-value	p-value	VIF	Decision
H1	TLe →CSR	0.053	4.382	0.000	1.999	Supported
H2	EL →CSR	0.228	3.581	0.000	3.826	Supported
H3	OC →CSR	0.593	4.843	0.000	3.390	Supported
H4	CSR→FP	0.622	12.874	0.000	1.000	Supported

Based on Table 5, all hypotheses in this study are supported because they have a p-value below 0.05 and a significant t-value. Transformational Leadership has a positive effect on CSR with a β value of 0.053 (t-value 4.382), although the effect is relatively small. Ethical Leadership also has a positive effect with a β of 0.228 (t-value 3.581), while Organizational Culture shows the greatest influence on CSR with a β of 0.593 (t-value 4.843).

Finally, CSR is shown to have a significant effect on financial performance with a β of 0.622 and the highest t-value of 12.874. All VIF values are below 5, which indicates no multicollinearity problem. Thus, all hypotheses in this model are significant and acceptable.

Table 6. Coefficient determination and effect size

Construct	R^2	f^2
TLe		0.053
EL		0.084
OC		0.123
CSR	0.524	0.387
FP	0.279	

Table 6 shows the coefficient of determination for CSR (0.524) falls into moderate category, indicating that Transformational Leadership, Ethical Leadership, and Organizational Culture jointly explain 52.40% of the variance in CSR. Meanwhile, the R^2 for financial performance (0.279) falls into weak category, indicating that 27.9% of variance in perceived financial performance is explained by CSR.

In terms of effect size (f^2), the individual influence of each variable on CSR varies. Organizational Culture has the greatest individual influence on CSR (f^2 = 0.123), followed by Ethical Leadership (0.084) and Transformational Leadership (0.053), all three falling in the small-effect range. Meanwhile, the effect of CSR on financial performance has an f^2 value of 0.387, which falls into the large category.

Table 7. Fornell-Larcker Criterion Analysis

	Correlation Matrix				
Construct	**CSR**	**EL**	**FP**	**OC**	**TLe**
CSR	**0.772**				
EL	0.648	**0.725**			
FP	0.528	0.512	**0.718**		
OC	0.643	0.672	0.517	**0.788**	
TLe	0.567	0.617	0.490	0.534	**0.717**

Table 7 shows that all AVE square root values (bold diagonal) are higher than the correlations among constructs. For example, the root AVE value for the CSR construct is 0.772, which is higher than its correlation with EL (0.648), FP (0.528), OC (0.643), and TLe (0.567). The same pattern is also seen for the EL (0.725), FP (0.718), OC (0.788), and TLe (0.717) constructs. Therefore, these results indicate that each construct has adequate discriminant validity.

The path diagram illustrating the influence between variables in this study can be seen in Figure 2.

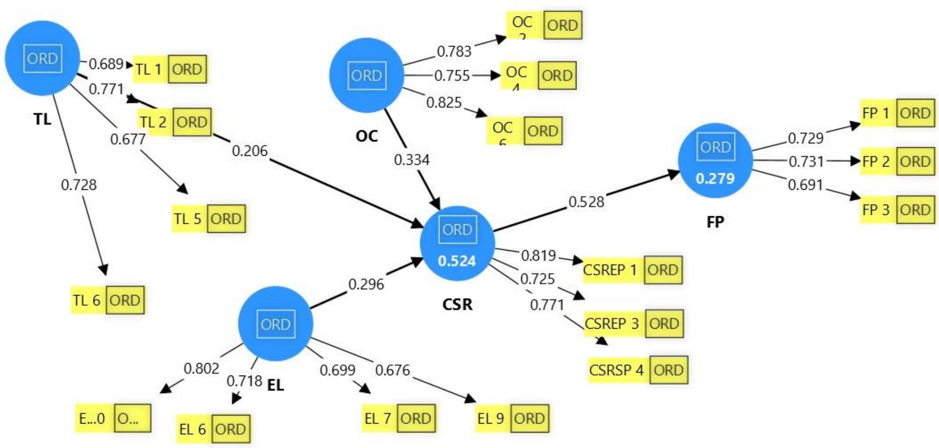

Figure 2. Path Diagram

Discussion

Most of the participants in this research are members of Generation Z, with undergraduate degrees, and are between the ages of 21 and 28. This indicates that the majority of participants in this study are young people. This generation is known to be more open to change and concerned about ethical issues and CSR. This is in accordance with Franco et al. (2020) which states that the younger generation demands more transparency and ethical leadership from companies.

The high responders' perceptions of organizational culture, ethical leadership, and transformational leadership are also explained by this condition. Younger generations are more likely to react favorably to ethical, transparent, and participative organizational ideals (N. T. T. Nguyen et al., 2021). The more senior age group, which has a tendency to behave more conservatively to CSR and ethical concerns, yields different results (González-Rodríguez et al., 2019). Because their opinions may differ from those of more senior age groups, the characteristics of young respondents must be taken into account when interpreting the results.

Effect of Transformational Leadership on CSR

Tranformational Leadership had a positive effect on CSR (β = 0.053), though the effect was the smallest compared to other three variables. This finding supports Ahsan (2024) which states that transformational leadership can create an environment that supports the implementation of CSR through motivation and inspiration to employees. This is also in line with Khaddage-Soboh et al. (2024) who found that transformational leadership plays critical role in driving sustainability efforts. Transformational leadership enhances continuous learning culture that enables CSR efforts (Zada et al., 2025). From RBV (Barney, 1991), transformational leadership is a useful resource, but this study suggests it may not be enough on its own – it likely workds better alongsidet ethical leadership or a supportive culture, which showed larger effects here.

Effect of Ethical Leadership on CSR

Ethical Leadership has a significant positive influence on CSR (β = 0.228), and this influence is greater than Transformational Leadership. The higher the level of Ethical Leadership in an organization, the higher the quality and consistency of CSR implementation. This finding reinforces literature such as Hoang et al. (2023) and N. T. T. Nguyen et al. (2021) which emphasize that ethical leaders are consistently a catalyst in the formation of corporate social policies. Espasandín-Bustelo et al. (2021) also showed that leaders' ethical behavior increases stakeholder trust, which in turn encourages effective CSR implementation. From RBV perspective, ethical leadership is hard for other companies to copy, since it is built into how leaders behave day to day rather than a formal system – which may explain why its effect on CSR is stronger than a more generic leadership style.

Effect of Organizational Culture on CSR

Organizational Culture has the strongest influence on CSR (β = 0.593) than Transformational Leadership. This deosn not mean it is proven to be the most important factor overall, since the pats were not statistically compared against each other – but the result does suggest culture plays a large role in shaping CSR. This result is in line with Espasandín-Bustelo et al. (2021) who found that cultural values that support social responsibility increase the effectiveness of CSR programs. Organizations with cultures that value ethical values and sustainability tend to implement CSR more strategically and thoroughly (Kongjue & Yuxiang, 2024; Radu & Smaili, 2022). This suggests that culture shapes not just whether CSR is present, but also how it plays role in shaping the internal climate that encourages employee social engagement (Ahsan, 2024).

Effect of CSR on Financial Performance

CSR is proven to have a positive and significant influence on Financial Performance (β = 0.622; $p < 0.05$), this indicates that Hypothesis 4 is accepted. The higher the level of CSR implementation in a company, this will improve financial performance, supported by Huang et al. (2020) and González-Rodríguez et al. (2019). This finding reinforces the view in RBV (Barney, 1991), where CSR is seen as an intangible resource that can improve reputation and customer loyalty, and reduce operational risk (Franco et al., 2020). Research by Okafor et al. (2021) also shows that corporate social engagement has an impact on improving financial stability.

The R^2 value of 0.524 for CSR indicates that more than half of the variability of CSR can be explained by the three variables of leadership and organizational culture. The R^2 value for financial performance of 0.279 indicates a moderate effect of CSR on financial performance. The largest effect on CSR comes from Organizational Culture ($f^2 = 0.123$), confirming the importance of organizational values and norms as the foundation of CSR implementation, as also confirmed Assoratgoon & Kantabutra (2023). Meanwhile, the effect of CSR on financial performance ($f^2 = 0.387$) shows that CSR is not only a social responsibility tool, but also a significant business strategy to improve the company's economic performance (Barauskaite & Streimikiene, 2021).

Conclusions and Recommendations

This study examines the influence of Transformational Leadership, Ethical Leadership, and Organizational Culture on CSR, and the impact of CSR on Financial Performance in various industrial sectors in Indonesia. Using SEM-PLS, all proposed hypotheses are significantly supported. Organizational Culture exhibited the strongest positive effect among the three predictors of CSR, highlighting the importance of values and sustainability in shaping CSR practices. Ethical Leadership also plays a key role by reinforcing ethical values and integrity within the organization. While Transformational Leadership has the smallest effect among the three predictors, it still significantly contributes by motivating employee involvement in CSR initiatives. Furthermore, CSR is found to have a strong positive impact on Financial Performance, reinforcing the idea that CSR is not only an ethical responsibility but also a strategic asset – though since Financial Performance was assessed through respondent perception rather than objective financial data, this finding should not bbe interpreted as direct evidence that CSR increases firm profits.

Based on the study's findings and limitations, several recommendations are proposed. Future research should involve companies of various sizes and regions to improve generalizability, as the current sample is limited to Indonesian firms with similar respondent backgrounds. A qualitative or mixed methods approach is also suggested to explore deeper insights into how leadership and organizational culture influence CSR, which may not be fully captured through quantitative methods. Additionally, due to low internal reliability of the Financial Performance variable, future studies should consider using secondary data from financial reports or more objective indicators. Lastly, since CSR significantly impacts firm performance, organizations are encouraged to adopt strategic, sustainable CSR practices aligned with leadership vision and organizational culture. Rather than serving solely as a public relations tool, CSR should be viewed as a long-term strategic asset that creates value for all stakeholders.

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