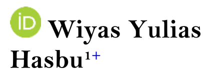
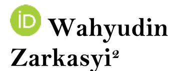
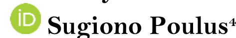
International Journal of Management and Sustainability
2024 Vol. 13, No. 2, pp. 182-202
ISSN(e): 2306-0662
ISSN(p): 2306-9856
DOI: 10.18488/11.v13i2.3631
© 2024 Conscientia Beam. All Rights Reserved.

The influence of leadership style, business ethics, and environmental performance toward corporate social performance and its impact on corporate financial performance

 **Wiyas Yulias Hasbu**[1+]
 **Wahyudin Zarkasyi**[2]
Harry Suharman[3]
 **Sugiono Poulus**[4]

[1,2,3,4]*Universitas Padjadjaran, Bandung, Indonesia.*
[1]*Email: wiyas20001@mail.unpad.ac.id*
[2]*Email: moh.wahyudin@unpad.ac.id*
[3]*Email: harry.suharman@unpad.ac.id*
[4]*Email: sugiono.poulus@unpad.ac.id*

(+ Corresponding author)

Article History
Received: 8 August 2023
Revised: 12 December 2023
Accepted: 22 January 2024
Published: 2 February 2024

Keywords
Business ethics
Corporate financial performance
Corporate social performance
Environmental performance
ISO 14001
Leadership style
State own enterprise.

ABSTRACT

The study presents research clarifying the influence of leadership style, business ethics, and environmental performance on corporate social performance and its implications for corporate financial performance. A survey was done in manufacturing companies of Indonesia's State Own Enterprise (SOE) and affiliates. Corporate performance is not solely directed towards shareholders or exclusively defined by financial measures; rather, it encompasses a focus on the impact of the organization on the society in which it operates. The style of leadership plays a crucial role in influencing the strategic management process, enabling the organization to implement successful strategies to realize its vision. Business ethics provide advantages to companies by fostering a favorable influence on their competitive edge in the corporate landscape. Environmental concerns are gaining growing significance among various corporate stakeholders, encompassing consumers, shareholders, prospective investors, creditors, regulatory bodies, employees, and the wider public. The finding of the study was that a leadership style had a positive influence on corporate social performance but a negative influence on corporate financial performance. Business ethics had a negative influence on financial performance but a positive influence on corporate social performance and environmental performance. Environmental performance had a negative influence on corporate social performance but positive influence on financial performance. Corporate social performance has a positive influence on corporate financial performance.

Contribution/Originality: Numerous studies have been carried out to explore the impact of this subject on corporate performance. We have extended by extending in effect on SOE and comprehension of variables while simultaneously relating to performance. The fact that the government may play a significant role in determining business ethics practices and corporate performance.

1. INTRODUCTION

Organizations require a leader possessing the necessary traits and competencies to ensure their survival, growth, development, and goal attainment. Leadership involves the facilitation of individual and collective endeavors and the capacity to inspire others toward the accomplishment of shared objectives (Bickes & Yilmaz, 2020). Leadership characteristics play a crucial role in shaping the prosperity of a company or organization, as they exert a significant impact on both their followers and the overall performance of the entity (Sahaya, 2012).

© 2024 Conscientia Beam. All Rights Reserved.

The implementation of ethical principles within organizations can expand the focus of individuals and corporations beyond mere profit and the enrichment of shareholders. Leadership that lacks ethics and integrity can have detrimental consequences for both the stakeholders within the organization and society as a whole (Ahmad, Gao, & Hali, 2017). The downfall of major corporations like Enron and World.com because of unethical behavior and mismanagement served as a stark reminder to the global community about the significance of principles such as corporate governance, social responsibility, and ethical business practices. The adoption of ethical business practices is advantageous for companies and contributes positively to their overall performance.

The use of environmental management systems has emerged as a key strategy for businesses to manage their environmental obligations and the effect of their actions on the environment. Environmental management practices constitute an integral element within the broader framework of a comprehensive management system. This includes the organization's structure, how tasks are assigned, how resources are used, and the approaches, guidelines, operational steps, systems, and delegation of resources that are needed to setup, carry out, achieve, evaluate, and maintain the environmental policy in line with ISO 14000 standards. Ethical considerations also intersect with the realm of the environment, where environmental ethics stands as a critical internal asset enabling firms to pursue a value-driven approach to enhance their environmental performance (Singh, Chen, Del Giudice, & El-Kassar, 2019). Corporate environmental ethics are represented by the ethical principles, values, and standards related to environmental issues (Ahmed, Montagno, & Firenze, 1998), which can lead to sustained economic benefits for companies. The environmental ethics of a firm convey their commitment and intent towards proactive environmental stewardship (Weaver, Trevino, & Cochran, 1999).

Corporate performance extends beyond catering to the needs of shareholders and concentrating solely on financial indicators; it involves a dedication to improving the organization's influence on the community in which it functions. This balanced approach regards social responsibility and financial performance as mutually reinforcing. As highlighted by Waddock and Graves (1997), improved financial performance can result in enhanced social responsibility, and stronger social responsibility can, in turn, boost financial performance. Prosperous corporations rely on the well-being of society, while a thriving society generates growing demand for businesses. Simultaneously, a healthy society requires thriving companies. This interdependence of businesses and society emphasizes how crucial it is to align corporate strategy and social policy with Porter and Kramer (2006) concept of creating shared value. Government of Indonesia has issued regulations concerning good corporate governance, including business ethics, SOE board of directors performances measurement, corporate social responsibility and environmental activities, and evaluation of the implementation of environmental management systems. The Indonesian government as a shareholder and regulators, really played a strong role and influenced SOE's performance. Indonesia's SOE performance is improving, but some issues involving financial aspects, leadership character, business ethics, and the environment still exist and are deleterious to corporate performance. Hence, the primary motivation behind this study was to investigate the link and influence of several aspects on corporate performance, as well as to examine the interplay between these aspects. A survey was conducted in state-owned enterprises in the manufacturing sector and affiliates. The aim of the study is to determine whether leadership style, business ethics, and environmental performance have an influence on corporate social performance as well as an impact on corporate financial performance. The following segments of this research are organized as follows: The second part offers an examination of pertinent literature, the third part delineates the research approach, the fourth part showcases the analysis and results, and the fifth part encompasses the discussion and concluding remarks.

2. LITERATURE REVIEW

2.1. Leadership Style

The concept of leadership has been articulated through various dimensions, encompassing individual characteristics, the conduct of leaders, patterns of interaction, role dynamics, how followers perceive leaders, the

© 2024 Conscientia Beam. All Rights Reserved.

ability to sway and guide followers, the impact on task objectives, and the influence on the overall organizational culture, as expounded by Yukl (1989). Furthermore, Yukl (1989) underscored that organizations necessitate leaders equipped with the essential attributes and competencies to ensure their continuity, foster growth, and development, and accomplish their objectives. Situational theories explore the way the context amplifies the impact of specific leader actions or characteristics, rather than adopting a more comprehensive perspective that considers how traits, power, behavior, and the situation collectively interact to shape leadership effectiveness.

According to Bickes and Yilmaz (2020), leadership is the practice of directing both individual and group endeavors while exerting influence to achieve shared objectives. This process entails an individual influencing a group of people to work together towards a shared objective. The term "process" denotes that a leader not only influences but also shapes the actions of their followers. Leadership inherently involves the exercise of influence and focuses on the ways in which a leader impacts their followers. Without influence, leadership does not exist. Leadership revolves around the act of guiding a collective of individuals who share a common objective. Leadership entails a focus on shared aims, with leaders channeling their efforts toward those individuals striving to achieve a common goal. In this context, "common" denotes the existence of a shared goal between leaders and followers (Northouse, 2019).

In the past, companies placed significant emphasis on financial performance. However, the evolution of information development has shifted their competitive foundation away from tangible assets and previous financial measures towards intangible assets and leadership effectiveness. As a result, the evaluation of operational performance and the establishment of competitive advantages should now encompass non-financial indicators like quality and customer satisfaction. It is important to keep in mind that, as, Wang, Chich-Jen, and Mei-Ling (2010) point out, administrative supervisors' leadership style will have a significant impact on overall operational effectiveness.

According to Bass and Stogdill (1990), traditional depictions of leader behavior frequently divide leader actions into two main domains: a focus on individuals and a focus on tasks. The person-oriented segment encompasses leadership behaviors such as participation, democracy, relationship-building, and considerate interactions. A leader who prioritizes individuals is recognized for their readiness to involve others in the decision-making process, show esteem for the suggestions of team members, cultivate trust and connections, convey a sense of warmth toward followers, and demonstrate authentic care for interpersonal dynamics within the group. In the domain of task-oriented leadership, we encounter leadership approaches that involve giving directives, exhibiting autocratic tendencies, emphasizing task accomplishment, initiating structural frameworks, Leaders classified as task-oriented are known for their vigilant oversight of task execution, their prioritization of goal achievement through target establishment, and their specification of group member roles, schedules, directives, plans, and related elements. It's important to recognize that leadership styles have a substantial impact on organizational performance. The chosen leadership style molds the organizational culture, and this culture, in turn, significantly influences the overall performance of the organization. Research has indicated that businesses and their executives can confront ethical dilemmas when dealing with conflicting pressures that affect their business operations. In such situations, businesses must make a choice between pursuing profit or adhering to ethical principles. In today's contemporary business landscape, there is a growing demand for more ethical business practices and behaviors (Rosenthal & Buchholz, 2000). Establishing ethics within organizations through formal mechanisms like ethical codes is essential, but not enough to guarantee ethical conduct. According to Soutar, McNeil, and Molster (1994), effective management of the informal environment is crucial for achieving ethical behavior within the organization.

2.2. Business Ethic

Business ethics is characterized as the set of regulations, norms, codes, or principles that offer direction for morally acceptable actions in managerial decisions concerning corporate operations and the relationship between

© 2024 Conscientia Beam. All Rights Reserved.

businesses and society (Sexty, 2011). Additionally, Sexty (2011) affirmed that ethics establishes benchmarks for distinguishing between virtuous and objectionable behavior within organizational conduct and decision-making processes. Ethics is primarily concerned with dictating the appropriate behavior for individuals with a moral compass, while values constitute the internal assessments that influence an individual's actual behavior. Values become relevant to ethics when they pertain to beliefs about what is morally right or wrong.

In the context of the business environment, practicing ethics entails the application of principles centered on integrity and equity in interactions with colleagues and clients. Business ethics represents the way a company upholds its ethical standards in its day-to-day interactions with various stakeholders, including employees, customers, suppliers, the local community, and society at large (Amos, 2012). The expansion of a business entity hinges on the presence of a robust ethical framework designed to provide direction for both the management and staff in their everyday operations. Despite the existence of these ethical guidelines to govern the actions of business management, there are instances in which business managers fail to comply with or uphold these ethical standards (Enofe, Ogbeide, & Julius, 2015). Ethical conduct has the potential to significantly influence a company's behavior, but it's the personal ethical values of individuals that ultimately shape business success (Denney, 2018). There is an increasing acknowledgment that strong ethics can enhance the economic performance of a firm. The ethical drive guiding businesses is rooted in the desire to make morally sound decisions without external coercion or government regulations (Joyner & Payne, 2002). Moreover, as mentioned by Joyner and Payne (2002), individuals in the business world recognize their own presence within society and, consequently, acknowledge that their companies must similarly conduct themselves ethically within this societal context.

According to Milton (1970), the primary goal of corporate executive in the past had typically being profit maximization. According to Friedman, publicly traded corporations were established with the primary purpose of generating financial returns for their shareholders. The responsibility of management, as per Friedman's perspective, was exclusively and unequivocally dedicated to safeguarding the interests of these shareholders in all their endeavors (Freeman, Harrison, & Zyglidopoulos, 2010). In the contemporary business landscape, business leaders are tasked with the duty of enhancing profits while simultaneously upholding ethical standards and meeting societal expectations (Calvey, 2008). The stakeholder theory provides a structure for addressing these societal anticipations by highlighting that it is insufficient for managers to focus solely on shareholders; rather, they must address the broader requirements of the stakeholder network, which includes shareholders (Freeman, 1984).

Business ethics encompasses all facets of business operations and involves ethical interactions between businesses and consumers, as well as between businesses and their employees. In essence, it pertains to the complete range of engagements among companies, individuals, society, and governmental entities. The implementation of an ethics program can typically improve a company's performance by aligning its decisions and actions more closely with the ethical standards expected by society (Weaver et al., 1999). Such programs may also contribute to enhancing organizational outcomes by bolstering legitimacy, a crucial indicator of corporate social performance (Wartick & Cochran, 1985; Wood, 1991).

2.3. Environmental Performance

Historically, Corporate Environmental Responsibility (CER) measures and regulations were typically implemented either as a means of adhering to legal requirements established by national and international bodies or as a conscientious decision tied to the Triple Bottom Line framework. This framework outlines the three interrelated components - economic, social, and environmental - essential for driving a company's performance towards global sustainable development. Environmental performance is now seen as a separate area of business that needs to be managed. This is because corporate strategies are being changed to include principles, systems, and practices that can deal with environmental problems. Environmental concerns are growing in significance for a wide spectrum of corporate stakeholders, encompassing consumers, shareholders, prospective investors, creditors,

© 2024 Conscientia Beam. All Rights Reserved.

regulators, employees, and the general populace. A rising number of investors are now evaluating not only a corporation's financial performance but also how effectively corporations fulfill their social responsibilities (Barnett & Salomon, 2006). Numerous research studies examine the link between environmental performance and financial performance, and their conclusions reveal either a positive or a negative connection (Achim & Borlea, 2014).

The International Organization for Standardization (ISO), which created the ISO 14000 series in the early 1900s, has become the preeminent voluntary set of guidelines for industry environmental practices on a global scale. Among these standards, ISO 14001, which focuses on Environmental Management Systems, stands out as the most influential. In a relatively brief period, it has garnered extensive acknowledgment and adoption within the business community. Companies worldwide have embraced these standards, and today, even though they aren't legally mandated, they have effectively become an essential requirement for engaging in global business, especially within specific geographic areas and industries.

Government of Indonesia has issued regulations to reinforce corporate social responsibility and the environment, such as Limited Liability Company Law No. 40 of 2007), Ministry of SOE Regulation No. 5 of 2021 and Ministry of Forest and Environment Regulation No. 1 of 2021. These regulations were mandatory of companies to perform social responsibility, keep and maintain the environment, and maintain natural resources.

Theories suggest that embracing sound environmental management practices can enhance a company's financial performance. This enhancement occurs by exerting pressure on managers to participate in environmentally responsible actions, which, in turn, aids in establishing and nurturing valuable business relationships with influential stakeholders. These relationships are crucial for accessing essential resources (Aslam et al., 2020). In a time marked by heightened stakeholder demands for sustainable environmental practices in the workplace, organizations should embrace and put into action environmental ethics to achieve a harmonious alignment between the demands of business, society, and the environment. Companies that exhibit robust environmental performance have the potential to lower operational expenses, enhance resource accessibility, and mitigate employee turnover (Berrone & Gomez-Mejia, 2009). Regarding the outcomes resulting from the execution of social and environmental initiatives, we observe financial impacts such as revenue growth, cost reduction, and profit augmentation (Achim & Borlea, 2014). Additionally, companies demonstrating strong environmental performance can capitalize on market opportunities arising from heightened demand for eco-friendly products and services (Berrone & Gomez-Mejia, 2009). Another result of heightened societal expectations is the elevated likelihood of facing environmental liabilities. Additionally, Berrone and Gomez-Mejia (2009) elucidated that environmentally responsible firms are less prone to environmental mishaps, thereby mitigating the potential for legal consequences, costly fines, increased insurance premiums, and substantial expenses associated with environmental remediation efforts. In addition to shielding a company from stakeholder scrutiny, reducing ones' environmental impact also lower the likelihood that it will experience social consequences like unfavorable media coverage and boycotts organized by environmental activists.

Considering the connection between environmental performance and strategic advantages, investors are likely to find strong environmental performance appealing. In fact, Klassen and McLaughlin (1996) demonstrate that favorable (unfavorable) stock market returns are linked to recognition for environmental performance (environmental crises). Additionally, Russo and Fouts (1997) have also noted a positive correlation between financial returns and an environmental performance index. Considering the favorable link between strong environmental performance and shareholder value, as well as other non-financial advantages, dedication to effective environmental practices should be of utmost importance for corporate boards. Purchasers, customers, investors, and workers are progressively concerned with evaluating the comprehensive influence of companies on the environment in which they operate. They do so by evaluating a corporation's ability to effectively integrate ecological, social, and financial objectives. However, quantifying these various dimensions can pose challenges. In the forthcoming years, it seems inevitable that businesses (the marketplace) will be both restricted by and reliant upon natural ecosystems.

© 2024 Conscientia Beam. All Rights Reserved.

In simpler terms, it is probable that future strategies and sources of competitive advantage will be founded on capabilities that enable environmentally sustainable economic endeavors (Hart, 1995).

2.4. Corporate Social Performance

The phrase "corporate social performance" (CSP) has been in use for many years within the literature on business and society. In most instances, CSP hasn't been precisely defined; it has been employed interchangeably with terms like corporate social responsibility, corporate social responsiveness, or any form of engagement between businesses and their social surroundings (Wartick & Cochran, 1985). Occasionally, the concept of CSP is encompassed within the broader category of CSR, and at other times, it's the other way around (Carroll, 1979, 1999; Wood, 1991). According to Wood (1991), there are four main factors that can define a company's corporate social performance. These encompass "the extent to which corporate social responsibility principles drive the actions undertaken by the company; the extent to which the company employs socially responsive methods; the presence and character of policies and initiatives aimed at governing the company's social interactions; and the societal effects (i.e., discernible results) stemming from the company's actions, programs, and policies." This proposition renders social performance amenable to objective assessment. Consequently, corporate social performance (CSP) can be viewed as a concept that is ingrained in business practices, yet it necessitates a level of abstraction from the actual business operations to enhance our comprehension of the interplay between businesses and society. The concept of CSP serves as a valuable tool for establishing a coherent framework within the realm of business and society (Wood, 1991). Taking into account both the internal driving forces and the external repercussions of a company's conduct, Wood (1991) proposes that corporate social performance encompasses dimensions related to both the process and the results. Waddock and Graves (1997) highlight that enhanced financial performance might contribute to an improved social performance, and conversely, improved financial performance leads to an increase in financial performance. As observed by Van Wijk (2018), numerous research investigations have been undertaken to explore the relationship between financial performance and either corporate social responsibility (CSR) or corporate social performance (CSP). Conversely, Gössling and Vocht (2007) assert that CSR fundamentally involves the idea that organizations must fulfill the societal expectations placed upon them. According to Van Beurden and Gössling (2008), CSR services as a response to the societal challenges that business corporations must address within the modern dynamic, global, and technologically driven social landscape. Companies are compelled to participate in CSR or CSP initiatives to address the concerns of various stakeholders, and as a result, they stand to benefit from an enhanced corporate image and increased efficiency. Conversely, an opposing viewpoint suggests that when companies elevate their social performance, they may expend excessive resources, potentially leading to reduced profitability and a diminished competitive edge. Research has shown a positive correlation between CSP and previous financial performance, reinforcing the idea that the availability of surplus resources and CSP are positively intertwined. Moreover, there is evidence of a positive connection between CSP and forthcoming financial performance, affirming the hypothesis that effective management and CSP share a positive relationship (Waddock & Graves, 1997).

2.5. Corporate Financial Performance

Historically, corporate financial performance served as a customary benchmark for assessing the overall success of an organization, offering insight into the company's effectiveness in utilizing its core business assets to generate revenue. Additionally, this expression serves as a general indicator of the financial well-being of a corporation throughout a specific time frame, typically encompassing a fiscal year (Van Wijk, 2018). Corporate financial performance serves to either benchmark itself against similar companies within the same industry or to conduct comparisons across different industries. Various financial ratios are available for assessing corporate financial performance, with some ratios designed specifically to gauge a company's profitability. Four ratios are normally

© 2024 Conscientia Beam. All Rights Reserved.

used, such as the gross profit margin, net profit margin, and return on assets. Although the measurement of corporate financial performance remains an important measure of success, it has also become important for corporations to also focus on their non-financial performance indicators (Van Wijk, 2018).

According to Cochran and Wood (1984), the assessment of Corporate Social Performance (CSP) can be categorized into two main groups: market-based indicators and accounting-based indicators. Market-based measures are grounded in the perspective that returns should be assessed from the shareholders' viewpoint. According to Lee and Heo (2009), market based metrics include factors like stock performance, market returns, market value-to-book value ratio, share price, and the growth of share prices. Evaluating corporate performance is of paramount importance, and as such, it necessitates a means of assessing the ultimate outcomes of activities. Measurement can encompass various aspects, with financial performance being a key component. The financial dimension is particularly crucial, as it significantly contributes to upholding the company's continued existence and sustainability.

3. HYPOTHESES DEVELOPMENT

Based on the objective of the study and review of the literature, the ten hypotheses formulated for the purpose of the study are described here under:

3.1. The Relationship between Leadership Style and Corporate Social Performance

Wood (1991) stated that a business and society are both bundling into one entity rather than a different entity until community expects the appropriate business behaviour and outcome. Company's ability to make anticipatory decisions was related to the leadership style of the company's leader. Company's leader will respond to the program that has been planned; policies and decisions were taken by reactive, defensive, accommodative, and proactive approaches to social issues and were influenced by leadership style. Stakeholder theory, as described by Freeman et al. (2010), posits that a company engages with two distinct groups: primary stakeholders, who play pivotal roles in the business's functioning (e.g., customers, employees, and investors), and secondary stakeholders, whose influence on the company's operations is more indirect, encompassing the community and the natural environment (Waddock, 2008). Institutional CSR, on the other hand, encompasses a firm's CSR endeavors in the domains of community and the environment. This entails activities such as contributing to local communities through initiatives like education, arts, and culture support, as well as integrating environmental considerations into business decisions, including the adoption of clean technology and recycling practices (Du, Swaen, Lindgreen, & Sen, 2013). Moreover, as noted by Du et al. (2013), an extensive field survey involving managers indicated that companies led by transformational leadership are more inclined to participate in institutional CSR initiatives. In contrast, transactional leadership does not exhibit any significant association with these practices.

Company can achieve high social performance when it has met the needs of more stakeholders, and social performance becomes low when the achievement of corporate social performance to fulfil stakeholder needs is lower. Because a manager is responsible for deciding and satisfying stakeholder needs, it is important for a manager to understand his role in corporate social performance (Simerly & Thomas, 1994).

According to the description above, leadership style has a relationship to corporate social performance.

H_1: Leadership style has a positive and significant relationship with corporate social performance.

3.2. The Relationship between Leadership Style and Corporate Financial Performance

One measurement of the company's performance is financial performance. The profitability ratio, which is return on assets (ROA), is an indicator of company efficiency in using assets. This is a measurement of company profitability in a certain period using the company's assets as a measure of corporate financial performance. Leadership character had a significant impact on corporate performance or organization because leadership

© 2024 Conscientia Beam. All Rights Reserved.

character influenced his followers and corporate performance (Sahaya, 2012). Leadership enables a more productive and profitable organizations to depend on leadership successfully, but it is also dependent on leadership style and the result between environment created and good employees' functions (Puni, Ofei, & Okoe, 2014). Effective leadership is when a person has the power to motivate follower or his or her subordinate to accomplish performance objectives (Bastari, Eliyana, & Wijayanti, 2020).

H_2: Leadership style has a positive and significant relationship with corporate financial performance.

3.3. The Relationship between Business Ethics and Corporate Social Performance

Ethics involves the evaluations made in moral choices, involving normative judgments that indicate or imply the quality, or morality, correctness, or incorrectness of something. In a business context, De George, as cited by Joyner and Payne (2002), characterizes business ethics as the interplay between the realms of business and ethics. Business ethics encompasses ethical principles and decision-making, governance issues, and the development of codes of conduct within a business. Business organizations are integral elements of the larger social, economic, and environmental contexts in which they function. Consequently, their actions, organizational structures, and procedures must acknowledge their responsibility for the effects they exert on stakeholders and the society that sustains their presence (Goel & Ramanathan, 2014). According to Wood (1991), corporate social performance (CSP) is a pivotal consideration for every organization. This is because CSP elements, including social considerations, environmental pressures, and stakeholder interests, are certain to exert a lasting influence on corporate decision-making and conduct in the foreseeable future (Stanwick & Stanwick, 1998). Corporate social responsibility focuses on alignment with society's objectives and values (Wartick & Cochran, 1985). According to Bowen, alignment with society's objectives and values constitute basic premise of social responsibility. It means social responsibility has ethics and social contract. Furthermore, Ugoani (2019) addressed the fact that business ethics have a positive relationship in the context of business decisions and strategy.

H_3: Business ethics has a positive and significant relationship to corporate social performance.

3.4. The Relationship between Business Ethic and Corporate Financial Performance

Business ethics covers the areas of moral principles and decision-making, governance issues, and codes of conduct for a business. The Principle of ethics is guidance for moral behavior such as honesty, keeping promises, helping others, and respecting the rights of others. Business ethics and corporate governance of organizations were going on together; all activities should follow ethics; indeed, most possibilities followed good corporate governance. Business ethics provide significant influence on organizational performance. One of the methods to enhance organizational performance is to raise business ethics, which was implemented by the company. If the function of ethics was not compliance with efforts to achieve economic objectives and the company's profitability, the momentum was going in a weak position. In the wake of significant accounting scandals at global corporations like Enron, World.com, and Parmalat, business ethics have assumed paramount importance for companies worldwide (Persons, 2013). Additionally, unethical behavior unquestionably carries substantial costs for a firm and its shareholders. In extreme cases, as seen in the Enron and World.com scandals, it can lead to the company's financial collapse. For less severe ethical transgressions, it can still imperil the firm's profitability and market value due to expenses related to litigation, penalties, damage to its reputation and brand image, and a loss of trust from the public (Persons, 2013).

H_4: Business ethics have a positive and significant relationship to corporate financial performance.

3.5. The Relationship between Environmental Performance and Corporate Social Performance

Environmental performance is an outcome stemming from the interplay between a company and its environment. The effectiveness of the Environmental Management System (EMS) as a mechanism for handling

© 2024 Conscientia Beam. All Rights Reserved.

environmental concerns within companies piques the curiosity of various stakeholders. Among these interested parties, perhaps the most engaged group is the companies themselves, which allocate substantial resources to establish and maintain EMS (Environmental Management System). Following the ISO 14001 standard, the Environmental Management System (EMS) yields what is termed environmental performance. According to Nawrocka and Parker (2009), this term is broadly defined as the quantifiable outcomes from an organization's handling of its environmental aspects. Environmental performance also encompasses the quantifiable EMS associated with the organization's oversight of its environmental factors, founded on its policies, goals, and environmental objectives (Sunu, 2001). Consequently, a company's environmental performance is intricately tied to its environmental management practices. Business operations can have diverse effects on the environment, frequently indicating unfavorable outcomes for the surrounding natural ecosystem because of corporate activities, commonly known as environmental impact.

Stakeholders exert substantial pressure on companies to diminish the environmental impact arising from their manufacturing processes. Manufacturing enterprises wield significant environmental influence, and the manufacturing sector plays a vital role in tackling environmental concerns like climate change, waste generation, depletion of natural resources, water contamination, and air emissions (Kraus, Rehman, & García, 2020). One aspect of corporate social responsibility was company decision and commitment toward the resource area, which includes pollution, welfare and racialism issues, consumerism, and other social issues (Carroll, 1979).

H_5: Environmental performance has a positive and significant relationship to corporate social Performance.

3.6. The Relationship between Environmental Performance and Financial Performance

Environmental performance is corporate performance achieved by creating a green environment as the result of environmental management implementation that complies with the normative regulation. According to Neo Classical School, environmental regulation charges additional costs to companies. The improvement of environmental performance tends to increase costs. The conventional method involves assessing the positive outcomes of regulation in contrast to the expenses incurred to attain these advantages (Palmer, Oates, & Portney, 1995). Porter and van der Linde (1995) stated that the appropriate environment regulation will emerge as an innovation, which is partially or fully decrease burdens because of compliance with environmental regulation. Government intervention aimed at enforcing environmental standards will create a trade-off situation where society stands to gain through enhanced environmental conditions, while firms may incur costs in the form of reduced profits (Elsayed & Paton, 2005). Furthermore, if a company is doing well in financial aspects, it can avoid spending more resources on clean technologies. The notion that corporate investments in environmental protection would predominantly result in costs rather than advantages faced widespread criticism. Numerous business strategists, environmental experts, and eventually certain corporations contended that the business sector could effectively harmonize the goals of environmental conservation and economic expansion (Gunningham, 2009). Consequently, by embarking on endeavors to attain these objectives, savvy corporations can not only alleviate the pressures placed upon them by regulators and the public but also directly enhance their profits and foster the environmental technologies required to effectively compete in the global environmental marketplace. Environmental responsibility brings more profit for long-term business (Kziezak & Fiscbach, 2017).

H_6: Environmental performance has a positive and significant relationship with corporate financial performance.

3.7. The Relationship between Corporate Social Performance and Corporate Financial Performance

Wartick and Cochran (1985) argued that corporate social responsibility initiatives should not be viewed solely as voluntary actions by a company; instead, their impact can be quantified in terms of improving corporate financial performance. Corporate financial performance, as explained by Van Wijk (2018), traditionally served as a subjective gauge of an organization's overall achievement and indicated its proficiency in utilizing assets from its core business

© 2024 Conscientia Beam. All Rights Reserved.

operations to generate revenue. Many corporations adopt philanthropic activities and engage in CSR primarily as a reaction to external societal demands, rather than making it a fundamental part of their core operations. Consequently, while CSR has found a place within their business model, it hasn't traditionally been viewed as an integral part of their core business strategy. Porter and Kramer (2006) also emphasized that shared value creation serves as a means of re-establishing a company's link with the society in which it is deeply ingrained. This involves identifying and strengthening the interplay between societal and economic advancements. It signifies acknowledging societal needs, not solely as a detriment to business performance but to generate additional value for society. Multiple research studies have been undertaken to investigate the connection between corporate social performance (CSP) and financial performance. However, the outcomes of prior research in this area have displayed inconsistency. Some studies have revealed a positive correlation, while others have suggested a negative association, and some have found no significant relationship. When companies actively involve themselves in CSR initiatives, their favorable reputation has the potential to attract the attention of other stakeholders, subsequently rendering these firms more efficient, profitable, and enduring.

H_7: Corporate social performance has a positive and significant relationship to corporate financial performance.

3.8. The Relationship between Leadership Style and Corporate Social Performance through Corporate Financial Performance

One of the corporate financial performance indicators is Return on Assets (ROA) which is a measurement based on an accounting approach. Profitability ratio is an indicator of efficiency in terms of the company's ability to use assets to generate profit. Leadership has a significant effect on corporate performance or organization. Manager has the responsibility to decide and satisfy stakeholder needs. Therefore, it is important that managers comprehend their role in corporate social performance (Simerly & Thomas, 1994). Regarding corporate social performance, managers face numerous stakeholders, such as employees, the customers, community, and the environment. Company should develop a visionary leader who is focused on employee and customer satisfaction, better prosperous community with provided environment, secure products and services and is friendly (Nwachukwu, Chladkova, Zufan, & Olatunji, 2017). Roman, Hayibor, and Agle (1999) stated that corporate social performance has a positive relationship toward corporate financial performance. In line with Wartick and Cochran (1985), corporate social responsibility activities are not merely voluntary companies activities, but their effect can be measured by enhancing corporate financial performance.

H_8: Leadership style has a positive and significant relationship to corporate social performance through corporate financial performance.

3.9. The Relationship between Business Ethics and Corporate Social Performance through Corporate Financial Performance

Business ethics means more than a set of laws about good and bad behavior, core values, and public safety standards. According to research, the existence of ethics in a company is related to performance, particularly social and environmental performance. Code of ethics is a non-financial tool that relates to enhancing stakeholder satisfaction and therefore to social and environmental performance (Kozáková, Urbánová, & Savov, 2021). An investigation into the consequences of the lack of an ethical code on a company's financial performance is anticipated to provide a significant addition to the limited existing literature on the relationship between a Chief Executive Officer's ethical principles and the financial performance of the organization (Persons, 2013). Additionally, Persons (2013) observed that Chief Executive Officer who place a significant emphasis on ethics in their business conduct are inclined to adopt a code of ethics as a means of signaling to stakeholders their unwavering dedication to legal and ethical practices. This positive signal has the potential to bolster the corporate reputation and brand image, which are pivotal factors in the financial prosperity of the company. On the other hand, numerous prior studies have shown that the CEO's lack of ethical commitment to business dealings highlights the

© 2024 Conscientia Beam. All Rights Reserved.

fact that ethical business practices, including corporate social responsibilities (CSR), can have a positive impact on the company's financial performance.

H_9: Business ethics has a positive and significant relationship to corporate social performance through corporate financial performance.

3.10. The Relationship between Environmental Performance and Corporate Social Performance through Corporate Financial Performance

The fundamental concept underlying environmental considerations is that products should not harm the environment during any phase of their lifecycle, encompassing production, utilization, and disposal. In essence, these products contribute to environmental preservation by substantially reducing the pollution they might generate and exhibiting low carbon emissions (Rahman, Idris, & Nedelea, 2017). Additionally, Rahman et al. (2017) emphasized that consumers are displaying a growing interest in the environmental performance of products. Therefore, to establish enduring goodwill with consumers, businesses assume responsibility for environmental concerns and persist in manufacturing environmentally friendly products, often referred to as "green" products. Purchasers, consumers, investors, and employees are increasingly concerned about the holistic influence of corporations on the environment in which they operate. They evaluate a company's ability to effectively balance ecological objectives, social objectives, and financial objectives simultaneously. However, quantifying these diverse facets can pose challenges (Hart, 1995). Corporate responsibility is not merely a single bottom line that is corporate value, which reflects the financial aspect, but also should cover triple bottom lines such as the financial, social, and environmental aspects. Company should be able to provide benefits for ownership and other stakeholders. The company's commitment to environmental protection has been found to have an influence on its financial performance. It has been noted that environmental performance is a crucial element in gaining a competitive edge, a concept that company leaders have embraced over the past few years. Hence, companies with strong environmental performance are likely to enjoy favorable financial outcomes. In the realm of corporate environmental strategy, legitimacy theory posits that companies ought to adhere to societal norms and consider the environmental and social concerns of stakeholders as they conduct their business operations. Companies showcase their commitment to environmental responsibility by adopting environmental strategies, thereby validating their legitimacy and identity (Zhu, Xu, Wang, & Zhang, 2022). The objective behind a company's adoption of environmental strategies and other measures is to mitigate the environmental pollution stemming from its production and operational activities.

H_{10}: Environmental performance has a positive and significant relationship to corporate social performance through corporate financial performance.

Based on the preceding discussion and our theoretical model, we hypothesize the following inter-connected relations as Figure 1.

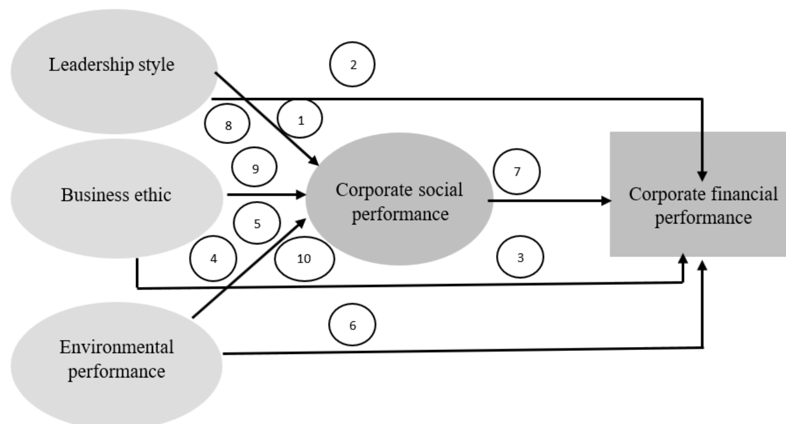


Figure 1. Hypotheses.

© 2024 Conscientia Beam. All Rights Reserved.

4. METHODOLOGY

4.1. Data and Sample

This research employs a descriptive-explanatory methodology, elucidating the connections between variables by conducting hypothesis testing to acquire empirical data. The descriptive component of this study seeks to provide a systematic, factual, and precise portrayal of a phenomenon inherent to the population, offering an accurate depiction of its characteristics and nature. The population of this study is the manufacturing companies of State-Owned Enterprise (SOEs) and affiliates in Indonesia. Sampling method used was purposive sampling. The study involved individuals in managerial roles, including corporate secretaries, production managers, environmental managers, marketing managers, human resources managers, and financial managers within the organization. Statistical analysis by using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The data collection was carried out using survey, which used the questionnaire to measure each of variables in this study. The questionnaire included 15 dimensions: leadership (style 2 dimensions), business ethics (3 dimensions), environmental performance (4 dimensions), corporate social performance (5 dimensions) and corporate financial performance (one dimension). A collection of Likert scales was employed to gauge relevant constructs within the survey questionnaire. Additionally, in-depth interviews were carried out in an open-ended format to facilitate respondents in providing more detailed and informative responses.

5. DATA ANALYSES AND RESULT

5.1. Validity and Reliability

The questionnaires were subjected to prior validation and reliability testing. The questionnaire's validation was confirmed using Partial Least Squares (PLS) analysis, assessing convergent validity, Average Variance Extracted (AVE), and Cronbach's Alpha across a sample of 32 manufacturing companies. Convergent validity was established with coefficients exceeding 0.7, Average Variance Extracted (AVE) surpassing 0.5, and Cronbach's Alpha exceeding 0.6, demonstrating the questionnaire's appropriateness, adequacy, and validation as a reliable instrument.

5.2. Inner Model Test

Inner Model test was analyzed through the R Square test, Predictive Relevance (Q2), and Good of Fitness (G o F). Regarding these tests, the coefficient 0.551 and 0.526, 0.787 and 0.665. Based on the analysis, the coefficients of the models were accepted.

5.3. Hypotheses Test

Hypotheses test using coefficient path and t value to judge among constructs expressed a positive relation and significant or no relation. The study uses a level of confidence of 95% and the path coefficient score must be under 0.05. The result of coefficient path is shown in Table 1 as shown.

By examining the path coefficients and p-values in Table 1, it is evident that four out of ten hypotheses cannot be supported due to p-values exceeding 0.05. These hypotheses pertain to the relationships between leadership style and business ethics and corporate financial performance, as well as between environmental performance and corporate social performance. Additionally, it is noteworthy that the relationship between environmental performance and corporate financial performance, mediated through corporate social performance, exhibits a negative impact. Conversely, leadership style and business ethic show a p value below 0.05; hence, that variable has a positive influence on corporate social performance, and environmental performance has a positive influence on corporate financial performance. Meanwhile, because of a p value under 0.05, leadership style and business ethic have a positive influence on corporate financial performance, through corporate social performance while environmental performance has p value above 0.05 with a negative influence toward corporate social performance.

© 2024 Conscientia Beam. All Rights Reserved.

Table 1. The result of coefficient path test.

Hypotheses	Path relationships	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Remarks
H1	Leadership style -> Corporate social performance	0.479	0.482	0.153	3.133	0.001	Accepted
H2	Leadership style-> Corporate financial performance	-0.205	-0.200	0.166	1.235	0.109	Not accepted
H3	Business ethic -> Corporate social performance	0.363	0.351	0.179	2.026	0.022	Accepted
H4	Business ethic -> Corporate financial performance	0.043	0.036	0.187	0.231	0.409	Not accepted
H5	Environmental performance -> Corporate social performance	0.166	0.159	0.151	1.094	0.137	Not accepted
H6	Environmental performance -> Corporate financial performance	0.729	0.742	0.191	1.683	0.000	Accepted
H7	Corporate social performance -> Corporate financial performance	0.224	0.236	0.133	3.810	0.046	Accepted
H8	Leadership style -> Corporate social performance -> Corporate financial performance	0.349	0.357	0.149	2.348	0.010	Accepted
H9	Business ethic -> Corporate social performance -> Corporate financial performance	0.264	0.261	0.165	1.655	0.050	Accepted
H10	Environmental performance -> Corporate social performance -> Corporate financial performance	0.121	0.113	0.120	1.007	0.157	Not accepted

5.4. Intervening Test

An intervening variable is a factor that, in theory, influences the observed phenomenon but cannot be directly observed, quantified, or controlled. Regarding the hypotheses of this study, corporate social performance as a mediator-intervening variable between independent variables (leadership style, business ethic and environmental performance) relates to corporate financial performance as dependent variable. Intervening test was the SOBEL test, and Table 2 shows the result that total coefficient is positive, as shown below.

Table 2. Intervening variable test.

Hypotheses	Path relationship	T value	P value	Standardize coefficient path influence		
				Direct	Indirect	Total
H8	Leadership style -> Corporate social performance -> Corporate financial performance	2.348	0.010	0.349	0.479 x 0.224 = 0.107	0.456
H9	Business ethic -> Corporate social performance -> Corporate financial performance	1.655	0.050	0.264	0.363 x 0.224 = 0.081	0.345
H10	Environmental performance> Corporate social performance -> Corporate financial performance	1.007	0.157	0.121	0.166 x 0.224 = 0.037	0.158

6. DISCUSSION AND CONCLUSION

6.1. Discussion

This study primarily explored the connection among leadership style, business ethics, environmental performance, corporate social performance, and their implications for corporate financial performance. The following summary highlights the key findings related to this research.

6.1.1. The Relationship between Leadership Style and Corporate Social Performance

The study showed that leadership style had a positive influence on corporate social performance. This is in line with previously conducted research by Wood (1991), which stated that business and society are both integrated but not exclusive entities and consequently, society expects the existing business behaviour and outcome. Company's leader will respond to the planned program, policies, and decision-making with reactive, defensive, accommodative,

© 2024 Conscientia Beam. All Rights Reserved.

or proactive action, and the alternative course of action is influenced by leadership style upon social issues. Furthermore, Wood (1991) noted that the big companies recognize this need for leadership who has commitment to corporate social performance. It's not just because the company was able to get more resources for its corporate social performance initiatives; it's also because other stakeholders, like environmental groups and government rules, have more power than stakeholders (Stanwick & Stanwick, 1998) which is why it's in the lead position. This study supports the view that leadership style has an important role in corporate social performance, in line with previous research (Stanwick & Stanwick, 1998; Wood, 1991).

6.1.2. The Relationship between Leadership Style and Corporate Financial Performance

The study showed that leadership style had a negative relationship with corporate financial performance. Some studies revealed that companies need precise leadership for effective and efficient working, to influence and lead, and to adapt to internal and external companies conditions. According to this study, leadership style has no influence on corporate financial performance. Formerly research indicated that it was critical for leadership to enhance financial performance, employee readiness to change, and corporate performance (Katsaros, Tsirikas, & Kosta, 2020). Leadership style influences corporate performance indirectly through employees or subordinates. Different leadership styles will affect the motivation, commitment, and morale of employees at the workplace to achieve corporate performance. Formerly, research showed that leadership style has a negative impact on ROA and ROE (Gantino, Ruswanti, & Rahman, 2019) because their might be other factors that affect the profit of manufacturing companies, such as capital, technology, and the company's growth in other industry sectors. Another reason was that the result of study showed that due to strong government role as regulator and SOE's shareholder, particularly in terms of pricing policy, the government determined the market price of the product for the public such as fertilizers products for farmers and electric power for community; hence, SOE's performance depends on government roles. Consequently, the financial performance of such companies is influenced by a lot of government policy.

6.1.3. The Relationship between Business Ethic and Corporate Financial Performance

This research has revealed that business ethics exert an adverse impact on financial performance. Ethics encompasses a set of values and principles that dictate the conduct of an individual or a collective group when it comes to distinguishing right from wrong. Business ethics denote the conduct a business upholds in its everyday interactions with the external environment. These principles extend beyond the business's interactions with the broader world and encompass their engagements with customers (Amos, 2012). Moreover, Amos (2012) suggests that certain individuals and businesses may be enticed to engage in unethical behavior, especially when presented with a short-term opportunity for substantial gains, often referred to as a "quick win." In such instances, unethical individuals or organizations may reap immediate benefits, but at the expense of others, including individuals, companies, communities, or future generations, who stand to lose out.

Some stakeholders have been interested for a long time in the relationship between financial performance and business ethical commitment (Choi & Jung, 2008). However, it frequently happens, when company's leader, to accomplish the profit, deviates from ethics, which should be implemented in business activities. Furthermore, Choi and Jung (2008) stated that financial targets in the short run become corporate culture until managers become sceptical about business ethics and achieve profit. Choi and Jung (2008) addressed the fact that in a situation of tight global competition, where conditions were under pressures, managers met financial expectations carried out by unethical acts to beat their competitor; therefore, the relationship between commitment to ethical conduct and financial performance was not supported significantly. As a result, the study demonstrated consistency with previous research.

© 2024 Conscientia Beam. All Rights Reserved.

6.1.4. The Relationship between Environmental Performance and Corporate Social Performance

According to the results of the study, environmental performance has a negative influence on corporate social performance. The empirical data indicated that environmental activities performed like an obligation to meet regulations and ISO 14000, which were assessed by government institutions related to company's obedience to the application of the environment management system. On the other hand, based on regulations concerning corporate social responsibility, another activity that was prioritized was education, community development, and financial assistance to develop small and medium corporations. Company's action to respond to the community's negative effects on the environment and other social issues wherein the company operates. The source of funds was taken from the operating budget and charged as operating costs to the company. Therefore, because of this policy, company tends to fix the budget at a lower amount.

6.1.5. The Relationship between Environmental Performance and Corporate Financial Performance

The result of the study showed that environmental performance has a positive influence on corporate financial performance. Formerly, research stated that environmental responsibility would benefit on businesses in the longterm (Kziezak & Fiscbach, 2017). Historically, businesses have viewed environmental investments as a mandatory yet unappealing task. These investments were considered essential to adhere to societal expectations related to pollution control and public health protection. However, they were seen as detrimental because they reduced overall profitability by diverting resources to what was essentially a non-productive effort. In recent times, this notion has faced growing criticism, not solely from environmental proponents but also from influential figures in the business world and academia, as well as investors. Moreover, in recent times, an increasing number of corporate leaders have embraced the concept that environmental performance is a pivotal element in gaining a competitive edge. This aligns with specific research investigations that have focused on exploring the relationship between environmental and financial performance. The findings consistently reveal a positive correlation between environmental performance and financial performance (Orlitzky, Schmidt, & Rynes, 2003; Van Beurden & Gössling, 2008).

6.1.6. The Relationship between Corporate Social Performance and Corporate Financial Performance

According to the findings of this research, corporate social performance has a beneficial impact on corporate financial performance. Numerous research studies have endeavored to determine the relationship between corporate social responsibility (CSR) or corporate social performance (CSP) and financial performance. The fair perspective considers social responsibility and financial performance as mutually dependent, proposing that strong social performance contributes to improved financial performance. Two theories, namely, effective management theory and resource slack theory, exist in this context. It was an option of management policy to implement which of them to take. Corporate social performance at the first and afterward can be achieved through company reputation, and by market mechanisms, increasing revenue or corporate financial performance at the first and afterward can be implemented due to financial performance becoming better.

6.1.7. The Relationship between Leadership Style and Corporate Social Performance through Corporate Financial Performance

The leadership styles are able to affect organizational performance. Waldman, Siegel, and Javidan (2006) have found a positive impact of transformational leadership on the Corporate Social Responsibility practices of the organizations. Similarly, Du et al. (2013) have also found the same significant impact. Moreover, Waddock and Graves suggest that enhanced financial performance could potentially result in improved social performance, while superior social performance can contribute to increased financial performance (Van Wijk, 2018). In line with

© 2024 Conscientia Beam. All Rights Reserved.

previous research, this study has proven that leadership style influences and has a positive relationship with corporate social performance through corporate financial performance.

6.1.8. The Relationship between Business Ethic and Corporate Social Performance through Corporate Financial Performance

This study revealed that business ethics and corporate social performance through corporate financial performance were positive. In principle, and for profit and survival, good behaviour or ethics is good for organizations (Van Wijk, 2018). The obligation and responsibility must align with the society's objectives and values (Wartick & Cochran, 1985), and therefore company's behaviour and the manner in which it runs business should be within the norms of society. Ogbari, Oke, Ibukunoluwa, Ajagbe, and Ologbo (2016) stated that business ethics provided a positive impact on corporate performance. It means formerly, research showed ethics was an important and significant influence on corporate performance, particularly interaction with society where company operates.

Recent scandals exposing ethical lapses in certain companies have heightened public awareness of the moral aspects of organizations. This heightened emphasis on ethics is compelling these firms to either create or reinforce ethical guidelines for their day-to-day operations (Chun, Shin, Choi, & Kim, 2013). Moreover, Chun et al. (2013) elucidated that the potential for economic success among ethical companies is an exceedingly crucial, albeit contentious, matter. This inquiry holds particular significance for business entities that prioritize the pursuit of economic profits above all else. If a company's ethical practices are at odds with their pursuit of economic objectives and profitability, the drive towards ethical conduct may encounter obstacles. A firm's ethical attributes can positively influence its financial performance by shaping employee attitudes and behavior. Consequently, without the engagement of employees in collective commitment and organizational citizenship behavior, the ethical initiatives of the firm may not have a discernible impact on its financial results (Chun et al., 2013).

6.1.9. The Relationship between Environmental Performance and Corporate Social Performance through Corporate Financial Performance

The research findings indicated that the connection between environmental performance and corporate social performance, as mediated by corporate finance, exhibited a negative association. Environmental performance encompasses a management system encompassing organizational frameworks, planning endeavors, roles and responsibilities, practices, protocols, processes, and resources dedicated to formulating, implementing, attaining, assessing, and sustaining environmental policy (ISO 14000). In fact, corporate social performance is a company's activities related to interaction between company and social community in terms of enhancing social life and protecting the environment. Therefore, social performance is an outcome of corporate behavior toward community complaints regarding social conditions and environmental impacts. Corporate's social actions as a reactive action due to community protested the impact of corporate activities in which deleterious environment as well as to arrange activities plan concerning non-technical aspects on maintaining environment such as greening of land, development of the local economy, employment, and education. The organization's environmental performance hinges on the quantity of pollution emissions it releases, as pointed out by Stanwick and Stanwick (1998), which are interconnected with the technological and technical aspects of the plant under operation. Hence, social responsibility and environmental performance were both complementary to reducing environment harm and increasing standard of living in the community.

According to empirical data, environmental performance should be supported by sound financial performance because it is a mandatory to comply with the regulation. A company with a higher environmental investment will be more productive in the long term. In line with previously conducted research, environmental performance has a positive relationship with corporate financial performance (Orlitzky et al., 2003; Van Beurden & Gössling, 2008).

© 2024 Conscientia Beam. All Rights Reserved.

Corporate social responsibility should be performed due to the fact that it is a must with regard to regulation, despite the company's losses.

6.2. Conclusion

The primary objective of this research was to examine how leadership style, business ethics, and environmental performance collectively influence corporate social performance, which in turn affects corporate financial performance. While concerns related to leadership style, business ethics, environmental awareness, and social cohesion are not novel, the growing significance lies in integrating these four aspects within a single study. In a more comprehensive approach, this model utilizes an analysis to explore not only the direct effects of leadership style, business ethics, and environmental performance on corporate financial performance but also the indirect effects of leadership style, business ethics, and environmental performance on corporate financial performance through corporate social performance. The result indicated that leadership style and business ethics do not directly influence corporate financial performance. Nevertheless, it is evident that environmental performance and corporate social performance exert an influence on the financial performance of a corporation. Furthermore, there is no detectable mediation effect of corporate financial performance in the relationship between environmental performance and corporate social performance.

Theoretically, this study adds to the body of knowledge in management accounting, environmental management systems, and corporate social performance. It offers valuable insights into how leadership style, business ethics, environmental performance, and corporate social performance collectively play crucial roles in the decision-making process aimed at achieving enhanced corporate performance. It is important to highlight that the existing body of literature does not provide substantial evidence on how leadership style, business ethics, environmental factors, and corporate social performance collectively affect the factors that determine corporate financial performance.

The most prominent contribution of this study is that it focuses on the managerial level, which affects the organizational-level outcomes. The managerial level of constructs on leadership style, business ethics, environment, and corporate social performance (CSP) is marginally available in the existing literature. Existing studies ignore the need to develop a comprehensive relationship among business ethics, CSP, and environmental performance with leadership commitment to ethics, social responsibility, and environmental factors to accomplish corporate performance. This study adds to what is already known by looking into how business ethics, leadership style, environmental performance, and corporate social performance (CSP) affect each other and how they affect financial performance. This is all done with the goal of promoting sustainable development goals (SDGs) through better financial performance.

This research also carries significant implications for the field of management and its practical applications. This is an important commitment regarding ethics, ecology, and social concern. Considering the result of the examination of the relationship among leadership style, business ethic, CSP, and environment, it seems like an option to enhance and create an effective leadership role in doing business. Company's leaders should be committed to ethics, society, and environment. Leaders who adopt a transformational leadership style, characterized by a strong commitment to ethics and values, tend to achieve greater levels of moral development. Transformational leaders tend to comprehend the intricate relationships between a company and its diverse stakeholders, perceiving the firm as interlinked with its community and natural surroundings rather than operating in isolation. Conversely, transactional leaders primarily concentrate on upholding existing norms and efficiency, often adhering to a narrower perspective that primarily prioritizes shareholders (Du et al., 2013).

© 2024 Conscientia Beam. All Rights Reserved.

Funding: This study received no specific financial support.
Institutional Review Board Statement: The Ethical Committee of the Universitas Padjadjaran, Indonesia has granted approval for this study on 21 December 2021 (Ref. No. 15497/UN6.B.4.16/TU/02/2021).
Transparency: The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.
Competing Interests: The authors declare that they have no competing interests.
Authors' Contributions: All authors contributed equally to the conception and design of the study. All authors have read and agreed to the published version of the manuscript.

REFERENCES

Achim, M.-V., & Borlea, S. N. (2014). Environmental performances-way to boost up financial performances of companies. *Environmental Engineering and Management Journal, 13*(4), 991-1004. https://doi.org/10.30638/eemj.2014.103

Ahmad, I., Gao, Y., & Hali, S. M. (2017). A review of ethical leadership and other ethics-related leadership theories. *European Scientific Journal, 13*(29), 10-23. https://doi.org/10.19044/esj.2017.v13n29p10

Ahmed, N. U., Montagno, R. V., & Firenze, R. J. (1998). Organizational performance and environmental consciousness: An empirical study. *Management Decision, 36*(2), 57-62. https://doi.org/10.1108/00251749810204124

Amos, D. N. (2012). Business ethics: A catalyst for rapid economic growth. *Journal of Educational and Social Research, 2*(10), 30-37.

Aslam, Shoaib, Almagrhi, Muhamed, H., Rehman, Ramiz ur, . . . Collins, G. (2020). Environmental management practice and financial performance using data envelopment in Japan: The mediating role of enviromental performanxce. *Business Strategy and The Environment, Wiley.*

Barnett, M. L., & Salomon, R. M. (2006). Beyond dichotomy: The curvilinear relationship between social responsibility and financial performance. *Strategic Management Journal, 27*(11), 1101-1122.

Bass, B. M., & Stogdill, R. M. (1990). *Bass & Stogdill's handbook of leadership: Theory, research, and managerial applications* (3rd ed.). New York, London, Toronto, Sydney: The Free Press.

Bastari, A., Eliyana, A., & Wijayanti, T. (2020). Effects of transformational leadership styles on job performance with job motivation as mediation: A study in a state-owned enterprise. *Management Science Letters, 10*(12), 2883-2888. https://doi.org/10.5267/j.msl.2020.4.019

Berrone, P., & Gomez-Mejia, L. R. (2009). Environmental performance and executive compensation: An integrated agency-institutional perspective. *Academy of Management Journal, 52*(1), 103-126. https://doi.org/10.5465/amj.2009.36461950

Bickes, D. M., & Yilmaz, C. (2020). *Chapter one leadership theories. A Handbook of Leadership Styles.* UK: Cambridge Scholars Publishing.

Calvey, D. (2008). The art and politics of covert research: Doingsituated ethics' in the field. *Sociology, 42*(5), 905-918. https://doi.org/10.1177/0038038508094569

Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of Management Review, 4*(4), 497-505. https://doi.org/10.5465/amr.1979.4498296

Carroll, A. B. (1999). Corporate social responsibility: Evolution of a definitional construct. *Business & Society, 38*(3), 268-295. https://doi.org/10.1177/000765039903800303

Choi, T. H., & Jung, J. (2008). Ethical commitment, financial performance, and valuation: An empirical investigation of Korean companies. *Journal of Business Ethics, 81*, 447-463. https://doi.org/10.1007/s10551-007-9506-1

Chun, J. S., Shin, Y., Choi, J. N., & Kim, M. S. (2013). How does corporate ethics contribute to firm financial performance? The mediating role of collective organizational commitment and organizational citizenship behavior. *Journal of Management, 39*(4), 853-877. https://doi.org/10.1177/0149206311419662

Cochran, P. L., & Wood, R. A. (1984). Corporate social responsibility and financial performance. *Academy of Management Journal, 27*(1), 42-56.

Denney, V. P. (2018). Achieving business performance through ethical business practice. *Global Journal of Business Disciplines, 2*(1), 15-45. https://doi.org/10.47177/gjbd.02.01.2018.015

© 2024 Conscientia Beam. All Rights Reserved.

Du, S., Swaen, V., Lindgreen, A., & Sen, S. (2013). The roles of leadership styles in corporate social responsibility. *Journal of Business Ethics, 114*, 155-169. https://doi.org/10.1007/s10551-012-1333-3

Elsayed, K., & Paton, D. (2005). The impact of environmental performance on firm performance: Static and dynamic panel data evidence. *Structural Change and Economic Dynamics, 16*(3), 395-412. https://doi.org/10.1016/j.strueco.2004.04.004

Enofe, A. O., Ogbeide, O. L., & Julius, O. M. (2015). Business ethics and corporate growth. *Business Ethics, 7*(15), 139-148. https://doi.org/10.1093/hebz/9780198810070.003.0003

Freeman, R. E. (1984). *Strategic management: A stokcholder approach*. Marshfield, MA: Pitman.

Freeman, R. E., Harrison, J. S., & Zyglidopoulos, S. (2010). *Stakeholder theory: Concepts and strategies*. Cambridge, U.K: Cambridge University Press.

Gantino, R., Ruswanti, E., & Rahman, T. (2019). Leadership style, intellectual capital, corporate social responsibility and corporate performance: A comparative study between two Indonesian Industries. *Journal of Accounting Research, Organization and Economics, 2*(3), 203-217. https://doi.org/10.24815/jaroe.v2i3.15291

Goel, M., & Ramanathan, M. P. E. (2014). Business ethics and corporate social responsibility–is there a dividing line? *Procedia Economics and Finance, 11*, 49-59. https://doi.org/10.1016/s2212-5671(14)00175-0

Gössling, T., & Vocht, C. (2007). Social role conceptions and CSR policy success. *Journal of Business Ethics, 74*, 363-372. https://doi.org/10.1007/s10551-007-9512-3

Gunningham, N. (2009). Shaping corporate environmental performance: A review. *Environmental Policy and Governance, 19*(4), 215-231. https://doi.org/10.2139/ssrn.2343483

Hart, S. L. (1995). A natural-resource-based view of the firm. *Academy of Management Review, 20*(4), 986-1014. https://doi.org/10.5465/amr.1995.9512280033

Joyner, B. E., & Payne, D. (2002). Evolution and implementation: A study of values, business ethics and corporate social responsibility. *Journal of Business Ethics, 41*, 297-311.

Katsaros, K. K., Tsirikas, A. N., & Kosta, G. C. (2020). The impact of leadership on firm financial performance: The mediating role of employees' readiness to change. *Leadership & Organization Development Journal, 41*(3), 333-347. https://doi.org/10.1108/lodj-02-2019-0088

Klassen, R. D., & McLaughlin, C. P. (1996). The impact of environmental management on firm performance. *Management Science, 42*(8), 1199-1214. https://doi.org/10.1287/mnsc.42.8.1199

Kozáková, J., Urbánová, M., & Savov, R. (2021). Factors influencing the extent of the ethical codes: Evidence from Slovakia. *Journal of Risk and Financial Management, 14*(1), 40.

Kraus, S., Rehman, S. U., & García, F. J. S. (2020). Corporate social responsibility and environmental performance: The mediating role of environmental strategy and green innovation. *Technological Forecasting and Social Change, 160*, 120262. https://doi.org/10.1016/j.techfore.2020.120262

Kziezak, P., & Fiscbach, B. (2017). Triple bottom line, the pillar of CSR, corporate social responsibility in management theory and business practice. *Journal of Corpoarte Responsibility and Leadership, 4*(3), 95-110.

Lee, S., & Heo, C. Y. (2009). Corporate social responsibility and customer satisfaction among US publicly traded hotels and restaurants. *International Journal of Hospitality Management, 28*(4), 635-637. https://doi.org/10.1016/j.ijhm.2009.02.007

Milton, F. (1970). The social responsibility of business is to increase its profits. *New York Times Magazine*, 122-126.

Nawrocka, D., & Parker, T. (2009). Finding the connection: Environmental management systems and environmental performance. *Journal of Cleaner Production, 17*(6), 601-607. https://doi.org/10.1016/j.jclepro.2008.10.003

Northouse, P. (2019). *Leadership, theory and practice* (8th ed.). Thousand Oaks, CA: Sage.

Nwachukwu, C., Chladkova, H., Zufan, P., & Olatunji, F. (2017). Visionary leadership and its relationship to corporate social performance. *Imperial Journal of Interdisciplinary Research, 3*(4), 1302-1311.

Ogbari, M. E., Oke, A. O., Ibukunoluwa, A. A., Ajagbe, M. A., & Ologbo, A. C. (2016). Entrepreneurship and business ethics: Implications on corporate performance. *International Journal of Economics and Financial Issues, 6*(3), 50-58.

© 2024 Conscientia Beam. All Rights Reserved.

Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*(3), 403-441.

Palmer, K., Oates, W. E., & Portney, P. R. (1995). Tightening environmental standards: The benefit-cost or the no-cost paradigm? *Journal of Economic Perspectives, 9*(4), 119-132. https://doi.org/10.4337/9781035305100.00010

Persons, O. S. (2013). Characteristics and financial performance of no-ethics-code firms. *Journal of Academic and Business Ethics, 7*, 1-14.

Porter, M. E., & Kramer, M. R. (2006). The link between competitive advantage and corporate social responsibility. *Harvard Business Review, 84*(12), 78-92.

Porter, M. E., & van der Linde, C. (1995). Toward a new conception of the environment-competitiveness relationship. *Journal of Economic Perspectives, 9*(4), 97-118. https://doi.org/10.1257/jep.9.4.97

Puni, A., Ofei, S. B., & Okoe, A. (2014). The effect of leadership styles on firm performance in Ghana. *International Journal of Marketing Studies, 6*(1), 177. https://doi.org/10.5539/ijms.v6n1p177

Rahman, B., Idris, A., & Nedelea, A. M. (2017). Greenwashing in Canadian firms: An assessment of environmental claims. *EcoForum, 6*(2), 1-8.

Roman, R. M., Hayibor, S., & Agle, B. R. (1999). The relationship between social and financial performance: Repainting a portrait. *Business & Society, 38*(1), 109-125. https://doi.org/10.1177/000765039903800105

Rosenthal, S. B., & Buchholz, R. A. (2000). The empirical-normative split in business ethics. *Business Ethics Quarterly, 10*(2), 399-408.

Russo, M. V., & Fouts, P. A. (1997). A resource-based perspective on corporate environmental performance and profitability. *Academy of Management Journal, 40*(3), 534-559. https://doi.org/10.5465/257052

Sahaya, N. (2012). A learning organization as a mediator of leadership style and firms' financial performance. *International Journal of Business and Management, 7*(14), 96. https://doi.org/10.5539/ijbm.v7n14p96

Sexty, R. (2011). *Canadian business and society: Ethics and responsibilities.* Toronto: McGraw-Hill Ryerson.

Simerly, R., & Thomas, A. (1994). Strategic orientation and corporate social performance: An empirical examination. *Journal of Business Strategies, 11*(2), 113-123. https://doi.org/10.54155/jbs.11.2.113-123

Singh, S. K., Chen, J., Del Giudice, M., & El-Kassar, A.-N. (2019). Environmental ethics, environmental performance, and competitive advantage: Role of environmental training. *Technological Forecasting and Social Change, 146*, 203-211. https://doi.org/10.1016/j.techfore.2019.05.032

Soutar, G., McNeil, M. M., & Molster, C. (1994). The impact of the work environment on ethical decision making: Some Australian evidence. *Journal of Business Ethics, 13*, 327-339. https://doi.org/10.1007/bf00871761

Stanwick, P. A., & Stanwick, S. D. (1998). The relationship between corporate social performance, and organizational size, financial performance, and environmental performance: An empirical examination. *Journal of Business Ethics, 17*, 195-204. https://doi.org/10.1007/978-94-007-4126-3_26

Sunu, P. (2001). *Protecting the environment by implementing ISO 14001*. Jakarta: PT. Gramedia Widia Sarana Indonesia.

Ugoani, J. (2019). Business ethics and its effect on organizational sustainability. *Global Journal of Social Sciences Studies, 5*(2), 119-131. https://doi.org/10.20448/807.5.2.119.131

Van Beurden, P., & Gössling, T. (2008). The worth of values–a literature review on the relation between corporate social and financial performance. *Journal of Business Ethics, 82*, 407-424. https://doi.org/10.1007/s10551-008-9894-x

Van Wijk, I. (2018). *Rationale of corporate citizenship.* Southern Africa: Oxford University Press, (Pty) Limited.

Waddock, S. (2008). The development of corporate responsibility/corporate citizenship. *Organization Management Journal, 5*(1), 29-39.

Waddock, S. A., & Graves, S. B. (1997). The corporate social performance–financial performance link. *Strategic Management Journal, 18*(4), 303-319. https://doi.org/10.12681/eadd/46585

Waldman, D. A., Siegel, D. S., & Javidan, M. (2006). Components of CEO transformational leadership and corporate social responsibility. *Journal of Management Studies, 43*(8), 1703-1725. https://doi.org/10.1111/j.1467-6486.2006.00642.x

© 2024 Conscientia Beam. All Rights Reserved.

Wang, F.-J., Chich-Jen, S., & Mei-Ling, T. (2010). Effect of leadership style on organizational performance as viewed from human resource management strategy. *African Journal of Business Management*, *4*(18), 3924-3936.

Wartick, S. L., & Cochran, P. L. (1985). The evolution of the corporate social performance model. *Academy of Management Review*, *10*(4), 758-769. https://doi.org/10.5465/amr.1985.4279099

Weaver, G. R., Trevino, L. K., & Cochran, P. L. (1999). Integrated and decoupled corporate social performance: Management commitments, external pressures, and corporate ethics practices. *Academy of Management Journal*, *42*(5), 539-552. https://doi.org/10.5465/256975

Wood, D. J. (1991). Corporate social performance revisited. *Academy of Management Review*, *16*(4), 691-718. https://doi.org/10.5465/amr.1991.4279616

Yukl, G. (1989). Managerial leadership: A review of theory and research. *Journal of Management*, *15*(2), 251-289. https://doi.org/10.1177/014920638901500207

Zhu, B., Xu, C., Wang, P., & Zhang, L. (2022). How does internal carbon pricing affect corporate environmental performance? *Journal of Business Research*, *145*, 65-77. https://doi.org/10.1016/j.jbusres.2022.02.071

Views and opinions expressed in this article are the views and opinions of the author(s), International Journal of Management and Sustainability shall not be responsible or answerable for any loss, damage or liability etc. caused in relation to/arising out of the use of the content.

© 2024 Conscientia Beam. All Rights Reserved.