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Would Happiness Be Able to Mediate CSR to Increase Corporate Performance?

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ABSTRACT

This study aims to analyze the effect of Corporate Social Responsibility (CSR) on company performance and the role of the happiness index as a mediating variable. The happiness index has become a measure of well-being. Happiness is something abstract and qualitative but is starting to be used as a measuring tool. This research was conducted on energy sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, using a purposive sampling method involving 24 companies. Data was obtained from the company's financial statements, the World Happiness Report publication, and the Indonesian Statistics. Quantitative data analysis was carried out using the SmartPLS program. The results showed that CSR has no significant effect on company performance or the happiness index, while the happiness index has a significant effect on company performance. However, the happiness index does not mediate the relationship between CSR and corporate performance.

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INTRODUCTION

Research examining the direct relationship between CSR and firm performance has attracted much interest from researchers for a long time. However, most of the findings are inconclusive and overlapping (Margolis et al., 2007; Mawuewoeboham & Eguruze, 2025; Mishra & Suar, 2010; Shirodkar et al., 2024; Vogel, 2005). This is because research on the positive relationship between CSR and firm performance has been a dominant theme in many articles and has been universally researched (Abu Bakar & Ameer, 2011; Adewole, 2025; Oeyono et al., 2011; Ofosu & Arthur-Holmes, 2024; Orlitzky et al., 2011; Roshayani et al., 2009; Van Beurden & Gössling, 2008; Zhang, 2024). Other studies also show a negative correlation or no relationship at all (Aupperle et al., 1985; Crisóstomo et al., 2011; Prakash & Hawaldar, 2024; Smith et al., 2007).

Some researchers (Alafi & Al Sufy, 2012; Galbreath & Shum, 2012; Griffin & Mahon, 1997; Margolis & Walsh, 2003; Mawuewoeboham & Eguruze, 2025; Prakash & Hawaldar, 2024; Rowley & Berman, 2000; Shirodkar et al., 2024; Wood & Jones, 1995) question the approach used by most researchers when examining the direct relationship between CSR and firm performance. They claim that the positive, negative, or neutral results obtained by examining the direct relationship between CSR and firm performance cannot be trusted 100%, as this relationship may be influenced by some other intervening factors that many studies have ignored.

Happiness is an abstract and complex phenomenon perceived differently across cultures and historical contexts (Oishi et al., 2013); however, it is also something individuals and societies generally desire. Many Western governments were established primarily based on the utilitarian goal of providing the greatest happiness for as many people as possible (Duncan, 2010). Indeed, intellectual and philosophical efforts to understand the nature and development of happiness date back to antiquity and remain a major topic in contemporary philosophical and scientific inquiry (Haidt, 2010). Depending on one's ethical and philosophical allegiance, happiness can consist of pleasant experiences (e.g., Benthanism), living virtuously (e.g., virtue ethics), or a combination of both. In this research, happiness describes feeling and functioning well in various areas of life. Others label this concept as well-being, flourishing, or optimal functioning, with little consistency or consensus within or beyond the field of (Kern et al., 2020).

Across history, philosophers from various traditions have questioned the nature and path to happiness, with little reconciliation (Kern et al., 2020; Kesebir & Diener, 2008). It is beyond the scope of this article to review the philosophical landscape, advance a particular philosophical position, or identify specific terms. Instead, this research draws more heavily on conceptualizations of happiness from the behavioral and social sciences, with a particular focus on positive psychology perspectives.

In contrast to previous studies, this study will examine the relationship between CSR and company performance and use the happiness index as a mediating variable. The happiness index is one of the indicators recently popularly used to show public welfare, and this is motivated by the many opinions that say that economic indicators and income growth do not guarantee happiness (Bergh & Erlingsson, 2009; Costanza et al., 2009; Fluerbaey, 2009).

The happiness index has finally become a measure of welfare, especially since the United Nations has also started using the happiness index as a measure of welfare (Happiness: Towards a Holistic Approach to Development, 2011). Of course, this development is interesting and unique. Happiness, something abstract and qualitative, has now begun to be indexed. This progress will certainly spur research that will involve the happiness index.

The results of this study are expected to prove the relationship between quantitative variables that have been used to see company performance and variables that have been qualitative but are starting to be quantified.

The grand theory used in this study is the stakeholder theory, which Edward Freeman first proposed in 1984 (Freeman, 1984) It is a theory of organizational management and business ethics that discusses morals and values in regulating organizations. Stakeholders are groups or individuals who have the potential to influence or impact the achievement of organizational goals (Freeman, 1984). These stakeholders include the general public, businesses, government agencies, political institutions, legislatures, courts, and the media. According to the stakeholder hypothesis, a company cannot exist without the trust and support of stakeholders, and as a result, company decisions are made with their approval.

The implications of stakeholder theory are implicit in this study to clarify what is meant when it is said that governments may freely share information about their environmental, social, and intellectual performance in addition to what is required. To meet public expectations for realized or recognized financial reporting. The creation of financial reports that are reliable, relevant, timely, and understandable to stakeholders or the public results in society and local governments influencing each other in terms of responsibility and accountability. Suppose the report that has been reported is accurate and reliable. Performance is good and will increase the accountability of government agency performance and win public trust.

Over the past few decades, researchers have paid considerable attention to CSR. Therefore, CSR has become a prominent concept in the management literature (De

Bakker et al., 2005; Dobers, 2009; Nejati & Ghasemi, 2012). In addition to the theoretical aspects, companies have become more active in undertaking CSR in practice (Dahlsrud, 2008; McWilliams et al., 2006). The driving force behind this is the increase in environmentally sensitive consumers who demand sustainable and more environmentally friendly products and services (Gauthier, 2005; Van Beurden & Gössling, 2008).

Despite the vast literature on CSR, there is no uniform and precise definition (Scherer & Palazzo, 2007; Wood, 2010). As such, CSR does not mean the same thing to everyone (Marrewijk, 2003). Wood (2010) argues that CSR is difficult to conceptualize. Talaei and Nejati (2008) also state that the lack of clear conceptual boundaries has led to diverse definitions. In light of these claims, some authors (Lozano, 2008; Orlitzky et al., 2011; Van Beurden & Gössling, 2008) believe that the lack of clear definitions makes conducting empirical research on CSR difficult. Despite the lack of a clear definition, all existing definitions of CSR agree on one thing, namely that companies should meet society's expectations when planning their environmental management strategies (Gössling & Vocht, 2007).

According to Van Beurden and Gössling (2008), CSR addresses the uncertainties that business enterprises face in the social context of the dynamic, global, and technological business arena we witness today. According to Carroll (1979), CSR is the social responsibility of a business that encompasses the economic, legal, ethical, and policy expectations that society has of the organization at any given time. Carroll (1979) definition is the clearest conceptualization of CSR because, in addition to identifying a company's obligations to society, it systematically distinguishes corporate responsibility from profit-making and government social responsibility (Chen et al., 2012; Lozano, 2008; Wood, 2010).

Evidence of the strength of this claim is the variety of scholars who have used this definition in their research (Galbreath, 2008; Galbreath & Shum, 2012; Sheth & Babiak, 2010; Shum & Yam, 2011). This study considers the economic and ethical dimensions of CSR as Carroll (1979) proposed. It is also argued by Turker (2009) that although economic responsibilities should be distinguished from other responsibilities, both should be considered simultaneously in addressing CSR because financial interests are the fundamental reason for setting up a business. The ethical behavior of the company, which is something more than just a financial issue, is a significant factor affecting the survival of the organization (Nejati & Ghasemi, 2012).

CSR is a broad concept that has different meanings due to its various dimensions. Paek *et al.*, (2013) suggest studying it in various aspects. In simple terms, CSR is a form of corporate responsibility to the environment and society that interacts with the company. Furthermore, CSR can be interpreted as a corporate contribution to sustainable development in the economic, social, and environmental sectors for all stakeholders.

The company's CSR practices are very influential in building the company's image in the eyes of the public and other stakeholders, which is called company value. Firm value is the investor's view of the company associated with the stock price. Firm value is defined as market value because the firm value of a company can provide maximum wealth to shareholders if the company's share price increases. The higher the share price, the higher the shareholder's wealth. That way, it is important that the company pays attention to its CSR practices because they will affect the value of the company.

In development economics, CSR has been considered a key factor in achieving economic goals and wealth creation (Garriga & Melé, 2004). Therefore, many studies have tried to find a global relationship between CSR and firm performance (Alafi & Al Sufy, 2012; Galbreath & Shum, 2012; Lin et al., 2009; Luo & Bhattacharya, 2006; Margolis et al., 2008; Orlitzky et al., 2003; Rettab et al., 2009; Shen & Chang, 2008; Van Beurden & Gössling, 2008). For example, empirical findings by several researchers (Alafi & Al Sufy, 2012; Galbreath & Shum, 2012; Luo & Bhattacharya, 2006; Margolis et al., 2008; Shen & Chang, 2008) indicate a positive relationship between CSR and firm performance.

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The findings of Orlitzky, Schmidt and Rynes (2003) further support the ideas presented by Garriga and Melé (2004). Their study, which reviewed 52 previous surveys on the relationship between CSR and firm performance, showed that more socially responsible firms have more substantial economic outcomes. Later, survey data was adopted from 280 firms in the UAE by Rettab, Brik and Mellahi (2009) to examine the relationship between CSR operations and firm performance; the results showed that CSR has a positive relationship with all three determinants of firm performance: monetary performance, personnel commitment, and firm integrity.

The impact of CSR on firm performance among 1000 cases in Taiwan was also investigated, and a positive relationship between CSR and financial performance was found (Lin et al., 2009). Galbreath (2008) also found a strong positive relationship between CSR and organizational benefits among Australian firms. Consistent with previous research, after examining 34 preview studies on the relationship between CSR and firm performance by Van Beurden and Gössling (2008), it was found that 68% of the studies showed a positive relationship. Finally, the strong and positive relationship between CSR and firm performance is supported by the findings of Alafi and Al Sufy (2012) who conducted research on housing banks in Jordan.

A review of the available literature shows that most cited studies utilized developed country samples in Europe or the United States (Galbreath & Shum, 2012). Despite (1) the lack of studies on CSR and firm performance in developing countries, especially in the context of Iran; (2) the underutilization of selected samples in international research (Chapardar & Khanlari, 2011; Nejati & Ghasemi, 2012); and (3) the existence of a negative gap between actual and expected CSR levels among Iranian firms (Salehi & Azary, 2009), the predict that similar results to Western countries will be found in Iran, a developing Asian country. It should be noted that the central perspective of this study is based on the indirect effect of CSR on firm performance. Since the Baron and Kenny (1986) procedure is used in this study to test the hypotheses, the direct relationship between CSR and firm performance should be tested in the first stage.

CSR refers to the voluntary efforts of companies to incorporate social considerations into their decision-making, productive activities, and interactions with society at large to contribute to some social goals. CSR initiatives broadly address social issues, such as public health, human rights, environmental preservation, and social security (Scherer & Palazzo, 2011).

Although CSR has drawn criticism in the past (Freeman & Liedtka, 1991; Friedman, 1970; Karnani, 2011), unresolved academic tensions have not prevented CSR from developing as a mainstream concept in the business world. Studies show that CSR can harmoniously support organizations' strategic goals (Kramer & Porter, 2006) and improve their financial performance (Wang et al., 2016). Given this growing body of scholarly support, we argue that CSR is an ideal vehicle for putting important social goals and issues-including community happiness, on the corporate radar.

Various CSR literature have signaled the idea of happiness as a corporate responsibility. For example, in explaining the rationale for CSR, Robins (2008) states, ‘It makes more sense to encourage companies to “do good” and, in so doing, directly add to human happiness and social and environmental well-being.’ There is a growing call for companies to engage prosocially with local and global communities to not only preserve or improve the objective conditions of society but also to improve the subjective experiences and outcomes of those who live in them (Mindell et al., 2012).

However, we lack scholarly work examining community happiness as a CSR concern. Concepts and initiatives, such as corporate social performance and the Global Reporting Initiative (GRI), have failed to include a range of social outcomes related to happiness and people's subjective experiences. CSR for happiness seeks to address this oversight in existing research and is based on the observation that corporate activities can influence various objective aspects of social life and the subjective experiences of

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community constituents.

CSR for happiness advocates for companies to proactively engage in activities that directly contribute to people's holistic happiness - including objective, subjective, hedonic, and eudaimonic dimensions - by respecting, preserving, and advancing people's rights and experiences of happiness.

METHODS

This research was conducted on companies listed on the Indonesia Stock Exchange (IDX) for 5 years, from 2019 to 2023. In this study, the population used is companies engaged in the energy sector, especially in the oil, gas, and coal industries listed on the IDX from 2019-2023.

The number of energy sector companies listed on the IDX to date is 64 companies. Based on the sampling technique, namely purposive sampling (Sugiyono, 2018). A sample of 24 companies that were eligible to be used as research objects were obtained. The number of financial reports sampled in this study amounted to 120, and annual reports were distributed among 24 energy sector companies. Based on the data above, this study examines the effect of CSR on company performance and the effect of the happiness index as a mediation between CSR and company performance.

The criteria used are as follows: companies belonging to the energy sector (oil, gas, and coal); the company publishes annual reports for the period 31 December 2019 - 2023; companies that have CSR data; Companies that have data on all related variables regarding this study. The type of data used in this study is secondary data. Data collection agencies have collected these data and published to the data user community.

Data is obtained from the company's financial statements and annual reports on the official website of the Indonesia Stock Exchange (IDX, 2024), the official website of the company that is the object of research, the official website of the World Happiness Report (World Happiness Report, 2024) and the official website of the Central Statistics Agency (Badan Pusat Statistik, 2024).

The secondary data used in this study are annual reports from companies that publish annual reports listed on the IDX from 2019 to 2023. Happiness index data is obtained from the World Happiness Report and BPS publications and documents supporting this research. The data collected in this study include independent variables, mediating variables, and dependent variables. The independent variable of this research is CSR reported by the company. The mediating variable is the happiness index, and the dependent variable is company performance.

RESULTS AND DISCUSSION

All variables underwent data processing using SmartPLS software version 3.2.9 (Ringle et al., 2015), and hypothesis testing. Indicators and each variable in the model were tested to ensure internal consistency and reliability. Correlation matrices were used to assess variable relationships. Cross-loading with relevant constructs generated by the SmartPLS program was used to determine measurement reliability and validity. The structural model with path coefficients was used to test all developed hypotheses.

In this study, the number of samples used is 120 data samples, and this exceeded the minimum limit of 90 recommended by Chin, Marcolin, and Newsted (2003), because it represented ten times the number of exogenous variables in a construct. The structural model in the PLS technique identifies the relationship between constructs, while the measurement model determines the relationship between indicators and the constructs they represent (Chenhall, 2005).

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In the measurement model in PLS, there are reflective indicators or formative indicators. Formative indicators help describe constructs, while constructs determine reflective indicators. Based on the measurements used in this study, the measurement model uses reflective indicators as the underlying construct or manifested by a series of indicators (Bisbe et al., 2007). The model's external load must exceed 0.708 for reflective variables. Charges that have measurements between 0.40 and 0.70 can be considered for discard if the charge is not expected to be able to increase the Composite Reliability and AVE values (Hair-Jr et al., 2014).

Furthermore, the output of the PLS test confirms convergent validity, as all loadings have exceeded 0.708. In addition, convergent validity can also be assessed from the t-statistics of outer loadings greater than 1.96 (t-statistics > 1.96). Convergent validity can also be ensured if the AVE of each construct exceeds 0.50 (Henseler et al., 2009).

Cronbach's Alpha and Composite Reliability are used to measure the internal consistency and validity of the measurement model. A rule of thumb of 0.708 is commonly used for both measures (Henseler et al., 2009; Hulland, 1999). In addition, the rho_A (ρA) value of 0.70 is more consistent than other statistics (Henseler, Hubona, & Ray, 2016).

Table 1. Internal Consistency and Validity of Measurement Model

	Cronbach's Alpha (> 0.708)	**rho_A (> 07)**	**Composite Reliability (> 0.708)**	**AVE (> 0.5)**
CSR	1.000	1.000	1.000	1.000
Firm Performance	0.735	0.752	0.882	0.789
Happiness Index	1.000	1.000	1.000	1.000

Source*:* data that has been processed by the author (2025)

Table 1 presents the results of Cronbach's Alpha, Composite Reliability, rho_A, and AVE. Cronbach's Alpha shows that all values exceeded the value of 0.708, namely, from 0.735 to 1.000. The table also displays rho_A values that have exceeded the minimum limit of 0.7, namely from 0.752 to 1.000.

The Composite Reliability value also shows that the value has exceeded the minimum limit of 0.708, which is from 0.882 to 1.000. The AVE values of all latent variables are also above 0.5, i.e., from 0.789 to 1.000.

The AVE value indicates a good measure of convergent validity, which means that the latent variable can explain, on average, more than half of the variance of its indicators. There are several methods to measure discriminant validity, namely the Fornell-Larcker Criterion rule or the HTMT confidence interval value.

The last is to use the highest measure of the highest charge compared to the cross charge on other constructs. For the Fornell-Larcker Criterion decision, Discriminant Validity is assessed by comparing the square root of the AVE, which is calculated for each construct, and the correlation between the different constructs in the model.

The square root of the AVE (the diagonal number in the table) should be higher than the off-diagonal elements in the corresponding row and column.

Table 2 shows that the square root of the diagonally placed AVE is higher than the possible variable correlations, indicating Discriminant Validity.

Table 2. Discriminant Validity Decision with Fornell-Larcker Criterion

	CSR	**Firm Performance**	**Happiness Index**
CSR	**0.843**		
Firm Performance	0.688	**0.782**	
Happiness Index	0.541	0.779	**0.438**

Square roots of AVE are shown diagonally

Source*:* data that has been processed by the author (2025)

Table 3 shows the results of testing discriminant validity using HTMT. Based on the table, no reflective variable has a high HTMT value exceeding 0.85, so it can be formulated that all reflective variables in this research model are different.

Table 3. Discriminant Decision Validity with HTMT

	CSR	Firm Performance	Happiness Index
CSR			
Firm Performance	0.691		
Happiness Index	0.549	0.782	0.440

Source*:* data that has been processed by the author (2025)

In the next step, the structural model estimates the path coefficients or significant effects on the relationships between constructs. The procedure for determining the model is presented in chapter five, following the guidelines of Hair et al. (2014).

For collinearity assessment, the results show the Collinearity Statistics (VIF) of the PLS test. The VIF value has a collinearity problem if it exceeds 5. Based on Table 4, no pair of variables has a VIF value exceeding 5, so the model has no collinearity.

Table 4 Collinearity Statistics (VIF)

	CSR	Firm Performance	Happiness Index
CSR		1.000	1.000
Firm Performance			
Happiness Index		1.000	

Source*:* data that has been processed by the author (2025)

To report the relevance and significance level of the path coefficient, the coefficient value must be matched with the t-statistic. The relationship is statistically significant if the t-statistic exceeds the critical value based on the 1-tailed or 2-tailed test. If the hypothesis is directed, the t-statistic as a critical value is 1.65 (according to the 5% significance level). On the other hand, the critical value of the t-statistic for the unidirectional test is 1.96 (Ali, 2018).

The path coefficients between latent variables generated by the PLS program based on 120 samples are presented in Figure 1. The structural model helps to assess whether the hypothesis is supported. The structural model shows a definite path between the happiness index and company performance.

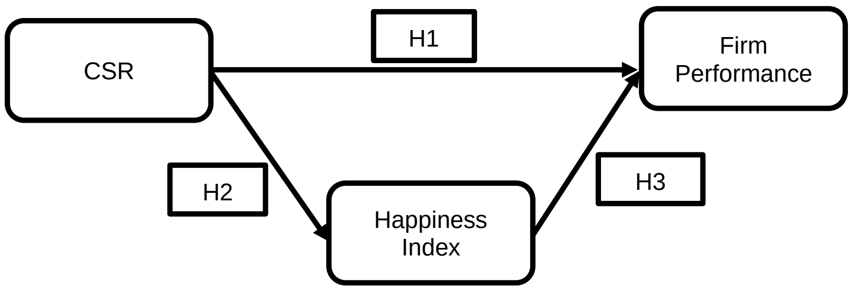

Figure 1. Structural Model

Source*:* data that has been processed by the author (2025)

The structural model is then assessed by examining the coefficient of determination (R^2) of the percentage of variance in the dependent variable explained by variation in the independent variables. The R^2 value varies between 0 and 1. So, when R^2 gets closer to 1, the independent variables explain the dependent variable more and more (Sekaran & Bougie, 2013). Company performance has an R^2 value of 0.075, which indicates that the combination of the exogenous variables explains 7.5% of the variation. The R^2 value of the Happiness Index is 0.005, which indicates that the combination of the exogenous variables explains 0.5% of the problem. The R^2 values of the variables involved in this study are considered weak (Ali, 2018; Hair et al., 2011).

Path analysis examines contextual variables' direct and indirect effects on the dependent variable. The model's path coefficients determine the path's strength between exogenous latent variables and endogenous variables and support the hypothesized relationship (Henseler et al., 2009; Hulland, 1999). The bootstrapping procedure is used to provide confidence intervals for all estimated parameters. Table 5 shows the path coefficients between latent variables and t-statistics.

Table 5 Path coefficients and *t-Statistics*

	Original Sample (O)	T Statistics	P Values	Result
CSR → Firm Performance	0,069	0,887	0.375	Not Significant
CSR → Happiness Index	-0,005	0,086	0.954	Not Significant
Happiness Index → Firm Performance	0,265	**0,066**	**0.000**	**Significant**
CSR → Happiness Index → Firm Performance	-0.001	0,023	0,057	Not Significant

Source*:* data that has been processed by the author (2025)

The results showed that CSR does not significantly affect the performance of mining companies listed on the IDX. This study is not much different from research conducted by several previous researchers (Aupperle et al., 1985; Crisóstomo et al., 2011; Smith et al., 2007). Some possible reasons for this insignificant relationship are that CSR is primarily a program that is an obligation that companies must carry out. In line with research conducted by Ningtyas and Aryani (2020), CSR issued by companies has an impact on reducing company performance.

Not many studies examine the relationship between CSR and the Happiness Index. So, it does not seem very easy to compare this with previous research. However, the idea of examining the relationship has been done by some researchers, such as Robins (2008) who has initiated it for a long time. When tested quantitatively, the relationship between CSR and the Happiness Index is not significant. This shows that companies are not designed to make people happier but to make profits, so even though companies allocate CSR funds, the program does not increase people's happiness.

Interestingly, the relationship between the happiness index and company performance is significant. The study of these two variables is also little done by researchers, so there is no comparison, but when examining the relationship between the happiness of company employees and the company's performance where they work (Latip et al., 2022). These results show that a happy society will increase the company's performance. Of course, the happiness in question needs to be deepened. However, if the community is happy, the company is not too forced to spend CSR. Also, a happy society will not demand too much from the company, so the company will be more calm in running the business.

The results show that the happiness index does not mediate the relationship between CSR and company performance. This means that the effect of CSR on performance cannot be explained through increased happiness. In other words, CSR and the happiness index have different paths of influence on firm performance. Although CSR has no significant effect on firm performance in this study, this study highlights the importance of the happiness index as a factor influencing firm performance.

CONCLUSION

This study found that in the context of mining companies in Indonesia, CSR has no significant influence on firm performance or the happiness index. However, the happiness index itself has a significant influence on firm performance. This finding suggests that the relationship between CSR and firm performance is complex and needs to be further understood in different contexts. It is also worth noting the limitations of this study, including the limited sample size and low R^2 values, so these findings need to be interpreted cautiously.

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