

How to Cite

Widianti, N. L. P. T., & Rasmini, N. K. (2025). Stakeholder pressure and manufacturing firm profitability: The mediation effect of environmental performance. *International Journal of Business, Economics and Management*, 8(3), 270-281. <https://doi.org/10.21744/ijbem.v8n3.2438>

Stakeholder Pressure and Manufacturing Firm Profitability: The Mediation Effect of Environmental Performance

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Abstract---This study aims to examine the role of environmental performance in mediating the effect of stakeholder pressure on corporate profitability, with firm size as a control variable. Stakeholder theory is employed as the grand theory, while legitimacy theory serves as the supporting theory. This research was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The sample was determined using a purposive sampling technique, resulting in 922 observations of data. Data collection was carried out through non-participant observation by downloading data from the companies' official websites and the IDX website. The analytical technique used was Partial Least Squares (PLS) analysis, employing the WarpPLS program. The findings indicate that environmental pressure, customer pressure, and investor pressure have a positive effect on a company's environmental performance, whereas employee pressure has a negative effect. Furthermore, environmental pressure, customer pressure, and employee pressure have a positive effect on corporate profitability. In addition, environmental performance can mediate the effect of environmental pressure, customer pressure, and employee pressure on the profitability of manufacturing companies.

Keywords---Environmental Performance, Profitability, Stakeholder Pressure.

Introduction

From the perspective of stakeholder theory, a company's environmental performance is inseparable from its social and environmental responsibilities toward its stakeholders. Thus, the pressure exerted by stakeholders can serve as a form of monitoring mechanism and encourage firms to fulfill their responsibilities by adopting innovative measures to improve environmental performance (D. Li et al., 2017; Yunus et al., 2020). Such innovative steps may include developing environmentally friendly products (Chen & Chang, 2013), enhancing workplace safety and health by reducing the use of hazardous and toxic materials (Xie et al., 2019), as well as focusing on the safety and health of consumers who use the company's products (Chuang & Yang, 2014).

Companies that proactively address environmental issues will gain a positive reputation among stakeholders, which in turn can enhance firm profitability (Baah et al., 2021; Centobelli et al., 2019). For instance, the production of eco-friendly products and processes can reduce environmental restoration costs and long-term social expenses (Iwata & Okada, 2011; Chuang & Yang, 2014; D'Angelo et al., 2023; Hermawan et al., 2024). Firms actively engaged in environmentally responsible activities are more likely to achieve a competitive advantage (Pacheco et al., 2010). Those with a competitive advantage can more easily secure large-scale projects as they can leverage their internal resources to create new knowledge and various forms of innovation (De Clercq et al., 2015; Zhao et al., 2011).

In addition to demonstrating a commitment to sustainable environmental practices, companies must also meet the demands of their stakeholders to attract their attention (Baah et al., 2021; Wicaksono, 2012). Stakeholders who feel satisfied with what they receive are more likely to remain loyal to the firm (Ratnasari, 2011; Jin et al., 2024; Glaveli,

2020). Furthermore, companies recognize that responding to stakeholder pressure can enhance their competitive advantage, as they are required to manage multiple, often conflicting, stakeholder perspectives and interests (Rueda-Manzanares et al., 2008; Faliza, 2021). As a result, to cope with such pressures, firms must build stronger capabilities and capacities to compete more effectively (Sarkis et al., 2010). Ultimately, increasing demands from stakeholders can serve as a driving force for companies to further improve their profitability.

Research on the effect of stakeholder pressure on profitability has been conducted several times. Sarkis et al. (2010) found that stakeholder pressure has a positive relationship with environmental practices, and further noted that good environmental performance can help enhance corporate profitability. Fernandez-Feijoo et al. (2014) showed that stakeholder pressure, particularly from employees and investors, has the greatest influence on the transparency of corporate sustainability reporting. Similarly, Septavianty (2022) examined the effect of stakeholder pressure on firm profitability, measured by ROA, and found a positive relationship. Sari et al. (2022a) investigated the effect of stakeholder pressure on environmental performance by including profitability as a moderating variable. Their findings also emphasized that firms are not merely organizations that operate for their own benefit, but must also provide value to their stakeholders. These results indicate that the greater the pressure exerted by stakeholders, the higher the profitability achieved by the company.

The present study is motivated to combine the variables of environmental performance and stakeholder pressure, referring to studies by Fernandez-Feijoo et al. (2014), Fujii et al. (2013), Sari et al. (2022), and Sarkis et al. (2010). It also integrates the construct of stakeholder pressure with insights from Fernandez-Feijoo et al. (2014), Sarkis et al. (2010), Sari et al. (2022), and Baah et al. (2021), who found that increasing stakeholder pressure can indirectly influence firm profitability through environmental and social performance.

The novelty of this study compared to prior research lies in the use of PROPER ratings, issued by the Ministry of Environment and Forestry of the Republic of Indonesia, as the indicator for measuring environmental performance. Furthermore, this study examines both the direct effect of stakeholder pressure on environmental performance and the indirect effect of stakeholder pressure on profitability through environmental performance. To minimize the influence of external variables that may affect profitability—such as financial capacity and resources typically possessed by larger firms—this study employs firm size as a control variable. The research focuses on manufacturing companies listed on the Indonesia Stock Exchange (IDX).

Literature Review and Hypothesis Development

From the perspective of stakeholder theory, firms are responsible not only to shareholders but also to society, government, NGOs, and consumers. Companies in industries highly sensitive to environmental impacts tend to experience greater stakeholder pressure to demonstrate accountability for their operations (Fernandez-Feijoo et al., 2014). Such pressure encourages firms to respond strategically by adopting environmentally responsible practices to meet stakeholders' expectations. In addition, legitimacy theory emphasizes that firms must align their activities with prevailing social norms to maintain societal approval. For firms with high environmental risks, improving measurable environmental performance—for example, through achieving higher PROPER ratings—becomes an essential strategy to retain legitimacy and protect corporate reputation.

Previous research supports the view that greater environmental pressure increases corporate attention to environmental management. Hermundsdottir & Aspelund (2022) and Ogunbukola (2024) demonstrate that environmental stakeholder pressure significantly improves firms' sustainability practices, while Rudyanto & Veronika Siregar (2018) found that environmental pressure positively affects sustainability reporting quality, in which environmental performance is a key component. Thus, higher environmental pressure compels firms to engage in better environmental practices as both a compliance and reputation-building strategy. Therefore, it is hypothesized that environmental pressure has a positive influence on corporate environmental performance.

H1: Environmental pressure positively affects corporate environmental performance.

Customer pressure represents consumer demands for products and services that not only meet quality standards but also comply with sustainability principles. Firms with close relationships to end-consumers must carefully consider their operations in line with customer expectations. Growing environmental awareness among consumers has led them to prefer environmentally friendly products and, in some cases, demand written certification of environmental compliance (Delmas, 2007). According to Fernandez-Feijoo et al. (2014), companies with high customer exposure often enhance their brand image through environmental and social initiatives to satisfy these expectations.

Failure to comply with customer demands often results in negative publicity, boycotts, or public protests, damaging brand trust and customer loyalty (Sarkis et al., 2010). Such risks compel firms to strengthen their environmental practices as part of a strategic response to protect competitiveness and retain consumer confidence

(Sriningsih & Wahyuningrum, 2022). Empirical evidence shows that customer pressure not only drives firms to adopt green practices but also enhances long-term competitive advantage by fostering brand trust and loyalty (Alam & Islam, 2021; Cao, 2023; Lina et al., 2024). Thus, it is hypothesized that higher customer pressure leads to improved environmental performance.

H2: Customer pressure positively affects corporate environmental performance.

Investor pressure refers to demands from shareholders, financial institutions, and investment bodies for companies to manage sustainability risks. Firms with a broad shareholder base are more likely to face stronger investor pressure compared to those with concentrated ownership (Alfaiz & Aryati, 2019). Investors increasingly expect transparency, accurate forecasting, and lower information asymmetry (Tarigan & Semuel, 2015). Consequently, investor pressure functions as a monitoring mechanism that pushes companies to adopt sustainable practices, thereby reducing environmental liabilities and ensuring long-term profitability (Sarkis et al., 2010).

Prior research confirms that investor pressure enhances environmental and social performance. Rudyanto & Veronika Siregar (2018) found that companies under high investor scrutiny produce better sustainability reporting quality, which includes environmental performance. Similarly, Fernandez-Feijoo et al. (2014) highlighted investors as one of the most influential stakeholders shaping corporate disclosure. Thus, firms facing strong investor pressure are likely to improve their environmental performance as part of a strategy to maintain investor confidence and protect long-term firm value.

H3: Investor pressure positively affects corporate environmental performance.

Employees, as internal stakeholders, increasingly evaluate company image and sustainability commitment when choosing employers. High-quality employees often possess strong social and environmental responsibility, which they expect to be reflected in corporate policies (Alfaiz & Aryati, 2019). Wang et al. (2022) revealed that employees under stakeholder-driven contexts are more likely to implement corporate green strategies, while Weng et al. (2015) emphasized that employee-driven pressure significantly enhances green innovation practices.

Such initiatives contribute not only to environmental improvements but also to long-term competitiveness and profitability. Employees have the capacity to influence decision-making and stimulate innovations that align with consumer expectations (Sari et al., 2022). Tarigan & Semuel (2015) argued that employee-driven innovation enhances product appeal, which ultimately improves sales and profitability. Thus, employee pressure motivates companies to strengthen their environmental performance, making it a critical factor for corporate sustainability strategies.

H4: Employee pressure positively affects corporate environmental performance.

Environmental performance and profitability are closely linked. While the adoption of eco-friendly practices requires significant short-term investment, long-term benefits often outweigh the costs. For instance, Centobelli et al. (2019) observed that environmentally innovative practices may initially reduce profitability due to high implementation costs but eventually enhance profitability through efficiency gains and reputational benefits. Baah et al. (2020) similarly argue that strong environmental performance contributes to better financial outcomes in the long run.

Theoretically, stakeholder support is crucial for firm survival, and companies can secure such support by demonstrating strong environmental and social performance (Iriyanto & Nugroho, 2014). In addition, legitimacy theory suggests that firms gain societal acceptance and stakeholder loyalty by fulfilling environmental responsibilities (Kristiani & Werastuti, 2020). Empirical studies consistently find that environmental performance positively influences profitability (Rosyid, 2015; Evita & Syafruddin, 2019; Zainab & Burhany, 2020). Hence, it is hypothesized that better environmental performance enhances corporate profitability.

H5: Environmental performance positively affects firm profitability.

Stakeholder theory posits that firms are responsible not only to shareholders but also to society and the environment. Companies operating in environmentally sensitive industries such as mining, chemicals, and manufacturing face greater stakeholder demands to implement sustainable business practices (Alharbi et al., 2025; Block et al., 2024; Saleem et al., 2020). By complying with such demands, firms are able to enhance their legitimacy and reputation, which ultimately translates into improved financial performance.

Empirical evidence supports this proposition. Hermundsdottir & Aspelund (2022) and Ogunbukola (2024) found that environmentally friendly practices enhance a firm's image, reduce regulatory risks, and increase stakeholder support, thereby improving profitability. Thus, when firms face stronger environmental pressure, they are more

likely to adopt sustainable practices that lead to long-term financial benefits. Therefore, it is hypothesized that environmental pressure positively influences firm profitability.

H6: Environmental pressure positively affects firm profitability.

Customers are key stakeholders whose demands can directly shape corporate strategies. Firms with close interaction with end-consumers face stronger pressure to improve product quality, sustainability, and ethical practices. Meeting such expectations not only enhances customer satisfaction and loyalty but also strengthens long-term profitability. According to legitimacy theory, companies that align with societal norms and consumer expectations through sustainable practices can secure social approval and maintain market legitimacy.

Prior studies confirm that customer-driven industries respond to stakeholder expectations with improved sustainability practices that enhance financial outcomes. [Bordean & Welsh \(2023\)](#) and [Miranda-Guerra et al. \(2024\)](#) found that firms with high customer exposure pay more attention to customer demands, which in turn improves loyalty and profitability. Compliance with these demands strengthens competitive positioning, while failure to meet them may result in reputational damage and financial loss. Hence, it is hypothesized that customer pressure positively affects firm profitability.

H7: Customer pressure positively affects firm profitability.

Investor pressure refers to demands for greater transparency, accountability, and sustainable performance. According to stakeholder theory, firms that successfully address investor concerns can gain stronger market confidence and ensure continued capital access. Legitimacy theory also supports this by suggesting that firms earn legitimacy and social acceptance by aligning with investor expectations regarding sustainability and ethical operations.

Empirical studies provide evidence for this relationship. [Mihail et al. \(2021\)](#) found that active investor involvement improves operational performance, while [Sakai \(2022\)](#) showed that firms with strong investor engagement achieved higher returns and dividend performance. [Ramadhanty Nauval et al. \(2024\)](#) further demonstrated that investor pressure indirectly improves profitability by influencing ROA. Hence, firms facing greater investor pressure are more likely to improve profitability through enhanced governance and environmental practices.

H8: Investor pressure positively affects firm profitability.

Employees are important internal stakeholders whose satisfaction and engagement directly affect organizational outcomes. Companies that respond to employee needs—through fair compensation, career development opportunities, and sustainable work environments—benefit from stronger loyalty and productivity. According to stakeholder theory, employee-oriented practices not only improve organizational reputation but also build long-term competitiveness.

Evidence from prior studies supports this claim. [Chang et al. \(2021\)](#) found that employee-focused CSR reduces turnover and enhances profitability (ROA and ROE). [Lee & Raschke \(2023\)](#) also revealed that employee legitimacy positively influences ESG performance and profitability. Thus, when firms face higher employee pressure, they tend to enhance welfare initiatives and sustainability practices, which ultimately improve profitability.

H9: Employee pressure positively affects firm profitability.

Firms in environmentally sensitive industries face greater pressure to comply with environmental regulations and societal expectations. Legitimacy theory suggests that companies respond to this pressure by improving their environmental performance, for example, through energy efficiency and waste reduction ([DiMaggio & Powell, 1983](#)). These improvements not only enhance reputation but also reduce costs, which contributes to better financial outcomes ([Porter & Linde, 1995](#); [Huang & Li, 2017](#)).

Empirical evidence also confirms the mediating role of environmental performance. Studies have shown that high environmental pressure drives companies to adopt eco-innovations, which improve both sustainability and profitability ([Alharbi et al., 2025](#); [Hermundsdottir & Aspelund, 2022](#); [Ogunbukola, 2024](#)). Therefore, this study hypothesizes that environmental performance mediates the effect of environmental pressure on firm profitability.

H10: Environmental performance mediates the effect of environmental pressure on profitability.

Customer pressure forces firms to adopt environmentally responsible practices to maintain brand image and consumer trust. According to legitimacy theory, companies in consumer-oriented industries are under strong pressure to demonstrate their commitment to sustainability. Prior studies have found that responding to such pressure improves environmental performance, which in turn strengthens customer loyalty and competitive advantage ([Delmas & Toffel, 2008](#); [Cho et al., 2019](#)).

Ruiz-Blanco et al. (2022) further showed that firms with close customer interactions are driven to increase environmental transparency and performance. This enhanced performance supports profitability by attracting loyal customers and reducing reputational risks. Thus, environmental performance acts as a mediator between customer pressure and profitability, highlighting the indirect pathway through which customer expectations influence financial outcomes.

H11: Environmental performance mediates the effect of customer pressure on profitability.

Stakeholder theory highlights the growing role of investors in demanding corporate responsibility for environmental and social issues (Freeman, 1984). Firms that respond positively to investor concerns tend to improve environmental performance, which enhances long-term profitability. Clarkson et al. (2011) argue that companies addressing investor pressure gain better access to capital and market trust. Moreover, investor attention is strongly associated with improvements in ESG standards, especially in high-pollution industries (Chen et al., 2023; Zhang & Zhang, 2024).

Empirical evidence further demonstrates that environmentally conscious investors push firms to improve green practices, which strengthens both sustainability and financial performance (Kordsachia et al., 2022). Thus, environmental performance serves as a mediating mechanism through which investor pressure translates into higher profitability.

H12: Environmental performance mediates the effect of investor pressure on profitability.

Employees, as internal stakeholders, exert pressure on firms to improve social and environmental practices. Stakeholder theory emphasizes that firms must address employee expectations to build legitimacy and retain talent. Companies that prioritize employee welfare and sustainability initiatives gain legitimacy and enhance corporate reputation (Berrone et al., 2010). These actions motivate employees to contribute more actively to environmental management efforts.

Research supports this view. Setyaningrum (2022) and Tantawi & Noviana (2024) found that employee-driven green behavior significantly improves corporate environmental performance. Improved environmental outcomes then enhance profitability by strengthening reputation, attracting talent, and fostering long-term stakeholder loyalty. Thus, environmental performance mediates the relationship between employee pressure and firm profitability.

H13: Environmental performance mediates the effect of employee pressure on profitability.

Methods

The research location is manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. The manufacturing sector was selected because it consists of a wide variety of companies divided into several sub-sectors, and these companies operate by processing raw materials into finished goods, which provides relevant data to test variables related to Environmental Performance and Stakeholder Pressure. The population in this study consists of all manufacturing companies listed on the IDX during 2019–2023.

The sampling technique employed in this research is purposive sampling. To examine the influence of stakeholder pressure on environmental performance and firm profitability, this study applies the Partial Least Squares (PLS) analysis method. The analysis is conducted using the WarpPLS software application.

Result and Discussion

Direct Effect

The direct effect hypothesis testing is conducted to examine whether there is a significant direct effect of exogenous variables on endogenous variables. The testing criteria state that if the path coefficient has a positive value and the probability value (one-tailed) is \leq the level of significance (Alpha (α) = 5%), then it can be concluded that the exogenous variable has a positive and significant effect on the endogenous variable. The results of the direct effect hypothesis testing can be seen in Table 1 below:

Table 1
Direct Effect

Exogenous	Endogenous	Path Coefficient	SE	P Value	P Value (One-tailed)
Environmental Sensitive Industry	Environmental Performance	0.103	0.033	<0.001	<0.001
Customer Proximity Industry	Environmental Performance	0.083	0.033	0.006	0.003
Investor-Oriented Industry	Environmental Performance	0.059	0.033	0.036	0.018
Employee-Oriented Industry	Environmental Performance	-0.066	0.033	0.023	0.012
Firm Size	Environmental Performance	0.139	0.033	<0.001	<0.001
Environmental Sensitive Industry	Profitability	0.036	0.033	0.140	0.070
Customer Proximity Industry	Profitability	0.095	0.033	0.002	0.001
Investor-Oriented Industry	Profitability	-0.034	0.033	0.149	0.075
Employee-Oriented Industry	Profitability	0.134	0.033	<0.001	<0.001
Firm Size	Profitability	0.153	0.032	<0.001	<0.001
Environmental Performance	Profitability	0.109	0.033	<0.001	<0.001

Secondary Data, 2025

Based on Table 1, the structural model obtained can be expressed as follows:

Equation 1

Equation 1 represents the environmental performance variable, which describes the influence of each construct on environmental performance as follows:

$$\text{PROPER} = 0.103 \text{ ESI} + 0.083 \text{ CPI} + 0.059 \text{ IOI} - 0.066 \text{ EOI} + 0.139 \text{ SIZE}$$

The above equation indicates that:

- 1) The effect of Environmental Sensitive Industry (ESI) on environmental performance yields a path coefficient of 0.103 with a one-tailed p-value < 0.001. This result shows a positive and significant effect, meaning that firms classified as ESI demonstrate significantly better environmental performance compared to non-ESI firms.
- 2) The effect of Customer Proximity Industry (CPI) on environmental performance produces a path coefficient of 0.083 with a one-tailed p-value of 0.003. This indicates a positive and significant relationship, suggesting that CPI firms have significantly higher environmental performance than non-CPI firms.
- 3) The effect of Investor Oriented Industry (IOI) on environmental performance yields a path coefficient of 0.059 with a one-tailed p-value of 0.018. This shows a positive and significant influence, meaning that IOI firms demonstrate significantly better environmental performance compared to non-IOI firms.
- 4) The effect of Employee Oriented Industry (EOI) on environmental performance results in a negative path coefficient of -0.066 with a one-tailed p-value of 0.012. This indicates a significant negative effect, suggesting that higher EOI pressure tends to reduce environmental performance.
- 5) The effect of firm size on environmental performance yields a path coefficient of 0.139 with a one-tailed p-value < 0.001. This indicates a positive and significant effect, implying that larger firms tend to have better environmental performance.

Equation 2

Equation 2 represents the profitability variable, which describes the influence of each construct on profitability as follows:

$$\text{ROA} = 0.036 \text{ ESI} + 0.095 \text{ CPI} - 0.034 \text{ IOI} + 0.134 \text{ EOI} + 0.153 \text{ SIZE} + 0.109 \text{ PROPER}$$

The above equation indicates that:

- 1) The effect of Environmental Sensitive Industry (ESI) on profitability yields a path coefficient of 0.036 with a one-tailed p-value of 0.070. This result shows a positive but not significant effect, indicating that the profitability of ESI firms is slightly higher but not significantly different from non-ESI firms.
- 2) The effect of Customer Proximity Industry (CPI) on profitability produces a path coefficient of 0.095 with a one-tailed p-value of 0.001. This indicates a positive and significant effect, meaning CPI firms demonstrate significantly higher profitability than non-CPI firms.

- 3) The effect of Investor Oriented Industry (IOI) on profitability yields a negative path coefficient of -0.034 with a one-tailed p-value of 0.075. This indicates a negative but not significant effect, suggesting that IOI firms have slightly lower profitability than non-IOI firms, although the difference is not significant.
- 4) The effect of Employee Oriented Industry (EOI) on profitability results in a path coefficient of 0.134 with a one-tailed p-value < 0.001 . This indicates a positive and significant effect, meaning that firms with stronger employee orientation tend to achieve higher profitability.
- 5) The effect of firm size on profitability yields a path coefficient of 0.153 with a one-tailed p-value < 0.001 . This shows a positive and significant effect, suggesting that larger firms are more profitable compared to smaller firms.
- 6) The effect of environmental performance on profitability produces a path coefficient of 0.109 with a one-tailed p-value < 0.001 . This indicates a positive and significant effect, meaning that better environmental performance contributes to higher profitability.

Indirect Effect

The indirect effect hypothesis testing is conducted to examine whether the influence of exogenous variables on endogenous variables through a mediating variable is significant. The testing criteria state that if the indirect coefficient has a positive value and the probability value (one-tailed) is \leq the level of significance (Alpha (α) = 5%), then it can be concluded that the exogenous variable has a positive and significant effect on the endogenous variable through the mediating variable. The results of the indirect effect hypothesis testing are presented in Table 2 below:

Table 2
Indirect Effect

Exogenous	Mediation	Endogenous	Indirect Coefficient	SE	P Value	P Value (One-tailed)
<i>Environmental Sensitive Industry</i>	Environmental Performance	Profitability	0.011	0.005	0.020	0.010
<i>Customer Proximity Industry</i>	Environmental Performance	Profitability	0.009	0.004	0.039	0.020
<i>Investor-Oriented Industry</i>	Environmental Performance	Profitability	0.006	0.004	0.103	0.051
<i>Employee-Oriented Industry</i>	Environmental Performance	Profitability	-0.007	0.004	0.077	0.038
Firm Size	Environmental Performance	Profitability	0.015	0.006	0.008	0.004

Secondary Data, 2025

Based on the testing results presented in Table 2, the following can be observed:

- 1) The effect of Environmental Sensitive Industry (ESI) on profitability through environmental performance produces an indirect coefficient of 0.011 with a one-tailed p-value of 0.010. This indicates a positive and significant indirect effect, meaning that the profitability of firms classified as ESI is significantly higher compared to non-ESI firms through environmental performance. In other words, better environmental performance achieved by ESI firms leads to higher profitability relative to non-ESI firms.
- 2) The effect of Customer Proximity Industry (CPI) on profitability through environmental performance yields an indirect coefficient of 0.009 with a one-tailed p-value of 0.020. This demonstrates a positive and significant indirect effect, indicating that the profitability of CPI firms is significantly higher than that of non-CPI firms through the channel of improved environmental performance. Thus, CPI firms achieve superior profitability as a consequence of better environmental performance compared to non-CPI firms.
- 3) The effect of Investor Oriented Industry (IOI) on profitability through environmental performance results in an indirect coefficient of 0.006 with a one-tailed p-value of 0.051. This shows a positive but not significant indirect effect, implying that the profitability of IOI firms is only slightly higher than that of non-IOI firms through environmental performance, but the difference is not statistically significant.
- 4) The effect of Employee Oriented Industry (EOI) on profitability through environmental performance produces an indirect coefficient of -0.007 with a one-tailed p-value of 0.038. This indicates a negative and

significant indirect effect, suggesting that stronger employee orientation tends to reduce environmental performance, which in turn lowers profitability.

- 5) The effect of firm size on profitability through environmental performance yields an indirect coefficient of 0.015 with a one-tailed p-value of 0.004. This indicates a positive and significant indirect effect, implying that larger firms tend to achieve better environmental performance, which consequently enhances their profitability.

Mediation Effect Testing

The mediation effect testing is intended to examine the role of a variable in mediating the effect of exogenous variables on endogenous variables. The mediation testing is conducted using the Causal Steps technique.

Table 3
Results of the Mediation Effect Test

Exogenous	Mediation	Endogenous	Direct effect		Indirect effect	
			Coeff.	P Value (One-tailed)	Coeff.	P Value (One-tailed)
<i>Environmental Sensitive Industry</i>	Environmental Performance	Profitability	0.036	0.070	0.011	0.010
<i>Customer Proximity Industry</i>	Environmental Performance	Profitability	0.095	0.001	0.009	0.020
<i>Investor-Oriented Industry</i>	Environmental Performance	Profitability	-0.034	0.075	0.006	0.051
<i>Employee-Oriented Industry</i>	Environmental Performance	Profitability	0.134	<0.001	-0.007	0.038
Firm Size	Environmental Performance	Profitability	0.153	<0.001	0.015	0.004

Secondary Data, 2025

The indirect effect of Environmental Sensitive Industry (ESI) on profitability through environmental performance yields a significant indirect coefficient (probability value (one-tailed) < level of significance ($\alpha = 5\%$)). Meanwhile, the direct effect of ESI on profitability is not significant (probability value (one-tailed) > $\alpha = 5\%$). This indicates that environmental performance serves as a full mediator in the relationship between ESI and profitability.

The indirect effect of Customer Proximity Industry (CPI) on profitability through environmental performance is significant (probability value (one-tailed) < $\alpha = 5\%$). Furthermore, the direct effect of CPI on profitability is also significant (probability value (one-tailed) < $\alpha = 5\%$). This demonstrates that environmental performance acts as a partial mediator in the relationship between CPI and profitability.

The indirect effect of Investor Oriented Industry (IOI) on profitability through environmental performance is not significant (probability value (one-tailed) > $\alpha = 5\%$). Likewise, the direct effect of IOI on profitability is not significant (probability value (one-tailed) > $\alpha = 5\%$). This suggests that environmental performance provides no mediation in the relationship between IOI and profitability.

The indirect effect of Employee Oriented Industry (EOI) on profitability through environmental performance is significant (probability value (one-tailed) < $\alpha = 5\%$). Similarly, the direct effect of EOI on profitability is also significant (probability value (one-tailed) < $\alpha = 5\%$). This implies that environmental performance functions as a partial mediator in the relationship between EOI and profitability.

The indirect effect of firm size on profitability through environmental performance is significant (probability value (one-tailed) < $\alpha = 5\%$). Additionally, the direct effect of firm size on profitability is also significant (probability value (one-tailed) < $\alpha = 5\%$). This indicates that environmental performance acts as a partial mediator in the relationship between firm size and profitability.

Conclusion

The findings of this study demonstrate that stakeholder pressure plays a crucial role in influencing both environmental performance and firm profitability. Pressures from Environmental Sensitive Industry (ESI), Customer Proximity Industry (CPI), and Investor Oriented Industry (IOI) are found to have a positive and significant effect on

environmental performance, while Employee Oriented Industry (EOI) exerts a significant negative effect, indicating that greater employee-related pressure tends to lower environmental performance. Furthermore, environmental performance has a positive and significant effect on profitability, suggesting that firms with stronger environmental performance, as measured by PROPER ratings, are more likely to achieve higher profitability.

With respect to direct effects on profitability, CPI and EOI exert a positive and significant influence, ESI shows a positive but insignificant influence, while IOI has no effect. Moreover, the mediation analysis reveals that environmental performance acts as a full mediator in the relationship between ESI and profitability, a partial mediator in the relationships between CPI and EOI with profitability, and no mediator in the relationship between IOI and profitability. Overall, these findings highlight the strategic role of environmental performance as a mediating mechanism that links stakeholder pressure to firm profitability, though its role varies depending on the type of stakeholder pressure.

Managerial Implication

This study contributes to the existing literature by examining the effect of stakeholder pressure on firm profitability, measured by Return on Assets (ROA), with environmental performance as a mediating variable. The findings indicate that stakeholder pressure significantly influences profitability, and this effect is mediated differently depending on the type of stakeholder pressure. These results reinforce Stakeholder Theory by emphasizing the importance of fulfilling stakeholder expectations in order to avoid conflicts, maintain legitimacy, and improve financial outcomes. In doing so, the study provides further empirical support for the role of environmental performance as a strategic mechanism that links stakeholder demands with long-term profitability.

From a practical perspective, the study offers several implications. For policymakers, the findings highlight the need to intensify the dissemination of information on the PROPER program, ensuring that it is accessible to all stakeholders as a means of strengthening monitoring and accountability of corporate activities. For companies, the results underline the necessity of responding proactively to stakeholder demands to maintain brand image, investor confidence, employee commitment, and public trust, which ultimately safeguard profitability and sustainability. Finally, for researchers, this study serves as both a reference and a learning experience, providing insights into real-world applications of environmental responsibility and contributing to the advancement of knowledge in accounting and sustainability research.

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