Scientific Research Publishing

Journal of Financial Risk Management, 2025, 14(3), 348-373
https://www.scirp.org/journal/jfrm
ISSN Online: 2167-9541
ISSN Print: 2167-9533

Relationship between Corporate Social Responsibility Initiatives and Financial Performance

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How to cite this paper: Amponsah, K., Champie, J., Frimpong, M., Tete, M. O., & Otsedzen, M. B. (2025). Relationship between Corporate Social Responsibility Initiatives and Financial Performance. *Journal of Financial Risk Management, 14,* 348-373.
https://doi.org/10.4236/jfrm.2025.143019

Received: August 14, 2025
Accepted: September 26, 2025
Published: September 29, 2025

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Abstract

In the modern era, Corporate Social Responsibility (CSR) is becoming a strategic necessity in the business landscape. As organizations respond to rising environmental and societal expectations, there has been a rapidly growing amount of theoretical research on CRM and its impact on practical activities and, in this case, financial performance. Despite this much attention and relevance in all fields, political, academic, and business, just to mention a few, the relationship between CSR and financial performance is still unclear. Researchers have debated whether CSR's contributions to financial performance are neutral, positive, or negative without offering a unified agreement. This literature review critically examines this relationship, offering a better comprehension of whether, in other words, the allocation of organization resources to address environmental, social, and governance issues can be a synergy source to maximize business value and enhance financial performance for the benefit of the organization and its stakeholders. This research utilizes a mixed methods approach, including a literature review and content analysis, to bring to light how CSR and financial performance relate. Through a systematic review and content analysis of the available literature, this study concludes that there is a positive correlation between robust CSR activities and enhanced financial performance. However, this positive correlation is only possible with the strategic execution of CSR initiatives. The findings of this study spotlight that firms strategically investing in environmental, ethical, economic, and social responsibility not only improve their brand reputation but also attain increased market

share and profitability. The findings of this study pose CSR initiatives as not just a moral choice but as a strategic investment in today's competitive business ecosystem. This article contributes to the current literature by generating evidence that sustainable practices can play a competitive advantage, recommending that blending CSR activities into fundamental business approaches is not just beneficial for the community but also crucial for the long-term financial efficiency of the firm.

Keywords

Corporate Social Responsibility (CSR), Finance Performance, Corporate Sustainability, Business Ethics, Economic Outcomes, Environmental, Social, and Governance (ESG)

1. Introduction

Currently, attention to Corporate Social Responsibility (CSR) has substantially escalated. It has turned out to be a component of the business approach for corporate survival, development, and sustainability since its inception in the early 1930s. It has also become a substantial tool for explaining corporate correlations and business management so as to attain business goals and live as per the business mission. In other words, CSR is emerging as a hopeful fuel for advancement in emerging countries. Latapí Agudelo et al. (2019) believe that CSR practices in Internationally Operating Corporations (IOCs) relentlessly drive the elimination of contemporary issues, for instance, diseases, poverty, and hunger, while simultaneously enhancing economic success quality, education, and values in sustainable means. For this fact, many industrialized nations have adopted laws requiring firms, both listed and unlisted, to publish reports showing their exposure to governance, environmental, and social risks and the efforts they put in place to address these risks (Cho et al., 2019). Many organizations have started reporting their environmental, ethical, and social conduct to meet these laws (Latapí Agudelo et al., 2019).

1.1. Problem Identification

In academics, CSR has also become a concept of interest. Many studies have been conducted to analyze the connection between social and financial performance (Cho et al., 2019). Not surprisingly, the empirical research is yet to arrive at a consensus since there are diverse opinions about how these two concepts interact. To begin with, the liberal perspective holds that there is a negative relationship since social responsibility comes with costs, which worsens an organization's competitive position. Scholars supporting this view suggest that social constraints on organizations and socially accountable behavior may discord with value maximization. Cho et al. (2019) argue that the accretion of resources to invest in social performance can result in poorer financial performance due to negative interac-

tion. This argument aligns with the perspective that social responsibility deteriorates profitability as it incurs costs (Coelho et al., 2023). In Friedman's perspective, this kind of behavior is socially irresponsible since the sole responsibility of companies is profitability. However, the negative connection between CSR and financial performance does not insinuate the complete abandonment of socially responsible corporate initiatives. Many managers hold that it is essential to be good corporate citizens even when doing that costs the shareholders (Awaysheh et al., 2020).

On the other hand, other scholars, including Licandro et al. (2024) and Coelho et al. (2023), hold that there is a positive relationship between CSR and financial performance. This insinuates that being socially responsible enhances profitability. In support of Okhrimenko et al. (2025), corporate social responsibility has a positive influence on financial performance; it is likely that socially responsible investments will have a positive effect on shareholder value. Supporters of this notion argue that firms that integrate CSR initiatives into their operations mostly enjoy benefits such as improved investor confidence, improved brand reputation, and maximized customer loyalty (Harris, 2025). According to Hamad & Cek (2023), although at times these initiatives may be integrated due to external pressure, their applications lead to a positive influence on market performance, public support, and corporate reputation. For instance, Ghoul has revealed that companies with a sense of CSR in their business strategy are associated with a lower risk level and greater values attached to their shares (Li & Xu, 2024).

An additional identified relationship is no relationship at all (Mohammed et al., 2025). Scholars within this bracket hold that being socially responsible does not increase profitability, and, at the same time, it does not deteriorate it. Apparently, the negative and positive impacts of CSR cancel each other out.

The fourth documented relationship between CSR and corporate financial performance is U-shaped (Coelho et al., 2023). In 2012, Salomon and Barnett discovered that firms with low CSR performance have high financial performance, while those with moderate CSR performance have a lower performance, and those with high CSR performance have the highest financial performance. This insinuates that mediocre corporate responsibility is linked to the highest financial performance, whereas high and low CSR are linked to lower financial performance.

Put together, it is clear that the available empirical literature does not generate conclusive evidence on the nature of the CSR-financial performance relationship (Coelho et al., 2023). Several authors have provided possible reasons for these inconclusive findings (Ho et al., 2021; Chandratreya, 2024).

1) The first one could be due to the poor theoretical foundation of the CSR concept.

2) The gaps in the relevant variables in model specifications.

3) The insufficiency of a clear direction of causality.

4) Measurement issues.

5) Differences in sample selections.

6) Sampling limitations.

1.2. Purpose

Reviewing the current literature, this article enriches existing research and generates references for firms on whether to fulfill CSR. The study does this by reviewing the influence of CSR on both long-term performance (that is, brand value) and short-term performance (which is financial performance).

1.3. Research Questions

This article proposes to complement the available literature by extensively answering the following research questions:

1) What theoretical frameworks have been utilized to explain the interaction between CSR activities and a firm's financial performance?

2) What evidence supports a negative, neutral, or positive relationship between CSR initiatives and financial performance?

3) What factors impact this interaction?

4) What are the key gaps in the current literature, and what areas need further research?

1.4. Paper Structure

The review process was initiated by defining the research problem and its purpose. This was proceeded by a literature search and article section based on the PRISMA framework. These were then followed by synthesis and analysis of the extracted data, followed by meaningful discussions and conclusions. Figure 1 summarizes the review process:

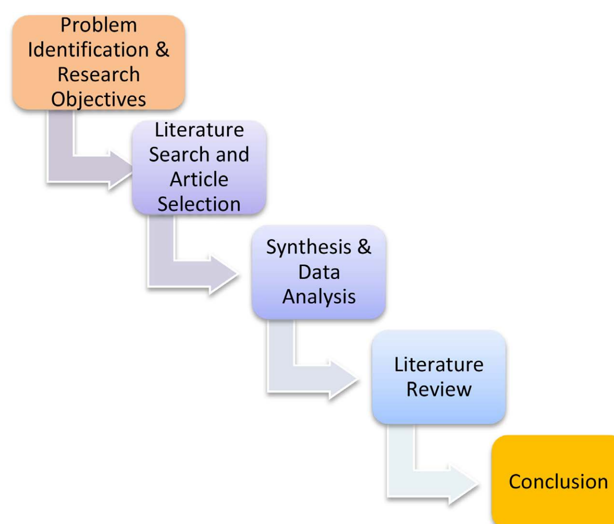

Figure 1. Summary of the review process.

2. Research Methodology

Integrating Preferred Reporting Items for Systematic Review and Meta-analysis

(PRISMA), this study primarily relies on a comprehensive and systematic review of available literature and secondary data. The PRISMA framework guarantees that the methodologies used in this study are robust and replicable, enhancing the validity and reliability of the study's findings.

2.1. Search Strategy

This study utilizes a systematic literature review methodology, analyzing reliable journals on the correlation between CSR and financial performance. This study utilizes ScienceDirect (Elsevier) as the core database for keyword search, given its solid reputation for generating access to peer-reviewed and high-quality literature across different academic ecosystems. Remarkably, ScienceDirect provides comprehensive coverage of articles in business, management, and finance. This made it specifically fitting to analyze the interaction between corporate social responsibility and financial performance. In addition to ScienceDirect, this study also refers to other reputable financial and academic databases to strengthen its review. For instance, JSTOR and Wiley Online Library were mainly helpful for accessing contemporary and foundational studies on corporate social responsibility and adoption. Emerald Insight and SpringerLink, on the other hand, were valuable as they offered insights from journals talking about corporate governance and sustainability. This muti-source strategy guaranteed an all-around comprehension of the research topic.

2.2. Keyword Identification

Search keywords for this study were divided into "Corporate Social Responsibility," "Financial Performance," "How CSR Affects the Performances of a Firm," and "Factors Affecting Both CSR Initiatives and Financial Performance." The keyword selection was strategic. Also, the procedures were utilized to capture a comprehensive span of articles relating to the research questions. The selected keywords covered the study's facets. The search was done across the above-mentioned databases to identify resources that were in line with the research objective, ensuring that the literature review was broad and deep.

2.3. Prisma Protocol

The core objectives of this review were to perform a comprehensive and thorough search of published manuscripts. This makes a systematic literature review the necessary approach. One of the key benefits of using a systematic literature review is its transparent and focused approach. Adhering to this principle, this study applied the PRISMA framework, which made it easy to systematically analyze the research methodology step by step.

Figure 2 presents the initial pool of 286 resources identified by searching through the internet using the selected keywords. To guarantee the inclusion of the highest and most reliable articles, a series of filters were used in the review procedure. First, all study types but with a limit to research published only in the

English language were considered, given that it is a broadly recognized universal language for research. This resulted in 231 remaining manuscripts. The identified resources were then extracted from the above-mentioned databases and screened for duplicates, eliminating 33 manuscripts. This was then followed by filtering the manuscripts to drop down any non-journal article. As a result, 27 articles were eliminated. This was then followed by filtering out review articles from the search results. This narrowed the results down to 124. Afterward, a timeline was set, restricting the search to original scholarly articles published between 2019 and 2025, given that a rising trend of publications in this field was observed around these years. This was a very crucial step as it helped capture the most relevant and recent contributions to the world of CSR and finance. This filtered out more articles, leaving most articles published in recent years. Throughout the eligibility stage, all manuscripts were examined, and subsequently, seven articles were excluded as they were not accessible; this resulted in a final selection of 40 reliable and accessible articles. The utilization of these filters and the inclusion of recent and relevant articles permitted us to focus on a group of high-quality articles. This offered an extensive foundation for our study on the interaction between corporate social responsibility and financial performance.

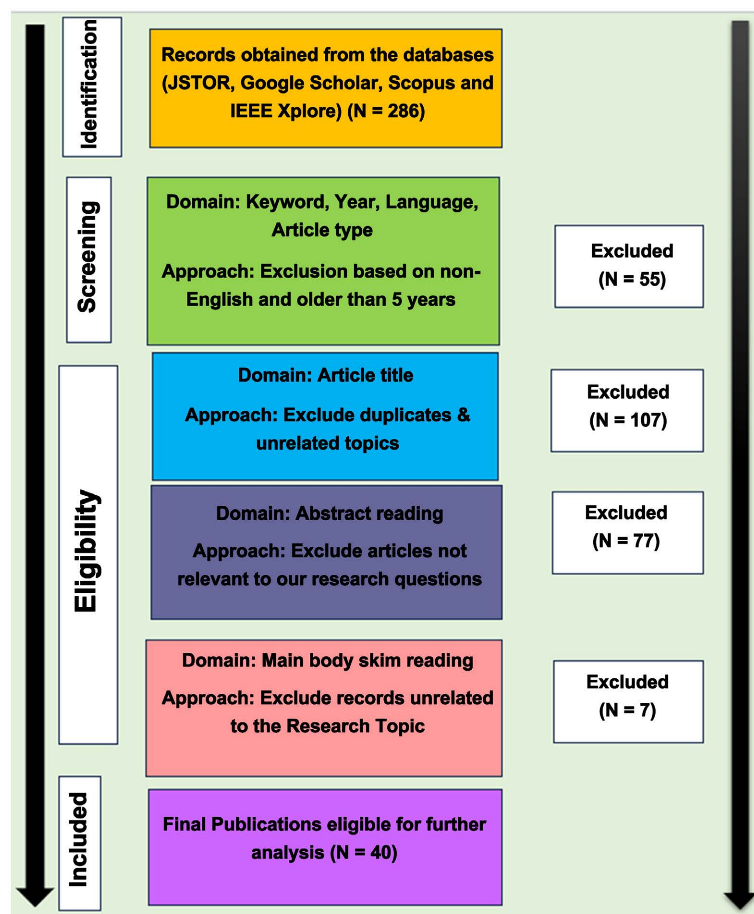

Figure 2. Study selection process (PRISMA flow diagram).

2.4. Data Extraction and Synthesis

Following the screening and the selection process was a systematic extraction of data. The data extraction focused on key concerns such as the relationship between CSR and financial performance, the importance of CSR, and factors affecting the relationship between CSR and financial performance. The data extraction process was carried out meticulously, ensuring that all the data and information used were directly relevant to the research questions. The extracted data was then blended together to comprehensively answer the research questions. This synthesis exposed trends, patterns, and gaps in the existing literature, contributing to an extensive understanding of the research topic.

By analyzing and interpreting the available data in a systematic manner, these methods provided repeatable, reproducible, and reliable results. By utilizing this process to extract data, this study generates reliable and unbiased results.

3. Literature Review

3.1. Understanding Corporate Social Responsibility

3.1.1. Evolution of CSR

CSR has been gaining momentum as an important part of modern business practices (Masongweni & Simo-Kengne, 2024). This does not, however, mean that the notion of firms bearing a responsibility towards society is new. As a matter of fact, businesses' concern for society can even be traced back several centuries via entities such as hospitals, orphanages, asylums, and homes for the old and poor. According to Latapí Agudelo et al. (2019), the origins of the social component in corporate behavior can be traced back to the ancient Roman Laws, which were then extended with the English Laws during the Middle Ages in religious, academic, and municipal institutions. It later stretched into the 16th and 17th centuries with the influence of the English Crown, which viewed corporations as tools for social enhancement.

In these early stages, corporate social responsibility was highly perceived via the four-tier Pyramid of CSR-philanthropic, ethical, legal, and economic responsibilities (Latapí Agudelo et al., 2019). This framework was designed by Carroll (1991), and through it, philanthropic activities were viewed as voluntary and less central (Latapí Agudelo et al., 2019). The core discussion during the 1950s and 1960s, when CSR developed further, circled around the extent to which firms should stretch their focus beyond their shareholders' interests to address societal needs such as poverty and health, among others. This raised concerns about how appropriate these responsibilities were to corporations. To address these concerns, many scholars argued that by actively taking part in its CSR initiatives, a business can promote solid connections with all its stakeholders (Fallah et al., 2022).

Later on, in 2003, Marrewijk spotlighted the interpretive and contextual nature of CSR, while Shabana and Carrol 2010 traced its theoretical development, confirming its role in matching business with societal values and expectations. Parallelly, the UN Global Compact and the European Commission's initiatives of 2000

established institutional foundations for Corporate Social responsibility at an international policy level (Latapí Agudelo et al., 2019). These frameworks emphasized stakeholder management, business practices, and sustainability. During this time, the definitions of CSR mirrored the belief that corporations bore a new role in society whereby they needed to be responsive to societal expectations and be motivated to search for sustainability. This insinuated that firms had to make strategic decisions to meet these expectations (Latapí Agudelo et al., 2019; Lemana et al., 2025). This brought in a discussion about the advantages of strategic CSR, and by the beginning of 2010, people had it that firms produced more shared value while enhancing the company's competitiveness via a holistic adoption of strategic corporate social responsibility (SCSR).

By the early 2010s, Porter and Kramer's idea of creating shared value (CSV) introduced peripheral philanthropy to core strategic intent. Although it was not wholly defined as CSR, creating shared value closely aligned with what was identified as the third generation of CSR by Trapp in 2012, whereby organizations integrated social and global concerns into operations despite its direct relevance to the business (Latapí Agudelo et al., 2019).

Recently, global advancements have solidified the relevance of CSR. Reflecting on CSR's convergence with topics such as corporate citizenship, sustainability, and stakeholder engagement, Latapí Agudelo et al. (2019) positioned CSR as a fundamental feature of a socially social company.

3.1.2. Defining CSR

According to Fallah et al. (2022), CSR is a prevalent concept in both academic and economic discussions. However, there remains a lack of union when it comes to its definition, measurement, and prioritization of several parts (Rodriguez-Gomez et al., 2020). Getting relatable data about CSR performance in a business presents substantial challenges, given that the evaluations provided by different agencies mostly complicate each other. Let's take a look at the current most common definitions.

The definition of CSR suggested by Carroll has become a popular definition in scholarly studies despite the persistent uncertainties and debates revolving around the topic (Barauskaite & Streimikiene, 2020). In 2008, Carrol defined CSR as the framework of the obligations for corporations to adapt strategies, make decisions, and participate in initiatives that match societal expectations and values (Latapí Agudelo et al., 2019).

In 2019, Agudelo et al. defined Corporate Social Responsibility as the process of a company meeting its philanthropic, legal, ethical, and economic responsibilities to society. In general terms, it is interpreted as a business's social contribution. However, CSR and social contribution must be carefully differentiated, as social responsibility refers widely to a company's philanthropic, economic, legal, and ethical responsibilities. On the other hand, an organization's social contribution refers to only one aspect of CSR. Hence, it is not accurate to define the concept of CSR as social responsibility.

Another popular scholarly definition of CSR is that composed by Bowen. In his

book *Social Responsibility of Businessmen*, he defines CSR as the process of seeking the right policy regarding social values and goals, portraying it as the role of businesses to align with such actions or decisions (Latapí Agudelo et al., 2019). Since his definitions, many scholars have suggested different definitions without any unified definition. This is because discussions about this concept are extensive and broad, and it has been defined from many different perspectives and approaches.

For instance, Saha et al. (2019) define social responsibility as a normative structure of corporate behavior that is expected to meet the needs and anticipations of the public and the firm's stakeholders by addressing various economic and social problems using corporate initiatives. Further diving into definitions of CSR by major institutions, the OECD interprets CSR as the social responsibility of an organization to repeatedly grow the shared growth relationship between itself and the surrounding society.

To bring a unified definition of CSR, the European Commission in 2001 defined CSR as the voluntary interaction of a firm with its stakeholders with an integration of environmental and social concerns into corporate management (Latapí Agudelo et al., 2019; Awaysheh et al., 2020). In 2010, the International Organization for Standardization released a definition of their perspective in ISO26000, defining CSR as the firms' decision-making in alignment with ethical and transparent behavior and the responsibility of the organizations on the effect of the firm's activities and decisions on the environment and society (Latapí Agudelo et al., 2019). This is an international standard definition that has been applied to most organizations and corporations.

3.1.3. Necessity and Importance of CSR

While businesses were skeptical in the past about CSR, it has now become a company behavior that tackles problems such as ethical concerns, and it has started to be viewed as a component of business operations (Saha et al., 2019). In today's business world, consumers are now demanding that firms act transparently and responsibly.

One key importance of CSR is long-term business sustainability (Cho et al., 2019). By addressing societal and environmental issues such as climate change, businesses not only create an accommodating ecosystem for society but also an ecosystem that would house the business for a long time. Additionally, CSR activities tend to boost employee morale, hence ensuring more employee satisfaction, a key factor for increased productivity of a corporation (Licandro et al., 2024). Also, CSR has been known to promote customer loyalty, which insinuates customer retention and increases sales for a firm (Licandro et al., 2024). Furthermore, companies that actively participate in CSR activities mostly attain positive publicity, which translates to maximized trust, market share, and long-term brand quality (Harris, 2025). Moreover, since CSR activities have been shown to have a connection with the financial performance of a company, more and more organizations are strategically utilizing it as a way of marketing (Krishnan, 2024).

According to Fallah et al. (2022), regulator pressures are mounting worldwide, with international and government organizations campaigning for greater corporate responsibility regarding environmental and social concerns. Businesses that preemptively implement CSR practices are better equipped to adhere to these regulations and avoid possible fallouts. Furthermore, CSR can result in cost savings and operational efficiencies. For example, businesses that adopt sustainable practices mostly find that they can minimize energy consumption and waste, resulting in reduced operational costs. This benefit both conserves the environment and improves the firm's foundation line.

3.2. Modern Interpretations and Frameworks

3.2.1. Carroll's CSR Pyramid

According to Archie B. Carroll, CSR can be divided into four categories in order of decreasing importance: economic, legal, ethical, and philanthropic duties, as shown in Figure 3. To begin with, a company is expected to meet its economic responsibility. According to Carroll, the core purpose of a corporation is to maintain and generate sustainable corporate profits by means of manufacturing and providing the necessary services and products to society (Brin & Nehme, 2019). The second most important duty of a company is a legal responsibility. As businesses are protected by national borders and operate within legal boundaries, they must comply with regulations set by their governments and remain transparent to the relevant stakeholders and the public. On the other hand, a company's ethical responsibility, including social support events, can be viewed as a set of ideals that, if observed, generate a social surplus, but complying with them is not a must (Brin & Nehme, 2019). Lastly, according to Carroll, a firm is expected to perform its voluntary responsibility, which comprises engaging in philanthropic activities such as giving financial aid to the less fortunate. Related to this categorization of corporate responsibility, Carroll asserts that these four categories are

Figure 3. The four components of archie Carroll's Pyramid of CSR.

not equally essential (Brin & Nehme, 2019). He advises that they should be performed according to their importance. For instance, companies should consider fulfilling their economic responsibility first and subsequently plan to meet legal responsibility.

3.2.2. The Triple Bottom Line

The Triple Bottom Line, coined by John Elkington in 1994, is another framework that has been used to describe how CSR works. This framework generates a hierarchical view of responsibilities, suggesting that businesses should simultaneously measure success across three dimensions: People, Planet, and Profit, as shown in **Figure 4**. According to Brin & Nehme (2019), the triple bottom line is a business concept that asserts that in addition to their financial performance, companies should commit to measuring their environmental and social impact instead of just focusing on producing profit or the standard "bottom line."

The people dimension focuses on the social impact of a firm, mainly how it treats its communities, employees, suppliers, and customers. This includes community engagement, human rights considerations, fair wages, diversity and inclusion, and safe working conditions (Correia, 2019). The environmental dimension focuses on the company's environmental responsibility (Brin & Nehme, 2019). This includes the firm's ecological footprint, for instance, biodiversity impact, resource usage, carbon emissions, and waste generation. This dimension challenges companies to operate within the ecological limits of Earth. Lastly, the profit dimension represents economic value creation that does not include environmental and social goals. This dimension is all about profitability, which supports the longevity of the business (Correia, 2019).

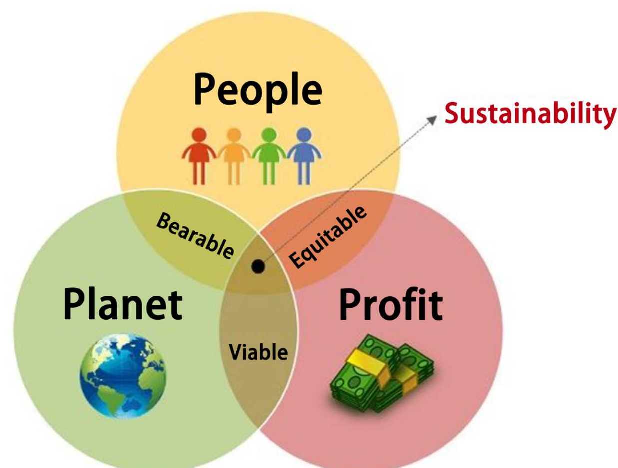

Figure 4. The triple bottom line.

3.3. Theoretical Frameworks

3.3.1. The Economic Model/Shareholder Theory

A conservative perspective of CSR holds that the key purpose of a corporation is to promote the interest of its owners or shareholders and earn profits. According

to this model, this can be done by effectively responding to market demand via the production of suitable services and goods. This traditional model is the foundation of the economic framework of CSR. Supported by a Nobel Prize winner and economist, Milton Friedman, this model assumes that the only social responsibility bore by a business is to maximize its profitability to benefit its shareholders while simultaneously complying with the laws of the society in which it operates.

Nonetheless, under this model, society will eventually benefit from the success of a company. Therefore, companies should be free to provide and market goods and services needed by society. According to Friedman, extending responsibilities past this contradicts the principle of a free market economic system. He also mentioned that forcing companies to serve society via philanthropy is akin to totalitarianism.

The economic model of CSR also contends that non-profit organizations, governments, and other social institutions have the exclusive responsibility of promoting the interests of the bigger community (Cho et al., 2019). It is not fair for investors to invest their resources in initiatives that would not bear them profits. This model also holds that companies are already contributing to improving society by paying taxes to fund programs and policies of the government.

The economic model of CSR is also supported by the Agency Theory, which assumes that company managers are opportunistic, self-serving, and individualistic in nature. This theory assumes that the key aim of corporates is, therefore, the maximization of shareholders' wealth. Based on the self-interest and opportunistic assumption of human behavior, agency theory holds that manager will pursue their own interest at the expense of the interests of the stakeholders, resulting in agency problems (Abu-Ali et al., 2024). These problems, including conflict of interest and moral hazards, result at the expense of the firm, hence affecting its performance (Ho et al., 2021).

The founders of this theory view the CSR initiative of a company as non-profit, given that the sole responsibility of a business is profit maximization. This theory dismisses corporate efforts to invest in welfare, such as employee welfare, environmental concern, and consumer protection, since the sole legal responsibility of businesses is to make a profit for stakeholders generating services and goods needed by society. Contrasting Carroll (1991), this theory asserts that CSR is a misallocation of corporate resources.

According to this model, the crucial issue in corporate management and governance is the impact CSR has on businesses' performance, mainly financial (Ho et al., 2021; Gillan et al., 2021). The conventional perspective asserts CSR is costly, given that being socially responsible brings in additional expenses. Instances of socially responsible actions are sponsorships and donations to the community, investments in pollution reduction, and employee benefits packages, among others (Cho et al., 2019; Zhang & Liu, 2023). The conventional view is that these expenses directly deteriorate the profitability of a firm and result in a competitive disadvantage (Mandal, 2024).

3.3.2. The Socioeconomic Model/Stakeholder Theory

On the other hand, contemporary supporters of CSR assert that companies have a responsibility not just to their investors but also to their stakeholders. According to Ha-Brookshire et al. (2020), the stakeholders of a particular firm are mainly any groups, individuals, or organizations that are indirectly or directly impacted by the company's operations. These stakeholders include their customers, suppliers, employees, and the community in general, among others.

According to this model, businesses have effects on their immediate communities and the greater society. Hence, every business should consider its effects on all decisions it makes. This school of thought suggests that businesses bear responsibility for the impacts they generate. This theory was initially introduced in 1984 by Edward Freeman in his book "A Stakeholder Approach." In his work, he offered a framework for addressing the ethical and moral responsibilities of a business firm. This model connects capitalism and business with ethics, which are essential to establishing value for stakeholders (Ha-Brookshire et al., 2020). According to this framework, the welfare of society and the competitiveness of a business firm are inherently intertwined (Brin & Nehme, 2019). Recognizing this relationship establishes a win-win solution for the company and society.

The socioeconomic model of CSR is also supported by the legitimacy theory, which holds that companies must operate according to the norms and boundaries of the societies in which they operate so as to get and maintain legitimacy (Ji et al., 2021). Therefore, companies engage in CSR initiatives to align with societal values and stakeholder expectations so as to justify their existence.

According to Freeman in 1984, the dissatisfaction of any stakeholder group could possibly influence the company's economic rent or even compromise its future. Therefore, CSR is a prerequisite for safeguarding the bottom line (Ha-Brookshire et al., 2020). According to this theory, managers should take into account all groups and individuals with a "stake" in or claim on the corporation and not just the stakeholders. As per this theory, if properly managed, CSR will not just enhance the satisfaction of these stakeholders but also lead to enhanced financial performance (Licandro et al., 2024). For instance, satisfied employees will be more motivated to perform effectively; satisfied suppliers will likely offer discounts; the willingness to make repeat purchases and recommend services/products to others will increase if customers are satisfied, etc.

3.4. CSR Pillars vs. Financial Performance

3.4.1. Environmental Performance

According to Ramlawati et al. (2022), customers are not only consumers of services and goods of a company; they are also members of society and one key stakeholder group of a company (Ramlawati et al., 2022). This has actually been the key reason why customers are paying attention to CSR in all dimensions.

To begin with, environmental management is a key pillar of CSR and a mechanism that a company uses to present its reputation as a responsible company. It is also one basis on which customers relate with companies (Ramlawati et al., 2022;

De Mendonca & Zhou, 2019). In general terms, individuals tend to support organizations that represent their identities. Hence, customers who identify with certain firms are more likely to be satisfied with the services and goods offered by those firms. Secondly, the Ramlawati et al. (2022) study showed that when companies participate in societal development and repair, their clients will also have a chance to help repair and develop society by virtue of associating with those companies. This opportunity has a high potential to result in customers feeling more satisfied with the products of these companies. Moreover, the customer (who is multidimensional in needs of association with companies) is likely to feel perceived value and quality from companies that help broader community development and environmental sustainability, to be specific. This has been shown to build greater customer satisfaction and loyalty as well (De Mendonca & Zhou, 2019).

Ramlawati et al. (2022) further support this by arguing that given that companies' environmental performance mirrors the efficiency of their environmental management practices, by enhancing their environmental performance, firms will be better able to improve confidence among their stakeholders in their environmental management activities (Ramlawati et al., 2022; De Mendonca & Zhou, 2019). This confidence further drives greater identification and the desirability for the services and goods offered by the companies as views of expectations and value are met.

The Stakeholder theory asserts that as a company satisfies its stakeholders' demands, it can attain positive returns on its financial performance (Ji et al., 2021; Ha-Brookshire et al., 2020). Therefore, customers satisfied with environmental sustainability are customers who can drive the profitability of a company (De Mendonca & Zhou, 2019). Available literature has illustrated this by the mechanisms of usage behavior, customer loyalty, and customer retention. Customer loyalty is expressed in various ways. To begin with, loyal customers tend to show a preference for a company over other companies through repeat purchases and by increasing their interaction with the company's presence in the future (De Mendonca & Zhou, 2019). Secondly, when a company has a long-time customer base, it can adopt price premiums for its products, as customers tend to value their connection with the company, and hence, they are willing to pay more, mainly at high levels of customer satisfaction (De Mendonca & Zhou, 2019). Also, satisfied customers tend to recommend the company's products to other people, hence opening an opportunity for new sources, ultimately enhancing revenue for companies (Ho et al., 2021).

Ramlawati et al. (2022) have it that where a company can retain customers, they are able to secure their future revenues, including by the capability of increasing their prices, provided that loyal customers tend to be less price-sensitive. Simultaneously, those businesses will have the ability to lower their operation costs since loyal customers are less costly to maintain (De Mendonca & Zhou, 2019). For example, the promotional costs faced by businesses are predicted to be lower as com-

panies expend less effort in convincing loyal customers. In unison, reduced operating costs and increased sales have been proven to benefit companies from improved profitability (Mandal, 2024; Licandro et al., 2024). These repeat purchases, willingness to pay more, and promotion of the company positively fuel the financial performance of a company to do better (Hamad & Cek, 2023).

In 2023, Naseer et al. conducted a study to analyze the correlation between corporate environmental performance and corporate financial performance. The sample of this study was 2711 American companies. The environmental performance was weighed using Asset4 ESG scores, which capture factors such as product innovation, emissions reduction, and resource efficiency (Naseer et al., 2023). The financial performance indicators used were ROA and Tobin's Q. The findings of this research revealed that there is a positive correlation between environmental performance and the financial performance of a firm. In other words, the results of this study showed that strategic investment in environmental performance improves the earnings, profitability, and valuation of a firm. According to the results of this study, the integration of environmental considerations into strategic decision-making processes equips a company with a competitive edge and improved long-term profitability, as environmental responsibility gives the firm a positive public image and a sustainable environment to run a business.

3.4.2. Ethical Responsibility

Ethical responsibility comprises maintaining transparency and integrity in business practices. This includes doing business in ethical and honest ways, adhering to regulations and laws, and guaranteeing fair treatment of employees (Li & Xu, 2024). According to Saha et al. (2019), businesses are expected to get through intricate ethical paradoxes and settle for decisions that promote their values and the trust of their stakeholders.

According to Awaysheh et al. (2020), businesses that adopt a management philosophy that heavily depends on business ethics have been shown to be more successful than those operating in an unethical manner (Awaysheh et al., 2020). Although business ethics may not be the first variable weighed when evaluating the financial performance of companies, it is an equally essential factor to the success and sustainability of a business.

According to Saha et al. (2019), the leadership of a company bears the key to its long-term success, and staying compliant with a management philosophy established on a foundation of ethics builds a positive example for all workers. Ethical accounting practices, interaction with the public, treatment of employees, and information sharing with shareholders are all responsibilities of the leadership department and have a direct influence on the overall financial performance of a business (Saha et al., 2019). When these fundamental factors of a company are not exercised with a resounding theme of business ethics from top to bottom, each part of the business below the management has a big likelihood of faltering in the short or long run.

The available literature reveals that employees who are satisfied with their

workplace are more productive compared to those who are unhappy. Unethical practices in work environments can lead to widespread tension among employees, resulting in a greater feeling of dissatisfaction with their work and their employers (Saha et al., 2019). On the contrary, when business ethics are implemented by company executives and management, leading by example, the capability of employees to concentrate on the work they need exponentially increases. Productivity increases when there are fewer distractions and the morale is high. This yields great profitability and, hence, better financial performance for the company.

Research performed by Zorana Ivcevic (a Senior Research Scientist at the Yale Center for Emotional Intelligence) among other scholars at the Yale Center for Emotional Intelligence sampled around 15,000 people across the United States (Ivcevic, 2020). The finding of this study was that emotionally intelligent managers, managers who read and recognize employees' emotions, help them open up about their feelings, encourage enthusiasm, and manage their own feelings, led to employees who were more creative, happier, and who were ready to pursue more growth opportunities.

Employee happiness also has a great influence on retention and turnover since unsatisfied employees are more susceptible to seeking other opportunities despite receiving higher benefits or pay from their current employer (Correia, 2019). This saves companies from continuous recruitment and training of new workers, reducing the resources a company could have otherwise spent on revenue-generating initiatives and ultimately thinning its long-term profits.

Toluna (2019) mentions that businesses would be nothing without investors and shareholders, and as such, working with business ethics in mind is crucial when dealing with these vital players. It is common for the financial performance of publicly traded companies to rapidly decline when they face situations where info about unethical behavior is revealed to the public. When confidence is lost, it can be challenging for a firm to regain the trust of its investors, shareholders, and the public. This means that the company may suffer from declining financial performance for years.

In other words, all businesses depend on consumers for profits, and consumers prefer to interact with ethical companies. For instance, in 2019, a consumer intelligence provider, Toluna, released a study that revealed that consumer purchase habits change to favor ethically conscious companies (Toluna, 2019). Sampling 1000 American consumers, the report confirmed that 37% of the consumers are looking for and willing to spend up to 5% more on ethical companies.

Adopting sound ethical policies at a company guarantees a positive influence on all stakeholders, from consumers and investors to employees. Businesses that lay the foundation for business ethics in all corners of operations have shown to become and remain profitable compared to those conducting business unethically. For instance, research conducted by Harris in 2025 generates clear empirical evidence that ethical responsibility can improve a firm's financial outcome (Harris, 2025). By evaluating a diverse sample of sustainably oriented companies, this

study found a solid positive link between ethical practices, which include community involvement, transparent governance, and fair labor treatment, and core financial indicators such as market share and profitability. Using a mixed methods strategy, this study showed that firms embracing ethical responsibility are able to establish brand trust and secure tangible economic benefits. This poses ethical conduct as not just a moral choice but as a strategic investment in today's competitive business ecosystem.

3.4.3. Social Responsibility

Social responsibility, as a pillar of CSR, encourages companies to contribute positively to their societies. It also encourages businesses to consider the well-being of their stakeholders, including customers, employees, and the bigger society (Correia, 2019). This can involve things such as community engagement, philanthropic efforts, and initiatives purposing to enhance social welfare (Cho et al., 2019). Businesses that prioritize social responsibility have been shown to establish a solid relationship with their communities and improve their brand reputation (Harris, 2025).

Hamad & Cek (2023) assert that social responsibility has a positive and direct influence on the financial performance of a company by strengthening customer trust and brand loyalty (Hamad Cek, 2023). Businesses that actively contribute to their societies, fairly treat their employees, and foster ethical business practices have been found to build solid reputations that attract socially conscious consumers (Ho et al., 2021; Chandratreya, 2024). This improved brand equity permits companies to gain a competitive advantage, secure long-term consumer relationships, and command premium pricing, resulting in maximized profitability and revenue.

Being a fundamental of social responsibility, philanthropic activities substantially influence the financial performance of a company by improving customer loyalty and brand reputation (Harris, 2025). Firms that support global causes, participate in charitable giving or sponsor community projects mostly establish goodwill with consumers who value ethical business practices. This positive public image converts into improved customer engagement and higher sales, as individuals are more likely to support firms that support their values (Licandro et al., 2024; Krishnan, 2024). In addition, strong philanthropic efforts have the power to differentiate a company in competitive markets, offering it an edge over its competitors who lack such dedication.

In addition to building a positive brand reputation, philanthropy solidifies business relations and brings in new market opportunities (Harris, 2025). Community investments and corporate donations can promote trust with stakeholders, including business partners, government agencies, and investors. Many firms find that supporting local projects builds positive regulatory networking opportunities, resulting in favorable regulatory treatment and strategic partnerships. Simultaneously, philanthropic initiatives also build platforms for expansion, as businesses that contribute to social causes mostly establish solid relationships within com-

munities, assisting them in accessing new markets or customer bases.

Corporate socially conscious initiatives also improve employee productivity and satisfaction, which fuels financial performance (Chandratreya, 2024). According to this article, employees tend to feel an increased sense of purpose when their employer firms actively participate in social good activities, resulting in increased retention rates and engagement rates. Businesses that foster volunteer work or match employee donations build an environment of shared accountability, promoting a motivated and loyal workforce. This minimizes turnover costs and improves efficiency, further adding to enhanced profitability.

3.4.4. Economic Responsibility

As a pillar of corporate social responsibility, economic responsibility (being profitable) sits at the bottom of the pyramid, which is seen as the most essential role of any business. It is somewhat surprising to say that a business has a social responsibility to make a profit, yet this is what is required by society. If a corporation is not able to meet this responsibility, it will go out of business and will not be capable of contributing towards the well-being of society. Therefore, a firm is required to offer good services and produce good quality goods that meet the expectations of its customers. It should provide safe working space and give fair wages to its employees. It should also generate reasonable returns to its investors. Correia (2019) sees this as the only way to maneuver and benefit society on a long-term basis.

According to Nguyen et al. (2022), economic responsibility as a foundation of CSR plays a pivotal role in designing the overall financial performance of a business. Instead of fully concentrating on increasing profits, economically responsible companies adopt sustainable practices, ethical decision-making processes, and long-term value generation for their stakeholders. This transition from short-term benefits to long-term approaches has been shown to result in more competitive and resilient businesses.

One key benefit of economic responsibility is the improvement of brand loyalty and the company's reputation. Businesses that practice transparent financial practices, fair pricing, and ethical sourcing plow greater public trust than those that do the opposite. This public trust translates into solid higher customer retention and solid customer loyalty, which resultantly supports market share expansion and revenue growth (Harris, 2025).

Furthermore, adopting economically responsible initiatives has been shown to fuel operational efficiency. Many businesses are investing in sustainable supply chain management and energy-efficient technologies. Although these investments may come with initial costs, they mostly lead to significant long-term savings, better profit margins, and enhanced productivity (Okhrimenko et al., 2025).

In today's market, economic responsibility has also been shown to attract investors who prioritize environmental, social, and governance criteria (Gillan et al., 2021). Businesses viewed as future-oriented, transparent, and ethical are more likely to get capital from socially conscious investors, which solidify their funding

opportunities and financial position.

In addition, companies that fairly handle their employees through safe working conditions, fair wages, and professional development opportunities mostly enjoy higher levels of employee retention and engagement. This minimizes turnover-related costs and fuels productivity, positively contributing to the company's financial health.

Moreover, a study conducted by Van Nguyen et al. (2022) has also revealed that economic responsibility plays a pivotal role in risk management. By complying with ethical business processes, business minimizes their exposure to reputational, legal, and regulatory risks (Saha et al., 2019). This foresight and stability enable firms to safeguard and mostly improve their long-term financial performance.

3.5. Case Studies

Adding to the conceptual frameworks and theoretical foundations discussed earlier, this empirical section further supports the fact that CSR can improve corporate financial performance when strategically approached.

A study conducted in 2023 by Schijndel to investigate the influence of CSR on financial firm performance generates compelling evidence for the positive relationship between CSR initiatives and company value. This study used a sample of 3446 firm-year observations on American and European companies from 2018 to 2022. The financial performance of these selected firms was weighed using the market-based metric, Tobin's q, while CSR performance was analyzed using ESG indicators from the Thomson Reuters ASSET4 database. The findings of this study showed a positive effect of ESG performance on financial firm performance.

The findings of this study affirm that organizations that enjoy solid CSR performance end up attaining superior financial results (Schijndel, 2023). In particular, companies that actively take part in environmental sustainability activities, sound governance practices, and environmental sustainability initiatives showed higher market value (Gillan et al., 2021). Out of the four pillars of CSR, the social pillar showed the most significant impact on corporate financial performance. Initiatives such as community engagement efforts, employee well-being programs, and inclusion and diversity policies were related to tangible financial advantages. This spotlights the importance of raising stakeholder trust and social capital to fuel long-term profitability and investor confidence (Mandal, 2024; Licandro et al., 2024).

Simultaneously, the environmental pillar also showed a strong positive connection with corporate performance, mainly among companies that added sustainability to their innovation initiatives. Businesses with solid R&D capacity and efforts directed to green technologies were better equipped to capitalize on the growing global transition to environmental responsibility. This indicates that environmental responsibility not only plays a role as the source of future growth and competitive advantage but also fulfills regulatory and ethical expectations.

While the governance pillar did not start by showing substantial direct influ-

ence on company value in basic regression models, deep evaluations utilizing two-stage-least squares tactics showed a positive correlation. This finding spotlights the latent essentiality of governance structures, mainly when ethical leadership, transparency, and accountability are integrated into investor evaluations (Saha et al., 2019). Solid governance practices may not bear immediate financial outcomes every time, but they serve a vital role in supporting long-term performance, stakeholder trust, and mitigating risk.

Of essence, the scholars also revealed that companies with high innovation abilities and R&D intensity were better capable of turning CSR investments into financial benefits. These firms, mostly forward-thinking and growth-based, were more agile in lining CSR with strategic goals. Their capability to respond and adapt to changing stakeholder expectations made CSR a value-brewing factor instead of a cost center (Ha-Brookshire et al., 2020).

Another study by Nguyen et al. in 2022 conducted an exploration of Vietnamese commercial banks from 2012 to 2019 to evaluate ways in which different dimensions of CSR impact core financial indicators, such as net interest margin, return on equity (ROE), and return on assets (ROA) (Nguyen et al., 2022). The findings of this study revealed CSR activities, mainly those investing in environmental sustainability and employee welfare, have a positive and substantial influence on bank performance, affirming that CSR is a valuable strategic investment and not just a cost (Okhrimenko et al., 2025; Tien et al., 2019).

By using regression analysis, this study revealed that companies spending more on CSR initiatives are associated with enhanced financial performance, drawing from the positive coefficients for key indicators such as NIM, ROA, and ROE. This finding further shows that financial investments in CSR activities are not just costs but also strategic decisions that add to market competitiveness and a bank's profitability (Nguyen et al., 2022). These findings align with stakeholder theory, which hints that by handling the expectations and interests of different stakeholders, including communities, customers, and employees, companies can improve their operational efficiency and reputational capital, resulting in huge financial returns (Ji et al., 2021; Ha-Brookshire et al., 2020; Brin & Nehme, 2019).

Additionally, past direct expenditures and corporate social responsibility show a positive relationship with corporate financial performance, mainly in terms of ROE (Nguyen et al., 2022). Transparency in CSR initiatives promotes greater trust among other stakeholders and investors, hence minimizing perceived risks and information asymmetry associated with the company (Li & Xu, 2024). As firms publicly expose their CSR achievements and attainments, they strengthen their ethical and legitimate position in the market, which can draw loyal customers and socially conscious investors (Saha et al., 2019). While the influence of CSR disclosure differs from model to model, its positive impact supports legitimacy theory, which holds that companies actively manage their social image to match societal values, which finally enhances their capital access and improves long-term financial sustainability (Ho et al., 2021; Ji et al., 2021; Krishnan, 2024).

This study showed that the CSR environmental pillar positively affects both ROE and ROA, showing that eco-friendly activities such as implementing green credit policies and minimizing emissions translate into operational efficiencies and cost savings (Nguyen et al., 2022). These gains spotlight ways in which environmental responsibility can play a competitive edge while fulfilling increasing consumer expectations and regulatory expectations for sustainability (Cho et al., 2019).

CSR initiatives related to the well-being of employees, including employee growth programs and fair salary policies, indicate the most consistent and solid positive influence on financial outcomes (Hamad & Cek, 2023). This finding from the study affirms that investing in human capital improves workforce retention, motivation, and productivity, which are crucial fuel for business success. Improved employee welfare establishes abilities that directly impact profitability and ROE, spotlighting that human resource activities are important parts of sustainable business approaches (Mandal, 2024).

Additionally, community responsibility, including community involvement and charitable donations, shows a more intricate correlation. Although community investments positively add to ROE and ROA, their influence is less noticed compared to other pillars (Okhrimenko et al., 2025). This insinuates that community CSR initiatives play the role of being legitimate and reputational tools and not just generating immediate financial benefits. Improving brand loyalty and solidifying stakeholder relations can help community-based CSR support intangible value establishment that can result in long-term financial gains (Ha-Brookshire et al., 2020).

4. Research Suggestions

Based on the study findings, this research suggests targeted recommendations from the perspectives of the government and enterprises.

To begin with, companies should create an accurate awareness of social responsibility and take into consideration factors such as social development, the environment, and the interests of stakeholders in business operations (Mohammed et al., 2025). Additionally, enterprises should integrate a sustainable development mindset in their operations and not sacrifice environmental protection, stakeholder interests, or customer protection just for profitable pursuits. Also, the essentiality of fulfilling social responsibility should receive more focus at the strategic level and shouldn't be limited to only short-term benefits (Mohammed et al., 2025). For instance, the automotive industry should foster things such as environmental protection, energy conservation, and emission reduction awareness. The decoration and construction industry, on the other hand, should emphasize handling environmental pollution, dust pollution, and noise pollution, among others (Zhang & Liu, 2023). Simultaneously, the biopharmaceutical industry should consider ways to enhance the accessibility of drugs to the public indiscriminately.

The findings of this research also revealed that companies' better fulfillment of

social responsibility resulted in higher financial performance. Therefore, enterprises should task themselves with creating accurate awareness regarding social responsibility. Although these industries generate economic benefits for society, they should also make social development a priority. For instance, in the context of China's high focus on the ecological environment, heavily polluting industries should lead by example by minimizing environmental pollution via technological upgrades, better meeting their social role, preemptively disclosing CSR reports, and enhancing the quality of these reports (Wu et al., 2023). According to this research, proactively revealing CSR reports had a greater impact on brand value and reputation. It could also maximize information transparency. Hence, even companies that do not need to publish their CSR reports can enhance their reputation and value by disclosing them.

Simultaneously, governments should be aware of establishing an accommodating social environment depending on the role they play. According to Mohammed et al. (2025), governments should introduce soft laws, which include frameworks and guidelines, or hard laws, which include mandatory disclosures to encourage CSR. Also, through public recognition programs, tax incentives, and grants, governments can reward firms that implement environmental, ethical, and social initiatives. Governments should also collaborate with NGOs to adopt CSR programs that align with national development goals, mainly in areas such as environment conservation, education, and health.

5. Conclusion

In the business world, all stakeholders acknowledge social responsibility as a relevant issue, and businesses have started channeling efforts to get recognition for being socially responsible. This research evaluated the influence of social responsibility on a firm's financial performance. Using a mixed methods approach, this study has illustrated how CSR initiatives are substantial in improving financial outcomes. The findings show a solid positive relationship between CSR initiatives and corporate financial performance, relying on key financial metrics such as ROE and ROA, among others. The empirical analysis showed that companies that prioritize environmental initiatives mostly experience the most significant financial benefits, solidifying the essentiality of sustainability in corporate strategy. A content review of the available literature further demonstrated how CSR initiatives improve reputation, promote employee engagement, and align with long-term business goals. These findings collectively highlight CSR as not just a philanthropic practice but a strategic imperative that can fuel the long-term profitability and the competitive edge of a company.

5.1. Contributions

This study contains a bunch of contributions to the empirical research and theoretical development in the ecosystem. To begin with, this study confirms the outcomes of numerous research studies that were conducted prior to it, which found

a positive correlation between corporate social responsibility and financial performance. A key fact is that this research utilized methods different from the usual ones used to measure both financial performance and CSR. In addition, this study solidifies the viewpoint of scholars who believe that the connection between financial performance and CSR is mediated by other factors, mainly those related to corporate management. In this view, the core factor is stakeholder satisfaction (Licandro et al., 2024). The third contribution of this study is to solidify the essentiality of the stakeholder theory in conceptualizing CSR.

5.2. Future Research Suggestion

To bridge the literature gap and further the contributions of this study, this study poses the following new research questions:

1) Through what mechanisms does stakeholder satisfaction impact the connection between CSR and corporate financial performance?

2) Does the satisfaction of every stakeholder pose the same mediating power as the rest?

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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