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Article:	**The Impact of Corporate Social Responsibility on Financial Performance: Evidence from the Listed Banks in Pakistan**
Author(s):	Narvind Kumar PhD Scholar, IBA, University of Sindh Jamshoro, Pakistan
	Prof. Dr. Imamuddin Khoso IBA, University of Sindh Jamshoro, Pakistan
	Prof. Dr. Aisha Bashir Shah IBA University of Sindh Jamshoro, Pakistan
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Author(s) Note:	Narvind Kumar is a PhD Scholar at IBA, University of Sindh Jamshoro, Pakistan
	Dr. Imamuddin Khoso is serving as a Professor at IBA, University of Sindh Jamshoro, Pakistan
	Dr. Aisha Bashir Shah is serving as a Professor IBA University of Sindh Jamshoro, Pakistan

ABSTRACT

Corporate social responsibility (CSR) has recently gained substantial attention from researchers across the world. Banks play a crucial role in the prosperity, development, and sustainability of society along with the growth of businesses. The study objective is to assess the impact of CSR initiatives on the financial performance with moderating variable of bank size in the context of Pakistan. The survey questionnaire was used to collect the primary data from respondents. In total 500 survey questionnaires were distributed and 441 fully completed questionnaires were returned, indicating a response rate of 88.2%. A total of eight hypotheses were developed and empirically tested using structural equation model (SEM). The descriptive statistics and direct path coefficients show that all four dimensions of CSR have substantial positive bearings on the financial performance of banks with discretion dimension being more effective. The results of moderating path coefficient show that size of a firm further stimulates and magnifies the impact of legal, ethical, and discretionary aspects of CSR on financial performance except the economic dimension is which has an insignificant impact.

Keywords: Corporate Social Responsibility, Financial Performance, Banking Sector

Introduction:

In the era of global social media, every person gets to know what is happening in the corporate world and the consequence of their industrial actions on community, environment and on other stakeholders. With this heightened awareness, the calls for transparency and accountability are growing larger by human rights groups and environmentalists across the world. The corporate sector operating in this century and onwards cannot survive and thrive without staying cognizant of the needs of all stakeholders. In this regard, researchers have started paying more attention to the activities of CSR and subsequent impact on organizational financial performance. It is assumed that organizations are earning profit from society and thus it is moral imperative that they should invest back some portion of their profit in society to address its pressing needs. Such organizations tend to have a better corporate image in a society, resulting into higher revenues in the long term. A corporation that pays fair attention to the safety, security, and well-being of all the stakeholders living in a society are more likely to operate at premium value in the market. A firm can create a sustainable value proposition by positively managing its relationship with stakeholders. A society expects from corporations to produce environmentally friendly products using eco-friendly manufacturing plants, provide safe working environment, pursue nondiscriminatory approach in all labor related issues, use equipment to control pollution, invest in charitable projects, among other CSR activities. Despite this theoretical rationale, the empirical findings are mixed, ranging from positive to negative impact relationship between corporate social responsibility and financial performance and in some cases, results are neutral (Maqbool & Zameer, 2018). The main objective of this study is to assess the impact of CSR initiatives on the financial performance of Banks in the context of Pakistan. The CSR activities require a significant amount of investment and a firm with a smaller size may be resource-constrained to invest less in social projects, thus, in this study the size of a firm is used as a moderating variable to evaluate the extent to which it intervenes the relationship between CSR activities and financial performance of a firm.

Literature Review:

The investment in CSR gives an organization a competitive age in the market. There is substantial evidence that CSR increases a firm’s sustainable competitive position. In this regard, there are major three ways through which CSR activities turn into competitive advantage for a firm. First, through CSR schemes, a corporation comes into contact with key social stakeholders and over time such relationships get mature, generating social dividends to corporation in terms of preferring its products and services for consumption and investment, which in turn result in higher competitive position. Second, in an attempt to address the societal problems, a corporation is incentivized to enter into new line of operation and embrace innovative methods to provide smart social solutions, leading to overall diversified and innovative working environment within a corporation. Finally, CSR requires a corporation to provide safer and better working conditions which stimulate workers to perform in a more professional and productive manner, resulting in higher competitive position (Bird et al., 2007). Thus, CSR activities greatly help a corporation in building up both social and corporate reputational capital which ultimately enhances its financial outcomes in all aspects ranging from higher sales revenue, profitability and share price in the market. CSR activities have also been found to facilitate a corporation’s efforts to develop better and long-term relationships with customers who support organization in good and bad times, especially in time of recession, consumers attempt to buy the products if a firm that they think is investing in society and holds a positive reputation (Sang et al., 2022). Such reputation capital lowers the financial risk of a firm, making it much less likely to go bankrupt even in difficult times in comparison with firms having no CSR activities. In the same line, (Bag & Omrane, 2022) argued that CSR initiatives reduce a firm's marketing expenses, develop creative internal capacities, and generate superior value for its shareholders in the stock exchange.

Dimensions of CSR

Prior research studies have identified four dimensions (i.e., economic, legal, ethical and discretionary) of CSR which are found to have an influence on financial outcomes of a firm (Bag & Omrane, 2022).

Economic dimension:

Historically, firms were created for economic purpose under which a firm has to produce goods and services that have potential to satisfy needs and wants of society. Firms were viewed as economic units which sell out their products at a profit. Economically, firms can attain economies of scale and be in a better position to produce products in a cost-effective process and earn a reasonable profit while providing goods and services to the people at economical prices. The fundamental motive that derives a firm to meet economic needs of people to earn profit and increase the wealth of owners in the process. Later on, the profit target was transformed into the objectives of maximum profit and increasing the value of the firm. A firm's corporate social responsibility under economic dimensions includes that a firm has to produce goods and services in order to i) to stay profitable ii) to increase earnings per share of owners iii) to create and maintain a sustainable competitive advantage over competitors iv) and finally a firm needs to community resources as much efficiently and effectively as possible (Chen, 2021).

Legal dimension:

Under one of the conditions of social contract, society has permitted firms to play a productive role in meeting societal needs, it has also imposed certain legal conditions under which a firm has to operate and render services to the people. The state lays down legal rules and regulations which ensure the safety and security of all the stakeholders living in the community and to prevent firms to pursue the oath of profitability at the expense of other stakeholders. Particularly, the environmental concerns are getting traction mainly legal fraternity in way that environment should be protected from being polluted by industries through designing legal framework. A firm is expected to fulfil the needs of society while following all the rules and regulations of national and global legal authorities. A firm's corporate social responsibility under legal dimension requires a firm to operate in a way that i) it meets the local, state, and international rules and regulations ii) it appears a law-abiding corporate entity as per legal standards of state, iii) its goods and services should meet the minimum legal threshold of the state (Quezado et al., 2022).

Ethical dimension:

Though economic and legal dimensions of corporate social responsibility embody the standards and norms of ethics and decency, there are certain corporate activities and behaviors which cannot be guaranteed through laws and regulations. The society expects that firms should operate and deliver good and service while maintaining the ethical and moral values that a society beliefs in. Firms may find it challenging to exactly determine as to what activities are included in ethical behavior as such behaviors are hugely subject to debate. Secondly, it is not always in the commercial interest to firms to follow the ethical standards which are pervasive in a society. Nevertheless, for a firm to be successful in the long term, it has to exhibit socially and ethically responsive behaviors (Lee et al., 2020). According to (López Jiménez et al., 2021), ethical values embrace the beliefs reacted to justice, fairness, and human rights. The ethical norms reflect what matters most to the people living in that community and which are continuously evolving. The evolving new ethical values subsequently forms the basis for promulgation of new laws which then become legal obligation for firms to follow. A firm's corporate social responsibility under ethical dimension makes a firm to behave in a manner that i) it is in conformation with social norms and ethical standards of a society ii) it recognizes and respects the new evolving moral, ethical and social values and practices and firms' activities are adopted as per those emerging ethical standards, iii) the ethical standards should not be violated in pursuit of firm's commercial interests such as profit, iv) and finally a firm has to behave in a larger interest of a society, over and above the legal boundaries (Quezado et al., 2022).

Discretionary dimension:

Discretionary responsibilities encompass all the contributions that a firm makes towards making a society better, healthy, and safer place. Though they are largely voluntarily in nature, and it is up to an individual manager to take decision about investing into betterment of society in which the firm operates and reaps profit, a society expects firms to contribute voluntarily to strengthening any of its dimension. Society expects that firms should behave beyond the economic, legal, and ethical targets, thereby showing a sense of volunteerism when it comes to contributing towards social development of a society. It includes philanthropic donations, providing training to unemployed graduates to make them employable or providing day-care for children of working women, among others. A firm's corporate social responsibility under discretionary dimension includes that i) a firm should participate in voluntary activities in the community ii) a firm should invest into education and health sector of society in which it is generating revenue and earning profit, iii) and a firm should take part in what-ever means it can, to raise the living standard of people and planet (Quezado et al., 2022).

Research Hypotheses:

The following Hypotheses are developed based on literature review.

Hypothesis#1: There is a positively significant relationship between the economic dimensions of CSR and financial performance.

Hypothesis#2: There is a positively significant relationship between the legal dimensions of CSR and financial performance.

Hypothesis#3: There is a positively significant relationship between the ethical dimensions of CSR and financial performance.

Hypothesis#4: There is a positively significant relationship between the discretionary dimensions of CSR and financial performance.

Hypothesis#5: The firm size significantly moderates the relationship between economic dimension of CSR and financial performance.

Hypothesis#6: The firm size significantly moderates the relationship between legal dimension of CSR and financial performance.

Hypothesis#7: The firm size significantly moderates the relationship between ethical dimension of CSR and financial performance.
Hypothesis#8: The firm size significantly moderates the relationship between discretionary dimension of CSR and financial performance.

Research Methodology:

All the employees working in the Private & Public sector listed banks of Pakistan make up the population of this study. In this study, GPower software is used to determine the minimum threshold of number of respondents. In this study 500 survey questionnaires were distributed and 441 fully completed questionnaires were returned, indicating a response rate of 88.2%. Based on availability of limited resources and the nature of research problem, all employees were not expected to be knowledgeable about the CSR activities, thus, convenience sampling technique was used to collect the data from respondents. The primary data collected through survey questionnaires were edited, coded, and classified through computer excel sheets and analyzed using Structural Equation Model (SEM).

Analysis and Discussion:

In this Study, structural equation parameters are estimated and before that the convergent and discriminant validities of each construct are checked.

Convergent Validity:

The convergent validity of a construct is established when its items converge to represent the same underlying concept that a given construct purports to measure. Cronbach alpha, Rho_A and Composite Reliability test were applied to determine the convergent validity. The results in the table show that the values in all these three tests are above the threshold value of 0.7, inferring that constructs used in these studies are significantly reliable in measurement. Further, Average Variance Extracted (AVE) test is used to examine convergent validity. AVE quantifies the explained portion of variation of a construct in relation to the unexplained part due to measurement error. The value of AVE lies between 0 to 1, the closer the value to one, the better a construct is in terms of explained variance. If AVE value is 0.5 and above, it is considered a reliable construct. The results show that all the variables have AVE value above the threshold value of 0.5, hence variables carry adequate volume of reliability and validity.

Table-1: Construct Convergent Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
EC	0.810	0.851	0.863	0.570
ET	0.878	0.909	0.910	0.670
DC	0.786	0.815	0.849	0.531
LE	0.775	0.826	0.852	0.592
FP	0.838	0.855	0.892	0.674

Discriminant Validity:

In Structural Equation Model, a number of constructs can be used and connected as exogenous, endogenous and control variables. It is assumed that all variables involved in SEM are theoretically independent of each other and there is no multicollinearity issue among included variables. In this study, Fornell –Larcker Criterion, Heterotrait-Monotrait Ratio

(HTMT), and Variance Inflation Factor (VIF) are used to establish discriminant validity. The results in the table show that the diagonal values in bold are scores under Fornell –Larcker Criterion, showing that all the values are much higher than the corresponding values, thereby establishing discriminant validity of each construct. Similarly, HTMT results show that all the values are much lower than cut off value if 0.85 indicating that the constructs used in this study are empirically different from one another. In the same line, VIF values for each exogenous variable are around 01, indicating that there is no serious issue of multicollinearity in this research model and hence regression estimates would be viewed as reliable and consistent.

Table-2: Discriminant Validity (Fornell –Larcker Criterion)

	DC	EC	ET	FP	LE
DC	**0.729**				
EC	0.072	**0.918**			
ET	0.174	0.557	**0.819**		
FP	0.695	0.193	0.267	**0.821**	
LE	0.260	-0.081	-0.079	0.257	**0.769**

Table-3: Discriminant Validity (Heterotrait-Monotrait Ratio)

	DC	EC	ET	FP	LE
DC					
EC	**0.165**				
ET	**0.245**	**0.630**			
FP	**0.783**	**0.210**	**0.293**		
LE	**0.314**	**0.129**	**0.173**	**0.301**	

Table-4: Variance Inflation Factor (VIF)

	DC	EC	ET	FP	LE
DC				**1.119**	
EC				**1.454**	
ET				**1.502**	
FP					
LE				**1.093**	

The Analysis of Results: Structural Model

SEM is used to test the hypotheses of this study. With respect to model fitness, Adjusted-R square is 0.642 indicating that 64.2 percent of variation in the financial performance variable is accounted for by the exogenous variables in the model. SRMR value is 0.083 which is below the threshold value of 0.1 indicating that SEM model is well fitted. SRMR assessed the goodness of fit of inner model. Whereas RMS-Theta evaluates the goodness of fit of outer model and it also measures the extent to which the residual variances of observed measurement model differ from the residual variances of implied measurement model through the application of covariance matrix, and it's cut off value is 0.12. The results in table show that RMS-Theta value is 0.110, reflecting the goodness of fit of the measurement model used in this study. Finally, Normed Fit Index (NFI) is used to analyze the model fitness. NFI measures the explained variation of implied model and compares it with that null model. NFI assesses an incremental volume of explained variation resulting in implied model based on null model assumptions and if NFI is above 0.9, it is assumed that implied model is better in explaining the model than that of null model which is viewed as a sign of goodness of fit. The results in table show that NFI value is greater than threshold value of 0.9 lending, supporting earlier statistics that model is well fitted. Furthermore, the adjusted R-Square value in table is 0.642 which implies that 64.2 percent of variation in the model is explained by all the exogenous constructs used in this study.

The direct path coefficient of economic dimension of corporate social responsibility in structural equation model is 0.094 which is statistically significant at 0.05 confidence level, meaning that it positively derives the financial performance of Banks. The banks that pay attention to attainment of their economic interests tend to have higher financial performance. Good governance is seen as a proxy that management is efficient pursuing economic objectives. In this regard, (Quezado et al., 2022) found that firms having superior and transparent governance practices are more likely to perform better than their counterpart firms with poor governance. In the same line, (Coombes & Watson, 2000) evidenced that the firms following the principles of integrity, accountability and efficiency excel in the market as investors place trust in such organizations and prefer to buy shares leading to higher firm value. Well governed corporations generate above average returns in the market as investors are willing to pay a premium price in an attempt to make equity investment, leading to higher financial performance (Black & Khanna, 2007).

Based on the positive and significant coefficient of construct economic dimension, hypothesis#1 of this study is fully supported. The direct path parameter of legal dimension of corporate social responsibility in structural equation model is 0.111 which is statistically significant at 0.01 confidence level, meaning that it significantly enhances the financial performance of Banks. Previous research studies have evidenced that the firms that comply with the rules and regulations of state are likely to have high operational performance resulting into higher profitability (Berman et al., 1999). Likewise, (Javed et al., 2020) argued that abiding by the laws in introducing new products tends to improve a firm’s efficiency and reduce costs to all stockholders involved. The firms that are found breaking and violating national laws witness higher employee turnover, costing huge monetary and loss of talented workforce which in turn reduce the financial performance.

The investors and consumers hold the firms in high regard those follow legal obligations in their business operations which causes rise in both sales volume and share price. Based on the positive and significant coefficient of construct legal dimension, hypothesis#2 is fully supported. The direct path estimate of ethical dimension of corporate social responsibility in structural equation model is 0.113 which is statistically significant at 0.05 confidence level, meaning that it significantly improves the financial performance of Banks. According to (Riordan et al., 1997) the firms that effectively redeem their ethical responsibilities and their operations are as per ethical expectations of a society, tend to enjoy ethical reputation which translates into higher organizational performance. In the same line, (Berman et al., 1999) evidenced that a firm’s practices in line with ethical standards serve as an effective motivating tool to raise employee’s morale who then become more productive at workplace. Likewise, (Velte, 2022) reported that being an ethical organization boosts its image in the eyes of employees, consumers and general public which is viewed as sustainable competitive advantage and brings financial benefits for a firm. Based on the positive and significant coefficient of construct ethical dimension, hypothesis#3 is fully accepted. Finally, the direct path coefficient of discretionary dimension of corporate social responsibility in structural equation model is 0.641 which is statistically significant at 0.001 confidence level, meaning that it significantly derives the financial performance of Banks. It is well documented that firms with irresponsible activities which are not in the collective interest of community are having lower value in the stock market (Frooman, 1997). Once a firm established an image of responsible corporate citizenship, it gains tremendous monetary and non-monetary benefits from consumers, government and civil society members (Husted, 2003). The study of (Velte, 2022) determined a strong empirical link between voluntary investment by a firm into social work and its financial outcomes. It was further proven that the firms working for the betterment of environment stay profitable in long term. Based on the positive and significant coefficient of construct discretionary dimension, hypothesis#4 is fully accepted.

Table-5: SEM Estimates

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
DC -> FP	0.641	0.641	0.024	26.189	**0.000**
EC -> FP	0.093	0.095	0.045	2.098	**0.036**
ET -> FP	0.112	0.113	0.047	2.398	**0.017**
LE -> FP	0.107	0.111	0.038	2.854	**0.004**
Moderating Effect 1 (DC -> FP)	0.544	0.532	0.065	8.356	**0.000**
Moderating Effect 2 (EC -> FP)	-0.094	-0.111	0.089	1.056	**0.291**
Moderating Effect 3 (ET -> FP)	0.296	0.295	0.041	7.148	**0.000**
Moderating Effect 4 (LE -> FP)	0.211	0.214	0.048	4.398	**0.000**

R^2	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)
FP	0.640	0.645	0.029
Adj R^2	Original Sample (O)	Sample Mean	Standard Deviation (STDEV)
FP	0.639	0.642	0.029

Table-6: Model Fit Summary:

	Saturated Model	Estimated Model
SRMR	0.083	0.083
d_ULS	3.210	3.210
d_G	1.289	1.289
Chi-Square	4104.404	4104.404
NFI	0.928	0.928
rms Theta	0.110	

Analysis of Path Coefficients (Moderators):

A firm's decision to take part in activities related to corporate social responsibility is driven by a myriad of factors which are external as well as firm specific. Consequently, a number of theoretical perspectives have been used to examine and understand the factors that influence a firm's corporate social behaviors and activities. Under the assumptions of agency theory, a firm's corporate social activities are strongly linked with the autonomy of managers and subsequent managerial utility. The institutional based theory predicts that the extent to which a firm is involved into CSR depends heavily on the demands emanating from various stakeholders and the expected reward on such activities. These theories have also established a relationship between a firm's size and CSR activities. The size of a firm shapes the social behaviors of a corporation for three key reasons. First, the larger organizations are visible in the market and are inclined to be more socially responsive, which is substantially rewarded too. In contrast smaller organizations are less visible and tend to get little or no recognition and appreciation from their investment into CSR activities.

Second, larger organizations are resource rich and have a greater access to external resources too, thus they can significantly enhance their commitment towards corporate social responsibility initiatives. By comparison, smaller firms are resource constraints with limited access towards external financing which limit their capacity and makes it less viable to escalate commitment of resources into CSR. Third, bigger firms are likely to have adequate administrative staff, giving them better exposure to make social deals with external community stakeholders and thus leading to a rise in their CSR activities. Contrary, smaller firms have a limited internal administrative system, constraining their administrative capacity to strike better social deals and expand their CSR projects. Finally, given the size of large firms, they tend to resist the pressure arising out from various stakeholders to take part in community development projects, and ultimately, they end up being less responsive in terms of corporate social behaviors (Udayasankar, 2008). These findings show that it is important to assess the impact of size on CSR activities and its role in moderating the relationship between the dimensions of CSR and organizational financial performance.

Four hypotheses are developed based on size as a moderator and the results of moderating path coefficient of SEM in table show that size plays a strong role in enhancing the relationship between a firm's commitment to make discretionary social investment and financial performance. This is followed by ethical commitment which is significantly moderated by the size of a firm. It infers that larger firms are more willing to make CSR activities that are in line with ethical standards of society. In the same line, the moderating path coefficient of legal commitment also shows that larger firms are more legally conscious and tend to follow the rules and regulations in conducting their business. These results seem to suggest that larger firms are better equipped with respect to internal & external resources, have budgetary space to engage actively in CSR initiatives and have administrative & managerial abilities to effectively take part in social development of a society based on their targets set under corporate social responsibility scheme. These findings are in line with the predictions of agency theory and institutional theoretical approaches towards CSR activities (Frynas & Yamahaki, 2016). Based on the moderating path coefficients of size with variables legal dimension, ethical dimension and discretionary dimension, the hypotheses #6 #7 and #8 are fully supported. However, the moderating path coefficient of size with variable economic dimension is statistically non-significant and thus, hypothesis#5 is rejected. This may be because the main purpose of an organization is to fulfil its economic commitment and that organization first and foremost focus on achieving profit and raising the value of shareholders. The insignificant moderating coefficient clearly suggests that irrespective of size-whether a firm is larger or smaller, the managers are equally motivated to attain the economic interests of their respective firms.

Conclusion and Recommendations:

The corporate social activities and behaviors provide strategic value to a firm. This study attempts to understand the imperatives including economic, legal, ethical and discretionary that derive a firm's motivation to take part in social and community works and its resultant impact on a firm's financial performance. Overall, it is found that firms who are actively engaged in investing into communities in order to support the marginalized people and other social development projects tend to enjoy the status of corporate citizenship, have high reputation in the market and in return reap financial as well as non-financial benefits from consumers, employees, government and other civil society members. The investment in CSR pays the dividend to firms which is demonstrated in soaring share price valuation and higher financial outcomes. Considering the substantial impact of CSR investment on financial performance, it is recommended that Banks should make CSR initiatives not as option, but it should be a core business objective and should be integrated with other mainstream objectives of a Bank. Banks should constitute a committee which should consult the civil and community members in order to identify the areas which need investing in a society. This way a Bank can ensure CSR budget should be spent as prudentially as possible.

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