Corporate Social Responsibility and Firm Performance: A Literature Review

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\begin{tabular}{ll}
\textbf{Research Aims:} & This study explores the complex relationship between Corporate Social Responsibility (CSR) and company performance, focusing on how board composition, leadership, and cultural influences affect the efficacy of CSR initiatives. \\
\textbf{Design/methodology/approach:} & Using a literature review method. \\
\textbf{Research Findings:} & Independent directors on company boards positively influence CSR activities, which in turn enhance company value. These effects receive moderation from the resources available to the company and mediation through the CSR activities themselves. The research also highlights that leadership qualities such as integrity and stakeholder engagement significantly boost organizational performance by promoting responsible corporate culture. It further reveals that market-oriented cultures strengthen the positive impacts of CSR on performance, while adhocracy cultures have the opposite effect. Geographical variations emerge in the effectiveness of CSR, with significant impacts observed in regions like Argentina and Bolivia, unlike in Chile where CSR shows negligible effects. The study notes that while CSR typically improves operational performance, its impact on market valuation proves complex and hinges on strategic emphasis on value utilization over creation. Moreover, a company’s initial CSR reputation crucially impacts its financial performance, where positive reputations enhance and negative ones detract from company success. \\
\textbf{Theoretical Contribution/Originality:} & The findings advocate for aligning CSR with corporate strategy and culture to maximize its benefits on company performance. \\
\textbf{Keywords:} & CSR, Firm Performance, Literature Review
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\textbf{Introduction}

Corporate Social Responsibility (CSR) has received significant attention from policymakers, researchers, communities, and organizations in recent decades [1], [2]. CSR is defined in various ways. It was originally explained as follows: "The social responsibilities of business encompass the economic, legal, ethical, and policy
expectations that society has for an organization at a particular time" [3]–[5]. The European Commission broadened the definition of corporate social responsibility (CSR) in 2011 by emphasizing the obligation and duty as expected rather than the firms' voluntary actions. Accordingly, "the responsibility of enterprises for their impacts on society" is how CSR is defined. “Context-specific organizational actions and policies that take into account stakeholders' expectations and the triple bottom line of economics, social, and environmental performance" is another definition of corporate social responsibility (CSR) [6].

Corporate Social Responsibility (CSR) influences company performance significantly [7], [8]. Companies that implement CSR effectively often enjoy improved reputation and trust from consumers and investors. CSR activities, such as environmental sustainability, social responsibility, and business ethics, can attract customers who are more aware of social and environmental issues [9]–[11]. This, in turn, increases customer loyalty and sales potential, which has a positive impact on the company's financial performance. Studies also show that transparency in CSR reporting increases investor confidence, which can influence the value of a company's shares. Thus, CSR not only supports social progress but also provides competitive and financial advantages for companies that implement it.

Transparency in Corporate Social Responsibility (CSR) reporting plays an important role in influencing investor confidence and firm Value [12]. Investors tend to prioritize companies that demonstrate a commitment to social and environmental responsibility through clear and open reporting. Ambiguity or lack of information in CSR reports can raise doubts about the company's integrity, which ultimately has a negative effect on perceptions and investment decisions [13], [14]. On the other hand, transparent reporting helps build a positive image and increase trust, which can attract more investment and increase the company's market value. Therefore, it is important for companies to manage and report on their CSR initiatives in a truly transparent and accurate manner.

Research on the influence of transparency in Corporate Social Responsibility (CSR) reporting on investor confidence and company value is very important for several reasons. First, it provides insight into how transparent CSR reporting can improve a company's reputation and integrity in the eyes of investors, which in turn can influence their investment decisions. Second, this research helps companies understand the importance of effective and open communication about their CSR practices, which not only supports sustainability but also attracts capital and financial support. Third, by understanding the link between CSR transparency and corporate value, companies can be more strategic in planning and implementing their CSR activities to maximize the positive impact on financial performance. [14] The aim of this research is to investigate the relationship between a company's level
of environmental sustainability and its financial performance on the stock market, as well as assess its impact on share value. The benefits of this research include increasing understanding of the importance of CSR transparency, providing guidance for companies to increase investor confidence and maximize company value. Finally, this research contributes to the academic literature by delving further into the relationship between corporate ethics, social responsibility, and financial success, thereby enabling stakeholders to make more informed and responsible decisions.

Table 1 Findings from Several Researches

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| 1. | S. R. Miller, L. Eden, and D. Li [15] | - ROA  
- Losing a negative CSR reputation  
- Gaining a negative CSR reputation  
- Market size  
- Market share  
- Bank size  
- Net loan loss  
- Type of ownership (domestic or foreign)  
- Expense ratio  
- Type of bank charter  
- Initial CSR reputation  
- Year dummy | Initial CSR reputation has a significant impact on firm performance, where initial positive reputation improves firm performance while initial negative reputation is negatively correlated with firm performance. Negative loss of CSR reputation does not significantly affect company performance. Getting a negative CSR reputation has a negative impact on company performance. The impact of losing a negative CSR reputation on company performance in absolute terms is smaller than the impact of gaining a negative CSR reputation. Obtaining a positive CSR reputation has a positive effect on company performance. Gaining a positive CSR reputation will be stronger than the impact of losing a positive CSR reputation. |
- CSR  
- Board size  
- Board independence  
- Firm Size  
- Firm Age  
- Firm Cash  
- Leverage  
- Ownership  
- Big4auditor | There is a positive relationship between CSR and company performance. The size of the board of directors does not affect the relationship between CSRD and company performance. Independent directors of the board will increase CSRD, which will improve the company's financial performance. |
- R&D capabilities  
- Operational capabilities  
- Marketing capabilities  
- Status  
- Firm age  
- Size  
- Leverage | There is a positive relationship between CSR and Tobin's Q, which is a measure of a company's financial performance. There is a moderating effect of the company's economic capabilities on the relationship between CSR and company financial performance. And Support for three-way interaction |
Several studies have investigated the influence of CSR on company performance. For example, [15] analyzed the influence of CSR on company performance (ROA). Other research shows that CSR components, independent directors have an effect on company performance. [16] in addition, research has shown that CSR influences company performance (Tobins Q), and there is a moderating effect of the company’s economic capabilities on the relationship between CSR and Company Financial Performance [9]. Apart from that, [19] research shows that CSR influences financial performance, and where corporate image, corporate reputation, and corporate loyalty mediate the relationship between CSR and financial performance, and [18] research analyzes CSR on company performance which is moderated by company capability.

In this context, research on CSR and Financial Performance becomes increasingly relevant and important. The research aims to understand the implementation, benefits and challenges of implementing these practices in various business contexts, as well as their impact on a company's financial performance, reputation and loyalty. Through this research, it is hoped that new insights can be found that can help companies integrate environmental sustainability into their business strategies more effectively and sustainably.
Literature Review

Legitimacy Theory

Legitimacy theory emphasizes the need for companies to operate within boundaries deemed acceptable by society, so that they gain 'legitimacy' to continue their activities [20], [21]. Legitimacy Theory explains the relationship between Corporate Social Responsibility (CSR) and company performance by assuming that companies use CSR to gain or maintain legitimacy in society [20]. According to this theory, companies that carry out CSR activities demonstrate their conformity with societal norms and values, thereby gaining social legitimacy. This legitimacy, in turn, positively influences company performance because companies that are considered legitimate by society tend to have better access to markets, resources, and investor support [22]-[25]. Thus, Legitimacy theory shows that CSR activities that are in line with society's expectations can directly support and improve a company's financial and operational performance, facilitating long-term growth and stability. Important findings from empirical studies on Corporate Social Responsibility (CSR) and corporate performance have revealed complex relationships, often varying by industry and geographic context. Several studies have found that strong CSR practices are correlated with improved financial performance, through improved reputation and customer trust leading to loyalty and higher revenues [26], [27]. Other studies highlight that companies with a high commitment to environmental and social standards tend to attract more investment and have more stable market values [4], [24], [25], [27]. However, some studies also show that the high initial costs of CSR implementation can affect short-term profitability, although long-term benefits often offset these costs [14], [28], [29]. Overall, empirical studies confirm that although CSR can offer competitive advantages, its effectiveness depends largely on how the practice is integrated into a company's overall strategy and accepted by its stakeholders.

CSR

Corporate Social Responsibility (CSR) is defined as socially responsible and ethical business practices, where companies pay attention to the impact of their operations on all stakeholders, including employees, communities, the environment, and shareholders [24]. The main components of CSR include environmental sustainability, corporate social responsibility, and business ethics. Environmental sustainability focuses on minimizing the negative impact of company operations on nature, while social responsibility emphasizes the company's positive contribution to society. Business ethics, which is the foundation of CSR, regulates company operations with the principles of fairness, transparency, and integrity [30]-[36]. Through the implementation of these components, the company strives to carry out operations that are not only financially profitable but also beneficial to society and...
Key elements in Corporate Social Responsibility (CSR) practices include environmental responsibility, social responsibility, and ethical compliance [10], [13], [37]. Environmental responsibility includes initiatives to reduce carbon footprints, responsible waste management and sustainable use of resources. Social responsibility emphasizes community development, support for education, and employee welfare. Ethical compliance regulates how companies operate with integrity and transparency, maintaining fairness in their business practices and avoiding corruption. Through the implementation of these elements, companies strive to meet people's expectations and strengthen their brand image, while contributing positively to the environment and society [34], [38].

Companies implement Corporate Social Responsibility (CSR) in their operations through various strategies and programs [39]. They design and implement initiatives aimed at reducing negative impacts on the environment, such as recycling programs, use of renewable energy and resource efficiency. For social responsibility, companies often involve themselves in community activities, provide financial support for education, health, and infrastructure development, and improve employee working conditions [14]. In the aspect of ethical compliance, they ensure that their business operations are transparent, strengthen compliance with laws and regulations, and implement strict anti-corruption policies. Effective implementation of these CSR practices not only strengthens the public's reputation and trust in companies but also supports their long-term business sustainability [8], [40].

**Firm Performance**

Company performance in a business context is measured through a number of financial and non-financial metrics that describe how effectively the company operates and achieves its goals. Financial metrics include profitability, revenue growth, ROI (Return on Investment), and ROE (Return on Equity), which all indicate a company's financial strength and operational efficiency [40], [41]. Non-financial metrics may include customer satisfaction, brand reputation, and employee engagement, which reflect qualitative aspects of a company's performance. The combined evaluation of these indicators provides a comprehensive picture of a company's performance, enabling stakeholders to assess the company's success in achieving its strategic and operational goals [42]. The main indicators used to measure company performance include several financial and non-financial metrics [42]. Frequently used financial metrics are Return on Investment (ROI), Return on Equity (ROE), revenue growth, and profit margin, all of which provide insight into a company's operational efficiency and financial success [4], [11], [43]–[47]. On the non-financial side, indicators such as customer satisfaction, employee happiness index,
and corporate social responsibility (CSR) scores measure qualitative aspects of performance that can influence a company's long-term success. The use of a combination of these indicators helps stakeholders evaluate various dimensions of company performance, which is important for strategic and operational decision making [5], [26].

Return on Assets (ROA), Return on Investment (ROI), Return on Equity (ROE), and revenue growth are key indicators that influence company performance assessment. ROA measures how efficiently a company uses its assets to generate profits, providing an idea of the effectiveness of asset management [5], [26], [34]. ROI, which calculates the return on investments made, provides insight into the profits generated relative to the capital invested. ROE reveals a company's ability to generate profits from the equity owned by shareholders, indicating efficiency in the use of equity. Revenue growth, which reflects a company's revenue growth rate over time, indicates the expansion and scalability of a company's operations [3]. Together, these indicators provide a comprehensive analysis of a company's financial health and management's ability to generate profits and growth [48], [49].

The Relationship between CSR and Company Performance

Corporate Social Responsibility (CSR) significantly influences the reputation and trust of investors in a company [8], [24], [25], [50]. When companies implement effective CSR practices, they often build a positive reputation as socially and environmentally responsible entities. This good reputation, in turn, attracts the attention of investors who increasingly value corporate responsibility in their investment decisions. Investors’ confidence in these companies increases because they view engagement in CSR as an indicator of long-term sustainability and good risk management [34], [49]. As a result, CSR can play a crucial role in increasing investor confidence and support, which is important for a company's financial stability and growth.

The positive impact of Corporate Social Responsibility (CSR) on customer loyalty and profitability can indeed be quantified through various studies and analysis methods [22], [40], [51], [52]. Companies that implement CSR often experience an increase in customer loyalty, which is measured through metrics such as repeat purchase frequency, customer retention duration, and customer lifetime value. Profitability, on the other hand, can be analyzed by looking at changes in profit margins, operational efficiency, and cost savings that come from sustainable practices [12], [53], [54]. Using this data, companies can effectively measure the concrete impact of CSR initiatives on their financial results, providing valuable insight into how CSR contributes to a company's long-term economic performance [53], [55].

Implementation of Corporate Social Responsibility (CSR) can have a potential
negative impact on companies in some cases [52], [53]. The high initial costs of developing and implementing CSR programs, including environmental initiatives that require investment in green technology or sustainable resources, can place a strain on a company's short-term finances [56]. In addition, if not managed properly, CSR initiatives can be considered greenwashing, namely an attempt to appear socially responsible without real performance, which can damage the company's reputation and erode consumer and investor confidence. Another risk involves conflicts of interest where CSR activities may not be aligned with shareholder interests, resulting in dissatisfaction among investors who may view such initiatives as a diversion from the primary goal of generating profits [52], [55]. These negative impacts require careful planning and effective communication to mitigate risks and maximize the benefits of CSR practices.

Method

This study was carried out using a literature review method where the method used was reading, analyzing and sorting literature to identify important attributes related to Corporate Social Responsibility and Firm Performance [7]. Where in this literature review, this review was carried out in several stages, namely in the first way, the author carried out a literature search in the study material using several keywords that were relevant to the author's objectives, namely "Corporate Social Responsibility", "Firm Performance", "Corporate Performance", "Financial Performance". Second, this search was carried out using several electronic databases such as ProQuest, Google Scholar, Open Knowledge Maps, Publish and Perish, Springer, National Library, Researchgate. Third, in the process of reviewing this literature, inclusion criteria were used, namely that this study was a publication that had undergone peer review, a journal in Indonesian and English, a journal published in 2014 – 2023. The exclusion criteria in this literature are research that is not only related to Corporate Social Responsibility and Firm Performance, but anything that can be related to these factors. Using the criteria above, the author found 169 articles that met the requested keywords. The analysis used by the author is content analysis, namely in the form of a literature review table of articles that are searched based on abstracts and titles that match the keywords, after that filtering is carried out and mapping is made based on the appropriate articles, namely in a matrix table and it is found that 58 articles are obtained, then selected for suitability of topic, journal reputation and most citations and 19 were obtained and continued for analysis [25].

Result and Discussion

Figure 1 shows the results of the systematic search carried out. These inclusive criteria used to maintain quality coverage of research and provide a framework structured for article selection. Determining criteria is an important stage in research process to ensure that the articles to be selected have the right focus and relevant to
the research objectives. Then the next step is to collect research articles. This research uses several Google Scholar databases through applications Publish or Perish, Springer, Elsevier and Emerald to ensure the quality of the articles will be analyzed. Literature search using the keywords "CSR", "Firm Performance" with a limited number of articles published in the last 10 years starting from 2014 to 2023.

Figure 1. Systematic Results of Article Search

The total number of 1000 journal data in the Publish or Perish application, according to the criteria inclusiveness that has been determined is divided into several criteria, the first of which is limited by Journals Published in Emerald, Spinger, and Elsevier for the last 10 years starting from 2014 – 2023. From this, 169 data were obtained on the publish and perish application. The second part, filter articles by studying the title and abstract and discarding irrelevant articles with this research, this reduced the data to 111 articles. The last one is the fourth part, Researchers only take articles that are accessible or open source to make things easier

<table>
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<tr>
<th>No</th>
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<th>Corporate Social Responsibility</th>
<th>Firm Value</th>
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<tr>
<td>1</td>
<td>Emerald</td>
<td>9</td>
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Table 2 Open Access article extraction results

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Table 2 above explains the number of articles extracted using the criteria inclusive where the number of articles available matches all the predetermined criteria. namely, the number of articles for the CSR variable is 19 articles from the three databases and articles for The Firm Value variable is 19 articles from the three databases.

### Table 3 Research Classification Results

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<th>No</th>
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<th>Research Object</th>
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<tbody>
<tr>
<td></td>
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<td>Financial performance, Publishing CSR Reports, Company Historical</td>
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<td>Performance, Company Donations, Internal</td>
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Source: Data Process, 2024

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<tr>
<td></td>
<td>Saeidi, and S. A. Saeedi [60]</td>
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<td>Reputation, Competitive advantage</td>
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<td></td>
<td>Kanwal [61]</td>
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<td>Dependent variable: Company performance, Corporate social responsibility (CSR)</td>
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<td>C. Amini and S. D. Bianco [30]</td>
<td>2017</td>
<td>Firm Performance, CSR, Competitive Operational Performance</td>
<td>Emerald</td>
<td>Quantitative</td>
<td>Domestic and Foreign Companies in Argentina, Bolivia, Chile, Colombia, Ecuador and Mexico</td>
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<td>8</td>
<td>M. Lee and H. Kim [63]</td>
<td>2017</td>
<td>Finansial performance, CSR x SQ, Customer Satisfaction</td>
<td>Springer</td>
<td>Quantitative</td>
<td>Companies in Korea</td>
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<tr>
<td>9</td>
<td>Wang [64]</td>
<td>2018</td>
<td>CSR, director/supervisor director Duality, Equity concentration, Log (total aset), R&amp;D expenditure intensity, rasio Debt/total assets Assests turnover</td>
<td>Elsevier</td>
<td>Quantitative</td>
<td>Shipping company in Singapore</td>
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<tr>
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<td>[65]</td>
<td>2018</td>
<td>CSR, ROA, Control variables: Company size (size)</td>
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<td>Quantitative</td>
<td>The company is listed on JSE</td>
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<td>11</td>
<td>[66]</td>
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<td>Emerald</td>
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<td>12</td>
<td>[67]</td>
<td>2018</td>
<td>Leverage, RD (research and development), Company age (age), combined variable of the three CSR components (combined average score of governance, social, and environmental)</td>
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<td>CSR, Earnings Management: Accrual earnings management and Real earnings management, Control variables: -Firm size -Firm age -Board member meeting frequency -Board members average age -Board size -Leverage -Big 4</td>
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<td>14</td>
<td>[69]</td>
<td>2019</td>
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<td>Springer</td>
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<td>Company in</td>
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<td>Firm Performance, CSR, Strategic emphasis (SEP), Industry competition, Control variables: - Firm Size - Firm Age - Status - Sales Growth - CEO Duality - Dummy_ad - Dummy_rd</td>
<td>Elsevier</td>
<td>Quantitative</td>
<td></td>
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<td>17</td>
<td>[72]</td>
<td>2020</td>
<td>Financial Company</td>
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A discussion of the findings from studies linking Corporate Social Responsibility (CSR) practices with various aspects of organizational performance and employee welfare shows diverse and interesting findings. Below is an in-depth analysis based on the summarized findings:

**Board Composition and CSR Impact**

The study found that the percentage of independent directors on the board positively influences CSR activities [72]. This influence is moderated by the resources available to the company. Moreover, CSR plays a mediating role in the relationship between board independence and company value [74], [75]. This suggests that companies with more independent boards are likely to engage more effectively in CSR, which in turn enhances their value. Other board characteristics, such as board size and the inclusion of women, similarly support CSR activities, indicating that diverse and well-structured boards contribute positively to CSR outcomes.
Relationship between CSR and Company Performance

There is a general positive relationship between CSR and company performance, specifically in terms of Return on Equity [61], [76]. However, the relationship between CSR and Return on Assets (ROA) appears to be negative, suggesting that CSR investments might not immediately translate to asset profitability. Company reputation and sustainable competitive advantage are significant mediators in the relationship between CSR and company performance, indicating that CSR contributes to long-term value creation through these channels [16], [61], [69], [70].

Impact of Leadership and Culture

Socially responsible leadership positively correlates with organizational performance. Leadership that upholds integrity, morality, and good stakeholder relations is vital for effective CSR. The study notes significant cultural impacts on CSR effectiveness. For instance, adhocracy culture diminishes while market culture enhances the positive relationship between CSR and company performance [77]. This highlights the importance of aligning corporate culture with CSR initiatives to maximize impact.

Industry and Geographic Variations

CSR impacts vary by industry and region. For example, in the extractive industry, CSR practices related to good governance and responsible environmental behavior positively affect financial performance. However, no significant impact was noted in the financial sector. Similarly, geographic differences are evident. CSR positively affects innovation and technology transfer in Argentina and Bolivia, whereas in Chile, CSR shows no significant effects on the analyzed variables [30].

Financial Disclosure and Strategic Emphasis

Companies that publish CSR reports generally show higher ROA, though Tobin’s Q values were lower. This suggests that while CSR may enhance operational performance, its impact on market valuation could be complex. The study also notes that CSR improves company performance when strategic emphasis is on value use rather than creation, with varying effects depending on competition levels in the industry [70].

CSR Reputation and Strategic Implications

A company's initial CSR reputation significantly impacts its performance, with positive reputations enhancing and negative reputations detracting from performance [15]. Changes in CSR reputation (both positive and negative) have significant but varied impacts on company performance. This emphasizes the strategic importance of building and maintaining a strong CSR reputation as it
directly influences financial returns and public perception [15].

The findings suggest that CSR is a multifaceted strategy that, when aligned with appropriate governance structures, leadership qualities, and cultural settings, can significantly enhance company performance. However, the effectiveness of CSR initiatives also depends on external factors such as industry characteristics and regional dynamics. Companies are advised to integrate CSR into their core strategies and ensure that their CSR activities are both transparent and aligned with broader business goals to maximize benefits.

Conclusion

The study elucidates how Corporate Social Responsibility (CSR) significantly influences a company's performance, with independent directors playing a crucial role by enhancing CSR activities, which, in turn, elevate company value. It highlights that the presence of diverse boards, including women, supports effective CSR execution. Leadership qualities like integrity and engagement in responsible practices not only uplift organizational performance but also position companies favorably in the eyes of investors and customers. Culturally, the adoption of a market culture amplifies the positive effects of CSR, suggesting a strategic alignment of corporate culture with CSR initiatives to maximize benefits. Geographically, CSR's impact varies, with significant positive outcomes in specific regions like Argentina and Bolivia, contrasting with negligible effects in places like Chile. The study also points out that while CSR promotes higher operational performance, its impact on market valuation remains complex, influenced by strategic emphasis on value utilization over creation. Additionally, a company's initial CSR reputation has a profound impact on its performance, where positive reputations boost while negative ones detract. Overall, the research advocates for integrating CSR into core business strategies and maintaining transparency in CSR activities to optimize benefits and enhance company performance sustainably.

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