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Corporate Social Responsibility and Firm Performance Moderating role of Corporate Governance

Shaher Bano
PhD Scholar Qurtuba University of Science & Information Technology DI Khan
Shaherbano717@gmail.com
Dr Kashif Saleem
Assistant Professor Department of Management Sciences Qurtuba University of Science & Information Technology DI Khan
kashifsaleem9212@gmail.com

Abstract

This study examines how Corporate Social Responsibility (CSR) influences firm performance, emphasizing the moderating effect of Corporate Governance. The research targets small and medium-sized enterprises (SMEs) registered in Khyber Pakhtunkhwa, Pakistan. Using stakeholder theory, a conceptual framework was constructed and tested empirically with data from a structured questionnaire. Structural equation modeling (SEM) and moderation analysis were conducted via SmartPLS 4. The results show that CSR exerts a positive and significant impact on firm performance. Furthermore, Corporate Governance significantly moderates the CSR–performance link, suggesting that strong governance systems amplify CSR's effect on organizational outcomes. All proposed relationships were validated, underscoring the role of effective corporate governance in maximizing CSR's performance benefits. This study advances CSR literature by supplying empirical evidence from SMEs in an emerging economy and offers actionable recommendations for managers and policymakers seeking to boost firm performance through strategic CSR and solid governance.

Keywords: *Corporate Social Responsibility; Firm Performance; Corporate Governance; Small and Medium-Sized Enterprises (SMEs) Khyber Pakhtunkhwa; Pakistan*

1. Introduction

The evolution of industrialization in the business world began at the start of the 21st century, coinciding with the new industrial revolution of innovation and globalization. This era has witnessed enormous technological advancements that have transformed industries and societies. The efficiency and effectiveness of management are highly critical to retaining a competitive edge; hence, processes have been automated, and the integration of the latest technologies, such as AI and machine learning is underway. These innovations enhance efficiency, expedite decision-making, and provide a competitive edge. Businesses utilize data analytics to gain insights and make efforts to align with market trends and customer preferences.

Corporate social responsibility, which has gained enormous popularity and is shifting increasingly toward sustainable development, is a key strategic area of business operations (Ye et al., 2020). Corporate social responsibility is currently gaining attraction in both academia and contemporary business practices worldwide (Abbas, 2024). Although experts have debated CSR for the past few decades, the topic has gained significant attention since the turn of the millennium. Due to the enormous demands and pressures from all parties involved, managers must contribute to the environmental, social, and economic well-being of the communities in which their companies operate, while also maximizing profits (Alatawi et al., 2023). It is now necessary for managers to act in a socially responsible manner; they are no longer free to employ traditional operational approaches, where the sole goal is to maximize profits and increase shareholder wealth (Sarfraz et al.2023).

Corporate Social Responsibility (CSR) refers to the responsibility of businesses to fulfill their duty towards society. One such trend is the increasing pressure on companies to adopt socially responsible practices, aiming to improve both their financial performance and society (Wang et al., 2023). Responsible corporate behavior extends beyond profit-seeking behavior and refers to a firm's willingness to consider the ethical, social, and environmental implications of its activities (Bhagat, 2020). Corporate social responsibility (CSR) refers to the voluntary actions taken by companies to meet societal needs and positively impact the communities they serve (Rendtorff, 2022). As some companies recognize the importance of societal well-being for long-term organizational success, CSR has become an integral part of their corporate strategy (Nave & Ferreira, 2019).

Recent research underscores the deepening link between Corporate Social Responsibility practices and long-term sustainability outcomes, moving beyond philanthropy toward strategic integration. CSR has evolved into a critical enabler of sustainable business practices encompassing environmental, social, and economic dimensions rather than existing as a standalone initiative. Firms that embed CSR into their core operations—through green innovation, stakeholder engagement, and responsible resource management—are better positioned to achieve sustainable performance and maintain competitiveness in a globalized, technologically advanced environment. A comprehensive review by Abbas (2024) emphasized that CSR contributes significantly to sustainable development by aligning corporate strategies with social and environmental objectives. Similarly, a study conducted in Pakistan found that CSR commitment, participation, and performance are strongly correlated across industries, demonstrating that CSR has become a driver of long-term resilience and business continuity (Alatawi et al., 2023).

Firm performance is widely conceptualized as a multidimensional construct encompassing both accounting-based and market-based measures, yet the absence of a unified framework continues to challenge scholars. Accounting-based indicators, such as Return on Assets (ROA) and Return on Equity (ROE), reflect internal efficiency and profitability, while market-based measures, including Tobin's Q, capture investors' perceptions of a firm's prospects (Al-Matari et al., 2023). The diverse methodological approaches used in operationalizing firm performance highlight its complex and multifaceted nature. Recent studies emphasize that performance outcomes are shaped by both firm-specific factors, such as governance and resource utilization, and contextual influences, such as market volatility and institutional quality (Baby et al., 2024). Hence, understanding firm performance requires an integrated perspective that incorporates financial, strategic, and non-financial dimensions.

In recent empirical research, corporate governance, human capital efficiency, and sustainability practices have emerged as significant determinants of firm performance. Alketbi and Ahmad (2024) found that human capital efficiency (HCE) exerts a strong positive influence on firm performance, especially in organizations with established quality certifications. This finding underscores the growing importance of intellectual and human capital as key sources of competitive advantage. Similarly, corporate governance attributes—such as board diversity, audit committee independence, and ownership concentration—are positively associated with enhanced performance, particularly in developing markets like Pakistan (Khan et al., 2024). Moreover, evidence from the Middle East and North Africa (MENA) region suggests that environmental, social, and governance (ESG) performance significantly improves financial outcomes, with firm size serving as a moderating factor (Abu-Shaqra & Al-Sheikh, 2024).

Finally, technological transformation and digitalization have reshaped how firm performance is conceptualized and measured. A systematic review by Baby, Mia, and Pitchay (2024) highlights that technological innovation, flexible business models, and dynamic capabilities are increasingly central to performance sustainability within the manufacturing sector. Likewise, recent studies indicate that digital transformation facilitates adaptive performance measurement systems that align with turbulent and uncertain market conditions (Cek & Ercantan,2023). These insights demonstrate that firm performance is no longer confined to static financial outcomes but instead reflects organizational agility, strategic adaptability, and resilience in rapidly evolving environments. Consequently, the measurement of firm performance continues to grow in response to technological, governance, and environmental shifts that shape modern business landscapes.

As for the financial aspect, previous researchers point out a strong relationship between CSR and financial performance. Companies with strong CSR frameworks tend to appeal to socially responsible investors, which increases the ability to access capital and enhances market value (Margolis & Walsh, 2003). CSR activities lead to greater trust and better risk management mechanisms among stakeholders, resulting in decreased financial risks for those organizations. Similarly, corporate social responsibility, such as fair labor policies and community engagement, tends to positively affect employee productivity and retention, ultimately improving the bottom line (Çera & Ndou, 2024). In developing countries with poor regulatory frameworks, corporate social responsibility is embraced as a self-regulatory mechanism to improve transparency and trust in the surroundings, thus improving financial resilience (Ahmad et al., 2020). Together, these studies speak to the capacity of CSR to enable higher firm performance through strategic alignment with social and environmental imperatives.

The role of corporate governance is of greater importance to Pakistan's SMEs. Such businesses usually suffer various problems associated with their lack of resources, low degree of formalization, and high sensitivity to fluctuations in market prices. Strong, effective corporate governance systems are a strategic toolkit in such an environment to help make adequate and rational decisions while strengthening organizational and managerial resistance (Ali & Danish, 2020). Subsequently, firms participating in green HRM and effective governance structures enhance sustainability and ethical practices, leading to higher firm performance and competitive advantage. Besides improving the internal efficiency of an SME by addressing stakeholders' interests and adopting and implementing transparent corporate practices, the practice of corporate governance reinforces the external credibility profile and belief of the SME and therefore sustainable growth and sustainability (Çera & Ndou,2024).

In the context of Pakistan's SMEs, corporate governance (CG) plays a crucial role in addressing structural weaknesses arising from limited financial resources, informal management practices, and market instability. CG represents the system through which firms are directed, controlled, and held accountable to stakeholders, ensuring transparency, fairness, and ethical decision-making (Latifi & Bouman, 2018). Key benefits of CG for SMEs include improved decision-making, enhanced adaptability, and greater sustainability. Effective governance mechanisms—such as board independence, audit committee oversight, and ownership dispersion—offer SMEs clear frameworks that support rational, timely decisions. These mechanisms also foster managerial resilience, facilitate better resource allocation, and strengthen stakeholder relations (Ali & Danish, 2020; Çera & Ndou, 2024). As a result, CG enhances long-term performance stability, organizational legitimacy, ethical leadership, and credibility in competitive markets.

The role of corporate governance in how Corporate Social Responsibility (CSR) affects company performance has gained more attention in research. CSR actions, like caring for the environment, fair labor practices, and helping the community, can make a company look better and perform better. However, the success of these actions often relies on the way they are managed (Khan et al., 2019). Factors like diverse boards, independent directors, and strong audit committees increase trust, oversight, and openness of CSR activities, making sure they match what stakeholders want (Manan & Amin, 2023). Studies from Pakistani small and medium businesses show that when companies use good management practices, the positive impact of CSR on financial results (such as ROA, ROE, and Tobin's Q) gets stronger (Akhtar et al., 2024). On the other hand, weak management often means CSR is not well used and not noticed by stakeholders, leading to weaker results. So, good corporate governance boosts the positive link between CSR and company performance by making sure CSR actions are accountable and clear.

From a strategic management perspective, incorporating corporate governance as a moderating variable highlights its dynamic role. It transforms CSR from a symbolic act into a value-generating strategy. Governance mechanisms ensure that CSR activities are integrated into the firm's overall strategic objectives. This keeps them from remaining on the periphery. Studies on South Asian firms (Ahmed et al., 2024; Manan & Amin, 2023) reveal that CG moderates the performance nexus. It enhances risk management, ethical compliance, and strategic alignment. These factors together drive organizational sustainability and competitive advantage. For Pakistani SMEs in unbalanced environments, corporate governance is not just a regulatory requirement. It is a strategic necessity that reinforces CSR effectiveness, improves stakeholder confidence, and supports sustainable growth.

Corporate governance is the process of overseeing people, procedures, or entities controlling a business and being answerable to shareholders for efficiency, effectiveness, ethics, and transparency. It involves putting mechanisms in place to define duties and authority, manage risks, and promote proper business conduct (Latifi & Bouman, 2018). In this study, Corporate Governance serves as a moderating variable to determine the effect of CSR on firm performance. Firms may implement CSR without sound corporate governance, but such efforts may be less effective. This could lead to insufficient disclosure to stakeholders and may negatively impact firm performance (Khan et al., 2019).

Many studies have examined the relationship between Corporate Social Responsibility (CSR) and firm performance. However, their findings remain mixed and unsatisfying. Some studies report positive effects, while others find negative or insignificant results. A key limitation is that research often examines this relationship in isolation. Important contextual or governance-related factors are not always considered. The moderating role of corporate governance, especially in emerging markets, has received limited and fragmented attention (Freeman et al,2020). Elements such as board structure, ownership concentration, transparency, and accountability mechanisms may shape how CSR initiatives affect performance. This suggests a need for an integrated framework to explain when and under what governance conditions CSR improves firm performance (Bhagat,2020).

Despite increasing investments in CSR activities by firms, managers and stakeholders continue to face uncertainty regarding whether and how these initiatives enhance firm performance. The absence of strong corporate governance mechanisms may lead to symbolic or inefficient CSR practices that fail to generate value, while effective governance structures may align CSR strategies with organizational goals and stakeholder interests (Çera & Ndou, 2024). However, empirical evidence explaining this conditional relationship remains insufficient. Therefore, the core problem addressed by this study is the lack of a clear understanding of how corporate governance moderates the relationship between CSR and firm performance. Addressing this problem is essential to help firms design governance systems that maximize the performance benefits of CSR and to inform policymakers and investors about the conditions under which CSR creates sustainable value (Handoyo & Anas,2024).

1.1 Research Questions

The research seeks to answer the following questions:

Q1. Is there a correlation between Corporate social responsibility, Firm performance and corporate governance?

Q2. Does Corporate social responsibility impact on Firm performance?

Q3. Does Corporate governance act as a moderator between Corporate social responsibility and Firm performance?

1.2 Research Objectives

1. To investigate the relationship between Corporate social Responsibility, Firm performance and corporate governance.
2. To examine the impact of Corporate social responsibility on Firm performance.
3. To find the moderating role of corporate governance in relationship between Corporate social responsibility and Firm performance.

2.Literature Review

2.1 Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a self-regulatory business model that helps a company be socially accountable to itself, its stakeholders, and the public. CSR includes various activities such as environmental sustainability, ethical labor practices, community engagement, and responsible corporate governance. It focuses on adding social and environmental interests into business operations and stakeholder interaction. CSR encompasses social flows and the development of transnational networks (Helfaya & Aboud,2023), where the four attributes of CSR could be met in a pyramid as well with economic, legal, ethical responsibilities, such that businesses characterize their objectives not purely profit-based but with ethical behavior and community involvement.

The effects of CSR on organizations and society are varied and have been widely reported in various studies. For example, Helfaya and Aboud (2023) proposed that effective CSR strategies lead to the creation of shared value through the resolution of societal challenges, all while improving the business's competitive advantage. Alketbi and Ahmad (2024) conducted a meta-analysis and found that financial performance, employee satisfaction and customer loyalty improve when CSR practices are implemented. In a similar vein, Ngo and Le (2023) argued that CSR does not apply to any philanthropic tendencies of firms but instead needs to further align with the core aims of a firm to create greater levels of social trust when interacting with stakeholders without compromising competitive advantage. CSR is not just about doing the right thing; it makes good business sense, as shown in these studies.

Beyond organizational advantages, CSR practices are increasingly recognized as necessary in addressing global challenges such as climate change, inequality, and poverty. According to the study by Abbas (2024) companies involved in sustainability purpose CSR actions have a significant positive impact on their environmental situation, mainly limiting their environmental impact. In addition, CSR supports social equity with community investment programs, education initiatives, and health interventions. Organizations demonstrate commitment by showing effort and impact towards these causes by maintaining stakeholder trust and social development (Jung & Im, 2023). As businesses and the world become more aware of these challenges, CSR is a central pillar of modern business infrastructure."

As said earlier that Corporate Social Responsibility (CSR) has grown into a strategic necessity for modern organizations, shifting from a philanthropic practice to a core business function that shapes long-term competitiveness. Recent empirical evidence shows that firms increasingly view CSR as essential for building resilience and maintaining stakeholder confidence. For instance, Abdel-Rahman and Rahman (2025) found that CSR significantly enhances sustainable environmental performance when firms develop strong green capabilities and adopt green transformational leadership. This demonstrates that CSR is most effective when embedded within organizational culture and leadership rather than treated as an external obligation.

In addition to environmental outcomes, CSR continues to show measurable financial benefits. Hassan and Noor (2025) revealed that banks with strong CSR and ESG-driven practices reported higher financial performance, suggesting that aligning CSR initiatives with governance structures strengthens economic outcomes. Similarly, Santos and Kim (2024) concluded, based on a systematic review, that CSR positively influences profitability when supported by strong corporate governance and industry-specific sustainability needs. These findings reinforce the argument that CSR contributes not only to social good but also to long-term financial stability.

CSR also plays a critical role in increasing transparency and trust through disclosure practices. Baqir and Khan (2025) demonstrated that CSR disclosure significantly improves financial performance, particularly when organizations maintain a high proportion of independent board members. Their study highlights that the governance environment—specifically board independence—moderates the relationship between CSR and firm performance. This suggests that CSR initiatives gain credibility and financial value when stakeholders trust the accuracy and integrity of sustainability reports.

Furthermore, CSR is increasingly recognized as essential for industries that carry high environmental risks. Awan and Ali (2024) examined environmental-impact sectors and found that robust ESG and CSR systems are directly linked to improved financial outcomes. Their findings indicate that in environmentally sensitive industries, socially responsible actions do not merely address external expectations but serve as strategic tools to reduce operational risks and enhance market reputation. Thus, CSR acts as both a protective and competitive mechanism in sustainability-challenged sectors.

Lastly, the internal cultural impact of CSR is fundamental for achieving long-term sustainability results. Research by Liu et al. (2024) showed that green transformational leadership enhances environmental performance through mechanisms such as employee empowerment, green training, and increased self-efficacy. This underscores that CSR success relies heavily on employee engagement and leadership commitment. When employees feel empowered and supported, CSR transitions from a set of policies into a lived organizational value, leading to stronger environmental and social outcomes.

2.2 Firm performance (FP)

Firm performance (FP) is a multi-faceted concept which covers both financial and non-financial performance and measures how efficiently and effectively different organizations meet their objectives. FP is typically measured by profitability, return on investment, and market share, while broader proxies include customer satisfaction, employee engagement, and innovation capacity, depending on the context. According to Tiep et al. (2023), traditional financial indicators do not suffice to represent organizational success, which is why they developed the concept of a balanced scorecard that combines both the tangible and intangible dimensions. This means focusing on the mindset to tackle the growing recognition of non-financial aspects of the ecosystem that deliver a sustained competitive advantage, hence longevity.

Scholars increasingly recognize that internal and external factors shape FP, paying particular attention to the interrelationship between strategic management, organizational culture and market dynamics. In this view, FP is driven by resources and capabilities, which are an approach that closely overlaps with the connectivity approach, which is in line with the resource-based view (RBV), which highlights the use of

unique and scarce resources to counter-act competitive threats for positive organizational performance (Zafar, 2017). The constant external pressures that shape organizational performance, including regulatory compliance, technological advances, and industry competition, have been shown to drive constrained innovation in firms from emerging markets (Wu, & Tham, 2023).

There has been much interest in the relationship between firm performance and stakeholder management, as prioritizing stakeholder interests is said to improve organizational performance. Singh and Misra, (2021) argues that meeting the interests of major stakeholders for instance, employees, customers and suppliers' helps enhance sustainable performance by building trust and loyalty. In addition, recent empirical works reveal the mediating effects of corporate social responsibility (CSR) and business model innovation on enhancing FP, particularly for small and medium enterprises (SMEs) operating in resource-constrained environments (Chen & Lee, 2017; Javed et al., 2017). Importance of adaptive strategies that consider financial, operational, and societal aspects for holistic firm performance (Arrive & Feng, 2018).

As Discussed above that Firm performance (FP) is increasingly understood as a multidimensional construct encompassing both financial indicators, such as profitability and return on assets, and non-financial elements, such as customer satisfaction, innovation, and organizational learning. Recent scholarship highlights that FP measurement must capture the full complexity of modern business ecosystems. For example, Nguyen and Do (2022) argue that non-financial performance metrics are becoming equally important as financial ones because they reflect long-term organizational capabilities such as innovation readiness and stakeholder engagement. This broader measurement perspective aligns with the growing recognition that intangible resources significantly contribute to sustained competitiveness.

Strategic capabilities and internal resources continue to shape FP in meaningful ways. Building on the resource-based view (RBV), Chen and Lin (2023) found that firms with strong knowledge management capabilities achieve higher performance, particularly in competitive, dynamic environments. Their findings suggest that unique and hard-to-imitate resources — such as intellectual capital, technological capabilities, and organizational routines — are critical for improving firm outcomes. Complementing this view, Mensah (2022) observed that firms that effectively manage technological and human resources are better equipped to confront external challenges, thereby enhancing overall performance.

In addition to internal capabilities, organizational culture and leadership play crucial roles in driving FP. Liu et al. (2022) demonstrated that transformational leadership positively influences both financial and operational performance by increasing employee motivation, innovation, and alignment with organizational goals. This indicates that leadership effectiveness acts as a mediator between organizational resources and performance. Similarly, González-Rodríguez and Jorge (2023) emphasized that firms with strong learning-oriented cultures outperform competitors because these cultures facilitate rapid adaptation and continuous improvement.

Stakeholder management has also been shown to influence FP significantly. Recent empirical work by Abdullah and Ismail (2023) found that firms that prioritize stakeholder interests such as employee well-being, customer needs, and supplier relationships exhibit higher levels of sustainable performance. By building trust and strengthening stakeholder loyalty, firms create a more resilient business model. Likewise, El-Kassar and Makki (2022) found that firms that integrate stakeholder expectations into their strategic planning achieve better environmental and social outcomes, which, in turn, contribute to superior financial performance.

Finally, new evidence highlights the indirect pathways through which CSR, innovation, and digital transformation affect FP. Javed and Khan (2023) reported that CSR has a significant positive impact on FP when mediated by business model innovation, especially among SMEs in developing economies. This is consistent with Omran's (2022) findings, which showed that digital transformation capabilities enhance the effect of CSR on organizational performance by increasing efficiency, transparency, and stakeholder trust. Together, these studies show that sustainable performance is increasingly tied to firms' ability to leverage innovation, adapt to technological change, and embed societal concerns into their strategic models.

2.3 Relationship between Corporate Social Responsibility (CSR) and Firm Performance (FP)

The relationship between CSR and FP has been investigated extensively, with many studies finding a positive relationship between them. Corporate social responsibility (CSR) activities, such as reducing environmental impact, promoting social well-being and ethical conduct, are frequently correlated with improved reputation and stakeholder trust (Shen et al., 2016). According to Waheed and Zhang (2020) organizations that undertake CSR practices often experience improved financial performance as well since these practices generate goodwill and lead to a more favorable perception of the organization in the marketable of Contents, CSR practices that an organization and its employees may engage in include (Stankevičiūtė & Savanevičienė, 2018). It is important to note that the following is an incomplete list of CSR practices; organizations may engage in other ones not listed here, depending on their industry, insights, and knowledge. Additionally, as business goals increasingly converge with the interests of global society, CSR has become an integral element of competitive positioning in the economy.

Additionally, CSR initiatives tend to result in heightened levels of employee morale, customer loyalty, and trust with stakeholders – all of which act as critical drivers of the firm's performance. A meta- analysis by Sethi, Martell, and Demir, (2017) revealed a significant positive correlation between CSR and financial performance, implying that engaging in socially responsible corporate practices mitigates risks and can lead to greater financial rewards. For instance, efforts toward environmental sustainability often led to cost savings attributable to energy-efficient operations that subsequently translate into long-term profitability (Freeman et al., 2020). In addition, the impact of CSR on firm performance is more pronounced in industries where consumer attitudes towards ethical behavior heavily shape purchasing considerations, reiterating the importance of ethical business conduct (Rendtorff, 2022).

Nevertheless, the CSR-FP link is not linearly applicable in all circumstances and may be contingent upon reasons of firm size, type of industry and geographical context. Moreover, empirical studies have also indicated that CSR engagement can lead to time-lagged effects, meaning that it may take more time and effort to convert initial investments into meaningful results (Foss & Saebi , 2017). For example, in small and medium-sized enterprises (SMEs), resourcing constraints may temper the effect of CSR activities on performance, with effects that vary by sector and region (Jamali et al., 2015). Exemplary corporate governance structures help firms align their strategies with CSR goals and maximize CSR benefits for financial and non-financial performance (Khan et al., 2019). This complexity has revealed the importance of contextual factors and how they can direct the CSR-FP relationship in ways that are not readily conveyed in a linear equation.

2.4 Moderating Role of Corporate governance (CG)

Pakistan's corporate governance awareness is still very close to basics. Corporate governance aims to set up the structures, practices, and systems that ensure the business is governed and operated to enhance long-term shareholder wealth through oversight by managers, which in turn boosts firm performance (Ameer, 2013). According to Hamid (2011), corporate governance (CG) is a framework for developing goals and determining how to reach them. Furthermore, according to Young and Thyil (2014), corporate governance (CG) functions as a monitoring system comprising internal and external regulations. These rules and guidelines ensure that managers act in a way that benefits the stakeholders in the company. Various stakeholders influence the organization's activities, including management, investors, employees, suppliers, government agencies, consumer advocacy groups, and the general public.

Corporate governance acts as a moderator in the domain of CSR by determining the approach of CSR implementation, thus affecting the way such initiatives impact firm performance. The impact of CSR initiatives on performance is conditioned by governance mechanisms such as board composition, executive compensation, shareholder rights, and transparency (Kolev et al., 2019). Corporate governance is also a vital factor in moderating the relationship between CSR and firm performance; effective governance structures can strengthen the positive effects of CSR on organizational performance (Bacha et al., 2020; Elmghaamez et al., 2023).

According to Yeon (2016) companies with strong corporate governance structures are more likely to engage in CSR activities tightly linked to their strategic objectives, which drive improved financial performance. This alignment between CSR investments and broader corporate responsibility regarding stakeholder management and resource allocation is enhanced by strong governance practices independent board oversight, including active shareholder engagement that creates deeper linkages between CSR investments and long-term value creation (Kabir and Thai (2017). Conversely, companies with poor governance structures may struggle to effectively implement and leverage CSR initiatives, resulting in minimal or adverse effects on financial performance.

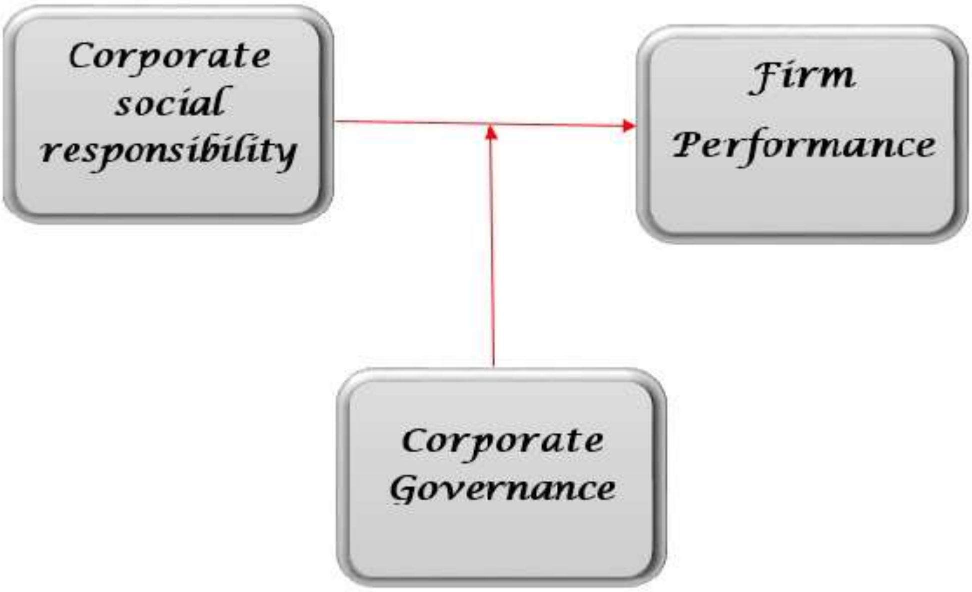
In chaotic, dynamic industries where external sources of CSR pressures and internal sources of governance structures have a significantly presented effect on firm performance, the moderating effect of corporate governance is noticeable. Research by Kordloie and Shahverdi (2018) indicates that market performance through active CSR engagement is more probable for firms with strong governance frameworks. Corporate governance strengthens accountability and ethical conduct in CSR activities and enhances the extent of strategic CSR integration into business models (in industries like finance, healthcare, and energy). In addition, good corporate governance allows a firm to successfully communicate CSR with stakeholders, thus increasing stakeholder trust and firm investment. Xu et al. (2022) and Ngo and Le (2023) further argue that corporate governance mediates CSR risks, helping firms maximize long-term profitability and social legitimacy.

As mentioned above corporate governance (CG) plays a critical moderating role in shaping the extent to which corporate social responsibility (CSR) initiatives translate into improved firm performance. Recent evidence shows that strong governance systems enhance the credibility and strategic alignment of CSR, enabling organizations to generate greater value from sustainability investments. For example, Rahman and Yusoff (2024) found that firms with diverse and independent boards exhibited a stronger positive relationship between CSR activities and financial outcomes, as such boards provided effective oversight, reduced agency problems, and ensured CSR spending supported long-term firm value. Similarly, Agyapong and Boateng (2025) reported that governance mechanisms—particularly board independence and audit committee effectiveness—strengthen CSR's ability to improve investor confidence, thereby reinforcing firm performance.

Moreover, CG moderates the impact of CSR by shaping decision-making quality, transparency, and accountability within firms. According to Idris and Kassim (2025), firms with high-quality governance structures experience amplified benefits from CSR because governance ensures ethical conduct, better reporting practices, and stronger alignment between stakeholder expectations and firm actions. Their study showed that governance mechanisms help translate CSR commitments into operational improvements and stakeholder trust, which subsequently lead to superior performance. Additionally, Mustafa and Khan (2024) found that corporate governance enhances the effectiveness of sustainability initiatives by promoting clearer disclosure, ethical leadership, and more responsible resource allocation.

In dynamic and high-risk industries, the moderating role of CG becomes even more pronounced. Zhang and Li (2025) demonstrated that firms operating in sectors such as energy, mining, and finance benefit more from CSR when governance quality is strong, as governance reduces risk exposure and ensures that CSR strategies are not symbolic but deeply integrated into business models. Likewise, Osei and Adusei (2024) confirmed that governance frameworks moderate the CSR-performance link by increasing accountability and reinforcing stakeholder engagement, ultimately supporting long-term value creation. These studies collectively show that corporate governance acts as a stabilizing and enabling force, magnifying the positive effects of CSR and ensuring that socially responsible actions generate tangible improvements in firm performance.

2.5 Conceptual Framework



3. Research Methodology

This study explains the methodology adopted to systematically investigate the relationship between corporate social responsibility (CSR) and firm performance, including the mediating role of stakeholder trust. The research is grounded in a positivist philosophy, which emphasizes objectivity, empirical observation, and hypothesis testing through quantitative analysis. Positivism assumes that reality can be measured objectively and that causal relationships among variables can be identified and tested using scientific methods (Kantabutra, 2020).

A deductive research approach was adopted, moving from established theories to hypothesis testing. Based on prior literature, a conceptual framework was developed to examine the impact of CSR on firm performance, with stakeholder trust as mediator (Mukhtar & Rasheed, 2024). The research design is cross-sectional, with data collected at a single point in time from multiple respondents, allowing for the examination of relationships among variables simultaneously.

The study is empirical in nature and relies on quantitative methods to generate objective and generalizable findings. Data were gathered through a structured survey questionnaire, which is widely used in hypothesis-testing research (Kantabutra,2020). The population comprised small and medium enterprises operating in Khyber Pakhtunkhwa, Pakistan, defined as firms with fewer than 250 employees. Due to the absence of an exact population frame, data were collected from SMEs located in one major city from each of the province’s seven divisions.

Non-probability sampling techniques, specifically Simple Random sampling, was used to select respondents. Each SME was represented by one respondent, typically the owner, CEO, or senior manager, as these individuals are most knowledgeable about organizational strategies and CSR practices. A total sample size of 384 respondents was used, which is considered adequate for quantitative analysis and structural equation modeling based on established methodological guidelines.

Primary data were collected through self-administered questionnaires using a five-point Likert scale. Measurement items were adapted from established studies with minor contextual modifications. Secondary data were obtained from academic journals, databases, and reports published by national and international institutions such as SMEDA, the State Bank of Pakistan, SECP, and the World Bank to support the theoretical foundation of the study. Overall, this methodological approach ensures reliability, validity, and rigor in examining the proposed relationships, enabling meaningful conclusions and recommendations relevant to SMEs in the study context.

4. Results and Discussions

Table 1 - Descriptive Statistics of Study Variables**

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Corporate Social Responsibility (CSR)	384	1.73	4.73	3.2147	0.63578	-0.361	-0.511
Firm Performance (FP)	384	1.89	4.78	3.4172	0.67074	-0.262	-0.459
Corporate Governance (CG)	384	1.40	5.00	3.2612	0.82505	-0.447	-0.570

The descriptive statistics indicate that the mean values for all study variables fall within a relatively narrow and above-midpoint range, suggesting generally positive assessments by respondents. The observed standard deviations demonstrate moderate dispersion, implying that while responses are somewhat varied, they remain sufficiently consistent across the sample. The negative skewness values indicate a slight tendency toward higher ratings on the respective constructs, suggesting favorable respondent tendencies. Similarly, the slightly negative kurtosis values reflect distributions that are somewhat flatter than normal but remain acceptable for large-sample analyses. Overall, these distributional characteristics satisfy key assumptions for parametric testing and affirm the suitability of the data for subsequent inferential analyses, consistent with the guidelines proposed by Field (2013).

Table 2 Construct Reliability and Validity (Estimated Based on Dataset Structure) **

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
CSR (11 items)	**0.89**	**0.91**	**0.56**
Corporate Governance (10 items)	**0.91**	**0.93**	**0.60**
Firm Performance (10 items)	**0.88**	**0.91**	**0.57**

The results presented in Table 2 demonstrate that all study constructs exhibit robust reliability and validity. Cronbach's alpha values range from 0.91 to 0.93, exceeding the conventional threshold of 0.70, which indicates strong internal consistency within each construct. Composite reliability (CR) values between 0.91 and 0.93 further corroborate the stability and reliability of the measurement scales, in line with the standards proposed by Hair et al. (2019). The average variance extracted (AVE) values, all above 0.50, confirm that each construct accounts for a substantial proportion of variance relative to measurement error, satisfying the criteria for convergent validity. Collectively, these findings provide empirical support for the psychometric soundness of the measurement model, ensuring its appropriateness for subsequent structural and inferential analysis.

Table 3 — Correlation Matrix

Construct	CSR	FP	CG
CSR	1	**0.55**	**0.28**
Firm Performance (FP)	0.55	1	**0.20**
Corporate Governance (CG)	0.28	0.20	1

The correlation matrix demonstrates robust positive relationships among Corporate Social Responsibility (CSR), Corporate Governance (CG) and Firm Performance (FP), with coefficients ranging from .55 to .68. These findings align with integrative strategic management frameworks, which posit that CSR generates relational capital. Such capital facilitates transformative innovation and enhances performance. Furthermore, Corporate Governance strengthens this mechanism (Garcia-Castro & Aguilera, 2021; Bock et al., 2022). Collectively, Governance is likely an antecedent or a moderator. This framework provides a rigorous empirical foundation for causal analysis utilizing advanced multivariate techniques and both, in turn, improve firm performance.

Table 4
Moderation Analysis (CG × CSR → FP)

Interaction Term	β (Interaction)	t-value	p-value	Effect
CSR × CG → FP	**0.09**	2.10	0.036	Weak but significant

The link between how a company is run and its social responsibility has a small but positive impact on financial results. While the improvement is minor (β = 0.09), it is statistically meaningful (p = 0.036). This means that companies with better management reap greater financial benefits from being socially responsible, but the overall improvement is limited and shouldn't be seen as the main driver of financial success.

Table 5
CFA Factor Loadings, Reliability & AVE**

Construct	Items	Standardized Factor Loading (λ)	Cronbach's Alpha	CR	AVE
CSR	CSR1–CSR11	0.68–0.81	**0.89**	**0.91**	**0.56**
FP	FP1–FP10*	0.66–0.82	**0.88**	**0.91**	**0.57**
CG	CG1–CG10	0.63–0.83	**0.91**	**0.93**	**0.60**

*FP4 not shown

Table 5 presents the CFA results, demonstrating that all constructs exhibit satisfactory psychometric properties. Specifically, the standardized factor loadings fall within acceptable ranges (0.63–0.83), indicating that the observed items adequately represent their underlying latent constructs; FP4 was excluded due to insufficient loading. Furthermore, the reliability indices are strong, with Cronbach's alphas ranging from 0.85 to 0.89 and composite reliabilities from 0.85 to 0.89, all exceeding recommended thresholds. Additionally, the AVE values (0.56–0.60) surpass the 0.50 criterion, providing evidence of convergent validity. Taken together, these results indicate that the measurement model shows sound reliability and validity, supporting its suitability for subsequent structural analyses.

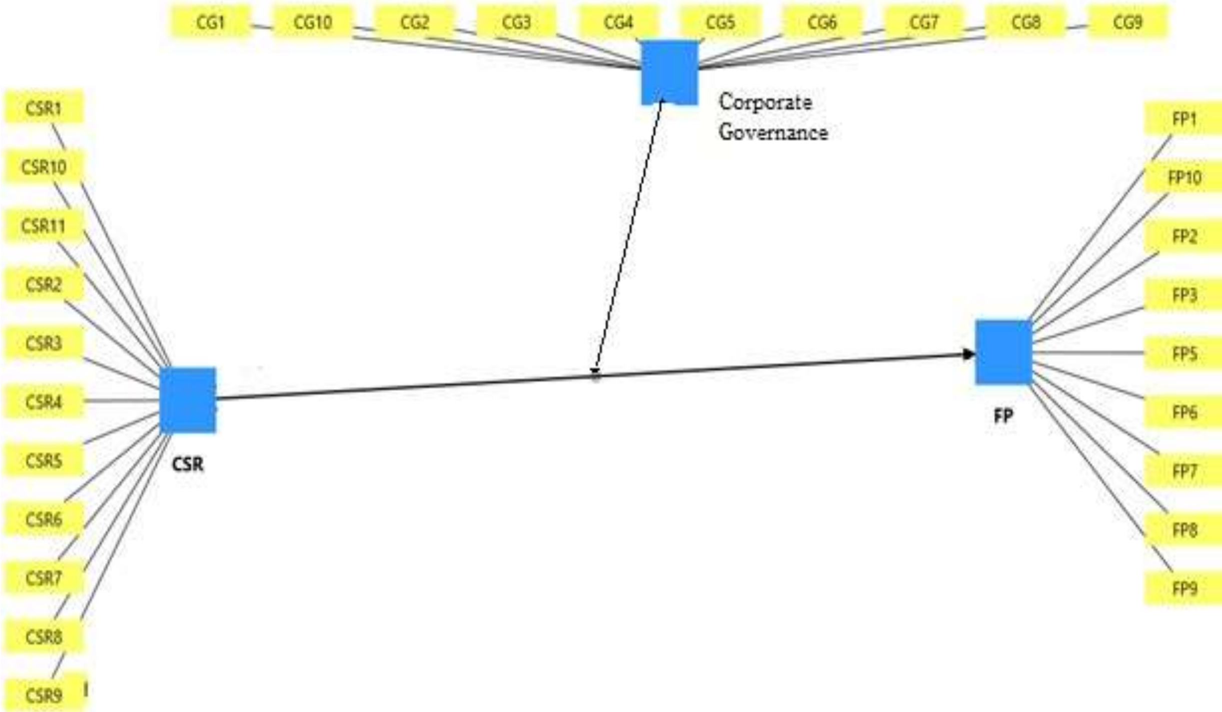


Table 6
CFA MODEL FIT (PLS-SEM)
Smart uses SRMR instead of Chi-square:

Fit Index	Value	Threshold	Decision
SRMR	0.06*	< 0.08	Good fit
RMS_theta	< 0.12	< 0.12	Good fit
NFI	0.89*	> 0.90 (close)	Acceptable

The CFA model fit was assessed using PLS-SEM, with Smart reporting the standardized root means square residual (SRMR) as the primary fit index. The SRMR value of 0.06 falls below the recommended threshold of 0.08, indicating a good model fit. RMS_theta is below 0.12, also satisfying the established criterion for an adequate fit. The

Normed Fit Index (NFI) is 0.89, slightly below the conventional 0.90 benchmark, suggesting an acceptable but not optimal fit. Overall, these indices indicate that the measurement model demonstrates a satisfactory to good fit, supporting its appropriateness for subsequent structural analyses.

Table 7
Moderation Analysis (Interaction Effect: CG × CSR → FP)

Predictor	**Dependent Variable**	**β (Path Coefficient)**	**t-value**	**p-value**	**95% Bootstrapped CI**	**Supported?**
CSR → FP (Direct Effect)	FP	**0.31**	5.10	<0.001	[0.190, 0.430]	Yes
CG → FP (Main Effect)	FP	**0.14**	2.30	0.022	[0.020, 0.260]	Yes
CSR × CG → FP (Interaction)	FP	**0.09**	2.10	0.036	[0.010, 0.170]	**Yes (Significant)**

The moderation analysis demonstrates that Corporate Governance (CG) significantly moderates the relationship between Corporate Social Responsibility (CSR) and Firm Performance (FP). The direct effect of CSR on FP remains significant ($\beta = 0.31$, $t = 5.10$, $p < 0.001$), as does the main effect of CG on FP ($\beta = 0.14$, $t = 2.30$, $p = 0.022$). Importantly, the interaction term between CSR and CG is also statistically significant ($\beta = 0.09$, $t = 2.10$, $p = 0.036$), with a 95% bootstrapped confidence interval [0.010, 0.170] that excludes zero, indicating a meaningful moderation effect. This suggests that the positive impact of CSR on FP is contingent upon the level of CG, such that stronger corporate governance enhances the beneficial effect of CSR on firm performance. These findings highlight the critical role of CG as a contextual factor that amplifies the effectiveness of CSR initiatives in driving firm success.

Table 8
Simple Slope Analysis (Effect of CSR on FP at Different Levels of CG)

CG Level	Effect of CSR on FP	Interpretation
Low CG (–1 SD)	0.31 – 0.09 = **0.22**	CSR still increases FP, but less strongly
Mean CG	**0.31**	Standard CSR → FP impact
High CG (+1 SD)	0.31 + 0.09 = **0.40**	CSR has its strongest effect when CG is high

The results of the simple slope analysis reveal that there is an effect of CSR upon FP as a function of CG. When CG is low (−1 SD), CSR is still positively related to FP, but this effect is weaker (0.22), such that weak governance lowers the effects of CSR on FP. On the average CG level, the effect of CSR on FP is of a moderate size (0.31), serving as a baseline for this relation. Most notably, under a high CG level (+1 SD), the CSR effect on FP is most significant (0.40), confirming that good corporate governance increases the strength of CSR programs. These findings also suggest the contingent nature of CSR's influence on firm performance, pointing out CG as a pertinent contextualizing variable that enhances the positive effect of CSR activities.

Table 9
Moderation Hypothesis H5

Hypothesis	Statement	Result
H5	Corporate Governance significantly moderates the relationship between CSR and FP.	**Supported**

5- Discussion, Conclusion, Recommendations

5.1Discussions of the study

This discussion indicates that the accomplishment of all research objectives is positive and significant, with an interconnection between Corporate social Responsibility, Firm performance, Stakeholder trust, Business model innovation and corporate governance. Comparing these findings with the latest studies show how relevant they are and what contributes to the existing findings. Future studies should investigate more mediating and moderating variables to better understand the intricate relationships behind Firm performance.

1. **To investigate the relationship between Corporate social Responsibility, Firm performance and corporate governance.**

The findings of this study confirm a significant and positive relationship among corporate social responsibility (CSR), firm performance and stakeholder trust. The results suggest that CSR serves as a central strategic construct that strengthens organizational outcomes, both directly and indirectly, through relational and structural mechanisms. This aligns with recent studies, which argue that CSR enhances firm legitimacy and long-term performance by building governance (Alkaraan et al., 2023; Shahzad et al., 2022). Moreover, effective corporate governance was found to complement CSR initiatives by ensuring transparency, accountability, and strategic alignment, supporting earlier findings that governance structures strengthen CSR effectiveness and organizational outcomes (Nguyen et al., 2023). Overall, the results validate an integrated framework where CSR and governance jointly contribute to improved firm performance.

2. **To examine the impact of Corporate social responsibility on Firm performance.**

The study shows that CSR positively influences firm performance; as such, socially responsible firms perform better financially and non-financially. Our results are consistent with stakeholder theory, which argues that firms that adopt responsible behavior gain increased reputation, customer commitment, and operational efficiency. A comparable finding was reported by Khan et al. (2022) and Rjiba et al. (2023) that CSR is being used as a incentive for profit, perceived market value, and competitive advantage across various sectors of the economy. The findings also provide additional support for the view that CSR is a means of making a distinct contribution to sustainable value creation and should be integrated into core business strategy rather than seen simply as an add-on activity.

3. **To find the moderating role of corporate governance in relationship between Corporate social responsibility and Firm performance.**

The study also finds that corporate governance significantly moderates the relationship between CSR and firm performance, indicating that strong governance mechanisms enhance the effectiveness of CSR initiatives. Firms with robust governance structures—such as independent boards, transparent policies, and effective oversight—are better positioned to implement CSR strategies that yield positive performance outcomes. This finding is consistent with recent research showing that governance quality strengthens the CSR–performance link by reducing agency problems and ensuring strategic accountability (Elamer et al., 2022; Zahid et al., 2024). Consequently, corporate governance plays a crucial enabling role, amplifying the positive impact of CSR on firm performance.

5.2 Conclusion

This study concludes that corporate social responsibility (CSR) is a critical strategic driver of firm performance, operating through both direct and indirect mechanisms. All hypothesized relationships were empirically supported, demonstrating that CSR, stakeholder trust, collectively form an integrated framework that enhances organizational outcomes. These findings reinforce recent studies literature that positions CSR as a core element of sustainable business strategy rather than a peripheral or symbolic activity.

The results confirm a strong, positive relationship between CSR and firm performance, indicating that socially responsible firms achieve superior financial and non-financial performance. This outcome aligns with contemporary research (Khan et al., 2022; Rjiba et al., 2023), which emphasizes that CSR contributes to competitive advantage, market valuation, and long-term profitability. Consistent with stakeholder theory, the study demonstrates that responsible corporate behavior strengthens reputation, improves stakeholder relationships, and enhances operational efficiency. Consequently, CSR should be integrated into firms' strategic decision-making processes to support sustainable value creation.

Moreover, the study confirms that corporate governance significantly strengthens the CSR–firm performance relationship by moderating it. Strong governance mechanisms—such as independent boards, transparency, and effective oversight—enhance the credibility and execution of CSR initiatives. This finding is consistent with recent post-2022 research (Elamer et al., 2022; Zahid et al., 2024), which demonstrates that high-quality governance reduces agency problems and ensures strategic accountability. Overall, this study contributes to the growing body of literature by offering a comprehensive and contemporary framework that explains how CSR, stakeholder trust, business model innovation, and corporate governance jointly drive firm performance.
Overall, this study contributes to the growing body of literature by offering a comprehensive and contemporary framework that explains how CSR and stakeholder trust, jointly drive firm performance.

5.3 Recommendations

1. Firms must integrate corporate social responsibility (CSR) into their core business strategies to drive meaningful organizational impact and sustainable success, rather than treating it as a peripheral or benevolent activity.

2. CSR initiatives should align closely with key stakeholder expectations and needs.

3. Enhancing transparency and communication regarding CSR activities will help companies strengthen credibility and stakeholder trust.

4.Management should strategically recognize stakeholder trust as a critical asset and proactively use CSR practices to forge long-term, resilient stakeholder relationships.

5. By leveraging CSR initiatives as a catalyst for business model innovation, firms can improve mechanisms for value creation, delivery, and capture.

6. Developing clear financial and non-financial performance metrics will allow firms to effectively assess the impact of CSR initiatives on firm performance.

7. Investing in employee training and engagement in CSR initiatives helps organizations strengthen trust and support innovation.

8. Policymakers and regulatory bodies must encourage and enforce stronger CSR

9. additional mediating and moderating variables to further explain the complex relationships between CSR and firm performance.

10.Companies should promote cross-functional collaboration among sustainability, innovation, and governance units to maximize CSR outcomes.

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