Measuring the Variability of ESG: Implications for CSR and Corporate Financial Performance

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Abstract

This study develops four measures of variability to quantify a firm's social responsibility performance over time, addressing a significant gap in the literature. Applying these measures on both the overall CSR performance scores, as proxied by ESG scores, and the variability of workforce performance, as scores proxied by workforce scores. While prior studies have extensively examined the impact of the overall CSR performance on corporate financial performance, there is a lack of empirical studies quantifying a firm's social responsibility performance variability over time and its implications for financial outcomes. Therefore, this study fills this gap by proposing four measures to assess the variability of a firm's social responsibility performance using ESG scores, and workforce scores and empirically examining their impacts on corporate financial performance. This research seeks to answer two key questions: Does stability in CSR performance improve corporate financial performance? And Does stability in workforce performance enhance corporate financial performance?

Using a sample of 379 publicly traded U.S. firms from 2004 to 2022, this study evaluates CSR and workforce performance stability over time through annual ESG scores and workforce scores produced by LSEG (formerly known as Refinitiv, and before that was known as ASSETS4). ESG scores measure a company's environmental, social, and governance performance, while workforce dimension of social pillar captures how well a firm promotes diversity and inclusion, career development and training, working conditions, and health and safety (Refinitiv, 2021). The study is structured in three parts. First, it develops four measures of stability: (1) coefficients of variation, (2) Beta, (3) temporal trend, and (4) residuals. Second, it applies these measures of a firm's overall CSR performance using ESG scores, as well as workforce-specific performance using workforce scores. Third, it analyses the relationship between these stability measures and corporate financial performance.

The findings reveal that less variability in CSR performance measured by coefficients of variation of ESG (ESGCV) leads to improved firm profitability (ROA). Additionally, Tobin's q shows significant associations with two stability measures beta of ESG (ESGBETA), a negative impact, indicating that less deviation of CSR performance compared to the market overall CSR performance is rewarded with higher firm value, and CSR temporal trend (ESGTREND), a positive effect, suggesting that improving CSR performance over time in alignment with market trends enhance firm value. However, variability measures do not significantly impact stock returns as one of the corporate financial indicators.

Regarding workforce stability performance and its impact of corporate financial performance, the results demonstrate a more pronounced impact on financial performance compared to CSR

stability. Higher workforce variability measured by workforce scores coefficient of variation (WFCV) negatively affects both ROA and Tobin's q, while improving workforce performance over time measured by temporal trend (WFTREND) is associated with marginally higher profitability. Notably, not all stability measures show significant relationships, suggesting that the link between CSR consistency and financial performance may be complex, potentially due to data limitations, measurement challenges or the multifaceted nature of financial performance metrics. Overall, the findings underscore the strategic importance of CSR as a long-term investment, emphasizing the need for continuity and consistency in CSR efforts, particularly in workforce-related initiatives. Firms that sustain or improve CSR performance over time are better positioned to ensure stakeholder satisfaction and secure a sustainable competitive advantage.

This study contributes to the literature by introducing new measures of social responsibility stability performance and positioning CSR consistency as a strategic asset. By capturing the variability in both overall CSR and workforce performance, this study highlights the importance of integrating CSR efforts into business operations, with more emphasis on workforce performance as a key component of CSR dimensions. Integrating CSR into organisational strategies has become crucial, reflecting a commitment to ethical behaviour and sustainable efforts. By analysing the stability of CSR performance as a strategic aspect, this study reinforces the view that continuity in CSR efforts, as shown in workforce and overall ESG performance, not only enhances financial performance, but also aligns with the argument that emphasises mutual trust between a firm and its stakeholders. This study therefore provides evidence to support policymakers and managers in prioritising workforce stability as part of CSR, so as to maintain financial performance and generate benefits in the long term.

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Declaration of Authorization

I hereby declare that this thesis, submitted in fulfilment of the requirements for the degree of Doctor of Philosophy, represents my own original research work. It has not been submitted previously for a degree or other qualification at this or any other university or institution. All sources used are acknowledged and properly referenced.

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Chapter 1. Introduction

1.1 Background

Corporate social responsibility (CSR) has become a critical focus for businesses worldwide, not only as an ethical obligation, but also as a potential driver of financial performance. CSR represents a commitment by a company to manage its social, economic and environmental impact so as to be of benefit to society at the same time as creating a successful business (Wood, 1991). Over the past few decades, CSR has evolved from a peripheral concern to a central component of corporate strategy, driven by increasing stakeholder expectations, regulatory pressures and the recognition of sustainability as a source of competitive advantage (Porter and Kramer, 2006).

Despite this growing interest, the relationship between CSR and corporate financial performance remains inconclusive. While some studies suggest a positive relationship, others find either a negative or no significant effect (Wicks *et al.*, 1999; McWilliams and Siegel, 2001; Orlitzky *et al.*, 2003; Branco and Rodrigues, 2006; Lopez *et al.*, 2007; Margolis *et al.*, 2009; Cai *et al.*, 2012). These mixed findings raise important questions about the conditions under which CSR activities contribute to financial outcomes. For instance, does the consistency of CSR performance over time play a role in shaping its financial impact? This study addresses this question by examining the stability of CSR performance and its effects on corporate financial performance, with a particular focus on both the overall ESG performance and the workforce dimension – a key driver of CSR implementation and outcomes.

1.2 Motivation of the Research

This study is motivated by the need to understand and address the contradictions in prior research findings about how CSR affects corporate financial performance. It also seeks to make recommendations which can be used by companies and their stakeholders. The majority of studies to date have considered the link between CSR and financial performance on its own, with only a minority looking at the potential impact of CSR consistency, i.e. implementing CSR initiatives strategically and consistently over time. This represents a significant research gap, as inconsistent attention to CSR could fall short of achieving the necessary levels of reputation, trust and corporate ability for on-going financial success.

Furthermore, there has been little research into the important role played by employees in promoting CSR performance. As well as being the people who actually implement CSR, a company's staff are also crucial to its performance from social and financial perspectives (Freeman 1984; Wright et al., 1994). It is therefore important to understand how CSR results are affected by workforce stability. In turn, this can be useful for managers in co-ordinating CSR activities with staff well-being and corporate goals.

Finally, this research is motivated by the practical implications of CSR for business strategy and investment decisions. For businesses, understanding whether and how CSR can enhance profitability is essential for strategic decision-making. For stakeholders and investors, understanding these relationships is crucial for evaluating corporate sustainability efforts and making informed investment choices.

1.3 Theoretical Framework

This study combines the resource-based view (RBV) with the absorptive capacity theory (ACT) to understand the effect of consistent CSR activities on the development of useful corporate capabilities, which eventually affect financial performance. RBV suggests that CSR can be a means of achieving long-term competitive advantage by developing unique corporate capabilities and resources (Branco and Rodrigues, 2006), as valuable, rare, inimitable and non-substitutable resources are what allow companies to attain higher financial performance.

Consistency in CSR efforts supports the development of such intangible assets as corporate know-how and culture, and stakeholder trust, all of which are crucial to sustained good performance. Companies with a long-term, contractual and trust-based commitment to CSR have stronger stakeholder relationships, thereby building legitimacy and better reputations (Jones, 1995).

Meanwhile, ACT (Cohen and Levinthal, 1990) suggests that consistency in CSR gives a company a greater ability to gain, embed and apply knowledge in the service of financial success, developing its competence in innovation, adaptation to changing markets and operational efficiency. Indeed, previous research has shown that higher corporate absorptive capacity leads to external knowledge being integrated more effectively and therefore greater financial returns from CSR activities.

Most research into CSR has focused on such external stakeholders as customers, regulators and investors. However, the importance of a company's employees as internal stakeholders is being recognised (Berman *et al.*, 1999; Signori *et al.*, 2021). Employees implement CSR activities and are therefore crucial to their effectiveness and the long-term financial effects. They represent a critical intangible asset when managed strategically, which means that having a stable, committed staff makes companies more able to maintain consistency in CSR. As Freeman's (1984) stakeholder theory states, employees can influence corporate ethics, shape CSR strategies and affect corporate decisions (Donaldson and Preston, 1995; Jones, 1995; Mitchell *et al.*, 1997). Indeed, employees contribute actively to discourse on the reasons for and the results of CSR initiatives (Aguilera *et al.*, 2007).

The effect of CSR on financial performance is also affected significantly by how consistently a company engages in CSR. Consistency increases a company's legitimacy and the trust of its stakeholders, so that having a long-term, consistent approach to CSR tends to bring better financial returns (Tang *et al.*, 2012; Wang and Choi, 2013). CSR consistency also suggest that a company is stable in its organisation, which is key to the on-going maintenance of quality, reliability and financial predictability (Vermeulen and Barkema, 2002).

1.4 Research Aims and Objectives

The main aim of this study is to explore how CSR consistency affects corporate financial performance, particularly with regard to the stability of both CSR and measures of employee variables over time. Specifically, this study seeks to: (1) quantify CSR consistency, developing and applying novel measures to assess the stability of CSR performance over time, using ESG (environmental, social and governance) scores and workforce scores as proxies for CSR performance; (2) examine the financial impact of CSR consistency by investigating how consistent CSR performance influences key financial performance indicators, including profitability (ROA), firm value (Tobin's Q) and stock returns (RET); (3) explore the role of workforce stability, analysing its impact on CSR outcomes and financial performance, recognising employees as critical internal stakeholders in CSR implementation; (4) provide practical insights and offer actionable recommendations for managers and investors on how to implement CSR initiatives strategically to maximise financial and social outcomes.

1.5 Research Questions

To achieve the research aims, this study addresses the following key questions.

1- How does the stability of CSR performance over time influence corporate financial performance?
2- How does the stability of workforce performance over time influence corporate financial performance?

1.6 Research Contribution

This study contributes to the CSR literature in several significant ways. First, it develops and applies four distinct statistics – Coefficient of Variation, Beta, Trend and Residuals – to assess the stability of CSR performance and workforce performance over time. Second, by examining workforce stability as a key dimension of CSR, the study highlights the critical role of employees in driving CSR performance and financial outcomes. This contributes to the growing body of literature on internal stakeholders and their impact on CSR. Third, this study integrates stakeholder theory and RBV to explain how consistent CSR practices create valuable organisational resources and capabilities. Fourth, the study analyses data from 379 US listed companies from 2004 to 2022 and provides empirical evidence on the relationship between CSR and workforce stability and corporate financial performance. Finally, the study offers practical insights for managers on the importance of consistent

CSR performance and for investors on how to evaluate CSR performance.

1.7 Structure of the Thesis

This thesis is structured as follows. Chapter 1 provides an overview on the research background, motivation, aims, research questions, contributions and thesis structure. Chapter 2, Literature Review, reviews relevant literature on CSR, workforce performance and financial performance, with a focus on theoretical frameworks and empirical findings. Chapter 3, Methodology, explains the research design, data sources and variables used to measure CSR performance, workforce stability and corporate financial performance, and describes the process of quantifying stability measures and the statistical methods used for analysis. Chapter 4 examines the relationship between overall CSR stability and financial performance. Chapter 5 focuses on workforce stability and corporate financial performance, examining the impact of workforce stability on financial outcomes. Chapter 6, Conclusion, summarises the key findings, discusses their theoretical and practical implications, identifies limitations and provides recommendations for future research.

Chapter 2. Literature Review

2.1 Introduction

Corporate social responsibility (CSR) is increasingly significant to both businesses and academics (Carrol, 2021; Wang *et al.*, 2016) for a number of reasons, but especially the increased awareness of sustainability, including the growing recognition of environmental protection and the need to embrace social practices and institutional change (Koh et al., 2022; Matten and Moon, 2008; Gatti and Seele, 2014). At the same time, there is stakeholder pressure, whether from corporate investors (Campbell, 2007; Lewis, 2003; Li et al., 2021) or the expansion of sustainability rating agencies, demanding ever more information about CSR performance (Scalet and Kelly, 2010). A number of studies have therefore explored the impact of CSR on corporate financial performance (CFP), but have been unable to determine that impact conclusively (Orlitzky *et al.*, 2003; Branco and Rodrigues, 2006; Margolis *et al.*, 2009).

This chapter gives a comprehensive overview of the context and history of CSR and the concepts and theories which underpin it and outlines the effects on CFP. A thorough understanding of the practical and theoretical development of CSR allows research gaps to be identified and testable hypotheses to be developed in subsequent chapters (Chapters 4 and 5). This chapter begins the background to and definitions of CSR (Section 2.2), followed by its theoretical basis in stakeholder theory, legitimacy theory, the resource-based view, shareholder value, absorptive capacity and slack resources (Section 2.3). Following this, Section 2.4 examines corporate motivations for CSR engagement. Sections 2.5 to 2.8 delve into CSR longevity, strategic CSR, workforce engagement and the stability of CSR performance (CSR consistency). Section 2.9 identifies gaps in the CSR literature and establishes the motivation for this study. Finally, Section 2.10 reviews previous empirical studies on the relationship between CSR and corporate financial performance, while section 2.11 examines the role of workforce engagement in shaping this relationship Section 2.11.

2.2 Background and Definition

The beginning of the evolution of CSR theory was in the 1920s, when Donham (1927) predicted that civilisation might undergo a period of decline due to the industrial revolution. Donham's argument reacts to the "many problems arising out of the new scientific developments" (Donham, 1927; Gond and Moon, 2011: Li et al., 2021), highlighting significant scientific advances in that had led to various problems—ranging from environmental change to labour issues—that needed to be rectified, and suggesting that firms were in a unique position to address and solve them strategically. Donham (1927) proposed that managers should run business activities with an eye to both the present and future, ensuring their organisations' optimal performance and stability, while also promoting community progress.

In the 1930s, two articles published in the *Harvard Law Review* (Berle, 1931; Dodd, 1932) discussed the primary objective of businesses. On the one hand, Berle (1931) believed that all powers granted to managers, employees or any other groups were for the benefit of shareholders, but Dodd (1932, p. 1162) argued *that* "business - which is the economic organisation of society - is a private property only in a qualified sense, and society may properly demand that it be carried on in such a way as to safeguard the interests of those who deal with it either as employees or consumers even if the proprietary rights of its owners are thereby curtailed". Yet again, Berle (1932) countered the idea that businesses have responsibilities towards other parties. First, roughly half of the USA's population had a stake in corporations, since there were around eight million stockholders and many other individuals who shared in these corporate securities through the medium of banks and insurance companies (Berle, 1932). Second, this group represented a large portion of the community, requiring corporations to pay for other expenses, such as old-age pensions and sickness benefits (Berle, 1932). He concluded that *"Either you have a system based on individual ownership of property or you do not"* (Berle, 1932, p. 1368).

In the 1950s, CSR developed as the modern concept, with a theoretical focus on CSR research (Lee, 2008). The first comprehensive description of the CSR concept and the social responsibilities of businessmen was in 1953, when Howard Bowen published a book entitled *Social Responsibilities of the Businessman* (Carroll, 1979; Wartick and Cochran, 1985; Windsor, 2001). According to Bowen (1953, cited in Carroll, 1999), social responsibility refers to "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society". Bowen's book, which is mainly related to the doctrine of social responsibility, leading Carroll (1999) to argue that Howard Bowen should be considered the "Father of Corporate Social Responsibility".

During the 1960s, scholars shifted the focus from CSR as solely philanthropic practices to addressing CSR as a solution to current societal problems and a way of meeting the objective of developing a modern society (Moura-Leite and Padgett, 2011; Doh and Littell, 2015; Agudelo *et al.*, 2019). McGuire (1963) states that firms' social responsibilities go beyond their economic and legal obligations. Davis (1973), a prominent author of that period, writes that CSR is a "nebulous idea" that can be defined in different ways, but defines social responsibility as "the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm" (Davis, 1973, p. 312). Carroll (1999) believes that Davis is the runner-up to Bowen for the Father of CSR designation because of his outstanding contributions to the early evolution of the definition of

CSR. According to Carroll (1999), Davis implies that social responsibility may enhance a firm financial performance.

In contrast, Friedman (1970), a classical economist, wrote, in his *New York Times* articles, that "the social responsibility of the firm is to increase its profits". Friedman's definition represents "Friedman doctrine" and "Shareholder theory". Friedman has been taken to mean that companies only have the responsibility to generate ever more profits, without any responsibility to society and has been accused of ignoring the fact that corporate decisions affect a wide range of people and organisations who then influence the company's profits and reputation (Lantos, 2001). However, Friedman's actual position assumed that companies operate within the rule of law and the "deontological norms" of democratic societies, that shareholders do not have to seek maximum profits and that negative externalities (e.g. pollution) act as restrictions on freedom and therefore should be dealt with (Jahn and Brühl, 2018).

Davis (1973) responded to Friedman's definition with a quote by another distinguished economist, Paul Samuelson, who argued that *"a large corporation these days not only may engage in social responsibility, it had damn well better try to do so"*. In a counter-argument to Friedman's view, Freeman (1984) introduced stakeholder theory, which stresses the inter-relationship between a firm and its stakeholders – communities, customers, suppliers, employees, investors and other groups who can affect or be affected by a firm. Freeman (1984) argues that managing the needs and expectations of stakeholders can be a milestone in creating a firm value. Freeman uses "create a value" instead of "merely profit", as mentioned by Friedman.

Notwithstanding this long history of CSR, "there is a no strong consensus on a definition for CSR" (McWilliams *et al.*, 2006). However, a possible explanation for the lack of a conclusive definition of CSR is the on-going introduction of new CSR concepts, leading to a shift in societal priorities and resulting in a dynamic and evolving field (De Bakker *et al.*, 2005). Similarly, Lockett *et al.* (2006, p.133) suggest that *"CSR knowledge could best be described as a continuing state of emergence"*. Lee (2008, p.53) states that *"most academics and business pundits have noticed how CSR has been transformed from an irrelevant and often frowned-upon idea to one of the most orthodox and widely accepted concepts in the business world during the last twenty years or so"*.

However, a universally accepted definition of CSR has not been reached (Arlow and Gannon, 1982; De Bakker *et al.*, 2005; McWilliams et al., 2006; Argandoña and von Weltzien Hoivik, 2009). The lack of consensus may be from several causes, including changing expectations of businesses on the part of society (De Bakker *et al.*, 2005) and the fact that CSR is a dynamic topic (Bansal and DesJardine, 2014). Dahlsrud (2008) analyses 37 definitions of CSR stated by 27 scholars from 1980 to 2003 (with the majority being published after 1998) and finds that the environment was the least mentioned CSR dimension in definitions at first, but later, as CSR was investigated extensively, all dimensions became equally stressed. However, the 37 definitions of CSR are consistent in including five dimensions: environmental, social, economic, stakeholder and voluntariness. Furthermore, CSR is related to a wide range of complicated issues, including environmental protection, human resource management, workplace health and safety, and relationships with local communities, suppliers and consumers (Branco and Rodrigues, 2007).

Despite the lack of consensus, certain definitions have dominated the CSR literature, such as McWilliams and Siegel (2001), who define CSR "as actions that appear to further some social good, beyond the interests of the firm and that which is required by law", and The World Business Council for Sustainable Development (2000), which defines CSR as *"the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"*, while Johnson *et al.* (2008, p. 146) state that "*corporate social responsibility is concerned with the ways in which an organisation exceeds the minimum obligations to stakeholders specified through regulation and corporate governance"*. Another prominent definition is presented by Kotler and Lee (2005), who define CSR as *"a commitment to improve community well-being through discretionary business practices and contributions of corporate resources"*. The European Commission (2001, p. 5) defines CSR as *"a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment"*.

Having explored the challenges of defining CSR, it is essential to consider how the concept has evolved over time. CSR has transformed from being perceived as a threat to a firm's profitability into a solution for improving the firm's overall performance, at least in the long term (Branco and Rodrigues, 2007). Wood (1991, p.693) defines CSR *as "a business organisation's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships"*. This definition has been described as "*one of the most influential, helpful, parsimonious, and yet comprehensive conceptualisations of corporate social performance"* (Orlitzky et al., 2003, p.411).

Moreover, Carroll's (1991) Pyramid of CSR (Figure 1) stands out as a seminal contribution in the field of CSR. Carroll's framework proposes that the CSR concept should be designed to include the whole range of business responsibilities, hence, "corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organisations at a given point in time" (Carroll, 1991). For further elaboration on this definition, Carroll (1991) created the pyramid model to illustrate how these four categories of CSR are shaped, as in

Maslow's needs hierarchy. Businesses should be concerned first with the economic component and then move upwards and embrace all the other components.

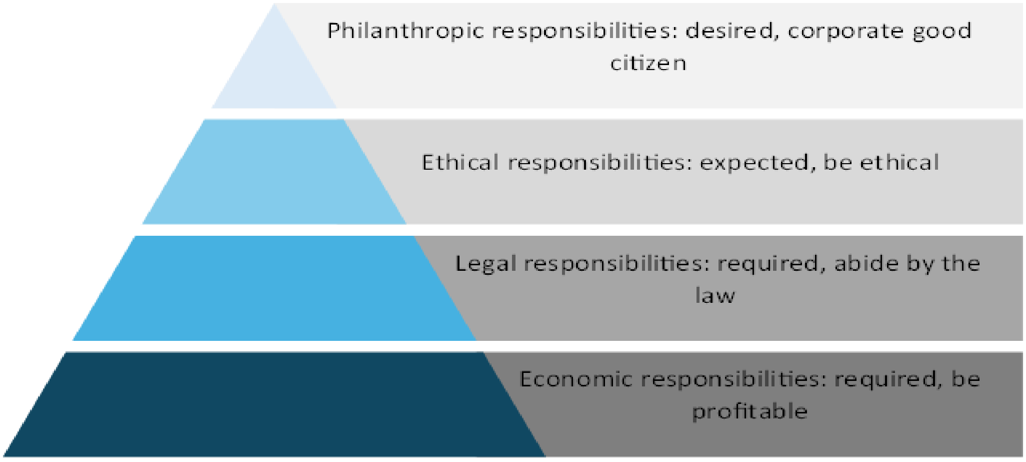


Figure 1. Carroll's Pyramid of CSR. Source: adapted from (Carroll, 1991)

The first two categories of responsibilities—economic and legal—are mandated by society. Economic responsibilities are the basic level, the foundation on which other business responsibilities depend, and which is required by society, as firms are established to provide goods and services to members of society while maintaining profitability. In essence, economic responsibility involves keeping the business profitable, as this ensures long-term sustainability and societal benefits (Carroll, 1979, 1991, 1999; Jamali, 2006). Legal responsibility, ranked at the second level of the CSR Pyramid, means that firms must abide by laws and regulations and prevent fraud. Society expects corporations to operate and within established rules, regulations, and boundaries, to perform consistently in compliance with government rules, fulfil their legal obligations to stakeholders and provide goods and services that meet legal requirements (Carroll, 1979, 1991, 1999). The other two components of CSR (ethical and philanthropic) are those which society *expects*. Ethical responsibility operates because most societies believe the law is essential but not enough (Carroll, 1979, 1991, 1999). Therefore, businesses are expected to operate ethically, adapt to evolving ethical norms and resist pressure to compromise, thereby supporting long-term objectives. Corporate philanthropy incorporates any kind of voluntary giving back to society, such as money, resources, product and service donations, volunteering by employees and management, or community development (Carroll, 1979, 1991, 1999).

Importantly, Visser (2006, p.33) states that Carroll's CSR Pyramid model *"has been the most durable and widely cited in the literature"*, although he uses it in a different context (an African country) and finds that the pyramid model has limitations for the understanding of CSR. Carroll (2016, p.7) acknowledges this disparity and states that the CSR Pyramid *"was clearly done with American-type capitalistic societies in mind. At that time, CSR was most prevalent in these more free-enterprise societies. Since that time, several writers have proposed that the pyramid needs to be reordered to meet the conditions of other countries or smaller businesses."* In sum, CSR emerged from a recognition societal changes brought about by the industrial revolution (Donham, 1927). In the 1930s, Berle (1931; 1932) and Dodd (1932) discussed the firm's primary objective. CSR attained its modern conceptual form in the 1950s (Lee, 2008), and the first comprehensive treatment of the concept came with (Bowen, 1953), who believed businesses should "follow those lines of action which are desirable in terms of the objectives and values of our society".

In the 1960s, the CSR focus moved from simple philanthropy to solving societal problems and developing a modern society (Moura-Leite and Padgett, 2011; Doh and Littell, 2015; Agudelo *et al.*, 2019), going beyond their economic and legal obligations (McGuire, 1963). Friedman's (1970) well-known opposition (Jahn and Brühl, 2018) to the expansion of corporate responsibilities, on the grounds of increased costs and diversion from the profit-seeking main objective, inspired Freeman (1984) to introduce stakeholder theory, which stresses the inter-relationship between a firm and its communities, customers, suppliers, employees, investors and other groups who can affect or be affected by a firm. Freemen argues that satisfying stakeholders' needs can create value for a firm. Freeman prefers the term "create a value" over "merely profit".

In the extant literature, there are various definitions of the CSR concept, which vary considerably. Most focus on voluntary activities aimed at enhancing corporate economic benefits (Davis, 1973; Wood and Jones, 1995; Cox *et al.*, 2004; Aguilera *et al.*, 2007; Mackey *et al.*, 2007). None of these definitions, however, is more satisfactory and comprehensive than Carroll's (1991) definition (Shiu and Yang, 2017), which argues that CSR should incorporate the four dimensions of a business's responsibilities (in descending order): economic, legal, ethical and philanthropic. This Carroll (1991) illustrates in the form of a pyramid (Figure 1). Companies can also derive benefits from involvement in CSR, including the recruitment and retention of good employees, enhanced reputation and greater customer loyalty (Turban and Greening, 1997; Peloza, 2009). The global strategic significance of CSR has been emphasised by the interest of the United Nations Industrial Development Organisation (UNIDO, 2024), which takes as its definition of CSR a corporate strategy that incorporates environmental, social and governance (ESG) issues into routine activities and stakeholder relations. The most applicable definition of CSR for this study is provided by (Zhao *et al.* (2019, p. 849): *"actions on the part of a firm that simultaneously further the business-specific interests of the firm and its shareholders and also serve a social purpose for stakeholder groups."*

2.3 Theories of Corporate Social Responsibility

Before analysing the main CSR theories, it is important to acknowledge to the multiple terminologies commonly used in academic research as related or replacement terms for CSR. Theoretically, CSR is regarded as a concept rooted in principles of social responsibility, whereas corporate social performance (CSP) reflects its outcomes of social responsibility activities (Wartick and Cochran, 1985; Wood, 1991). Likewise, Carroll (2018, p.2) distinguishes between CSR and CSP, with CSR the *"general belief that modern businesses have a responsibility to society that extends beyond that to the stockholders or investors in the firm"* and CSP an extension of the concept of CSR that emphasises the results or outcomes. However, Margolis *et al.* (2009, p.7) argue that even when scholars attempt to distinguish between CSR and CSP, they sometimes incorporate CSP under CSR's umbrella and sometimes the reverse, and CSR and CSP *"are often used interchangeably in empirical studies"*. Porter and Miles (2013) also use the term synonymously with CSR. Although many related—such as corporate citizenship, sustainability, business ethics and CSP—address social performance, CSR is still utilised extensively (Tonello, 2011). Therefore, this study will refer to CSR. Similarly, another widely used reference is to environment, social and governance (ESG) factors, introduced by Kofi Anon, then Secretary-General of the United Nations, in early 2004 to consider how to integrate them into businesses. The only difference between ESG and CSR is that ESG explicitly incorporates the governance component while CSR does so implicitly (Gillan *et al.*, 2021). Indeed, several empirical studies employ ESG scores extensively as a proxy for CSR (Waddock and Graves, 1997; Chatterji *et al.*, 2009; Kim *et al.*, 2014).

2.3.1 Shareholder Value

From the neo-classical economic perspective, Friedman and Friedman (1962) argue that corporate spending on CSR represents a breach of management's responsibility to shareholders. According to this perspective, company leaders are seen as employees who are obligated to act in the best interest of their owners (shareholders) and work to increase their wealth as the company's primary objective. Before the 1960s, expectations for ethical corporate conduct were limited, as societal attention was focused on issues such as wages and labour conditions. However, during the 1970s, expectations of business ethics increased (Lantos, 2001). As a result, two seemingly contradictory perspectives on the role of business in society are frequently framed under the stakeholder-shareholder debate (Branco and Rodrigues, 2007). First, the "*classical view*", derived primarily from the neoclassical economic theory, expresses the role of business merely in terms of profitability, focusing on shareholder profit and is well-known as shareholder value theory. Second, the *"stakeholder view"*, derived from stakeholder theory, contends that firms have a social responsibility towards all groups impacted by their actions (Lantos, 2001). According to Lantos (2001), the classical view has two perspectives: the *"pure profit-making view"* and the *"constrained profit-making view"*, which are represented by Carr (1968) and Friedman (1970), respectively.

Carr (1968) exemplifies the pure profit-making view, arguing that bluffing in business is a strategic move akin to bluffing in poker, which has nothing to do with the bluffer's morals. The author indicates that business and Poker involve a substantial element of chance. Thus, long-term winning requires consistent skills, rule familiarity, an understanding of other competitors' psychology, self-discipline and prompt and effective responses to opportunities. Additionally, Carr (1968) argues that ideal ethics are comparable to the strategic nature of Poker, ignoring friendship and concealing individual's strengths and intentions are more important than compassion and kindness, so that strategic deception is a crucial component of a firm's success and businesspeople cannot afford to be restricted by ethics. Accordingly, Carr (1968) maintains that a business has the legal right to pursue profit-focused strategies, as long as it conforms to the legally prescribed rules of the game. However, Allhoff (2003) considers Carr's (1968) article an informal paper that lacks a clear justification in which he tries to legitimate bluffing by claiming that it is acceptable by the game's rules. Moreover, Carr (1968) states that: *"…the basic rules of the game have been set by the government, which attempts to detect and punish business frauds. But as long as a company does not transgress the rules of the game set by law, it has the legal right to shape its strategy without reference to anything but its profits. If it takes a long-term view of its profits, it will preserve amicable relations, so far as possible, with those with whom it deals. A wise businessman will not seek advantage to the point where he generates dangerous hostility among employees, competitors, customers, government, or the public at large. But decisions in this area are, in the final test, decisions of strategy, not of ethics".*

The "constrained profit-making view", on the other hand, does not encourage engagement in deception and fraud, as represented by Friedman (1970). As Friedman asserts: *"There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception fraud.".* Friedman (1970) attacks the increasing interest in CSR among researchers and practitioners severely and argues that the practice of CSR activities by an employee (a corporate executive) is "taxation without representation," which he views as inherently unfair. Friedman assumes that a firm's responsibility is merely to pursue profits for its shareholders. Friedman believes that managers who adopt CSR activities will create the principle-agent problem, where "a contract in which one or more persons (the principal(s)) engage another person (the agent) to take actions on behalf of the principal(s), which involves the delegation of some decision-making authority to the agent” (Jensen, 1986). Eisenhardt (1989) suggests incorporating agency theory in most studies addressing business structure.

Friedman emphasises that a firm’s executives, empowered by shareholders, *“act as a principal, not an agent”*. He advocates for increasing profit as representing a straightforward form of capitalism. He opposes any activities that, in his view, waste corporate resources. Engaging in CSR initiatives, he argues, executives violate a business's core objective and resembles imposing taxes on shareholders while redistributing the funds for social purposes. In effect, Friedman’s opinion representing the classical economic doctrine of a free market expects an inverse relationship between CSR and firm’s financial performance. Friedman argues that managers only implement “social responsibility” for self-interest, calling these practices “hypocritical window-dressing”—although he concedes such practices may be justified if they benefit shareholders.

The shareholder theory is a classical view mainly derived from the neoclassical economic theory, using such concepts as “free market, economic efficiency, and profit maximization.” This perspective resets on three main principles. First, shareholders own the firm, and managers are given the power to act on behalf of shareholders; those managers have no authority to misuse their privilege and act on their preferences. Second, a firm’s central role is to maximise wealth, and pursuing socially responsible goals may undermine this objective. Third, social responsibility is the job of organisations other than corporations (which lack the skills to do the job), such as the government, which is better equipped to perform such a role (Branco and Rodrigues, 2007).

As an essential economic voice, Friedman is a leading figure in the CSR debate. His views stimulate more scholars to take part and investigate the impact of CSR on business outcomes. However, according to Carroll (1991), most academic researchers focus on one part of Friedman’s (1970) view and neglect the second part, in which he proposes “*that responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom”*, this view accepts three of Carroll’s CSR Pyramid (Figure 1) components in which a business should maximise shareholders’ wealth (economic pillar), obey the law (legal pillar), and be ethical (ethical pillar). This profit-oriented stance, framed by Friedman within the “deontological norms” of society, is also noted by Jahn and Brühl (2018).

Other contemporary advocates of shareholder value theory justify that value maximisation as the primary goal of all firms is not necessarily at odds with CSR (e.g. Jensen, 2002; Sundaram and Inkpen, 2004). For example, Sundaram and Inkpen (2004, p. 370) argue *“*that the objective of shareholder value maximization matters because it is the only objective that leads to decisions that enhance outcomes for all stakeholders”. In contrast*,* Freeman et al. (2004) remind Sundaram and

Inkpen (2004) that shareholders are only one kind of stakeholder and separating them is logically identical to differentiating between "apples" and "fruit." In another response to Sundaram and Inkpen, Jensen (2002) suggests that the argument is falsely framed: the actual conflict is whether a firm should have one objective or several objectives. Jensen proposes the concept of "enlightened value maximization", as the solution to the debate over the primary goal of business. He proposes that the best strategy to enhance social welfare is to consider value maximisation as the long-term objective function of the firm, stating, "*200 years' worth of work in economics and finance indicate that social welfare is maximized when all companies in an economy maximize total company value"* (Jensen, 2002, p.11).

However, the advocates of CSR criticise shareholder value theory for its narrow focus on maximizing shareholders' wealth (Freeman et al., 2004). This narrow focus often overlooks the broader social and ethical responsibilities that businesses bear, which are increasingly crucial in a globalized economy (Carroll, 1999). Friedman concedes that CSR may be acceptable when it aligns with a firm's interests, such as attracting better employees, reducing costs, or mitigating risks like sabotage and theft. This pragmatic view aligns with the broader arguments in stakeholder theory, which emphasizes that businesses must balance the needs of all stakeholders, including employees, customers and communities, to sustain long-term success (Barnett and Salomon, 2012). Finally, scholars suggest that prioritizing stakeholders can enhance corporate reputation and competitive advantage, ultimately leading to greater shareholders wealth (Jones, 1995).

2.3.2 Stakeholder Theory

Stakeholder theory suggests that management's responsibility should extend beyond maximising shareholders value to include activities that serve broader society. The theory views shareholders as one of several stakeholder groups that managers must consider in their decision-making process (Freeman, 1984; Clarkson, 1995; Donaldson and Preston, 1995; Mitchell *et al.*, 1997). Stakeholder theory emerged in response to the notion that the primary beneficiaries of an organisation's operations should be its shareholders (Phillips, 1997) and was introduced by Freeman (1984) to reflect a shift in business thinking from a shareholder-centric to a stakeholder-focused perspective. Freeman defines a stakeholder as *"a stakeholder in an organisation is (by definition) any group or individual who can affect or is affected by the achievement of the organisation's objectives"* (Freeman, 1984, p. 46). Stakeholder theory describes the relationship between related stakeholders, including customers, employees, suppliers, lenders, environmentalists, banks, the community and government agencies, and shareholders' profits (Freeman 1984). The theory argues that a firm should value the interests of all stakeholders and not just shareholders to achieve its objectives and protect its business interests. According to stakeholder theory, shareholders are not the only group with the privilege to evaluate corporate performance, suggesting that all other stakeholder groups have this privilege (Wood and Jones, 1995). Freeman (1984) elaborates on his definition of stakeholders: *"the stakeholder concept* [is] *an umbrella for the problems in business strategy and corporate social responsiveness. To be an effective strategist, you must deal with those groups that can affect you, while to be responsive (and effective in the long run), you must deal with those groups that you can affect."*

To put it more simply, Freeman believes that a firm that manages and improves its relationship with stakeholders will be more successful. Several authors agree that the development of stakeholder theory signifies a shift in the conventional bilateral relationship between firms and shareholders to broader, multilateral relationships that include all stakeholders (Argandoña, 1998; Bridoux and Stoelhorst, 2014; Martínez *et al.*, 2016). Therefore, challenging the shareholder value which focuses on profit maximisation, Werhane and Freeman (1999) indicate that stakeholder theory argues that the goal of any firm and its management, is or should be the flourishing of the firm and all its primary stakeholders. Wood (1991) asserts that the basic argument of CSR is that business and society are closely intertwined rather than separate entities, she also connects the stakeholder perspective to CSR by addressing the question *"to whom should business be responsible?"*, highlighting Freeman's emphasis on stakeholder. In general, drawing on stakeholder theory, CSR research suggests that firms that respond more effectively to the CSR demands of stakeholders tend to perform better than those that do not. Thus, stakeholders serve as the primary lens through which CSR is conceptualised (Li et al., 2021).

Building on Freeman's (1984) work, Clarkson (1995, p. 106) defines stakeholders more narrowly, as *"persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future"*, and classifies them into primary and secondary groups according to their similarity in interests, claims or rights. The primary stakeholders of any organisation are those central to organisational survival and prosperity, including shareholders, employees, suppliers, customers and investors. Secondary stakeholders, such as the media, are the groups who influence or are influenced by the organisation but are not crucial to its survival. Clarkson proclaims that: *"the corporation's survival and continuing success depend upon the ability of its managers to create sufficient wealth, value, or satisfaction for those who belong to each stakeholder group so that each group continues as a part of the corporation's stakeholder system"* (Clarkson, 1995, p. 107).

The primary stakeholders possess power as a key attribute influencing managerial decisions (Mitchell *et al.*, 1997). Similarly, Freeman *et al.* (2008) highlight the vital role of shareholders as an essential group of stakeholders, but also refer to the existence of two other vital groups. Primary stakeholders are essential to a company's growth and survival, and include customers, employees, suppliers, communities and financiers. If these groups are not satisfied, a government will impose more regulations that might threaten the company's survival. Secondary stakeholders are those who can influence primary business relationships, such as activists, governments, competitors, media, environmentalists, corporate critics and special-interest groups.

Moreover, Donaldson and Preston (1995) discuss the importance of stakeholder theory as stemming from the potential power of it stakeholder groups and the impact of this on corporate financial performance. Freeman (1984) explains why stakeholders influence businesses by visualising a two-dimensional grid. The first dimension is the "stake" or "interest", as in "having an equity interest in the firm" or "being an influencer". The second dimension is "power", which Freeman disaggregates into three powers: owners' power, stakeholders' economic power and government political power. Furthermore, Freeman (1984) suggests various approaches to meeting multiple stakeholders' demands, such as reducing costs and providing higher-quality products to customers.

A critical issue with stakeholder theory is *"who (or what) are the stakeholders of the firm? And to whom (or what) do managers pay attention?"* (Mitchell *et al.,* 1997, p. 853). According to Mitchell *et al.* (1997), multiple stakeholder definitions are either too broad or too narrow. Narrow definitions of stakeholders are built only on the legitimacy of stakeholders, focusing on their claims and direct relevance to a firm. In contrast, the broad definitions of stakeholders are based on the influence of all current and potential stakeholders. These broad definitions do not offer clear criteria for classifying stakeholder groups based on their importance to a firm's success, which raises such concerns as how each group should be managed without knowing how important it is to the firm's success (Sundaram and Inkpen, 2004). Other concerns about stakeholder theory are the inability of a firm's management to satisfy all the stakeholders simultaneously, as managers have limited time, and the impossibility of knowing what stakeholders want (Phillips, 2004). Managing stakeholders can be difficult, as their interests can often conflict. Thus, normative stakeholder theory can be vague and needs development to provide clear guidance on how to manage stakeholders.

Mitchell *et al.* (1997) propose a theory of stakeholder salience, developing a dynamic model for identifying stakeholders based on possessing one, two or all three of the attributes of power, legitimacy and urgency, defined as *"(1) the stakeholder's power to influence the firm, (2) the legitimacy of the stakeholder's relationship with the firm, and (3) the urgency of the stakeholder's claim on the firm"* (Mitchell *et al.*, 1997, p.854). *Power* thus refers to a certain stakeholder group with access to means and resources that enable them to influence other stakeholder groups. Power in this situation is transient; it can be retained or lost. *Legitimacy* refers to socially acceptable and anticipated actions and behaviour within societal norms. It is combined with power when people try to assess the nature of relationships in society. *Urgency* refers to how urgently stakeholder demands should be addressed.

Finally, focusing only on power and legitimacy as independent factors in the stakeholder-manager relationship makes the model static, but adding the urgency attribute makes the model dynamic.

Therefore, Mitchell et al. (1997, p.878) state that *"stakeholder salience will be high where all three of the stakeholder attributes – power, legitimacy, and urgency – are perceived by managers to be present"*. In practice, however, Moir (2001) suggests that firms with, for example, high employee turnover problems should focus more on employee issues and address them, while firms that have problems with consumers should address issues that have a negative impact on their reputation. Also, stakeholder salience is dynamic, which means that other stakeholder groups may gain this power over time, which can affect the company's commitment to CSR performance (Agle *et al.*, 1999).

Donaldson and Preston (1995) observe that the stakeholder concept has been widely misinterpreted, leading to incomplete implementation of the theory. Stakeholder theory has been applied in various ways in the literature and justified by inconsistent evidence and arguments. Furthermore, there is a major controversy within stakeholder theory, as to whether it is a cohesive theory or a collection of theories (Treviño and Weaver, 1999; Moir, 2001). In particular, Donaldson and Preston (1995) divide stakeholder theory into three aspects to understand its different uses for businesses. The three aspects are descriptive, instrumental, and normative. According to the *descriptive* argument, following the stakeholder perspective, which seeks to understand how companies manage their stakeholders, managers must certainly pay close attention to their firms' financial performance to keep shareholders happy by focusing on growth as their main job, and thereby attracting new investors. However, the task of management is far more complicated than this. Therefore, to deliver consistent outcomes, managers must be concerned with providing high-quality and innovative products and services for their consumers, recruiting and maintaining talented employees and complying quickly with government regulations. In other words, managers focus their efforts on all stakeholders, not only shareholders.

The *instrumental* perspective, as the most prominent aspect, argues that managing stakeholders effectively enhances reputation, builds customer loyalty and ultimately improves financial performance (Bridoux and Stoelhorst, 2014; Jones *et al.*, 2018). Multiple studies have demonstrated that, in the long term, organisations that act ethically towards a variety of stakeholder groups outperform those that do not, reflecting enhanced stakeholder relationships that generate value for a business through motivated employees, loyal customers, dedicated suppliers and supportive communities, all of which are beneficial to the business's bottom line. According to the *normative* argument, stakeholder management is just the proper thing to do, so that companies should manage their stakeholders equally and fairly. Corporations have enormous power and manage immense resources; these advantages come with a responsibility to all persons affected by corporate conduct. Furthermore, all stakeholders, not just shareholders, provide value to the company.

Stakeholder theory (Freeman, 1984) emphasises the importance of balancing the interests of diverse stakeholder groups, such as employees, investors, customers and communities, in achieving long-term success. Stakeholder theory provides an alternative perspective on firm value creation by illustrating how companies align their value-maximisation objectives with stakeholder interest to generate competitive advantage (Tsang et al., 2023). A key aspect of this theory is the idea that firms must engage in consistent and ethical conduct to build trust and maintain strong relationships with their stakeholders. Particularly in the context of CSR, where companies demonstrate their commitment to social and environmental sustainability.

Furthermore, Jones' (1995) model integrates stakeholder concepts, economic concepts (agency conflict, cost) and ethics, introducing an “instrumental stakeholder theory”, which moves from “the firm is a nexus of contracts between itself and its stakeholders” (Jensen and Meckling, 1976) to an understanding of a company as “a nexus of contracts between top managers and its stakeholders”, as top management and the company can be seen as one and the same and, he argues, the market rewards companies with efficient contracts with their stakeholders, enhancing their competitive advantage and reducing the costs associated with those contracts (Jones, 1995). This suggests that building relationships and contracts between a company and its stakeholders based on trust and co-operation can mitigate agency conflicts and reduce costs.

Jones (1995) also argues that companies which engage in consistent, long-term transactions with stakeholders are incentivised to act ethically and honestly, which mitigates agency conflicts and, moreover, enhances stakeholder trust and corporate reputation. Indeed, CSR consistency, i.e. the stability and strategic execution of CSR activities over time, represents a signal of corporate commitment to stakeholders, signals a firm’s long-term reliability and dedication, thus building legitimacy and stakeholder trust (Jones, 1995; Bansal et al., 2015).

Previous research has explored the relationship between CSR and CFP, but there is a key gap, namely, how CSR consistency influences stakeholder trust and financial results. Stakeholder theory answers this by stressing the consistent engagement with stakeholders, as firms that maintain stable CSR performance tend to enhance trust, reputation and relationships, can achieve real financial benefits (Jones, 1995; Tang et al., 2012).

Building on this perspective, the instrumental view of stakeholder theory asserts that firms committed to stakeholders' interests can maximise profit more than industry rivals (Donaldson and Preston, 1995; Jones, 1995; Hillman and Keim, 2001). In addition, Bridoux and Stoelhorst (2014) observe that “the instrumental stakeholder theory proposes a positive relationship between fairness toward stakeholders and firm performance". For instance, Galbreath (2010) finds that CSR activities can benefit a firm by reducing employee turnover, increasing customer satisfaction and improving reputation by sending a positive signal to stakeholders can signal a firm's values to stakeholders. Likewise, Wicks *et al.* (1999) support the notion that building trust in relationships with stakeholders will improve firm performance and minimise the cost of these contracts by fostering trust with various stakeholders. However, this requires long-term commitment from both firms and their stakeholders

Additionally, scholars argue that CSR can strengthen stakeholder relationships, thereby enhancing financial performance (Hillman and Keim, 2001). Likewise, stakeholder theory suggests an inverse relationship between CSR initiatives and corporate risk. To sum up, CSR enhances the satisfaction of various stakeholders, improving a firm's trust and reputation, which contributes to the firm's long-term financial performance (Freeman *et al.*, 2004). Another concern with stakeholder theory is the exclusion of the natural environment as a fundamental component in CSR thinking, which indicates that humans still believe that they are the centre of the world and humans continue to ignore the environmental impact of their actions in different ways, such as pollution, climate change and the depletion of resources (Buchholz, 2004).

Similarly, Phillips and Reichart (2000) argue that stakeholder theory does not account for the environment and cannot adequately differentiate between those who are or are not legitimate stakeholders, but assert that only humans can be included as a stakeholder. In addition, the emergence and development of stakeholder theory casts doubt on a business' fundamental objective, which may create a conflict among constituencies or stakeholders (Jensen, 2002). For example, questions remain regarding whether shareholders should be prioritised? Furthermore, dishonest managers can abuse stakeholder theory for their self-interest and harm stakeholders' interests (Jensen, 2002). In this case, stakeholder theory may work in reverse, may enable managers to prioritise their own interests under the guise of stakeholder care (Tsai and Wu, 2021). Freeman (1984) contends that the management of a corporation should be accountable for satisfying all its stakeholders. A positive relationship between a firm and its stakeholders increases its financial performance, which benefits all other stakeholders. Furthermore, stakeholder theory proposes that CSR score improvements contribute to stronger brand image and stakeholder trust (Saeidi *et al.*, 2015). Therefore, trust and reputation are developed as strategically important intangible assets that foster a competitive advantage (Dierickx and Cool, 1989).

2.3.3 Legitimacy or Social Contract Theory

Legitimacy theory originated in the idea that businesses and society are connected via contracts, whether expressed or implied, and their survival and growth depend on their ability to (1) provide socially desirable outcomes for society and (2) distribute economic, social or political benefits to groups from which they derive power (Shocker and Sethi, 1973). However, society is dynamic – the sources of power and demand for businesses' services are not permanent, creating challenges for firms. *"Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval."* (Shocker and Sethi, 1973, p.97). Legitimacy theory refers to *"a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions"* (Suchman, 1995, p. 574), while organisational legitimacy is *"a continuous and often unconscious adaptation process in which the organisation reacts to external expectations"* (Palazzo and Scherer, 2006, p.73). Consequently, a company's ability to manage legitimacy actively is challenging (Suchman, 1995), but it can resist adaptation under specific conditions, such as when it has a supply of spare or slack resources (financial, human or social) (Oliver, 1991).

Legitimacy theory reflects the ongoing relationship between an organisation and its social environment (Dowling and Pfeffer, 1975; Suchman, 1995). Maintaining alignment with societal expectations ensures organisational legitimacy. However, deviations from action in accordance with the social contract are perceived as being detrimental to an organisation's ongoing operations. Risks may arise and create negative economic, legal or even social reactions. Since community expectations are not static, but dynamic in nature, and evolve over time, organisations must remain responsive to the changing environment in which they operate (Dowling and Pfeffer, 1975; Deegan *et al.*, 2002). Sethi (1979, p.65) introduces the term *"legitimacy gap"* to highlight the discrepancies between a company's values and those of the society in which it operates. The legitimacy gap widens when there is insufficient compliance between the company's actions and societal expectations. This widened gap may threaten a company's ability to survive and grow (Lindblom, 1994). Sethi (1979) argues that businesses are an important part of society and for their survival and growth, they must align their objectives with society's expectations and seek society's acceptance. However, it is inevitable that there are times when business actions or changing societal expectations can lead to a wider gap between a corporation and its society. Continuation of this conflict will increase the gap, endanger legitimacy and threaten corporate existence (Sethi, 1975). Therefore, firms must narrow this legitimacy gap.

In the CSR literature, multiple scholars argue that CSR performance can be a strategy used to mitigate legitimacy threats and decrease the legitimacy gap. Legitimacy theory in CSR literature posits that companies seek continuously to ensure that they carry out their business activities in accordance with societal boundaries and norms and are perceived as legitimate by society (Deegan *et al.*, 2002; Chen *et al.*, 2008). Being seen as legitimate is therefore critical, as it improves business-to-business relationships, facilitates more productive staffing and enhances access to resources (Salancik and Pfeffer, 1978; DiMaggio and Powell, 1983; Oliver, 1991; Aldrich and Fiol, 1994; Turban and Greening, 1997; Walker and Wan, 2012). Corporate governance that embraces CSR therefore reflects a company's quest for moral legitimacy, as granted by both external and internal forces in respect of elements of the business that are socially beneficial (Scherer and Palazzo, 2007, 2011; Windolph *et al.*, 2014; Wang and Sarkis, 2017). Indeed, for Wang and Sarkis (2017), "CSR governance" means the voluntary adopted control mechanisms meant to align business activities with social and environmental concerns.

The objective of implementing CSR activities is not the same for all companies; it varies in terms of incentives, motivation and strategy. Companies may adopt different CSR approaches to enhance their legitimacy, which play a crucial role in shaping theirs reputation and stakeholder relationships (Kim *et al.*, 2012; Wang and Sarkis, 2017). At one extreme, there is the serious strategy where companies commit to CSR activities in a way which results in a narrow legitimacy gap. Companies adopting this strategy may incur substantial initial expense and resource requirements, but may have a greater potential to achieve significant CSR results, build legitimacy (Clarkson *et al.*, 2011) and ultimately improve CFP (Seele and Gatti, 2017).

At the other extreme is greenwashing or window-dressing, where CSR activities are adopted to improve corporate image, but lack the necessary resources, tending to widen the legitimacy gap (Seele and Gatti, 2017). 'Green' claims can improve corporate reputation (Baum *et al.*, 2012), increase customers' intention to buy (Spack *et al.*, 2012; Achabou and Dekhili, 2013) and enhance their willingness to pay a premium (Laroche *et al.*, 2001). As corporate financial performance can be improved by improving a company's perceived legitimacy (Deephouse, 1999), there is a powerful motivation for firms to attempt to enhance their legitimacy by using social and environmental messages, even if there is no substance to the claims.

Management researchers have used legitimacy theory widely, particularly in accounting research (Deegan, 2014), applying it as a basis to explain firms' motivations for voluntary disclosure (Chen and Roberts, 2010). Bansal and Clelland (2004) find empirically that environmentally legitimate firms enjoy less unsystematic risk than illegitimate firms. Despite the common use of legitimacy theory in research, there is still a need for further refinement, as it is not fully developed (Deegan, 2002). Another disadvantage of legitimacy theory is that it does not address the methods of delivering societal expectations and gaining benefits. In other words, it is unclear how a company can align its operations with social values and norms effectively.

2.3.4 The Resource-Based View

"By a resource is meant anything which could be thought of as a strength or weakness of a given firm. More formally, a firm's resources at a given time could be defined as those (tangible and intangible) assets which are tied semi permanently to the firm" (Wernerfelt, 1984, p.172). Caves (1980) defines a firm's resource as the tangible and intangible assets or skills, held by a firm, which could last for an extended period. Some examples of resources include brand recognition, expertise in or knowledge of technology, skilled employees, trade contracts, machinery and financial capital (Wernerfelt, 1984). Daft (1983) emphasises that managers need to use corporate resources, whether tangible, such as supplies and people, or intangible, such as knowledge and corporate culture (Russo and Fouts, 1997), effectively in daily operational activities to achieve superior performance and respond to changes in the environment. Barney enhances Daft's definition of resources to include *"all assets, capabilities, organisational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness"* (Barney, 1991, p.101).

According to Barney (1991), resources can be classified into three categories: physical capital (e.g. the company's buildings, equipment, technology and location), human capital (e.g. employees' skills, knowledge and expertise) and organisational capital (e.g. the company's structure, planning and internal and external relationships). These categories provide a framework for understanding different types of resources that contribute to a firm's competitive advantage, in that a firm can develop a competitive advantage only when it is able to implement a value creating strategy that cannot be implemented by any current or potential competitors (Barney, 1991). *"An enterprise has a Competitive Advantage if it is able to create more economic value than the marginal (breakeven) competitor in its product market"* (Peteraf and Barney, 2003, p. 314). Therefore, a competitive advantage can only exist and be sustained if it is difficult for competitors to duplicate and their efforts to do so have ceased. Intense competition within industries often drives firms to adopt strategic activities that can confer a competitive advantage (Kamasak, 2013), improving their profitability relative to competitors (Porter, 1990). The RBV therefore suggests that CSR activities can offer such a strategic advantage by enabling a firm to differentiate its products or services, reduce costs, or develop unique capabilities that are difficult to imitate, enhance the relationship between a firm and its stakeholders and provide valuable intangible resources, such as better employee job satisfaction, innovation, improved reputation, and customer loyalty.

In the literature of the RBV, firm heterogeneity and immobility in resources are necessities, with the argument that resources are often more homogenous than heterogeneous and more mobile than immobile (Barney and Hoskisson, 1990; Barney, 1991). Thus, The RBV emphasises firm heterogeneity, which asserts that differences in resources between firms, including human resources management, play a key role in gaining a sustained competitive advantage. Indeed, instead of assuming that firm resources are homogenous and mobile, Barney (1991) argues that there is at least some degree of heterogeneity and immobility in most industries and firms, and the pursuit for sustained competitive advantage must focus on a firm's unique resources that are heterogeneous and immobile. Barney adds that, in an industry where all firms possess identical resources, it is difficult for a firm to achieve a sustained competitive advantage. However, there is a possibility that sustained competitive advantage can still exist in industries with perfectly homogenous and mobile resources if there are barriers to entry. These barriers prevent new entrants from implementing the same strategies.

According to Barney (1991), for a firm to have a potential sustained competitive advantage its resources must have four attributes. First. Resources must be valuable, *i.e.* they have the potential to help a firm conceive and implement strategies in a way that improves its efficiency and effectiveness. Second, they must be rare, which means those resources are not possessed by a firm's current and potential competitors. Third, they must be imperfectly imitable, meaning that they cannot be easily duplicated by competitors. Fourth, they must be non-substitutable, meaning that no other resource can be strategically equivalent, performing the same function just as effectively, unless it is also rare and difficult to imitate. Therefore, Barney (1991) develops a strategic management theory, "the resource-based view" (RBV) that focuses on profit maximisation and gaining a competitive advantage. It is a theoretical framework used to analyse a firm's resources and capabilities, which are considered key determinants of competitive advantage. This perspective asserts that a company's competitive advantage is derived from resources and capabilities that are valuable, rare, inimitable and non-substitutable. Daft (1983) state that *"from a resource-based perspective, organisational effectiveness is defined as the ability of the organisation, in either absolute or relative terms, to obtain scarce and valued resources and successfully integrate and manage them"*. Therefore, competitive intensity among businesses pushes for the adoption of favoured activities that achieve competitive advantages (Kamasak, 2013) and long term profitability over their rivals (Porter, 1990).

Branco and Rodrigues (2006) use a resource-based view to realise firms' motives to adopt CSR activities. They find that CSR provides internal and external benefits to a firm from a resource-based perspective. The internal benefits of CSR help firms develop new resources, improve corporate culture, decrease operating costs, and increase revenues. In addition, the external benefits of CSR lead to enhancing corporate reputation as an intangible resource. Firm financial success is generated through some type of resource-based mechanism (Godfrey *et al.*, 2009), such as customer loyalty (Brown and Dacin, 1997) and greater attractiveness to employees (Turban and Greening, 1997). Many scholars relate CSR practices to a firm's competitive advantage. For instance, Toms (2002) investigated the relationship between environmental disclosure and environmental reputation and found that this disclosure significantly improves a firm's reputation. Finally, Barney (1986) argues that trust and reputation (as the sources of competitive advantage) need time to accumulate.

According to Hillman and Keim (2001), maintaining a healthy relationship with primary stakeholders can have a significant impact on a firm's success. Effective stakeholder management can result in increased stakeholder engagement and commitment, and the creation of intangible resources such as trust and social capital. These resources can be valuable assets for a firm and may enhance its ability to outperform competitors in the long term. Moreover, prior studies show that these intangible resources may have a positive impact on the relationship between CSR performance and financial performance (Brown and Dacin, 1997; Russo and Fouts, 1997; Toms, 2002; Branco and Rodrigues, 2006; Godfrey *et al.*, 2009; Saeidi *et al.*, 2015).

From the RBV perspective, meeting the various demands of different stakeholder interests and demands is achieved through a strategic approach to CSR implementation. This is achieved by showing commitment and increasing investment beyond the minimum necessary to satisfy stakeholders. The results of enhancing commitment and investment are likely to yield a firm a competitive advantage through developing additional and complementary skills that competitors may struggle to imitate (Russo and Fouts, 1997). Consequently, implementing this enhanced strategy of CSR activities should result in better corporate financial performance (Ruf *et al.*, 2001). As described above, a firm's growth and prosperity depend on its ability to develop and sustain a competitive advantage, particularly through strategic initiatives that are difficult for competitors to imitate (Barney, 1991). Recent evidence suggests that human capital, as a strategic asset, can provide a sustained competitive advantage (Richard, 2000). Studies in human resource management demonstrate that firms do, in fact, differ in the attributes of their employees, suggesting heterogeneity exists in human capital (Gerhart and Feng, 2021).

The human resource-based view (Wright *et al.*, 1994), derived from the RBV, emphasises the importance of human capital resources to understand the key role of strategic human resource management in achieving competitive advantage (Wright *et al.*, 1995). Human resources are defined as *"the pool of human capital under the firm's control in a direct employment relationship"* (Wright *et al.*, 1994, p. 7). They highlight that employees must have competencies in terms of knowledge, skills and abilities, but that the human resource goes beyond this: *"the rationale developed is based on what is needed from employees apart from the specific technical skills, knowledge, and abilities (SKAs) required to perform a specific task"* (Schuler and Jackson, 1987, p.208). On the other hand, strategic human resources are defined as *"the pattern of planned human resource deployments and activities* *intended to enable an organisation to achieve its goals"* (Wright and McMahan, 1992, p. 298). In this definition, they distinguish between human resources and strategic human resources using two features. First, strategic human resource management involves aligning human resource practices with the overall goals of the organisation. Second, horizontally, it focuses on ensuring co-ordination and consistency among different human resource management practices.

According to the RBV, for a resource to be a source of sustained competitive advantage, it must meet specific criteria, namely be valuable, rare, inimitable and non-substitutable (Barney, 1991). Wright *et al.* (1994) discuss how human resources can qualify as such a resource. They indicate that Human resources can be *valuable* because the demand and supply for labour are heterogeneous, as different firms have different jobs, requiring different skills, and as individuals differ in the types and level of their skills. Human resources can be *rare*, in that high-quality human resources are rare. Human resources can be *inimitable* due to a unique history, causal ambiguity and social complexity. Unique history refers to the development of particular cultures and norms over time (Sathe, 1985). Causal ambiguity is a term that describes the uncertainty between causes and effects, such as the relationship between a firm's resources and its competitive advantage, making it difficult for competitors to understand how resources and competitive advantage interact, and, ultimately, difficult to duplicate such a strategy (Reed and DeFillippi, 1990). Social complexity refers to the notion that numerous social phenomena are too complex to be managed or influenced systematically. Human resources also have the potential to be *non-substitutable* since they do not become obsolete and can be transferred across various technologies, products and markets. Cognitive abilities and skills in employees cannot easily be replaced by other resources, such as technology or machinery, which can become outdated or replaced by other competitors. Therefore, human resources can give rise to and be shaped by unique historical conditions, causal ambiguity and social complexity (Wright *et al.*, 1994).

Moreover, socially responsible human resources management (SRHRM), defined as *"corporate social responsibility (CSR) directed at employees, underpins the successful implementation of CSR. While its relationship with employee social behaviour has been conceptualized and received some empirical support, its effect on employee work behaviours has not been explored"* (Shen and Benson, 2016, p. 1). SRHRM plays an integral part in CSR initiatives, as employee engagement is essential for the successful implementation of CSR. Besides, it is considered that organisational CSR activities have a positive influence on employee behaviour (Rupp *et al.*, 2006). Schneider *et al.* (1998) find that firms do indeed vary with respect to the personality traits of their employees.

In sum, a key premise of the RBV of a firm is based on the notion that competitive advantage is achieved through developing resources and capabilities that are unique, difficult to imitate and not easily substitutable (Barney, 1991; Hart, 1995). Such resources and capabilities can be developed through a strategic engagement in CSR activities. The implementation of strategic CSR actions requires consistent and regular or continuous interactions with stakeholders. This highlights the importance of organisational knowledge and the routinisation of CSR activities as a repetitive action process (Romme and Dillen, 1997; Roome and Wijen, 2006). Over time, these routinised activities enable a firm to absorb and accumulate knowledge, leading to the continuity of its socially responsible behaviour (Becker, 2005; Roome and Wijen, 2006), and become relatively consistent and less susceptible to change, even during economic downturns (Roome and Wijen, 2006; Bansal *et al.*, 2015).

Moreover, the RBV, as a management approach, posits that corporate resources and capabilities are the foundation of a firm's competitive advantage. These resources and capabilities must be heterogeneous and immobile to deliver such advantages. (Wright *et al.*, 1994) argue that human resources have the potential to be a heterogeneous and valuable resource, yielding a sustained competitive advantage. Human resource capital, as a crucial corporate resource, has a significant influence on CSR practices, as employees' perceptions of CSR activities can have a positive impact on their performance due to their key role in implementing effective CSR initiatives.

2.3.5 Absorptive Capacity

Absorptive capacity is "the ability of a firm to recognise the value of new, external information, assimilate it, and apply it to commercial ends", *i.e.* it measures the rate at which a firm can grasp and utilise external knowledge, and *"is critical to its innovative capabilities"* (Cohen and Levinthal, 1990, p. 128). Organisational absorptive capacity develops cumulatively and is determined by prior related knowledge and diversity of background, which facilitate the assimilation and absorption of new external information (Cohen and Levinthal, 1990). They add that the cumulative absorptive capacity is path-dependent, which means that once a firm stops accumulating new external knowledge, it may fail to assimilate and utilise further information. Cohen and Levinthal (1989) argue that firms keep investing in research and development (R&D) to introduce new products or services and foster and maintain their ability to assimilate and utilise available external information and profit from this R&D.

Similar to the absorptive capacity theory, Barnett (2007, p.802) introduces the concept of stakeholder influence capacity (SIC), defined as *"the ability of a firm to identify, act on, and profit from opportunities to improve stakeholder relationships through CSR"*. Similar to R&D, SIC is to be accumulated over time, and once there is an adequate stock of SIC, a firm will be able to assimilate and utilise it, ultimately driving profitability (Barnett, 2007; Barnett and Salomon, 2012). Therefore, this perspective positions CSR not merely as a cost but as a strategic, long-term investment that strengthens stakeholder relationships and enhances organisational resilience and performance (Barnett and Salomon, 2012).

2.3.6 Slack Resources

Slack is *"that cushion of actual or potential resources that allows an organisation to adapt successfully to internal pressures for adjustment or external pressures for change"* (Bourgeois III, 1981, p. 30). Organisational slack is *"the difference between total resources and total necessary payments"* (Cyert and March, 1963, p.42). Consequently, evidence shows a positive association between slack resources and CFP (Waddock and Graves, 1997; Daniel *et al.*, 2004). Moreover, a firm's availability of slack resources may influence strategic decisions, particularly discretionary ones, such as philanthropy (Buchholtz et al. 1999). Therefore, scholars argue that slack resource availability and better financial performance facilitate firms' engagement in CSR (McGuire *et al.*, 1988; Waddock and Graves, 1997).

2.3.7 Summary of key points from Theories

Several empirical studies have used multiple theories to build a case for the relationship between CSR and corporate economic outcomes. Most of these studies found desirable impacts such as increased performance, reduced risk, improved access to capital, enhanced organisational resilience, better stakeholder reactions (such as long-term purchasing and loyalty of customers), greater employee commitment and enhanced corporate reputation (Epstein and Roy, 2001). These impacts are supported by well-known theories, particularly the legitimacy, stakeholder, and resource-based theories. Legitimacy theory states that organisations connect to their society through social contracts. A firm's survival and growth are based on its ability to ensure continuous delivery of desirable social ends and to share economic, social and political gains with society. If firms breach their social contracts, their survival will be threatened by society (Deegan, 2002). Therefore, the focus of legitimacy theory is on the interaction between a firm and society.

Stakeholder theory assumes that corporations must satisfy the need of all stakeholders, including both investing stakeholders (shareholders) and non-investing stakeholders: customers, employees, communities, environmentalists and suppliers. Freeman (1984) states that successful stakeholder management increases both CSR and CFP. Also, stakeholder theory suggests that the cost of CSR engagement is likely to be smaller than the cost of financial problems that a firm would face from stakeholders' claims. The weakness of stakeholder theory is the difficulty managers face in satisfying successfully the demands of all stakeholders at the same time, because the theory has ignored stakeholder heterogeneity (Harrison and Freeman, 1999). In addition, the attributes – power, legitimacy and urgency – that some stakeholders have can influence management decisions (Mitchell et al., 1997), leading to only the demands of those stakeholders with these attributes being met.

The resource-based view (RBV) stems from the benefits of satisfying the demands of stakeholders. Berrone *et al.* (2007) claim that satisfying stakeholders' demands has several benefits, including improving a company's reputation, enhancing its competitive advantage and increasing its performance. These benefits are seen as intangible resources. The RBV proposes that a firm should acquire, establish or develop additional resources that are hard to imitate, leading to gaining a competitive advantage over its rivals. This impact is expected to increase financial performance (Branco and Rodrigues, 2006) and enhance organisational resilience (Williams *et al.*, 2017). Finally, Barnett and Salomon (2012) argue that CSR is regarded as a long-term investment to enable a firm to generate profits. This argument is built on the absorptive capacity theory, which stresses the importance of consistent performance. Similarly, Tang *et al.* (2012) study the issue of CSR engagement strategies and find that consistent CSR performance over time matters and pays off.

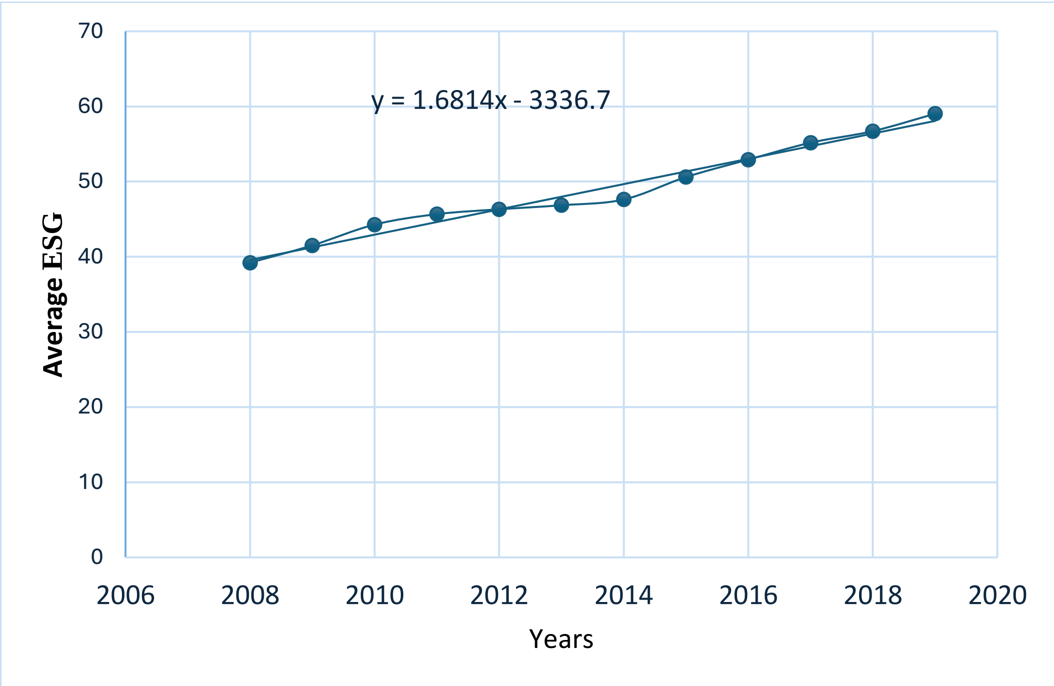
In contrast, Friedman (1970) argues that engaging in CSR activities leads to additional costs, which reduces the profits available for distribution to shareholders, suggesting a negative correlation between CSR and financial performance. Additionally, Friedman posits that, since executives are employees, they are accountable to their employers, *i.e.* stockholders, and must, therefore, act in their interest. Finally, he contends that the primary goal of businesses is to maximise shareholder wealth. Shareholders consider CSR activities unnecessary, and shareholders should not bear their cost (Friedman, 1970; Preston and O'bannon, 1997). Similarly, some scholars claim that CSR is simply an indication of agency problems (Bénabou and Tirole, 2010; Cheng *et al.*, 2013). According to this agency view (see Jensen, 1986), managers take advantage of CSR engagement for their self-interest. Krüger (2015) argues that when managers' opportunism drives CSR engagement, it may deplete corporate resources and be detrimental to shareholder wealth.

"Stakeholder contract costs theory", labelled by Schuler and Cording (2006), highlights that the benefits of good CSR outweigh the costs, since socially responsible firms are able to build trust with stakeholders and, ultimately, reduce relational costs (Jones, 1995; Schuler and Cording, 2006). Waddock and Graves (1997) question the direction of causality using two concepts: slack resources and good management. Slack resources refer to the abundance of financial resources that are available for a firm to spend on CSR initiatives. The good management concept suggests that managerial skills are necessary for good social performance. They find that both slack resources and good management support the positive relationship between CSR and CFP.

2.4 Corporate Motivation for CSR Engagement

CSR requires significant resources, so it is essential to understand what motivates firms to invest the resources required (Jha and Cox, 2015). The "stakeholder maximisation view" holds that the potential rewards from better relationships with stakeholders motivate CSR, suggesting that CSR is strategic (Deng *et al.*, 2013). Various studies lend credence to this perspective, finding reduced equity and debt costs (El Ghoul *et al.*, 2011; Goss and Roberts, 2011), easier access to credit and political contacts (Cheng *et al.*, 2014) and reduced stock market volatility (Kim *et al.*, 2014). Alternatively, the "shareholder expense view" holds that CSR is used by managers more for their own benefit, at shareholders' expense (Pagano and Volpin, 2005; Surroca and Tribó, 2008; Cronqvist *et al.*, 2009), giving at best mixed results in terms of financial performance (Margolis *et al.*, 2009). There are studies which show a positive impact on financial performance from CSR (Deng *et al.*, 2013; Erhemjamts *et al.*, 2013; Wu and Shen, 2013), but others do not (McWilliams and Siegel, 2001; Di Giuli and Kostovetsky, 2014).

Figure 2. Sample ESG Average by year



In Figure 2, the ESG scores of the whole sample aggregated by year show a distinct upward trend in ESG performance among companies, which may indicate that CSR has been a trending topic in recent years. There are multiple reasons for the increased interest in implementing CSR initiatives, including internal motives (e.g. improving human resources) or external pressure, such as from governments or the media.

One of the early economic findings on the determinants of engagement in CSR activities is the availability of resources – slack resources theory (Ullmann, 1985; Mcguire *et al.*, 1988), in which strong financial performance leads to better CSR activities. Bansal and Roth (2000) investigate the underlying motivations behind going green and identify three motives: competitive pressure, the desire for legitimacy and ecological responsibility. Ecological responsibility refers to a firm's practices that aim to minimise the impact of corporate operations on the natural environment. Legitimacy can be achieved by imitating successful competitors, *i.e.* meeting the standard, rather than surpassing it, in order to avoid negative impacts.

Moreover, firms may engage in CSR activities for multiple reasons: (1) altruistic intentions, presenting a firm as a good citizen, (2) window dressing to minimise stakeholders' criticism, (3) improving human resources, recruiting, motivating and retaining talented employees, (4) maintaining customer loyalty, (5) reducing production costs by focusing on environmental concerns, and (6) as a risk management tool (Sprinkle and Maines, 2010). Aguilera *et al.* (2007) develop a framework that incorporates theories from various disciplines, such as psychology, sociology, legal studies, ethics and international business, to explain why businesses are increasingly adopting CSR activities. They find three main motivations: instrumental, relational and moral. According to the instrumental motive, participating in CSR initiatives is done for financial gain to maximise shareholder value. The relational motive is for establishing and maintaining legitimacy—a licence to operate, and the moral motive is to promote the well-being of others. Similarly, Lawrence and Weber (2013) indicate that firms foster relationships with stakeholders to improve their reputation, earn a licence to operate and get society's approval.

Greenwashing, as mentioned before, is a controversial topic that puts doubt on the real motive for engaging in CSR activities. Greenwashing is defined as a misleading claim, communicating falsehoods or omitting important information to cover bad practices and create perceptions of socially responsible organisations. Greenwashing is the situation where a company has poor CSR performance, but favourable communications about that performance (Delmas and Burbano, 2011). Firms which greenwash are either irresponsible or inconsistent in their CSR engagement (Siano *et al.*, 2017). Finally, Preston and O'bannon (1997) propose "the managerial opportunism hypothesis" to explain managerial incentives to engage in CSR practices. For example, managers may engage in CSR when a firm is going through weakened financial performance in order to pursue managerial objectives such as compensation. Also, managers may reduce spending on CSR, especially when a firm is doing well financially, attempting to "cash in" for private benefit.

2.5 CSR Longevity

The relationship between CSR and firm performance is not straightforward, and Vogel (2005) points out that CSR is just one aspect of corporate strategy, rather than a necessity. Many scholars attempt to understand what mediates this relationship (Galbreath and Shum, 2012). *"The positive effect of CSR on firm performance is due to the positive effect CSR has on competitive advantage, reputation, and customer satisfaction"* (Saeidi *et al.*, 2015, p.341). Porter (1980) argued that a successful competitive strategy should consider the *"social and economic forces"* in a firm's economic environment. Porter and Kramer (2011, p.6) present the concept of "shared value", or *"policies and* *operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates"*.

Drawing upon the RBV, Hart (1995) analyses the relationship between a firm and its social responsibility, particularly the environment, and finds that it provides a source of competitive advantage. Similarly, Russo and Fouts (1997) study the relationship between environmental performance and economic performance and find CSR (as environmental performance) can be a source of competitive advantage leading to high firm performance. Saeidi *et al.* (2015) use customer satisfaction, reputation and competitive advantage as mediators to investigate their roles in explaining how CSR increases CFP. Their findings suggest that increasing customer satisfaction improves a firm's reputation and competitive advantage. The positive relationship between CSR and CFP is a consequence of the positive effect of CSR on competitive advantage, reputation and customer satisfaction.

Weigelt and Camerer (1988, p.443) stated that "a corporate reputation is a set of attributes ascribed to a firm, inferred from the firm's past actions". The authors emphasised the strategic importance of reputation that generates future payoffs. Milgrom and Roberts (1982) suggested that a firm's improved reputation may deter new entrants. They showed that firms cannot cut prices in the long term to prevent potential entrants to their industry, but can establish a reputation that will do the job. Fombrun and Shanley (1990) found that a firm's reputation is built through information from the firm and the media. Worcester (2009) finds that corporate responsibility influences people's perception of corporate image, as a factor in a firm's reputation, which leads to its success or failure. Philanthropic donations,[1] as a discretionary aspect of CSR, lead to positive impressions of the firm among stakeholders and improve its reputation to some extent (Brammer and Millington, 2005), although such actions are often quickly forgotten once media attention moves on (Bansal *et al.*, 2015), and it takes years for a firm to develop fully and receive the benefits of integrated CSR activities (Haugh and Talwar, 2010).

It should be noted that *"a corporate reputation is a stakeholder's overall evaluation of a company over time"* (Gotsi and Wilson, 2001, p.29). Achieving a competitive reputation results from building productive relationships with stakeholders (McWilliams and Siegel, 2000) and, to maintain it, a firm must keep and reinforce this outstanding relationship with its stakeholders (Harrison *et al.*, 2010). This view is supported empirically by Barnett and Salomon (2012), who build their investigation on the stakeholder influence capacity (SIC) theory. Their results suggest that CSR should be viewed as a long-term investment by firms. The authors state, "it may not pay to be good now; it may pay to be

[1] Philanthropy refers to "an unconditional transfer of cash or other assets to an entity or a settlement or cancellation of its liabilities in a voluntary nonreciprocal transfer by another entity acting other than as an owner" (Financial Accounting Standards Board (FASB), 1993: 2, cited in Godfrey, 2005).

good later once adequate capacity is built". Prior studies have reported that firms investing in a long-term orientation towards stakeholder relationships would gain intangible assets, such as enhancing reputation, legitimacy and promoting stakeholders' trust, anticipating shocks and changes, and motivating and retaining employees (Orlitzky, 2001; Harrison *et al.*, 2010; Chen and Miller, 2011; Flammer and Bansal, 2017).

Previous studies have reported that CSR investment incurs costs (Bezerra et al., 2024; Khamisu et al., 2024), with payoffs usually accruing in the long run (Burke and Logsdon, 1996; Wang and Bansal, 2012). Branco and Rodrigues (2006) point out that while CSR activities are costly and may reduce a firm's short-term profitability, their benefits are expected to accumulate in the long term. This is because it takes time for a firm to build a positive reputation through its actions (Nguyen and LeBlanc, 2001). Similarly, a firm's reputation takes time to evolve as it requires consistent performance (Gray and Balmer, 1998).

Ruf *et al.* (2001) observe that the positive relationship between CSR and CFP is stronger in the long term because the improvement of a firm's social responsibility requires expenditure. However, Mcwilliams and Siegel (2001) show that profit can be achieved for shareholders at some level of CSR while keeping other stakeholders satisfied. Barnett and Salomon (2012) detect a U-shaped relationship between CSR and CFP, observing that firms with low CSR have higher CFP than firms with moderate CSR, but, most importantly, firms with the highest CSR have the highest CFP. Vanhamme and Grobben (2009) show that a firm's long-term, rather than short-term, engagement in CSR reduces consumers' suspicions about its real motive and offers an effective instrument to counter any negative impact. In addition, they find that long-term commitment to CSR activities works as a buffer against negative publicity. CSR is a long-term process requiring years to develop fully and yield financial benefits (Haugh and Talwar, 2010).

As empirical evidence of CSR longevity, Porter and Miles (2013) find that consistent engagement with CSR activities in the long term is accompanied by lower executive compensation and higher taxes as a percentage of revenue, indicating that CSR longevity is associated with superior financial performance. Additional evidence for this view is supported by Bansal *et al.* (2015), who examine the fate of short- and long-term CSR activities during recessions. The authors examine the impact of the 2008 global recession on both strategic and tactical CSR activities. Tactical CSR activities include those that need little time and resources, such as donations. In contrast, strategic CSR activities are those that require considerable time and resource commitments as well as having impact on organisational structures, such as those related to corporate governance, suppliers' labour rights and safety, diversity and product quality. Tactical CSR initiatives are curtailed considerably more often than strategic ones in a recession, but firms with strategic CSR activities are more likely to retain them and even increase them occasionally, so that strategic CSR activities will survive during a recession as they are routinised (Bansal *et al.*, 2015).

Furthermore, although financial performance can enhance resistance during a recession, it may be stronger where CSR is strategic rather than tactical. In other words, during a recession, firms with stronger financial performance are more likely to cut their tactical CSR activities than their strategic CSR, because strategic CSR requires continuous engagement with stakeholders and is often routinised into operational procedures and decision-making processes within a business plan (Roome and Wijen, 2006; Bansal *et al.*, 2015). These organisational routines promote coordination and are built through accumulated knowledge and shared individual expectations, ensuring consistency in organisational patterns and behaviour (Becker, 2005). There are three levels to the organisational routines concept according to Becker (2005, p. 838): *"(I) behavioural regularities; (ii) rules, standard operating procedures; and (iii) dispositions"*. Accordingly, strategic CSR activities, as routinised behaviour, are not expected to fluctuate greatly even during a recession and are not easily withdrawn (Bansal *et al.*, 2015).

In sum, Freeman's stakeholder theory (1984) states that satisfying different stakeholders' expectations and interests in a strategic approach increases firm value and performance. Friedman (1970), on the other hand, argued that engaging in CSR activities incurs costs, depletes financial assets and intensifies agency problems. Another factor causing mixed results in studies of the relationship between CSR activities and business outcomes is that CSR activities require time to develop fully and then generate a profit, as most previous studies focus only on the short term (Haugh and Talwar, 2010; Porter and Miles, 2013). CSR longevity is "consistent engagement with CSR over an extended timeframe" (Porter and Miles, 2013). In addition, long-term CSR activities can be used to examine internal indicators of CSR (Porter and Miles, 2013, p.33) and understand managerial decisions (corporate governance) (Jo and Harjoto, 2011). Therefore, CSR longevity can overcome the negative effect of the agency problem, minimise the impact of measurement approach issues and, most importantly, have a long-term commitment for CSR activities to develop fully and pay off (Porter and Miles, 2013). Indeed, several scholars find that long-term commitment to CSR activities generates intangible resources that require time to accumulate, such as reputation, anticipation of shocks and changes, stakeholder trust, better employee skills and loyal customers, which in turn enhance business outcomes (e.g. Orlitzky and Benjamin, 2001; Harrison *et al.*, 2010; Barnett and Salomon, 2012; Porter and Miles, 2013; Flammer and Bansal, 2017).

2.6 Strategic CSR

While early studies focused only on investigating the impact of the overall level of CSR on CFP, some recent studies are exploring the factors or strategies that lead to a significant positive relationship between CSR and CFP. One important finding is that businesses should pursue CSR strategically (Kramer and Pfitzer, 2016). just like any other business strategy, a successful CSR strategy involves making choices—particularly about which social aspects to focus on (Porter and Kramer, 2006). In this vein, Serafeim (2020) argues that investors are no longer only interested in whether a company has “good intentions” when it comes to CSR activities, but are also looking for companies that show strategic vision and the ability to demonstrate and sustain strong CSR performance over time. However, strong CSR performance is not always rewarded by strong CFP, and it may hurt the company. On the other hand, following a strategic vision and focusing either on the overall CSR performance, or even certain CSR dimensions, leads to financial benefits (Du *et al.*, 2010; Serafeim, 2020). For example, a company that focuses on CSR activities that are relevant to its customers may be able to improve customer loyalty and retention, which can lead to increased sales and profits. Overall, the evidence suggests that commitment to CSR performance can have a positive impact on CFP.

According to Oxford University Press, strategy is defined as “a plan of action designed to achieve a long-term or overall aim”. Strategic CSR is defined *“as corporate social activities that require long time horizons, large resource commitments, and significant adjustments to organisational structures”* (Bansal *et al.*, 2015, p.70). Thus, a company engaged in strategic CSR integrates CSR initiatives into its core business strategy and decision-making. Strategic CSR aims to achieve long-term success and foster reciprocal value creation for both the company and society. Therefore, CSR is often considered a long-term investment strategy that may not generate immediate financial return immediately (Branco and Rodrigues, 2006; Husted and De Jesus Salazar, 2006; Tang *et al.*, 2012). On the other hand, non-strategic CSR, or traditional CSR, is seen as a short-term tactic, such philanthropy, which is aimed at generating general goodwill (De Roeck and Farooq, 2018). Traditional CSR is often too narrow and passive and may serve merely as a façade to cover up harmful practices, so that it can be perceived as a cost to the company rather than an investment. Furthermore, traditional CSR lacks a strategic approach and may be implemented by leaders motivated by short-termism (Husted and Allen, 2007).

Sekhar Bhattacharyya (2010) distinguishes between traditional CSR initiatives and strategic CSR by suggesting four “screens”. The first screen is the “Intent Screen”, which distinguishes between reactive, unplanned CSR initiatives and proactive, planned ones. Therefore, for a CSR activity to be truly strategic, it must be proactive and anticipative, considering the dynamic socio-economic and political contexts. Only such initiatives pass the “Intent Screen” and qualify as strategic CSR initiatives. The second screen is the “Focus screen”, which evaluates whether a company’s activities help achieve its overall mission and vision constructively. Activities that do not support this objective are not considered CSR initiatives central to the company. “Centrality” indicates how strategically important a CSR activity is to the company. The third screen is the "Commitment Screen". For a CSR initiative to be considered strategic, it must have a long-term perspective and require a significant allocation of resources. The fourth and last screen is the “Activity Screen”, crucial in the evaluation process. As noted by Porter and Kramer (2006), this screen focuses on CSR activities that contribute to both the internal and external contexts of the firm’s operations. Finally, CSR activities must pass through all four screens to be strategic CSR activities. If they fail to pass even one screen, they are not considered strategic CSR activities.

In addition, Vishwanathan *et al.* (2020) identify four mechanisms to distinguish between strategic CSR initiatives from non-strategic ones. By reviewing five decades of empirical research on the link between CSR and corporate financial performance, they identify four key mechanisms through which CSR activities can be causally relevant attributes of strategic CSR and influence CFP. First, CSR enhances firm reputation, attracting employees and their willingness to be associated with the firm, increasing customer satisfaction which also increases their purchasing intentions, and signalling profitability to investors. Second, CSR fosters stakeholder reciprocation, employees through better work conditions, financial suppliers through trust and improved terms, communities through support, and governments through abiding by regulatory. Third, CSR mitigates firm risk, this is through addressing stakeholder concerns and building strong relationships, reducing legal, financial, and reputational risks while preserving value. Finally, CSR strengthens innovation capacity by leveraging stakeholder collaboration and internal learning to identify opportunities, differentiate products, cut costs, and create new business models. All of these position CSR as a strategic driver of long-term business success.

Building on instrumental stakeholder theory, which aims to align stakeholder interests with business objectives, Jones (1995) emphasises the strategic approach to managing relationships between companies and their stakeholders, using the concept of contracts as a metaphor. These contracts vary in formality and specificity, as well as the frequency of interactions, from ongoing partnerships to one-off transactions. Contracts range from informal and vague (e.g. community relations), through formal and specific (e.g. bondholders’ agreements), to ongoing relationships, such as those between a firm’s top managers and employees. Jones states that contracts that represent repeated or on-going transactions are also formal and are constantly evolving over time. These contracts are either upheld or violated, reaffirmed or reinterpreted. Jones (1995) highlights the importance of strategic CSR implementation. He explores the nature of contracting, the principles of efficient contracting and the significance of ethics in achieving efficient contracts. Jones advances stakeholder theory by integrating it with the economic concepts of agency theory, transaction cost economics and team production theory, all of which are susceptible to opportunism. He argues that the nature of the contracts discussed can be understood better through these economic concepts.

Agency theory deals with the conflicts of interest that arise between the principals (employers) and management (agents), who may have contradicting goals (Jensen and Meckling, 1976). Transaction cost economics focuses on the costs of negotiating, monitoring and enforcing contracts between parties. Team production is *"a method of metering the marginal productivity of individual inputs to the team's output"* (Alchian and Demsetz, 1972, p. 782). Team production problems occur because it is difficult to measure each team member's contribution accurately compared to the overall team output (Alchian and Demsetz, 1972). Jones (1995) concludes that efficient contracting, involving repeated or on-going transactions that are built on trust and co-operation, can reduce the problems of opportunism associated with these economic concepts. Thus, Jones concludes that firms with efficient contracting gain a competitive advantage.

Moreover, the RBV suggests that companies can gain a competitive advantage by possessing unique resources (Branco and Rodrigues, 2006; McWilliams and Siegel, 2011). Studies have shown that CSR activities can improve a firm's reputation and build trust with stakeholders. However, a competitive advantage can only be achieved when CSR activities add value to a firm and differentiate it from its competitors (Branco and Rodrigues, 2006). Therefore, companies should focus on CSR activities that have the most positive financial impact on their operations (Serafeim, 2020). For instance, Crook *et al.* (2011) find that companies with superior human capital tend to have better financial performance. However, they also find that achieving superior human capital is costly and takes time to yield benefits.

Based on this premise, many studies have generally argued that implementing CSR activities can improve a firm's reputation and build trust with stakeholders, but if competitive advantage can only be achieved when a socially responsible firm is able to differentiate itself from its competitors, then companies should not "follow the crowd" regarding CSR activities. Instead, they should focus on CSR activities, or even one or more dimensions, that have the most positive financial impact on their operations (Serafeim, 2020). For example, Lewis (2003) states that employees are the most powerful influencers of a company's image. They do this by speaking highly of the company, which is often the result of the company being perceived as highly committed to CSR initiatives. However, to ensure the effectiveness of a long-term commitment to strategic CSR activities, it is crucial to have the support of senior management, including being more responsible towards current salient stakeholders (Polonsky and Jevons, 2009).

2.7 Workforce Engagement and CSR

Much of the work on CSR has focused on the relationship between CSR and CFP, but the results remained contradictory and ambiguous (Griffin and Mahon, 1997). In response, recent studies have explored specific factors or underlying mechanisms that moderate or mediate this relationship (Saeidi *et al.*, 2015; Kim *et al.*, 2023). For instance, existing research often uses an aggregate measure of CSR performance, neglecting the impact of internal stakeholders, such as employees (Zhao *et al.*, 2022; Kim *et al.*, 2023). Therefore, a key limitation of previous studies is the failure to recognize the crucial role employees play in shaping CSR efforts.

Yet, CSR can be defined as "*the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"* (World Business Council for Sustainable Development, 2000). This definition emphasises the critical obligation a business has to consider the interests of its various stakeholders, such as shareholders, employees, customers, local communities and environmentalists, when conducting business operations and decision-making (Rowley and Berman, 2000). However, different stakeholders have different levels of importance in CSR and CFP. In addition to the four categories of CSR defined by Carroll's Pyramid (Figure 1: Carroll, 1979), there is the internal versus external dimension of CSR (Rupp and Mallory, 2015). Internal CSR involves a company's initiatives and policies that benefit its employees, whereas external CSR initiatives are those activities and policies that target customers, suppliers, communities, government and the environment (Rupp and Mallory, 2015; Kim *et al.*, 2023).

Previous studies have predominantly focused on the macro- and institutional levels to define CSR (Lee, 2008; Wood, 2010) and some empirical studies focus on either overall CSR performance (e.g. Brammer and Millington, 2008) or external CSR performance, mainly in relation to customers (e.g. Sen and Bhattacharya, 2001), to explore the link between CSR performance and CFP. However, other studies have been concerned with defining the impact of CSR and identify the factors that may have the potential to influence it. Thus, Aguinis and Glavas (2012) propose that a more comprehensive understanding of CSR should incorporate employee-level analysis. One of the key factors is the role of employees' perceptions and reactions to CSR, which helps employees to find a sense of purpose in their work and encourages them to exhibit more cooperative behaviour (Shin *et al.*, 2016).

Therefore, the critical role of internal CSR, particularly related to employees, remains relatively unexplored. While it is important to satisfy all stakeholders, it is essential to explore this critical role of internal stakeholders, particularly employees, in corporate success (Aguinis and Glavas, 2012; Rupp and Mallory, 2015; Kim *et al.*, 2023). Employee satisfaction therefore has an important mediating role in CSR performance (Zhao *et al.*, 2022; Kim *et al.*, 2023). *"The key element of an* *organisation is not a building or a set of policies and procedures; organisations are made up of people and their relationships with one another. An organisation exists when people interact with one another to perform essential functions that help attain goals. Recent trends in management recognise the importance of human resources, with most new approaches designed to empower employees with greater opportunities to learn and contribute as they work together toward common goals"* (Daft, 1983, p. 114).

The accumulated actions of an informed and empowered workforce can contribute significantly to strategy development. Since employees interact directly with customers, suppliers and new technologies, they can be of great help in identifying needs and solutions, and play an important role in the company's strategy formation (Daft, 1983). Moreover, Mirvis (2012) suggests that it is important for companies to consider the role of employee engagement in serving the interests of society. Glavas (2016) argues that there is a growing awareness that increased employee engagement at work is due to better CSR performance. Glavas examines the relationship between employee perceptions of CSR performance and employee engagement and finds a positive and significant link between them. Only when CSR is implemented strategically does it have a more positive impact on employees (Glavas, 2016).

Similarly, Caligiuri *et al.* (2013) find a positive relationship between CSR and employee engagement; CSR activities that lead to increased employee engagement and are aligned with a strategic corporate objective provide benefits to the firm, staff and society. Similarly, Grant *et al.* (2008) find that employee support programmes increase employee loyalty and commitment, as they send a signal to employees to feel good about themselves and their companies. This, in turn, secures employees cooperation and support for other external stakeholders, aligning with company CSR actions and increased corporate identification. Glavas (2016) finds that employee perceptions of CSR have a positive effect and increase employee engagement significantly, as employees experience better alignment with company values, finding deeper meaning, value and purpose in their engagement. Indeed, the emphasis put on CSR by managers has been found to be perceived by employees as visionary leadership, inspiring them to work harder and improve CFP (De Luque *et al.*, 2008).

Integrating CSR into day-to-day activities can improve productivity and enhance employees' understanding of stakeholders (Gond *et al.*, 2011), but, even though employees are a key stakeholder group, the interaction of human resources and stakeholder management has been little studied (Gond *et al.*, 2011). Four areas where human resources management interacts with employees in a CSR context are however evident. First, managers can show responsible leadership and act as coaches and "change agents" (Gond *et al.*, 2011). Second, employees are a key part of the creation of social capital in the context of responsible management practices (Maak, 2007; Muthuri *et al.*, 2009). Third, engagement on the part of staff can encourage managers in the pursuit of CSR (Aguilera *et al.*, 2007; Gond *et al.*, 2011). Fourth, firms that employ relational marketing practices have more CSR activities than those whose approach is transactional, and the link is probably through the relational approach of staff and managers (Lindgreen *et al.*, 2009; Gond *et al.*, 2011).

In addition, an important aspect of job design, that may improve employee motivation and productivity, is task significance, which is defined as *"the degree to which the job has a substantial impact on the lives or work of other people—whether in the immediate organisation or in the external environment"* (Hackman and Oldham, 1975, p. 161). Individuals in jobs that have a positive and significant impact on the well-being of others, whether physically or psychologically, are likely to find greater meaning in their work and, in turn, work better (Hackman and Oldham, 1975; Morgeson and Humphrey, 2006). Ong *et al.* (2018) propose a framework for CSR sensitivity, explaining how task significance can make staff more sensitive to a firm's CSR activities, increasing their own discretionary socially responsible behaviour. Furthermore, employees whose jobs allow them to make a difference in people's lives take greater interest in their firm's CSR, so that the presence of high task significance in firms actively involved in CSR can generate positive feedback loops in terms of staff social motivation and behaviour, as well as benefiting recipients of CSR activities (Ong *et al.*, 2018). Given that employees are directly involved in planning, participating, witnessing and implementing CSR strategies as well as translating CSR practices into specific corporate outcomes, it is not surprising that there is a significant, positive relationship between perceptions of CSR and engagement on the part of employees, with authenticity playing a mediating role (Glavas, 2016). It is crucial therefore to examine employees' overall mediating role when exploring the impact of CSR on corporate financial performance (Harrison *et al.*, 2006; Aguinis and Glavas, 2012; Rupp and Mallory, 2015).

In sum, different stakeholders have differing levels of importance to CSR and CFP. In addition to those dimensions defined in Carrol's Pyramid (Figure 1), there is the key distinction between internal and external stakeholders, where the former have greater influence than the latter. A key internal stakeholder group is staff, but the critical role of internal CSR, particularly in relation to employees, remains relatively unexplored. While it is important to satisfy all stakeholders, it is essential to explore this critical role of internal stakeholders, particularly employees, in corporate success and to examine the mediating role of employee satisfaction in the relationship between CSR performance and corporate financial performance.

2.8 Stability of CSR Performance—CSR consistency

The consistency of a firm's involvement in CSR initiatives can influence the relationship between CSR and corporate financial performance (Tang *et al.*, 2012). Consistent engagement in CSR efforts suggests that a firm follows a systematic and regular approach in implementing CSR initiatives (Vermeulen and Barkema, 2002). In this perspective, Argyris and Schon (1974) explore inconsistencies between organisational words and deeds. Simons (2002, p.2) argues that *“the perceived pattern of managers' word deed alignment or misalignment- with regard to a variety of issues-is it- self an important organisational phenomenon because it is a critical antecedent to trust and credibility”.* Thus, Simons (2002) introduces the concept of “behavioural integrity”, referring to the perceived congruence between a manager’s promises and actions, highlighting the discrepancy between stating values and fulfilling commitments. This congruence, or lack of congruence, significantly impacts trust and organisational credibility as well as breaching psychological contracts. *"The term psychological contract refers to an individual's beliefs regarding the terms and conditions of a reciprocal exchange agreement between that person and another party"* (Rousseau, 1993, p.19).

In response to the growing level of awareness among stakeholders regarding social and environmental issues, Wagner *et al.* (2009) introduce the concept of “corporate hypocrisy”, discussing the divergence between a firm’s CSR claims and its social actions, which may determine stakeholders’ belief in a firm’s CSR initiatives. This is in line with previous studies which have shown that this divergence or these inconsistent CSR practices can erode stakeholder trust, leading to negative consequences (Lyon and Montgomery, 2013; Skarmeas and Leonidou, 2013). In addition, employees respond negatively to “corporate hypocrisy”, perceiving it as a breach of their psychological contract with a company, and this often leads to reduced job performance and less cooperation with the organisation in its efforts towards external stakeholders (Korschun, 2015). Therefore, aligning CSR practices with organisational values is vital for maintaining legitimacy, enhancing trust among stakeholders and improving the firm’s reputation. In contrast, inconsistent CSR practices may pose a significant threat on firm reputation, damage stakeholder trust, and weaken the impact of CSR performance on organisational performance (Coombs and Holladay, 2010).

Building on the importance of consistency in CSR practices for maintaining stakeholder trust and organisational legitimacy, the concept of stability becomes crucial in evaluating overall performance. The stability of performance, often defined by consistency, reflects an organisation’s ability to sustain quality and reliability over time. According to the Oxford online dictionary, consistency is defined as *“the quality of achieving a level of performance which does not vary greatly in quality over time”.* Olubiyi *et al.* (2019) explore stability through employees’ job satisfaction, while Gu *et al.* (2022, p. 229) describe it as the firm’s ability to consistently maintain stable relationships with major suppliers or customers over time. Similarly, Bansal *et al.*, (2015) and DesJardine *et al.*, (2019) find that strategic CSR activities that require substantial resources and structural amendments often resist economic downturns, suggesting that strategic CSR activities can remain relatively stable over time.

Firms differ in their CSR performance in terms of consistency. Variability in CSR performance over time can be attributed to multiple causes and, as pointed out by McGuire *et al.* (2003), the CSR field is highly dynamic and *"the market for social responsibility is dynamic"* (Vogel, 2007, p. 44). Vogel stresses that it is arduous for a socially responsible firm to maintain sustainability when facing financial distress. *"The external environment of business is dynamic and ever-changing. Businesses and their stakeholders do not interact in a vacuum. On the contrary, most companies operate in a swirl of social, ethical, global, political, ecological, and technological change that produces both opportunities and threats"* (Lawrence and Weber, 2013, p. 20).

The concept of CSR is "a dynamic construct," in constant evolution and no precise definition exists (De Bakker *et al.*, 2005; Orlitzky *et al.*, 2011; Tetrault Sirsly and Lvina, 2019). Likewise, CSR topics change over time due to changes in scientific evidence, societal values and stakeholder demands and expectations (Porter and Miles, 2013; Zeisel, 2020). As Vogel (2007, p. xxi) states, *"CSR is very much a moving target. It is now much different than it was five or ten years ago, and it will continue to evolve"*. There have been changes in research approaches as well, with growing interest in empirical rather than theoretical studies, which has in turn been influenced by businesses' social and environmental objectives (Lockett *et al.,* 2006). The increased interest in CSR has also attracted the attention of numerous institutions which endeavour to regulate the practices and behaviour of socially responsible entities. These institutions include non-profit, non-governmental organisations (NGOs), social research firms and, most importantly, ESG rating agencies, each of which has its own rating criteria and standards based on its interpretation of CSR (Waddock, 2008; Porter and Miles, 2013).

Furthermore, the concept of stakeholders and stakeholder theory, management and models have been used over time in various approaches, based on contradictory evidence and arguments, and conflicts arise due to the plurality and diversity of stakeholders with incompatible goals (Donaldson and Preston, 1995; Smith and Lewis, 2011). Managerial discretion and decision-making are crucial in setting corporate social performance objectives (Donaldson and Preston, 1995), so that firms are subject to the conflicting demands of different stakeholder groups. Some demands can be more intense when a particular stakeholder group is influential and has access to key resources, such as institutional investors (Pache and Santos, 2010).

It is the role of managers to administer the operation of contracts between staff, owners, customers, suppliers and the wider community, each of which can have specific influences that affect other stakeholders, so that safeguards or conflict resolution methods are crucial (Freeman and Evan, 1990, p. 352). Accordingly, managers need tools to achieve satisfactory outcomes for all stakeholders.

Previous research has focused on how stakeholders, once mobilised*,* influence a firm (Frooman, 1997; Rowley and Moldoveanu, 2003). In particular, secondary stakeholders are more likely to coordinate and join forces with other stakeholder groups with shared interests to gain power and influence a firm. Also, stakeholders are more sensitive to negative activities than to positive ones, which means that the impact of poor CSR is greater than that of good CSR (Oikonomou *et al.*, 2012; Jayachandran *et al.*, 2013).

Therefore, the variation in CSR performance over time may be the result of differing stakeholder management approaches. For example, Godfrey *et al.* (2009) find that engaging in institutional CSR activities targeting secondary stakeholders, who lack the power to demand what they want, yields an insurance-like benefit, which does not occur with technical activities that target primary stakeholders, who can influence the firm and press for their demands. The reason is that CSR activities directed at primary stakeholders may generate only "exchange capital" and be perceived as self-serving, whereas CSR activities aimed at secondary stakeholders are seen as "moral capital", enhancing the firm's credibility as an ethical organisation across all stakeholder groups (Godfrey *et al.*, 2009). Therefore, primary stakeholders, with their power and urgency, are more likely to shape management decisions regarding CSR activities, as primary stakeholders are more likely to exert their influence on management decisions about CSR activities. In this respect, Marais *et al.* (2020) identify two competing factors causing a firm's CSR activities to vary over time: internal injunction (a firm's identity orientation, reflecting CEO and shareholder pressure) and external injunction (stakeholder demands). The authors use Danone, a French food-processing company, as a case study to illustrate that CSR activities vary over time because of the dynamics of stakeholder management, which require a multi-phase strategy to mitigate short-term conflicts in order to implement CSR in the long term.

One internal factor that may cause instability in CSR performance is the role of leadership in shaping a firm's attitude towards CSR activities (Sajko *et al.*, 2021). CEOs have the power to control decisions about CSR activities and the intensity of CSR engagement, and their involvement shapes CSR activities directly (Waldman *et al.*, 2006). Various motives for leaders to engage in CSR activities have been identified. The promotion of CSR activities may be self-serving (Friedman, 1970) and agency theory illustrates the effect of monetary incentives on CEOs' focus on stakeholders' demands (McGuire *et al.*, 2003; Deckop *et al.*, 2006). This insight is supported empirically. McGuire *et al.* (2003) find that monetary incentives, such as high salaries and long-term compensation, are related to less socially responsible activities. Another motive is the instrumental use of CSR to maintain financial benefits (McWilliams and Siegel, 2000), where businesses promote CSR activities for Machiavellian reasons, because of political ideology or simply out of greed (Joyner and Payne, 2002). Chin *et al.* (2013) find that the political ideology of CEOs (conservative versus liberal) affects CSR activities. Sajko *et al.* (2021) find that firms run by greedy CEOs tend to suffer larger short-term losses. A possible explanation for this might be that CEOs' salaries and compensation are closely correlated with CFP (Mizruchi and Marshall, 2016), which, in turn, encourages an increase in short-term earnings (Sajko *et al.*, 2021).

According to Shiu and Yang (2017), short-term engagement in CSR practices may build inadequate moral capital that cannot generate sufficient insurance-like effects. On the other hand, they argue that a continuous, long-term CSR engagement provides a firm insurance-like effect on stock and bond prices. Furthermore, Mullen (1997) indicates that for a plan to be effective, it should be processed over time, suggesting a three to five year commitment. Godfrey (2005) emphasises the importance of stability in philanthropy, since consistency demonstrates a commitment to doing good over time and counteracts the appearance of being opportunistic or capricious. However, some scholars find that variations in CSR performance affect corporate economic outcomes (negatively or positively). For example, El Ghoul *et al.* (2011) examine the impact of CSR on the cost of equity capital and find a negative relationship, *i.e.* high CSR scores lead to a low cost of equity, and an increase of one standard deviation in CSR scores decreases "firms' equity premium by ten basis points". In addition, Jiraporn *et al.* (2014) study the effect of CSR on credit ratings and conclude that a one standard deviation increase in CSR improves a firm's credit rating by 4.5%.

Furthermore, Oikonomou *et al.* (2012) find that CSR has a weak negative effect on firm risk, whereas corporate social irresponsibility has a strong positive effect on firm risk. The authors use the KLD database and note that CSR strength scores have a similar standard deviation, while concern scores are more variable. In contrast, Adinata (2019) examined the relationship between CSR expenditure and financial distress, finding that a one standard deviation increase in CSR expenses is associated with an increase in financial distress of 1.2%. Benlemlih *et al.* (2018) find that an increase in CSR ratings significantly decreases firm systematic risk and positive volatility of CSR ratings is associated significantly with an improvement in firm value. The study used the CSR ratings, which bring together strengths and concerns, as the independent variable and systematic corporate risk and corporate book-to-market ratio as the dependent variables. Furthermore, the market rewards firms that improve CSR ratings and punishes those whose CSR ratings are reduced, regardless of how high those scores are, implying that CSR performance volatility increases firm risk.

On this basis, one important factor that should be explored is the impact of consistent engagement, represented by the stability of CSR engagement over time. This topic has not received enough investigation due to the lack of stability measures of CSR performance (Wang and Choi, 2013). Tang *et al.* (2012) explore how CSR implementation strategy mediates the relationship between CSR and a firm financial performance. Based on the absorptive capacity theory and path dependence theory, a slow and consistent CSR implementation strategy enhances the positive relationship with firm financial performance. The authors apply Kurtosis—a statistical measure of weather data is heavy, or light tailed—using four years to compose and be able to measure the CSR score consistency of each firm's CSR scores on a long-term basis. They find that consistency in CSR activities enhances the positive relationship between CSR and accounting firms' financial performance (ROA).

Similarly, Shiu and Yang (2017) examine whether consistent and long-term CSR engagement can provide insurance-like effects during adversities or negative events. Their results indicate that this type of engagement provides an insurance-like effect on stock and bond prices. They also find that this positive effect or buffer is only valid once and disappears after one negative event. The authors label this as a "diminishing marginal insurance-like effect". Likewise, Jeong *et al.* (2018) show that firms with permanent CSR activities, regardless of their levels, have higher firm performance than their peers. Zeisel (2020) indicates that, although individual CSR dimensions are dynamic, with some of them growing in importance, a firm's aggregate CSR scores can be stable over time. Finally, Wang and Choi (2013) examine the impact of CSR consistency on firm financial performance using the latest five years of CSR, regressing the CSR scores against time to obtain the regression coefficients and the standard errors. The authors reverse the sign of the standard errors to create an index of consistency. The lower the standard error, the greater the consistency of the CSR dimension. The authors find a positive correlation between the consistency of CSR and firm financial performance, using Tobin's Q as a proxy. Apart from these studies, few studies have examined the impact of the stability of CSR performance on CFP. This gap in research is primarily attributed to the lack of empirical studies that have defined stability measures adequately. Therefore, one main objective of this study is to use and propose new measures of CSR stability and investigate how the stability of CSR interacts with the relationship between CSR performance and CFP.

In sum, the stability of performance can be defined in terms of consistency. Several factors can cause a firm to stop or reduce CSR activities, and CSR is dynamic and still evolving. In addition, there is the difficulty of managing stakeholders (especially internal and external) with different levels of power and keeping them satisfied at the same time. CSR topics change over time according to changes in societal values and scientific understanding. Finally, leadership plays an important role in shaping CSR activities within a firm. However, the topic of CSR stability has not been investigated thoroughly, although there is evidence that well-resourced strategic CSR, built up over time, becomes well established and can remain unchanged after a recession. Therefore, one main objective of this study is to use and propose new measures of CSR stability and investigate how the stability of CSR interacts with the relationship between CSR performance and CFP.

2.9 Motivation of the Study

CSR is becoming increasingly important as businesses are under pressure from regulators and stakeholders, such as governments, customers, employees, investors and environmentalists, to operate in a more responsible manner. In addition, research shows that implementing CSR practices leads to financial benefits for businesses, such as increased sales, improved employee morale and enhanced reputation (Sen and Bhattacharya, 2001; Rupp *et al.*, 2006; Saeidi *et al.*, 2015). However, the relationship is not always straightforward. Therefore, there is still ongoing theoretical debate about and empirical investigation into the relationship between CSR and CFP (see for instance Friedman, 1970; Freeman, 1984).

For many scholars, the central point is to highlight the "business case of CSR", looking to identify the process by which the relationship between corporate social performance (CSP) and CFP can produce more rigorous results, but empirical research results remain inconclusive, although most studies have found a positive relationship between CSR and CFP. Discrepancies may be due to the different parameters and approaches used (McGuire *et al.*, 1988). Further, some scholars suggest that there is a causal relationship between CSR and CFP (McGuire *et al.*, 1988). Others find that the relationship is a U-shaped curve, meaning that there is an optimal level of CSR at which corporate financial performance is maximised (Nollet *et al.*, 2016). While others attribute the lack of conclusive results to methodological problems, such as the absence of certain control variables (Aupperle *et al.*, 1985; Mcguire *et al.*, 1988; Griffin and Mahon, 1997).

Moreover, prior studies, while important in establishing the link between CSR and CFP, have not fully accounted for the complex relationship between these two variables, thus producing some misleading findings (Saeidi *et al.*, 2015). The reason for this may be due to the issue that too many firms have adopted a "box-ticking" approach to CSR, solely following standardised CSR activities without considering the specific needs and objectives of each firm. This approach can be ineffective and may even damage a firm's reputation (Serafeim, 2020). Furthermore, CSR theories, such as stakeholder theory, legitimacy theory and the RBV, emphasise the importance of active and continuous relationships. These theories insist that businesses must demonstrate commitment to their stakeholders to reap benefits.

Therefore, scholars have advocated for strategic approaches to the implementation CSR activities (Saeidi *et al.*, 2015). Porter and Kramer (2002) indicate that corporate management are under extensive pressure from critics demanding higher CSR performance and from investors demanding an increase in short-term profit. This dual pressure highlights the importance of balancing social expectations and shareholder demands. Consequently, Porter and Kramer (2002) argue that implementing a strategic approach to CSR can address these challenges. As a result, CSR is increasingly seen as a necessity rather than an option. Therefore, with the pressures of intense business competition and increased societal expectations, CSR activities can be a solution to balancing economic benefits and social objectives (Kotler and Lee, 2008; Porter and Miles, 2013).

Recently, recognition of the importance of strategic CSR has been increasing. However, one significant challenge in previous studies of the relationship between strategic CSR and corporate financial performance is the lack of standardised measures of strategic CSR initiatives, which raises concerns about differentiating traditional CSR initiatives from strategic ones (Vishwanathan *et al.*, 2020). Only a few scholars have tried to develop measures for strategic CSR. For example, Belu and Manescu (2013) build on the argument by (Porter and Kramer, 2006), that firms should favour a strategic approach to CSR, by identifying areas of CSR that can bring the greatest competitive benefit, in order to develop CSR indices that consider the unique business model of each firm, even in the same industry. In addition, Carroll *et al.* (2016) use item response theory (IRT) to enhance the KLD index (Kinder, Lydenberg and Domini database) by constructing a new measure that assigns weights based on a firm's activity and industry. This is to address the weakness of the KLD index scoring, where certain firms may be treated too harshly or too generously, due to the index being equally weighted.

Some scholars have argued that consistent CSR performance over time can be a sign of strategic CSR in which CSR efforts are deeply integrated into the core business strategy (Tang *et al.*, 2012). This perspective emphasizes that less variability in CSR performance indicates that a firm aligns its CSR efforts with the organisation's long-term goals rather than being superficial actions. This view is supported by Bansal *et al.* (2015), who highlight the significance of routinised CSR activities, which represent a recurring actions over time. This approach aligns with (Upshaw, 2021), who states that *"achieving corporate responsibility goals requires consistent effort and collaboration across an organisation."*

Moreover, human resources, as a crucial dimension under the CSR umbrella, are found to influence the relationship between CSR and corporate financial performance (Rupp *et al.*, 2006). Human resource capital plays a vital role in the successful implementation of CSR initiatives, which also influences employee behaviour significantly. Employee contribution and motivation are enhanced by improved employee perception of a firm's CSR initiatives. In addition, a firm's successful implementation of CSR initiatives depends heavily on the active participation of employees (Yu and Choi, 2016). Therefore, the workforce dimension, which includes activities towards employees, is an important predictor of CSR performance. In this perspective, Collier and Esteban (2007, p.29) state that *"If employees see that the organisation is living up to the standards expected of it, they are likely to want to engage in supportive behaviour."*

Overall, these studies suggest that strategic CSR activities can provide a competitive advantage, but they require substantial resources and long-term commitment. This complex process makes the implementation of strategic CSR activities difficult but once established, they become hard to reverse. Additionally, their impact on corporate financial outcomes is not necessarily immediate, which highlights the importance of allowing time for the benefits to appear (Bansal *et al.*, 2015). This aligns with prior studies, Thompson (1967) asserts that strategic activities require a deep understanding of context and often lead to substantial structural reconfigurations or realignments within an organisation. Similarly, Mintzberg *et al.* (2003) emphasise that a strategic approach involves a long-term commitment to a particular action and major changes within the organisation. These characteristics highlight the complexities and challenges inherent in implementing strategic CSR initiatives, which require both contextual changes and sustained commitment. Therefore, the strategic approach indicates that CSR activities are often characterised as routinised, well-established actions, and demonstrate consistency over time (Bansal *et al.*, 2015). Thus, a key aspect to understand the relationship between CSR performance and corporate financial performance is exploring the impact of a firm's commitment to CSR activities. However, little research has been devoted to exploring CSR consistency and its impact on corporate financial performance. This can be attributed to the lack of metrics for measuring CSR consistency.

In this study, we attempt to detect and evaluate the strategic approach to CSR activities. First, we use the stability of CSR performance over time as an indicator of the strategic approach. This is done using statistical analysis. Second, we apply the same measures, but with the scores of human resource performance as a measure of CSR performance, building upon the vital influence of human resources on the performance of CSR. In addition, we expect consistent engagement in CSR activities (assessed by CSR stability scores and the stability scores of human resources over time) to have a significant impact on CFP. Therefore, we also evaluate the impact of a higher level of overall CSR performance on corporate financial performance over time. Environmental, Social and Governance (ESG) scores from Refinitiv, a global database that provides financial data and ESG ratings, are used here as a proxy for CSR performance and corporate financial performance is assessed using return on assets and stock return. Finally, this study contributes to the ongoing discussion about the importance of strategic CSR performance by providing a novel approach for assessing its stability over time. Further, it contributes to the increasing attention paid to human resources as an important factor in explaining the link between CSR and corporate financial performance. Therefore, we provide a clear and comprehensive set of parameters for assessing stability in CSR performance, focusing on its human resources dimension. This study aims to encourage consistency and commitment to CSR practices among companies.

2.10 CSR and Financial Performance

Scholars seek to investigate the relationship between CSR and CFP, with Bragdon and Marlin (1972) and Moskowitz (1972) credited with the first empirical investigations. However, with this long history of research, empirical studies on the relationship between a firm's social responsibility and its financial performance offer inconclusive, and sometimes even contradictory, results (Wicks *et al.*, 1999; McWilliams and Siegel, 2001; Orlitzky *et al.*, 2003; Branco and Rodrigues, 2006; Lopez *et al.*, 2007; Margolis *et al.*, 2009; Cai *et al.*, 2012). Therefore, it appears that a direct link to financial performance has been difficult to establish (Mattingly, 2017).

Some studies find a significant positive relationship (Waddock and Graves, 1997) and others find either a negative (Lopez *et al.*, 2007) or a neutral relationship (Aupperle *et al.*, 1985), as is explored in more detail below. This issue is explained by some studies attempting to explore the relationship from a bi-directional perspective, meaning causality can go in either direction. However, other reasons are suggested in some studies, which follow different objectives and methodologies and use different CSR and financial performance measurement approaches (Waddock and Graves, 1997; Tsoutsoura, 2004). In this respect, Godfrey *et al.* (2009) affirm that, to generate positive attributions or moral capital from CSR activities, a firm needs to determine the intensity of CSR engagement under two conditions. First, CSR activities must be noticed by the media, becoming public knowledge. Second, CSR engagement must be large enough to gain credibility and appear free from selfish motives.

According to Preston and O'Bannon (1997), there are two aspects to this controversy: the direction of the *relationship* between CSR and firm performance (positive, negative or neutral) and the direction of *causality* in this relationship. For example, McGuire *et al.* (1988) examine the relationship using stock-market returns and accounting-based measures of firm performance. The results indicate that prior CFP predicts CSR performance better than subsequent CFP. Similarly, Kraft and Hage (1990) find that profitability (slack) determines firms' community services activity.

2.10.1 Negative Relationship Between CSR and CFP

One view, led by Milton Friedman (1970), is that there should be a negative relationship between CSR and corporate financial performance, as CSR initiatives demand a sacrifice of firm resources. Lopez *et al.* (2007) analyse the impact of CSR on accounting ratios (the growth of profit before tax (PBT)) using a sample of 110 firms, divided into two equal groups of 55 each, based on their characteristics, such as firm size and capital structure. These two sub-samples are either socially responsible firms ratified by the Dow Jones Sustainability Index (DJSI) or not in the index, having not met DJSI criteria. The study finds the relationship between CSR and PBT to be negative. Lopez *et al.* (2007) argue that this negative relationship is because insufficient time had passed for CSR practices to affect consumers' attitudes and cover the firm's expenses incurred through the CSR practices.

Mittal *et al.* (2008) view CSR initiatives as a cost imposed on businesses with a potential negative impact on CFP. However, they acknowledge that their findings are not conclusive and that, while there is—they argue—strong evidence against a positive relationship, there is no conclusive evidence of a negative impact that can be generalised for the long term. Fisher-Vanden and Thorburn (2011) suggest a negative effect of CSR on firm value maximisation, stemming from investors' perceptions of CSR activities as a mere cost burden. Similarly, Lee *et al.* (2009) examine the link between CSR and corporate financial performance and document a negative relationship. Finally, Makni *et al.* (2009) examine the association between CSR and corporate financial performance using a sample of 179 Canadian firms from 2004 to 2005, finding that CSR activities decrease corporate financial performance in the short term.

2.10.2 Neutral Relationship Between CSR and CFP

A second view argues that CSR has no impact on CFP because of the complex relationship between businesses and society (Soana, 2011). This neutral relationship has been seen in previous research, where CSR was measured by a forced-choice survey instrument based on Carroll's four components and profitability was measured using return on assets (ROA) (Aupperle *et al.*, 1985). Similarly, Ullmann (1985) uses a narrative review to investigate the relationship between social performance and economic performance and finds mixed results. He states, *"no clear tendency can be detected"*. Statman (2000) examines CFP on two indices, the Domini Social Index (an index of socially responsible firms) and the S&P 500 Index (which measures the performance of the stocks of 500 large, listed US companies), finding that both indices have identical financial performance from 1990 to 1998. Krüger (2015) investigates the impact of positive and negative news of CSR practices on stock market performance, finding that investors respond strongly negatively to CSR concerns but only slightly negatively to CSR strengths. He suggests that the strong adverse reaction to negative news about CSR is due to the considerable cost linked with corporate social irresponsibility.

2.10.3 Positive Relationship Between CSR and Corporate Financial Performance

The consequences of CSR for various business outcomes, particularly the impact of CSR practices on corporate financial performance, have been the subject of a number of reviews and meta-analyses. Margolis and Walsh (2001) discuss the role of companies, which ranges from just increasing profit to having societal responsibilities. The authors note the increased awareness of social and environmental issues and successful social movements, which cast doubt on how firms maximise their profits, and perform an extensive review of the relationship between CSR and corporate financial performance, summarising 95 studies from over thirty years and finding that CSR is the independent variable that predicts corporate financial performance in 80 of those studies. Additionally, the authors find that 53% of these studies indicate a positive relationship between CSR and corporate financial performance.

In addition, Pava and Krausz (1996) analysed 21 empirical studies published between 1972 and 1992 and found that 12 (57%) reported a positive relationship between CSR and corporate financial performance. According to the authors, socially responsible firms tend to outperform firms that are not. Moreover, Frooman (1997) examined 27 event studies and found that firms that act in a highly socially responsible and lawful manner increase shareholder wealth, whereas firms involved in socially irresponsible behaviour reduce shareholders' wealth. Cochran and Wood (1984) found a positive relationship between CSR and corporate financial performance, using a reputation index, developed by Milton Moskowitz, to classify 61 firms as "best", "honourable mention" or "worst". Corporate financial performance was measured using three accounting ratios: ROA, return on sales (ROS) and excess market valuation (the difference between total firm market value and the book value of assets) (Cochran and Wood, 1984).

Similarly, Preston and O'bannon (1997) studied 67 US companies over 11 years, from 1982 to 1992. The results indicated a positive association between CSR and corporate financial performance and were consistent with the stakeholder theory. CSR data was collected from *Fortune* magazine's annual corporate reputation survey, while CORPORATE FINANCIAL PERFORMANCE indicators (return on assets (ROA), return on equity (ROE) and return on investment (ROI)) were obtained from COMPUSTAT. Orlitzky *et al.* (2003) conduct a meta-analysis of 52 research papers, incorporating a total of 33,878 observations, and found a positive relationship between CSR and CORPORATE FINANCIAL PERFORMANCE. The authors suggest this positive effect may result from CSR working as a resource that provides internal or external benefits. For example, CSR may enhance such internal resources, competencies and capabilities as technology, human resources and managerial skills, and have such external effects as improving corporate reputations and attracting better employees.

Allouche and Laroche (2005) conduct a meta-analysis of 82 studies, covering multiple countries, to examine the relationship between CSR and corporate financial performance and find a conclusive positive relationship. Friede *et al.* (2015) review 2200 primary studies on the relationship between ESG factors and corporate financial performance and find that about 90% of these studies report non-negative relationships, with positive relationships in the majority. Alshehhi *et al.* (2018) use content analysis to investigate the link between corporate sustainability and corporate financial performance, reviewing 132 empirical papers from top-tier journals. The authors conclude that 78% of the studies find a positive relationship between corporate sustainability and corporate financial performance and that the inconclusive results of previous studies are due to variations in research methodology and measurement issues. Alshehhi *et al.* (2018) use content analysis as a proxy for CSR measurement, defining the former as, "a research method that provides a systematic and objective means to make valid inferences from verbal, visual, or written data in order to describe and quantify specific phenomena" (Downe-Wamboldt, 1992).

Looking at specific constructs, Waddock and Graves (1997) studied the relationship between CSR and corporate financial performance by examining the influence of slack resources and good management theory, with two critical results: CSR relates positively to prior corporate financial performance, reflecting the availability of slack resources, and to future corporate financial performance, representing good management practice and proving the theory that the relationship between good management and corporate social performance is positive. The data sample for this study covered most of the S&P 500 firms, with their CSR performance measures obtained from the KLD database and corporate financial performance measured using the three accounting variables, ROA, ROE and ROS. However, McWilliams and Siegel (2000) suggest that this gives inconsistent results, because the model has some faults and Waddock and Graves (1997) ignored some variables, such as R&D, which is considered a critical determinant of a firm's performance. In a replication of the Waddock and Graves (1997) study, Zhao and Murrell (2016) re-examine the causal relationship between CSR and corporate financial performance, using a larger sample and longer time frame, and find that better accounting performance leads to better CSR, but with a smaller effect, and their findings also cast doubts on a situation where prior CSR is related to subsequent corporate financial performance, which goes against "doing good leads to doing well".

Ferrell *et al.* (2016) investigate the view that CSR creates an agency problem and wastes shareholders' wealth. The authors refute these claims, finding that firms committed to CSR activities are well-governed and consequently suffer fewer agency problems. Goll and Rasheed (2004) find a significant relationship between discretionary (management's voluntary duties) social responsibility and firm financial performance (ROA and ROS), in a cross-sectional study which employed a questionnaire to a key executive in each firm to measure its social responsibility in 1985-1986. Furthermore, Tsoutsoura (2004) finds a positive relationship between CSR and corporate financial performance in a study covering almost all firms in the S&P 500 index (which the author describes as "one of the most followed equity indices") over the five years from 1996 to 2000. The study uses KLD ratings to measure CSR and the COMPUSTAT database to obtain such profitability ratios as ROA, ROE and ROS.

Kim *et al.* (2018) examine the relationship between CSR performance and corporate financial performance, taking "a competitive-action perspective", which refers to "externally directed, specific, and observable competitive moves to enhance a firm's competitive position" (Smith et al., 2001). *"Competitive actions include diverse competitive moves, such as new product introduction, marketing,* *and capacity expansion, reflecting a firm's aggressive search for new ways to satisfy its customers"* (Kim et al., 2018, p.1098). They use sample data from 113 US firms in the software industry, covering the period 2000-2005. The results reveal that a high level of competitive action enhances the positive relationship between CSR and financial performance.

Regarding disclosure, Xie *et al.* (2019) investigated whether firms committed to ESG issues have better corporate efficiency, finding that a moderate level of ESG information disclosure has a significant and positive impact on corporate efficiency, but that a high level of ESG information disclosure has a negative impact on corporate efficiency. In particular, the study found that governance issue disclosure has the most substantial impact, followed by the social dimension and then the environmental. The study also found that most ESG activities result in a non-negative relationship between ESG and corporate social performance. Similarly, Velte (2017) study the total and individual effect of ESG performance (ESGP, as assessed by the Asset4 of Thomson Reuters) on corporate financial performance, measured by ROA and Tobin's Q. Velte's (2017) sample covers German companies from 2010 to 2014 and the results indicate a positive relationship between ESGP and ROA, but not Tobin's Q. As with Xie *et al.* (2019), the study finds that the governance component has a strong influence on corporate financial performance. Shi and Veenstra (2021) study the moderating effect of a country's cultural values, which shape people's (*i.e.* stakeholders') beliefs and attitudes, on the relationship between CSR and corporate financial performance. They take a sample of 5334 firms from 41 countries and find a strong interaction effect between cultural values and CSR, which influences corporate financial performance.

Wang *et al.* (2018) consider four mechanisms for the CSR-corporate financial performance relationship: (1) slack resources cause CSR; (2) good management mechanisms including CSR improve firm performance; (3) firms engage in CSR to make up for past corporate social irresponsibility (the "penance mechanism"); and (4) firms engage in CSR as an insurance mechanism to mitigate the impact of subsequent corporate social irresponsibility (the "insurance mechanism"). They investigate a sample of 4500 firms over 19 years, from 1991 to 2009, and the results support the view that CSR improves corporate financial performance, mediated by good management and the penance mechanism, but show that slack resources and the insurance mechanism have no role in this relationship. Harjoto and Laksmana (2018) propose another mechanism that might explain how CSR performance affects firm value and examine the link between CSR performance and firm managerial decisions regarding risk-taking. They propose that CSR performance serves as a tool to minimise deviation from optimal risk-taking, curbing excessive risk-taking and reducing excessive risk avoidance. Their findings indicate that high CSR performance is related to lower deviation from optimal risk-taking levels and that this influence is indirectly and positively associated with corporate value, as measured by Tobin's Q.

In addition, Ruf *et al.* (2001) use stakeholder theory to assess the effect of variations in corporate social performance on corporate financial performance, finding a positive relationship and supporting the theory. The authors affirm that the dominant stakeholders (shareholders) benefit financially from satisfying all other stakeholder groups' demands. Therefore, CSR generates financial benefits both instantly (e.g. in sales growth) and in subsequent periods. According to the authors, this finding supports the increasing awareness of customers as one of the stakeholder groups of firms' social responsibility.

In sum, no consensus has been reached on the nature of the relationship between CSR and corporate financial performance. Scholars find the relationship to be variously positive (Waddock and Graves, 1997), negative (Lopez *et al.*, 2007) or neutral (Aupperle *et al.*, 1985). These inconclusive results can be attributed to several factors, including the existence of a bi-directional relationship between CSR and firm performance (McGuire *et al.*, 1988), methodological differences (Waddock and Graves, 1997; McWilliams and Siegel, 2000; Tsoutsoura, 2004), or the omission of critical variables such as R&D (McWilliams and Siegel, 2000). In addition, some scholars argue that CSR activities require time to show their benefits (Shirasu and Kawakita, 2021). Despite these variations in results, most studies find a positive relationship between CSR and corporate financial performance (Marom, 2006; Van Beurden and Gössling, 2008). However, the impact of CSR on corporate financial performance can still vary, with some studies indicating negative impacts due to the additional costs of CSR investment in CSR activities and the reduction in short-term profits (Brammer *et al.*, 2006; Becchetti *et al.*, 2008; Giannarakis *et al.*, 2016) while other find neutral impacts (insignificance) due to the complexity of the link between firms and CSR (Aupperle *et al.*, 1985; Hamilton *et al.*, 1993; Soana, 2011).

A possible explanation of these inconclusive results is given by Vogel (2007), who claims that the variance in the financial performance of socially responsible firms, where some are financially successful and others are not, is due to consumer preferences and management quality, which influence demand for products and services. Another possible explanation is linked to the non-strategic and short time horizon of the CSR engagement considered in previous studies, which may accumulate inadequate social capital, providing little economic benefit (Shiu and Yang, 2017). Similarly, McWilliams and Siegel (2001) presume that firms with active engagement in CSR (*i.e.* consistent and long-term CSR activities included regularly in their corporate strategies) generate more reliable, higher quality products. Similarly, Fombrun and Shanley (1990) indicate that incorporating CSR activities in a firm's strategic investment will contribute to a firm's reputation, leading to long-term profitability.

Despite extensive research, the relationship between CSR and corporate financial performance remains inconclusive. While many studies suggest potential links between CSR and improved financial outcomes, results have varied, leaving gaps in understanding, particularly the underlying mechanism that influence this relationship. In other words, a positive relationship between CSR and corporate financial performance is expected more often than not (Marom, 2006; Van Beurden and Gössling, 2008), because the benefits of CSR performance outweigh its costs (McGuire *et al.*, 1988; Barnett, 2007), attract better employees and motivate current ones (Branco and Rodrigues, 2006). An important factor of how CSR performance is related to corporate financial performance has to do with the strategic implementation of CSR initiatives, which essentially involves embedding CSR into core business strategy and integrating CSR into decision-making processes. These practices could be observable through the long-term commitment of a firm to the CSR activities and its consistent performance over time. However, few studies have investigated this relationship, mainly, because a lack of robust measures to assess strategic CSR practices. In this chapter, we attempt to detect the strategic CSR practices and evaluate the impact of its impact on corporate financial performance. We use the stability of CSR performance over time as an indicator of the strategic approach, proposing and adopting previously used measures of stability. In addition, we expect consistent engagement in CSR activities assessed by the stable CSR scores over time to have a significant impact on corporate financial performance.

2.11 Workforce, CSR and Financial performance

2.11.1 Stakeholder relationship Orientation and CSR

Apart from the explicit objective behind implementing CSR activities, which focuses on social welfare, stakeholder relationship orientation represents a fundamental yet implicit characteristic of the business case of CSR. This orientation goes beyond the social welfare objective and is considered an investment that ultimately increases corporate financial performance (Barnett, 2007). One suggested way to achieve this is to align CSR activities with corporate strategy, focusing on partnerships with a firm key stakeholders (Maxfield, 2008). Recently, CSR has gained increasingly importance as businesses face mounting pressure from a wide range of stakeholders—including governments, customers, employees, investors, and environmentalists, to operate in more responsible way (Mohr *et al.*, 2001; Sen and Bhattacharya, 2001; Ambec and Lanoie, 2008). This pressure is mostly from primary stakeholders, and employees are found to have the strongest influence on this pressure (Helmig *et al.*, 2016).

While most previous research on CSR has used an aggregate measure, to capture the overall performance of CSR, some scholars argue that CSR is multidimensional, with each dimension impacting different stakeholder groups and having unique effects on corporate financial performance.

They suggest that these dimensions should be examined individually, and employees certainly are key stakeholders have not received sufficient investigation in relation to their connection with CSR (Freeman, 1984; Clarkson, 1995; Donaldson and Preston, 1995; Wood and Jones, 1995; Waddock and Graves, 1997; Inoue and Lee, 2011; Girerd-Potin *et al.*, 2014).

2.11.2 Employee Relations and Corporate Financial Performance

Berman *et al.* (1999) examine the impact of five key stakeholder relationships— employee relations, natural environment, diversity, communities, and customers and product safety—on firm financial performance return on assets (ROA). The results indicate that only two aspects (employee relations and product safety & quality) exhibit a strong positive effect on firm financial performance. Edmans (2012) uses the "100 Best Companies to Work for in America" list to examine the impact of job satisfaction on firm value. He finds that those companies on the list generate 2.3% to 3.8% higher abnormal returns per year from 1984 to 2011 than their peers outside the list.

Primary stakeholders are critical to a firm's success (Freeman, 1984; Donaldson and Preston, 1995; Voegtlin and Greenwood, 2016). Among stakeholders, employees hold a uniquely significant position, often described as having a *"peculiar role"* (Crane and Matten, 2004, p.224). Their commitment is vital for driving productivity and overall firm performance (Russo and Fouts, 1997; Bird *et al.*, 2007; Galema *et al.*, 2008). Building on this understanding of employee significance, recent research by Green *et al.* (2019) further explore the relationship between crowdsourced employer reviews and corporate financial performance. Their study finds that firms with improving employer ratings, experience outperformance in terms of growth in sales and profitability compared to firms with declining ratings. Crowdsourced employer reviews refer to feedback and ratings provided by a large group of employees, typically through online platform "Glassdoor", and their experiences working for a company. These reviews offer insights into workplace conditions, management quality, and overall employee satisfaction.

2.11.3 Employee Involvement and CSR Strategy

In line with this, internal stakeholders' perceptions of CSR initiatives are essential for organisations seeking to develop innovative, and sustainability-driven business models (Lee and Chen, 2018). Therefore, the successful implementation of CSR initiatives depends heavily on the active participation and engagement of employees (Yu and Choi, 2016). Moreover, employees are considered the most valuable asset to a firm (Chang *et al.*, 2022). This is due to their close proximity and involvement within a firm making them not only a stakeholder group but also a valuable resources (Crane and Matten, 2004; Greenwood, 2007).

In addition, employee perceptions of CSR practices provoke emotional, attitudinal, and behavioural responses that leads to improved job satisfaction, organisational commitment, and overall job performance (Lee *et al.*, 2013). However, it's important to acknowledge that certain management practices may increase employee stress, which has been shown to negatively impact corporate financial performance (De Neve *et al.*, 2023). Franzoni *et al.* (2021) argue that employees perceive that they are engaged in their organisation social responsibility initiatives, they strive to participate in these activities. Therefore, employee dimension of CSR is critical to fostering a high-performing workplace (Pfeffer, 2010).

2.11.4 HRM's Role in Enhancing CSR

Given that employees, as a primary stakeholder, play a crucial role in an organisation's success, it is essential to explore how human resource management (HRM) practices can strategically support and enhance CSR efforts. Human resource management (HRM) practices are the strategic processes that organisations use to manage people by attracting, motivating, and retaining a highly skilled workforce to ensure organisation's growth and prosperity (Schuler and Jackson, 1987). It also includes workplace safety, diversity, employee well-being and motivation (Voegtlin and Greenwood, 2016). Human resource management plays a vital role in reaching these goals, as it can foster employee support and commitment (Bučiūnienė and Kazlauskaitė, 2012).

HRM can potentially provide a significant and dynamic support to implementing, designing, and delivering CSR strategies, as well as, translating CSR into actions, and enriching the CSR learning process and continuous improvement (Jamali *et al.*, 2015). Moreover, when employees perceive that their organisation is socially responsible, they become more engaged and committed, develop stronger relationships, and demonstrate greater creativity (Brammer *et al.*, 2007; Glavas and Piderit, 2009). As a result, HRM is considered a significant predictor of organisational performance (Greening and Turban, 2000; Bhattacharya *et al.*, 2008).

2.11.5 Strategic HRM and High-Performance Work Systems (HPWS)

Strategic HRM is defined as *"the pattern of planned human resource deployments and activities intended to enable an organisation to achieve its goals"* (Wright and McMahan, 1992, p.298). Strategic HRM concept is further defined as *" the policies, practices, and systems that influence employees' behaviour, attitudes, and performance"* (Noe *et al.*, 2010, p.4). In CSR literature, a strategic HRM is found to support a successful implementation of organisational CSR strategy and contributes to organisational performance (DuBois and Dubois, 2012).

Within the remit of HRM strategy, a particular area of emphasis in HRM has been the high-performance work system (HPWS). This strategy is designed to improve organisational performance by implementing specific practices, including recruitment and selection, incentive-based compensation schemes, strong employee involvement, extensive training initiatives, and performance management. HPWS is widely expected to deliver a sustained competitive advantage, increasing employee retention, firm productivity, and organisational success (Huselid, 1995; Guthrie, 2001; Batt, 2002; Guest, 2017).

While the prevailing view is that HPWS contributes to organisational performance, an alternative perspective challenges the assumed benefits of HPWS, suggesting that while its objective is to enhance organisational competitiveness, it does so at the expense of employee work-related well-being. HPSWS places excessive demands on employees, resulting in increased work intensity, resulting in excessive demand, overload work, burnout, increased stress, and higher labour turnover (Jensen *et al.*, 2013), suggesting that organisations need to be aware of the impact that HPWS can have on their employees' work-related well-being.

2.11.6 The Role of Employee Well-Being in CSR

In recent years, there has been a growing interest in employee work-related well-being (Kowalski and Loretto, 2017). As observed in human resource literature, employees or the human capital, can serve as the basis of a relatively enduring form of competitive advantage (Barney and Wright, 1998; Boxall and Steeneveld, 1999). Recent evidence indicates that fostering employee well-being can contribute to improved organisational performance (Van De Voorde *et al.*, 2012). This growing awareness highlights the necessity of making employee well-being a central priority in HR strategies (Kowalski and Loretto, 2017).

In the same vein, Schoemaker *et al.* (2006) indicate that the relationship between HRM and CSR is two-fold. On one side, HRM is seen, besides other CSR dimensions, as an object of CSR. Socially responsible organisations are expected to prioritize employee welfare by continuously improving working conditions and well-being, which falls under HRM’s scope. On the other side, employees are responsible for bringing CSR to life through their everyday actions within the organisation, acting as indicators of the organisation’s social responsibility. Their interactions with customers and external stakeholders reflect the organisation's commitment to CSR. This emphasizes the importance of the interaction between CSR and HRM in delivering planned levels of CSR, which ultimately, adds value to the organisation (Bučiūnienė and Kazlauskaitė, 2012).

CSR and HR practices are found to reinforce each other (Simms, 2017). For instance, a major challenge in stakeholder management is the conflict among various stakeholders as they have different interests and demands (Dutton *et al.*, 1994). Organisations enjoying effective HRM practices can ensure employees cooperation and positive reaction to external CSR, which may resolve conflict among stakeholders (Iqbal *et al.*, 2024). Prior studies have approached the relationship between CSR and HRM in diverse ways. In their review, Voegtlin and Greenwood (2016) highlight three categories of past research on the link between CSR and HRM. First, HRM is examined as an antecedent or a component of CSR, with CSR being the main focal concept studied. Second, CSR is analysed as a subset of HRM, in which CSR contributes to effectively enhancing HRM policies. Finally, the third category considers CSR and HRM as independent, both are the focus of research.

Human capital is an important part of organisational success. A significant area of research has explored the concept of firm employee relations, encompassing firm-level practices and programs designed to manage the interaction between the organisation and its workforce (Arthur, 1992; Wright and Cropanzano, 2000). Studies have shown that intense conflict between workforce and management negatively impact organisational efficiency, quality, and overall performance (Katz *et al.*, 1985). However, scholars of human resource management (HRM) have typically examined the overall HRM system, neglecting employee level practices (Innocenti *et al.*, 2011), which indicates that the organisation pursues its objectives at the expense of employee well-being (Guest, 2017).

For instance, an employee relations system (ERS), which encompasses initiatives like employee involvement programs, profit-sharing, retirement benefits, and health and safety programs, aligned closely with HRM and focuses on postering strong relationships between employees and the organisation (Wang *et al.*, 2009; Luo *et al.*, 2014; Chang *et al.*, 2022). Research indicates that effective ERS leads to organisational positive outcomes, such as increased productivity (Huselid, 1995), greater employee resilience and engagement (Cooke *et al.*, 2019), enhanced financial performance (Arthur, 1992), and improved employee efficiency (Chadwick *et al.*, 2012). Additionally, Chang *et al.* (2022) highlight that when firms possess abundant resources, a robust ERS can contribute to sustained and strong financial performance.

As a recent survey by The McKinsey Health Institute’s 2023, which gathered responses from over 30,000 employees across 30 countries, underscores the importance of creating workplaces that foster holistic employee well-being—promoting physical, mental, social, and spiritual dimensions—and balancing between work demands with employee well-being. Employees with positive work experiences were found to exhibit better overall health, increased workplace innovation, and higher job performance. Similarly, Patterson *et al.* (2004) find that employee job satisfaction is positively associated with corporate financial performance of a subsequent year. In contrast, Jamal (1984) finds that job stress negatively associated with employee performance. It is suggested that poor HR practices pose significant threats to organisations, such as increased employee turnover, which can lead to the loss of tacit knowledge (Madsen *et al.*, 2003). Tacit knowledge is *“subconsciously understood and applied, difficult to articulate, developed from direct experience and action, and usually shared through highly interactive conversation, story-telling and shared experience*”(Zack, 1999, p.46). Additionally, high employees turnover rate can negatively correlate with customer satisfaction(Batt and Colvin, 2011).

Moreover, some HRM approaches have been criticised for prioritising performance at the expense of employee well-being (Guest, 2017). Beer *et al.*, (2015) observe that most of the past research has assumed that the sole purpose of HRM is to enhance shareholder financial returns. This has led to a neglect of the interests of other stakeholders, including insufficient attention towards employee well-being (Guest 2017). This lead the question of whether traditional HRM practices create mutual benefits or conflicting outcomes (Guest 2017). Kaufman (2012) finds that previous research in strategic HRM has failed because of neglecting other important dimensions, such as employee relations.

Similarly, Godard (2004) reviews research on the performance effects of high-performance work practices, which are promoted as 'best practices' for leaders, such as teamwork and incentive pay. Godard finds that the claims that high-performance systems of HRM yield superior outcomes are exaggerated and potentially unwarranted and are associated with high levels of work intensity and stress. Similarly, Cappelli and Neumark (2001) analyse high-performance work practices and find that they have negative consequences, such as increased labour costs, reduced labour efficiency, and weaker productivity, and do not necessarily enhance performance. Guest (2011) proposes that more work in HRM is needed to search for answers.

Alternately, Godard (2004) proposes another HRM approach that considers employment relation practices. Guest (2017) argues that well-being and a positive employment relationship should be the central priority in strategic and academic HRM. Boxall and Macky (2009) indicate that the growing focus on employee work-related well-being in strategic HRM is helping to define how HRM affect corporate financial performance. Recently, HRM academics and practitioners have become increasingly interested in employee job satisfaction and generally employee work-related well-being at work (Brown *et al.*, 2008; Boxall and Macky, 2009; Guest, 2017). Furthermore, the mutual gains perspective in HRM aims to achieve beneficial outcomes for both employees and employers. This approach is based on the premise that promoting employee well-being through HRM practices can lead to improve operational and financial performance (Van De Voorde *et al.*, 2012). For instance, Tsui *et al.* (1997) found that fostering mutual relationship between employees and the organisation enhances employee performance and attitudes.

Recently, there has been an increased focus on emotions in the workplace, with positive emotions is being associated with employee success (Krekel *et al.*, 2019). For example, Staw *et al.*, (1994) develop a conceptual framework based on writings in psychology, sociology and organisational behaviour to highlight the link between employees' positive emotions and their successful outcomes at workplace. Staw and his colleagues find that positive emotions in the workplace significantly enhances employee success. Moreover, their research reveals that organisations with employees who consistently commute to work in a positive mood tend to outperform organisations with employees who exhibit negative emotions. They also suggest that understanding the implications of job attitudes can be improved by going beyond traditional measures such as job satisfaction, which often focus on absenteeism and turnover. Their finding also suggests that evaluating emotions other than job satisfaction can be helpful in predicting important individual outcomes.

Accordingly, there appear to be strong ethical reasons to focus on employee well-being. Miller (1996) states that most community members are becoming aware of the ethical issues that affect businesses. Guest (2017) argues that changes in work nature and its surrounding environment can deteriorate work-related employee well-being and potentially damage organisations. For example, changes in technology, while it offers a positive impact on work-related employee well-being, such as automation of routine activities, remote work opportunities, and more access to information, can also present challenges, such as creating work overload, leading to work to home interference, lowering levels of recovery, enhancing employee monitoring and surveillance with little job secretion leading to increase stress (Deery *et al.*, 2002; Sonnentag, 2003; Derks and Bakker, 2010, 2014; Guest, 2017).

These changes have been widely reported but often neglected in the HRM literature. Therefore, HRM research and policy need to prioritise ethical HRM practices that can help mitigate negative impacts on employee well-being, leading to positive employee attitudes, lowering turnover and absenteeism, improving the productivity of employees, increasing employee commitment and effort and potentially positive financial performance (Berman *et al.*, 1999; Fulmer *et al.*, 2003). Employee well-being is defined as *"the overall quality of an employee's experience and functioning at work"* (Warr, 1987; Grant *et al.*, 2007, p.52)

HRM is inherently ethical practice because it deals with the treatment of people (Greenwood, 2013). Ethical HRM is the corporate social responsibility (CSR) practices that focus on employees' well-being (Greenwood, 2013; Voegtlin and Greenwood, 2016). These practices focus on job quality and employee well-being, including e.g., health and safety, workplace safety, and diversity management (Gond and Moon, 2011; Gond *et al.*, 2011; Celma *et al.*, 2014, 2018) Ethical HRM practices are important for building strong relationships with employees, leading to higher productivity, higher job satisfaction (Huselid, 1995; Weber and Gladstone, 2014) and better organisational outcomes (Van De Voorde *et al.*, 2012; Peccei and Van De Voorde, 2019).

Moreover, Spender (1996) asserts that a firm's knowledge and its potential to create specific knowledge form the core of the theory of the firm. Grant (1996) emphasises that knowledge stands as the most critical competitive asset that a firm can possess. Additionally, intangible resources, such as knowledge, are more likely to provide a competitive advantage than tangible resources (Hitt *et al.*, 2001). A significant portion of an organisation's knowledge is embedded within its workforce (Lepak and Snell, 1999). However, there is a growing competition for talented employees, leading businesses face high rates of employee turnover and mobility (Samuel and Chipunza, 2009). These issues carry the potential risk of losing valuable and tacit knowledge. Consequently, businesses can develop these intangible resources through effective management of their human capital (Lepak and Snell, 1999).

As discussed above, the ethical HRM discipline has not been sufficiently explored (Boxall, 1996; Guest, 2017). Similarly, the empirical relationship between ethical HRM – the employment relationship as a primary stakeholder group – and corporate financial performance remains understudied. Prior research on the relationship between employee relations and corporate financial performance has produced conflicting results. Some studies find a positive relationship (Berman *et al.*, 1999; Fulmer *et al.*, 2003), while other studies find no link (e.g., Zhang, 2010).

2.12 Conclusion

In conclusion, this chapter has provided a comprehensive overview of the evolution, theoretical foundations, and key concepts of CSR, while also examining its relationship with corporate financial performance. By tracing the historical and contextual development of CSR, exploring its theoretical underpinnings, and analysing corporate motivations for CSR engagement, the chapter has highlighted the growing significance of CSR within both academic and practical domains. Despite the extensive prior research on CSR and its impact on corporate financial performance, notable inconsistencies and gaps persist, particularly regarding the role of CSR longevity, strategic CSR, workforce engagement, and the stability of CSR performance over time. These gaps underscore the need for further investigation into how consistent and sustained CSR practices influence financial outcomes. This chapter has laid the groundwork for addressing these gaps by identifying key areas for exploration, setting the stage for the formulation of testable hypotheses in Chapter 4 and 5.

Chapter 3. Research Methodology

3.1 Introduction

This chapter outlines the research methodology employed in this study, which investigates the relationship between CSR stability (measured through ESG stability scores and workforce stability scores) and corporate financial performance. The chapter is structured to provide a comprehensive overview of the research design, beginning with the research philosophy that underpins the study. A positivist approach is adopted, justifying the use of quantitative methods to analyse secondary data source.

The chapter then details the measurement of CSR performance, focusing on the construction of stability measures such as the coefficient of variation, beta of scores, temporal trend, and the standard deviation of residuals (derived from regressing, one time, ESG scores against aggregate market ESG scores and time, and another time, regressing workforce scores against aggregate market and time). These measured are used to capture the stability of a firm's sustainability performance over time.

3.2 Research Philosophy

Research philosophy refers to the beliefs and assumptions that guide researchers in understanding the world and generating knowledge (Saunders et al., 2016). This study adopts a positivist philosophy, which assumes that the relationship between stability of CSR performance and corporate financial performance is real, observable and measurable.

Stability of CSR performance is defined as the fluctuations in a firm's social responsibility efforts over time, as measured by the annual ESG scores and workforce scores. Corporate financial performance represents tangible financial outcomes, including profitability, i.e. return on assets (ROA), firm value (Tobin's q), and stock return (RET). The study assumes a causal link where variability in CSR performance affects these financial measures. This relationship is tested empirically, using quantitative analysis.

This study therefore adopts a positivist approach, with objective observation and the testing of hypotheses, in line with Karl Popper's (1959) principle of falsifiability, which calls for scientific hypotheses to be testable and potentially refutable. It is also positivist, seeking to generate reliable and generalisable knowledge, and strives for objectivity, transparency and replicability. By using secondary data from ESG scores, workforce scores from the LSEG database and financial data (ROA and Tobin's q), there is robust basis for analysis.

This study assumes that CSR and financial outcomes are independent of personal opinions, thus relying on empirical data and statistical evidence, i.e. a positivist approach. Other researchers can, therefore, replicate the study and validate its findings, thus contributing to the understanding of CSR and corporate financial performance. This study is therefore deductive, which is an approach suitable for testing hypotheses and assessing relationships between variables, with a foundation in a theoretical framework derived from prior research, tested against new data (Saunders et al., 2016). In this study, a quantitative, statistical assessment of how CSR stability affects corporate financial results is employed to test the hypotheses (Sekaran and Bougie, 2016). Whilst this approach has limitations, notably its reliance on existing theories, which may not represent the full dynamics of CSR, its use of large datasets and testing using robust statistical models supports the minimisation of biases, so that the study will make a significant contribution the research on CSR and financial performance.

There has been much polarisation in the debate around research approaches, with interpretivism, which sees reality as a social construct, and positivism, which sees reality as definable objectively, as the two dominant positions, which has perhaps obscured more important issues about research philosophy (Morgan and Smircich, 1980).

The interpretative approach tries to understand and interpret phenomena on the basis of the assumption that people's perceptions of the world are formed through their experiences, and they give meaning to it accordingly (Saunders et al., 2016). Interpretivism therefore acknowledges that personal, subjective truths exist, based on understanding instead of an assumption of objectivity (Farquhar 2012). Bring flexible and avoiding rigid frameworks, interpretivism is therefore of particular use in the study of real-life experiences and human interactions (Healy and Perry, 2000; Black,2006).

CSR is necessarily both subjective and complex, so that some researchers promote an interpretative approach, stressing the importance of social practices and providing a way of exploring the construction of these practices and rationalised in terms of human actions (Burrell and Morgan, 2019). It is especially useful for exploring how CSR is performed, perceived and experienced in real-world situations (Mason, 2002) and much research has used the interpretative approach to investigate CSR (O'Dwyer et al., 2005; Michelon et al., 2022).

On the other hand, the interpretative approach is limited by inherent subjectivity, which includes the risk of researcher bias. In addition, the present study examines the connection between CSR and financial performance, which necessitates a quantitative methodology, so that interpretivism is not appropriate, as it relies on qualitative methods.

The positivist approach takes phenomena as measurable by means of discrete variables and scientific methods, with a view to predicting and controlling results (Collis and Hussey, 2009). This comes from the assumption that objective reality can be discovered by observation, measurement and the testing of hypotheses (Saunders et al., 2016). This focus on reliable, objective, empirical evidence means that positivism is used widely in management studies and the social sciences (Collins, 2010; Denscombe, 2008).

Positivism has tended to dominate research into the association between CSR and financial performance, although it tends to give conflicting or inconclusive results (Peters and Mullen, 2009; Barnet and Salomon, 2012; Awaysheh et al., 2020). However, critics note that positivism's emphasis on quantifiable and observable variables may overlook the complexity and subjectivity inherent in social phenomena such as CSR (Saunders et al., 2016). Nevertheless, for the objective of this study—particularly testing hypotheses and establishing causal relationships between CSR stability and corporate financial performance—positivism remains an appropriate and effective philosophical foundation. On the other hand, positivism is able to establish causal relationships and put hypotheses to the test, which means that it is appropriate to the objective of the present study, i.e. the analysis of the relationship between CSR stability and corporate financial performance.

The sections which follow give an overview of approaches to the measurement of CSR, along with a detailed discussion of the data gathered in this study and of CSR stability and corporate financial performance measurements.

Table 1 Variables: Definitions, Measurements, and Sources

Variable	Definition	Source
ESG	Refinitiv's ESG Score is an overall company score based on the self-reported information in the environmental, social and corporate governance pillars.	Datastream
ENV	Refinitiv's Environment Pillar Score is the weighted average relative rating of a company based on the reported environmental information and the resulting three environmental category scores.	Datastream
CG	Refinitiv's Governance Pillar Score is the weighted average relative rating of a company based on the reported governance information and the resulting three governance category scores.	Datastream
SOS	Refinitiv's Social Pillar Score is the weighted average relative rating of a company based on the reported social information and the resulting four social category scores.	Datastream
ESGWF	Workforce category score measures a company's effectiveness towards job satisfaction, healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce.	Datastream
ROA	Return on Assets calculated as the ratio earnings before interest, taxes, depreciation, and amortization to total assets	Datastream
RET	Stock price return	Datastream
Tobin's q	Tobin's Q is a firm market valuation	Datastream
ESGCV	Coefficient of variation of ESG scores (rolling window 5 years)	
ESGBETA	Beta of ESG scores (rolling window 5 years), where log of ESG scores against market aggregate log-ESG scores	
ESGTREND	Trend of ESG scores (rolling window 5 years), where log of ESG scores against TIME	
ESGRES	the standard deviation of the residuals of ESGBETA	
WFCV	Coefficient of variation of workforce scores (rolling window 5 years)	
WFBETA	Beta of Workforce scores (rolling window 5 years), where log of workforce scores against market aggregate log-ESG scores	
WFTREND	Trend of workforce scores (rolling window 5 years), where log of workforce scores against TIME	
WFRES	the standard deviation of the residuals of WFBETA	
SIZE	Logarithm of total assets	Datastream
LEVERAGE	The ratio of total debt to total assets	Datastream
CASHAT	The ratio of (Cash to Total assets)*100	Datastream

3.3 CSR Measurement

The choice to measure CSR or corporate financial performance greatly influences results (Orlitzky *et al.*, 2003). However, previous research has used various measurement methods or sources to assess CSR performance. (Griffin and Mahon, 1997) identified four sources of CSR performance data: "a purely perceptual measure, such as Fortune reputation survey; a hybrid measure of perceptual and multiple dimensions of CSR, such as the Kinder, Lydenberg, Domini (KLD); a purely numerical self-reported measure, such as the Toxics Release Inventory (TRI); and corporate philanthropy". Galant and Cadez (2017) also identify four measures for CSR: (1) reputational indices, (2) content analysis, (3) questionnaire-based surveys and (4) one-dimensional measures.

Reputational Indices

Sustainability datasets or ESG rating agencies serve as a common source for CSR data. Prominent rating agencies include *Fortune*'s annual ranking of corporate reputation (e.g. used by Preston and O'bannon, 1997), the MSCI ESG, previously known as KLD, social index (e.g. used by Kang *et al.*, 2016), Refinitiv ESG scores (formerly ASSET4) (e.g. used by Velte, 2017), Sustainalytics (e.g. used by Garcia-Castro and Francoeur, 2016) and Bloomberg (e.g. used by Nollet *et al.*, 2016). A brief explanation of each is given below.

1) Fortune's Corporate Reputation Rankings: Collaborating with Korn Ferry, Fortune surveys executives, directors, and analysts to rate enterprises in their own industry on nine criteria, from investment value and quality of management and products to social responsibility and ability to attract talent". To be listed, a company must have a score in the top 50% for its industry.
2) MSCI ESG, formerly known as Kinder, Lyndenberg and Domini or KLD Stats (KLD), is an independent research firm and a well-known database used in many CSR studies. It provides an assessment of corporate strengths and weaknesses in several dimensions of CSR: community, diversity, employee relations, environment, governance, human rights and products (Baron *et al.*, 2011; El Ghoul *et al.*, 2011; Goss and Roberts, 2011; Harjoto *et al.*, 2015). Sustainalytics is a subsidiary of Morningstar and provides ESG Risk Ratings. This comprises data on 40,000 firms from 172 countries worldwide.
3) Sustainalytics: acquired by Morningstar on April 2020, Sustainalytics offers ESG data on 40,000 companies across 172 countries covering 20,000 companies.
4) Bloomberg ESG Database: providing data for approximately 12,000 firms in more than 100 countries, going back to 2006. ESG scores are gathered from corporate reports, policy documents, press reports about sustainability and web pages. According to the Bloomberg criteria, these are processed by ESG experts to guarantee their validity (Jain *et al.*, 2016).
5) Refinitiv ESG scores are an enhancement of and replacement for ASSET4, which has been produced by Thomson Reuters since 2002, but acquired by the London Stock Exchange Group (LSEG) in January 2021. According to Berg *et al.* (2021), more than 1500 academic

papers have used these ESG scores since 2003. The database has been available since 2002 for about 1000 US and European companies. Since then, the database has become one of the most comprehensive in the world and covers roughly more than 16,000 companies around the world (Refinitiv, 2021). The Refinitiv ESG scores measure a firm's ESG performance across the three pillars and ten main ESG themes (Refinitiv, 2021). The environmental pillar includes three themes: resource use, emissions and innovation. The social pillar includes four themes: workforce, human rights, community and product responsibility. The governance pillar includes management, shareholders and CSR strategy. The database captures and calculates more than 630 data points, making up 186 comparable ESG measures. According to Refinitiv (2021), the overall scores for the three pillars are available both as percentile scores, ranging from a poor performance (0%) to excellent performance (100%), and as letter grades, from D- to A+. The ESG scores are benchmarked against the LSEG business classification (TRBC), industry classification used by Refinitiv. A further type of ESG score available is the combined ESGC score, which represents the ESG score plus ESG controversies, aiming at discounting any significant ESG controversies, such as events that go viral in global media (Refinitiv, 2021).

Content Analysis

The second most used approach to measuring CSR is content analysis. This is defined as "a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories to derive quantitative scales of varying levels of complexity" (Abbott and Monsen, 1979) and as "an approach to the analysis of documents and texts that seeks to quantify content in terms of predetermined categories and in a systematic and replicable manner" (Bell *et al.*, 2018, p. 281). Data on corporate CSR is collected from annual financial reports, CSR reports, news media or websites to infer the social performance of a particular firm (Ehsan *et al.*, 2018). The content analysis approach was first used by Bowman and Haire (1975) and then developed by Abbott and Monsen (1979). Bowman and Haire (1975) examined the annual reports of socially responsible firms to capture the proportion of lines dedicated to CSR and compare them with other firms that were identical in size and industry affiliation. The authors followed a coding method to capture any increases in social benefits and decreases in social costs. Similarly, Abbott and Monsen (1979) used a content analysis of Fortune 500 company annual reports to create a Social Involvement Disclosure scale as a substitute index for CSR. They then divided the sample into firms with high and low CSR and examined the profitability of each category (environment, equal opportunities, personnel, community involvement and products).

Questionnaire Survey

"Questionnaire surveys are a technique for gathering statistical information about the attributes, attitudes, or actions of a population by a structured set of questions" (Preston, 2009, p.46). The researcher obtains primary data on CSR by distributing questionnaires or conducting interviews with knowledgeable respondents, such as managers and employees (Galant and Cadez, 2017; Ehsan *et al.*, 2018). This approach was used in studies by Aupperle *et al.* (1985) and McGuire *et al.* (1988). Aupperle et al. (1985) employed "a Forced-Choice Survey Instrument", in which Carroll's Pyramid (Figure 1), with its four components, economic, legal, ethical and discretionary, was used to assess the CSR performance of a firm within Carroll's frame of CSR.

One-Dimensional Measures of CSR

These use a single dimension of CSR, such as charitable donations or environmental protection, to measure CSR. The advantage of using a one-dimensional measure is the availability of data that facilitates comparison with other companies. However, a one-dimensional approach does not represent the entire spectrum of a business' obligations towards society (Carroll, 1991).

3.4 Data Sample

In this study, we collect data on CSR performance from Refinitiv ESG, now named LSEG. The scores are designed to measure a company's relative ESG performance, commitment and effectiveness transparently and objectively, based on company-reported data, as described above. The main advantage of the LSEG database lies in the detailed scoring methodology, with multiple ESG parameters used to compute the scores, which allow for a clear distinction between firms that are ESG laggards, showing little ESG performance, and firms that are ESG leaders, demonstrating substantial efforts in implementing ESG initiatives. The granularity is further reflected in the use of a materiality matrix to define the weights given to each category in the computation of ESG pillar scores and overall scores, based on their importance in each industry. Whilst the LSEG database is updated continuously with weekly recalculations, the ESG scores are only reported annually. This may limit the transparency of a firm's ESG performance, which can fluctuate throughout the year.

Table 2. ESG scores Refinitiv classification

ESG Combined scores			
ESG score			ESG controversies score
Environmental	Social	Governance	ESG controversy
Resource use Emissions Innovation	Workforce Human rights Community Product responsibility	Management Shareholders CSR strategy	Controversies across all ten categories are aggregated in one category score.

The environmental pillar score (ENSCORE) focuses on how a firm behaves towards the environment and the extent to which it reduces its impact in specific areas, such as pollution and natural resource and energy use. The environmental score represents a firm commitment to reducing emissions, increasing green revenues and innovations, supporting R&D of environmentally friendly products and improving resource-use efficiency (water, energy, sustainable packaging and environmentally optimised supply chain) (Refinitiv 2022). The social pillar score (SOSCORE) represents a company's values, policies and practices regarding factors associated with human rights, diversity, supply chain management and business ethics. The focus of the social pillar is on a company's ability to manage its relationship with the society it operates in and its workforce. The themes within the social pillar are human rights, responsible marketing, product quality, diversity and inclusion, career development and training, working conditions and health and safety (Refinitiv 2022). The governance pillar score (CGSCORE) represents the mechanisms to run a company which aim at building trust between executives, board members and shareholders. A high standard of corporate governance can ensure that executives and board members act in the best interests of shareholders. In contrast, weak corporate governance may encourage managers to commit fraud or engage in other unethical accounting behaviour. It assesses the alignment of interests of the executive and shareholders of a given company. The corporate governance pillar embraces such aspects of a company as CSR strategy (reporting and transparency), managing structure (independence, diversity, committees and compensation) and pursuit of shareholder interests (shareholder rights, takeover defences).

A key dimension of CSR is the workforce score is included in the social pillar. It measures *"a company's effectiveness in terms of providing job satisfaction, a healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce"* Refinitiv (2022, p. 25).

3.5 Stability Measurements of CSR Scores

The study implements multiple computational approaches to measure the dispersion in CSR scores over time, as proxied by ESG scores from Refinitiv. The measures are (1) the coefficient of variation (ESGCV), (2) the Beta of ESG scores (ESGBETA), (3) the trend of ESG scores (ESGTREND) and (4) the standard deviation of the residuals from the regression (ESGRES).

The first approach is the coefficient of variation (ESGCV), reflects the ratio of the standard deviation of each firm's ESG scores to the arithmetic mean of its average ESG scores over the period. ESGCV is used instead of standard deviation because the standard deviation might not accurately capture the relative variability of such datasets as the standard deviation of ESG scores does not consider the order in which the ESG scores occurred. Therefore, the coefficient of variation is particularly useful in this case, comparing ESG scores across different firms because it standardizes the variability relative to the mean. The coefficient of variation normalizes the standard deviation by the mean using a five-year rolling window, allowing for a more accurate comparison of variability. Therefore, normalising the standard deviation to get the coefficient of variation is a recommended approach (Brooks, 2019). ESGCV measures the degree of variation in a firm's workforce performance over time relative to its average workforce scores. It shows how consistency a firm maintains its ESG practices over time. We use the following formula to calculate the coefficient of variation:

$$\text{ESGCV} = \frac{\sigma}{\bar{y}} \quad (2.1)$$

The remaining three measures of CSR stability are obtained using the regression of Logarithmic ESG scores against TIME as well as against Logarithmic Market-wide ESG scores—using the average of market ESG scores by year. Using natural logarithm of the ESG to obtain more normality which is in line with previous study (Hammami and Hendijani Zadeh, 2020; Ho *et al.*, 2021; Asimakopoulos *et al.*, 2023). (Wooldridge, 2013) provides two reasons for using natural logarithm: (1) to impose a constant percentage effect, (2) to enable a constant elasticity model.

The outputs are coefficient of the coefficient of TIME (ESGTREND), the coefficient Market-wide ESG scores (ESGBETA), and the standard deviation of the residuals of the regression (ESGRES). To calculate the remaining three variability measures, we assume that a firm's CSR stability performance at time t is influenced by TIME and market-wide LogESG scores. We use TIME to obtain the coefficient of TIME (Slope) (following Wang and Choi, 2013), their approach is similar to previous studies that account for temporal trends in environmental uncertainty (Dess and Beard, 1984; Keats and Hitt, 1988; Wholey and Brittain, 1989; Boyd, 1995; Simerly and Li, 2000). Wang and Choi (2013) developed a method to measure CSR consistency by regressing five years of CSR scores against time. This approach produces five outputs, among them, the authors use two outputs: the coefficient (slope) which represents the trend in a company's CSR performance over time, and the standard error. The regression coefficient is used to assess whether a company's CSR is improving or declining over time. A positive coefficient indicates an upward trend is CSR performance, meaning the firm has been improving its CSR performance over the observed period. On the other hand, a negative coefficient represents downward trend, implying that the firm's CSR performance is deteriorating. A decreasing trend could reflect reduced commitment to CSR practices or challenges in maintaining previous standard. Whereas standard error provides an estimate of how much the sample mean is likely to vary if the study were to be repeated using different samples from the sample population—in this case another five-year rolling window. Thus, in (Wang and Choi, 2013), the standard error is used as an indicator of how much a firm's CSR fluctuate over a five-year period. When they regress a firm's CSR performance scores against time, the standard error of the regression coefficient tells us how much the firm's performance varies around the trend line during that period. In other words, the standard error shows the level of volatility or consistency in a firm's CSR over time. A low standard error indicates that the firm's CSR performance has remained relatively stable and close to the trend, meaning there is high temporal consistency. Conversely, a high standard error suggests that the firm's CSR performance fluctuates more, indicating lower temporal consistency. Wang and Choi (2013) use the standard error to assess temporal consistency by further changing the sign of the standard error and interpreting it as the inverse of consistency, meaning that the lower the standard error, the higher the consistency of a firm's social performance over time.

In addition, ESGBETA and ESGRES are obtained following the CAPM model, where Beta is a measure of a stock's volatility compared to the overall market. Stock beta is obtained through asset pricing models such as the Capital Asset Pricing or a multi-factor model such as Fama-French models. Asset pricing models have developed since the 1960s, beginning with the Capital Asset Pricing Model (Sharpe, 1964; Lintner, 1965), which assumes that the variance in return is predicted by only one-factor market risk (Beta). Then, the three-factor model of Fama and French (1992, 1993) expands the model to include the risks captured by firm size and market-to-book ratio, followed by the four-factor model (Carhart, 1997) which adds a momentum factor to the three-factor model of Fama French. Scholars continue their work to find other factors that may capture the variance of the return, such as CSR. It has recently received great attention, which makes scholars investigate its impact on businesses. CSR performance or, in some cases, some dimensions of CSR have been included in asset pricing models to determine whether this performance can reduce or increase the variance in return.

For this study, we borrow this method to compare the beta of a firm ESG scores to the overall market ESG scores. In this study we use a firm ESG scores Beta to measure the expected move in a firm ESG scores relative to the movements in the overall market ESG scores. The market ESG score is the broader market benchmark by taking the mean of ESG scores of all firms by each year, which creates a single ESG score. Beta is used in this study to estimate the sensitivity of a company's ESG scores against the aggregate ESG scores across all firms because beta regression is suited for modelling continuous proportions.

From this regression model, we obtain two measures: Beta of ESG scores (ESGBETA) in which a beta of 1 for ESG scores means that a firm's ESG scores exactly moves in line with the overall market ESG scores, if the market ESG scores rises by 1, the firm's ESG score is expected to rise by 1, so the firm ESG scores is exactly as volatile as the market. A beta of 0 indicates no correlation with the market ESG scores, meaning that changes in the market ESG scores do not predict changes in the firm's ESG score. A beta of -1 indicates that the firm's ESG scores is inversely correlated with the market ESG scores. However, if the beta is greater than 1, the firm's ESG scores is more volatile than the market.

Unsystematic volatility or firm-specific volatility (ESGRES) which is measured by the standard deviation of the residuals from the regression. The standard deviation of the residuals quantifies the dispersion of the residuals—the difference between observed and predicted values. It represents the portion of the firm's ESG score variability that is not explained by the market's ESG score. The lower the standard deviation of the residuals the closer to the predicted values, the more stable ESG scores, whereas the higher the standard deviation the greater variability.

In summary, using five-year rolling window, we regress LogESG scores against time and market-wide LogESG scores—using average LogESG scores across all firms of the sample by year. we also obtained ESG residuals (ESGRES) from the regression. We apply the following model:

$$Stability\ measure\ of\ ESG_t = a + TREND \cdot TIME + \beta \cdot LogMarketESG_t + \varepsilon_t, \quad (2.2)$$

Where:

- Stability measure of ESG refers to ESGBETA, ESGTREND, and ESGRES
- TIME represents the time (Trend variable) obtained from 2004 to 2022, goes from 1 to 19.
- LogMarketESG is the logarithmic of average ESG scores across all firms by year.

In summary, these measures of CSR stability performance serve different roles. The coefficient of variation (ESGCV) assesses the degree of variation in a firm's ESG performance over time relative to its average ESG scores. It calculates the ration of the standard deviation to the mean of workforce scores. It shows how consistency a firm maintains its workforce practices over time. scores over time, indicating how consistent a firm's ESG performance, providing a normalized measure that account for firms' differences of ESG scores (scales), meaning it is useful to compare two or more datasets. The beta coefficient (ESGBETA) measures the sensitivity of a firm's ESG scores (LogESG) to broader market ESG scores averaged by year, which is similar to how financial betas measures sensitivity to market returns. This captures how much a firm's ESG practices fluctuate in relation to market-wide ESG movements. ESG residuals (ESGRES) represents the firm-specific deviations in ESG performance that cannot be explained by market-wide ESG performance. This volatility in ESG scores is a firm-specific volatility which is not shared with the entire market ESG scores. ESG Trend (ESGTREND) reflects the direction of change in a firm's workforce scores over time relative to the uptrend movement of ESG scores (LogESG). It indicates whether a firm is consistently improving, declining, or maintaining its workforce performance, measuring the slope of workforce performance over time, which accounts for temporal trends (Wang and Choi, 2013). A positive trend indicates that a firm is improving its workforce performance over time.

ESGCV, ESGBETA, and ESGRES are expected to have an inverse relationship with corporate financial performance, as higher volatility or instability in CSR performance tends to undermine consistent performance. In contrast, ESGTREND is anticipated to show a positive relationship, with firms demonstrating a consistent upward trend in CSR performance likely to achieve better financial outcomes. We applied the rolling-window technique of five years to yield better estimates of stability. This process minimises the sample period from 2004 to 2022 to 2008 to 2022, so, the first 5 years is 2007-2008 so the first four years 2004-2007 has been used are removed and start the statistical analysis from 2008-2022.

3.6 Corporate Financial Performance Measurements

Financial performance assesses a firm's ability to achieve its economic objectives (Gentry and Shen, 2010). Multiple approaches have been employed to estimate corporate financial performance (Griffin and Mahon, 1997). Historically, most firms' financial performance measurements fall into two broad categories; investor returns and accounting returns (Cochran and Wood, 1984; McGuire *et al.*, 1986; Lambert and Larcker, 1987; Richard *et al.*, 2009). According to Cochran and Wood (1984), Investor returns where first used by Moskowitz (1972) for measuring financial performance, reflect shareholder perspectives, such as changes in share price, and are also known as market-based returns (Orlitzky *et al.*, 2003). The accounting-based measures, the second approach, capture different impacts of managerial decisions on company financial performance. Although market-based and accounting-based measures have some flaws, they are widely acknowledged as reliable indicators of a firm's financial performance (Hoskisson *et al.*, 1999).

Theoretically, accounting-based measures are considered to reflect past or short-term performance, while market-based measures predict future and long-term performance (Fisher and McGowan, 1983; McGuire *et al.*, 1986; Keats, 1988; Hoskisson *et al.*, 1994). Accounting measures asses a company's past performance and thus reflect how historical outcomes were shaped by or influenced its social initiatives. In contrast, market-based measures focus on future and forward-looking performance, considering the net present value of expected earnings (Margolis and Walsh, 2003). However, there is an ongoing discussion regarding their relationship in management research, particularly how closely they are related (Combs *et al.*, 2005; Gentry and Shen, 2010). For example, empirical studies find a positive correlation between accounting and market measures (Hoskisson *et al.*, 1994), no relationship (Hillman, 2005), or an inverse relationship between them (Keats and Hitt, 1988). In addition, it is empirically found that firm performance has a multidimensional construct in which each indicator estimates a different dimension of a firm's financial performance (Keats, 1988).

Market-based measures include Tobin's Q and stock return (Orlitzky *et al.*, 2003; Combs *et al.*, 2005; Gentry and Shen, 2010; Nollet *et al.*, 2016). Market-based measures can estimate intangible assets more effectively than accounting-based measures (Lev, 2003). For example, Aaker and Jacobson (1994) examine the relationship between stock price and a firm's brand image and find a positive relationship while controlling for return on investment (ROI) (it has been found that ROI can reflect the information content of advertising). One problem with using stock return is that it is not only the equilibrium outcome of investor sentiment but also many economic forces (Da *et al.*, 2015). Another criticism of market-based approaches is that they lack accuracy and reliability because they represent an investor's assessment of the firm's performance, which could not be considered objective (Ullmann, 1985).

McGuire *et al.* (1988) state that some authors prefer using market-based measures of performance over accounting-based measures for two reasons; (1) they are less vulnerability to accounting malpractices and managerial manipulation and (2) they reflect investors' judgement of a firm's propensity to boost future economic earnings. Moreover, Lubatkin and Shrieves (1986) document several reasons for the prominence of market-based measures over accounting-based measures. The authors report that (1) stock price is a direct representative of shareholders' value, (2) stock prices incorporate all aspects of firm performance and reflect all relevant information compared to a single aspect of firm performance measured by the accounting profitability approach, (3) stock prices are often available for all public firms, (4) stock prices are not subject to be manipulated by managers, and (5) the abnormal return which is based on stock prices can be a comprehensive measure because it takes into account inflation and a firm and the market movement (Beta).

Accounting-based measures include return on assets (ROA), return on Sales (ROS), and return on equity (ROE). Return on assets (ROA) measures how efficient a firm is in using its assets to generate earnings and ignores the sources and the cost of financing (e.g., debt versus equity financing and their costs) (Stickney *et al.*, 2007). Return on sales (ROS) evaluates a company's management's efficiency in creating profits from its sales. The ratio proves how well it turns its revenue operations to profit and compares the current ratio to the previous one, which helps find flaws and explain the disparity. However, ROS can be used only to compare companies in the same industry with similar models (Hennell andWarner, 1998). Return on equity (ROE) *"relates the return made for the shareholders with* *the finance made available by the shareholders"*, assessing how well a company's management maximises the rate of return received by the owners of common stock (Alexander and Nobes, 2007).

However, the use of accounting measures as a proxy for corporate financial performance has recently been under severe criticism (Fisher and McGowan, 1983; Benston, 1985). *"In particular, accounting rates of return are distorted by a failure to consider differences in systematic risk, temporary disequilibrium effects, tax laws, and arbitrary accounting conventions"* (Montgomery and Wernerfelt, 1988, p.626). Moreover, accounting-based measures are seen as inadequate tools for assessing financial performance, especially with firms starting to shift the focus to shareholder value as their primary long-term goal of the firm. It has been argued that each accounting-based measure captures only one dimension of financial performance (Dalton *et al.*, 1980; Lubatkin and Shrieves, 1986). Additionally, accounting-based measures fail to account for inflation, risk (either risk-free rate or risk premium), dividend policy, time value of money, cost of capital, and intangible assets such as research and development (R&D) (Fisher and McGowan, 1983; Venanzi, 2011). This lack of capitalization leads to mismeasuring total assets or total invested capital, impacting ROA or (ROIC) (return on invested capital).

In addition, the accounting-based measure approach is criticised for having some loopholes: *"(1) scope for accounting manipulation; (2) undervaluation of assets; (3) distortions due to depreciation policies, inventory valuation and treatment of certain revenue and expenditure items; (4) differences in methods of consolidating accounts; and (5) differences due to lack of standardisation in international accounting conventions"* (Chakravarthy, 1986). Lev (2003) affirms that current financial statements do not provide adequate information about intangible assets. In 2002, Federal Reserve Chairman Alan Greenspan discussed what he entitled "conceptual assets", referring to intangible assets as distinguished from tangible assets, and reported an increase in the intangible assets proportion of the total assets of the US GDP (Lev, 2003). Above all, *"it appears that extensive use of financial ratios by both practitioners and researchers is often motivated by tradition and convenience rather than resulting from theoretical considerations or from a careful statistical analysis"* (Lev and Sunder, 1979). The wide usage of accounting-based measures is due to the fact that they are the best available data (Hirschey and Wichern, 1984). Finally, multiple scholars suggest using both approaches to assess the impact of CSR on financial performance (Griffin and Mahon, 1997) and to reduce bias (Mcguire *et al.*, 1988).

To address the concerns with accounting-based measures, several studies have adopted Tobin's q and found it to be a much more comprehensive than accounting-based measures of financial performance. Tobin's q is defined as the ratio of market value of a firm's assets to their replacement cost of assets. It provides a more reliable measure of corporate financial performance. Unlike accounting-based measures which can be manipulated through creative accounting techniques.

Tobin's q has been useful in capturing multiple corporate phenomena, including differences in investment and diversification choices across firms, the impact of managerial equity ownership on firm value, the managerial performance and its impact on tender offer gains, investment opportunities and tender offer responses, and firm's capital structure, dividend, and compensation strategies (Chung and Pruitt, 1994; Wolfe and Sauaia, 2003). As a market-based measure, Tobin's q reflects both current performance and future prospects, by incorporating the present and future cash flows based on all available information (Ganguli and Agrawal, 2009). Tobin's q acts as a proxy for firm's value from an investor's perspective. According to Barney (2014), Tobin's q is a more convenient measure that avoids several problems associated with simple accounting measures, such as, Return on Invested Capital (ROIC) and A firm's Economic Profit (EP). These accounting measures require complex calculations, (e.g., information about a firm's cost of capital), especially calculating Weighted Average Cost of Capital (WACC), which can be very difficult for firms with diverse funding sources.

Tobin's q is calculated as the ratio of a firm's market value to the replacement of its assets. The market value of a firm's assets can be calculated as: *Firm Market Value = market value of common stock (firm shares outstanding times the price per share) + market value of preferred stock (number of shares of preferred stock outstanding times the ending price per share of preferred stock) +book value of a firm's short-term debt (the difference between the value of a firm's short-term liabilities and its short-term assets) + book value of a firm's long-term debt (obtained from balance sheet). Whereas the replacement value is usually determined by the book value of total assets.* A Tobin's q that is greater than 1 is an indicator that the market value of a firm exceeds its replacement cost, meaning that a firm is achieving superior performance. A Tobin's q that is less than 1.0 suggests that a firm is underperforming (Barney, 2014).

3.7 Limitations of Research Methodology

The methodology has some limitations, first, ESG scores are evaluated as a firm's overall ESG performance in which each dimension is assessed individually and given its own score, then weighted into ESG overall performance. So, the combined ESG score may fail to accurately reflect the performance of each specific attribute. This can be seen in the profound impact of workforce performance on the overall ESG scores which should have more weight into ESG overall scores. Second, the study assumes that the relationships between CSR consistency and corporate financial performance indicators are linear and static, which may oversimplify complex dynamics. Moreover, the dataset used in this study has undergone a significant retroactive revision (Berg et al. 2021). These changes led to substantial shifts in firm rankings and classification, which may affect the analysis between the CSR and corporate financial performance.

Moreover, apart from stability measures used in this study, other approaches to gauge CSR consistency can be used such as Z-score of ESG for standardized consistency across firms. The Z-score may be a useful way for comparing the consistency of CSR performance across firms as it standardizes ESG scores relative to each firm's historical average and variability. It considers the firm's scale of ESG scores and its variability. The Z-score of a firm ESG performance indicates how far a firm's ESG score deviates from its historical mean. This accounts for the firm's scale of ESG scores and its variability. Moreover, another measure is the use of autocorrelation of ESG scores with their own lagged values over time. High autocorrelation at lag-1 suggests strong temporal stability.

Finally, the LSEG database, used in this study, provides another measure of ESG scores and its dimensions by converting percentile scores into a qualitative grading scale (ranging from D to A+). Thus, to assess stability in this context, one could track how frequently and consistently a firm switch between grades over time. A firm that maintains the same letter grade over multiple periods may be considered more stable, while frequent grade changes could indicate greater instability in CSR or workforce performance. Analysing the frequency and direction of grades transitions can provide a clearer picture of stability over time.

3.8 Conclusion

This chapter describes the research methodology used to investigate the relationships between CSR stability (measured with ESG and workforce stability scores) and corporate financial performance. The study employs a positivist approach, using quantitative methods and secondary data to examine observable phenomena objectively, which should be transparent, replicable and generalisable. The methods used allow for the rigorous analysis of CSR stability over time. This is achieved by employing established ESG and robust statistical measures, such as the coefficient of variation, beta coefficients, temporal trends and regression residuals.

Here, positivism is chosen over interpretivism, as it can test causal relationships between CSR stability and corporate financial performance using empirical data. Similarly, by using market-based Tobin's Q, stock returns (RET) and accounting measures (return on assets: ROA) for corporate financial performance. the study addresses potential methodological biases and strengthens the findings' reliability.

The study does have limitations, including potentially that the assumption of linear relationships and static conditions oversimplifies matters, but the methodology used gives a solid basis for understanding the complexity of CSR stability. The robustness and replicability of the study is demonstrated by the detailed explanation of variables, measurements and data sources, which in turn leads to valuable insights into the on-going debate about CSR practices and corporate financial performance.

Chapter 4. Variability in CSR and Financial Performance

4.1 Introduction

This chapter explores the relationship between variability in CSR performance and corporate financial performance. While prior research has often focused on static measures of CSR, this study investigates how fluctuations in CSR over time impact financial outcomes. By analysing longitudinal data, this chapter aims to uncover whether firms with consistent CSR practices achieve more stable and superior financial performance compared to those with variable CSR engagement. The findings provide insights into the importance of CSR stability and its implications for long-term financial success, offering valuable guidance for mangers and stakeholders.

4.2 Theoretical Framework

The theoretical discussion surrounding the implementation of CSR activities has evolved significantly since the 1950s, beginning with the seminal work of Bowen (1953). According to Bowen (1953), social responsibility refers to *"the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society".* Davis (1960) suggests a potential positive link between CSR and corporate financial performance. In the 1970s, the concept of CSR gained prominence, with its definition becoming more numerous, detailed, and diverse. During this time, CSR witnessed differentiation and prosperity. Johnson (1973) explicitly argued for a positive association, stating that a socially responsible business, which prioritize not only the interests of shareholders, but also the interests of other stakeholders, such as employees, suppliers, and local communities, can add value to the business.

Scholars seek to find whether or not CSR is priced in capital markets by investigating the relationship between the level of CSR performance and business outcomes, such as corporate financial performance, firm risk and cost of capital; all of which have been subject to extensive empirical examination, with Bragdon and Marlin (1972) and Moskowitz (1972) credited with the first empirical investigation. However, even with this long history of examinations, empirical studies on the relationship between a firm social responsibility and its financial performance remains inconclusive (Wicks *et al.*, 1999; McWilliams and Siegel, 2001; Orlitzky *et al.*, 2003; Branco and Rodrigues, 2006; Lopez *et al.*, 2007; Margolis *et al.*, 2009; Cai *et al.*, 2012). Some studies find a significant positive relationship (Waddock and Graves, 1997), and others find either a negative (Lopez *et al.*, 2007) or a neutral relationship (Aupperle *et al.*, 1985). Nevertheless, despite the inconclusive results, most studies find a positive relationship between CSR and firm financial performance (Marom, 2006; Van Beurden and Gössling, 2008).

Some critics led by Milton Friedman (1970), which represents the neo-classical approach manifested by the shareholder value theory states that a negative relationship between CSR and corporate financial performance should exist as CSR initiatives demand a sacrifice of firm resources (Brammer *et al.*, 2006). Freidman further implies that CSR represents an agency problem in which managers assume the role of principles instead of acting as agents. On the other hand, stakeholder theory insists on the premise that a firm must consider the interests of its stakeholders. It argues that building stronger relationships with stakeholders can lead to improved reputation, customer loyalty, and employee satisfaction, ultimately, increased corporate financial performance. A cornerstone of stakeholder theory is the mutual trust between a firm and its stakeholder groups which signifies commitment and consistent CSR performance (Jones, 1995).

Moreover, legitimacy theory states that organisations must seek acceptance and approval from stakeholders by aligning their actions with societal norms and values. In the context of CSR, it suggests that businesses engage in socially responsible practices to legitimize their operations. This is achieved by using CSR as a tool to show their commitment to social and environmental well-being, where the actions undertaken would be evidenced through meeting the expectations set forth by stakeholders to avoid adverse publicity or backlash. There are two major CSR strategies to establish legitimacy: one is genuine corporate behaviour which decreases the legitimacy gap but require significant resources to implement CSR. While this strategy involves high upfront costs, it can lead to better CSR outcomes and long-term sustainable business development. In doing so, companies not only fulfil their corporate social responsibility goals but also enhance their legitimacy by demonstrating actual positive CSR results. The other CSR strategy is symbolic, aim at improving the corporate image or addressing immediate concerns, but without sufficient resources for the adequate implementation of CSR. This approach, has often been referred to as “greenwashing” or “window-dressing,” and tends to create a larger legitimacy gap (Gatti and Seele, 2015).

Furthermore, absorptive capacity theory is closely tied to a corporate’s commitment to CSR. It emphasises the ability of a corporate to recognize, assimilate, and apply knowledge for organisational improvement (Cohen and Levinthal, 1990). A firm that is committed to CSR practices can result in continuous learning. This commitment allows firms to modify and improve their CSR strategies, making them more effective and aligned with social demands. Through consistent engagement in CSR, increasing their efficacy and bringing them into achieving positive societal impact (Clarkson *et al.*, 2011; Kim *et al.*, 2012).

Moreover, the resource-based view is a strategic model that emphasise the key role of an organisations resources, which can used to gain sustained competitive advantage (Barney, 1991). In CSR literature, when CSR practices are deeply embedded in an organisation's core values and integrated within a firm's strategy, routines, and operations, they can develop sustained competitive advantage, and in turns, enhance corporate reputation and performance. This perspective highlights the importance of internal capabilities and resources in driving the financial and social success of CSR initiatives. While stakeholder theory and the resource-based view offer a foundation for exploring the complex relationship between a firm and society, only limited research has accounted for the impact of strategic CSR practices on corporate financial performance. By integrating CSR into strategic decision-making, firms can enhance their reputation, increase operational efficiencies, and foster stronger relationships with stakeholders, all of which can lead to improved financial performance.

However, despite these potential benefits, few studies have introduced measurements of the true impact of strategic CSR. Therefore, most studies pay little attention to differentiate between traditional CSR activities and those that are strategically aligned with a firm's long-term goals. This gap in measurements restricts full comprehension of the strategic function of CSR in improving corporate financial performance, thus creating for further investigation into how strategic CSR practices can be evaluated.

4.3 Hypotheses development

The impact of CSR performance on corporate financial performance is a hot topic that has yielded inconsistent results in previous studies. However, recent evidence suggests that businesses should follow strategic approach to implementing CSR initiatives to balance profit-making with ethical, social and environmental responsibility, and subsequently, improve corporate financial performance.

Drawing on, first, the stakeholder theory, which suggests that pursuing CSR activities can help satisfy stakeholders' expectations, ultimately leading to an increase in corporate financial performance. Second, the resource-based view, which provides a framework to define the role of a proactive CSR strategy in developing a firm's intangible resources (Barney, 1991; Galbreath, 2010; Surroca *et al.*, 2010), and can serve as a source of competitive advantage for a socially responsible firm. *"There is a broad consensus in the conceptual literature that many of the financial gains from improved social performance accrue in the long run while social performance initiatives may require companies to make significant investments in the short run"* Cox *et al.* (2004, p.29). For instance, waste reduction programs may generate financial benefits by increasing revenues and reducing costs (Brammer and Millington, 2008).

A growing body of literature has recently recognised the importance of a strategic approach to implementing CSR practices (Husted and De Jesus Salazar, 2006; Tang *et al.*, 2012; Bansal *et al.*, 2015). However, strategic CSR activities, such as increasing suppliers' human and labour rights standards, promoting workforce diversity, supplying safe products, and adopting effective corporate governance, require allocating substantial resources and long-term commitment (Bansal *et al.*, 2015). These repetitive activities are often routinised into day-to-day business operations (Roome and Wijen, 2006). Since routines are a common feature of organisational behaviour (Pentland and Feldman, 2005), these routinised activities enhance accumulated knowledge, which is crucial to ensure that companies can improve efficiency and consistency—leading to persistent organisational behaviour (Becker, 2005; Bansal *et al.*, 2015). Therefore, stable performance of CSR over time brings many benefits to a firm (Brammer and Millington, 2008), such as enhanced reputation (Gray and Balmer, 1998), reduced consumers' suspicions about the real motive of CSR engagement (Vanhamme and Grobben, 2009), enhanced employees' job performance and development of products (Carmeli *et al.*, 2007).

According to McWilliams and Siegel (2000), proactive relationships with stakeholders are essential for firms to achieve the benefits of CSR activities that can provide a competitive advantage. However, it is not enough to establish such relationships; a firm must also maintain and reinforce them to retain these benefits (Harrison *et al.*, 2010). Berman *et al.* (1999) argue that a strategic stakeholder management approach positively impacts financial performance. Husted and De Jesus Salazar (2006) affirm that a strategic approach to CSR activities results in greater social outputs, such as highly qualified employees, better reputation, and differentiated products, ultimately leading to further unique resources and capabilities.

Moreover, one common criticism of CSR is the concept of "greenwashing," which suggests that managers may have an incentive to invest in CSR for reasons that may not always align with those of shareholders. Such activities could further increase agency conflict and managerial opportunism. Strategic CSR implementation, however, can "greenwashing" and enhance the positive relationship between CSR and corporate financial performance (Bénabou and Tirole, 2010; Tang *et al.*, 2012; Bansal *et al.*, 2015; Ferrell *et al.*, 2016; Seele and Gatti, 2017). Overall, there seems to be some evidence to indicate that not only can the overall level of CSR performance influence corporate financial performance, but also the degree of consistency in CSR performance. However, measuring strategic CSR is challenging, due to its complexity and multi-dimension (Carroll *et al.*, 2016). Therefore, the stability score of CSR performance over time indicates consistent and systematic engagement (Vermeulen and Barkema, 2002; Tang *et al.*, 2012). While maintaining a high overall CSR score is important, it may be sufficient for a firm to focus on vital dimensions or even adopt a moderate level of social responsibility, resulting in lower but stable CSR scores over time, and still achieving strong financial performance. Therefore, it can be a viable alternative to establish a measure that considers the stability scores of CSR. These stability scores would indicate that a company shows consistent and reliability of CSR over time as a sign of strategic CSR practices, thus, giving insight into how well these activities are embedded into a company core business process.

Using ESG scores as the proxy for CSR performance, this study first examines the long-term impact of the overall CSR performance on corporate financial performance. Second, we examine the impact of the stability scores of CSR performance over time on corporate financial performance. Using panel data and employing five different measures of CSR stability performance. The following hypotheses will be tested: For this reason, this study first examines the long-term impact of the overall CSR performance on corporate financial performance. Second, we examine the impact of the stability scores of CSR performance over time on corporate financial performance. Using panel data and employing seven different measures of CSR stability performance. The following hypotheses will be tested:

Hypothesis$_1$: The stability of CSR scores over time impacts corporate financial performance.

Hypothesis$_2$: Companies with higher CSR performance exhibits better financial performance.

4.4 Data and Methods

This study focuses on one country, the U.S., as it is a pioneer in the field of CSR and the availability of a long-history CSR data. So, our sample consists of 379 US based public companies. We reached out to this number of companies after removing companies with missing data on CSR. The study period is from 2004 to 2022. Since our measures of stability require a five-year rolling-window, we start analysing data using 2008-2022. We include the first four years 2004-2007 to be combined with 2008 to get the first five years rolling window.

4.4.1 Independent Variables

We apply four measures of stability using ESG scores from LSEG as a proxy of CSR performance: (1) ESG coefficient of variation (ESGCV), (2) Beta of ESG against market ESG scores (ESGBETA), (3) the trend lines of CSR against Time (ESGTREND), (4) residuals of regression of ESG scores against Market ESG scores and Time (ESGRES). We use Log of ESG scores to represent the CSR performance.

4.4.2 Dependent variables

Corporate financial performance

Corporate financial performance is measured using either accounting-based or market-based measures. This study uses both of those measures. Particularly return on assets, stock return and Tobin's Q. Return on assets (ROA) is a financial ratio that reflects the proportion of profit a firm generates from *its total assets*. Following (Bryan *et al.*, 2006; Brick and Chidambaran, 2010), ROA is measured as the ration of EBITDA (earnings before interest, taxes, depreciation, and amortization) to total assets.

Return on assets (ROA) = $\frac{\text{EBITDA}}{\text{Total Assets}}$ (3.1)

Tobin's q, named after the economist Tobin (1958) James Tobin, is based on Tobin's hypothesis that a company's total value and its replacement costs should be approximately equal. Tobin's Q is a firm market valuation (the summation of the market value of a firm's debt, common stock and preferred stock) over the replacement value of assets of tangible assets (Lindenberg and Ross, 1981). A Tobin's q ratio of greater than 1.0 indicates that a firm is overvalued, and its market value exceeds its replacement cost. In contrast, a low Towbin's q ratio between 0 and 1 indicates that the replacement cost exceeds the market value. Tobin's q is a good estimation of expected future gains (King and Lenox, 2001). Tobin's Q is obtained from Datastream.

Stock return is the calculation of the rate of return over a specified period, daily, weekly, monthly, or annually, of the adjusted price of a stock that accounts for any capital gains, dividends, or corporate actions like splits and spin-offs. At DataStream, a share price, denoted by P, has been adjusted for any actions. The stock price return of the share price is calculated using changes in closing prices of two consecutive periods (annual price in this study) as follows:

$$Stock\ Return = \frac{\text{P}_1 - \text{P}_0}{\text{P}_0}$$

OR: Stock Return = LN $\frac{\text{P}_1}{\text{P}_0}$ (3.2)

4.4.3 Control variables

Prior studies on the impact of CSR on firm business outcomes have included several variables to control for some aspects of firms' characteristics (e.g. firm size, firm risk, industry, Market-to-book value). Margolis *et al.*(2009) observe that previous studies on CSR and firm performance have often incorporated three control variables: industry effect, firm size, and market risk. In addition, Ruf *et al.* (2001) indicate that while examining the relationship between CSR and financial performance has produced mixed results, the methodological rigour has been improved by including several controlling variables known to be influenced by CSR or financial performance, such as prior financial performance, industry and firm size. Capon *et al.* (1990) document the most frequent variables in previous studies of financial performance; industry, growth, market share, size, capital investment intensity, advertising intensity, and research and development spending. Most importantly, three essential control variables are employed in all recent studies: firm size, risk (beta or total debt to total assets ratio) and research and development expenditure (McWilliams and Siegel, 2000; Margolis *et al.*, 2009; Nollet *et al.*, 2016).

Firm Size: Ln (Total Assets) (Size)

Fama and French (1992) find that firm size captures variance in stock return. Also, Dang et al. (2018) emphasize the critical role of firm size in empirical research, of which the firm size in many studies influences the results. Banz (1981) reports a strong negative relationship between average return and firm size. According to Rajan and Zingales (1995), large firms tend to have higher cash flow from the current investment but fewer business opportunities and higher leverage than smaller firms due to having a lower probability of default or financial distress. In addition, McWilliams and Siegel (2001) suggest controlling for firm size, as large firms are more prone to engage in CSR activities and generate profit. Fombrun and Shanley (1990) find that the larger the firm, the higher its corporate reputation index. Similarly, Stanwick and Stanwick (1998) affirm that large firms face more public attention than smaller firms, which motivates large firms to engage more in CSP. Johnson and Greening (1999) emphasize the vital role of firm size as a predictor of CSR and claim that larger firms are better engaged in social responsibility than smaller ones because these larger firms have slack resources. Similarly, Youn et al. (2015) identify that firm size moderates the association between CSR practices and corporate financial performance. Firm size has been considered a key determinant of CSR and financial performance (Ullmann, 1985; Majumdar, 1997; Goddard *et al.*, 2005; Lee, 2009). Large firms may have enough resources to engage in CSR activities, and they are more exposed to public pressure to be socially responsible firms (Lang and Lundholm, 1993). Penrose (1959, p.79) describes the effect of size as ***"**economies of size are present when a larger firm, because of its size alone, can not only produce and sell goods and services more efficiently than smaller firms but also can introduce larger quantities or new products more efficiently".* Therefore, the cost for larger firms to engage in CSR activities is lower than that of smaller firms (McWilliams and Siegel, 2001).

The measurement of firm size is important in empirical research, whether the firm size is the main concern because it influences the results or is used as a robust empirical variable (Shalit and Sankar, 1977). For example, in empirical corporate finance research, Dang *et al.* (2018) find that firm size is often captured in three different methods; total assets (Bansal *et al.*, 2015; Habermann and Fischer, 2021), total sales (Huang and Kung, 2010), and stock market capitalizations (Oikonomou *et al.*, 2012). Other scholars claim that firm size is measured by the logarithm of the number of employees (Waddock and Graves, 1997; Berrone *et al.*, 2007; Surroca *et al.*, 2010). Similarly, three measures of firm size are often used in literature: the natural logarithms of (1) sales, (2) net assets, and (3) the number of employees in a firm. *"Even though each measure captures a somewhat different aspect of size, empirical investigation showed that they were highly correlated for this sample (0.85 and above), so the use of any one of them was justified"* (Singh, 1986, p.573). Firm size is generated by finding the natural logarithm of a firm's book value of total assets (Brammer and Millington, 2008)

Leverage (Leverage)

Leverage impacts CSR engagement as firms with a high leverage ratio may tend to halt or reduce engagement in CSR activities and meet the demand of their stakeholders (Oikonomou *et al.*, 2012). In addition, there is a positive relationship between leverage and the average return (Bhandari, 1988). The leverage ratio is found by dividing a firm's book value of total debt by the book value of total assets (Ahn *et al.*, 2006).

Industry

Industry features also impact CSR activities. For example, Cho and Patten (2007) note that firms operating in certain industries (oil exploration, paper, chemical and allied products, petroleum refining, metals and utilities, and mining industries) are more likely to be sensitive to environmental and social issues. We use the LSEG Business Classifications (TRBC – Industry Group) to control for industry. The following table shows the number of firms in each industry group based on the LSEG classification:

Table 3 Number of Firms in each TRBC industry classification

TRBC	number of Firms in the samples
Academic & Educational Services	2
Basic Materials	24
Consumer Cyclicals	57
Consumer non-cyclicals	33
ENERGEY	25
Financials	59
Healthcare	34
Industrials	45
Real Estate	24
Technology	55
Utilities	21
Total	**379**

Financial slack (CASHAT)

Organisational slack is *"a cushion of actual or potential resources which allows an organisation to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment"*(Bourgeois III, 1981, p.30). Further, slack is the *"resource that enables an organisation both to adjust to gross shifts in the external environment with minimal trauma, and to experiment with new postures in relation to that environment, either through new product introductions or through innovations in management style"*

(Bourgeois III, 1981, p.31). A firm with slack resources will be motivated to a greater level of CSR activities (Sharma, 2000; Bansal, 2005).

In addition, slack resources enable a firm to allocate more resources and capabilities to respond effectively to external issues and withstand uncertainty (Cheng and Kesner, 1997). Therefore, slack helps maintain the desire for future prosperity and adapt to environmental fluctuations (Singh, 1986). According to Seifert *et al.* (2004), cash flow is considered the appropriate indicator of slack resources. It represents uncommitted funds that can be easily used for discretionary purposes such as CSR activities. Therefore, we measured financial slack using the ratio of cash to total assets (Kim and Bettis, 2014; Vanacker *et al.*, 2017).

4.5 Model Specification

This study uses panel analysis to study the relationship between overall CSR scores, CSR stability, and firm financial performance over time. Panel analysis is a statistical method that can control for unobserved effects and mitigate potential problems such as autocorrelation and heteroscedasticity. We run the Hausman specification test (Hausman, 1978) to determine whether the fixed effects or random effects model is consistent in our panel analysis. The result of the Hausman 13 test is significant, which indicates that the random effects estimator is inconsistent, and the fixed effects estimator should be used. The fixed effects model has been used widely in examining the relationship between CSR and corporate financial performance (Baron, 2009; Cavaco and Crifo, 2014). The use of fixed effect model controls for errors in measurements and firm-specific characteristics. To analyse whether the stability and overall CSR performance are determinants of corporate financial performance, we propose the following models, where the dependent variable is financial performance measured by ROA, Tobin's q, and Stock Returns (RET), all are winsorized at 1 %. The independent variables are stability measures of CSR performance and the overall CSR performance. To minimize concerns of reverse causality, dependent variables are at time t, and the independent variables are at t-1. The use of lagged ESG scores as well as stability measures is based on the argument that CSR performance have lagged effects and may lead to superior future corporate financial performance (Cheng *et al.*, 2016). Additionally, we used lagged explanatory variables to solve endogeneity problems (Bellemare *et al.*, 2017). To account for the potential impact of the financial crisis, this study controls for year fixed effects, which capture any time-specific shocks that may have affected all firms in the sample, such as the 2008 financial crisis. However, recognizing that the financial crisis may have had heterogeneous effects across different industries and firms, additional control such as financial crisis dummy variable or interaction terms are often recommended. Nevertheless, the implementation of year fixed effects adequately captures the crisis's general impact, enabling this study to examine the connection between CSR consistency and financial outcomes without interference from broader economic disturbances.

In addition, F-test for fixed effects is used to determine whether a fixed effects model is more appropriate than a pooled ordinary least squares (OLS) model. The null hypothesis (H0) of this test is that all entity-specific are equal to zero, the pooled OLS model is appropriate and individual fixed effects do not significantly contribute to the model. Moreover, if the F-test is significant, we reject the null hypothesis (Baltagi, 2008). In our model, the fixed effects model is preferred over the pooled OLS model as the P value is significant.

To address potential endogeneity concerns related to LESG, an instrumental variables regression (2SLS) was conducted using the second lag of LESG (LESG at t-2) as an instrument for current LESG. The rationale behind choosing this instrument is based on the assumption that past ESG performance strongly predicts current ESG scores but is uncorrelated with the current period's omitted factors that directly affect corporate financial performance (Wooldridge, 2010; Sun and Zhu, 2024).

The Durbin—Wu—Hausman test for endogeneity produced an insignificant result (F=0.2278, p-value =0.6334), indicating no statistical evidence of endogeneity for LESG. Hence, treating LESG as exogenous in the main fixed effects regression is valid, affirming the robustness of the estimation results.

Model (3.3) is used to test the effect of stability measures of CSR performance (LogESG) on corporate financial performance indicators (CFP) (ROA, Tobin's q, RET), we include several control variables (SIZE, LEVERAGE, CASHAT), which is shown in the following equation:

$$CFP_{it} = \beta_i + \beta_1 STABILITY_{i,t-1} + \beta_2 \ LogESG_{i,t-1} + \beta_3 \ SIZE_{it-1} + \beta_4 LEVERAGE_{it-1} + \beta_5 \ CASHAT_{it-1} + \varepsilon_{it} \tag{3.3}$$

Model (4.3) is used to test the impact of the overall CSR performance (LogESG) on corporate financial performance using the three indicators. We also include the control variables. All independent variables are lagged by one period.

$$CFP_{it} = \beta_i + \beta_1 LogESG_{i,t-1} + \beta_2 \ SIZE_{i,t-1} + \beta_3 \ LEVERAGE_{it-1} + \beta_4 \ CASHAT_{it-1} + \varepsilon_{it} \tag{3.4}$$

4.6 Result

The results are organized into several subsections to provide a comprehensive understanding of the data, and the analyses conducted:

1) The changes of CSR and its pillars performance overtime: this section track the change of scores overtime.

2) Descriptive statistics: This section provides an overview of the data characteristics, including measures of central tendency and dispersion for all key variables.

3) Correlation analysis: this analysis assesses the potential for multicollinearity and offers preliminary insight into the association among variables.

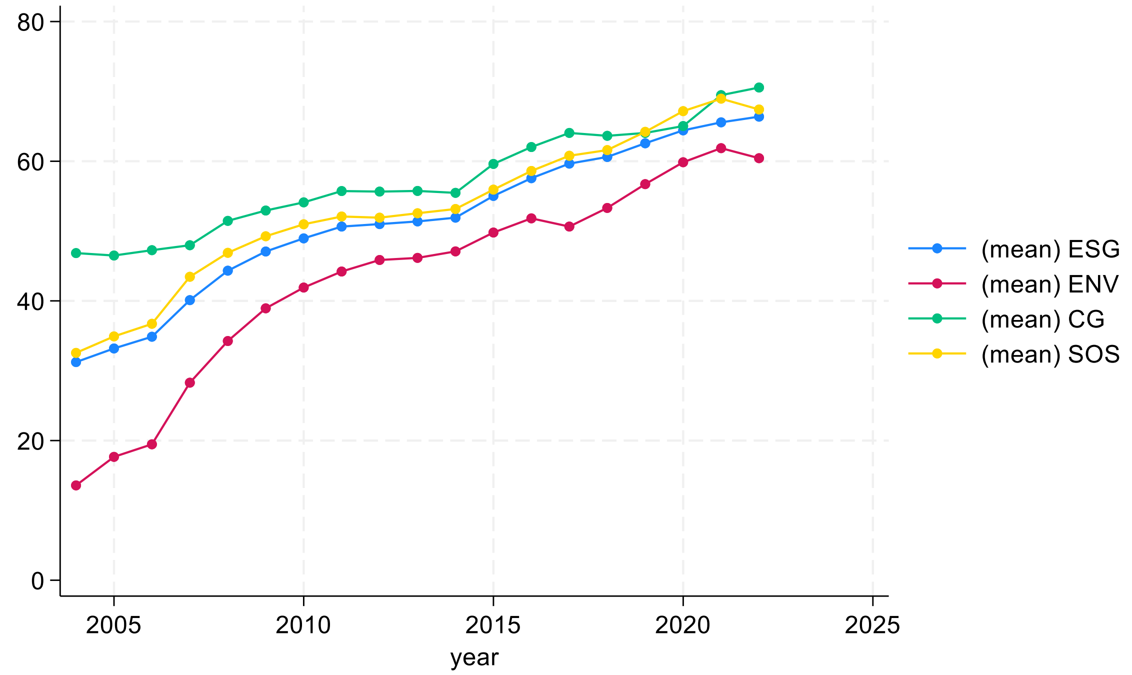
4) Regression analysis: this section presents the results of the fixed effects regression models used to test the hypotheses. The regression analyses are further divided based on the various corporate financial performance indicators (ROA, Tobin's q, RET). For each financial indicator, the regression results include the coefficient, significant levels, and interpretation of the effects of CSR stability measures (ESGCV, ESGBETA, ESGTREND, ESGRES) and overall CSR performance (LogESG).

4.6.1 The change of CSR over time

Figure 3 shows a growing trend in CSR scores and its pillars—Environmental (ENV), Corporate Governance (CG), and Social (SOS)—from the sample period 2002 to 2022. Several key insights are obtained from this graph:

1) Overall, there are increase in CSR, its pillars commitment. This steady growth indicates that companies have increasingly committed to CSR. Suggesting that CSR has become more integrated into corporate strategies.
2) Several factors may have contributed to the rising trend in CSR scores:
   - Regulatory influence: The introduction of stricter regulations and reporting requirements has likely incentivized firms to enhance their CSR efforts.
   - Stakeholder expectations: stakeholders have increasingly demanded responsible business practices.
   - Risk competitiveness: companies have recognized that strong CSR performance can serve as a competitive advantage (Branco and Rodrigues, 2006).
   - Risk management: engaging in CSR activities helps firms mitigate various risk, including reputational damage, legal penalties. And labour disputes.

Figure 3. CSR scores--its Pillars performance over time



4.6.2 Descriptive Statistics

This section provides an overview of the descriptive statistics for the variables used in the study. Table 4 summarizes the key statistics, including the mean, median, standard deviation (SD), minimum and maximum values, skewness, and kurtosis for each variable. The dataset comprises 7,201 annual firm observations of ESG scores from 2004 to 2022. We include raw ESG scores, ESGCV (coefficient of variation of ESG scores), Logarithmic form of ESG (LogESG) and the remaining measures of stability are obtained using the regression of Logarithmic ESG scores against TIME as well as against Logarithmic Market ESG scores.

To calculate the remaining three variability measures, we assume that a firm's CSR stability performance (LogESG) at time t is influenced by TIME and market-wide LogESG scores. We use TIME (following Wang and Choi, 2013), their approach is similar to previous studies that account for temporal trends in environmental uncertainty (Dess and Beard, 1984; Keats and Hitt, 1988; Wholey and Brittain, 1989; Boyd, 1995; Simerly and Li, 2000). In addition, we follow the CAPM model by regressing LogESG scores against market-wide LogESG scores using average LogESG scores across all firms of the sample by year. Finally, we obtained ESG residuals (ESGRES) from the regression. We apply the following model:

$$Stability\ measure\ of\ ESG_t = a + TREND \cdot TIME + \beta \cdot LogMarketESG_t + \varepsilon_t, \quad (3.5)$$

Where:

- Stability measure of ESG refers to ESGBETA, ESGTREND, and ESGRES
- TIME represents the time (Trend variable) obtained from 2004 to 2022, goes from 1 to 19.
- LogMarketESG is the logarithmic of average ESG scores across all firms by year.

Corporate financial indicators (ROA, Tobin's q, and RET) are all winsorized at the 1 percent and 99 percent level. The mean ROA is 11.91%, with a standard deviation of 9.49%. This indicates moderate variability in profitability across firms. The minimum and maximum ROA values range from -46.36% to 49.36%, which suggests that while some firms experienced significant losses, others achieved high profitability. Tobin's q has a mean of 1.5112, with a high standard deviation and maximum value. This suggests considerable variability in the sample firms' Tobin's q, as indicated by the values of skewness and kurtosis showing skewed distribution with heavy tails. Stock returns (RET) have a mean of 6.48% and show substantial variability, as indicated by a high standard deviation of 34.55%. The skewness and kurtosis values indicate a left-skewed distribution with heavier tails than a normal distribution, reflecting extreme negative and positive returns for some firms in the sample.

The average ESG score is 51.3981, with a median of 52.20000, indicating that, on average, firms have moderate CSR performance. The standard deviation of ESG is 20.2623, indicating noticeable difference in CSR performance. The relatively low skewness and kurtosis suggest that a very small frequency of extreme observations, with a distribution shape that is flatter than the Gaussian (which has a kurtosis of 0). These findings shed doubt on the usefulness of kurtosis as a measure of variability as suggested by Tang *et al.* (2012). The findings also show that CSR stability measures (ESGCV, ESGBETA, ESGTREND, and ESGRES) exhibit high kurtosis which indicates that these variables have distribution with extreme values.

4.6.3 Correlation Analysis

Table 5 presents an analysis of Pearson correlation between the main variables. The correlation analysis highlights important relationships between all CSR stability measures and corporate financial performance indicators. The coefficient of variation of ESG scores (ESGCV) has an inverse correlation with ROA ($r=-0.0287$, $p<0.05$) and stock returns (RET) ($r=-0.0543$, $p<0.01$), suggesting that firms with more stable CSR performance tend to achieve higher profitability and better stock returns. The sensitivity of a firm's CSR performance to market-wide performance (ESGBETA) do not show expected relationships with financial performance indicators. The time trend of CSR performance (ESGTREND), reflecting consistent improvement over time, does not exhibit significant correlations with financial indicators, indicating that gradual CSR enhancements may not immediately impact financial performance. The residuals from the CSR stability regression (ESGRES), capturing firm-specific deviations in CSR performance, are only negatively correlated with Tobin's q (r—0.0310, p<0.05). Overall, the findings underscore that CSR stability, particularly reduced variability in CSR performance, is associated with better financial outcomes, emphasizing the strategic importance of maintaining consistent and stable CSR practices to enhance profitability and shareholder value.

Moreover, the correlation analysis demonstrates that overall ESG scores have a significant positive relationship with ROA (r=0.0466, p<0.01) and Tobin's q (r=0.0424, p<0.01), indicating that firms with higher CSR performance tend to exhibit better profitability and higher market valuations. On the other hand, the logarithmic transformation of ESG scores (LogESG) reinforces this association, the positive correlation with ROA remains significant (r=0.0490, p<0.01) even after accounting for distributional adjustments. However, LogESG does not have a significant correlation with Tobin's q or with stock returns (RET).

4.6.4 Drivers of CSR variability

This section investigates the determinant of CSR variability by employing panel regression analyses. The focus is on understanding how different corporate financial performance indicators—ROA, Tobin's q, and RET— along with other explanatory variables, influence CSR stability measures. The CSR performance is represented in its logarithmic form (LogESG), and the CSR stability measures are the coefficient of variation of ESG scores (ESGCV), ESG beta (ESGBETA, ESG trend (ESGTREND), and ESG residuals (ESGRES). All financial performance indicators are winsorized at the 1% level to mitigate the impact of outliers.

- $STABILITY_{it} = \beta_i + \beta_1 CFP_{i,t-1} + \beta_2\, LogESG_{i,t-1} + \beta_3\, SIZE_{it-1} + \beta_4\, LEVERAGE_{it-1} + \beta_5\, CASHAT_{it-1} + \varepsilon_{it}$ (3.6)

For each financial performance indicator, a separate panel regression is conducted, resulting in three tables corresponding to ROA (Table 6), Tobin's q (Table 7), and RET (Table 8). In each table, four fixed-effects regression models are estimated, each with one of the CSR stability measures as the dependent variable. The explanatory variables include lagged values of ROA, Tobin's q, RET, LogESG, firm size (SIZE), firm leverage (LEVERAGE), and financial slack (CASHAT). Lagging the independent variables by one period helps address potential endogeneity issues (Baltagi, 2008; Bellemare *et al.*, 2017). Industry and year fixed effects are included to control for unobserved heterogeneity across industries and time periods.

The results in Table 6 indicates that ROA has a significant negative relationship with ESGCV (β=-0.0502) at 10%, ESGBETA (β=-4.7129), and a significant and positive relationship with ESGTREND (β=0.1008, p<0.01). This suggests that higher profitability is associated with lower variability in CSR performance, as measured by ESGBETA. Additionally, the positive and significant association between

ROA and ESGTREND implies that firms with higher profitability exhibit a consistent upward trend in their CSR performance over time, aligning with the market-wide CSR performance uptrend.

Table 7 shows that Tobin's q has a significant and negative relationship with ESGBETA (β=-0.5216, $p<0.01$) and a significant positive relationship with ESGTREND (β=0.0111, $p<0.05$). This indicates that firms with higher market valuation are inversely related to ESGBETA—the sensitivity to market-wide CSR performance, besides, firms with higher market valuation demonstrate consistent improvements in CSR performance (ESGTREND).

In contrast, Table 8 reveals that RET does not show significant relationships with any of the CSR stability measures, suggesting that stock returns may not be directly driven or influenced by CSR variability. Among the control variables, firm size (SIZE) generally shows a negative and significant relationship with ESGCV and ESGBETA. This indicate that larger firms tend to have more stable CSR performance. This may be due to larger firms having more resources and established CSR policies, enabling them to maintain consistent CSR activities (Udayasankar, 2008). The significant and positive relationship between SIZE and ESGTREND suggests that larger firms are also more likely to improve their CSR performance over time which is aligned with CSR market-wide trend. In contrast, firm leverage (LEVERAGE) and financial slack (CASHAT) exhibit mixed results across the models. While their associating with CSR stability is not consistently significant, they may influence CSR variability through their impact on a firm's ability to invest in CSR initiatives (Di Giuli and Kostovetsky, 2014; Lin *et al.*, 2020).

In conclusion, the regression analyses underscore the importance of financial performance in influencing CSR stability. Specifically, firms with higher profitability and market valuation are more likely to maintain consistent CSR performance and exhibit positive trends in CSR performance over time. These findings contribute to the understanding of the interaction between financial success and CSR, suggesting that CSR stability is both a strategic asset and a reflection of a firm's financial health.

4.6.5 Regression Analysis:

The main objective of this study is to examine the impact of both CSR stability measures and overall CSR performance (LogESG) on corporate financial performance indicators. The analysis to addresses the two primary research hypotheses:

Hypothesis_1: The stability of CSR scores over time impacts corporate financial performance.

Hypothesis_2: Companies with higher CSR performance exhibits better financial performance.

The findings from the panel regression analyses with various corporate financial performance reveal mixed support for these hypotheses.

Impact of CSR stability on corporate financial performance

Tables 9, 10, and 11 presents the results of fixed effects regression examining the impact of CSR stability—measured by ESGCV, ESGBETA, ESGTREND, and ESGRES—on corporate financial indicators. All models incorporate both industry and year fixed effects, and the estimates are derived from robust standard errors.

Table 9 examines the effect of CSR stability measures on ROA. Among the measures of CSR stability, only ESGCV—the coefficient of variation of ESG scores—is statistically significant, with a coefficient of -0.0541 at the 5% level. This suggests that firms with higher variability in CSR performance are likely to experience lower profitability. Stable and consistent CSR engagement tend to enhance profitability, indicating that CSR stability reflects long-term strategic commitments, which can be appreciated by stakeholders (Pirsch *et al.*, 2007; Tang *et al.*, 2012; Wang and Choi, 2013). Moreover, the remaining CSR stability measures do not exhibit statistically significant relationship with ROA. This implies that a firm's CSR performance sensitivity to the market ESG (ESGBETA), consistent improvement of ESG over time (ESGTREND), and residuals of ESG scores from the regression (ESGRES) do not have a clear impact on profitability.

Table 10 explores the impact of CSR stability on Tobin's q, a market-based performance measure that reflects a firm's market value relative to its replacement cost of its assets. The results show that ESGBETA has a significant negative relationship with Tobin's q ($\beta=-0.0025$, $P<0.05$). Given that ESGBETA represents sensitivity to market-wide CSR performance, lower values of ESGBETA are associated with higher market valuations. Additionally, ESGTREND is found to have a significant positive ($\beta=0.1357$, $p<0.05$) relationship with Tobin's q. This suggests that a consistent upward trend in CSR performance, aligned with market-wide performance, is rewarded with higher firm value. In contrast, ESGCV and ESGRES do not show significant effects on Tobin's q.

Table 11 presents the results of the analysis of CSR stability measures on stock returns (RET). While the hypothesis anticipates a significant impact of CSR stability on RET, none of the CSR stability (ESGCV, ESGBETA, ESGTREND, or ESGRES) show a significant effect on RET. This suggests that RET may not be responsive to variations in CSR performance. Leverage exhibits a negative and significant relationship with RET across models in Table 11, indicating that higher leverage is penalized by investors in terms of stock performance. In contrast, LEVERAGE does not show significant effect on ROA or Tobin's q. Moreover, financial slack (CASHAT) shows a positive and significant relationship with all corporate financial indicators. This reinforces the idea that liquidity is valued by investors, increase profitability, and firm value.

The relationship between CSR performance (LogESG) and corporate financial performance

The analysis of the relationship between CSR performance measured by (LogESG) and corporate financial performance indicators (ROA, Tobin's q, and RET) indicates that across all tables

LogESG shows a positive and statistically significant relationship with ROA (Table 9). However, Tobin's q (Table 10) and RET (Table 11) produce positive but not significant relationship with LogESG. These results suggest that CSR performance is associated with better accounting-based financial performance (ROA), while its effect on market-based performance (Tobin's q and stock returns) is less pronounced.

In sum, Overall, the results from Tables 9, 10, and 11 provide mixed support for the hypotheses. Hypothesis 1 is partially supported. Table 8 shows that ESGCV has an inverse and significant relationship with ROA, indicating that higher CSR variability reduces profitability. This finding suggests that higher variability in CSR performance is associated with lower profitability. Firms that maintain consistent CSR performance tend to achieve between financial performance, supporting the notion that stability in CSR engagement reflects a long-term strategic commitment valued by stakeholders. This aligns with the resource-based view (RBV) theory, which posits that unique and consistent practices lead to sustainable competitive advantage (Barney, 1991). In Table 9, both ESGBETA and ESGTREND are significant, showing that variability in CSR performance has an impact on firm value (Tobin's q), in which ESGBETA negatively affect firm value, and ESGTREND has a positive impact on firm value. However, in Table 11, CSR stability measures appear less relevant to stock returns (RET).

Hypothesis 2 is partially supported. There is a significant positive relationship between CSR performance (LogESG) and ROA, supporting the notion that higher CSR engagement leads to increased profitability. This is consistent with prior studies (Preston and O'bannon, 1997; Waddock and Graves, 1997). However, CSR performance does not significantly impact Tobin's q or RET. This is in line with previous studies (Nelling and Webb, 2009; Belu and Manescu, 2013)

4.6.6 Discussion

This study advances the literature on CSR by focusing on CSR consistency, using the stability scores of CSR over time, and exploring its impact on corporate financial performance indicators. Previous research has shown that consistent and well-integrated CSR practices can yield a competitive advantage by fostering trust with stakeholders and improving operational efficiency. Our study reinforces this assertion, suggesting that stability in CSR performance, particularly when operationalized as low variability in performance measures, or showing a temporal consistency, is an essential factor in achieving better financial outcomes, specifically in terms of profitability (ROA), and firm value (Tobin's q).

The analysis reveals that firms with more consistent CSR performance tend to performance better financially. This finding aligns with prior studies emphasizing the importance of strategic approaches in implementing CSR practices (Treviño and Weaver, 1999; Galbreath, 2009). The significant relationship between CSR stability measures and financial outcomes also supports the view that consistent CSR practices, particularly through strategic CSR implementation, create a close relationship with stakeholders which can be a source of competitive advantage. In addition, the incremental benefits of fostering the relationship with stakeholders can outweigh the cost associated with developing this closer relationship capabilities, such capabilities may lead to a sustainable competitive advantage are rare and difficult to imitate (Jones *et al.*, 2018). Interestingly, while profitability (ROA), and firm value (Tobin's q) both show significant association with CSR stability, stock returns (RET) do not, which support the view that CSR performance has more impact on accounting-based than on market-based measures (Orlitzky *et al.*, 2003). This study highlights that consistent CSR performance is an indicator that firms are integrating CSR activities into their business practices rather than add-on activities.

4.6.7 Results limitation

While the results of this study provide valuable insights into the relationship between ESG stability and corporate financial performance, several limitations should be considered in interpreting these findings. First, the results show varying levels of significance and effects sizes for the relationship between ESG and financial indicators. This inconsistency suggests that ESG stability may influence certain aspects of financial performance more directly than others, limiting generalizability of findings across all metrices. Second, the results assume an identical impact of ESG stability across firms, but firm-specific characteristics (e.g., size, industry, or market conditions) likely moderate the relationship. The aggregated results may obscure nuanced effects that vary by sector or firm type. Third, the results capture relationships during 2008 to 2022 period, but the dynamics of ESG impact may evolve over time. For example, recent emphasis on ESG due to regulatory changes or stakeholder activism may amplify its influence in future periods. Forth, this study's period of analysis encompasses major macroeconomic distribution including the 2008 financial crisis, and Covid-19 that may distort the relationship between CSR consistency and indicators of financial performance. These events may likely affect not only CSR performance but also corporate financial performance. Finally, while using fixed effects estimation control for unobserved effects, the results may still suffer from endogeneity, such as reverse causality or omitted variables (e.g., research and development (R&D), managerial quality, or market conditions). These issues could influence the estimates. The use of the generalized method of moments (GMM), the two-step GMM estimator helps account for endogeneity and the dynamic relationships between consistent CSR and corporate financial performance and improves efficiency and robustness in the presence of heteroskedasticity and autocorrelation. Finally, it is important to note that the indicators of corporate financial performance used in this study—ROA, Tobin's q, and stock returns—might not sufficiently capture every aspect of company's financial performance. This could limit the findings in this study.

4.6.8 Conclusion

In conclusion, this chapter explored the complex relationship between variability in CSR performance and corporate financial outcomes, offering nuanced insights into the strategic value of consistent CSR practices. The findings partially supported the hypotheses, highlighting the stability in CSR—particularly lower variability and consistent upward trends in CSR scores—is associated with improved profitability (ROA) and enhanced firm valuation (Tobin's q). However, the effect of CSR stability on stock returns remains inconclusive, suggesting market-based metrics may perceive CSR differently than accounting-based measures.

The chapter underscored the strategic importance of maintaining stable and consistent CSR practices, reinforcing the firms with lower CSR variability tend to benefit financial through enhanced stakeholder trust and operational efficiency. Furthermore, the study provided evidence aligning with the resource-based view, demonstrating the sustained and strategically embedded CSR activities can serve as sources of competitive advantage.

Despite these contributions, the results must be interpreted cautiously due to several limitations, including potential endogeneity issues, the assumption of uniform CSR impact across diverse industries, and external macroeconomic disturbances during the studied period. Future research could address these limitations by adopting methodologies such as the generalized methods of moments (GMM) for robustness and examining sector0specific CSR dynamics.

Overall, the chapter significantly contributes to the literature by demonstrating that CSR stability, rather than merely the overall CSR level, is vital for corporate financial performance, providing practical implications for managers seeking to embed CSR strategically within their firms.

Chapter Four Research Tables

Table 4 Summary Statistics

Variables	N	Mean	Median	SD	Min	Max	Skewness	Kurtosis
ROA	7,162	0.1191	0.1129	0.0949	-0.4636	0.4936	-0.1649	3.0562
Tobin's q	7,171	1.5112	1.2210	1.1875	0.0760	13.1740	2.5572	11.3105
RET	6,804	0.0648	0.0961	0.3455	-2.9162	2.0967	-1.2091	7.5038
ESG	7,201	51.3981	52.2000	20.2623	0.7000	95.1600	-0.1339	-0.9294
LogESG	7,201	3.8354	3.9551	0.5087	-0.3567	4.5556	-1.5433	4.5940
ESGCV	6,822	0.1561	0.1217	0.1278	0.0001	1.5976	2.1730	9.6659
ESGBETA	6,064	0.8599	0.0373	10.2825	-153.9639	117.9246	0.1711	21.3361
ESGTREND	6,064	0.0134	0.0117	0.2839	-2.8425	3.6419	-0.3846	16.0586
ESGRES	5,685	8.1066	2.8544	14.1992	0.0076	243.5771	4.1688	29.682
SIZE	7,198	16.6042	16.4827	1.5154	8.0366	22.0433	0.3586	1.3166
LEVERAGE	7,198	0.2668	0.2516	0.1751	0	1.4055	0.6122	0.4265
CASHAT	7,198	11.3557	6.5506	13.1643	0	92.3219	2.1149	5.3741

Table 5 Pairwise correlations

Variables	ROA	Tobin's q	RET	ESG	LogESG	ESGCV	ESGBETA	ESGTREND	ESGRES	SIZE	LEVERAGE
Tobin's q	0.5265***										
RET	0.2357***	0.2090***									
ESG	0.0466***	0.0424***	0.0142								
LogESG	0.0490***	-0.0034	0.0165	0.9434***							
ESGCV	-0.0287**	-0.0026	-0.0543***	-0.3288***	-0.3267***						
ESGBETA	0.0241*	-0.0081	0.0040	-0.0088	0.0003	0.0797***					
ESGTREND	-0.0131	0.0062	-0.0137	0.0191	0.0229*	0.0458***	-0.7778***				
ESGRES	0.0162	-0.0310**	0.0818***	-0.2733***	-0.2687***	0.3094***	0.1729***	-0.0900***			
SIZE	-0.2233***	-0.3538***	-0.0107	0.4473***	0.4354***	-0.2169***	-0.0488***	0.0094	-0.1413***		
LEVERAGE	-0.0387***	0.0897***	-0.0380***	0.0939***	0.0928***	-0.0573***	-0.0179	0.0128	-0.0409***	-0.0331***	
CASHAT	0.1964***	0.4141***	0.0432***	-0.0447***	-0.0678***	0.0423***	0.0421***	-0.0375***	0.0392***	-0.2854***	-0.1833***

*** p<.01, ** p<.05, * p<.1

Table 6 Drivers of Variability in CSR scores: Panel regression—ROA as corporate financial performance

Explanatory variables	**ESGCV**	**ESGBETA**	**ESGTREND**	**ESGRES**
ROA	-0.0502*	-4.7129***	0.1008***	1.8378
	(0.0264)	(1.6216)	(0.0365)	(2.3323)
LogESG	-0.0825***	4.5305***	-0.0657***	-5.8272***
	(0.0076)	(0.7045)	(0.0142)	(0.8118)
SIZE	-0.0056*	-0.8455***	0.0081**	-0.1914
	(0.0029)	(0.1595)	(0.0036)	(0.1876)
LEVERAGE	-0.0025	-0.3481	0.0083	1.5884
	(0.0193)	(1.3696)	(0.0364)	(1.8526)
CASHAT	-0.0002	0.0208	-0.0008**	-0.0156
	(0.0002)	(0.0140)	(0.0004)	(0.0198)
Constant	0.5622***	-2.4810	0.1332**	33.8549***
	(0.0370)	(2.9240)	(0.0523)	(3.3324)
N	5,306	5,306	5,306	5,306
R-squared	0.3478	0.0812	0.0580	0.4623
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 7 Drivers of Variability in CSR scores: Panel regression—Tobin's q as corporate financial performance

Explanatory variables	**ESGCV**	**ESGBETA**	**ESGTREND**	**ESGRES**
Tobin's q	-0.0005	-0.5216***	0.0111**	0.0045
	(0.0028)	(0.1378)	(0.0043)	(0.1598)
LogESG	-0.0841***	4.4510***	-0.0640***	-5.7670***
	(0.0074)	(0.7431)	(0.0148)	(0.8286)
SIZE	-0.0054*	-0.8985***	0.0092**	-0.2032
	(0.0030)	(0.1599)	(0.0037)	(0.1878)
LEVERAGE	-0.0012	0.0435	0.0001	1.5216
	(0.0200)	(1.3740)	(0.0371)	(1.8532)
CASHAT	-0.0002	0.0324**	-0.0010***	-0.0146
	(0.0002)	(0.0133)	(0.0003)	(0.0204)
Constant	0.5593***	-1.3041	0.1081*	34.0237***
	(0.0390)	(3.1660)	(0.0551)	(3.3425)
N	5,305	5,305	5,305	5,305
R-squared	0.3459	0.0818	0.0587	0.4622
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 8 Drivers of Variability in CSR scores: Panel regression—RET as corporate financial performance

Explanatory variables	**ESGCV**	**ESGBETA**	**ESGTREND**	**ESGRES**
RET	0.0065	0.1343	0.0054	1.8186***
	(0.0048)	(0.5460)	(0.0132)	(0.5619)
LogESG	-0.0842***	4.3699***	-0.0623***	-5.7850***
	(0.0073)	(0.7390)	(0.0145)	(0.8107)
SIZE	-0.0053*	-0.8131***	0.0073**	-0.2042
	(0.0029)	(0.1617)	(0.0036)	(0.1860)
LEVERAGE	-0.0003	-0.2022	0.0062	1.7717
	(0.0193)	(1.3771)	(0.0368)	(1.8462)
CASHAT	-0.0003	0.0177	-0.0007*	-0.0154
	(0.0002)	(0.0140)	(0.0004)	(0.0198)
Constant	0.5573***	-2.9348	0.1432***	33.9883***
	(0.0389)	(3.1029)	(0.0547)	(3.2667)
Observations	5,305	5,305	5,305	5,305
R-squared	0.3467	0.0800	0.0568	0.4633
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 9 Effect of variability in CSR on financial performance (ROA)

Explanatory Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
ESGCV	-0.0541**			
	(0.0248)			
ESGBETA		-0.0001		
		(0.0001)		
ESGTREND			0.0002	
			(0.0058)	
ESGRES				0.0000
				(0.0001)
LogESG	0.0279***	0.0305***	0.0305***	0.0308***
	(0.0099)	(0.0106)	(0.0107)	(0.0107)
SIZE	-0.0081***	-0.0076**	-0.0076**	-0.0076**
	(0.0031)	(0.0032)	(0.0032)	(0.0032)
LEVERAGE	0.0074	0.0075	0.0075	0.0074
	(0.0224)	(0.0223)	(0.0223)	(0.0223)
CASHAT	0.0008***	0.0008***	0.0008***	0.0008***
	(0.0003)	(0.0003)	(0.0003)	(0.0003)
Constant	0.1362**	0.1092	0.1091	0.1075
	(0.0640)	(0.0705)	(0.0706)	(0.0714)
N	5,306	5,306	5,306	5,306
R-squared	0.2964	0.2930	0.2929	0.2930
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

Table 10 Effect of variability in CSR on financial performance (Tobin's q)

Explanatory variables	Model 1	Model 2	Model 3	Model 4
ESGCV	0.1021			
	(0.2945)			
ESGBETA		-0.0025**		
		(0.0011)		
ESGTREND			0.1357**	
			(0.0572)	
ESGRES				0.0001
				(0.0010)
LogESG	0.1385	0.1348	0.1269	0.1340
	(0.1037)	(0.1125)	(0.1143)	(0.1127)
SIZE	-0.1478***	-0.1493***	-0.1475***	-0.1487***
	(0.0346)	(0.0340)	(0.0341)	(0.0341)
LEVERAGE	0.5639*	0.5632*	0.5626*	0.5637*
	(0.3351)	(0.3347)	(0.3344)	(0.3357)
CASHAT	0.0312***	0.0312***	0.0313***	0.0311***
	(0.0047)	(0.0047)	(0.0047)	(0.0047)
Constant	2.8661***	2.9224***	2.9187***	2.9139***
	(0.5592)	(0.6032)	(0.6007)	(0.6024)
Observations	5,306	5,306	5,306	5,306
R-squared	0.3976	0.3981	0.3983	0.3976
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

Table 11 Effect of variability in CSR on financial performance (RET)

Explanatory variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
ESGCV	0.0361			
	(0.0401)			
ESGBETA		-0.0003		
		(0.0003)		
ESGTREND			0.0154	
			(0.0162)	
ESGRES				-0.0001
				(0.0003)
LogESG	0.0088	0.0072	0.0063	0.0067
	(0.0173)	(0.0162)	(0.0160)	(0.0165)
SIZE	-0.0023	-0.0027	-0.0025	-0.0027
	(0.0032)	(0.0031)	(0.0031)	(0.0031)
LEVERAGE	-0.0771***	-0.0772***	-0.0773***	-0.0770***
	(0.0265)	(0.0264)	(0.0264)	(0.0265)
CASHAT	0.0011***	0.0011***	0.0011***	0.0011***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)
Constant	0.0637	0.0824	0.0820	0.0840
	(0.0951)	(0.0820)	(0.0824)	(0.0840)
Observations	5,306	5,306	5,306	5,306
R-squared	0.4812	0.4811	0.4812	0.4811
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

Chapter 5. Variability in HRM Effectiveness as an indicator of CSR Commitment

5.1 Introduction

While early studies widely focused on investigating the impact of the overall level of CSR on corporate financial performance, recent studies are exploring the factors and strategies that lead to a significant positive relationship between CSR and financial performance. One important aspect is that businesses should pursue CSR strategically (Kramer and Pfitzer, 2016). Companies can be strategic in implementing CSR initiatives either by pursuing specific CSR initiatives are most relevant to financial performance in which companies focus only on one or more certain dimensions by focusing on key stakeholders, such as customers, or employees, to reap the benefits of profits (Bansal *et al.*, 2015).

Employees stand out as the most strategically important stakeholder, their participation in CSR initiatives has a profound effect on corporate financial performance. Employees play a central role being crucial to the implementation and success of CSR initiatives. Unlike other stakeholders, employees directly influence and participate in the execution of CSR activities, making their engagement essential to an organisation's CSR strategy (Wood and Jones, 1995). (Aguinis and Glavas, 2012) argue that employees are not only responsible for implementing CSR but also experience its outcomes, which can affect their job satisfaction and organisational commitment. Furthermore, employee support is critical for achieving long-term CSR goals, as organisations cannot rely solely on policies and regulations to drive CSR; they need employee buy-in to foster a culture of responsibility and sustainability (Mossholder *et al.*, 2011). Additionally, Rupp *et al.* (2013) show that CSR initiatives can have a positive impact on employees, leading to enhanced morale, increased productivity, and stronger organisational loyalty. Turker (2009) find that CSR initiatives towards employees is the most significant predictor among other CSR dimension to impact organisational commitment. Therefore, employees, as internal stakeholders, are fundamental to the effective implementation of CSR and should be viewed as integral to CSR strategy.

5.2 Theory and Hypotheses Development

Several theories have been proposed in the field of human resource management literature to explain the impact of employee relations on corporate financial performance. Human relation theory which is developed by Elton Mayo 1920s and considered one of the most prominent and longstanding. The human relations theory highlights the importance of modifying working conditions and environments to enhance employee relations. Mayo suggests that increased productivity does not stem from improving working conditions, but rather from employees' feelings valued and heard. Building upon this theory, scholars propose that greater employee well-being, typically assessed by job satisfaction— is associated with higher moral, which in turn contributes to improved productivity (Judge *et al.*, 2001; Krekel *et al.*, 2019)

Moreover, Husted (2000) defines CSR as *"the ability of the firm to meet or exceed stakeholder expectations regarding social issues"*. stakeholder theory, a model for strategic management, argues that for a business to be successful, it should create value for its primary stakeholders: including shareholders and investors, employees, customers, and suppliers, and the public stakeholder group— the governments and communities (Clarkson, 1995). This is because investing in those primary stakeholders help businesses develop intangible but valuable assets which can be sources of competitive advantage, such as customer or supplier loyalty, reduced turnover among employees, or improved firm reputation, which in turns, increase financial performance (Hillman and Keim, 2001).

However, stakeholder groups differ in their importance and relationships based on their classification, with primary stakeholders who have formal relationships and are vital to the organisational survival, including shareholders, employees, customers, and suppliers, in addition to public stakeholders—government and communities (Freeman, 1984; Clarkson, 1995). Failure to satisfy those primary stakeholder groups would result in considerable damage to a corporation. Moreover, primary stakeholders can be internal or external. The internal (primary) stakeholders are a firm's managers, employees, shareholders, and board of directors. In contrast, while secondary stakeholder groups can affect or be affected by a corporation's practices, they are not essential to the corporation's survival with informal relationships, and they are not engaged in any transactions (Jones, 1995; Freeman, 2010). The primary stakeholders are more related to corporate financial performance because they are involved in frequent exchanges with the corporation (Van der Laan *et al.*, 2008). In addition to the classification of stakeholder groups, Mitchell *et al.* (1997) propose a theory of stakeholder identification and salience, which classifies stakeholders based on their power, legitimacy, and urgency. For example, employees are classified as primary stakeholders and are a relatively highly salient stakeholder group, having high power and high legitimacy because they have the power to influence the organisation's success (Greenwood and Freeman, 2011). Those salient stakeholders are essential to a firm's success (Mitchell *et al.*, 1997).

Drawing on the stakeholder theory, which highlights the importance of primary stakeholders (Freeman, 1984), (Jones, 1995) indicates that employee acts as agents of top management in interaction with external stakeholders such as customers, vendors, shareholders, and community. Jones highlights the critical importance of contracts between a firm and its stakeholders. He argues that when a firm violates its promises, e.g., reneges on its employee benefits and obligations, it will probably risk losing the trust with its current or potential employees. (Kotler, 2001) emphasises the importance of employee as a key stakeholder. Additionally, Kotler indicates that *"to foster teamwork* *among all departments, the company must carry out internal marketing as well as external marketing. External marketing is marketing directed at people outside the company. Internal marketing is the task of hiring, training, and motivating able employees who want to serve customers well. In fact, internal marketing must precede external marketing. It makes no sense to promise excellent service before the company's staff is ready to provide it"* (2001, p.13).

Given that employees, as a key stakeholder group with significant strategic power, play a crucial role in influencing CSR activities (Freeman, 1984; Donaldson and Preston, 1995; Jones, 1995; Mitchell *et al.*, 1997). They can drive organisations to engage in CSR initiatives and contribute to discussions on the antecedents and outcomes of these initiatives (Aguilera *et al.*, 2007). Yu and Choi (2016) support this view, identifying employees as influential internal stakeholders, particularly in areas such as human rights and fair labour practices, often through unions. Moreover, the successful implementation of CSR initiatives relies heavily on employee participation and their strong preference for such efforts. Additionally, stakeholder theory further reinforces the importance of employees, recognizing them not just as business assets but as individuals whose ethical and human considerations must be integrated into decision-making process. Employees are often central to a company's business model, with improvements in one stakeholder group, such as employees, benefiting other like customers and communities. Therefore, stakeholder theory suggest that an organisation's purpose, principles, and societal relationships should be developed collaboratively, with employees playing an active, engaged role (Greenwood and Freeman, 2011).

Social identity theory posits that an individual's self-concept is shaped by their association with various social groups, including organisation they work for (Ashforth and Mael, 1989; Dutton *et al.*, 1994). According to this theory, employees' self-esteem and identity are influenced by the reputation and public image of their employer. A firm's reputation, particularly regarding its actions on social and political matters and its relationships with stakeholders, plays a role in shaping how employees perceive themselves in relation to their work (Greening and Turban, 2000). Social exchange theory (Blau, 1964) suggests that when employees feel valued and believe their contributions are fairly recognized and rewarded, they develop trust in their organisation's leadership. This trust fosters reciprocal behaviour, where employees respond positively by aligning their actions with the organisation's expectations and goals (Whitener, 1997).

The resource-based view is based on the notion that sustained competitive advantage not only last longer but also cannot be duplicated by current or potential competitors, is achieved through developing resources and capabilities that are unique, difficult to imitate, and not easily substitutable. (Barney, 1991, 1995; Hart, 1995; Russo and Fouts, 1997). Such resources and capabilities can be developed through a strategic engagement in CSR activities (Branco and Rodrigues, 2006). Drawing on the organisational strategy, there has been a recent shift to adopt the RBV perspective, which places more emphasis on a firm's internal resources, such as human resources as a valuable key resource. Given that many other resources for competitive advantage are more easily replicated to all other competitors. Therefore, the importance of developing sustained competitive advantage through investing in employee is growing (Youndt *et al.*, 1996; Fulmer *et al.*, 2003). CSR involves firms considering the interests of their stakeholders. Building upon the work on the RBV of the firm, scholars argue that CSR can develop a sustainable competitive advantage and improve firm financial performance (Russo and Fouts, 1997; Branco and Rodrigues, 2006). One way to achieve that is to strategically implement CSR activities that enhance relationships with key stakeholders (Bruch and Walter, 2005). Among all the stakeholders, employees are the most valuable source of sustained competitive advantage; keeping them happy is the key to the long-term success of the firm (Pfeffer, 1998).

The human resource-based view (Wright *et al.*, 1994) considers human resource capital to be a source of sustained competitive advantage, duo to its potential to meet the four conditions to generate sustainable competitive advantage: valuable, rare, inimitable, un-substitutable. Competitive advantage can be best achieved by improving how people are managed and how organisations are structured— using human resources more effectively. Barney (1995) asserts that human resources are most likely to be a source of sustained competitive advantage because they possess characteristics of being socially complex, causally ambiguous, and path dependency (Barney, 1991, 1995; Bowman and Ambrosini, 2003; Branco and Rodrigues, 2006).

Strategic human resource management (HRM) plays a pivotal role in fostering sustained competitive advantage by cultivating unique, valuable, inimitable, and non-substitutable employee-based resources (Wright *et al.*, 1994; Lepak and Snell, 1999; Collins and Smith, 2006). Key strategic HRM practices include work analysis and design, human resources planning (identifying current and future workforce needs), recruitment and selection process (attracting and hiring qualified candidates), and training and development (equipping employees with the necessary skills to perform effectively). Additionally, strategic HRM involves compensation strategies that ensure fair and competitive rewards, performance (assessing and improving employee performance), and fostering positive employee relations to create a healthy workplace environment (Noe *et al.*, 2010). However, Skilled employees are indeed critical to a firm's success, but this advantage can be diminished if they are easily enticed by competitors. However, building strong relationship with employees enhances loyalty and commitment, thereby reducing turnover and minimizing the risk of losing valuable talent to rival firms (McWilliams and Siegel, 2001; Choi and Wang, 2009). By cultivating such relationships, organisations create a more stable workforce and preserve their competitive advantage.

Building upon the strategic management literature, which devoted extensive investigation to explore factors contributing to a firm's sustained competitive advantage, Fulmer *et al.*, (2003) investigate the relationship between the stability of employee relations over time and firm financial performance. The authors utilize data from "100 Best Companies to Work for in America." The results demonstrate that companies on the list consistently maintain positive and stable employee attitudes over time. Additionally, these firms exhibit stronger performance—measured by accounting ratios and cumulative stock returns—compared to the overall market and even compared to the matched competitors. To assess the stability of employee attitude level within the sample, Fulmer *et al.*, (2003, p.979) conduct an employee survey that asked two questions: *"If you have your way, how likely are you to be working at this organisation 1 year from now?" (6= very likely, 1 = not likely at all)".*

As discussed above, job satisfaction has been linked to increased productivity, lower turnover rate, and a more appealing workplace for prospective hires (Peloza, 2009). It also strengthens employees' relationship with the company (Bauman and Skitka, 2012), and positively influence customer satisfaction (Waterman and Waterman, 1994; Barney and Wright, 1998). *"CSR can provide employees with (1) a sense of security and safety that their material needs will be met, (2)self-esteem that stems from a positive social identity, (3) feelings of belongingness and social validation of important values, and (4) existential meaning and a deeper sense of purpose at work"* (Bauman and Skitka, 2012, p.69). Employees, as a key stakeholder group who can be a source of sustained competitive advantage, are important in shaping the organisation's human and supporting the implementation of CSR initiatives (Yu and Choi, 2016).

In addition, a growing body of literature recognises the importance of trust in playing a central role in employment relationships (Simons, 2002). Prior studies find a negative association between psychological contracts breaches and employee behaviours (Robinson and Morrison, 1995; Robinson, 1996). Employees may perceive managers' poor alignment between words and actions as a signal of mistrust, which may prompt a reciprocal response (Simons, 2002). Similarly, Robinson, (1996) highlights the negative impact of breaching psychological contracts—implicit promises—on employee trust judgments in managers' integrity and beliefs in their benevolence, which often reduces employees' contributions. This underscores the importance of adhering to psychological contracts as a critical factor in fostering employees' trust in management and, ultimately, enhancing their performance.

Despite the recent growing importance of the employee dimension of CSR, few studies have investigated the impact of employee relations on the relationship between CSR and corporate financial performance. Building on Fulmer *et al.* (2003), who finds that stability of employee relations over time is a source of sustainable advantage, and is linked to various indicators of firm-level performance. Thus, we argue that stability of employee relations can substantially contribute to the relationship between CSR and corporate financial performance.

This led to the following hypothesis:

Hypothesis 1: stability scores of workforce stability over time influences the relationship between CSR and corporate financial performance.

Moreover, the impact of employee relations on corporate financial performance, and the findings remain inconclusive (Becker and Gerhart, 1996; Berman *et al.*, 1999; Gorton and Schmid, 2004; De Bussy and Suprawan, 2012; Edmans, 2012). Therefore, this study will also examine the impact of workforce dimension on corporate financial performance.

This led to the following hypothesis:

Hypothesis 2: companies with higher workforce scores exhibit better corporate financial performance.

5.3 Data and Methods

In this chapter, we examine the relationship between workforce stability measures and corporate financial performance indicators using a sample of 379 U.S. based public companies from 2004 to 2022. We use workforce scores as a critical dimension of ESG to capture how consistently a firm manages its overall ESG performance. By focusing on workforce scores, which are a key component of ESG, we aim to assess the stability and consistency of a firm's commitment to ESG practices over time. Workforce stability is not only a reflection of the internal ESG initiatives, but also an important indicator of its overall ESG strategy, given that workforce dimension is a crucial driver of CSR. To achieve this, we apply various stability measures to workforce scores to assess the consistency of CSR performance and to examine their effect on corporate financial performance. Each measure captures a different aspect of stability in workforce performance, which is a critical component of a company's overall CSR performance.

5.3.1 Independent Variables

- Workforce coefficients of variation (WFCV): this measures the degree of variation in a firm's workforce performance over time relative to its average workforce scores. It calculates the ration of the standard deviation to the mean of workforce scores. It shows how consistency a firm maintains its workforce practices over time. scores over time, indicating how consistent a firm's workforce practices.
- For the remaining three variability measures, we assume that the stability workforce measures for a firm at time t is a function of TIME following (Wang and Choi, 2013), and of the market-wide ESG scores (using the CAPM model). The residuals from the regression model help capture additional workforce stability workforce measures (WFRES).

- Workforce Beta (WFBETA) measures the sensitivity of a firm's workforce scores (LogESGWF) to broader market ESG scores averaged by year, which is similar to how financial betas measures sensitivity to market returns. This captures how much a firm's workforce practices fluctuate in relation to market-wide ESG movements.
- Workforce Trend (WFTREND) reflects the direction of change in a firm's workforce scores over time relative to the uptrend movement of ESG scores (LogESG). It indicates whether a firm is consistently improving, declining, or maintaining its workforce performance, measuring the slope of workforce performance over time, which accounts for temporal trends (Wang and Choi, 2013). A positive trend indicates that a firm is improving its workforce performance over time.
- ESG residuals (WFRES) represents the firm-specific deviations in workforce performance that cannot be explained by market-wide ESG performance.

Therefore, we use the following regression model:

$$Stability\ measure\ of\ Workforce_t = a + TREND \cdot TIME + \beta \cdot LogMarketESG_t + \varepsilon_t, \text{ (4.1)}$$

Where the Stability measures of Workforce include:

- Workforce Beta (WFBETA): measures the sensitivity of workforce scores to market-wide ESG performance, similar to how beta functions in the CAPM model.
- Workforce Trend (WFTREND): captures the time-based trend in workforce scores compared to the uptrend of ESG performance over time.
- Workforce residuals (WFRES): derived from the residuals of the regression, this measure captures any additional variability in workforce scores than is not explained by time or market-wide ESG performance.

These stability measures provide a comprehensive view of how a firm's workforce practices variability and evolve relative to broader ESG performance, highlighting the firm's CSR consistency.

5.3.2 Dependent variables

Corporate financial performance is measured using return on assets (ROA), Tobin's q, and stock returns (RET). ROA represents profitability relative to assets, Tobin's q measures a market value relative to its replacement cost, and RET reflects a profit or loss of a stock price. All corporate financial performance indicators are winsorized at 1 % to account for outliers.

5.3.3 Control variables

We include key control variables that may influence the relationship between CSR and corporate financial performance and are commonly used l in literature.

- Firm size (SIZE) the natural logarithm of the book value of total assets (Brammer and Millington, 2008).
- Firm leverage (LEVERAGE) is the ratio of total debt to total assets (Ahn *et al.*, 2006).
- Financial slack is the ratio of cash to total assets (Kim and Bettis, 2014; Vanacker *et al.*, 2017).

5.4 Model Specification

To determine the most appropriate model for analysing the impact of workforce stability measures, as well as the workforce performance, on corporate financial performance, we conducted a series of test to choose between the ordinary least squares (OLS), fixed effects, and random effects models. First, we perform an F-test to compare the OLS model with the fixed effects model. The F-test indicated that the fixed effects model was more suitable, as it controls for unobserved heterogeneity between firm and accounts for firm-specific characterises that could affect the relationship between workforce stability and financial performance (Becchetti *et al.*, 2008; Baron, 2009). Next, we conducted the Hausman specification test to choose between the random effects model and the fixed effects model. The Hausman test results were significant, suggesting that the random effects estimator would be inconsistent, and that the fixed effects model is the preferred method. This outcome supports the use of fixed effects, as it helps control for time-invariant firm characteristics, providing more robust and consistent results.

To address potential endogeneity concerns associated with LESGWF, an instrumental variables regression (2SLS) was performed using the second lag of LESGWF (LESGWF at t-2) as the instrument. The justification for this choice aligns with the notion that historical workforce scores effectively predict current workforce ESG scores while remaining exogenous with respect to current corporate financial performance (Wooldridge, 2010; Tandelilin and Usman, 2023).

The Durbin—Wu—Hausman test indicated no significant endogeneity issue ($F=0.0306$, p-value = 0.8613). consequently, it is appropriate to consider LESGWF as exogenous within the fixed effects estimation, confirming the validity and robustness of the estimations.

We employ panel data analysis with fixed effects to study the relationship between workforce stability measures and financial performance. In addition, we examine the impact of workforce performance on corporate financial performance indicators. We lagged all independent variables by one period and using robust standard errors. We also control for year and industry fixed effects. Therefore, we developed the following models:

$$CFP_{it} = \beta_i + \beta_1 STABILITY_{i,t-1} + \beta_2 \; LogESG_{i,t-1} + \beta_3 \; SIZE_{it-1} + \beta_4 \, LEVERAGE_{it-1} + \beta_5 \, CASHAT_{it-1} + \varepsilon_{it} \qquad (4.2)$$

Where STABILITY include WFCV, WFBETA, WFTREND, and WFRES.

Model 3 is used to test the impact of the workforce performance (LogESGWF) on corporate financial performance indicators. We also include the control variables. All independent variables are lagged by one period.

$$CFP_{it} = \beta_i + \beta_1 LogESGWF_{i,t-1} + \beta_2 \, SIZE_{i,t-1} + \beta_3 \, LEVERAGE_{it-1} + \beta_4 \, CASHAT_{it-1} + \varepsilon_{it} \qquad (4.3)$$

Where:
CFP represents corporate financial indicators (ROA, Tobin's q, RET).
LogESG: the natural logarithm of CSR variable to reduce variations across firms
SIZE: firm size as the natural logarithm of book value of total assets.
LEVERAGE: firm leverage using the ratio of total debt to total assets.
CASHAT: financial slack as the ratio of cash to total assets.

5.5 Results

5.5.1 Descriptive Statistics of ESG, its pillars, and social pillar dimensions

Table 12 provides the summary statistics CSR scores, its pillars, and dimensions of each Social Pillar. The variables include ESG scores, Environmental scores (ENV), Corporate Governance scores (CG), Social scores (SOS) and its dimensions workforce scores (ESGWF), community scores (Community), Human rights scores (HumanRights), and product scores (Product). The ESG scores has a mean of 51.4, suggesting an average performance level, with a median close to the mean, indicating a relatively symmetrical distribution of scores. However, the environmental pillar (ENV) shows lower average performance (mean=42.9), suggesting that firms have more room for improvement in environmental initiatives compared to social and corporate governance pillars. Corporate governance (CG) stands out with a mean of (57.0), indicating that many firms are generally stronger in governance performance. Social (SOS) performance is moderate, with a mean of 52,8, but with some variability, as reflected by its standard deviation (SD=22.3). Dimensions among social pillar, workforce performance stands out with a mean of 57.6, indicating that many firms prioritize workforce initiatives in their ESG strategies.

5.5.2 Correlation analysis of ESG, its pillars, and social pillar dimensions

The correlation analysis presented in Table 13 highlights the importance relationships between overall ESG scores, its pillars, and dimensions of the social pillar. The results reveal a strong positive correlation between ESG and the social pillar (SOS), with a coefficient of 0.9002. This suggests that a firm's social performance is the most significant contributor to its overall ESG scores, more so than environmental (ENV) or corporate governance (CG) pillars. Among the dimensions of social pillar, the workforce scores have the strongest correlation with social pillar with (r=0.8077). Additionally, the workforce scores (ESGWF) stand out as the most strongly correlated with the overall ESG scores, with a correlation of 0.7602. This indicates that the workforce dimension, which includes factors such as employee well0being, diversity, and labour practices, is a critical driver of ESG performance. Workforce performance plays a key role in a firm's CSR implementation and strategy, likely due to its direct impact on both internal operations and external perceptions of CSR. From these results, we can conclude that firms that prioritize their workforce dimension appear to have strong CSR performance, reflecting the critical important of human capital in shaping CSR initiatives.

5.5.3 Descriptive statistics of Corporate financial performance indicators, and independent variables

The summary statistics from Table 14 provide essential insights into the relationship between corporate financial performance indicators (ROA, Tobin's q, and stock returns (RET)) and the key independent variables, including LogESGWF and workforce stability measures, which are central in this study to evaluate the measure consistent CSR performance and its effects on financial outcomes, along other control variables.

The four measures of workforce stability (WFCV, WFBETA, WFTREND, and WFRES) are used to assess the consistency of CSR performance and examines its impact on corporate financial performance. WFCV shows moderate variability (mean=0.2410), suggesting that most firms have relatively stable workforce practices. However, the skewness and kurtosis indicate a presence of significant outliers, meaning some firms experience substantial fluctuations. WFBETA has a high standard deviation and extreme values, reflecting that some firms' workforce scores deviate significantly from market CSR performance, performing significantly better or worse. WFTREND shows a mean close to zero (-0.0163), indicating little improvement or decline in workforce performance across the sample, but the large range (-8.9377 to 10.7117) suggests that there is significant variation in their workforce trend. WFRES show a high mean (15.0713) and large variation, indicating that some firms have workforce scores that deviate notable from expected CSR market performance.

5.5.4 Correlation analysis of Corporate financial performance indicators, and independent variables

Table 15 presents the correlation analyses between workforce stability measures (WFCV, WFBETA, WFTREND, WFRES) and the various indicators of corporate financial performance (ROA, Tobin's q, RET). In addition, it includes the LogESG, LogESGWF, along with control variables SIZE, LEVERAGE, and CASHAT. Two measures of workforce stability measured used as an indicator of consistency in CSR performance significant findings. Interestingly, WFCV demonstrates a significant negative correlation with all three financial performance indicators: ROA ($r=0.0815$, $p<0.01$), Tobin's q ($r=0.0810$, $p<0.01$), and RET ($r=0.0558$, $p<0.01$). This suggests that firms with higher WFCV performance are associated with lower financial performance. WFRES reveals significant and negative correlation with ROA ($r=0.0285$, $p<0.01$), and Tobin's q ($r=0.0425$, $p<0.01$), while showing positive correlation with RET. Lastly, WFTREND and WFBETA do not shows a significant effect on corporate financial performance.

The correlations among the workforce stability measures also indicate some important correlations. WFCV shows a strong and significant correlation with WFRES ($r=0.4099$, $p<0.01$), suggesting that firms with greater variability in workforce performance also experience higher unexplained fluctuations in workforce performance relative to overall CSR performance. Additionally, WFTREND exhibits a strong negative correlation with WFBETA ($r=0.7985$, $p<0.01$), indicating that firms with a positive trend in workforce performance tend to show reduced deviation from market-wide CSR performance. In addition, we observe that higher workforce performance (LogESGWF) is associated with greater stability in workforce performance. Specifically, higher LogESGWF is significantly correlated with lower variability in workforce performance, as indicated by its negative correlation with WFCV ($r=-0.5580$, $p<0.01$), WFBETA ($r=0.0419$, $p<0.01$) and WFRES ($r=0.3680$, $p<0.01$). This suggests that firms with stronger workforce scores tend to manage their workforce practices more efficiently. Furthermore, the positive correlation with WFTREND ($r=0.0839$), $p<0.01$) indicates that firms with higher workforce scores are also more likely to exhibit a positive trend in workforce performance over time.

Among the control variables, SIZE shows a significant positive correlation with LogESGWF ($r=0.3409$, $p<0.01$). This suggests that larger firms tend to have better workforce performance. LEVERAGE, however, shows a weaker, yet significant, positive correlation with LogESGWF ($r=0.0560$, $p<0.01$), indicating that more leveraged firms also tend to have slightly higher workforce scores. These findings highlight the relevance of both firm size and leverage in shaping workforce performance. In addition, the stability measures of workforce performance show significant relationship with control variables. WFCV and WFRES both have a negative correlation with SIZE ($r=-0.2867$, and $r=-0.1507$, $p<0.01$), indicating that larger firms tend to exhibit more consistent CSR performance. LEVERAGE is also negatively correlated with WFCV (r=-0.0536, p<0.01), indicating that higher leverage is associated with greater CSR performance.

Moreover, the correlations between workforce scores, using the logarithm of workforce scores (LogESGWF) and corporate financial performance indicators show important findings. LogESGWF shows appositive correlation with ROA (r=0.0965, p<0.01), Tobin's q (r=0.0662, p<0.01), and RET (r=0.0328, p<0.01), indicating that firms with higher workforce scores tend to have better financial performance across these indicators. These results underscore the importance of workforce performance as an integral part of firm's CSR strategy, reinforcing the positive impact of human capital management on overall corporate success.

5.6 Regression analysis

5.6.1 Drivers of variability in workforce performance

This section presents an analysis of the drivers of variability in workforce performance. The study employs panel regression models with industry and year fixed effect to control for unobserved heterogeneity. The analysis is presented in three tables, each using a different financial performance indicator—ROA, Tobin's q, and RET. In each table, four panel regression models are used, with each model focusing on one of the four workforce stability measures: WFCV, WFBETA, WFTREND, and WFRES. Using the following fixed effects model:

$$STABILITY_{it} = \beta_i + \beta_1 CFP_{i,t-1} + \beta_2 \ LogESG_{i,t-1} + \beta_3 \ SIZE_{it-1} + \beta_4 \, LEVERAGE_{it-1} + \beta_5 \, CASHAT_{it-1} + \varepsilon_{it} \qquad (4.4)$$

Where:

STABILITY includes WFCV, WFBETA, WFTREND, and WFRES.

Table 16 displays the results of panel regression, where independent variables include ROA. The findings reveal several significant relationships. ROA shows a negative and significant relationship with WFCV with (coefficient =-0.1150, p<0.05), and WFBETA with (coefficient=-8.337, p<0.05), indicating that firms with higher profitability experience lower variability in workforce performance. This suggests that more profitable firms are likely to experience lower variability in workforce. Additionally, ROA is positively and significantly associated with WFTREND (coefficient=0.2487, p<0.01), indicating higher profitability leads to a positive trend in workforce performance over time. In contrast, ROA and WFRES has a negative link but not statistically significant. LogESG has a significant negative effect on both WFCV (coefficient=0.1919, p<0.01) and WFRES (coefficient =-20.5257, p<0.01), suggesting that firms with higher overall ESG performance tend to have lower workforce variability and fewer unexplained fluctuations. Table 17 displays the results of panel regression, where independent variables include Tobin's q. The results show that Tobin's q is only impact WFCV showing an inverse and significant relationship with a coefficient of -0.0199 and a p-value less than 0.01. Table

18 displays the results of panel regression, where independent variables include RET. The results show that RET does not have any statistically significant association with workforce stability measures.

Across all tables 16,17, and 18, LogESG consistently shows a significant negative effect on workforce stability, particularly on WFCV and WFRES. SIZE also exhibits a significant negative effect on WFCV and WFBETA, suggesting that larger firms maintain more consistent workforce performance. LEVERAGE and CASHAT do not show significant relationships with workforce stability measures.

5.6.2 Regression Analysis

This section examines the impact of workforce stability—as a consistent CSR performance indicator—one corporate financial performance indicators—ROA, Tobin's q, and RET. Each table incorporates five models. Across all tables, Model 1, both WFCV and ESGCV are used to compare their effects on corporate financial performance, allowing for an examination of how workforce variability and ESG variability influence financial outcomes. The remaining models focuses on individual workforce stability measures: Moel 2 focuses on WFCV, Model 3 on WFBETA, Model 4 on WFTREND, and Model 5 on WFRES. in Model 1 and WFBETA on Model 2, WFTREND on Model 3, and WFRES on Model 5. This approach allows for a comprehensive evaluation of the different dimensions of workforce stability and their respective impacts on corporate financial performance indicators.

Table 19 presents the regression results assessing the effect of workforce stability on ROA. In Model 1, both WFCV and ESGCV are used to compare their effects on ROA. The results reveal that WFCV has a more significant impact on profitability. WFCV has a negative and significant impact on ROA (coefficient=-0.0331, $p<0.05$), indicating that higher variability in workforce performance is associated with lower profitability. In contrast, ESGCV does not show a statistically significant effect on ROA. This suggests that workforce stability is a more predictive indicator of CSR consistency than the stability of ESG performance. Model 2 shows that WFCV effects on ROA remains significant (coefficient=-0.0407, $p<0.01$), reinforcing that WFCV adversely affects profitability. Model 3 shows that WFBETA has a negative and marginally significant effect on ROA (coefficient=-0.0001, $p<0.1$). This suggests that lower values of WFBETA in terms of sensitivity to market-wide ESG performance may experience slightly higher profitability. Model 4 uses WFTREND as the stability measure. The positive and significant coefficient (coefficient =0.0053, $p<0.05$) indicates that an improving trend in workforce performance over time is associated with higher ROA. This underscores the financial benefits of continuous improvement in workforce performance. Model 5 includes WFRES, which does not show a significant effect on ROA, suggesting that unexplained fluctuations in workforce performance do not significantly impact profitability.

Table 20 explores the relationship between workforce stability and Tobin's q, a measure of firm value. Model 1 incorporates both WFCV and ESGCV. The results show that WFCV has a negative and significant impact on Tobin's q (coefficient=-0.7265, $p<0.01$), while ESGCV shows a positive but weaker effect on Tobin's q (coefficient =0.5215, $p<0.10$), suggesting that workforce variability plays a more significant role. In Model 2, WFCV is examined independently and continues to show a negative and significant relationship with Tobin's q (coefficient = -0.6134, $p<0.01$), reinforcing that consistent workforce practice are linked to higher market valuation. In Model 3, WFBETA is included, and it does not show a significant effect on Tobin's q, indicating that the sensitivity of workforce performance to market-wide ESG performance does not directly influence market valuation. Model 4 focuses on WFTREND, which also shows no significant effect on Tobin's q, suggesting that improvements in workforce performance over time do not significantly impact market value. Finally, Model 5 incorporates WFRES, which shows a negative and significant impact on Tobin's q (coefficient=-0.0011, $p<0.05$), indicating that unexplained fluctuations in workforce performance are associated with lower market valuation. Table 21 presents the results of the panel regression examining the impact of workforce stability on stock returns (RET). None of the workforce stability measures was found to have a significant effect on the corporate financial performance indicators.

Across all tables, the results indicate consistent relationships between the control variables (SIZE, LEVERAGE, and CASHAT) and corporate financial performance indicators. SIZE shows a strong and significant negative relationship with both ROA and Tobin's q. suggesting that larger firms tend to exhibit lower profitability and market valuation. However, SIZE does not have a significant impact on RET. LEVERAGE demonstrates a positive relationship with Tobin's q, but it has a significant negative effect on RET. Lastly, CASHAST consistently shows a positive and significant relationship with all corporate financial performance indicators. This highlights that firms with higher cash tend to performance better financially in terms of profitability, firm value, and stock performance.

Based on the significant findings across some, but not all, workforce stability measures and financial performance indicators, the hypothesis that posits stability scores of workforce stability over time impact the relationship between CSR and corporate financial performance is partially supported. While certain measures, WFCV, WFBETA and WFTREND with ROA, WFCV and WFRES with Tobin's q, and WFBETA and WFTREND with RET, show significant effect on the various corporate financial performance, some of these measures do not show significant association with corporate financial performance indicators. Therefore, the overall results suggest that workforce stability has a nuanced effect on financial performance, confirming the hypothesis.

The results in Table 22 examine the impact of workforce performance (LogESGWF) on corporate financial performance using the three indicators (ROA, Tobin's q, and RET). Workforce performance has a positive and significant effect on both ROA (coefficient=0.0196, $p<0.01$) and Tobin's q (coefficient=0.2080, $p<0.01$). This suggests that firms with better workforce performance tend to experience higher profitability and market valuation. However, the relationship between workforce performance and RET is not statistically significant, indicating that workforce performance does not have a significant direct effect on stock returns.

In general, the results support Hypothesis 2 which posits that companies with better workforce scores do exhibit better corporate financial performance. Overall, the hypothesis that *:* companies with higher workforce scores exhibit better corporate financial performance for ROA and Tobin's q. These findings reinforce the impact of workforce performance on corporate financial performance in terms of profitability and firm value.

5.7 Discussion

The central aim of this study is to examine the impact of the measures of workforce scores on corporate financial performance. Since HRM is a powerful driver of CSR, we argued that stability of workforce performance should be a predictive of CSR consistence performance. Thus, we content that consistent workforce performance should positively influence financial outcomes, as it reflects a firm's strategic implementation of CSR practices. The relationship between CSR and financial performance has been extensively studied (Margolis and Walsh, 2003), yielding mixed results with a general consensus pointing towards a positive association (Orlitzky *et al.*, 2003). Our findings support this view, showing that workforce stability, measured by various metrices (WFCV, WFBETA, WFTREND, WFRES), is an important predictor of financial performance. Interestingly, we observe that firms with more consistent workforce performance tend to achieve higher profitability (ROA) and better market valuations (Tobin's q), and improved stock returns (RET). This is evident in the significant negative relationship between WFCV and both ROA and Tobin's q, as well as the significant and negative between WFBETA and both ROA and RET. Additionally, WFTREND shows a positive and significant association with ROA and RET. While WFRES only demonstrates a significant and negative relationship with Tobin's q. Finally, ROA is the corporate financial performance most impacted by workforce stability, showing significant relationships with three out of four stability measures.

5.8 Conclusion

In conclusion, this chapter examined the critical role of workforce stability as an indicator of consistent CSR commitment and its implications for corporate financial performance. By integrating various measures of workforce stability—such as variability, sensitivity to market trends, temporal trends, and unexplained deviations—the study provided robust empirical evidence demonstrating that consistent HRM practices significantly contribute to corporate financial outcomes. Specifically, stable and improving workforce performance was associated with higher profitability (ROA) and increased market valuation (Tobin's q). However, the findings revealed nuanced and varied impacts on stock returns, suggesting that market-based perceptions of workforce stability differ from accounting-based assessments.

This chapter reinforced the strategic importance of employees as internal stakeholders, highlighting that consistent investment in human capital is a crucial element for sustained competitive advantage. By aligning with the human resource-based view and stakeholder theory, the findings emphasized that stable employee relations not only reflect genuine CSR commitment buat also substantially benefit financial performance.

Despite these insights, the findings should be interpreted with caution due to potential limitations, including the assumption of uniform effects across industries and companies, external economic disruptions, and possible endogeneity concerns. Future research could explore sector-specific dynamics, incorporate alternative measures of employee relations stability, or adopt more advanced econometric methods such as GMM to further refine these insights.

Overall, the chapter advances the literature by demonstrating that workforce stability, as a reflection of strategic HRM effectiveness, is essential for realizing the financial benefits of CSR initiatives, offering valuable practical implications for firms aiming to integrate CSR strategically through robust human resource practices.

Chapter Five Research Tables

Table 12 Summary Statistics of ESG, its pillars, and Dimensions of social pillar

Variables	N	Mean	Median	SD	Min	Max	Skewness	Kurtosis
ESG	7,201	51.3981	52.2000	20.2623	0.7000	95.1600	-0.1339	-0.9294
ENV	7,054	42.8997	44.1500	29.5374	0	98.5500	-0.0389	-1.2933
CG	7,054	56.9964	59.4750	21.4897	0.7000	98.5300	-0.3801	-0.6587
SOS	7,054	52.8174	53.1650	22.3092	0.6100	98.1200	-0.0389	-0.9482
ESGWF	7,201	57.6174	59.8900	26.0667	0.1600	99.9000	-0.2616	-0.9398
Community	7,134	74.0897	79.4000	21.5878	1.4300	99.9400	-0.9849	0.4146
HumanRights	7,134	30.3681	6.6150	35.0123	0	99	0.5904	-1.2684
Product	7,134	45.2330	41.6700	31.1787	0	99.7200	0.0613	-1.2164

Table 13 Pairwise correlations of ESG, its pillars, and Dimensions of social pillar

Variables	ESG	ENV	CG	SOS	ESGWF	Community	HumanRights
ENV	0.8700***						
CG	0.6881***	0.4176***					
SOS	0.9002***	0.7612***	0.4161***				
ESGWF	0.7602***	0.6549***	0.3831***	0.8077***			
Community	0.6302***	0.5315***	0.2998***	0.6995***	0.5490***		
HumanRights	0.7149***	0.6200***	0.3439***	0.7624***	0.5189***	0.3618***	
Product	0.6654***	0.5709***	0.2972***	0.7367***	0.4704***	0.4015***	0.4419***

*Notes: ***p<.01, **p<.05, *p<.1*

Table 14 Summary Statistics of Corporate financial performance indicators, and independent variables

Variables	N	Mean	Median	SD	Min	Max	Skewness	Kurtosis
ROA	7,162	0.1191	0.1129	0.0949	-0.4636	0.4936	-0.1649	3.0562
TOBIN	7,171	1.5112	1.2210	1.1875	0.0760	13.1740	2.5572	11.3105
RET	6,804	0.0648	0.0961	0.3455	-2.9162	2.0967	-1.2091	7.5038
ESG	7,201	51.3981	52.2000	20.2623	0.7000	95.1600	-0.1339	-0.9294
LogESG	7,201	3.8354	3.9551	0.5087	-0.3567	4.5556	-1.5433	4.594
ESGWF	7,201	57.6174	59.8900	26.0667	0.1600	99.9000	-0.2616	-0.9398
LogESGWF	7,201	3.8818	4.0925	0.7150	-1.8326	4.6042	-2.1642	6.9445
WFCV	6,822	0.2410	0.1689	0.2205	0	1.6456	1.7682	3.8308
WFBETA	6,064	1.2175	-0.0468	23.9078	-460.3728	349.0401	-0.9620	66.589
WFTREND	6,064	-0.0163	-.0045	0.6820	-8.9377	10.7117	-0.9097	41.2719
WFRES	5,685	15.0713	4.6136	34.9187	0	728.0338	7.3857	84.0683
SIZE	7,198	16.6042	16.4827	1.5154	8.0366	22.0433	0.3586	1.3166
LEVERAGE	7,198	0.2668	0.2516	0.1751	0	1.4055	0.6122	0.4265
CASHAT	7,198	11.3557	6.5506	13.1643	0	92.3219	2.1149	5.3741

Table 15 Pairwise correlation of Corporate financial performance indicators, and independent variables

Variables	ROA	Tobin's q	RET	ESG	LogESG	ESGWF	LogESGWF	WFCV	WFBETA	WFTREND	WFRES	SIZE	LEVERAGE
Tobin's q	0.5265***												
RET	0.2357***	0.2090***											
ESG	0.0466***	0.0424***	0.0142										
LogESG	0.0490***	-0.0034	0.0165	0.9434***									
ESGWF	0.0994***	0.1053***	0.0332***	0.7602***	0.7160***								
LogESGWF	0.0965***	0.0662***	0.0328***	0.6716***	0.6913***	0.8995***							
WFCV	-0.0815***	-0.0810***	-0.0558***	-0.4990***	-0.4875***	-0.5233***	-0.5580***						
WFBETA	-0.0134	0.0156	-0.0081	-0.0118	-0.0173	-0.0259**	-0.0419***	-0.0104					
WFTREND	0.0178	-0.0077	-0.0037	0.0276**	0.0428***	0.0630***	0.0839***	0.0315**	-0.7985***				
WFRES	-0.0285**	-0.0425***	0.0515***	-0.2950***	-0.3167***	-0.3183***	-0.3680***	0.4099***	0.0092	-0.0125			
SIZE	-0.2233***	-0.3538***	-0.0107	0.4473***	0.4354***	0.3820***	0.3409***	-0.2867***	-0.0430***	0.0283**	-0.1507***		
LEVERAGE	-0.0387***	0.0897***	-0.0380***	0.0939***	0.0928***	0.0396***	0.0560***	-0.0536***	-0.0253**	0.0118	-0.0454***	-0.0331***	
CASHAT	0.1964***	0.4141***	0.0432***	-0.0447***	-0.0678***	0.0175	-0.0179	0.0176	0.0163	0.0027	0.0489***	-0.2854***	-0.1833***

*Notes: ***p<.01, **p<.05, *p<.1*

Table 16 Drivers of Variability in workforce performance: Panel regression— using ROA as financial performance indicator

Explanatory Variables	WFCV	WFBETA	WFTREND	WFRES
ROA	-0.1150**	-8.3377**	0.2487***	-7.6053
	(0.0458)	(3.2296)	(0.0768)	(6.0547)
LogESG	-0.1919***	3.3166	-0.0515	-20.5257***
	(0.0203)	(2.0773)	(0.0518)	(3.4713)
SIZE	-0.0137**	-1.0873**	0.0160	-0.4058
	(0.0054)	(0.4580)	(0.0115)	(0.7010)
LEVERAGE	0.0118	-3.9101	0.0630	5.3450
	(0.0365)	(3.2143)	(0.0853)	(7.3580)
CASHAT	-0.0005	0.0805*	-0.0013	0.0764
	(0.0003)	(0.0486)	(0.0011)	(0.0607)
Constant	1.2035***	7.4522	-0.1076	101.0518***
	(0.0659)	(5.8001)	(0.1993)	(9.4968)
Observations	5,306	5,306	5,306	5,306
R-squared	0.3592	0.0602	0.0517	0.2949
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 17 Drivers of Variability in workforce performance: Panel regression using Tobin's q as financial performance indicator

Explanatory variables	WFCV	WFBETA	WFTREND	WFRES
Tobin's q	-0.0199***	-0.1967	-0.0052	-0.8473
	(0.0042)	(0.3164)	(0.0116)	(1.0281)
LogESG	-0.1928***	3.0681	-0.0424	-20.6523***
	(0.0189)	(2.1146)	(0.0543)	(3.4543)
SIZE	-0.0161***	-1.0630**	0.0135	-0.4919
	(0.0053)	(0.4549)	(0.0112)	(0.7050)
LEVERAGE	0.0258	-3.5652	0.0582	6.0031
	(0.0357)	(3.2500)	(0.0868)	(7.4628)
CASHAT	0.0000	0.0808*	-0.0010	0.0954
	(0.0004)	(0.0476)	(0.0010)	(0.0659)
Constant	1.2538***	7.2674	-0.0676	102.9560***
	(0.0646)	(5.9509)	(0.1858)	(8.7698)
Observations	5,305	5,305	5,305	5,305
R-squared	0.3654	0.0595	0.0504	0.2950
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 18 Drivers of Variability in workforce performance: Panel regression— using RET as financial performance indicator

Explanatory variables	**WFCV**	**WFBETA**	**WFTREND**	**WFRES**
RET	-0.0073	0.1900	0.0138	3.3126
	(0.0083)	(1.6645)	(0.0355)	(2.0622)
LogESG	-0.1958***	3.0326	-0.0432	-20.8131***
	(0.0203)	(2.1058)	(0.0536)	(3.4407)
SIZE	-0.0128**	-1.0298**	0.0143	-0.3564
	(0.0054)	(0.4617)	(0.0116)	(0.7012)
LEVERAGE	0.0140	-3.6580	0.0580	5.9748
	(0.0369)	(3.2128)	(0.0856)	(7.4598)
CASHAT	-0.0005	0.0751	-0.0011	0.0696
	(0.0003)	(0.0485)	(0.0011)	(0.0603)
Constant	1.1924***	6.6492	-0.0840	100.2750***
	(0.0644)	(6.2818)	(0.2103)	(10.0980)
Observations	5,305	5,305	5,305	5,305
R-squared	0.3567	0.0595	0.0503	0.2952
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 19 Effect of variability workforce performance on financial performance (ROA)

Explanatory variables	**Model1**	**Model2**	**Model3**	**Model4**	**Model5**
WFCV	-0.0331**	-0.0407***			
	(0.0129)	(0.0116)			
ESGCV	-0.0350				
	(0.0273)				
WFBETA			-0.0001*		
			(0.0000)		
WFTREND				0.0053**	
				(0.0024)	
WFRES					-0.0001
					(0.0001)
LogESG	0.0228**	0.0232**	0.0306***	0.0303***	0.0287***
	(0.0106)	(0.0108)	(0.0105)	(0.0104)	(0.0103)
SIZE	-0.0085***	-0.0083***	-0.0076**	-0.0076**	-0.0076**
	(0.0031)	(0.0032)	(0.0032)	(0.0032)	(0.0032)
LEVERAGE	0.0078	0.0079	0.0072	0.0072	0.0078
	(0.0221)	(0.0221)	(0.0223)	(0.0223)	(0.0223)
CASHAT	0.0008***	0.0008***	0.0008***	0.0008***	0.0008***
	(0.0003)	(0.0003)	(0.0003)	(0.0003)	(0.0003)
Constant	0.1673**	0.1591**	0.1101	0.1102	0.1184*
	(0.0689)	(0.0726)	(0.0700)	(0.0697)	(0.0686)
Observations	5,306	5,306	5,306	5,306	5,306
R-squared	0.2995	0.2982	0.2935	0.2941	0.2938
Industry FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 20 Effect of variability workforce performance on financial performance (Tobin's q)

Explanatory variables	Model1	Model2	Model3	Model4	Model5
WFCV	-0.7265***	-0.6134***			
	(0.1444)	(0.1263)			
ESGCV	0.5215*				
	(0.3151)				
WFBETA			0.0000		
			(0.0005)		
WFTREND				-0.0003	
				(0.0257)	
WFRES					-0.0011**
					(0.0005)
LogESG	0.0278	0.0229	0.1335	0.1335	0.1108
	(0.1056)	(0.1086)	(0.1134)	(0.1132)	(0.1147)
SIZE	-0.1566***	-0.1595***	-0.1487***	-0.1487***	-0.1495***
	(0.0334)	(0.0336)	(0.0340)	(0.0341)	(0.0339)
LEVERAGE	0.5728*	0.5710*	0.5639*	0.5639*	0.5686*
	(0.3285)	(0.3312)	(0.3356)	(0.3355)	(0.3350)
CASHAT	0.0308***	0.0308***	0.0311***	0.0311***	0.0311***
	(0.0047)	(0.0047)	(0.0047)	(0.0047)	(0.0047)
Constant	3.5488***	3.6706***	2.9170***	2.9171***	3.0346***
	(0.6039)	(0.6352)	(0.6009)	(0.6009)	(0.6104)
Observations	5,306	5,306	5,306	5,306	5,306
R-squared	0.4065	0.4048	0.3976	0.3976	0.3984
Industry FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 21 Effect of variability workforce performance on financial performance (RET)

Explanatory variables	Model1	Model2	Model3	Model4	Model5
L.WFCV	0.0022	0.0097			
	(0.0251)	(0.0238)			
L.ESGCV	0.0349				
	(0.0426)				
L.WFBETA			-0.0003*		
			(0.0002)		
L.WFTREND				0.0160**	
				(0.0075)	
L.WFRES					-0.0001
					(0.0002)
L.LESG	0.0091	0.0088	0.0073	0.0064	0.0048
	(0.0175)	(0.0173)	(0.0160)	(0.0156)	(0.0151)
L.SIZE	-0.0023	-0.0025	-0.0029	-0.0027	-0.0027
	(0.0032)	(0.0031)	(0.0031)	(0.0031)	(0.0031)
L.LEVERAGE	-0.0771***	-0.0772***	-0.0780***	-0.0778***	-0.0767***
	(0.0265)	(0.0265)	(0.0264)	(0.0264)	(0.0267)
L.CASHAT	0.0011***	0.0011***	0.0011***	0.0011***	0.0011***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)	(0.0004)
Constant	0.0617	0.0698	0.0849	0.0849	0.0933
	(0.0969)	(0.0912)	(0.0800)	(0.0793)	(0.0771)
Observations	5,306	5,306	5,306	5,306	5,306
R-squared	0.4812	0.4811	0.4814	0.4817	0.4811
Industry FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0.1

Table 22 the impact of workforce performance on corporate financial performance

Explanatory Variables	ROA	Tobin's q	RET
LogESGWF	0.0196***	0.2080***	0.0076
	(0.0054)	(0.0469)	(0.0079)
SIZE	-0.0068**	-0.1697***	-0.0031
	(0.0034)	(0.0329)	(0.0034)
LEVERAGE	0.0076	0.5688*	-0.0770***
	(0.0218)	(0.3302)	(0.0265)
CASHAT	0.0008***	0.0308***	0.0011***
	(0.0003)	(0.0046)	(0.0004)
Constant	0.1388**	2.9726***	0.0868
	(0.0651)	(0.5659)	(0.0690)
Observations	5,306	5,306	5,306
R-squared	0.2928	0.4061	0.4812
Industry FE	YES	YES	YES
Year FE	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: *** p<0.01, ** p<0.05, * p<0

Chapter 6. Conclusion

This study advances the ongoing exploration of the link between CSR and corporate financial performance, where scholars have sought to demonstrate that financial motives are the main driver of a firm's engagement in CSR initiatives (Waddock and Graves, 1997; Orlitzky *et al.*, 2003). Others have approached this relationship from the RBV, arguing that CSR, when integrated with effective human resources management, can provide firms with a sustainable competitive advantage through the development of tangible and intangible assets, ultimately strengthening corporate financial performance (Wright *et al.*, 1994; Branco and Rodrigues, 2006). However, empirical findings on the link between CSR and corporate financial performance remain inconclusive, underscoring the need to consider the strategic implementation of CSR. By adopting a strategic approach, firms can transform CSR activities into routine practices (Bansal *et al.*, 2015), enabling them to absorb and accumulate knowledge, sustain socially responsible behaviour over time (Becker, 2005; Roome and Wijen, 2006) and maintain consistency even during economic downturns (Roome and Wijen, 2006; Bansal *et al.*, 2015). Further, less variability in CSR scores and workforce scores enhance a firm's success by mitigating legitimacy concerns (Deegan et al., 2002; Chen et al., 2008), increasing trust with stakeholders (Wood and Jones, 1995), enhancing reputation (Turban and Greening, 1997; Peloza, 2009), and improving firm resources and capabilities (Wright et al., 1994; Branco and Rodrigues, 2006). Thus, CSR's financial benefits come from long-term, stable commitment to CSR, in accord with corporate core values and basic strategy, rather than from superficial or intermittent CSR.

6.1 Summary of Findings

This study has explored the relationship between CSR consistency and corporate financial performance, using ESG and Workforce scores as proxies for CSR performance. The two empirical chapters, 3 and 4, investigate four measures of CSR consistency. In Chapter 3, the analysis examines how consistent engagement in CSR activities over time impacts corporate financial performance using ESGCV, ESGBETA, ESGTREND and ESGRES, obtained using ESG scores from the LSEG database as a proxy for CSR performance. The findings provide mixed results. Interestingly, ESGCV and firm profitability (ROA) have a significant and negative relationship. ESGBETA and ESGTREND show a significant association with firm value (Tobin's q), where ESGBETA demonstrates that greater variability in ESG scores is associated with lower firm value, while ESGTREND shows that temporal consistency, where a firm's ESG scores align with a steady increase in the market's overall ESG scores, shows a positive relationship. The analysis found no significant relationship between ESG stability measures and stock returns (RET).

In Chapter 4, the four measures of stability in workforce scores (WFCV, WFBETA, WFTREND and WFRES), as a key dimension of ESG, are used to assess consistent CSR performance, given that employees play a crucial role in implementing and experiencing CSR efforts. The findings also suggest mixed results but reveal a more profound effect of workforce stability on corporate financial performance. WFCV, WFBETA and WFTREND demonstrate a significant association with firm profitability (ROA), with WFCV and WFBETA indicating that greater variability in workforce scores impact ROA negatively, while WFTREND shows a positive link, suggesting that temporal consistency is rewarded with higher profitability. Additionally, WFCV and WFRES exhibit a significant inverse relationship with firm value (Tobin's q), implying that higher variability in workforce scores diminishes firm value. A higher variability in workforce scores (WFBETA), i.e. relative deviation from the overall market ESG scores, is associated with lower RET, suggesting that inconsistent workforce performance can impact financial performance negatively. Also, a positive trend in the workforce's performance (WFTREND), which assesses alignment with the ESG market trend, is found to be linked to higher RET, indicating that sustained improvement in workforce practices can influence RET positively.

Based on these findings, it is clear that workforce stability is critical to CSR, as staff well-being and good employment practices are significant to financial performance. However, the fact that the study results are ambivalent, notably there being no significant relationship between CSR stability and RET, demonstrates that CSR's effect on financial performance depends on such contextual variables as the characteristics of the business sector and market conditions.

6.2 Theoretical Implications

This study combines stakeholder theory and the Resource-Based View (RBV) to make a significant contribution to the theoretical understanding of CSR. According to stakeholder theory, companies have to satisfy a variety of stakeholders (e.g. staff, customers, investors and communities) in order to guarantee success in the long term. The results of this study show that legitimacy and stakeholder trust are supported by consistent CSR performance and in turn bring improved financial performance. An example of this is that stability in employment practices enhances staff satisfaction and productivity, and consistency in ESG performance brings a stronger corporate reputation, along with enhanced confidence amongst investors. This conforms to the instrumentalist interpretation of stakeholder theory, which stresses the financial results of stakeholder-focused practices.

The RBV focuses on intangible resources (e.g. corporate reputation, staff skills and corporate culture) and their effect on competitive advantage. These resources can be gathered and utilized over time by means of consistent CSR performance. An example here is that stability in employment practices fosters better staff competence and facilitates a culture of social responsibility, while consistency in ESG performance enhances corporate reputation and relationships with stakeholders.

This study therefore gives a more comprehensive understanding of the links between CSR and financial performance, as a result of combining these theories. It also shows that stakeholder-focused CSR generates intangible resources which play a significant role in corporate financial results and maintaining competitive advantage.

6.3 Practical Implications

There are three particular practical implications which emerge from the findings of this study, which could have value for managers and corporate decision-makers. First, CSR activities should be integrated strategically with core business operations, thereby aligning them with corporate values and goals, instead of just being peripheral or occasional activities. Consistency is vital in CSR, because sustained CSR commitment leads to enhanced financial performance, so that the focus needs to be on making CSR activities less variable and making sure that they are part and parcel of the company's day-to-day operations.

Second, staff well-being and good employment practices should be prioritised, as they have a major influence on financial performance. Examples here include the promotion of diversity and inclusion, investment in training and development, and the generation of a positive corporate culture. Companies can improve their CSR performance and enhance their relationships with external stakeholders by fostering staff co-operation and support.

Third, active engagement with stakeholders is vital, in order to understand their perspectives and incorporate this knowledge in CSR strategies. Doing so is important for stakeholder trust and ensures that a company's CSR conforms with what key stakeholders want.

6.4 Implications for Policy

This study's findings also have significant implications for policymakers and regulators. First, greater emphasis should be placed on standardizing CSR performance measurement to improve data compatibility and reliability. Such standardization would enable companies to benchmark their performance, identify areas for improvement, and allow stakeholders to draw better-informed conclusions about firms' CSR commitments. Despite the growth of CSR rating agencies amid rising CSR attention, inconsistencies in methodologies across agencies remain a persistent challenge (Tsang et al., 2023).

Second, there should be incentives from government agencies and regulators for companies which show consistent CSR performance. These could include tax breaks or subsidies and would encourage firms to focus less on short-term benefits and to take on more strategic and long-term approaches to CSR instead.

Third, companies should be required to disclose their CSR performance and engage regularly with stakeholders, thereby making them more transparent and accountable, while at the same time enhancing stakeholder trust in those companies.

6.5 Limitations

This study does offer valuable insights, but it does also have three particular limitations. First, there are concerns about the accuracy and reliability of the measures on which the ESG scores in the LSES database are based. There is a variety of methodologies in use by CSR rating agencies, so that their data may be inconsistent. Furthermore, by focusing on one database alone, the study has been limited in its sample size and time period, so that there may be issues with generalising from the findings.

Second, the study uses approaches to estimation and control that cover all industries, so that industry-specific factors are not accounted for in their effect on the relationship between CSR and financial performance. As an example, companies in the energy sector may have a greater focus on environmental practices as a result of pressure from stakeholders and regulators. Companies in the service sector, on the other hand, may look more to social factors. It could be valuable for future research to investigate variation in the effect of CSR between industries and thus develop sector-specific CSR performance measures.

Third, the study was circumscribed by lacking data on certain key factors, e.g. expenditure on R&D, and this could have affected the analysis and results. It would be valuable for future research to correct this defect by employing more extensive datasets.

6.6 Future Research Recommendations

This study has made significant contributions, but its findings can also be used as a foundation for future research in six areas. First, studies could compare different countries to explore how CSR consistency affects financial performance in varied cultural and regulatory environments. As an example, previous research proposes that markets in the USA are less affected by ESG performance than are those in Europe, where regulation and stakeholders put much more pressure on companies in the field of sustainability (Kaiser, 2020). Thus, corporate investment in ESG stability in Europe may have more pronounced results, which would also make CSR consistency's effect on financial performance in differing regions clearer.

Second, studies could usefully explore the effect of institutional investors on efforts to ensure consistency in CSR performance. For example, do institutional investors reward firms with stable CSR practices, and how does this influence financial performance?

Third, research could explore how changes in CEO leadership affect the consistency of CSR performance. For instance, do new CEOs prioritise CSR initiatives, and how does this impact stakeholder trust and financial outcomes?

Fourth, future studies could analyse the stability of specific CSR dimensions that are more relevant to a firm's industry. For example, environmental practices may be more critical for manufacturing firms, while governance practices may be more important for financial services firms.

Fifth, research should investigate the mechanisms through which CSR influences workforce performance. For example, how do CSR initiatives affect employee motivation, productivity and retention? By addressing these areas, future research can provide a more comprehensive understanding of the relationship between CSR consistency and financial performance, while also offering practical insights for managers and policy makers.

Six, it is important to recognise that the financial crisis of 2008 may have had heterogeneous effects across different industries and firms. While fixed-year effects provide a broad control for time-specific shocks, additional controls – such as financial crisis dummy variables or interaction terms between crisis and industry characterises – could offer more granular insights into these differential effects.

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Appendix 3. 1 Effect of variability in CSR on financial performance (ROA), using raw ESG scores and raw overall ESG scores instead of using the natural logarithm of ESG and the overall market ESG

Explanatory Variables	Model 1	Model 2	Model 3	Model 4
ESGCV	-0.0502**			
	(0.0240)			
ESGBETA		0.0000		
		(0.0001)		
ESGTREND			-0.0000	
			(0.0001)	
ESGRES				0.0002
				(0.0001)
ESG	0.0006***	0.0007***	0.0007***	0.0006***
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
SIZE	-0.0082*	-0.0073*	-0.0073*	-0.0072*
	(0.0042)	(0.0043)	(0.0042)	(0.0040)
LEVERAGE	-0.0099	0.0013	0.0014	0.0094
	(0.0215)	(0.0222)	(0.0222)	(0.0221)
CASHAT	0.0007**	0.0007**	0.0007**	0.0008***
	(0.0003)	(0.0003)	(0.0003)	(0.0003)
Constant	0.2218***	0.1922***	0.1922***	0.1863***
	(0.0672)	(0.0713)	(0.0712)	(0.0683)
Observations	6,426	5,685	5,685	5,306
R-squared	0.2779	0.2696	0.2696	0.2890
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.

Appendix 3. 2 Effect of variability in CSR on financial performance (Tobin's q), using raw ESG scores and raw overall ESG scores instead of using the natural logarithm of ESG and the overall market ESG

Explanatory Variables	Model 1	Model 2	Model 3	Model 4
ESGCV	0.0848			
	(0.2236)			
ESGBETA		-0.0027***		
		(0.0010)		
ESGTREND			0.0031**	
			(0.0014)	
ESGRES				0.0012
				(0.0014)
L.ESG	0.0074***	0.0065***	0.0063***	0.0061***
	(0.0021)	(0.0023)	(0.0023)	(0.0024)
L.SIZE	-0.1834***	-0.1748***	-0.1737***	-0.1705***
	(0.0311)	(0.0327)	(0.0327)	(0.0330)
LEVERAGE	0.4184	0.5117	0.5131	0.5863*
	(0.3062)	(0.3255)	(0.3253)	(0.3352)
CASHAT	0.0320***	0.0313***	0.0313***	0.0308***
	(0.0044)	(0.0046)	(0.0046)	(0.0048)
Constant	3.6720***	3.5467***	3.5345***	3.4498***
	(0.5075)	(0.5307)	(0.5300)	(0.5381)
Observations	6,434	5,684	5,684	5,306
R-squared	0.4044	0.4006	0.4008	0.4022
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.

Appendix 3. 3 Effect of variability in CSR on financial performance (RET), using raw ESG scores and raw overall ESG scores instead of using the natural logarithm of ESG and the overall market ESG.

Explanatory Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
ESGCV	0.0337			
	(0.0263)			
ESGBETA		-0.0003		
		(0.0003)		
ESGTREND			0.0005	
			(0.0003)	
ESGRES				0.0001
				(0.0003)
L.ESG	-0.0001	-0.0001	-0.0002	-0.0002
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
L.SIZE	0.0015	0.0010	0.0011	-0.0005
	(0.0039)	(0.0039)	(0.0039)	(0.0040)
LEVERAGE	-0.0893***	-0.0948***	-0.0947***	-0.0781***
	(0.0240)	(0.0254)	(0.0254)	(0.0264)
CASHAT	0.0014***	0.0012***	0.0012***	0.0011***
	(0.0003)	(0.0004)	(0.0004)	(0.0004)
Constant	0.0436	0.0561	0.0547	0.0814
	(0.0678)	(0.0671)	(0.0671)	(0.0684)
Observations	6,435	5,684	5,684	5,306
R-squared	0.4568	0.4682	0.4683	0.4811
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.

Appendix 3. 4 Effect of variability in CSR on financial performance (RET), using alternative measures of size (logarithm of revenues), firm leverage (the ratio of total debt to market value), also, market beta (BETA), and price to book value (PTBV) are included to test if stock returns would be impacted by stability and performance of CSR.

Explanatory variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
ESGCV	0.0530			
	(0.0421)			
ESGBETA		-0.0002		
		(0.0003)		
ESGTREND			0.0002	
			(0.0004)	
ESGRES				0.0001
				(0.0003)
ESG	-0.0003	-0.0004	-0.0004	-0.0004
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
SIZES	0.0066*	0.0060	0.0061*	0.0060
	(0.0040)	(0.0037)	(0.0037)	(0.0037)
LEVM	0.0000***	0.0000***	0.0000***	0.0000***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
CASHAT	0.0017***	0.0016***	0.0016***	0.0016***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)
BETA	0.0059	0.0063	0.0063	0.0062
	(0.0091)	(0.0091)	(0.0091)	(0.0091)
PTBV	0.0001	0.0001	0.0001	0.0001
	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Constant	-0.0727	-0.0536	-0.0547	-0.0545
	(0.0692)	(0.0596)	(0.0598)	(0.0590)
Observations	5,297	5,297	5,297	5,297
R-squared	0.4856	0.4854	0.4854	0.4854
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.

Appendix 4. 1 Effect of variability in workforce on financial performance (ROA), using raw workforce scores and raw overall ESG scores instead of using the natural logarithm of ESG and the overall market ESG.

Explanatory Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
WFCV	-0.0450***			
	(0.0140)			
WFBETA		-0.0001		
		(0.0001)		
WFTREND			0.0001	
			(0.0001)	
WFRES				-0.0001
				(0.0001)
ESG	0.0004**	0.0006***	0.0006***	0.0006***
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
SIZE	-0.0079**	-0.0073*	-0.0072*	-0.0073*
	(0.0039)	(0.0040)	(0.0041)	(0.0041)
LEVERAGE	0.0095	0.0096	0.0096	0.0100
	(0.0219)	(0.0221)	(0.0221)	(0.0221)
CASHAT	0.0008***	0.0008***	0.0008***	0.0008***
	(0.0003)	(0.0003)	(0.0003)	(0.0003)
Constant	0.2204***	0.1885***	0.1881***	0.1906***
	(0.0636)	(0.0681)	(0.0681)	(0.0690)
Observations	5,306	5,306	5,306	5,306
R-squared	0.2950	0.2887	0.2888	0.2889
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.

Appendix 4. 2 Effect of variability in workforce on financial performance (Tobin's q), using raw workforce scores and raw overall ESG scores instead of using the natural logarithm of ESG and the overall market ESG.

Explanatory Variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
WFCV	-0.5032***			
	(0.1341)			
WFBETA		-0.0009		
		(0.0007)		
WFTREND			0.0011	
			(0.0008)	
WFRES				-0.0019**
				(0.0008)
ESG	0.0039	0.0062***	0.0062***	0.0062***
	(0.0024)	(0.0023)	(0.0023)	(0.0023)
SIZE	-0.1780***	-0.1710***	-0.1706***	-0.1719***
	(0.0332)	(0.0329)	(0.0330)	(0.0329)
LEVERAGE	0.5860*	0.5867*	0.5876*	0.5961*
	(0.3334)	(0.3357)	(0.3356)	(0.3355)
CASHAT	0.0306***	0.0308***	0.0308***	0.0306***
	(0.0047)	(0.0048)	(0.0048)	(0.0048)
Constant	3.8254***	3.4689***	3.4637***	3.5235***
	(0.5601)	(0.5366)	(0.5369)	(0.5356)
Observations	5,306	5,306	5,306	5,306
R-squared	0.4069	0.4022	0.4023	0.4031
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.

Appendix 4. 3 Effect of variability in workforce on financial performance (RET), using raw workforce scores and raw overall ESG scores instead of using the natural logarithm of ESG and the overall market ESG.

Explanatory variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
WFCV	-0.0024			
	(0.0239)			
WFBETA		-0.0002		
		(0.0002)		
WFTREND			0.0003	
			(0.0002)	
WFRES				0.0001
				(0.0002)
ESG	-0.0002	-0.0001	-0.0002	-0.0001
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
SIZE	-0.0006	-0.0007	-0.0005	-0.0005
	(0.0039)	(0.0040)	(0.0040)	(0.0040)
LEVERAGE	-0.0779***	-0.0783***	-0.0781***	-0.0783***
	(0.0264)	(0.0263)	(0.0264)	(0.0263)
CASHAT	0.0011***	0.0011***	0.0011***	0.0011***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)
Constant	0.0846	0.0841	0.0828	0.0796
	(0.0676)	(0.0685)	(0.0686)	(0.0687)
Observations	5,306	5,306	5,306	5,306
R-squared	0.4810	0.4811	0.4812	0.4811
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.

Appendix 4. 4 Effect of variability in workforce on financial performance (RET), using alternative measures of size (logarithm of revenues), firm leverage (the ratio of total debt to market value), also, market beta (BETA), and price to book value (PTBV) are included to test if stock returns would be impacted by stability of workforce scores.

Explanatory variables	**Model 1**	**Model 2**	**Model 3**	**Model 4**
WFCV	-0.0014			
	(0.0234)			
WFBETA		-0.0002		
		(0.0002)		
WFTREND			0.0003	
			(0.0002)	
WFRES				0.0001
				(0.0002)
ESG	-0.0004	-0.0004	-0.0004	-0.0004
	(0.0002)	(0.0002)	(0.0002)	(0.0002)
SIZES	0.0060	0.0060	0.0061*	0.0061
	(0.0037)	(0.0037)	(0.0037)	(0.0037)
LEVM	0.0000***	0.0000***	0.0000***	0.0000***
	(0.0000)	(0.0000)	(0.0000)	(0.0000)
CASHAT	0.0016***	0.0016***	0.0016***	0.0016***
	(0.0004)	(0.0004)	(0.0004)	(0.0004)
BETA	0.0062	0.0062	0.0063	0.0061
	(0.0090)	(0.0091)	(0.0090)	(0.0091)
PTBV	0.0001	0.0001	0.0001	0.0001
	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Constant	-0.0526	-0.0534	-0.0544	-0.0552
	(0.0604)	(0.0595)	(0.0595)	(0.0594)
Observations	5,297	5,297	5,297	5,297
R-squared	0.4854	0.4855	0.4855	0.4854
Industry FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES

*Results from a panel regression with industry and year fixed effects. Stars denote statistical significance using robust standard errors: Robust standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1.*

Appendix 5. 1 Results of the generalized methods of moments (GMM) estimation, using workforce coefficient of variation as Dependent Variable (WFCV), we use logarithmic form for firm leverage (LEVERAGE) and financial slack (CASHAT) as common approach in GMM. Also, lag of financial performance

VARIABLES	ROA	Tobin's q
ROA (t−1)	0.539***	
	(0.166)	
Tobin's q (t−1)		1.136***
		(0.081)
WFCV	-0.043*	-0.428***
	(0.025)	(0.148)
LogESG	0.043*	0.669***
	(0.026)	(0.165)
SIZE	-0.030*	-0.496***
	(0.016)	(0.133)
LogLEVERAGE	-0.028**	-0.502***
	(0.014)	(0.138)
LogCASHAT	0.028*	-0.069
	(0.016)	(0.073)
Constant	0.280	5.104***
	(0.204)	(1.586)
Observations	5,180	5,179
Number of id	377	377
AR(1)	0.000	0.000
AR(2)	0.725	0.171
Hansen	0.368	0.146
Sargen	0.077	0.000
Number of Instruments	25.000	24.000
Time dummies	Yes	Yes

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1