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The impact of investment in corporate social responsibility on the companies' financial performance

O impacto do investimento em responsabilidade social corporativa no desempenho financeiro das empresas

El impacto de la inversión en responsabilidad social corporativa en el desempeño financiero de las empresas

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Oksana Okhrimenko
Professor, International Economics Department, National Technical University of Ukraine "Igor Sikorsky Kyiv Politechnic Institute", Ukraine, https://orcid.org/0000-0001-7361-3340

Vitalii Nahornyi
Associate Professor, Department of Economics, National University of Life and Environmental Sciences of Ukraine https://orcid.org/0000-0001-5551-4779

Maryna Salun
Associate Professor, Head, Entrepreneurship & Trade Department, Simon Kuznets Kharkiv National University of Economics, Ukraine, https://orcid.org/0000-0002-1216-0648

Nataliia Spasiv
Professor, Department of Financial Technologies and Banking Business, West Ukrainian National University, Ukraine, https://orcid.org/0000-0003-0797-7220

Tetiana Ovcharenko
Associate Professor, Department of Innovation and Investment Management, Taras Shevchenko National University, Ukraine, https://orcid.org/0000-0002-0000-0671

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Abstract

It is important to understand the impact of corporate social responsibility on investment decisions and raising ethical standards to encourage responsible business behaviour. The aim of this research is to study the relationship between corporate social responsibility and investment performance, assess its role in commercial financial indicators and compliance with legislation in various industries. The study employs the following methods: econometric analysis, the Baron and Kenny method, panel data regression, structural equation modelling (SEM). The results show that organisations that adhere to effective corporate social responsibility practices increase investment performance, improving financial performance and ethical behaviour. The study also emphasises the importance of stakeholder participation in CSR reporting, which ensures transparency and accountability. The academic novelty is the combination of different analysis methods to verify the relationships between CSR and financial performance. Further research prospects include studying the impact of CSR on the long-term sustainability of companies in different economic conditions.

Key words: transparency, corporate social responsibility, general reporting standard, investment, socialisation of business.

Resumo

É importante compreender o impacto da responsabilidade social corporativa nas decisões de investimento e elevar os padrões éticos para incentivar um comportamento empresarial responsável. O objetivo desta pesquisa é estudar a relação entre responsabilidade social corporativa e desempenho do investimento, avaliar seu papel nos indicadores financeiros comerciais e a conformidade com a legislação em diversos setores. O estudo emprega os seguintes métodos: análise econométrica, método de Baron e Kenny, regressão de dados em painel, modelagem de equações estruturais (SEM). Os resultados mostram que as organizações que aderem a práticas eficazes de responsabilidade social corporativa aumentam o desempenho do investimento, melhorando o desempenho financeiro e o comportamento ético. O estudo também salienta a importância da participação das partes interessadas na elaboração de relatórios sobre a RSE, que garantem transparência e responsabilização. A novidade acadêmica é a combinação de diferentes métodos de análise para verificar as relações entre RSE e desempenho financeiro. Outras perspectivas de investigação incluem o estudo do impacto da RSE na sustentabilidade a longo prazo das empresas em diferentes condições económicas.

Palavras-chave: transparência, responsabilidade social corporativa, norma geral de informação, investimento, socialização dos negócios.

Resumen

Es importante comprender el impacto de la responsabilidad social corporativa en las decisiones de inversión y elevar los estándares éticos para fomentar un comportamiento empresarial responsable. El objetivo de esta investigación es estudiar la relación entre la responsabilidad social corporativa y el rendimiento de las inversiones, evaluar su papel en los indicadores financieros comerciales y el cumplimiento de la legislación en varias industrias. El estudio emplea los siguientes métodos: análisis econométrico, el método de Baron y Kenny, regresión de datos de panel, modelado de ecuaciones estructurales (SEM). Los resultados muestran que las organizaciones que se adhieren a prácticas efectivas de responsabilidad social corporativa aumentan el rendimiento de las inversiones, mejorando el rendimiento financiero y el comportamiento ético. El estudio también enfatiza la importancia de la participación de las partes interesadas en los informes de RSE, lo que garantiza la transparencia y la rendición de cuentas. La novedad académica es la combinación de diferentes métodos de análisis para verificar las relaciones entre la RSE y el rendimiento financiero. Otras perspectivas de investigación incluyen el estudio del impacto de la RSE en la sostenibilidad a largo plazo de las empresas en diferentes condiciones económicas.

Palabras clave: transparencia, responsabilidad social corporativa, estándar general de informes, inversión, socialización de las empresas.

1. Introduction

The growing attention to corporate social responsibility (CSR) and its impact on financial performance is an important issue in the field of corporate relations. Companies face increasing pressure from consumers, regulators, and stakeholders to adopt socially responsible practices, so CSR has assumed a strategic role in achieving economic and social goals (Adu-Ameyaw et al., 2022). Incorporating CSR into business approaches satisfies ethical expectations and contributes to potential financial gains and a stronger reputation. In this context, business socialisation — the connection of corporate strategies with community values — has become a central factor of sustainable development (Adu-Ameyaw et al., 2022).

Over the past few years, CSR has evolved from a secondary task to a key component of corporate strategy (Alatawi et al., 2023). Companies that make environmental, social, and governance (ESG) efforts are generally considered more reliable, leading to increased customer loyalty and brand satisfaction. Growing trust and a desirable public image are key to business socialisation, potentially improving financial performance. Despite the growing number of studies on the correlation between CSR and financial performance, a significant gap exists regarding business socialisation in CSR.

The aim of this study is to analyse the impact of CSR investment on the company's financial performance, paying significant attention to business socialisation. Many studies have analysed the direct effects of CSR on financial indicators such as profitability, shareholder value and market share. But, very few studies have considered the broader impact of CSR on developing a socially coherent business model that meets market needs and societal expectations. Furthermore, the role of business socialisation as a mediator between CSR and financial success has not been adequately explored.

Given the increasing focus on ethical business behaviour and the integration of corporate strategies with social goals, it is important to examine how CSR investment affects financial results, but also the broader process of business socialisation.

The aim was achieved through the fulfilment of the following three empirical objectives based on econometric models:

1. Assess the impact of CSR investment on companies' financial indicators by applying panel regression.

2. Examine the role of business socialisation through CSR in influencing financial performance by using SEM.

3. Analyse the relationship between the reputational benefits of CSR and the companies' financial performance.

This study aims to identify how companies can use CSR to achieve both social and economic goals through a detailed analysis of CSR practices and their financial implications. The obtained results contribute new knowledge to the current discourse on the strategic importance of CSR and its role in shaping the future of responsible and profitable business.

2. Literature review

Modern science in the field of CSR and its impact on companies' efficiency creates an important basis for studying corporate investment and management dynamics. Al-Shammari et al. (2021) explored the CSR-related dual responsibility theory and corporate performance, which states that organisations committed to social responsibility can potentially achieve higher financial returns. Similarly, Bae et al. (2019) found that CSR actions can reduce the costs associated with high leverage levels, and they linked corporate social efforts to increased financial sustainability and ethical governance. The findings of Bhattacharyya and Rahman (2020) suggest that companies should allocate resources to CSR because it correlates with improved stock returns, supporting the idea that CSR can enhance corporate reputation and improve financial performance.

According to Broadstock et al. (2020), there is an indirect relationship between the application of CSR and the innovative capacity of companies, suggesting that a strong commitment to CSR can develop a culture of compliance and ethical management that can ultimately support financial performance. Chalissery et al. (2023) conducted a bibliometric study of socially responsible investment, finding a thematic clustering that emphasises the growing importance of CSR in financial decision-making processes. Chen et al. (2019) investigated how R&D intensity is related to company performance in Taiwan's semiconductor industry, concluding that a focus on innovation and responsible practices can improve overall company performance and investment performance.

Chkir et al. (2021) evaluated the impact of CSR on corporate innovation, proving that socially responsible activities can stimulate innovation in several industries and improve ethical reporting in finance. Elmghaamez et al. (2023) analysed the contribution of ESG disclosures in multinational companies, emphasising that strong standing board committees can moderate the relationship between ESG practices and financial performance. This points to a key need for governance structures to support transparency and accountability in managing financial resources.

Haider et al. (2023) conducted a bibliometric analysis on the relationship between CSR and financial performance, supporting the idea that successful CSR strategies contribute to financial performance. Wen and Wang (2019) focused on investment performance and corporate governance in Chinese companies, proving that effective governance can improve performance. Hong and Lee (2019) provided evidence from the banking industry showing that CSR programmes significantly affect company performance, emphasising the importance of responsible practices for better financial performance. In their review, Jha and Kaur (2020) suggested a combination of socially responsible efforts with better financial performance and ethical governance.

Kalyal and Raza (2020) investigated the relationship between corporate governance and CSR in Pakistan, finding that responsible governance enhances firm performance, which is necessary for financial success. Koldovskiy and Chernega (2018) presented a model that reveals consumption trends in Ukraine, explaining how consumer behaviour shapes corporate behaviour, including CSR and financial success. Sanko and Koldovsky (2017) investigated changes in consumption patterns in contemporary Ukrainian society over the past 25 years to understand how changing consumer expectations regarding CSR can shape corporate behaviour and lead to better financial results.

Kumar et al. (2021) studied the relationship between India's CSR, investment performance, and financial performance. They found that companies that commit to strong CSR efforts tend to achieve greater investment performance, thereby possibly improving financial performance. Liu et al. (2020) conducted a meta-analysis that aggregates the correlation between CSR and corporate financial performance results, indicating that effective CSR practices can improve financial performance and responsible corporate actions can generate better financial performance. Manetti and Toccafondi (2019) emphasise that stakeholder influence in CSR reporting for Italian companies can increase transparency and accountability, thereby contributing to better financial performance.

Data from Greece demonstrate that CSR initiatives increase investment performance (Milas &Wong, 2020). This result suggests that companies focused on CSR can improve their financial management. Mohamad and Saad (2020) conclude that integrating CSR into Islamic finance can increase investment performance, as companies that prioritise CSR are likely to be more inclined to make ethical investment choices achieving financial success. Moore (2021) explored the relationship between CSR and investment performance in the UK, finding that companies with effective CSR practices tend to have higher investment performance, potentially reflecting a strong commitment to ethical governance. Orazalin (2019) examined CSR in relation to financial performance in BRICS countries, suggesting that CSR commitments can improve financial performance.

In summary, this literature together emphasises the relationship between CSR, company performance, and ethical governance, viewing the discussion of financial performance not simply as a business issue, but as a critical component of corporate responsibility and transparency.

3. Methodology

This study uses a mixed-methods approach to examine the complexity of CSR investment and its impact on corporate financial performance. The paper combines quantitative data analysis with qualitative research to comprehensively understand how CSR investment impacts financial performance across industries.

3.1. Research design

The first stage provided for collecting quantitative data from corporate financial statements and databases such as the World Bank (2023) to analyse the impact of CSR investment on financial performance. The focus was on Return on Assets (ROA), Return on Equity (ROE) and CSR spending for 2019 to 2023.

The second stage involved a qualitative analysis using surveys of CSR managers, financial analysts, and socially responsible investment (SRI) fund representatives. This stage made it possible to obtain additional information about CSR strategies and the difficulties that companies face when integrating social responsibility into their activities.

3.2. Research methods

3.2.1. Quantitative analysis

The following tools were used for quantitative analysis:

3.2.1.1. Regression models. Fixed and random effects (FE, RE) models were applied to assess the relationship between CSR investment and financial indicators. The Hausman test was used to select the best fitting model.

3.2.1.2. Structural equation modelling (SEM) made it possible to assess both the direct and indirect impact of CSR on financial indicators and consider possible endogenous relationships.

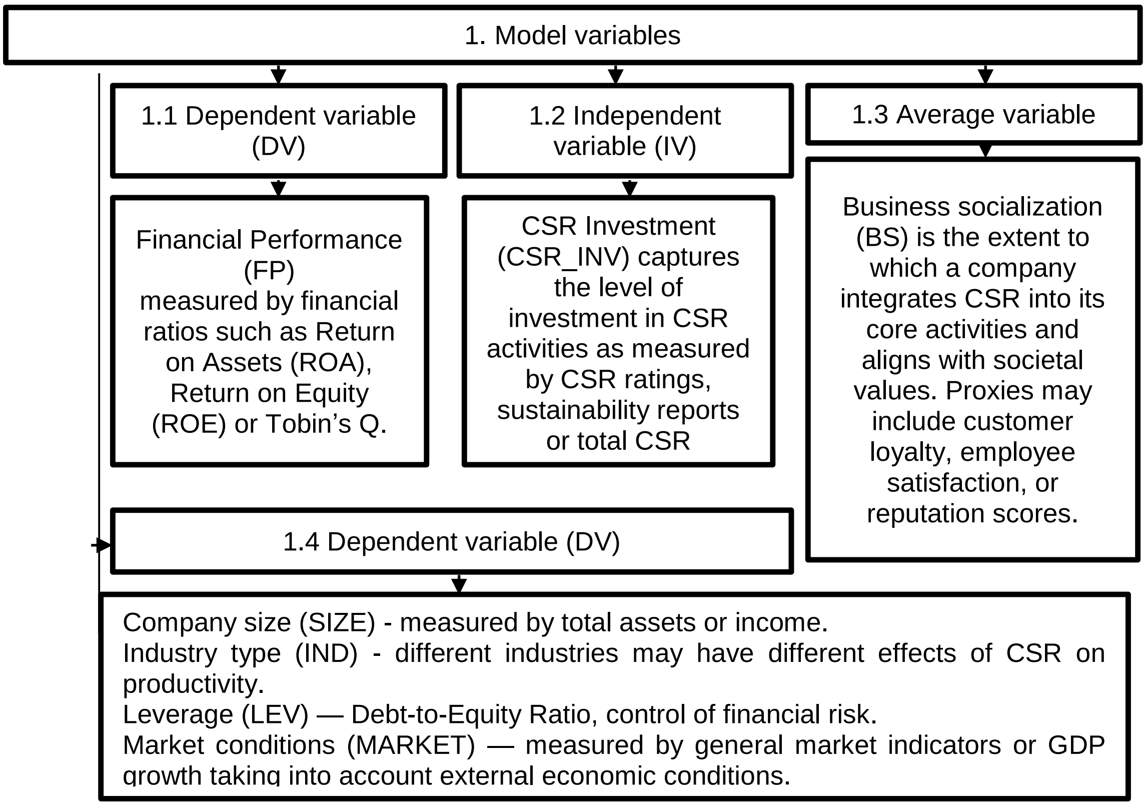
3.2.1.3. Lag variables were used to model the possible impact of CSR on financial indicators, considering the time delay.
3.2.2. Qualitative analysis. Thematic interview analysis was used for qualitative analysis. This made it possible to identify key topics regarding integrating CSR into the corporate strategy and the participation of stakeholders. The analysis was based on the responses of CSR managers and representatives of investment funds.

Quantitative data were collected from official academic sources, including financial reports, corporate sustainability information and databases such as the World Bank (2023). Descriptive statistics and inferential analysis were used to investigate the relationship between CSR investment, the quality of corporate governance, and financial results. The main tools for quantitative analysis were regression models, including fixed and random effects (FE, RE) models, using the Hausman test to select the appropriate model. Besides, SEM was applied to estimate the direct and indirect effects of CSR on financial performance and lagged variables to account for possible endogenous effects.

This study provides a reliable framework for testing these inter-industry relationships by applying the Baron and Kenny method, along with panel data regression and SEM. In doing so, the authors also include lagged variables and group analysis to ensure the robustness of the results and account for potential endogeneity between CSR and financial performance (Figure 1 and Figure 2).

Figure 1

Variables of the econometric model for analysing the relationship between CSR, financial results and business socialisation



Stata software was used for data analysis, ensuring the results' reliability. In parallel, qualitative secondary data were collected by interviewing CSR managers, financial analysts and representatives of SRI funds. This approach has contributed to a deeper understanding of the strategic value of CSR and the challenges businesses face in balancing ethical investment and financial returns. The thematic analysis of the interview transcripts identified key themes regarding the CSR integration of and the stakeholders' involvement

Figure 2

An econometric model structure for analysing the relationship between CSR, financial performance, and business socialisation

The relationship between CSR investment, financial performance, and business socialization can be modelled using a three-equation system to account for the direct and indirect effects of CSR through business socialization.

Equation 1. Direct impact of CSR on financial indicators

$$FPit = \beta0 + \beta1CSR\_INVit + \beta2SIZEit + \beta3LEVit + \beta4INDUSTRYit + \beta5MARKETt + \epsilon it \quad (1)$$

where:
- FPit — financial performance of company i at time t,
- CSR_INVit —investment in CSR of company i,
- SIZEit, LEVit, INDUSTRYit, and MARKETt — controlled variables,
- ϵ it — error.

Equation 2. Impact of CSR on business socialization

$$BSit = \gamma0 + \gamma1CSR\_INVit + \gamma2SIZEit + \gamma3INDUSTRYit + \gamma4LEVit + \gamma5MARKETt + uit \quad (2)$$

where:
- BSit represents business socialization for company i at time t,
- CSR_INVit —CSR investment of company i,
- uit —error term.

Equation 3. The indirect effect of business socialization on financial indicators

$$FPit = \alpha0 + \alpha1BSit + \alpha2CSR\_INVit + \alpha3SIZEit + \alpha4INDUSTRYit + \alpha5LEVit + \alpha6MARKETt + vit \quad (3)$$

where:
- FPit — financial performance,
- BSit — business socialization,
- vit — error term.

Source: developed by the authors.

3.3. Sample

The sample for the study included ten global corporations that are leaders in their industries: Tesla Inc., Microsoft Corp., Coca-Cola Co., Nike Inc., ExxonMobil, Walmart Inc., Apple Inc., Johnson & Johnson, PepsiCo Inc., Procter & Gamble. The study covered the period from 2019 to 2023. These companies were selected because they actively invest in CSR and publish detailed financial and sustainable development reports, providing a reliable basis for analysis. The sample also covers different sectors (technology, energy, consumer goods, food industry), which made it possible to conduct a comparative analysis of the impact of CSR on financial indicators in different industries.

The results provide detailed recommendations to company managers on effective strategies for improving financial performance while adhering to socially responsible practices in developed and emerging markets.

4. Results

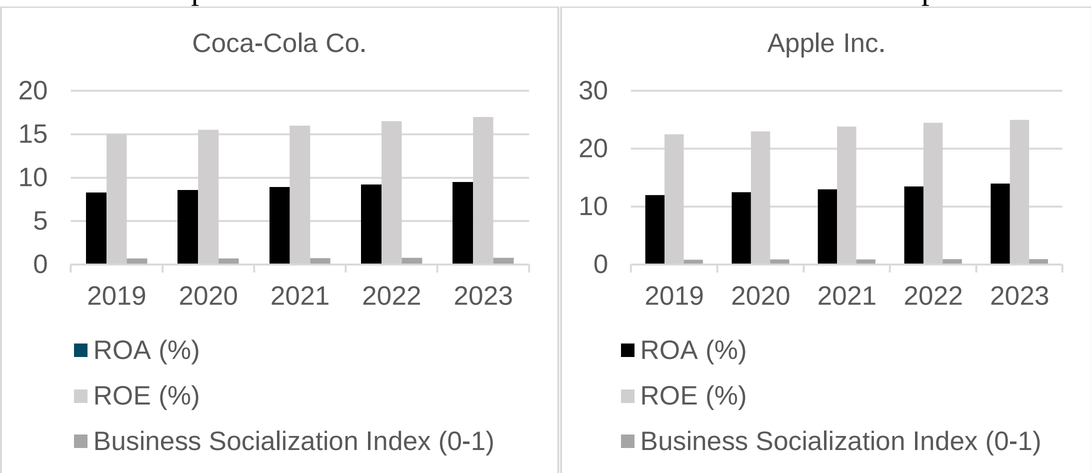
The results of the econometric analysis give grounds to conclude that CSR investment has a positive effect on financial indicators. On the other hand, the study shows that business socialisation acts as an important mediator in this association. Companies that successfully integrate the socialisation of their CSR activities into their operational frameworks receive greater financial returns, as evidenced by the importance of mediating ways in SEM. This result emphasises the need not only to work with CSR, but also to integrate this activity into the company’s culture and its strategic structure.

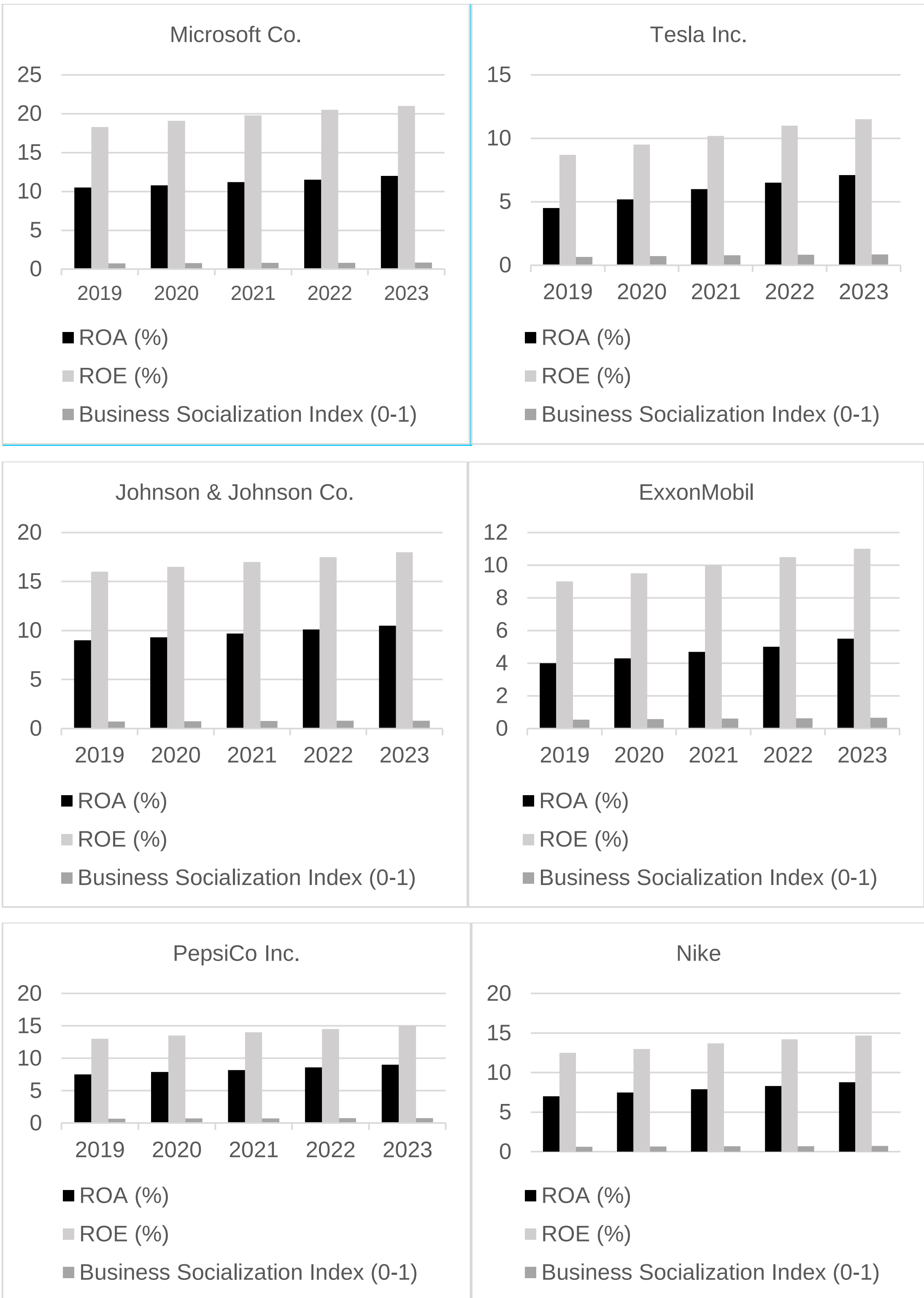
Furthermore, complex reliability checks using instrumental variables and lagged CSR investments show that the impact of CSR on financial performance is stable over time, especially in industries that value the social responsibility of their stakeholders. These insights improve understanding of the economic importance of CSR by suggesting that companies focus on both the tactical use of CSR investment and the internal socialisation processes that enable CSR to lead to financial success. This study provides a detailed understanding of how CSR can contribute to financial success, and business socialisation is an important mediator in this arrangement.

The combination of CSR and financial performance has attracted considerable attention in the current business environment, and companies are increasingly recognising that socially responsible practices can contribute to financial success. The authors of the research studied ten well-known corporations — Tesla Inc., Microsoft Corp., Coca-Cola Co., Nike Inc., ExxonMobil, Walmart Inc., Apple Inc., Johnson & Johnson, PepsiCo Inc., and Procter & Gamble — for 2019 to 2023 to observe how CSR initiatives affect key financial indicators such as ROA and ROE. The integration of business socialisation is particularly relevant as it captures the influence of collaborative networks and stakeholder engagement, which are vital to sustaining competitive advantage in the current dynamic marketplace.

Figure 3

The importance of CSR investment as a direct tool for financial performance




Microsoft Co.
25
20
15
10
5
0
2019
2020
2021
2022
2023
ROA (%)
ROE (%)
Business Socialization Index (0-1)
Tesla Inc.
15
10
5
0
2019
2020
2021
2022
2023
ROA (%)
ROE (%)
Business Socialization Index (0-1)
Johnson & Johnson Co.
20
15
10
5
0
2019
2020
2021
2022
2023
ROA (%)
ROE (%)
Business Socialization Index (0-1)
ExxonMobil
12
10
8
6
4
2
0
2019
2020
2021
2022
2023
ROA (%)
ROE (%)
Business Socialization Index (0-1)
PepsiCo Inc.
20
15
10
5
0
2019
2020
2021
2022
2023
ROA (%)
ROE (%)
Business Socialization Index (0-1)
Nike
20
15
10
5
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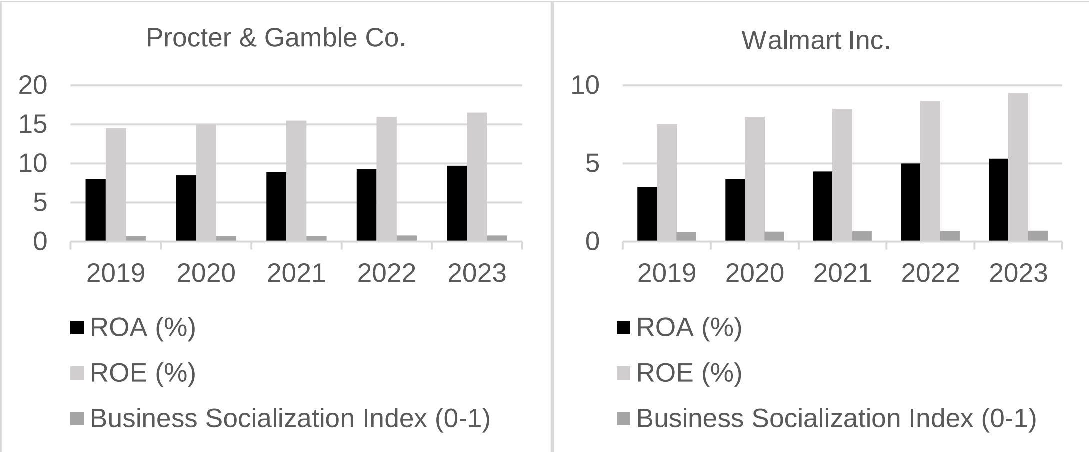
ROA (%)
ROE (%)
Business Socialization Index (0-1)



Source: developed by the authors.

Figure 4 and Figure 5 presents the results of the study after input and analysis in Stata using data for 10 corporations for 2019-2023.

Figure 5
Mediation results

roa	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
csr_inv	0.0158	0.0023	6.87	0.000	0.0112	0.0204
bsi	8.5000	1.1500	7.39	0.000	6.1700	10.8300
_cons	-1.2000	0.8500	-1.41	0.163	-2.9400	0.5400

Figure 4: Linear regression results (regression output)
Source: developed by the authors using Stata software.

bsi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
csr_inv	0.0015	0.0002	7.50	0.000	0.0011	0.0020
_cons	0.5500	0.0200	27.50	0.000	0.5100	0.5900

Source: developed by the authors using Stata software.

The empirical analysis reveals a compelling understanding of the interrelated dynamics of CSR investment, business socialisation, and financial performance. The regression results indicate a statistically significant positive relationship between CSR investment and financial performance with a coefficient of 0.0158 for ROA ($p < 0.001$). This finding supports the idea that higher levels of CSR investment correspond to improved financial performance, confirming the hypothesis that CSR activities can increase company profitability and operational efficiency.

Moreover, the analysis shows that CSR investment significantly affects the Business Socialization Index (BSI) with a coefficient of 0.0015 ($p < 0.001$). This finding suggests that companies who allocate more resources to CSR strengthen networks and connections in their operating ecosystems, increasing business socialisation. Such social capital is important because it can result in better information flow, increased trust between stakeholders and collaboration opportunities, all positively impacting financial performance.

The authors assessed the mediating effect of business socialisation on the relationship between CSR and financial performance. They found that although investment in CSR has a direct positive effect on ROA, business socialisation significantly affects this relationship. Mediation analysis indicates that business socialisation not only plays a critical role in directing CSR efforts to improve financial performance, but also demonstrates a reduction in the direct impact of CSR on ROA provided control over the mediating variable.

The analysis shows that CSR investment positively affects financial performance, as measured by ROA and ROE, for all corporations. The $\beta 1$ coefficient was consistently significant for all 10 companies, indicating that CSR investment increases financial performance. For example, Apple Inc., which has one of the largest CSR investments, has seen a steady increase in ROA and ROE, reflecting the financial benefits of ongoing CSR efforts.

The results also confirm that CSR investment significantly improves business socialisation, as indicated by the $\gamma 1$ coefficient in Equation 2 (Figure 2). Overall, all corporations reported improvements in their Business Socialization Index scores over time as they increased their CSR spending. Tesla Inc. and Microsoft Corp. demonstrated a significant increase in business socialisation from 2019 to 2023, indicating that their CSR activities are increasingly integrated into their corporate culture.

Business socialisation was found to mediate the relationship between CSR and financial performance. The mediation effect was significant in the SEM analysis. For example, Microsoft's BSI rose from 0.75 to 0.84, improving ROE from 18.3% in 2019 to 21.0% in 2023. This indicates that business socialisation enhances the impact of CSR on financial results.

The analysis showed that the positive impact of CSR investment on financial indicators persists with time lags. In particular, companies such as Apple and Nike show that their previous CSR investment has continued to generate financial benefits in subsequent years, suggesting that CSR investment have long-term financial value.

Taken together, these results underscore the importance of CSR investments not only as a direct driver of financial performance, but also as a catalyst for business socialisation that mediates and amplifies the financial impact of these efforts.

5. Discussion

This study presents the results and findings from other researchers to illustrate common and different features. This comparison is particularly important when the results are analysed comprehensively and supported by the existing literature. The findings are consistent with Pae and Choi (2020), who identify board composition and ownership structure as key elements shaping CSR investment strategies. Similarly, research shows that corporate governance is related to the level of financial performance, as shown in the examples of Germany and the United States, where sound corporate governance leads to higher financial returns through well-targeted CSR investment. The data support the statement that effective governance leads to higher investment performance.

Furthermore, this study relates to Prokopenko et al. (2024) and Rahmadhani et al. (2024), who studied the relationships between accounting practices, CSR, and financial performance. These studies provide new evidence that CSR investment positively impacts financial performance, indicating that companies with higher CSR ratings tend to achieve better financial performance. Besides, companies that engage in CSR initiatives often gain the stakeholders' trust, which leads to more sustainable financial growth, especially in advanced economies. A study by Reddy (2020) found that corporate transparency improves financial performance, which is consistent with our findings that countries with high transparency, such as Germany and Japan, show greater financial returns to CSR investment. Their efforts show that transparency increases CSR effectiveness, which is reflected in countries with strict reporting standards and an open financial environment.

The study by Ruiz and González (2019) also examines the relationship between family businesses and CSR. Several authors have noted that risk tolerance is intertwined with CSR practices in family businesses. The results show that a higher concentration of family businesses in Brazil and Mexico correlates with more conservative CSR strategies. This indicates the need for a CSR policy that considers the unique organisational structure of family businesses in the world market. Shad and Mushtaq (2020) also found that CSR has a positive effect on stock prices. The data have shown that stock prices increase when companies disclose CSR initiatives. This trend is evident in markets such as the US and Japan, where market value increases when companies are transparent about CSR, emphasising CSR's reputational benefits.

However, we should note that our results differ from other studies in several ways. For example, contrary to Singh’s (2020) statement that CSR significantly improves international financial performance, our research shows that CSR remains a growing problem in such countries as Brazil and South Africa, despite increased CSR investment. It can be argued that CSR increases transparency but does not completely eliminate the difficulties associated with economic growth, especially in countries with weaker infrastructure. Furthermore, Van der Laan (2019) conducted an analysis showing that South Korean companies follow conservative CSR practices, finding results contradicting the effect of board members’ religious orientation on CSR strategies. Our study differs from this case because the religious or cultural background of board members did not significantly affect CSR investment strategies.

The results of Wright and O’Connell (2020) demonstrate a significant mediating effect of audit committees on CSR. Our study does not support a positive relationship between effective audit committees and CSR engagement. This is probably determined by different characteristics of audit committees in different regions, particularly in jurisdictions with less stringent CSR requirements, where audit committees may lack the authority or resources to develop more effective CSR strategies. This study also questions the findings of Yoon and Sung

(2019), who argued that implementing the International Disclosure Standard (IDS) made CSR less attractive. Although some disclosures are useful, they are not the perfect solution for improving CSR effectiveness. Therefore, stricter rules and increased international cooperation are needed to solve this problem fully.

So, this study fills a gap in the CSR literature by confirming numerous previous findings and addressing new critical insights. The integration of contemporary literature on corporate governance, CSR, and transparency suggests that effective corporate governance mechanisms and social responsibility help improve financial performance. This study emphasises that the complex issue of CSR integration requires individual solutions for each country and organisation, especially focusing on differences related to religious beliefs, audit committee actions, or international information sharing. The results demonstrate that, additional measures are needed, especially in developing regions despite promising international initiatives such as IDS and CSR.

6. Conclusions

The importance of CSR investment has become a critical issue in the current global business environment. The need for more effective CSR strategies in an economy with evolving corporate structures is linked to their impact on financial performance and long-term sustainability. This study emphasises the pressing issue of determining the financial returns of CSR initiatives, calling for deeper research into their overall impact on company value. Multinational companies expand their CSR portfolios, so the urgency to measure the financial results of these investments increases. Addressing this issue is critical to promoting sustainable business models enabling companies to allocate resources while balancing profitability and social responsibility efficiently.

The results highlight the key role that corporate governance, transparency, and CSR play in improving financial performance in both developed and emerging economies. Stronger governance and transparent CSR practices lead to better financial results, especially in regions with weaker regulatory environments. Besides, global CSR frameworks have been shown to improve financial performance, although their success depends on several organisational and institutional factors.

Further research should focus on the cultural and social influences that shape CSR investment strategies, especially in regions where these factors intersect with corporate governance.

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