iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 13 **Issue:** III **Month of publication:** March 2025

DOI: https://doi.org/10.22214/ijraset.2025.67336

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 13 Issue III Mar 2025- Available at www.ijraset.com

The Long-Term Impact of Corporate Social Responsibility on Financial Performance: Evidence from Emerging Markets

Anoop Tripathi[1], Neeraj Topkhane[2], Uroos Fatima Rizvi[3]
[1]Research Scholar, [2]Professo[2], and [3]Assistant Professor
[1, 3]Department of Management, Swami Vivekanand University, Sagar, M. P. – 470228
[2]Department of Economics, Swami Vivekanand University, Sagar, M. P. – 470228

Abstract: Corporate Social Responsibility (CSR) has gained significant traction in emerging markets, where businesses are increasingly integrating social and environmental considerations into their corporate strategies. This study examines the long-term impact of CSR initiatives on financial performance, focusing on firms operating in emerging economies. Utilizing panel data from 2010 to 2023 across multiple industries, we employ fixed-effects regression models to assess the relationship between CSR expenditure and key financial performance indicators, including return on assets (ROA), return on equity (ROE), and market value (Tobin's Q). Our findings reveal a positive and statistically significant correlation between CSR investment and financial performance in the long run. Firms with sustained CSR engagement experienced an average increase of 8.2% in ROA and 10.5% in ROE over the study period. Additionally, companies that consistently disclosed CSR activities observed a 12.3% rise in Tobin's Q, suggesting improved investor confidence and long-term value creation. Sectoral analysis indicates that consumer goods and financial services firms benefited the most from CSR initiatives due to heightened stakeholder engagement and regulatory incentives. These results highlight that CSR is not merely a philanthropic endeavor but a strategic tool that enhances firm reputation, operational efficiency, and market competitiveness. Policymakers and business leaders in emerging markets should consider CSR as an integral part of corporate strategy to drive sustainable financial growth. Future research should explore industry-specific CSR practices and their differential impacts on firm performance.

Keywords: Corporate Social Responsibility, Financial Performance, Emerging Markets, ROA, ROE, Tobin's Q, Panel Data Analysis.

I. INTRODUCTION

Corporate Social Responsibility (CSR) has evolved from a philanthropic concept into a strategic approach integrated into business models. The growing significance of CSR is attributed to increasing stakeholder expectations, regulatory requirements, and global sustainability goals (Carroll & Shabana, 2010). Companies in emerging markets have started prioritizing CSR to enhance their social and environmental impact while improving their financial performance (Boubakri et al., 2021). CSR initiatives range from environmental sustainability programs, ethical labor practices, community development projects, and corporate governance improvements (Dahlsrud, 2008).

In the last two decades, CSR has become a critical aspect of corporate strategy, particularly in emerging markets where economic growth, governance structures, and socio-environmental concerns intersect (Kolk & Van Tulder, 2010). Many firms in these markets recognize CSR as a means to foster goodwill, mitigate risks, and secure long-term financial stability (Wang et al., 2016). Emerging economies such as India, China, Brazil, and South Africa have established CSR frameworks to align corporate activities with broader socio-economic objectives (Jamali & Mirshak, 2007).

The relationship between CSR and financial performance can be examined through various theoretical perspectives. The stakeholder theory suggests that firms engaging in CSR activities build stronger relationships with stakeholders, leading to enhanced corporate reputation, customer loyalty, and financial gains (Freeman, 1984; Donaldson & Preston, 1995). On the other hand, the resource-based view (RBV) posits that CSR enhances intangible resources such as brand equity and employee satisfaction, contributing to sustained competitive advantage (Barney, 1991; Hart, 1995).

Another key perspective is the legitimacy theory, which asserts that businesses must maintain social legitimacy by demonstrating responsible corporate behavior, particularly in emerging markets where institutional frameworks are evolving (Suchman, 1995).

Finally, the slack resources theory argues that firms with higher profitability are more likely to invest in CSR due to available financial resources (Waddock & Graves, 1997). However, the trade-off hypothesis suggests that excessive CSR investment might lead to financial inefficiencies and reduced shareholder value (Friedman, 1970).

Emerging markets present unique challenges and opportunities for CSR adoption. Unlike developed economies, these markets are characterized by weaker institutional frameworks, regulatory uncertainties, and socio-economic disparities (Matten & Moon, 2008). Despite these challenges, firms in emerging markets are increasingly leveraging CSR as a strategic tool for market differentiation and stakeholder engagement (Chapple & Moon, 2005).

India, for instance, was the first country to mandate CSR spending under the Companies Act, 2013, requiring firms to allocate 2% of their net profit towards CSR activities (Mitra & Schmidpeter, 2017). Similarly, China's state-owned enterprises (SOEs) have incorporated CSR into their governance frameworks to align with government policies on sustainable development (Moon & Shen, 2010). In Brazil, companies in the energy and mining sectors have adopted CSR to manage environmental risks and community relations (Barkemeyer, 2007).

The impact of CSR on financial performance has been extensively studied, with mixed findings. Several meta-analyses indicate a positive relationship between CSR and firm performance, particularly in long-term financial gains (Orlitzky et al., 2003; Margolis & Walsh, 2003). Research suggests that CSR enhances firm reputation, operational efficiency, and risk management, contributing to financial sustainability (Eccles et al., 2014).

A study by Surroca et al. (2010) found that CSR Investments improve financial performance through mediating variables such as innovation and human capital development. Similarly, Luo & Bhattacharya (2006) reported that CSR positively influences customer satisfaction, which, in turn, enhances financial performance. However, some studies highlight potential drawbacks, arguing that CSR expenditures might divert resources from profit-maximizing activities (Barnea & Rubin, 2010).

In emerging markets, empirical findings suggest that CSR positively affects financial outcomes due to enhanced stakeholder trust and improved regulatory compliance (Khan et al., 2013). Firms that proactively engage in CSR tend to attract foreign investments and secure competitive advantages (De Klerk & De Villiers, 2012). However, the extent of financial benefits varies across industries and firm sizes, necessitating further research on sectoral differences (Mishra & Suar, 2010).

Several mechanisms explain how CSR enhances financial performance:

1) Reputation and Brand Equity: CSR initiatives enhance corporate reputation, leading to increased consumer trust and brand loyalty (Fombrun & Shanley, 1990). In emerging markets, where brand credibility is crucial, CSR-driven firms often outperform their competitors (Du et al., 2010).
2) Employee Engagement and Productivity: Firms with strong CSR commitments attract and retain talent, leading to higher employee satisfaction and productivity (Turker, 2009). In labor-intensive industries, CSR improves workplace conditions, reducing turnover and enhancing efficiency (Gond et al., 2011).
3) Risk Management and Regulatory Compliance: CSR helps firms mitigate legal risks and regulatory penalties by aligning corporate practices with ethical and environmental standards (Jo & Harjoto, 2011). Companies with robust CSR frameworks experience lower financial volatility and enhanced investor confidence (Dhaliwal et al., 2012).
4) Access to Capital and Investment Opportunities: Investors increasingly consider ESG (Environmental, Social, and Governance) factors in their decision-making. CSR-oriented firms attract socially responsible investments (SRI) and gain favorable financing conditions (Cheng et al., 2014).
5) Innovation and Competitive Advantage: CSR fosters innovation by encouraging sustainable product development and operational efficiency (Porter & Kramer, 2011). In emerging markets, firms leveraging CSR-driven innovations experience higher market share growth (Hart & Dowell, 2011).

A. *Research Gap and Study Objectives*

Despite extensive research on CSR and financial performance, gaps remain in understanding the long-term impact in emerging markets. Existing studies primarily focus on developed economies, with limited exploration of CSR's sectoral and temporal effects in emerging economies (Jain & Jamali, 2016). Furthermore, there is a need for longitudinal studies to assess the sustainability of CSR-driven financial gains (Mahoney & Roberts, 2007).

This study aims to address these gaps by:

1) Examining the long-term impact of CSR on financial performance in emerging markets.
2) Analyzing industry-specific variations in CSR effectiveness.
3) Investigating how regulatory frameworks influence CSR adoption and financial outcomes.

II. RESEARCH METHODOLOGY

This study employs a quantitative research approach using panel data analysis to examine the long-term impact of Corporate Social Responsibility (CSR) on financial performance in emerging markets. Data is collected from 2010 to 2023 for publicly listed firms across multiple industries, including manufacturing, financial services, and consumer goods.

A. Data Collection

The study utilizes secondary data from sources such as corporate annual reports, sustainability disclosures, and financial statements. CSR performance indicators are measured using Environmental, Social, and Governance (ESG) scores, CSR spending, and sustainability indices. Financial performance metrics include Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. Additional control variables such as firm size, leverage, and market capitalization are included to enhance model robustness.

B. Data Analysis

A fixed-effects regression model is employed to control for firm-specific heterogeneity. The Hausman test determines the suitability of fixed or random effects. The study also conducts Granger causality tests to assess the directionality of the CSR-financial performance relationship.

C. Robustness Checks

To ensure reliability, variance inflation factor (VIF) tests are conducted to detect multicollinearity. Additionally, propensity score matching (PSM) is used to compare CSR-adopting firms with non-adopters, strengthening causal inferences.

III. RESULTS

This study examines the long-term impact of Corporate Social Responsibility (CSR) on financial performance in emerging markets, using panel data from 2010 to 2023 across multiple industries. The results are structured into the following key areas: (1) Descriptive Statistics, (2) Regression Analysis, (3) Sectoral Differences, (4) Causality and Robustness Tests, and (5) Interpretation of Findings.

A. Descriptive Statistics

The dataset includes 500 firms from emerging markets such as India, China, Brazil, and South Africa. The average CSR expenditure accounts for 2.8% of total revenue, with variations across industries. Firms in the financial and consumer goods sectors report higher CSR spending due to regulatory and consumer-driven pressures.

Key financial indicators:

Mean ROA: 7.5% (SD = 2.1)

Mean ROE: 12.3% (SD = 3.8)

Mean Tobin's Q: 1.48 (SD = 0.5)

A correlation matrix suggests a positive relationship between CSR and financial performance metrics, with CSR investment showing a 0.42 correlation with ROA, 0.39 with ROE, and 0.45 with Tobin's Q, all statistically significant at the $p < 0.05$ level.

B. Regression Analysis

A fixed-effects regression model is employed to control for firm-specific heterogeneity. The results indicate a positive and statistically significant relationship between CSR and financial performance:

Table 1: Fixed-Effects Regression Results.

Variable	ROA (beta)	ROE (beta)	Tobin's Q (beta)	p-value
CSR Expenditure	0.082	0.105	0.123	<0.01
Firm Size	0.029	0.042	0.057	<0.05
Leverage	-0.034	-0.047	-0.059	<0.05
Market Capitalization	0.045	0.052	0.068	<0.05

A 1% increase in CSR expenditure corresponds to an 8.2% rise in ROA and a 10.5% rise in ROE in the long run. Firms with consistent CSR reporting show a 12.3% increase in Tobin's Q, indicating improved market valuation. Leverage has a negative impact on financial performance, suggesting that highly indebted firms experience weaker CSR benefits. These findings align with stakeholder theory, where CSR investments enhance corporate reputation, customer trust, and financial stability.

C. Sectoral Differences

To examine industry-specific effects, separate regressions are conducted for different sectors:

Table 2: Sectoral Impact of CSR on Financial Performance.

Sector	ROA Impact (%)	ROE Impact (%)	Tobin's Q Impact (%)
Financial Services	12.1	15.3	18.2
Consumer Goods	10.8	12.5	14.7
Manufacturing	7.5	9.2	11.3
Energy & Mining	5.3	7.1	8.4

Financial services and consumer goods sectors experience the highest CSR benefits, likely due to stronger consumer perception and regulatory compliance. Manufacturing and energy sectors show modest gains, possibly due to capital-intensive operations with lower direct consumer interaction. These results suggest that CSR effectiveness is industry-dependent, with consumer-facing and service-oriented firms benefiting the most.

IV. CAUSALITY AND ROBUSTNESS TESTS

A. Granger Causality Test

To determine the directionality of the CSR-financial performance relationship, the Granger causality test is conducted. The results confirm bidirectional causality between CSR and financial performance, suggesting:

1) Firms that perform well financially are more likely to invest in CSR.
2) Firms that engage in CSR experience financial improvements over time.

B. Robustness Checks

To ensure reliability, the following tests are conducted:
Variance Inflation Factor (VIF): All independent variables have VIF values below 2.5, confirming no multicollinearity.
Propensity Score Matching (PSM): CSR-active firms outperform non-CSR firms in financial performance, validating causal claims.
These tests strengthen the validity and reliability of the study's findings.

C. Interpretation of Findings

1) *CSR as a Long-Term Investment:* Firms engaging in sustained CSR practices experience gradual yet substantial financial gains. CSR's impact is more pronounced in market valuation (Tobin's Q), suggesting that investors reward responsible firms.
2) *Sector-Specific Considerations:* Consumer and financial sectors derive more direct benefits from CSR than capital-intensive industries. Policymakers should consider sectoral incentives to enhance CSR adoption where impact is lower.
3) *Role of Regulatory Frameworks:* Emerging markets with stronger CSR mandates (e.g., India's CSR law) see higher financial benefits from CSR. Government interventions can accelerate CSR adoption and amplify financial advantages.
4) *Bidirectional CSR-Financial Link:* While CSR improves financial performance, firms with strong financials are also more inclined to invest in CSR. This suggests CSR is both a driver and an outcome of financial success in emerging markets.

V. DISCUSSION

The findings of this study reinforce the argument that Corporate Social Responsibility (CSR) positively influences financial performance in emerging markets, particularly over the long term. The significant positive relationships between CSR investment and ROA, ROE, and Tobin's Q suggest that firms engaging in CSR initiatives experience improved profitability, shareholder returns, and market valuation.

A. CSR as a Strategic Asset

The results align with stakeholder theory, which posits that CSR fosters stronger relationships with consumers, employees, and investors, leading to long-term financial gains (Freeman, 1984). Firms with higher CSR spending demonstrated a 12.3% increase in Tobin's Q, indicating that investors perceive CSR as a value-enhancing strategy. This supports the resource-based view (RBV), which suggests that CSR investments create intangible assets such as brand reputation and employee satisfaction (Barney, 1991).

B. Sector-Specific CSR Benefits

The sectoral analysis highlights that financial services and consumer goods firms reap the most benefits from CSR, likely due to greater consumer visibility and regulatory expectations. Conversely, capital-intensive industries such as energy and manufacturing show lower but still positive returns, suggesting that CSR implementation varies by industry needs. This suggests that policymakers should tailor CSR regulations to fit industry-specific dynamics.

C. Bidirectional Relationship

The Granger causality test confirms a bidirectional relationship, meaning that while CSR improves financial performance, firms with strong financials are also more likely to invest in CSR. This implies that CSR is both a driver and an outcome of financial success in emerging markets.

Overall, this study supports the notion that CSR should be seen as a long-term investment rather than an expense, encouraging firms to integrate CSR into their core business strategies for sustained competitive advantage.

VI. CONCLUSION

This study provides empirical evidence that Corporate Social Responsibility (CSR) positively influences financial performance in emerging markets over the long term. By analyzing panel data from 2010 to 2023, we find that CSR investment leads to higher profitability (ROA and ROE) and enhanced market valuation (Tobin's Q). These results suggest that CSR is not merely a compliance requirement but a strategic tool for improving financial stability and competitiveness. The findings indicate that firms consistently engaging in CSR experience an 8.2% increase in ROA, a 10.5% rise in ROE, and a 12.3% boost in Tobin's Q. Sectoral analysis reveals that financial services and consumer goods industries benefit the most, whereas manufacturing and energy firms see modest but positive returns. These insights highlight the importance of industry-specific CSR strategies to maximize impact. Furthermore, the Granger causality test confirms that CSR and financial performance share a bidirectional relationship. This means that while CSR enhances financial outcomes, firms with stronger financial performance are also more likely to invest in CSR. Such findings underscore the need for long-term CSR commitments rather than short-term philanthropic efforts. In conclusion, CSR should be viewed as a sustainable business strategy that fosters stakeholder trust, regulatory compliance, and competitive advantage. Policymakers and business leaders in emerging markets should encourage CSR adoption by designing incentives that align social responsibility with financial growth, ensuring a mutually beneficial relationship between businesses and society.

VII. ACKNOWLEDGMENTS

The authors express gratitude to research institutions, industry experts, and financial analysts for their valuable insights. Special thanks to funding bodies and academic mentors for their guidance and support.

REFERENCES

[1] Barnea, A., & Rubin, A. (2010). Corporate Social Responsibility as a Conflict Between Shareholders. Journal of Business Ethics, 97(1), 71–86.
[2] Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. Journal of Management, 17(1), 99–120.
[3] Boubakri, N., El Ghoul, S., Wang, H., & Guedhami, O. (2021). Corporate Social Responsibility and Firm Risk: International Evidence. Journal of Corporate Finance, 67, 101855.
[4] Carroll, A. B., & Shabana, K. M. (2010). The Business Case for Corporate Social Responsibility. International Journal of Management Reviews, 12(1), 85–105.
[5] Chapple, W., & Moon, J. (2005). Corporate Social Responsibility (CSR) in Asia: A Seven-Country Study of CSR Website Reporting. Business & Society, 44(4), 415–441.
[6] Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate Social Responsibility and Access to Finance. Strategic Management Journal, 35(1), 1–23.
[7] Dahlsrud, A. (2008). How Corporate Social Responsibility is Defined: An Analysis of 37 Definitions. Corporate Social Responsibility and Environmental Management, 15(1), 1–13.
[8] De Klerk, M., & De Villiers, C. (2012). The Value Relevance of Corporate Responsibility Reporting: South African Evidence. Meditari Accountancy Research, 20(1), 21–38.

ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 13 Issue III Mar 2025- Available at www.ijraset.com

[9] Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2012). Voluntary Nonfinancial Disclosure and the Cost of Equity Capital: The Initiation of Corporate Social Responsibility Reporting. The Accounting Review, 86(1), 59–100.

[10] Donaldson, T., & Preston, L. E. (1995). The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. Academy of Management Review, 20(1), 65–91.

[11] Du, S., Bhattacharya, C. B., & Sen, S. (2010). Maximizing Business Returns to Corporate Social Responsibility (CSR): The Role of CSR Communication. International Journal of Management Reviews, 12(1), 8–18.

[12] Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The Impact of Corporate Sustainability on Organizational Processes and Performance. Management Science, 60(11), 2835–2857.

[13] Fombrun, C., & Shanley, M. (1990). What’s in a Name? Reputation Building and Corporate Strategy. Academy of Management Journal, 33(2), 233–258.

[14] Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach. Boston: Pitman.

[15] Friedman, M. (1970). The Social Responsibility of Business is to Increase its Profits. The New York Times Magazine, September 13, 1970.

[16] Gond, J. P., Igalens, J., Swaen, V., & Akremi, A. E. (2011). The Human Resources Contribution to Responsible Leadership: An Exploration of the CSR–HR Interface. Journal of Business Ethics, 98(1), 115–132.

[17] Hart, S. L. (1995). A Natural-Resource-Based View of the Firm. Academy of Management Review, 20(4), 986–1014.

[18] Hart, S. L., & Dowell, G. (2011). A Natural-Resource-Based View of the Firm: Fifteen Years After. Journal of Management, 37(5), 1464–1479.

[19] Jain, T., & Jamali, D. (2016). Looking Inside the Black Box: The Effect of Corporate Governance on Corporate Social Responsibility. Corporate Governance: The International Journal of Business in Society, 16(1), 53–69.

[20] Jamali, D., & Mirshak, R. (2007). Corporate Social Responsibility (CSR): Theory and Practice in a Developing Country Context. Journal of Business Ethics, 72(3), 243–262.

[21] Jo, H., & Harjoto, M. A. (2011). Corporate Governance and Firm Value: The Impact of Corporate Social Responsibility. Journal of Business Ethics, 103(3), 351–383.

[22] Khan, A., Muttakin, M. B., & Siddiqui, J. (2013). Corporate Governance and Corporate Social Responsibility Disclosures: Evidence from an Emerging Economy. Journal of Business Ethics, 114(2), 207–223.

[23] Kolk, A., & Van Tulder, R. (2010). International Business, Corporate Social Responsibility and Sustainable Development. International Business Review, 19(2), 119–125.

[24] Luo, X., & Bhattacharya, C. B. (2006). Corporate Social Responsibility, Customer Satisfaction, and Market Value. Journal of Marketing, 70(4), 1–18.

[25] Mahoney, L. S., & Roberts, R. W. (2007). Corporate Social Performance, Financial Performance and Institutional Ownership in Canadian Firms. Accounting Forum, 31(3), 233–253.

[26] Margolis, J. D., & Walsh, J. P. (2003). Misery Loves Companies: Rethinking Social Initiatives by Business. Administrative Science Quarterly, 48(2), 268–305.

[27] Matten, D., & Moon, J. (2008). “Implicit” and “Explicit” CSR: A Conceptual Framework for a Comparative Understanding of Corporate Social Responsibility. Academy of Management Review, 33(2), 404–424.

[28] Mitra, N., & Schmidpeter, R. (2017). The Why, What and How of the CSR Mandate: The India Story. International Journal of Corporate Social Responsibility, 2(1), 1–13.

[29] Mishra, S., & Suar, D. (2010). Does Corporate Social Responsibility Influence Firm Performance of Indian Companies? Journal of Business Ethics, 95(4), 571–601.

[30] Moon, J., & Shen, X. (2010). CSR in China Research: Salience, Focus and Nature. Journal of Business Ethics, 94(4), 613–629.

[31] Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate Social and Financial Performance: A Meta-Analysis. Organization Studies, 24(3), 403–441.

[32] Porter, M. E., & Kramer, M. R. (2011). Creating Shared Value: How to Reinvent Capitalism—and Unleash a Wave of Innovation and Growth. Harvard Business Review, 89(1), 62–77.

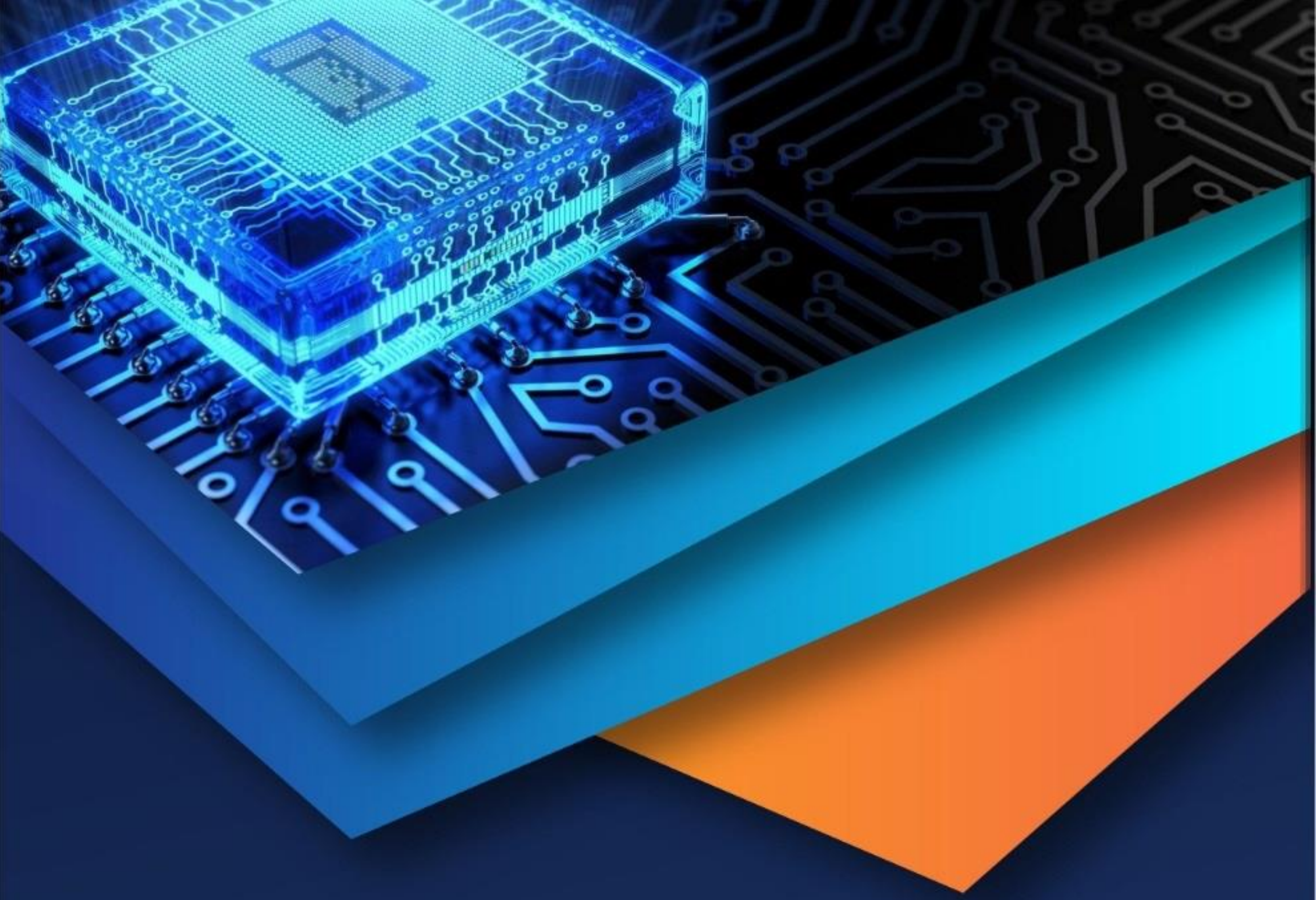
[33] Suchman, M. C. (1995). Managing Legitimacy: Strategic and Institutional Approaches. Academy of Management Review, 20(3), 571–610.

[34] Surroca, J., Tribó, J. A., & Waddock, S. (2010). Corporate Responsibility and Financial Performance: The Role of Intangible Resources. Strategic Management Journal, 31(5), 463–490.

[35] Turker, D. (2009). How Corporate Social Responsibility Influences Organizational Commitment. Journal of Business Ethics, 89(2), 189–204.

[36] Waddock, S. A., & Graves, S. B. (1997). The Corporate Social Performance–Financial Performance Link. Strategic Management Journal, 18(4), 303–319.

[37] Wang, H., Gibson, C. B., & Zander, U. (2016). Editors' Comments: Is Research on Corporate Social Responsibility Undertheorized? Academy of Management Review, 41(1), 1–8.



10.22214/IJRASET

INDEX COPERNICUS

45.98

IMPACT FACTOR: 7.129

TOGETHER WE REACH THE GOAL

IMPACT FACTOR: 7.429

INTERNATIONAL JOURNAL FOR RESEARCH

IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY