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The Influence of Corporate Social Responsibility on the Financial Performance of Firms in Ghana: The Moderating Role of Board Independence and Diversity

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Abstract

Purpose: This study investigates the intricate relationship between Corporate Social Responsibility (CSR) initiatives, corporate governance structures (board independence & diversity), and financial performance [(Return on Asset (ROA), Return on Equity (ROE), & Gross Profit Margin (GPM)] in the context of Ghanaian firms operating in the manufacturing and service sectors. **Design/Methodology/Approach**: Adopting longitudinal secondary data analysis and drawing from annual reports of 39 firms in Ghana over a six-year period (2015-2021), our research reveals sector-specific nuances in the impact of CSR on financial metrics. **Findings**: Notably, CSR initiatives significantly predict ROA and GPM, underlining the potential for operational efficiency gains and profitability through socially responsible practices. However, these initiatives do not significantly predict ROE, indicating the need for nuanced CSR strategies tailored to specific financial objectives. Delving into governance dynamics, the study uncovers the moderating role of board independence in the CSR-ROA relationship, suggesting that boards with a higher degree of independence play a discerning role in enhancing asset efficiency. Conversely, board diversity does not exert a significant moderating effect on any financial performance indicators, emphasizing the need for a more nuanced understanding of governance structures in the CSR context. **Practical Implications**: These findings hold important implications for both management and theoretical frameworks. Managers are encouraged to strategically align CSR initiatives with specific financial goals, considering the influence of board structures. The absence of a universal impact of board diversity prompts caution, indicating that diversity alone may not be the primary driver of CSR's financial impact. **Theoretical Implications**: Theoretical implications highlight the need for sector-specific analyses, extended considerations of governance mechanisms, and exploration of context-specific moderators to enhance the precision and applicability of models in CSR literature. **Originality/Value**: The originality of this research lies in its focused examination of CSR in a specific national context, consideration of multiple financial metrics, exploration of governance dynamics, and the cautionary note regarding the role of board diversity in influencing CSR's financial impact.

Keywords

CSR, ROA, ROE, GPM, Board Independence, Board Diversity, Manufacturing and Service Sectors' Firms

1. Introduction

The significance of Corporate Social Responsibility (CSR) is increasing in the contemporary global landscape. Engaging in socially responsible activities is now becoming a requirement for companies to foster business growth (Wang et al., 2016; Barauskaite & Streimikiene, 2021). Advocates argue that companies undertaking CSR initiatives can attain a competitive edge by building a positive public image or reputation, ultimately leading to higher profits and return on investment compared to their competitors (Velte, 2022; Fatima & Elbanna, 2023). The correlation between CSR and firms' financial performance has sparked considerable interest in contemporary business research (Lu et al., 2014; Wang et al., 2016; Barauskaite & Streimikiene, 2021), especially in the context of emerging economies like Ghana. Recent empirical studies (Saeed et al., 2023; Boachie, 2020) have enhanced the relevance of CSR by emphasizing that CSR not only contributes to the financial success of businesses but should also be regarded as an integral component of long-term business strategies.

The concept of CSR posits that companies should not solely focus on their primary objective of profit maximization but should also actively contribute to the well-being of society through voluntary initiatives. According to Carroll (1979), the social responsibility of businesses involves meeting economic, legal, ethical, and discretionary (philanthropic) expectations set by society. Glavas and Kelley (2014) define CSR as a commitment to the well-being of others and the environment, aiming to create value for the business. CSR is evident in the strategies and operational practices that a company adopts to manage its relationships with stakeholders and environmental impacts. Adu-Boahen (2012) emphasize that in its stronger form, CSR asserts that businesses have obligations to consider the interests of customers, employees, shareholders, communities, and ecological concerns across all aspects of their operations. Examples of CSR initiatives include charitable contributions to community programs, dedication to environmental sustainability projects, and efforts to foster a diverse and safe workplace (KPMG, 2008). CSR practices encompass a company's commitment to operating ethically, contributing to societal welfare, and engaging in environmentally sustainable initiatives (Velte, 2022). Within the Ghanaian business landscape, CSR initiatives have gained momentum, with firms increasingly recognizing the importance of social and environmental responsibility alongside financial performance (Dartey-Baah & Amoako, 2021).

Understanding how CSR initiatives influence the financial aspects of firm performance within the Ghanaian context is vital, given the diverse economic, social, and cultural dynamics in the country (Dartey-Baah & Amoako, 2021). The extent to which firms' engagement in CSR activities affects their overall financial performance, including return on asset (ROA), return on equity (ROE) and gross profit margin (GPM) (Amponsah-Kwatiah & Asiamah, 2021) remains an area warranting deeper investigation. While recent research (Wang et al., 2016; Barauskaite & Streimikiene, 2021) recognizes the importance of CSR in influencing financial performance, it is crucial to note that this connection does not consistently follow a linear pattern. The literature revealed a complex link in this relationship suggesting that there are several factors that serve as enablers and boundary conditions for a significant association between CSR and financial performance. Additional moderating factors, specifically in corporate governance, such as board independence and diversity, have the potential to enhance and influence this relationship (Kabir & Thai, 2017). Therefore, the potential moderating role of board independence and diversity in shaping the relationship between CSR and firm performance in Ghana presents a compelling avenue for research. Recent studies (Velte, 2022; Jain & Jamali, 2016) have acknowledged that the composition and governance of boards, particularly the independence and diversity of their members, can significantly influence the strategic decisions related to CSR initiatives within companies. Examining how these board characteristics moderate the impact of CSR activities on firms' financial performance offers insights into the nuanced interplay between CSR, corporate governance structures, and financial performance in the Ghanaian business context.

As businesses in Ghana navigate the complexities of balancing social responsibilities and financial objectives, exploring the interaction between CSR and firm performance, along with the intervening role of board attributes, becomes instrumental. A comprehensive investigation into these relationships can offer valuable guidance to firms seeking to optimize their CSR strategies, enhance board effectiveness, and ultimately improve overall performance while contributing meaningfully to the broader societal context in Ghana. Within this context, the study seeks to uncover whether firms that actively engage in CSR initiatives experience enhanced financial performance in terms of ROA, ROE and GPM within the manufacturing and service sectors of Ghana. Moreover, the investigation involves understanding how the composition of corporate boards, in terms of independence and diversity, influences the relationship between CSR practices and financial performance of firms. This dimension necessitates an exploration of how independent and diverse boards within Ghanaian firms potentially augment or mitigate the impact of CSR activities on overall financial performance metrics. By uncovering these relationships, the study aims to provide valuable insights that could inform strategic decisions for firms operating in Ghana, shedding light on the intricate interplay between CSR strategies, corporate governance, and firms' financial performance.

2. Literature Review

Theoretical Foundation

Legitimacy theory (Dowling & Pfeffer, 1975) is driven by the increasing recognition that a company's interactions extend beyond its shareholders. The rise of stakeholder theory has fueled the demand for enhanced disclosure, aligning with the fundamental concepts of legitimacy theory. Legitimacy theory posits that businesses must legitimize their operations, aligning their value system with that of the broader social system (Fernando & Lawrence, 2014). Organizations strive to follow societal rules and norms, anticipating voluntary reporting if perceived as expected by the communities they operate in. The concept of a social contract is central to legitimacy theory, signifying the implicit or explicit agreement between a business and society (Francés-Gómez, 2020). This social contract relies on achieving socially desirable ends for society and distributing benefits to relevant groups. The legitimacy theory emphasizes that organizations need to adhere to socially acceptable standards to maintain successful operations, recognizing moral obligations to various stakeholders beyond shareholders (Watts et al., 2019). The maintenance of reciprocal relationships with stakeholders is deemed crucial for a firm's legitimacy. From the legitimacy viewpoint, successful businesses engage in CSR activities and report them comprehensively to avoid regulatory scrutiny. CSR data is considered a strategy to control societal perceptions of business operations' social and environmental impacts (Patten, 2020). The pyramid of CSR, adapted from Carroll's model, illustrates the economic, legal, ethical, and philanthropic responsibilities in hierarchical order (Omran & Ramdhony, 2015). Economic success forms the base, followed by adherence to legislation, ethical conduct, and philanthropy. Stakeholder and legitimacy theories are essential for understanding the relationship between reporting stakeholder expectations and business performance, particularly in the voluntary context of CSR in Ghana. This research relies on the voluntary nature of CSR in the Ghanaian context, aligning with the legitimacy theory's emphasis on voluntary actions.

In line with legitimacy theory, organizations may engage in CSR activities and reporting as a means to gain, retain, or regain legitimacy (Silva, 2021). Legitimacy theory posits that organizations aim to legitimize their operations through CSR initiatives, with a focus on preserving their image as a legitimate business (Ellerup Nielsen & Thomsen, 2018). Managers, driven by the motivation to enhance legitimacy, may strategically manage disclosures, improve governance structures, refraining from negative news, providing explanations for unfavorable media coverage, increasing positive CSR news, or even reducing CSR news to maintain or elevate organizational legitimacy (Watts et al., 2019). This behavior is seen as a form of legitimization, aligning with many scholars in the field (Ellerup Nielsen & Thomsen, 2018; Watts et al., 2019). Patten (2020) concluded that legitimizing objectives may lead to changes in the type or volume of CSR initiatives. Despite being considered underdeveloped, legitimacy theory provides valuable insights into CSR practices, corporate governance and financial performance. In this context, CSR practices are viewed as strategic actions undertaken to align with societal expectations, thereby enhancing the organization's legitimacy in the eyes of various stakeholders. When considering corporate governance structures, legitimacy theory suggests that the adoption of sound governance practices, including board independence and diversity, can further legitimize an organization's operations. This legitimacy, in turn, has the potential to positively influence financial performance by fostering trust among stakeholders, attracting investment, and improving overall organizational resilience. In essence, legitimacy theory provides a comprehensive framework for understanding the interplay between CSR, corporate governance, and financial outcomes in the complex landscape of modern business.

3. Empirical Review and Hypotheses Development

3.1. CSR and Financial Performance (ROA, ROE & GPM)

3.1.1. CSR and ROA

The relationship between CSR and ROA has been a subject of interest in empirical research, exploring whether engaging in CSR activities positively influences a firm's financial performance, as reflected in its ROA. Several studies have contributed to this discussion, shedding light on the nature and significance of this relationship. Empirical research by Cho et al. (2019) examined the impact of CSR on financial performance using ROA as a key financial indicator. Their findings suggested a partial positive association between CSR and financial performance, supporting the idea that firms actively involved in CSR activities tend to achieve higher ROA. Additionally, Kooskora et al. (2019) provided evidence that there is a statistical significant positive effect of CSR on financial performance, which includes metrics such as ROA. This comprehensive analysis across various studies reinforced the notion that firms incorporating CSR into their business practices may experience favorable financial outcomes. Furthermore, a study by Dhaliwal et al. (2012) explored the link between corporate social responsibility and financial performance using a sample of U.S. firms. The research found a positive association between CSR engagement and ROA, indicating that firms with strong CSR commitments were more likely to exhibit higher financial performance. In the context of Ghana, several scholars, including Anlesinya et al. (2014), Adu et al. (2018), and Saeed et al. (2023), have contributed to the discourse on the relationship between CSR and financial performance. Notably, their findings present a mixed spectrum of positive and negative associations, indicating a complex and nuanced interplay between CSR initiatives and financial performance (ROA). This diversity in results underscores the need for further exploration and a deeper understanding of the underlying mechanisms at play. Recognizing this gap in the literature, the current study hypothesizes that:

H1: *CSR will significantly predict ROA*

3.1.2. CSR and ROE

The relationship between CSR and financial performance as indicated by its ROE has been a topic of exploration in empirical research, aiming to understand whether CSR activities have a discernible impact on a firm's ROE. Several empirical studies contribute insights into this relationship. One notable study by Cho et al. (2019) investigated the connection between CSR and financial performance, with a focus on ROE. The findings of their research suggested a partial positive association between CSR practices and ROE, indicating that firms actively involved in CSR activities were more likely to achieve higher returns on equity. Additionally, Cherian et al. (2019) CSR-financial performance relationship, encompassing metrics such as ROE. The results indicated a positive overall effect of CSR on financial performance, supporting the idea that firms incorporating CSR into their operations may experience improved ROE. Furthermore, a study by Okafor et al. (2021) explored the link between CSR and financial performance, including ROE. The results of their research suggested that there is a positive relationship between CSR and ROE, reinforcing the notion that firms emphasizing CSR tend to achieve higher returns on equity. Contrary to some existing studies, recent research by Sharma et al. (2021) and Liu et al. (2021) introduces a distinctive perspective by revealing a negative and insignificant correlation between CSR and ROE respectively. While prior scholarship has presented a mix of positive and negative associations between CSR practices and financial performance metrics, Sharma et al.'s findings suggest a potentially unique dynamic in which CSR activities may not necessarily lead to enhanced returns for shareholders in terms of equity. This revelation prompts a reevaluation of the conventional understanding of the CSR-ROE relationship and highlights the need for ongoing exploration into the nuanced ways in which CSR practices may impact diverse facets of financial performance. Therefore, this study hypothesizes that:

H2: *CSR will significantly predict ROA*

3.1.3. CSR and GPM

The empirical research exploring the relationship between CSR and GPM sheds light on the potential impact of CSR activities on a firm's financial performance, specifically in terms of its Gross Profit Margin. One significant study conducted by Lin et al. (2020) delved into the association between CSR and financial performance, including profitability metrics like Gross Profit Margin. The findings of this research suggested that there exists a positive correlation between CSR engagement and Gross Profit Margin, indicating that firms actively involved in CSR practices tend to experience higher levels of gross profitability. In addition, Chen et al. (2021) results indicated an overall partial positive effect of CSR on financial performance, supporting the notion that firms incorporating CSR initiatives into their business operations may enjoy higher Gross Profit Margins. Additionally, a study by Ibrahim and Hamid (2019) explored the impact of CSR on financial performance, including profitability measures like Gross Profit Margin. Their findings suggested a positive relationship between CSR initiatives and Gross Profit Margin, indicating that firms committed to CSR activities may achieve higher levels of gross profitability. Acknowledging a contextual gap in recent studies focusing on the relationship between CSR and financial performance, specifically in terms of GPM in Ghana, this study aims to contribute to addressing this contextual research gap. Building on existing literature, the impact of CSR initiatives on GPM may vary within the Ghanaian context due to specific industry dynamics, regulatory frameworks, and stakeholder expectations. Recognizing the importance of understanding how CSR practices influence not only overall financial performance but also the profitability aspect measured through GPM, this study hypothesizes that:

H3: *CSR will significantly predict ROA*

3.1.4. Moderating Role of Corporate Governance (Board Independence & Diversity)

The empirical research investigating the moderating role of corporate governance, specifically board independence and diversity, on the relationship between CSR and financial performance metrics such as ROA, ROE, and GPM provides valuable insights into how governance structures influence this relationship. Rossi et al. (2021) suggested that a higher degree of corporate governance (board independence and diversity) partially strengthens the positive impact of CSR on financial performance, indicating that firms with more independent and diverse boards tend to derive greater financial benefits from CSR initiatives. Kahloul et al. (2022) demonstrated that the CSR reporting positively influences corporate financial performance, with the board's gender diversity playing a constructive moderating role in this relationship. A study conducted by Byron and Post (2016) delved into the moderating role of board diversity in shaping the relationship between CSR and corporate financial performance. Empirical evidence from research conducted by Flammer et al. (2019) explored the interplay between corporate governance, CSR, and executive compensation. The study suggested that effective corporate governance, characterized by factors like board independence and diversity, strengthens the positive link between CSR and financial compensation. These findings indicated that greater board diversity as well as board independence enhances the positive association between CSR initiatives and financial performance. Firms with independence and diverse boards appear to leverage CSR activities more effectively to achieve improved financial performance (ROE, ROA & GPM). In addition, firms with strong governance structures may experience enhanced gross profitability through CSR initiatives. However, Karim et al. (2023) explored the moderating effect of board independence on the relationship between CSR and financial performance. The results suggested that board independence negatively moderates CSR and financial performance. Again, Bristy et al. (2021) observed a decrease in the return on investment associated with CSR as the proportion of female directors on the board increases. The varied and sometimes contrasting results concerning the moderating impact of corporate governance, encompassing both board independence and diversity, on the association between CSR and financial performance metrics such as ROA, ROE and GPM, underscore the necessity for additional contributions to the ongoing discourse in this field. The mixed nature of these findings implies that the relationship between CSR practices and financial outcomes is nuanced and contingent on specific governance dynamics. In response to this, the study posits a set of hypotheses to be rigorously tested:

H4: *Board independence significantly moderates the relationship between CSR and ROA*

H5: *Board independence significantly moderates the relationship between CSR and ROE*

H6: *Board independence significantly moderates the relationship between CSR and GPM*

H7: *Board diversity significantly moderates the relationship between CSR and ROA*

H8: *Board diversity significantly moderates the relationship between CSR and ROE*

H9: *Board diversity significantly moderates the relationship between CSR and GPM*

4. Research Model

The conceptual framework outlined in **Figure 1** establishes a direct connection between CSR and key financial performance indicators, including ROA, ROE and GPM. This model further incorporates the moderating influence of corporate governance on the relationship between CSR and financial performance. Crucially, the relationships delineated within this model are subject to the influence of control variables, specifically firm size, age, and ownership structure. These control variables play a pivotal role in shaping and contextualizing the direct and moderating effects, ensuring a comprehensive understanding of the interdependencies between CSR practices, corporate governance, and financial outcomes. The research model thus serves as a robust foundation for empirically investigating the intricate dynamics embedded in the relationship between CSR initiatives and financial performance within the specified contextual factors.

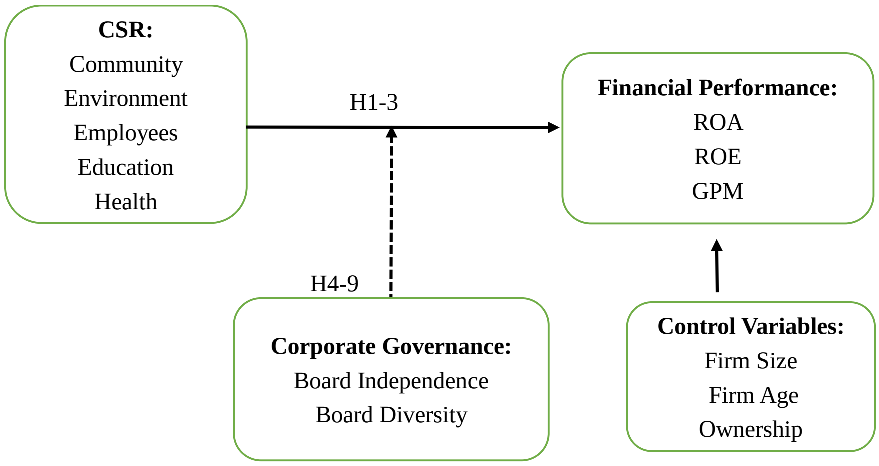

Figure 1. Research model. Note: H = hypothesis, CSR = Corporate Social Responsibility, ROA = Return on Asset, ROE = Return on Equity, GPM = Gross Profit Margin.

5. Methodology

5.1. Approach and Design

The study adopted a quantitative approach to collecting and analyzing data. The use of a quantitative approach in research enables researchers to collect and analyze data in a more systematic and objective manner, leading to more accurate and reliable results (Brannen, 2017). Though the study seeks to show association between the variables such as CSR, CG and financial performance, it further seeks to establish cause and effect between these variables using secondary data. This study predominantly employed longitudinal design (Choy, 2014) in data collection. The longitudinal design ensured that the researcher collected data that spanned over a long period and varied across individuals. Uprichard (2013) suggested that longitudinal designs are suitable for making generalisations from a sample to a population as well as facilitating inferences to be made from the sample. It is also generally quick and cheap to use longitudinal design secondary dataset (Choy, 2014). Thus, this design was deemed to be the most appropriate in undertaking the study, which examined relationships between CSR, corporate governance and financial performance among firms in Ghana. According to Fisher and Bloomfield (2019), it is possible to establish causality between variables using secondary data if the data is of high quality and includes all the relevant variables. For the purpose of this study, secondary data was collected from both manufacturing and service industries in Ghana. The sample size of the study constituted 39 firms operating in Ghana with 29 coming from the service sector and 10 from the manufacturing sector. The based year was informed by the fact that firms that had data on the variables of the study were selected with the base year starting from 2015 to 2021. One criterion was used to narrow down the sample. The study consequently considered a balanced panel data set that includes 39 firms and over 10 variables and 390 firm year observations. The researcher adopted purposive and convenience sampling techniques (Penneerselvam, 2010). These techniques were employed because: First, the firm must be duly registered or licensed to carry out business and must have operated in Ghana (whether foreign or locally owned) for at least five years. Second, the company must have complete data on the variables of the study reported in the financial statements and have it published yearly. Third, the company must have existed and issued financial statements or annual reports online. Therefore, the data was extracted because there is availability of financial statements or reports of the selected firms in Ghana. The secondary data canvassed from the yearly reports and financial statements of selected firms was converted to a panel dataset. A panel dataset allows for a very effective way to data analysis as it offers variations in constructing parameters estimates, as well as permitting the use of econometric techniques in a relatively simple way.

5.2. Measurement and Model Specification

5.2.1. Corporate Social Responsibility

CSR was measured in terms of firm's CSR activities directed towards education, community, employee and health. This study aligns with Tokoro's (2007) perspective, defining CSR as the comprehensive interaction between a corporation and all its stakeholders. In addition, Ismail (2009) underscore the notion that business entities consider the public interest by acknowledging responsibility for the consequences of their actions on customers, suppliers, employees, shareholders, communities, and other stakeholders, along with their environment. Social responsibility involves various facets, such as community engagement, employee relations, educational initiatives, healthcare support, the establishment and preservation of employment opportunities, environmental stewardship, and financial performance. The specific focus of this study is directed towards examining the CSR endeavors of companies in relation to the community, environment, employees, education, and health. The assessment of CSR involved the creation of a CSR reporting index. To formulate this index, initial references were made to the items and checklists utilized in prior research covering specific themes (Boachie & Tetteh, 2021; Barauskaite & Streimikiene, 2021). The CSR disclosure items were extracted from the annual reports of companies. A dichotomous approach was employed, assigning a company a score of one (1) if an item included in the index was disclosed in the annual report, and zero (0) if it was not. Consequently, the CSR disclosure index for a company would be determined by calculating the ratio of actual scores awarded to the maximum possible score:

$$\text{CSRR}_{it} = \frac{\text{Total items disclosure by company}_{it}}{\text{Total maximum disclosure score}_{it}} \tag{1}$$

5.2.2. Corporate Governance

Corporate governance was measured in terms board independence and board diversity. It is observed that many companies place significant emphasis on board independence, given its advantages in helping companies attain their strategic objectives. International best practices dictate that governing boards should consist of at least half non-executive members. Additionally, both the Company's Act and the Corporate Governance Guidelines on Best Practices in Ghana stipulate that half of the members of governing boards for listed firms should be non-executive directors (Tsamenyi et al., 2007). Furthermore, board gender diversity entails achieving a balanced representation of both genders on the board. Research indicates that firms with a more gender-diverse board of directors are more likely to exhibit positive outcomes, including higher dividend payments, improved performance, and enhanced corporate investment efficiency (Flammer et al., 2019). This study utilized the metrics proposed by Klein et al. (2005) and others to assess corporate governance systems within Ghanaian firms. Board independence was gauged by the ratio of non-executive directors to the total board members. Similarly, board gender diversity was assessed by the proportion of women on the board relative to the total number of board members. This approach aligns with the methodology employed by other scholars, such as Kukah et al. (2016).

5.2.3. Financial Performance

The assessment of a firm's financial performance commonly relies on key accounting based measures, with Return on Asset (ROA), Return on Equity (ROE), and Gross Profit Margin (GPM) being the most frequently utilized metrics (Barauskaite & Streimikiene, 2021).

Return on Asset (ROA), calculated as the ratio of net income to total assets, serves as a pivotal measure for evaluating the efficiency of utilizing the company's total asset base to generate profits. It provides insights into the company's ability to generate earnings from its overall asset portfolio. ROA is measured with total assets over net income across time. ROA is the simplest of such corporate bang-for-the-buck measures.

$$\mathrm{ROA}_{it} = \frac{\text{Total Assets}_{it}}{\text{Net Income}_{it}} \tag{2}$$

Higher ROA indicates more asset efficiency. The ROA, in basic terms, tells you what earnings were generated from invested capital (assets).

Return on Equity (ROE), calculated as the ratio of net income to equity, focuses on the return generated for the company's owners. It signifies the profitability of the company in relation to the shareholders' equity, offering a perspective on how effectively the firm generates profits from the shareholders' investments. ROE is measured by comparing a firm to its competitors and the overall market. The formula is especially beneficial when comparing firms of the same industry since it tends to give accurate indications of which companies are operating with greater financial efficiency and for the evaluation of nearly any company with primarily tangible rather than intangible assets.

The basic formula for calculating ROE is:

$$\mathrm{ROE}_{it} = \frac{\text{Shareholder Equity}_{it}}{\text{Net Income}_{it}} \tag{3}$$

The net income is the bottom-line profit, before common-stock dividends are paid, reported on a firm's income statement.

Gross Profit Margin (GPM), computed as the ratio of net income to sales, provides a glimpse into the company's ability to translate sales revenue into net profits, reflecting the efficiency of its cost management and pricing strategies (Sari, 2019). These indicators collectively contribute to a comprehensive assessment of a firm's financial performance and profitability. The GPM serves as a crucial metric in assessing the profitability of a company, indicating the portion of profits available to cover fixed costs and other non-operating expenses. Calculated by dividing the company's gross profit by the revenue in the corresponding period, the gross profit is derived by subtracting direct costs (Cost of Goods Sold—COGS) from the revenue. Direct costs, representing expenses directly associated with the production and delivery of specific goods or services, typically consist of variable costs. The resulting gross profit margin is often expressed as a percentage, obtained by multiplying the decimal value from the equation by 100. In a company's income statement, the revenue and gross profit figures for a specific period are typically located at the top.

$$\mathrm{GPM}_{it} = \frac{\text{Gross Profit}_{it}}{\text{Revenue}_{it}} \tag{4}$$

Interpreting a company's gross margin as favorable or unfavorable hinges is significant on the industry context. To render comparisons meaningful, companies being compared should operate in the same or similar industries, and historical data spanning several years is essential to establish industry norms and patterns.

5.2.4. Control Variables

Firm Size: Firm size has been widely in literature (Lin et al., 2011), which is measured by the logarithm of a firm's total assets (Lumapow & Tumiwa, 2017). Accordingly, firm size is introduced as a control one and an aspect of the corporate governance variable in this study. According to Li et al. (2020), larger firms have tendency to devote more resources to other activities as such as they tend to perform better than small firms.

Ownership Structure: The concentration of share ownership is measured by the number of shareholders (COS). Although the traditional perspective supports the positive effect of ownership concentration on firm performance, some researchers have also observed a negative effect. With a large number of owners, they can get more control to control the company which can provide greater personal benefits. The relationship between ownership concentration and firm performance, from several previous studies shows negative results.

Firm Age: Firm age is an indicator that shows the existence and ability of companies in competing. Companies that have long been existed will have more experiences. Research results show that age of a company affects Corporate Social Responsibility. Thus for companies that have long been surviving have more experience in the disclosure of Corporate Social Responsibility (Li et al., 2020).

6. Data Analyses and Interpretation of Results

6.1. Demographic Profile

Table 1 provides a comprehensive snapshot of the demographic characteristics associated with the collected data in Ghana. The age distribution of firms reveals that a significant portion, constituting 41%, has operated for less than 30 years. Additionally, 31% fall within the 30 to 60 years age bracket, while a minority, representing 15%, operates in the 61 to 90 years age range. Only 12% of the surveyed firms have a history of over 91 years of operation. The ownership structure of these firms illustrates a diverse landscape, with 64% being locally owned entities and 36% having foreign ownership. This diversity in ownership reflects a dynamic business environment in Ghana.

Categorizing the firms based on the industry in which they operate emphasizes the dominance of the service sector, which includes insurance, banking, and telecommunications. This sector represents a substantial 74% of the surveyed firms. In contrast, the manufacturing industry, while constituting a smaller proportion, commands a respectable 26% share. Moreover, the type of audit firms selected by these entities reveals interesting patterns. A majority of firms, accounting for 67%, prefer audit services sourced from foreign origins, showcasing a reliance on international expertise. In contrast, 33% of the firms choose to engage local auditing firms, reflecting a balanced distribution in the selection of audit service providers. From the analysis, Table 1 not only sheds light on the age, ownership, and industry characteristics of firms in Ghana but also delves into the preferences in choosing audit service providers. This comprehensive overview provides valuable insights for understanding the demographic context surrounding the collected data, enabling more informed analyses and strategic considerations within the Ghanaian business landscape.

Table 1. Demographic variables.

Variable	Sub-category	Frequency	Percentage
Firm Age	<30 years	16	41.03
	30 to 60 years	12	30.77
	61 to 90 years	6	15.38
	>91 years	5	12.82
Ownership Structure	Local	25	64.10
	Foreign	14	35.90
Industry	Service	29	74.36
	Manufacturing	10	25.64
Type of Audit firm	Local	13	33.33
	Foreign	26	66.67
		39	100

Source: Fieldwork (2023).

6.2. Pearson Correlation Analysis

The analysis conducted in this study unveiled several noteworthy associations among key variables. Firstly, Corporate Social Responsibility Index (CSRI) demonstrated a positive correlation with Return on Assets (ROA), with a correlation coefficient of r = −0.177 ($p < 0.01$). Additionally, there was a positive association between CSRI and Return on Equity (ROE), as indicated by a correlation coefficient of r = 0.200 ($p < 0.01$). Furthermore, a robust positive correlation was observed between CSRI and Gross Profit Margin (GPM), with a correlation coefficient of r = 0.330 ($p < 0.01$). Moreover, the analysis delved into the relationship between board diversity and financial performance metrics. Board diversity exhibited a significant negative association with ROA, with a correlation coefficient of r = −0.141 ($p < 0.05$). Likewise, board diversity showed a positive correlation with ROE, with a correlation coefficient of r = 0.302 ($p < 0.01$), and with GPM, with a correlation coefficient of r = 0.178 ($p < 0.01$). Furthermore, board diversity was found to have a significant positive association with ROE (r = 0.299, $p < 0.01$) and GPM (r = 0.228, $p < 0.01$). However, there was no significant correlation between board diversity and ROA (r = −0.065, $p > 0.01$) (Table 2).

These findings illuminate the intricate relationships between Corporate Social Responsibility Index, board diversity, and key financial performance indicators. The positive correlations between CSRI and financial metrics underscore the potential financial benefits associated with a strong commitment to social responsibility. Additionally, the varying associations between board diversity and financial metrics highlight the nuanced impact of board composition on organizational financial performance. The insights derived from these associations contribute valuable knowledge to the understanding of the complex interplay between corporate social responsibility, board diversity, and financial outcomes.

Table 2. Pearson correlation matrix.

Variable	1	2	3	4	5	6	7	8	9	10
Firm Age	1									
Ownership	0.245**	1								
Industry	−0.010	0.328**	1							
Audit firm	0.215**	0.033	0.333**	1						
CSRI	0.066	0.124**	−0.121**	0.382**	1					
Board_Indep	−0.079	0.178**	−0.115	0.246**	0.340**	1				
Board_Dty	0.295**	0.086	0.019	0.064	0.254**	0.281**	1			
ROA	−0.152*	−0.103	0.121**	−0.179**	−0.177**	−0.141*	−0.065	1		
ROE	−0.170**	0.154*	0.171**	0.229**	0.200**	0.302**	0.299**	−0.019	1	
GPM	0.087	0.154*	0.111	0.252**	0.330**	0.178**	0.228**	−0.130*	0.150*	1

Source: Modified from Field Data (2023).

6.3. Panel Regression Analysis

The analyses conducted in this study leverage pooled Ordinary Least Squares (OLS) panel data, employing both fixed effect and random effect models (Bell et al., 2019). The utilization of panel data in this context allows for a comprehensive examination of the relationships among variables over multiple time periods and across different entities. Incorporating fixed effect models in the analysis entails accounting for entity-specific characteristics that remain constant over time. Fixed effects help control for individual variations among entities, providing a more accurate estimation of the relationships within the panel data (Huang et al., 2019). This is particularly valuable when there are unobserved entity-specific factors that could influence the variables of interest. On the other hand, random effect models consider unobserved entity-specific effects as random variables, assuming that these effects are uncorrelated with the independent variables. Random effects allow for the estimation of both within-entity and between-entity variations, offering a more flexible approach to capturing the complexity of the panel data (Bell et al., 2019). The choice between fixed effect (FE) and random effect (RE) models in panel data analysis is crucial for obtaining accurate estimates of relationships among variables (Huang et al., 2019). The Hausman Test serves as a valuable tool in guiding this decision. If the test reveals a statistically significant difference between the coefficients obtained under the two models, it suggests that unobserved individual-specific characteristics are correlated with the independent variables (Amini et al., 2012). In such cases, opting for the fixed effect model is appropriate, as it accounts for these time-invariant individual-specific factors. On the other hand, if the test fails to reject the null hypothesis, indicating no systematic difference between the coefficients, the random effect model may be more efficient, assuming the unobserved entity-specific effects are uncorrelated with the independent variables. For the purpose of this study (**Table 3**), the fixed effect was opted for because the hausman test revealed a statistical significant difference ($\chi^2 = 20.253$, $p = 0.001$).

The findings extracted from **Table 3** and **Table 4** shed light on the nuanced relationship between CSRI and various financial performance indicators. The analyses underscore a notable and statistically significant negative association between CSRI and ROA, with a beta coefficient of $\beta = -0.141$ ($p < 0.05$). This implies that higher levels of CSR are associated with a reduction in ROA. This unexpected negative relationship may prompt further investigation into the specific mechanisms or contextual factors that contribute to this counterintuitive result, offering valuable insights into the complex interplay between social responsibility initiatives and asset efficiency. Moreover, the analyses reveal a significant positive prediction of CSRI on GPM with a beta coefficient of $\beta = 0.251$ ($p < 0.01$). This indicates that an increase in CSR is linked to a concurrent increase in GPM. This positive association aligns with existing literature suggesting that socially responsible practices may positively influence profit margins,

Table 3. Pooled OLS panel data analysis: fixed effect.

Predictors	ROA		ROE		GPM	
	Beta (t)	*p* (Sig.)	Beta (t)	*p* (*Sig.*)	Beta (t)	*p* (*Sig.*)
CSRI	−0.141* (−2.245)	0.026	0.097 (1.522)	0.129	0.251*** (3.931)	0.000
BOI	−0.257** (−2.667)	0.008	0.087 (0.893)	0.373	−0.076 (−0.771)	0.441
BOD	0.178 (1.865)	0.063	0.186 (1.927)	0.055	0.181 (1.871)	0.062
FIRM AGE	−0.128* (−2.211)	0.028	−0.192** (−3.281)	0.001	0.052 (0.887)	0.376
FIRM SIZE	−0.072 (−1.239)	0.217	−0.055 (−0.935)	0.351	0.089 (1.512)	0.132
OWNERSHIP	−0.329*** (−4.371)	0.000	0.176* (2.316)	0.021	0.126 (1.641)	0.102
R	0.426		0.405		0.395	
R^2	0.181		0.164		0.156	
Adjusted R^2	0.159		0.142		0.133	
F-Statistics	8.155*** (df = 7258)		7.251*** (df = 7258)		6.824*** (7258)	

Fixed Effect Model, $\chi^2 = 20.253$, $p = 0.001$.

Table 4. Summary of direct hypothesized relationships.

Hypothesis	Results	Interpretation	Decision
H1: CSRI --→ ROA	−0.141*	Significant	Retained/Accepted
H2: CSRI --→ ROE	0.097	Not Significant	Rejected
H3: CSRI --→ GPM	0.251***	Significant	Retained/Accepted

Source: Modified from Field Data (2023).

possibly by enhancing brand reputation, customer loyalty, or operational efficiency. However, the absence of a significant prediction of CSRI on ROE (β = 0.097, $p > 0.05$) introduces an intriguing element, warranting further exploration into the factors contributing to the observed relationship. The nuanced nature of these findings highlights the multifaceted impact of corporate social responsibility on various financial metrics, urging a more in-depth investigation into the underlying dynamics of these associations.

6.4. Andrew Hayes' Process Model for Moderation Analysis

The application of Andrew Hayes' Process Model in this study serves as a robust methodological framework for investigating the moderating roles of board independence and diversity in the relationship between CSRI and financial performance indicators (ROA, ROE & GPM). Hayes' Process Model offers a systematic and comprehensive approach to moderation analysis, providing a structured method for evaluating the conditional relationships between variables (Igartua & Hayes, 2021). This analytical framework is particularly valuable in unveiling how the relationships between the independent variable (CSRI) and dependent variables (ROA, ROE, and GPM) may vary under the influence of moderators, specifically board independence and diversity. Examining the findings within the context of Hayes' Process Model becomes pivotal in understanding the nature and significance of the moderation effects. The analysis not only identifies whether moderation exists but also elucidates how the relationships change across different levels of the moderator variables (Igartua & Hayes, 2021; Hayes & Rockwood, 2020). This dynamic approach enables the exploration of boundary conditions, unveiling scenarios where the relationship between CSRI and financial performance may be stronger, weaker, or even reversed depending on the levels of board independence and diversity. Interpreting the results extracted from **Table 5** provides valuable insights into the nuanced moderating effects of board independence and diversity on the relationship between CSRI and various financial performance indicators. The analysis reveals that board independence emerges as a significant moderator in the context of the relationship between CSRI and ROA, as evidenced by a beta coefficient of β = 0.0004 (LB = 0.0001, UB = 0.0007). This indicates that the impact of corporate social responsibility on asset efficiency is contingent on the level of board independence. The lower and upper bounds further emphasize the precision of this finding, adding robustness to the understanding of how board independence influences the relationship between social responsibility initiatives and Return on Assets. However, the results unveil a distinct pattern concerning board independence's moderating role, indicating no significant moderation for the relationships between CSRI and ROE or GPM. This suggests that, while board independence plays a pivotal role in shaping the link between CSRI and asset efficiency, its influence is not similarly pronounced in determining the associations with return on equity and gross profit margin. This nuanced differentiation prompts a deeper exploration into the mechanisms by which board independence may exert varying effects across different financial performance indicators.

In contrast, the analysis (**Table 5**) discloses that board diversity does not exert a significant moderating effect on the relationship between CSRI and any of the financial performance indicators—namely, ROA, ROE, and GPM. The absence of a moderating influence for board diversity suggests that, in this specific context, the diversity in terms of gender within the boardroom may not significantly

Table 5. Indirect (moderated) path relationship.

Moderated Path Relationship	Estimate	Lower Bounds	Upper Bounds	Decision
H4: CSRI → BI → ROA	0.0004** (2.6758)	0.0001	0.0007	Moderation
H5: CSRI → BI → ROE	0.0003 (0.9003)	−0.0003	0.0008	No Moderation
H6: CSRI → BI → GPM	−0.0963 (−1.4245)	−0.2294	0.0368	No Moderation
H7: CSRI → BD → ROA	0.0003 (0.8675)	−0.0004	0.0011	No Moderation
H8: CSRI → BD → ROE	0.0002 (0.3372)	−0.0011	0.0016	No Moderation
H9: CSRI → BD → GPM	−0.0726 (−0.4618)	−0.3824	0.2371	No Moderation

Source: Modified from/field Data (2023).

alter the impact of CSR on the selected financial metrics. These findings contribute to the evolving understanding of the distinct roles that board independence and diversity play in shaping the complex interrelationships between CSR initiatives and financial performance outcomes.

7. Discussions

The observed significant relationship between CSR initiatives, specifically in the realms of education, community engagement, and employee welfare, and ROA among firms in Ghana, particularly within the manufacturing and service sectors, highlights the potential impact of socially responsible practices on financial performance. Firstly, the positive association between CSR and ROA underscores the notion that companies actively engaging in education-related initiatives, community development projects, and employee welfare programs experience enhanced financial performance. This aligns with the growing recognition that businesses contributing to social causes can concurrently generate positive outcomes for their bottom line (Saeed et al., 2023). The findings are consistent with the notion that socially responsible practices can lead to improved operational efficiency, customer loyalty, and overall financial health (Kooskora et al., 2019).

The research results indicating that CSR initiatives do not significantly predict ROE among firms in the studied context prompt a nuanced discussion. The absence of a significant relationship suggests that, at least within the specified sectors or industries in this study, the impact of CSR initiatives on shareholders' equity returns is not evident. This finding is in support of Sharma et al. (2021) and Liu et al.'s (2021) revelation that there is a negative and insignificant correlation between CSR and ROE respectively. Several potential interpretations can be considered in this case. Firstly, it raises questions about the specific pathways through which CSR initiatives influence financial metrics like ROE. Unlike Return on Assets (ROA), which encompasses a broader financial performance perspective, ROE is particularly sensitive to net income. The lack of a significant prediction might indicate that CSR initiatives, as measured in this study, may not have a direct and measurable impact on the profitability of the shareholders' equity (Cho et al., 2019). Additionally, the absence of a significant relationship with ROE may underscore the complexity of gauging the financial impact of CSR initiatives on different dimensions of organizational performance. ROE is influenced not only by net income but also by shareholders' equity, which encompasses various financial and non-financial factors (Sharma et al., 2021). It could imply that the measured CSR initiatives may not be the primary drivers of returns to shareholders' equity, and other factors, such as financial leverage or asset management efficiency, might be more influential in this context. Furthermore, the findings may prompt a closer examination of the nature and scope of the CSR initiatives considered. It's possible that the specific dimensions of CSR explored in this study do not align with the drivers of ROE in the studied industries or sectors. Future research could delve into identifying more granular aspects of CSR or industry-specific factors that might be more closely linked to shareholders' equity returns.

The research findings indicating that CSR initiatives significantly predict GPM among firms in the studied context open up avenues for insightful discussions. The significant prediction of GPM by CSR initiatives suggests a potential positive influence of socially responsible practices on the gross profitability of these companies. One plausible interpretation of this result is that the measured CSR initiatives, including education, community engagement, employee welfare, and health programs, contribute to enhanced operational efficiency or cost-effectiveness. For instance, community engagement programs might foster positive relationships with local stakeholders, leading to improved supply chain dynamics or reduced operational risks. Similarly, investments in employee welfare and health initiatives may result in a healthier and more motivated workforce, potentially impacting productivity and operational efficiency positively (Lin et al., 2020). Moreover, the significant prediction of GPM by CSR initiatives aligns with the broader literature highlighting the potential financial benefits of responsible business practices (Chen et al., 2021; Ibrahim & Hamid, 2019). Firms that actively engage in CSR may experience improved brand reputation and customer loyalty, potentially leading to increased sales and higher gross profit margins.

The research outcomes indicating that board independence only significantly moderates the relationship between CSR and ROA present a focal point for nuanced discussion. This finding suggests that the influence of board independence on the relationship between CSR initiatives and asset efficiency is distinctive compared to its impact on other financial performance indicators. Moreover, the significant moderation effect of board independence on the relationship between CSRI and ROA raises intriguing questions about the specific mechanisms through which independent boards contribute to the financial outcomes associated with corporate social responsibility. One possible interpretation is that independent boards, characterized by a greater degree of autonomy and objectivity, may play a more discerning role in aligning CSR initiatives with operational efficiency and asset utilization. This aligns with the notion that independent boards are better positioned to evaluate and guide strategic decisions related to CSR that directly impact asset performance (Rossi et al., 2021). However, the absence of a significant moderation effect for other financial performance indicators, such as ROE and GPM, introduces a layer of complexity. This disparity in moderation effects across different financial metrics may signify that the relationship between CSR and financial performance is multifaceted, and the influence of board independence is context-dependent. The findings underscore the importance of considering the specific financial metrics under investigation when examining the moderating role of board independence (Rossi et al., 2021). On the other hand, the research findings indicating that board independence did not significantly moderate the relationship between CSRI and both ROE and

GPM prompt insightful discussions about the nuanced dynamics of governance in the context of CSR and financial performance. The absence of a significant moderation effect for board independence in the relationships with ROE and GPM suggests that, in this specific context, the level of board independence does not play a discernible role in shaping the impact of CSR initiatives on these particular financial metrics. This nuanced result challenges conventional assumptions about the universal influence of independent boards on the relationship between CSR and financial outcomes (Flammer et al., 2019). One potential interpretation is that the considerations and decision-making processes involved in the relationship between CSR initiatives and Return on Equity or Gross Profit Margin may not be as influenced by the independence of the board. It raises questions about the underlying mechanisms through which CSR practices affect equity returns and profit margins, and whether these mechanisms differ from those influencing asset efficiency, as indicated by the moderation effect on ROA. Moreover, the divergent moderation effects for different financial metrics underscore the complexity of the CSR-governance relationship. This variability in the impact of board independence across ROA, ROE, and GPM suggests that the interplay between CSR initiatives and financial performance is contingent on specific dimensions of organizational success.

The research results indicating that board diversity did not significantly moderate the relationship between CSRI and any of the financial performance indicators-ROA, ROE, and GPM, spark discussions about the intricacies of diversity's role in the link between CSR initiatives and financial outcomes. The absence of a moderating effect for board diversity suggests that, in the examined context, the composition of the board in terms of diversity of gender does not significantly alter the impact of CSR initiatives on these specific financial metrics. This result challenges assumptions that a more diverse board necessarily enhances the connection between CSR practices and financial performance (Kahloul et al., 2022; Byron & Post, 2016). One interpretation of this finding is that, for the measured dimensions of board diversity, the influence on financial metrics like ROA, ROE, and GPM may not be as pronounced or consistent. It raises questions about the specific attributes or dynamics of diversity that are critical in shaping the relationship between CSR and financial performance. Additionally, the consistent lack of moderation across ROA, ROE, and GPM underscores the complexity of the CSR-board diversity relationship. It suggests that, at least in this context, the impact of board diversity may be context-dependent, and its significance may vary across different financial performance indicators.

8. Implications

8.1. Managerial

The research findings hold several practical implications for managerial decision-making. The significant prediction of ROA and GPM by CSR initiatives suggests that organizations may benefit from a strategic focus on initiatives that enhance operational efficiency and profitability. CSR programs that contribute to cost-effectiveness, improved supply chain dynamics, or customer loyalty can positively influence ROA and GPM. Managers should consider tailoring CSR strategies based on specific financial objectives. If the goal is to enhance asset efficiency and gross profitability, the focus can be directed towards initiatives that directly impact operational metrics. However, the lack of significant prediction for ROE implies that different CSR dimensions or strategies may be necessary to influence shareholders' equity returns. Recognizing the sector-specific nature of the findings, managers should adopt context-specific approaches to CSR. Industries may have unique dynamics, and understanding how CSR initiatives impact financial metrics within a specific industry can guide more effective decision-making. The moderation effect of board independence on the relationship between CSR and ROA implies that organizations should strategically emphasize CSR initiatives that contribute to asset efficiency. Boards with a higher degree of independence may play a crucial role in aligning CSR practices with operational effectiveness, leading to improved ROA. Management teams should consider the composition of their boards when designing CSR strategies with a focus on operational metrics. The finding that board independence significantly moderates the CSR-ROA relationship suggests that boards with independent members may have a discerning impact on the efficiency and utilization of assets. The lack of moderation by board diversity suggests that, in the studied context, diverse boards may not significantly influence the relationship between CSR and financial performance. Managers should be cautious not to rely solely on board diversity when expecting impacts on operational efficiency (ROA), profitability (GPM), or shareholders' equity returns (ROE).

8.2. Theoretical/Literature

The research findings contribute to the theoretical and empirical literature on CSR and financial performance. The results highlight the need for a nuanced understanding of how CSR initiatives influence different financial metrics. The finding that CSR predicts ROA and GPM but not ROE suggests that the relationship between CSR and financial outcomes is multifaceted and may vary depending on the specific financial metric under consideration. The sector-specific differences in the impact of CSR on financial performance emphasize the importance of integrating sector-specific factors into theoretical frameworks. Future CSR literature should account for industry dynamics, regulatory environments, and customer expectations to provide a more comprehensive understanding of the CSR-finance relationship. The study results, particularly the moderating role of board independence and lack of moderation by board diversity, indicate that other governance factors may play a crucial role. The findings contribute to the theoretical understanding of governance dynamics in the CSR-finance relationship. The sector-specific moderation effect of board independence on ROA suggests that the impact of governance structures may be contingent on industry contexts. Future literature should further explore the sector-specific nuances in governance mechanisms and their influence on CSR outcomes. The research results prompt a reexamination of moderation models in CSR literature. The differential impact of board independence and the lack of influence by board diversity on various financial metrics indicate that moderation effects may vary across different aspects of financial performance. Theoretical frameworks should consider these nuances to enhance the precision and applicability of moderation models. The findings emphasize the need to explore context-specific moderators in CSR research. Future literature should delve into the specific contextual factors that determine the effectiveness of governance structures in moderating the relationship between CSR initiatives and financial performance. This exploration can contribute to a more comprehensive understanding of the conditions under which governance factors matter.

9. Recommendations for Further

Given the sector-specific nuances identified in the current study, future research should delve deeper into sector-specific variations in the impact of CSR on financial performance. An exploration of how industry characteristics, regulatory environments, and customer expectations influence the relationship between CSR initiatives and financial outcomes can provide a more nuanced understanding. Expand the exploration of governance factors beyond board independence and diversity. Investigate the influence of other governance mechanisms, such as leadership styles, executive compensation structures, and board committees, on the CSR-finance relationship. Understanding the interplay of multiple governance factors can contribute to a more comprehensive model of how governance shapes the impact of CSR. Further investigate context-specific moderators that may influence the CSR-finance relationship. This could include exploring the role of organizational culture, industry competitiveness, and regional variations. Understanding how these contextual factors interact with CSR initiatives and governance structures can enhance the applicability and robustness of theoretical models. Conduct cross-country comparative analyses to explore how cultural, institutional, and regulatory differences influence the CSR-finance relationship. Comparing findings across diverse regions can highlight the role of national contexts in shaping the effectiveness of CSR initiatives and governance mechanisms.

10. Conclusion

In conclusion, this comprehensive study sheds light on the intricate interrelationships between CSR initiatives, corporate governance structures, and financial performance in the unique context of Ghanaian firms within the manufacturing and service sectors. The sector-specific variations in the impact of CSR on financial metrics emphasize the need for nuanced and targeted strategies aligned with specific organizational objectives. Our findings underscore the significant predictive power of CSR initiatives on operational efficiency (ROA) and profitability (GPM) but highlight the absence of a comparable impact on shareholders' equity returns (ROE). This implies that organizations should carefully tailor their CSR approaches to address specific financial objectives, recognizing the diverse outcomes associated with different financial performance metrics. Delving into governance dynamics, the research reveals that board independence plays a discerning role in moderating the relationship between CSR initiatives and asset efficiency (ROA). This implies that boards with a higher degree of independence contribute significantly to enhancing operational effectiveness, aligning CSR practices with efficiency gains. Conversely, the limited impact of board diversity suggests that diversity alone may not be the sole driver of CSR's financial implications, prompting a reevaluation of the role of diversity in governance structures. The practical implications for management suggest that organizations should strategically integrate CSR initiatives with governance structures, considering the nuanced impact on various financial metrics. Theoretical implications emphasize the need for sector-specific analyses, extended considerations of governance mechanisms, and exploration of context-specific moderators to refine existing models in CSR literature. As future research directions, we recommend sector-specific analyses, exploration of additional governance factors, investigation of context-specific moderators, longitudinal studies, cross-country comparative analyses, qualitative approaches, and the integration of environmental and social metrics. Pursuing these avenues will contribute to a more comprehensive and nuanced understanding of the complex relationships between CSR, corporate governance, and financial performance, offering actionable insights for organizations navigating the evolving landscape of corporate responsibility and economic success.

Conflicts of Interest

No potential conflict of interest was reported by the authors.

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