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Mediating Effect of Corporate Governance on Corporate Social Responsibility, Market Power and Financial Performance Nexus

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Abstract

The study investigates the intricate relationship between Corporate Social Responsibility (CSR), market power, financial performance (Return on Assets, Return on Equity, Gross Profit Margin), and the mediating role of corporate governance (CG) in this complex nexus. Leveraging quantitative methods and drawing from annual reports of 38 firms in Ghana over a six-year period (2015-2021), the study scrutinizes the interplay among CSR CG, market power, and financial performance. Initial findings substantiate a direct positive association between CSR and both market power and financial performance. However, the examination of corporate governance as a mediator reveals a nuanced picture. While corporate governance significantly mediates the relationship between CSR and financial performance, it does not appear to exert a mediating effect on the CSR-market power relationship. This underscores the crucial role of robust corporate governance structures in optimizing the impact of CSR initiatives on financial outcomes. It also emphasizes the need for strategic alignment between corporate governance practices and CSR strategies. The results suggest that while governance plays a pivotal role in enhancing financial performance through CSR initiatives, other strategic pathways may influence market power independently. The study's implications underscore the importance of tailored governance strategies to capitalize on the positive impact of CSR on financial performance, while also recognizing the need for diverse strategic approaches to bolster market power.

Keywords

CSR, Corporate Governance, Market Power, Financial Performance, ROA, ROE, GPM, Board Independence, Board Size, Board Diversity, Firms in Ghana

1. Introduction

Corporate governance, corporate social responsibility (CSR), market power, and financial performance represent critical dimensions in the contemporary business landscape, shaping organizational strategies and outcomes. CSR has evolved as a key facet of business conduct, reflecting a company's commitment to addressing societal and environmental concerns beyond profit generation (Wachira & Mathuva, 2022). CSR initiatives encompass various sustainable practices, philanthropy, and ethical behavior aimed at creating positive impacts on stakeholders, communities, and the environment. Embracing CSR is often associated with enhanced reputation, stakeholder trust, risk mitigation, and potential financial advantages in the long run. CSR has been defined as the strategic decision of an organization to voluntarily act upon the social factors that have the potential to militate against the fulfillment of corporate goals (Amponsah-Tawiah & Dartey-Baah, 2016). CSR issues are now being integrated into all aspects of business operations and explicit commitment to CSR is made in the vision, missions and value statements of an increasing number of companies all over the world (Ofori & Hinson, 2007). In this regard, businesses are now expected to act in a responsible manner, be accountable and benefit from the totality of society. Rhou et al. (2016) argue that CSR has gradually become an issue of concern among business managers, as firms are evaluated not only on financial performance but also on their social image. Corporate goals and strategies no longer focus solely on profitability, but consciously integrate CSR strategies (Cho et al., 2019). These developments have propelled the concept CSR to gain global attention especially in the corporate world and heighten the continuous interest of researchers in CSR related issues. Though the concept of CSR has been measured in several different ways by organisations, this study measures CSR as encompassing the community, environment, employee, education and health as proposed by Sharma and Kiran (2012).

Simultaneously, corporate governance structures outline the mechanisms that govern decision-making processes within companies, delineating roles, responsibilities, and accountability frameworks for stakeholders (Goel, 2018). According to Abor and Adjasi (2007) corporate governance has been defined as those methods and mechanisms adopted by board of directors to steer the affairs of a business to ultimately maximize shareholders value through enhancing the prosperity of the business while having the interest of other stakeholders in mind. Similarly, Johnson (2017) explains CG as the means of dwelling on legal structures to prevent the exploitation of minority shareholders while focusing on minimizing agency conflict which involves managers. Effective governance practices are believed to foster CSR activities through transparency, ethical conduct, and long-term value creation, and impacting a firm's market power (Chang et al., 2022a) as well as financial performance (Raimi & Isiaka, 2020).

Firms' market power is one of the most efficient tools in business operations in modern times. It signifies a firm's ability to influence market conditions, prices, and competitive dynamics. According to De Loecker and Eeckhout (2018), market power arises from a company's dominance or strong position within an industry, granting it the capacity to shape market behaviors and outcomes. Understanding market power is essential as it significantly influences a company's strategic choices, pricing strategies, and ultimately, its financial performance. Market power seems to be influenced by the firms that have competitive advantage through certain voluntary CSR activities that places one firm reputation above others (Chang et al., 2022a; De Loecker & Eeckhout, 2018). Therefore, firms with competitive advantage enjoy market power over their competitors. Yet, this assertion is not widely recognized in the CSR-market power literature. Further, recent reviews of the literature have emphasized that market power is crucial for several policy decisions from organizational to national as well as global levels. Knowledge of market power is important due to the fact that it aids policy making such as policies on taxation, profitability and corporate strategy.

The CSR-financial performance literature seems to constantly suggest association between CSR and firm financial performance (Mukherjee & Nuñez, 2019a; Raimi & Isiaka, 2020). This makes firm financial performance a major part of business development. Financial performance metrics, including return on asset, return on equity, and gross profit margin, serve as crucial indicators of an organization's economic success and efficiency. Return on Assets is one of the measures of profitability of banks. It is measured by the ratio of net income and total assets of a company. This determines how efficiency and effectiveness in the financial performance of listed firms' management in terms of profit generation from the limited source (Fatihudin, 2018). The higher the ROA means management is efficient and the capable of converting the assets into net income and this translates into higher firm's profit. In the same vein, return on equity (ROE) measures of profitability. It measures how much shareholders have gained in their return on investment in the firm. ROE is used as the measure of the profitability because ROE along with ROA has been widely used in earlier research (Fatihudin, 2018). Another measure of profitability is gross profit margin which shows the firm's net sales excluding the cost of goods sold.

The relationship between corporate governance, CSR practices, market power, and financial performance represents a nuanced and intricate nexus that warrants comprehensive exploration. While prior research has delved into each of these dimensions independently, understanding how they interrelate and the mediating effects of governance mechanisms on these relationships remains an underexplored area in current scholarship. The CSR literature reveals that CSR activities are important in the boundary condition of corporate governance (Rao & Tilt, 2016; De Villiers & Alexander, 2014). According to De Villiers and Alexander (2014) institutional or corporate governance contributes to how companies chain out their CSR activities and this represents a unique knowledge to the CSR literature. Though emphasis is made on the role of corporate governance in enhancing CSR, little is known regarding the relationship between CSR and corporate governance (Rao & Tilt, 2016; Jo & Harjoto, 2012). Also, the literature is also silent concerning the role of corporate governance on the relationship between CSR and firm performance (Jo & Harjoto, 2012) on the one hand, and market power (Khan, 2010a) on the other hand. This means that there is no clear evidence on the role of corporate governance on the association between CSR, market power and firm financial performance. This gap therefore calls for attention and hence the interest of this study to contribute to the on-going discourse.

From the Ghanaian context, the concept has also evolved rapidly and cut across various sectors of the economy such as mining, telecommunication, media firms, and financial services among others. Over the years, Ghana has benefited from several and increasing number of CSR projects from corporate bodies' resultant high interest in CSR. Sarpong (2017) argues that the increasing interests in CSR can be partly attributed to improvement in the awareness creation on corporate accountability. Therefore, this study is justified in the Ghanaian context to guide future CSR related policies. In addition to attempts made by this current study to address the existing research gap, the study contributes significantly to empirical literature on corporate social responsibility and corporate governance. The findings of the study will also be significant to policy makers in the formulation of future policies to regulate CSR practices of firms in Ghana. Finally, management of firms will be guided by the findings of this study to formulate CSR and corporate governance strategies by leveraging their relationship to promote corporate economic sustainability.

2. Literature Review

Stakeholder Theory

The stakeholder theory, formulated in the 1970s by Michael E. Porter and James F. Champy (Porter & Magretta, 2014), stands as a guiding principle in modern management, aspiring to redefine the notion of value creation within organizations. This paradigm shifts the focus beyond mere shareholder interests to encompass a broader array of entities integral to a company's operations. Stakeholders, as elucidated by Freeman et al. (2010), encompass a diverse spectrum of groups and individuals directly impacted by corporate actions, representing shareholders, employees, customers, creditors, suppliers, the environment, and the wider community. This theory fundamentally asserts that a company's success and sustainability are contingent on its ability to navigate and nurture relationships with this wide array of stakeholders (Harrison et al., 2015).

At its core, the stakeholder theory asserts the intricate interdependence between a company and its various stakeholders. It recognizes that corporate actions have far-reaching implications that extend beyond shareholders, affecting the livelihoods, interests, and rights of multiple parties associated with the organization (Freudenreich et al., 2020). In essence, this theory advocates for a holistic approach to value creation, emphasizing the importance of fostering mutually beneficial relationships with stakeholders. It challenges the traditional notion of business solely prioritizing shareholder wealth and instead advocates for a more inclusive model, where generating wealth is not an exclusive prerogative of shareholders but extends to encompass the well-being and interests of all stakeholders involved in the company's ecosystem (Freudenreich et al., 2020).

The stakeholder theory serves as a pivotal framework in understanding and integrating CSR activities, corporate governance, and firm performance within organizations. Stakeholder theory posits that businesses have ethical and social responsibilities beyond maximizing shareholder wealth (Harrison et al., 2015). It emphasizes the importance of considering the interests and well-being of all stakeholders, including employees, customers, communities, and the environment. Within the context of CSR, stakeholder theory guides companies in identifying and addressing the concerns and expectations of these diverse stakeholders. It informs CSR strategies by advocating for initiatives that go beyond legal obligations, emphasizing ethical behavior, sustainability practices, community engagement, and environmental stewardship (Sial et al., 2018). Embracing CSR aligns with stakeholder theory by acknowledging the broader impact of corporate actions and striving to create positive outcomes for all stakeholders.

Stakeholder theory influences corporate governance by shaping governance structures to accommodate the interests of various stakeholders (Hendry, 2018). Effective corporate governance practices aligned with stakeholder theory ensure transparency, accountability, and fairness in decision-making processes. Boards and management teams, in accordance with this theory, are encouraged to consider and balance the interests of stakeholders when making strategic decisions (Brown & Forster, 2013). Governance frameworks reflecting stakeholder theory prioritize stakeholder engagement, inclusive decision-making, and ethical conduct. By integrating stakeholder perspectives into governance practices, companies foster trust, mitigate risks, and enhance long-term sustainability, all of which ultimately impact firm performance (Ayuso et al., 2014).

The integration of stakeholder theory into CSR activities and corporate governance practices can significantly impact firm performance (Price & Sun, 2017). Embracing stakeholder-oriented CSR initiatives can enhance a company's reputation, brand value, and competitive advantage. Meeting stakeholders' expectations and addressing societal concerns positively influences consumer loyalty, employee morale, and investor confidence, potentially leading to improved financial performance (Amato & Amato, 2007). Moreover, governance structures aligned with stakeholder theory facilitate more effective risk management, ethical conduct, and long-term strategic planning, all of which contribute to sustained financial performance and market power, value creation for the organization.

3. Concepts Clarifications

3.1. Corporate Social Responsibility

The concept of CSR reporting has received considerable attention and debate by scholars and practitioners in the literature. Reviews of CSR literature by Carroll (2021) and Garriga and Mele (2004) reach similar conclusions regarding varieties of associated terminologies given for CRS, the most popular of which are: business ethics disclosure, corporate citizenship, sustainability or sustainable development disclosure, corporate environmental management, business and society reporting, business and governance reporting, business and globalization, and stakeholder management. Thus, CSR reporting has been variously defined by different authors from different perspectives, CSR "means something, but not always the same thing, to everybody". As a result, effort is made to specify and justify an operational definition for CSR as conceptualized for this study since it forms the pivot of all discussion (Turner et al., 2022). Other definitions include the following (see **Table 1**). This study aligns with Tokoro (2007) that CSR is the overall relationship of a corporation with all the stakeholders. These include customers, employees, communities, owners, investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, education, health, creation and maintenance of employment, environmental stewardship and financial performance. This study further concentrated on CSR activities of firms towards community, environment, employees, education and health.

Table 1. Definitions of the CSR.

Definition source	Definition of CSR
Sarkar and Searcy (2016)	Corporate Social Responsibility is the Continuous commitment by business to contribute, to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large.
Carroll (1999)	Corporate Social Responsibility is the overall relationship of a corporation with all the stakeholders. These include customers, employees, communities, owners, investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance.
Hopkins (2005)	CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. Ethically or responsibly means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living while preserving the profitability of the corporations for people both within and outside the corporation.

Source: Author's construct (2023).

3.1.1. CSR towards Community Development

This facet of CSR activities aims to benefit the broader society or community. A community, often characterized by shared goals and interdependence for fulfilling common needs, involves individuals living in proximity who interact regularly, bound by shared expectations and responsibilities. There's a sense of cooperation, commitment to collective well-being, open communication, and accountability to oneself and others within a community (Ismail et al., 2015; Wilson, 2015). Community leaders play a crucial role in organizing events and influencing community members to take responsibility for actions, achievements, and the community's welfare. CSR operates as a collaboration between business, government, and civil society, aiming for mutually beneficial outcomes—referred to as a "win-win" situation. Particularly from a social standpoint, CSR aims to benefit communities, recognizing their complex composition with individuals holding varying degrees of control over tangible and intangible resources (Ismail et al., 2015). The impact of CSR on community development is perceived through stakeholders' lens, where responsible behavior brings forth impacts such as poverty alleviation and advocacy for human rights (Ozuem et al., 2014). Effective and sustainable CSR initiatives, as evidenced, thrive through partnerships between government, civil society, and businesses, operating at community, regional, and national levels.

3.1.2. CSR towards Environment Sustainability

CSR activities also extend towards fostering environmental sustainability. Several global corporations have prominently showcased their commitment to CSR through initiatives aimed at reducing their ecological footprint (Shahzad et al., 2020). These initiatives are founded on the belief that financial success and environmental stewardship can complement each other, fostering company growth and bolstering social standing. Such approaches not only add value to employment propositions but also magnify the appeal of environmentally conscious practices (Shahzad et al., 2020). Certain multinational corporations showcase CSR initiatives by focusing on preserving the environment, particularly evident in their management of expansive golf areas adjacent to residential zones. Non-profit organizations like "Friends of the Earth" and "Green Peace mission," as endorsed by the United Nations, stand as exemplars of CSR initiatives advocating for environmental protection (Żelazna et al., 2020).

3.1.3. CSR towards Employees and Customers

Another facet of CSR activities involves commitments made towards both employees and customers, extending beyond environmental and societal concerns. Companies renowned for their CSR practices leverage this reputation to bolster their appeal as desirable employers, incorporating their commitment to CSR as a core aspect of their value proposition for potential hires (Singh & Misra, 2022). Research indicates that when employees perceive their organization's dedication to socially responsible behavior positively, they exhibit more favorable attitudes across various domains linked to enhanced performance. These perceptions often include recognition and rewarding of exceptional customer service, swift resolution of customer concerns, and leadership by senior management acting in the customers' best interests (Newman et al., 2015). High confidence in senior management, particularly in supporting novel ideas and approaches, contributes to a positive perception of the organization among employees, fostering trust and loyalty. This perception is closely tied to a company's success in the marketplace, its capacity for innovation, and its ability to attract and retain top talent (Newman et al., 2015). Moreover, positive perceptions held by employees regarding a corporation also influence the community's view, portraying the corporation as a significant economic asset within the community, thereby enhancing community development and engagement.

3.1.4. CSR towards Education and Health Enhancement

One of the areas through which CSR activities are directed towards is education and health related activities. For many corporation leaders, it is difficult to know where their responsibilities begin and end in relation to building infrastructure, creating economic opportunities, and access to core services such as health, education and poverty alleviation (Lee et al., 2013). Experience has made one thing certain sustainable CSR solutions at community, provincial and national levels are based on partnerships between government, civil society and business.

3.2. Corporate Governance

Corporate Governance embodies the structure guiding companies in their direction and control, prioritizing the interests of shareholders and various stakeholders (Agyemang & Castellini, 2013). Its essence lies in ensuring effective business management and equitable returns for investors. The governance of a company should inherently serve the best interests of its stakeholders, notably its shareholders, as underscored by Agyemang and Castellini (2013), who stress that sound corporate governance practices foster transparency, thereby reducing information disparities among equity holders and stakeholders. Mitton (2002) defines corporate governance as a mechanism intended to safeguard minority shareholders against potential exploitation by managers or internal stakeholders.

Corporate governance functions through structured systems or methodologies that amalgamate various elements thus, plans, policies, processes, and practices, underpinning an organization's management approach (Matei & Drumasu, 2015). Establishing suitable corporate governance attributes empowers organizations to cultivate a competitive edge in their operations. Scholars have delineated diverse principles and practices of corporate governance, tailored to specific organizational contexts. McCahery and Vermeulen (2014) articulated six governance principles encompassing the fulfillment of strategic objectives, governance board composition, relationships of the chief executive officer, unity in command and direction, accountability, ownership needs, self-improvement, and quality management. Furthermore, some viewpoints emphasize the manifestation of corporate governance through organizational structures such as board composition, diversity, size, ownership, and audit committee independence. In this study, focus was placed on selected corporate governance practices like board independence, size, and diversity, drawn from extensive research in the field.

3.2.1. Board Independence

Board independence is one of the principal characteristics of CG in modern times. Most companies place premium on board independence due to its advantages of helping companies achieve its intended strategic goals. The international best practice require that companies governing boards should constitute half of its members to be non-executive members. Further, the Company's Act and the Corporate Governance Guidelines on Best Practices in Ghana also requires that half of the members of every governing board of listed firms should be non-executive directors (Tsamenyi et al., 2007). Moreover, the literature (Lu & Castka, 2009) argues that non-executive directors are not likely to connive with managers because they are incentivized enough to carry out their tasks. The CG literature shows that the inclusion of non-executive directors on the board enhances performance. Alabdullah et al. (2019) noted that higher degree of board independence is negatively associated with capital investments but positively associated with research and development investments.

3.2.2. Board Size

Prior literature in the CG field has shown the importance of the size of the board in determining the good CG of firms through its effect on reporting quality (Germain et al., 2014). Germain et al. (2014) further noted that board size remains as a global stable concern over the years in both developed and developing economies. Scholars hold diverse views on the effect of board size as major CG characteristics. The size of the board is important in governance of organisations. It is noted that larger board size may likely make board members less efficient since control and monitoring function of the board becomes impaired due to "free-riders" effect (Mak & Kusnadi, 2005). On the other hand, smaller board size are likely to be more functional and well able to provide better financial oversights since they have less bureaucratic issues as compared with larger size (Huang & Wang, 2015). It is revealed by Huang and Wang (2015) that smaller boards experience larger variability in future firm performance, higher executive pay-to-performance sensitivity compared with larger boards, tend to pursue riskier investment policies. It is noted that board size is determined by several factors such as national regulations, organizational specific characteristics (ownership, firm level policies), cultural differences, and others (Huang & Wang, 2015).

3.2.3. Board Diversity

Board Gender is another aspect of CG that is relevant in ensuring firm financial performance in terms of firm performance. Board gender constitutes of having a balance gender diversified board where both men and women are equally or proportionately represented. Firms with more gender-diverse board of directors are more likely to pay dividends, better performance, better corporate investment efficiency (Carter et al., 2003). Board gender diversity saves most firms from negative characteristics associated with an insensitive board of directors with less representation of women. Sarhan et al. (2019) stated that increasing share of women on boards is associated with improved financial performance among others. Women representation in the governing board is critical in enhancing the effect of voice effect.

3.3. Firm Performance

3.3.1. Market Power

Market power refers to a company's relative ability to manipulate the price of an item in the marketplace by manipulating the level of supply, demand or both. The market power among firms in an industry can generally be determined by identifying the firms that command the highest proportion of the market share either through sales, output, value added, number employed or value of assets. The market power concentration can be computed in many ways, popular indices are the Herfindahl-Hirschman index (HHI) (Shukla & Thampy, 2011). The HHI measures the competitiveness of an industry in terms of the market concentration of its participants. The Herfindahl-Hirschman index is the most widely treated summary measure of concentration in the theoretical literature and often serves as a benchmark for the evaluation of other concentration indices. Bikker and Haaf (2002) defined HHI as the sum of the squares of the bank sizes measured as market shares. The HHI stresses the importance of larger banks by assigning them a greater weight than smaller banks, and it incorporates each bank individually, so that arbitrary cut-offs and insensitivity to the share distribution are avoided. The HHI index ranges between 1/n and 1, reaching its lowest value, the reciprocal of the number of firms, when all firms in a market are of equal size, and reaching unity in the case of monopoly (in a market with only one bank).

3.3.2. Financial Performance: ROA, ROE and GPM

The most used indicators of profitability are Return on Asset (ROA) (DEBIT/assets) measuring the return of total assets, Return on Equity (ROE) (net income/equity) measuring the return for owners, and profit margin (net income/sales) (Sari, 2019). This paper is focused on return on assets (ROA) and ways of its construction. The assessment of profitability could be often distorted because of different construction approaches. It is caused by more ways to calculate the profit used in the nominator of the indicator discussed. It is possible to meet the profitability construction of ROA based on net income, although the main aim of the selected indicator is better fulfilled with the profit independent on capital structure and the level of taxation (Purnamasari, 2015). The production power of the assets is not influenced by the territory on which the assets are used and it is also not possible to increase the production power by the way of financing.

Moreover, ROE serves as a vital metric utilized by both investors and corporations to gauge the profitability generated from the owners' capital investment in a company. This analysis holds significance for investors as it assesses the benefits derived from their investments, while for companies, it functions as a magnet for potential investors. ROE essentially measures the income available for shareholders—both ordinary and preferred—based on their invested capital, reflecting the advantageous position of company ownership (Purnamasari, 2015).

Furthermore, Gross Profit Margin (GPM) is the ratio or balance between the gross profit of the company and the level of sales achieved in the same period. Mahdi and Khaddafi (2020) states that the GPM is the ratio or balance between the gross profit of the company and the level of sales achieved in the same period. Gross Profit Margin is strongly influenced by sales prices, the higher the profitability of the company means the better. If the cost of goods sold increases, the GPM will decrease, and vice versa (Ciptawan & Frandjaja, 2022). Gross profit margin is strongly influenced by sales prices, the higher the profitability of the company means the better. The purpose of measuring the gross profit margin is to find out how much gross profit you get from each rupiah of the sale value of the product (goods and/or services). Gross profit margin is always greater than the net profit margin (Amalia et al., 2020).

4. Hypotheses Development

4.1. CSR and Market Power

The research into the influence of CSR on market power remains a pivotal area of inquiry due to the enduring debate within scholarly circles. This discourse presents divergent viewpoints, with some scholars advocating a substantial positive association between CSR and market power, while others maintain a contrasting stance, positing a negative correlation. Noteworthy scholars like Chung et al. (2018), Chang et al. (2022a), Pomering and Johnson (2009), and Forgione and Migliardo (2020) assert a positive link between CSR and market power, substantiated by their empirical studies. For example, Research of Chung et al. (2018) demonstrates a robust correlation between CSR activities, improved firm brand image, and amplified business value. Chang et al. (2022c) similarly highlight that CSR initiatives can lead to enhanced customer loyalty and market share, thereby strengthening market power. Pomering and Johnson (2009) argue that CSR contributes to increased consumer trust and preference, which in turn can boost a company's market influence. Forgione and Migliardo (2020) further support this view by showing that firms with strong CSR commitments often enjoy better market positioning and competitive advantage.

Conversely, scholars such as Chen et al. (2023a) challenge this perspective, arguing for the absence of a significant relationship between CSR and market power. Their research suggests a weak linear association between CSR activities and different market power structures, indicating that while CSR is influential, it might not singularly dictate market power. Chen et al. (2023b) propose that other factors, such as market conditions, competitive dynamics, and regulatory environments, play a more decisive role in shaping market power. This viewpoint is echoed by Smith and Higgins (2000), who argue that the benefits of CSR are often contingent upon the specific industry and context in which a firm operates. The absence of a unanimous agreement regarding the relationship between CSR and market power underscores the crucial need to contribute to this ongoing discourse. Therefore, this study hypothesizes that engaging in CSR activities can have a significant positive impact on a firm's market power, and seeks to further explore this complex and multifaceted relationship through comprehensive empirical analysis.

***H*1**: *Corporate social responsibility has significant positive effect on market power*

4.2. Corporate Social Responsibility and Financial Performance

Though CSR requires substantial investment and commitment of a firm's resources, such investments have significant implications for the firm's financial performance (FP). This study uses ROA and GPM as measurements of FP, which have been extensively utilized in prior research (Crisóstomo et al., 2011). The existence of conflicting findings in empirical studies regarding the relationship between CSR and financial performance necessitates further investigation and deeper exploration into this area. Numerous studies, including those by Szegedi et al. (2020), Hossain et al. (2016a), and Angelia and Suryaningsih (2015), assert a positive correlation between CSR and financial performance indicators such as Return on Equity (ROE) and ROA. These studies highlight CSR's predictive capability for profitability, its influence on banks' reputation enhancement, and its significant effects on ROE and ROA through CSR disclosures and environmental performance. For instance, Hossain et al. (2016b) found that CSR initiatives positively impact financial performance by enhancing corporate reputation and stakeholder trust, which in turn can lead to increased profitability.

However, contrasting perspectives are presented by scholars like Ben-Saad and Belkacem (2022), who reveal negative or insignificant relationships between CSR and financial performance metrics like ROE and ROA. Angelia and Suryaningsih (2015) and Ben-Saad and Belkacem (2022) showcase a negative association between CSR and financial indicators, while Cho et al. (2019) draw similar negative correlations with ROA. These divergent conclusions underscore the need for additional research to comprehensively examine the multifaceted nature of the CSR-financial performance relationship and address inconsistencies observed across various studies. Furthermore, while existing empirical literature has extensively examined the relationship between CSR and financial performance, particularly utilizing accounting indicators like ROA and ROE, a notable gap persists in the research landscape concerning the utilization of Gross Profit Margin as a metric to gauge the financial performance of firms engaged in CSR activities. This gap suggests the potential for future research to explore how CSR investments specifically impact GPM, providing a more nuanced understanding of CSR's role in enhancing different dimensions of financial performance.

***H*2**: *Corporate social responsibility has significant positive effect on financial* *performance* (*ROA*, *ROE*, *GPM*)

4.3. Mediating Role of Corporate Governance on Corporate Social Responsibility, Market Power and Financial Performance Nexus

Exploring the mediating role of corporate governance within the interplay of CSR, market power, and financial performance (ROA, ROE, GPM) is crucial due to its potential to offer comprehensive insights into the intricate dynamics of business operations (**Figure 1**). Corporate governance acts as the framework guiding managerial decisions and organizational conduct (De Villiers & Dimes, 2021). Investigating its mediation in the CSR-market power-financial performance nexus can elucidate how governance structures influence the relationship between CSR initiatives, market influence, and financial metrics. Understanding this mediation could uncover mechanisms through which effective governance mechanisms bolster the positive impacts of CSR on financial performance, potentially clarifying the direct and indirect pathways through which these factors interrelate (de Villiers & Dimes, 2021; Rodriguez-Fernandez, 2016). For instance, De Villiers and Dimes (2021) highlight that robust governance practices can enhance transparency and accountability, which in turn strengthens the trust of stakeholders and the overall financial health of the organization.

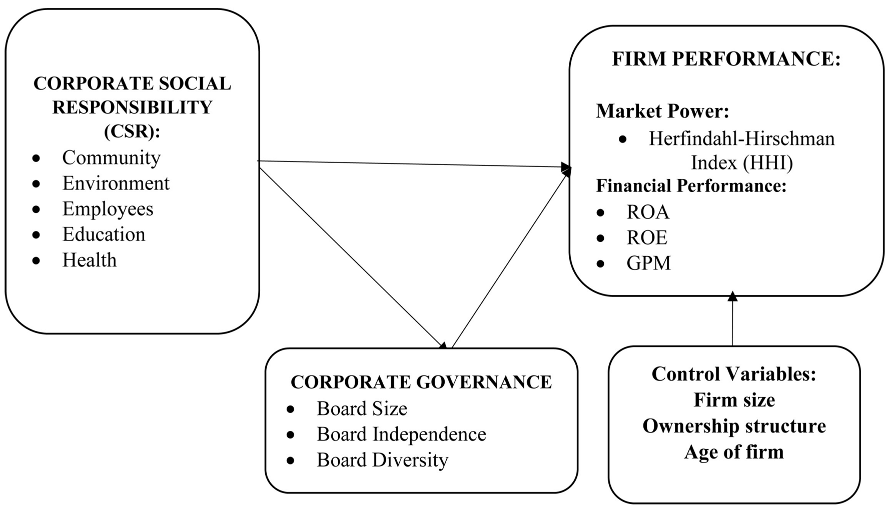

Figure 1. Conceptual framework. Source: Researcher's construct (2023).

Additionally, corporate governance serves as a conduit for balancing stakeholders' interests, profoundly affecting the interplay between CSR initiatives, market power, and financial performance (Kabir & Thai, 2017). Investigating this mediation can unearth how governance practices bridge the expectations of various stakeholders concerning CSR practices, their perception of market influence, and the subsequent financial ramifications. Understanding these interactions can guide companies in tailoring their governance structures to better align with stakeholder expectations, optimizing the effects of CSR on market performance and financial metrics. Kabir and Thai (2017) discuss how effective corporate governance can facilitate a more strategic alignment of CSR activities with business goals, thereby enhancing market power and financial performance. This understanding can aid firms in designing governance frameworks that not only meet regulatory requirements but also support sustainable business practices, ultimately leading to improved financial outcomes and competitive advantage.

H3: *Corporate governance mediates the relationship between corporate social responsibility and market power*

H4: *Corporate governance mediates the relationship between corporate social responsibility and financial performance*

5. Methodology

5.1. Research Design and Source of Data

The research design employed in this study was a quantitative approach, primarily utilizing secondary data extracted from the annual financial reports of 38 selected firms in Ghana encompassing diverse industries such as manufacturing, banking, telecommunications, and insurance. This approach allows for a comprehensive analysis of CSR activities and their impacts across a varied economic landscape (Richardson, 2015). This methodology not only enhances the generalizability of the findings but also facilitates an understanding of how industry-specific factors might influence the dynamics of CSR initiatives and their subsequent effects on market and financial outcomes. The companies were selected using a combination of stratified and purposive sampling techniques to ensure a diverse representation within the sample. The stratified sampling method was applied to categorize firms across various sectors thus, namely manufacturing, banking, telecommunications, and insurance, to ensure a balanced representation across industries. This classification into distinct strata was imperative to capture the nuanced differences among these sectors and draw meaningful insights. Additionally, the study leveraged the purposive sampling technique to select firms based on their active engagement and comprehensive disclosure of CSR activities. This methodology aligned with previous research approaches, particularly those conducted by Boachie and Tetteh (2021), ensuring consistency in research methods and allowing for comparative analyses. The reliance on annual reports as the primary data source stemmed from their recognized credibility in disclosing CSR initiatives. Deegan et al. (2002) emphasize that annual reports serve as a crucial platform for companies to communicate CSR activities to diverse stakeholder groups, making them a reliable source of corporate information. Subsequently, the collected data underwent rigorous analysis employing Partial Least Square Structural Equation Modelling (PLS-SEM) through SMART-PLS software. This analytical process encompassed various stages, including assessing factor loadings, examining indicators for multi-collinearity, establishing reliability and validity of study constructs, evaluating the structural model, and conducting mediation analysis. These methodical analyses were essential in ensuring the robustness and credibility of the study's findings, allowing for a comprehensive evaluation of the relationships among CSR, market power, and financial performance within the Ghanaian context.

5.2. Measurement of Research Variables

5.2.1. Corporate Social Responsibility

The measurement of the CSR was done by constructing a CSR reporting index. In developing the index, references were first made to the items/checklists employed by previous research which covered the themes. The CSR disclosure items would be extracted from companies' annual reports. A dichotomous procedure was applied where a company would be awarded one (1) if an item included in the index is disclosed in the annual report and zero (0) if it is not disclosed (See **Table 2**). Accordingly, the CSR disclosure index for a company would be derived by computing the ratio of actual scores awarded divided by the maximum score:

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

5.2.2. Corporate Governance

The study adopted the measures of Klein et al. (2005) among others to measure corporate governance systems among firms in Ghana (**Table 2**). First, board independence was measured as the number of non-executive directors divided by the total number of board members. Second, board size was also measured as the square of the number of board members in the firm because the relationship between board size and financial performance is non-linear. Therefore, the board size variable is squared due to its non-linear relationship with financial performance. Third, Board gender diversity was simply measured by the number of women on the board divided by the total number of board members. This assumption is consistent with other scholars (Kukah et al., 2016).

5.2.3. Firm Performance

1) Market Power

The study adopted Herfindahl-Hirschman index (HHI) measure market power. The HHI measures the competitiveness of an industry in terms of the market concentration of its participants. To calculate the HHI, one takes the percentage market share of each firm in an industry, square that number, and then add all the squares together. The formula to calculate HHI is thus based on the following formula:

$$\mathrm{HHI} = s_{1t}^2 + s_{2t}^2 + s_{3t}^2 + \cdots + s_n^2 \tag{2}$$

where n is the number of firms in the market and s_n denotes the market share of the nth firm. Higher values of the index indicate higher market concentration and monopoly power as well as decreased competitiveness. The index decreases when a market is made up of a larger number of firms, each with a smaller market share.

2) Financial performance

ROA: One important variable of interest to firm performance is ROA, which is an indicator of how profitable a company is relative to its total assets. ROA gives a manager, investor, or analyst an idea as to how efficient a company's management is at using its assets to generate earnings. It is measured with total assets over net income across time (See **Table 2**). ROA is the simplest of such corporate bang-for-the-buck measures.

$$\mathrm{ROA}_{\mathrm{it}} = \frac{\text{Total Assets}_{\mathrm{it}}}{\text{Net Income}_{\mathrm{it}}} \tag{3}$$

Higher ROA indicates more asset efficiency. The ROA, in basic terms, tells you what earnings were generated from invested capital (assets). ROA for public companies can vary substantially and will be highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA numbers or a similar company's ROA. The ROA figure gives investors an idea of how effective the company is in converting the money it invests into net income.

ROE: ROE is a financial ratio that provides investors with insight into how efficiently a company (or more specifically, its management team) is handling the money that shareholders have contributed to it. In other words, it measures the profitability of a company in relation to stockholders' equity. The higher the ROE, the more efficient a company's management is at generating income and growth from its equity financing. ROE is often used to compare a company 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:

$$\mathrm{ROE}_{\mathrm{it}} = \frac{\text{Shareholder Equity}_{\mathrm{it}}}{\text{Net Income}_{\mathrm{it}}} \tag{4}$$

The net income is the bottom-line profit—before common-stock dividends are paid—reported on a firm's income statement. Free cash flow (FCF) is another form of profitability and can be used instead of net income. Shareholder equity is assets minus liabilities on a firm's balance sheet and is the accounting value that's left for shareholders should a company settle its liabilities with its reported assets. Note that ROE is not to be confused with the return on total assets (ROTA). While it is also profitability metric, ROTA is calculated by taking a company's earnings before interest and taxes (EBIT) and dividing it by the company's total assets. ROE can also be calculated at different periods to compare its change in value over time. By comparing the change in ROE's growth rate from year to year or quarter to quarter, for example, investors can track changes in management's performance.

GPM: The Gross Profit Margin represents the amount of revenue left over after deducting the cost of goods sold (COGS) incurred in the period. Since only direct costs are accounted for in the metric, the gross profit margin shows how much in profits remains available for meeting fixed costs and other non-operating expenses. The formula for the gross profit margin is the company's gross profit divided by the revenue in the matching period. The gross profit is calculated by subtracting direct costs (COGS) from revenue, with direct costs referring to expenses directly tied to the production and delivery of specific goods and/or services (typically variable costs). Typically, the gross profit margin is expressed in percentage form, which can be calculated by multiplying the resulting decimal value from the equation above by 100 (**Table 2**). For a given period, the revenue and gross profit of a company will be found directly at the top of the income statement.

$$\text{GPM}_{\text{it}} = \frac{\text{Gross Profit}_{\text{it}}}{\text{Revenue}_{\text{it}}} \tag{5}$$

Interpreting a company's gross margin as either "good" or "bad" depends substantially on the industry in which the company operates. For any comparisons of gross margins to be useful, the companies must operate in the same or similar industry with available historical data dating back several years to get a better sense of the industry norm (and patterns). Higher gross profit margins are usually viewed in a positive light, as the potential for higher operating margins and net profit margins increases. An accurate assessment of the gross profit metric depends, however, on understanding the industry dynamics and company's current business model.

Table 2. Summary of measurement of variables.

Research Variable	Notation	Proxies and Measurement
Corporate Social Responsibility Index	CSRI: Community, Education, Employees, Environment and Health	**CSRI** is measured with the number of CSR activities of a particular company for a particular year/the number of CSR activities for all companies considered in the study for that particular year
Corporate Governance (CG)	Board Size (BS) Board Independence (BI) Board Diversity (BD)	**BS**—Number of board members of a firm square **BI**—Number of non-executive members/total members **BD**—Number of female members/total members
Market Power (MP)	Herfindahl-Hirschman Index (HHI)	**HHI**—calculated as the total firm size of a company over the total market size of all the firms in a particular industry or sector
Financial Performance (FP)	Return on Asset (ROA) Return on Equity (ROE) Gross Profit Margin (GPM)	**ROA** is calculated as net income over the total assets of the company **ROE** is calculated as net incomes over the total of shareholders equity or funds **GPM** is calculated as the operating profit over the total turnover of the company

Source: Author's construct (2023).

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. 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 existed will have more experience. Research results show that age of a company affects Corporate Social Responsibility. Thus companies that have long been surviving have more experience in the disclosure of CSR (Li et al., 2020).

6. Empirical Results

6.1. Indicator Reliability

The factor loading refers to the extent to which each item in the correlation matrix correlates with the given principal component. According to Hair Jr. et al. (2020), factor loading can range from −1.0 to + 1.0, with higher absolute values indicating a higher correlation of the item with the underlying factor. Consistent with Hair Jr. et al. (2017) recommended threshold for factor loading greater than 0.70 being an indication of factor reliability, **Table 3** therefore, presents factor loadings greater than 0.7 and also within the range of −1.0 to +1.0 hence the factor or indicator reliability is established.

Table 3. Factor loading.

	CORPG	CSR	FP	MARKP
AUDCS	0.757			
BOGD	0.745			
BOI	0.753			
BOS	0.727			
CSRI		1.000		
GPM			0.792	
ROE			0.723	
HHI				1.000

Source: Modified from data (2023).

6.2. Internal Consistency Reliability and Convergent Validity

According to Hajjar (2018), reliability is the extent to which a measuring instrument is stable and consistent. The reliability is guaranteed when an instrument is administered repeatedly and yields the same outcome. The most commonly used methods for establishing reliability include Cronbach Alpha and Composite Reliability (CR). The results for both Cronbach Alpha and Composite Reliability results are presented in **Table 4**. The Cronbach Alpha ranged from 0.828 to 1.00, whereas Composite Reliability statistics ranged from 0.736 to 1.00. Both reliability indicators have a value over the required threshold of 0.70 (Hair et al., 2012). Hence, construct reliability is established.

Convergent validity according to Urbach and Ahleman (2010), is a measure of how well individual indicators reflect a construct and converge with those of other constructs. The Average Variance Extracted (AVE) is calculated to guarantee convergent validity. By using indicators in relation to the measurement error, AVE captures variance. According to Hair Jr. et al. (2017), the appropriate AVE measures should have a variance of more than 0.50. The AVE presented in **Table 4** varied from 0.556 to 1.000 in the current investigation, which was above 0.50, demonstrating the convergent validity of the measures.

Table 4. Internal reliability and convergent validity.

	Cronbach's Alpha (CA)	Composite Reliability (CR)	AVE
CORPG	0.736	0.834	0.556
CSR	1.000	1.000	1.000
FP	0.261	0.729	0.575
MARKP	1.000	1.000	1.000

Source: Modified from data (2023).

6.2.1. Discriminant Validity

According to Cheah et al. (2018), discriminant validity describes how distinct each construct is from the other components in the study. Cross loadings, Fornell and Larcker's, and Heterotrait-Monotrait Ratio of Correlations (HTMT) requirements must all be met for the constructs to be considered discriminant valid. If the loadings for each indication are the highest for the chosen construct, the cross loadings requirement will be satisfied. For all the constructs in the diagonal, the square root of AVE values should be greater than the squared correlation with the other constructs in the off-diagonal (Fornell & Larcker, 1981) in order to obtain discriminant validity. Assessing HTMT, or the ratio of correlations within the constructs to correlations between the components, is a different approach to analysing discriminant validity. To confirm the discriminant validity of the constructs, an HTMT ratio of correlation lower than 0.9 is acceptable. The HTMT values are shown in **Table 4** while **Table 5** displays the Fornell and Larcker (1981) criterion.

As indicated in **Table 5**, the discriminant validity values for the investigated constructs revealed acceptable values. Corporate governance (0.746), corporate social responsibility (1.000) financial performance (0.758) and market power (1.00) all have square roots of AVEs that are higher than the correlation with other constructs in off-diagonal space, demonstrating the discriminant validity of the measures. Table 6 displays the HTMT criterion for the variables, and all values fall within the acceptable range.

Table 5. Results of consistency reliability and convergent validity for the measurement model.

	CORPG	CSR	FP	MARKP
CORPG	**0.746**			
CSR	0.427	**1.000**		
FP	0.401	0.354	**0.758**	
MARKP	0.099	0.177	0.07	**1.000**

Note: Values in Italic represent square root of AVE.

Table 6. Result for discriminant validity (HTMT) for measurement model.

	CORPG	CSR	FINPER	MARKP
CORPG				
CSR	0.441			
FP	0.876	0.684		
MARKP	0.139	0.177	0.187	

Source: Modfied from Data (2023).

6.2.2. Indicator Multicollinearity

The relationship between the latent constructs in the model is explained by the inner or structural model (Hair Jr. et al., 2017). It is necessary to assess the structural model for the importance of the inner paths after assessing the measurement model. Kock and Lynn (2012) highlighted that it is crucial to examine the constructs' lateral collinearity. Similar to this, Kock and Lynn (2012) found that even when the requirements for discriminant validity are satisfied, lateral collinearity may occasionally be misleading and cause problems. The lateral collinearity is also assessed using the Variance Inflation Factor (VIF). According to strict standards established by Diamantopoulos et al. (2008), a VIF value of 3.3 or greater indicates collinearity problems. There is no lateral collinearity problem in the current study because the VIF for all of the indicators is less than 3.3. Table 7 displays the VIF values.

6.3. Structural Model Assessment

The impact of exogenous constructions on endogenous constructs is seen in Table 8. The effect size f^2 and R^2 values are used to evaluate the structural model.

Table 7. Indicator multi-collinearity.

	VIF
AUDCS	1.677
BOGD	2.802
BOI	2.816
BOS	1.672
CSRI	1.000
GPM	1.023
ROE	1.023
HHI	1.000

Source: Modified from data (2023).

Chin (1998) asserts that R^2 analysis is complementary to f^2. If a certain endogenous construct is removed from the model, f^2 assesses how the R^2 will change. The amount of variance in the endogenous construct that is described by the exogenous constructs is shown by the coefficient of determination (R^2). Corporate social responsibility and corporate governance, according to the findings, might account for 3.2% of the variation in market power. It also shows that 18.2% variation in corporate governance be can explain by the corporate social responsibility. Additionally, corporate social responsibility and corporate governance can account for 20.2% of the variation in financial performance. The R^2 values are given in **Table 8**. The strength of R^2 value determines the predictive accuracy. Hair et al. (2019) recommended criteria for R^2 value of 0.67, 0.33 and 0.19 represent substantial, moderate, and weak levels of predictive accuracy. Further, R^2 values higher than 0.10 are recommended to ensure that the variance accounted for an endogenous construct is adequate (Hair Jr. et al., 2020).

Table 8. Summary result of the coefficient of determination (R^2) for the endogenous constructs.

	R Square	R Square Adjusted
CORPG	0.182	0.179
FP	0.202	0.196
MARKP	0.032	0.024

Source: Modified from data (2023).

The empirical analysis, as depicted in **Figure 2** and summarized in **Table 9**, elucidated compelling insights into the relationship between Corporate Social Responsibility (CSR) and both market power and financial performance. The findings underscored a substantial and noteworthy predictive influence of CSR on market power, as indicated by the statistical parameters (H1: $\beta = 0.167$, $t = 2.357$, $p < 0.05$). This significant relationship between CSR activities and market power solidifies the acceptance of the first hypothesis, affirming the positive impact that CSR practices have on a firm's position and influence within its industry landscape. Moreover, the analysis unveiled a similarly significant association between CSR initiatives and financial performance (H2: β = 0.209, t = 3.406, $p < 0.05$). This outcome, buttressed by robust statistical measures, substantiates the retention of the second hypothesis. It distinctly illustrates the meaningful impact of a company's commitment to CSR on its financial outcomes, emphasizing the pivotal role that CSR activities play in enhancing financial performance metrics such as ROA, ROE, or GPM. This validation underscores the value proposition of CSR in not only augmenting market power but also in bolstering financial success and sustainability for firms.

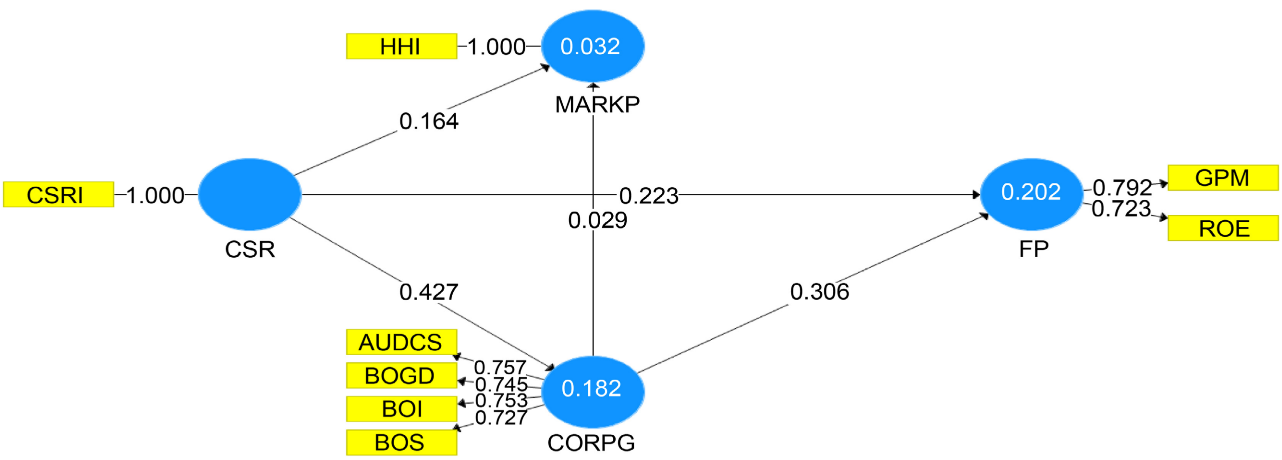

Figure 2. Structural Model showing relationships. Source: Modified from Data (2023).

Table 9. Direct relationship result.

	Beta Coefficient	Standard Deviation	T Statistics	*p* Values
CORPG -> FP	0.303	0.067	4.513	0.000
CORPG -> MARKP	0.036	0.061	0.589	0.556
CSR -> CORPG	0.427	0.048	8.959	0.000
CSR -> FP	0.209	0.061	3.406	0.001
CSR -> MARKP	0.167	0.071	2.357	0.019

Source: Modified from data (2023).

6.4. Mediating Role of Corporate Governance

Hypothesis 3 aimed to evaluate how corporate governance mediates the connection between CSR and market power. The outcomes, outlined in Table 10, demonstrated the substantial total effect of CSR on market power (H2: β = 0.189, t = 2.798, $p < 0.05$). Upon introducing corporate governance as mediating variables, the influence of CSR on market power remained significant (β = 0.167, t = 2.357, $p < 0.05$). However, the indirect effect of CSR on financial performance was deemed insignificant (β = 0.015, t = 0.579, $p > 0.05$). This insignificance indicates that corporate governance doesn't significantly mediate the relationship between CSR and market power, leading to the rejection of hypothesis three.

Table 10. Mediation analysis result.

Total effect		Direct effect		The indirect effect					
Coefficient	*p* Value	Coefficient	*p* Value		Coefficient	SD	T Value	*p* Value	BI [2.5%; 97.5%]
0.189	0.000	0.167	0.000	H3: CSR > CG > MP	0.015	0.026	0.579	0.563	−0.033 0.069
0.339	0.000	0.209	0.000	H4: CSR > CG > FP	0.130	0.066	3.966	0.000	0.066 0.189

Source: Modified from data (2023).

Hypothesis four aimed to examine how corporate governance mediates the relationship between CSR and financial performance. As presented in **Table 10**, the analysis displayed a significant total effect of CSR on financial performance (H4: β = 0.339, t = 5.495, $p < 0.05$). Upon introducing corporate governance as a mediating factor, the influence of CSR on financial performance remained significant (β = 0.209, t = 3.406, $p < 0.05$). Furthermore, the indirect effect of corporate social responsibility on financial performance was also found to be significant (β = 0.130, t = 3.966, $p < 0.05$). These findings suggest that the relationship between CSR and financial performance is notably mediated by corporate governance. Consequently, hypothesis four was accepted.

7. Discussion Findings

7.1. CSR Activities and Market Power

The findings of the study reveal that CSR activities have a significant positive effect on market power. This indicates that engaging in Corporate Social Responsibility initiatives positively influences the market power of firms. Market power refers to a company's ability to influence market conditions, prices, and the competitive landscape within its industry. When CSR activities are undertaken and effectively managed, they contribute positively to a firm's ability to influence its market environment. Such a result suggests that consumers and stakeholders tend to respond favorably to companies that actively participate in CSR activities. This positive association could stem from various factors, such as enhanced brand reputation, increased consumer trust, or a heightened perception of the company's commitment to societal welfare and ethical practices (Khan et al., 2020; Huang, 2015). As a consequence, firms that invest in and effectively communicate their CSR efforts may potentially gain a competitive edge in the market. This is consistent with the school of thought that argues CSR activities positively influence and ensure enhanced market power as well as gain sustainable competitive advantage (Porter & Kramer, 2006; McWilliams & Siegel, 2001).

These empirical results propose that when firms embark on CSR activities, market power is enhanced. This position confirms the stakeholder theory, where the firm has various stakeholders with varied interests. However, the firm recognizes the relevance of each stakeholder and, through CSR projects, serves the interests of some stakeholder groups. Such CSR activities, in the long run, have implications for the firm's competitive advantage in the industry and economic enhancement (Freeman, 1984; Carroll, 1991). This finding will also serve as a guide for the formulation of policies and strategies related to CSR by management to optimize the returns on their investment in CSR projects. Moreover, this finding aligns with the growing trend where consumers, investors, and other stakeholders are placing increasing emphasis on sustainability, ethical practices, and social impact. Companies that are seen as socially responsible may attract more customers, retain loyal clients, and strengthen their position in the marketplace due to the perceived alignment with ethical values and societal concerns (Du et al., 2010; Luo & Bhattacharya, 2006).

Furthermore, the study's implications extend beyond immediate market power to broader strategic considerations for firms. Integrating CSR into core business strategies not only enhances market positioning but also builds long-term resilience. This approach aligns with the Resource-Based View (RBV), suggesting that intangible assets like brand reputation and customer loyalty, bolstered through CSR, can serve as critical resources for sustained competitive advantage (Barney, 1991). Managers are encouraged to adopt a proactive stance towards CSR, embedding it deeply within organizational frameworks and decision-making processes. Transparency in CSR initiatives, effective communication, and clear reporting are essential to building trust and credibility with stakeholders. This alignment with ethical and societal values not only strengthens market power but also contributes to financial performance, thereby providing a comprehensive advantage in today's competitive business environment (Hart & Dowell, 2011). The synthesis of these findings underscores the multifaceted benefits of CSR, advocating for its strategic integration to drive both market and financial success.

7.2. CSR Activities and Financial Performance

The study's findings, reinforcing Hypothesis 2, indicate a substantial positive impact of CSR on financial performance, aligning with the core principles of stakeholder theory. This alignment is evidenced through management's implementation of CSR initiatives aimed at sustaining the diverse spectrum of stakeholders within the firm. These actions subsequently generate significant and far-reaching economic implications over the long term. This study's conclusions resonate with earlier research in the field, consolidating the understanding of the positive influence of CSR on financial outcomes (Khan et al., 2020). For instance, it has been argued that firms engaging in CSR activities tend to achieve better financial performance due to enhanced stakeholder relations and improved company reputation, leading to increased sales and customer loyalty

(Orlitzky et al., 2003; Margolis & Walsh, 2003).

Moreover, the findings delineate a marked and positive relationship between CSR activities and financial performance (ROA, ROE, GPM) within Ghanaian firms, presenting compelling insights into the dynamics of corporate social responsibility within this specific context (Angelia & Suryaningsih, 2015). This finding accentuates the pivotal role played by CSR initiatives in fostering favorable financial outcomes for companies operating within Ghana. It underscores how these socially responsible actions positively influence financial metrics, reflecting a tangible connection between the firms' social commitment and their financial viability (Cho et al., 2019). For example, engaging in CSR can lead to reduced operational costs through more efficient resource use and can enhance employee satisfaction and productivity, further contributing to financial performance (Turban & Greening, 1997; Waddock & Graves, 1997).

Such a positive correlation highlights the significance of CSR strategies in driving financial success, affirming the importance of integrating socially responsible practices within the fabric of business operations in Ghana. This finding echoes and reinforces the growing body of literature emphasizing the substantial impact of CSR activities on enhancing financial performance in various business environments. The consistent evidence from multiple studies suggests that CSR is not merely a philanthropic endeavor but a strategic tool that can yield substantial economic benefits (Carroll & Shabana, 2010; Porter & Kramer, 2006). Consequently, firms are encouraged to embed CSR deeply into their core strategies to leverage these benefits fully, thereby achieving sustainable financial success and contributing positively to society.

7.3. Role of Corporate Governance

First, the study's noteworthy revelation regarding the lack of mediation by corporate governance in the relationship between CSR and market power unveils a significant insight into the intricate dynamics within these firms (Khan et al., 2020). Despite the acknowledged role of corporate governance in overseeing various facets of organizational functioning, its mediating influence appears to be rather limited in the specific realm of CSR initiatives' impact on market power (Chung et al., 2018). This implies that while corporate governance may exert a degree of influence or oversight in guiding CSR-related strategies, its direct mediating effect in bolstering market power resulting from CSR activities seems less pronounced. Moreover, the bulk of the responsibility for planning, executing, and monitoring CSR initiatives appears to predominantly rest on the shoulders of the management team within these firms (Khan et al., 2020). This hands-on involvement by management suggests a more direct and immediate impact on the outcomes of CSR endeavors (Chang et al., 2022b). The study's findings imply that management plays a more pivotal and direct role in driving the success or efficacy of CSR initiatives, whereas the role of corporate governance, albeit crucial in other organizational domains, seems to have a limited role in mediating the relationship between CSR and market power (Shukla & Thampy, 2011). This observation raises questions about the operational dynamics within these firms. It prompts further exploration into the distinct functions and spheres of influence between corporate governance and management concerning CSR activities. Understanding the nuanced interactions between these entities in shaping CSR strategies and their subsequent impact on market power could offer deeper insights into the decision-making processes and hierarchical structures within these organizations (Chen et al., 2023a). Such insights could prove instrumental in refining corporate governance frameworks and optimizing managerial approaches toward CSR, potentially leading to more effective and impactful CSR practices that directly enhance market power.

Second, the study's delineation of corporate governance as a substantial mediator in the correlation between CSR and financial performance aligns with established empirical evidence highlighting the significant influence of robust corporate governance practices on a firm's financial outcomes. Prior studies (de Villiers & Dimes, 2021) have consistently underscored the positive impact of effective corporate governance on financial performance within various organizational contexts. In addition, given the documented association between corporate governance mechanisms and a firm's CSR strategies, it becomes clearer that corporate governance serves as an instrumental mediator in the link between CSR activities and financial performance (Khan et al., 2020). This alignment substantiates the integral role played by corporate governance structures in shaping and overseeing CSR initiatives, thereby contributing to the financial performance of the firm (Khan et al., 2020; Chen et al., 2023a). The study's finding aligns with the cumulative body of research indicating that good governance practices have a tangible impact on financial outcomes (Boachie & Tetteh, 2021). This underscores the significance of governance frameworks in optimizing a firm's CSR strategies, effectively mediating the relationship between these initiatives and the financial performance of the organization. As such, this insight highlights the crucial interplay between corporate governance, CSR activities, and financial performance, emphasizing the pivotal role of governance mechanisms in steering a firm's overall success.

8. Managerial Implications

The significant influence of CSR activities on both market power and financial performance offers several pivotal managerial implications for firms aiming to thrive in today's business landscape (Mukherjee & Nuñez, 2019b; Raimi & Isiaka, 2020). First, it underscores the importance of perceiving CSR as a fundamental element in enhancing brand reputation and market positioning (Chang et al., 2022c). Firms should recognize that a robust commitment to CSR can positively shape consumer perceptions, potentially attracting a larger customer base and thereby amplifying the firm's market power (Rhou et al., 2016). Moreover, leveraging CSR initiatives can serve as a source of competitive advantage. Integrating sustainable practices and social responsibility into business operations can set firms apart from competitors, ensuring sustained growth and resilience in the market (Goel, 2018). This understanding signals the need for firms to embed CSR strategies deeply into their core operational frameworks.

Investment in building strong relationships with stakeholders becomes imperative (De Villiers & Alexander, 2014). Recognizing the significant impact of CSR activities on financial performance suggests the need for firms to engage proactively with stakeholders such as customers, employees, communities, and investors (Rao & Tilt, 2016). Aligning CSR efforts with the interests of these stakeholders can create mutual value and bolster overall performance. Managers need to consider integrating CSR considerations into strategic decision-making processes. Aligning business strategies with socially responsible initiatives not only positively affects market power but also enhances financial performance over the long term (Jo & Harjoto, 2012). Transparency in CSR initiatives is vital. Effective communication and clear reporting on CSR activities build trust and credibility with stakeholders. Transparent reporting demonstrates the firm's commitment to social responsibility, positively impacting its market reputation and financial standing (Goel, 2018).

In the same vein, the identification of corporate governance as a significant mediator between CSR and financial performance, albeit not with market power, offers crucial managerial insights for organizations seeking to optimize their performance (Jo & Harjoto, 2012; Khan, 2010b). Recognizing the mediating role of corporate governance in the CSR and financial performance relationship emphasizes the criticality of robust governance structures within firms. Organizations should prioritize and invest in strong governance practices to effectively channel and enhance the positive impact of CSR initiatives on financial outcomes (De Villiers & Alexander, 2014). Strengthening governance mechanisms, such as board independence, size, and diversity, can augment the beneficial effects of CSR on financial performance (Rao & Tilt, 2016). Managers need to focus on aligning corporate governance practices more intentionally with CSR strategies. By integrating CSR objectives into governance frameworks and decision-making processes, firms can harness the full potential of their CSR initiatives to drive financial success. This integration can involve actively involving the board and top management in CSR-related discussions, ensuring that sustainability considerations are deeply embedded in organizational policies and strategies (Goel, 2018).

While corporate governance may not directly impact market power in this context, the study highlights the need for a nuanced approach (Chang et al., 2022c). Organizations should focus on other strategic avenues, apart from governance, to bolster market power. This might involve marketing strategies, innovative product development, or customer engagement initiatives that complement CSR efforts to enhance market positioning (De Loecker & Eeckhout, 2018). Investing in continuous evaluation and enhancement of governance practices is crucial. Regular assessments of governance structures to ensure they remain aligned with evolving CSR objectives and financial goals can optimize the synergistic relationship between CSR and financial performance (Johnson, 2017). Managers and leaders should facilitate an understanding of the linkages between CSR, corporate governance, and financial outcomes among employees. This understanding can motivate collective efforts towards responsible business practices and financial success (Jo & Harjoto, 2012).

9. Limitations and Recommendations for Further Studies

Though the study achieved its purpose, it was limited in several ways. The use of a quantitative approach constrained the study from exploring the deeper meanings and contextual nuances of the variables examined. Quantitative methods, while useful for identifying patterns and relationships, often lack the capacity to delve into the rich, qualitative data that could provide a more comprehensive understanding of the phenomena under investigation (Bryman, 2012). Future studies could benefit from a mixed-methods approach that combines quantitative data with qualitative insights to capture a fuller picture of the research topic. The sample size used in this study, while sufficient to produce credible findings, could have been larger to enhance the study's generalizability and robustness. A larger sample size would increase the statistical power of the study and potentially reveal more nuanced insights into the relationships between the variables (Creswell & Creswell, 2018). Future research should consider including a larger number of firms, which would allow for a more detailed and comprehensive analysis. Expanding the sample size could also enable the examination of sector-specific trends and differences, adding further depth to the findings. Additionally, this study adopted the stakeholder theory as its sole theoretical framework to explain the interactions between the variables under study. While stakeholder theory is a valuable lens for understanding how firms engage with their various stakeholders, relying on a single theory can be overly simplistic and may not capture the complexity of the interactions at play (Freeman, 1984). Other theories, such as resource-based view (Barney, 1991) or institutional theory (DiMaggio & Powell, 1983), could provide additional insights and a more holistic understanding of the variables. Therefore, future studies should consider employing multiple theoretical perspectives to enrich the analysis and interpretation of the data.

10. Conclusion

The study highlights the substantial influence of CSR activities on both market power and financial performance, underscoring several crucial managerial implications. CSR emerges as a fundamental element in enhancing brand reputation and market positioning, indicating that firms committed to robust CSR initiatives can positively shape consumer perceptions and attract a larger customer base. This strategic alignment not only amplifies market power but also creates a sustainable competitive advantage. The integration of sustainable practices into core business operations distinguishes firms from competitors, fostering resilience and sustained growth in the market. Consequently, companies are encouraged to embed CSR strategies deeply into their operational frameworks and invest in building strong stakeholder relationships, aligning CSR efforts with the interests of customers, employees, communities, and investors. Transparent communication and clear reporting on CSR activities are vital, as they build trust and credibility with stakeholders, enhancing the firm's market reputation and financial standing. Furthermore, the study identifies corporate governance as a significant mediator between CSR and financial performance, albeit not with market power. This insight emphasizes the criticality of robust governance structures in maximizing the positive impact of CSR initiatives on financial outcomes. Firms should prioritize and invest in strong governance practices, such as board independence, size, and diversity, to channel and enhance CSR benefits effectively. Managers are advised to integrate CSR objectives into governance frameworks and strategic decision-making processes, actively involving the board and top management in CSR-related discussions. While corporate governance may not directly impact market power, firms should explore other strategic avenues, such as innovative product development and customer engagement, to complement CSR efforts and bolster market positioning. Continuous evaluation and enhancement of governance practices, aligned with evolving CSR objectives and financial goals, are crucial for optimsizing the synergistic relationship between CSR and financial performance, ultimately driving responsible business practices and financial success.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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