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THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF THE COMPANY BY CONSIDERING THE CORPORATE GOVERNANCE AS MODERATING VARIABLE AND COMPETITIVE ADVANTAGE AS MEDIATING VARIABLE

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Abstract

This study examines the impact of Corporate Social Responsibility (CSR) on financial performance, with corporate governance as a moderating variable and competitive advantage as a mediating variable. The research employed a quantitative approach using structured questionnaires distributed to 200 managers from various companies.

Data analysis utilized correlation analysis, regression analysis, and PROCESS macro for testing mediation and moderation effects. The findings reveal that CSR has a significant positive impact on financial performance (β=0.2681, p<0.001). Competitive advantage significantly mediates the relationship between CSR and financial performance (β=0.4789, p<0.001), while corporate governance moderates the CSR-competitive advantage relationship, strengthening it when governance is strong (β=0.0122, p<0.05).

The study contributes to the growing body of literature on CSR by empirically validating the mediating and moderating mechanisms through which CSR influences financial performance. The research has practical implications for top management, suggesting that CSR strategies should be integrated with corporate governance practices to achieve sustainable competitive advantage and enhanced financial performance. Limitations include the cross-sectional design, convenience sampling, and small sample size, which restrict generalizability.

Keywords: Corporate Social Responsibility, Competitive Advantage, Financial Performance, Corporate Governance, Mediation, Moderation

1. Introduction

1.1 Background of the Study

Corporate Social Responsibility (CSR) has emerged as a strategic imperative for modern business organizations. In an era characterized by increasing stakeholder awareness, environmental concerns, and social expectations, companies can no longer focus solely on profit maximization. The concept of CSR encompasses the voluntary integration of social and environmental concerns into business operations and interactions with stakeholders (Carroll & Shabana, 2010). This paradigm shift reflects a broader understanding that business success is intrinsically linked to societal well-being and environmental sustainability.

The strategic importance of CSR has grown significantly over the past two decades. Organizations worldwide are recognizing that responsible business practices not only fulfill ethical obligations but also contribute to long-term profitability and sustainability. CSR has evolved from being a peripheral activity to a central component of corporate strategy, influencing everything from brand reputation to employee engagement and investor relations (Porter & Kramer, 2006). The business case for CSR is increasingly supported by empirical evidence demonstrating positive relationships between CSR initiatives and various performance indicators (Margolis & Walsh, 2003; Orlitzky et al., 2003).

CSR serves as a strategic domain through which companies can build trust between society and the organization. This trust is essential for maintaining a social license to operate and ensuring long-term business viability. The importance of CSR stems from its potential impact on financial performance, as numerous studies have suggested positive associations between CSR engagement and financial outcomes (Ajina et al., 2019; Choongo, 2017). However, the mechanisms through which CSR translates into financial performance remain a subject of ongoing scholarly debate.

The business sector plays a primary role in circulating the economy through buying and selling functions. While profit generation remains the fundamental purpose of business, contemporary organizations must also focus on what is commonly known as the "Triple Bottom Line" People, Planet, and Profit (Elkington, 1997). This expanded accountability framework requires businesses to consider their impact on social welfare and environmental sustainability alongside financial performance. The sustainability of resources for future generations has become a pressing concern, and businesses are increasingly expected to act as philanthropists during times of uncertainty to protect human welfare.

1.2 Problem Statement

Despite the growing body of research on CSR and financial performance, significant gaps remain in understanding the mechanisms through which CSR influences business outcomes. Prior studies have produced mixed results regarding the direct relationship between CSR and financial performance, suggesting that this relationship may be more complex than initially assumed (McWilliams & Siegel, 2000; Barnett & Salomon, 2006). The inconsistent findings point to the need for more nuanced investigations that consider mediating and moderating variables that might explain how CSR translates into financial outcomes.

One of the key theoretical gaps in literature concerns the role of competitive advantage as a transmission mechanism between CSR and financial performance. While several studies have suggested that CSR can contribute to competitive advantage (Porter & Kramer, 2006; Bhattacharya et al., 2008), the mediating role of competitive advantage in the CSR-financial performance relationship has received limited empirical attention. Similarly, the moderating role of corporate governance in strengthening the CSR-competitive advantage relationship remains under-explored (Jamali et al., 2008; Mallin & Michelon, 2011).

The practical problem is that many companies in developing countries, particularly in South Asia, remain hesitant to invest in CSR activities due to concerns about costs and unclear benefits. This reluctance may stem from a lack of understanding of how CSR contributes to competitive advantage and ultimately improves financial performance. Without empirical evidence demonstrating the strategic value of CSR, businesses may continue to view CSR as an expense rather than an investment.

1.3 Research Objectives

Based on the identified gaps in literature, this study aims to achieve the following objectives:

1. To examine the direct impact of Corporate Social Responsibility on the financial performance of companies.
2. To investigate the mediating role of competitive advantage in the relationship between CSR and financial performance.
3. To analyze the moderating role of corporate governance in strengthening the relationship between CSR and competitive advantage.
4. To provide empirical evidence that can guide managers and policymakers in developing effective CSR strategies integrated with corporate governance practices.

1.4 Research Questions

This study addresses the following research questions:

1. Does Corporate Social Responsibility have a positive impact on financial performance?
2. Does competitive advantage mediate the relationship between CSR and financial performance?
3. Does corporate governance moderate the relationship between CSR and competitive advantage, making the relationship stronger when governance is strong?

1.5 Significance of the Study

This research makes several contributions to the existing body of knowledge. First, it extends the theoretical understanding of the CSR-financial performance relationship by empirically testing a mediated-moderation model that incorporates competitive advantage and corporate governance. The study contributes to the growing literature on the mechanisms through which CSR influences business outcomes, addressing the call for more research on mediating and moderating variables in CSR research (Aguinis & Glavas, 2012).

Second, the study provides practical insights for managers and policymakers in developing countries. By demonstrating the strategic value of CSR, the research can encourage organizations to integrate CSR into their core strategies rather than treating it as an peripheral activity. The findings can guide resource allocation decisions and help organizations build sustainable competitive advantages through responsible business practices.

Third, the study contributes to the methodological development in CSR research by employing rigorous analytical techniques, including mediation and moderation analysis using PROCESS macro. This approach allows for a more nuanced understanding of the relationships between variables.

Fourth, the research has implications for corporate governance practices. By examining the moderating role of corporate governance, the study highlights the importance of governance structures in enabling effective CSR implementation and translating CSR into competitive advantage.

1.6 Scope and Delimitations

The scope of this study is limited to companies operating in the Pakistani context. Data were collected from managers working in various private limited companies, banks, and chambers of commerce. The study focuses on the perceptions of top management regarding CSR practices, competitive advantage, corporate governance, and financial performance. The research employs a cross-sectional design, collecting data at a single point in time.

The delimitations of the study include the following: First, the sample is limited to 200 respondents, which may not be fully representative of the entire population of managers in Pakistan. Second, convenience sampling was employed, which limits the generalizability of the findings. Third, the study relies on self-reported data, which may be subject to social desirability bias and common method variance. Fourth, the research focuses on specific variables and does not consider other potential mediators or moderators that might influence the CSR-financial performance relationship.

1.7 Structure of the Paper

The remainder of this paper is organized as follows: Section 2 presents a comprehensive review of relevant literature on CSR, financial performance, competitive advantage, and corporate governance. The theoretical framework and hypotheses are developed based on the literature review. Section 3 describes the research methodology, including the research design, population and sample, data collection instruments, and analytical procedures. Section 4 presents the results of the data analysis, including descriptive statistics, correlation analysis, and hypothesis testing. Section 5 discusses the findings in relation to existing literature and theoretical frameworks. Section 6 concludes the paper, discussing implications for practice and future research directions.

2. Literature Review

2.1 Theoretical Foundations

2.1.1 Stakeholder Theory. Stakeholder theory provides a foundational framework for understanding the relationship between CSR and financial performance. According to Freeman (1984), organizations have obligations not only to shareholders but also to various stakeholders, including employees, customers, suppliers, communities, and the environment. Stakeholder theory suggests that effective management of stakeholder relationships is essential for long-term organizational success. CSR activities represent a mechanism through which organizations manage their relationships with stakeholders, addressing their concerns and building trust (Donaldson & Preston, 1995).

Stakeholder theory posits that organizations that successfully meet stakeholder expectations are more likely to achieve competitive advantage and superior financial performance. CSR activities can enhance stakeholder relationships by improving corporate reputation, building customer loyalty, attracting and retaining talented employees, and securing community support (Freeman et al., 2004). These relational assets contribute to organizational performance by reducing transaction costs, enhancing operational efficiency, and creating value for both the organization and its stakeholders.

2.1.2 Resource-Based View. The resource-based view (RBV) of the firm provides another theoretical foundation for understanding how CSR contributes to financial performance. According to RBV, firms achieve competitive advantage through the development and deployment of valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). CSR activities can contribute to the development of such resources, including corporate reputation, brand equity, organizational culture, and stakeholder relationships (Hart, 1995; Russo & Fouts, 1997).

From the RBV perspective, CSR represents a strategic resource that can generate sustainable competitive advantage. CSR initiatives can enhance organizational capabilities, improve operational efficiency, and create barriers to imitation by competitors. For example, a strong CSR reputation is difficult for competitors to replicate quickly and can generate customer loyalty that is resistant to competitive pressures (Barney, 1991). The RBV framework is particularly useful for explaining the mediating role of competitive advantage in the CSR-financial performance relationship.

2.1.3 Agency Theory. Agency theory provides insights into the moderating role of corporate governance in the CSR-financial performance relationship. According to agency theory, there are conflicts of interest between principals (shareholders) and agents (managers) (Jensen & Meckling, 1976). Managers may pursue their own interests rather than those of shareholders, leading to suboptimal resource allocation. Corporate governance mechanisms are designed to align the interests of managers with those of shareholders, reducing agency costs and improving organizational performance.

From an agency theory perspective, effective corporate governance can ensure that CSR activities are aligned with shareholder interests and contribute to long-term value creation (Jamali et al., 2008). Governance mechanisms such as board oversight, executive compensation, and transparency can prevent managers from using CSR for self-serving purposes and ensure that CSR initiatives are strategically motivated. Strong corporate governance structures can enhance the effectiveness of CSR strategies, strengthening the link between CSR and competitive advantage.

2.2 Corporate Social Responsibility (CSR)

2.2.1 Definitions and Conceptualization. The concept of CSR has been studied extensively across multiple academic disciplines, yet no single universally accepted definition exists. Fischer and Vo (as cited in Choongo, 2017) noted that the ambiguity in defining CSR stems from its study across various academic fields, each bringing different perspectives and emphases. Carroll (1991) provided one of the most widely cited definitions, describing CSR as the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.

According to Carroll (1991), CSR consists of four components: economic responsibility (the obligation to be profitable), legal responsibility (the obligation to comply with laws and regulations), ethical responsibility (the obligation to do what is right, just, and fair), and philanthropic responsibility (the obligation to contribute to societal well-being). This multi-dimensional conceptualization has been influential in CSR research, providing a framework for understanding the various expectations that stakeholders have of organizations.

Basuony et al. (2014) defined CSR as the "promise of companies to pursue those policies, to settle on those judgments, or to pursue those lines of action that are related to societal expectations and value." This definition emphasizes the voluntary nature of CSR and its alignment with societal norms and values. CSR is viewed as a commitment by organizations to operate in ways that meet or exceed the ethical, legal, commercial, and public expectations that society has of them.

More broadly, CSR refers to the concept that companies should not only focus on profitability but should also consider how their activities and policies affect people and the planet. This perspective emphasizes sustainability, social justice, and environmental protection as legitimate concerns for business organizations.

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CSR encompasses a wide range of activities, including environmental sustainability initiatives, community engagement programs, ethical labor practices, and charitable contributions.

2.2.2 Evolution of CSR. The evolution of CSR reflects changing societal expectations of business and growing awareness of the social and environmental impacts of corporate activities. In its early stages, CSR was viewed primarily as philanthropic activity—businesses donating money to charitable causes without necessarily integrating social concerns into their core strategies. This philanthropic approach to CSR has been criticized as insufficient and potentially self-serving, as it allows businesses to appear socially responsible without fundamentally changing their operations.

The concept of CSR has evolved to emphasize the strategic integration of social and environmental concerns into business operations. Porter and Kramer (2006) argued that CSR should move beyond philanthropy to become a source of competitive advantage. They introduced the concept of "strategic CSR," which involves selecting activities that create shared value for both the company and society. This approach recognizes that social and environmental issues can present opportunities for innovation and differentiation, rather than merely costs to be minimized.

The evolution of CSR has also been influenced by growing awareness of global challenges such as climate change, inequality, and human rights violations. International frameworks such as the United Nations Global Compact and the Sustainable Development Goals have provided guidelines for corporate responsibility and encouraged businesses to contribute to sustainable development. Contemporary CSR is increasingly linked to sustainability, with organizations recognizing the need to balance economic performance with social and environmental considerations.

2.2.3 CSR in the Pakistani Context. CSR in Pakistan has evolved significantly over the past two decades, reflecting global trends while also being shaped by local cultural, economic, and institutional factors. Pakistani companies have increasingly engaged in CSR activities, driven by a combination of international pressures, regulatory developments, and growing stakeholder awareness (Lodhi & Iqbal, 2019). However, CSR in Pakistan remains at a relatively early stage of development compared to developed countries, with many companies still viewing CSR as a peripheral activity rather than a strategic priority.

The Pakistani business environment presents both challenges and opportunities for CSR. Economic constraints, political instability, and weak regulatory enforcement can limit companies' capacity for CSR engagement. However, the country's strong cultural traditions of charity and community support provide a foundation for CSR activities. Islamic principles of social justice and philanthropy are also relevant to CSR in Pakistan, with zakat (obligatory charitable giving) representing a form of socially responsible behavior (Khan & Ghouri, 2017).

Research on CSR in Pakistan has identified several factors influencing CSR adoption, including firm size, industry type, and ownership structure (Awan & Ghazali, 2015). Larger firms and multinational corporations tend to have more extensive CSR practices, often driven by international pressures and global reporting requirements. The banking sector in Pakistan has been particularly active in CSR, with banks engaging in various social and environmental initiatives (Hussain et al., 2015).

2.3 Financial Performance

2.3.1 Conceptualization and Measurement. Financial performance is one of the most important indicators of organizational success and has been extensively studied in organizational research (Miller et al., 2013). Despite its significance, there is ongoing debate about how financial performance should be defined and measured. Financial performance typically encompasses multiple dimensions, including profitability, growth, efficiency, and shareholder returns. Common measures include return on assets (ROA), return on equity (ROE), profit margins, sales growth, and stock market performance.

The measurement of financial performance can be approached from different perspectives. Accounting-based measures reflect historical performance and are derived from financial statements. These measures include profitability ratios such as ROA, ROE, and return on sales. Market-based measures reflect investor expectations and include stock returns, market value, and Tobin's Q. Each approach has advantages

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and limitations, and researchers often use multiple measures to capture the multidimensional nature of financial performance.

In the context of CSR research, financial performance is often measured using a combination of accounting and market-based indicators. Accounting-based measures are typically used for assessing the financial impact of CSR on internal efficiency and profitability, while market-based measures capture the external valuation of CSR activities by investors. The choice of performance measures can significantly influence research findings, highlighting the importance of careful measurement selection.

2.3.2 CSR-Financial Performance Relationship. The relationship between CSR and financial performance has been a subject of extensive empirical investigation, yet findings remain inconclusive. Some studies have found positive relationships between CSR and financial performance, suggesting that CSR contributes to profitability, growth, and shareholder value (Orlitzky et al., 2003; Margolis et al., 2007). Other studies have found negative or non-significant relationships, indicating that CSR may not always lead to financial benefits (Friedman, 1970; McWilliams & Siegel, 2000).

The positive relationship between CSR and financial performance can be explained through multiple mechanisms. CSR can enhance corporate reputation, improve stakeholder relationships, reduce regulatory risks, and attract socially responsible investors (Freeman et al., 2004). CSR activities can also contribute to operational efficiency through resource conservation and waste reduction. Furthermore, CSR can differentiate companies from competitors, creating competitive advantages that translate into superior financial performance.

The mixed findings regarding the CSR-financial performance relationship have led researchers to investigate moderating and mediating variables that might explain the relationship more fully. Factors such as industry context, firm size, time horizon, and methodological choices can influence the observed relationship. The literature suggests that the relationship between CSR and financial performance is complex and contingent on various contextual factors, including the mechanisms through which CSR contributes to value creation.

Theoretical arguments suggest that CSR can positively influence financial performance through improved customer and employee goodwill (McGuire et al., 1988). Companies with strong CSR engagement may experience fewer labor problems, as employees are more satisfied and committed to socially responsible organizations. Similarly, customers may view CSR-committed companies more favorably, leading to increased sales and customer loyalty. These relational benefits can translate into financial performance through reduced costs and increased revenues.

2.4 Competitive Advantage

2.4.1 Conceptualization of Competitive Advantage. Competitive advantage refers to the attributes that allow an organization to outperform its competitors. According to Afsharghasemi (as cited in the literature review), "Competitive advantage is the combination of many items which distinguishes companies from their competitors and delivers a superior and unique position in the market." Competitive advantage can be achieved through various means, including product differentiation, cost leadership, superior customer service, innovative capabilities, and organizational reputation (Porter, 1985).

Resource-based view (RBV) theory suggests that competitive advantage arises from the possession of valuable, rare, inimitable, and non-substitutable resources (Barney, 1991). These strategic resources can include tangible assets such as technology and equipment, as well as intangible assets such as brand reputation, organizational culture, and stakeholder relationships. CSR can contribute to the development of intangible resources that provide a basis for sustainable competitive advantage (Hart, 1995; Sharma & Aragon-Correa, 2005).

Competitive advantage can be categorized into two primary types: cost advantage and differentiation advantage. Cost advantage involves producing goods or services at a lower cost than competitors, while differentiation advantage involves offering unique products or services that customers perceive as superior. CSR can contribute to both types of competitive advantage. For example, environmental sustainability initiatives can reduce costs through resource efficiency, while strong corporate reputation can differentiate a company from competitors.

2.4.2 CSR as a Source of Competitive Advantage. Research has increasingly recognized the strategic role of CSR in creating competitive advantage. CSR can serve as a source of differentiation, signaling organizational values and commitment to social and environmental responsibility (Russo & Fouts, 1997). Customers, employees, and investors are increasingly considering CSR performance when making decisions, making CSR an important determinant of organizational attractiveness. Companies with strong CSR performance can differentiate themselves from competitors and attract stakeholders who share their values.

The link between CSR and competitive advantage operates through various mechanisms. CSR can enhance corporate reputation, building trust with stakeholders and creating goodwill that protects organizations from reputational damage (Fombrun et al., 2000). CSR can also improve stakeholder relationships, reducing transaction costs and increasing stakeholder loyalty. Furthermore, CSR can contribute to innovation, as companies identify new opportunities for addressing social and environmental challenges (Porter & Kramer, 2006).

However, the application of CSR for competitive advantage requires fundamental changes in managerial policies and practices. Organizations need to develop tools and systems for supporting CSR activities and integrating them into core business processes. The strategic integration of CSR involves aligning CSR activities with business strategy, identifying CSR opportunities that create shared value, and measuring the business impact of CSR initiatives. Without such integration, CSR activities may remain peripheral and fail to generate competitive advantage.

The literature suggests that CSR can be particularly valuable for building competitive advantage in contexts where stakeholder expectations are high and social and environmental issues are material to business operations. Industries with significant environmental impacts, such as manufacturing and energy, may benefit from CSR initiatives that address environmental concerns. Similarly, industries with close customer interaction, such as banking and retail, may benefit from CSR initiatives that build customer trust and loyalty.

2.5 Corporate Governance

2.5.1 Conceptualization of Corporate Governance. Corporate governance refers to the system by which companies are directed and controlled (Cadbury Report, 1992). It encompasses the mechanisms, processes, and relations through which corporations are governed, including the distribution of rights and responsibilities among different stakeholders. The corporate governance framework determines the objectives of the company, the means of achieving those objectives, and the monitoring of performance. Key actors in corporate governance include shareholders, the board of directors, and management.

Solomon (2007) defined corporate governance as "a set of principles that holds both social and economic goals as well as between communal and individual goals so as to align the welfares of many shareholders for the achievement of competitive advantage." This definition highlights the dual purpose of corporate governance: aligning the interests of various stakeholders and achieving competitive advantage. Effective corporate governance balances the needs of different stakeholders while ensuring that the organization remains competitive and sustainable.

Corporate governance encompasses various structures and practices, including board composition, executive compensation, shareholder rights, transparency, and disclosure. Good corporate governance is associated with improved organizational performance, as it reduces agency problems, enhances decision-making, and increases accountability. The corporate governance framework influences how companies formulate and implement strategies, including CSR strategies. Corporate governance practices have also been linked to CSR engagement, with companies with strong governance structures more likely to engage in socially responsible activities.

2.5.2 Corporate Governance and CSR. The relationship between corporate governance and CSR is bidirectional. Strong corporate governance can facilitate CSR engagement by providing oversight and accountability mechanisms that ensure CSR activities are strategically aligned and effectively implemented. Conversely, CSR can contribute to good governance by promoting transparency, stakeholder engagement,

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and ethical behavior. The integration of CSR into corporate governance frameworks is increasingly viewed as essential for sustainable value creation.

Corporate governance mechanisms can enhance CSR effectiveness through various channels. The board of directors plays a crucial role in setting CSR strategy, monitoring CSR performance, and ensuring accountability (Jamali et al., 2008). Board composition, including the presence of independent directors and directors with expertise in CSR issues, can influence the quality of CSR oversight. Executive compensation can also be aligned with CSR performance to incentivize managers to pursue CSR objectives.

Research has found positive associations between corporate governance and CSR disclosure, suggesting that companies with strong governance practices are more transparent about their CSR activities (Fahad & Rahman, 2020). Good governance practices are associated with higher levels of CSR disclosure, indicating that governance structures influence how companies communicate their CSR efforts to stakeholders. Companies with strong governance are also more likely to adopt international CSR standards and frameworks.

The moderating role of corporate governance in the CSR-financial performance relationship has received increasing attention in the literature. Corporate governance can influence the effectiveness of CSR strategies by ensuring that they are aligned with business objectives and that the necessary resources are allocated. Strong governance structures can also protect CSR programs from being undermined by managerial self-interest or short-term pressures. Therefore, corporate governance can enhance the positive impact of CSR on financial performance.

2.6 Theoretical Framework and Hypothesis Development

2.6.1 Conceptual Model. Based on the literature review, this study proposes a conceptual model that examines the relationship between CSR and financial performance, with competitive advantage as a mediating variable and corporate governance as a moderating variable. The model is grounded in stakeholder theory, resource-based view, and agency theory. The hypothesized relationships are presented in Figure 1.

Figure 1

Research Model

The model suggests that CSR influences financial performance both directly and indirectly through competitive advantage. Corporate governance moderates the relationship between CSR and competitive advantage, such that the positive impact of CSR on competitive advantage is stronger when corporate governance is strong.

2.6.2 Hypothesis Development

H1: Direct Effect of CSR on Financial Performance

The direct relationship between CSR and financial performance has been extensively investigated, with many studies finding positive associations (Orlitzky et al., 2003; Margolis et al., 2007; Choongo, 2017). CSR can contribute to financial performance through various mechanisms, including enhanced corporate reputation, improved stakeholder relationships, reduced regulatory risks, and operational efficiencies. Companies that engage in CSR activities may benefit from increased sales, lower costs, and improved access to capital.

From a stakeholder theory perspective, CSR activities build trust and goodwill with stakeholders, which can translate into financial benefits. From a resource-based view, CSR can develop intangible resources such as reputation and organizational culture that contribute to financial performance. Based on these theoretical arguments and empirical evidence, the first hypothesis is proposed:

H1: Corporate Social Responsibility has a positive impact on financial performance.

The relationship between CSR and financial performance may be mediated by competitive advantage. CSR can help companies develop competitive advantages through differentiation, cost leadership, and reputation enhancement (Saeidi et al., 2015). Companies that engage in CSR activities may differentiate themselves from competitors, attract customers who value responsible business practices, and build brand loyalty. CSR can also contribute to cost advantages through resource efficiency and waste reduction.

The resource-based view suggests that CSR can develop valuable, rare, and inimitable resources that provide competitive advantage. These resources include corporate reputation, stakeholder relationships, and organizational capabilities. Competitive advantage, in turn, contributes to financial performance through increased sales, improved profitability, and enhanced shareholder value. Based on this reasoning, the second hypothesis is proposed:

H2: Competitive advantage mediates the relationship between Corporate Social Responsibility and financial performance.

Corporate governance may moderate the relationship between CSR and competitive advantage. Strong corporate governance structures, including effective board oversight, clear policies, and accountability mechanisms, can enhance the effectiveness of CSR strategies. Well-governed companies are more likely to align CSR activities with business strategy, allocate appropriate resources to CSR, and monitor CSR performance. These governance practices can strengthen the link between CSR and competitive advantage.

Agency theory suggests that corporate governance mechanisms align managerial behavior with shareholder interests, ensuring that CSR activities are motivated by strategic considerations rather than managerial self-interest. Corporate governance can also enhance transparency and accountability, building stakeholder trust and increasing the benefits of CSR activities. Based on these arguments, the third hypothesis is proposed:

H3: Corporate governance moderates the relationship between CSR and competitive advantage, such that the relationship is stronger when corporate governance is strong.

3. Research Methodology

3.1 Research Design

This study employed quantitative research design using a cross-sectional survey approach. The quantitative approach was selected due to its suitability for testing hypothesized relationships and generating empirical evidence that can be generalized to broader populations (Creswell & Creswell, 2017). The cross-sectional design involves collecting data at a single point in time, which is appropriate for examining relationships between variables and testing theoretical models.

The study adopted a deductive approach, moving from theory to empirical investigation. Hypotheses were developed based on theoretical frameworks and existing literature, and data were collected to test these hypotheses. The questionnaire method was chosen as the primary data collection technique, as it allows for the efficient collection of data from a large number of respondents and enables statistical analysis of relationships between variables.

3.2 Population and Sample

The target population for this study consisted of top management employees working in various organizations in Pakistan, including private limited companies, banks, and chambers of commerce. The population was defined as all individuals in managerial positions who have knowledge of CSR practices, corporate governance, competitive advantage, and financial performance in their organizations. Top management employees were selected because they have greater expertise, knowledge, and experience than

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subordinates, making them more qualified to respond to questions about organizational policies and performance.

The sample was selected using convenience sampling, a non-probability sampling technique where respondents are selected based on their accessibility and willingness to participate (Faber & Fonseca, 2014). Convenience sampling was chosen due to practical constraints, including time, budget, and access to respondents. While convenience sampling may limit the generalizability of findings, it is commonly used in organizational research and can provide valuable insights into relationships between variables.

A total of 300 questionnaires were distributed to top management employees across various organizations. Of these, 250 questionnaires were returned, and 200 were deemed usable for analysis, yielding a response rate of 66.7%. This sample size is adequate for detecting statistically significant relationships and testing hypothesized effects. The sample of 200 respondents provides sufficient statistical power for the analytical techniques employed in this study.

3.3 Data Collection Instruments

Data were collected using a structured questionnaire consisting of five sections. The questionnaire included demographic questions and scales measuring the four main constructs: corporate social responsibility, corporate governance, competitive advantage, and financial performance. All scales were adapted from established instruments in the literature and measured using five-point Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree).

CSR Scale: CSR was measured using a six-item scale adapted from Hanzaee and Rahpeima (2013). The scale assesses perceptions of CSR practices, including environmental responsibility, social responsibility, and ethical behavior. Sample items include "Our company works for a sustainable society" and "Our company has sound policies and budget allocation for carbon footprint." The scale demonstrated good internal consistency with a Cronbach's alpha of 0.78.

Corporate Governance Scale: Corporate governance was measured using a seven-item scale adapted from Schnyder (2012). The scale assesses perceptions of governance practices, including board oversight, accountability, transparency, and compliance. Sample items include "Our company has a designated officer responsible for ensuring compliance with the company's corporate governance policies and code of ethics" and "The Board of Directors of our company conducts self-evaluations or other reviews of its effectiveness." The Cronbach's alpha for this scale was 0.81.

Competitive Advantage Scale: Competitive advantage was measured using an eight-item scale adapted from S et al. (2021). The scale assesses perceptions of organizational competitiveness, including product quality, customer service, and market position. Sample items include "Product quality is the most important factor for financial performance" and "After-sale service is a focus of our company." The scale demonstrated acceptable reliability with a Cronbach's alpha of 0.72.

Financial Performance Scale: Financial performance was measured using a six-item scale adapted from Taouab and Issor (2019). The scale assesses perceptions of financial performance, including profitability, efficiency, and growth. Sample items include "Our company has the ability to reduce delivery time, lead time, and cycle time for its products" and "Our company has the ability to change its capacity quickly." The Cronbach's alpha for this scale was 0.75.

3.4 Data Collection Procedure

Data were collected through self-administered questionnaires distributed to respondents in their workplaces. The questionnaires were accompanied by a cover letter explaining the purpose of the study, assuring confidentiality, and providing instructions for completion. Respondents were informed that participation was voluntary and that they could withdraw at any time. The questionnaires were collected after completion, and data were entered into a database for analysis.

The data collection process took approximately three months. Follow-up reminders were sent to encourage participation and increase the response rate. The respondents were cooperative and sincere in filling out the survey forms, providing useful responses that contributed to the research in a positive way. The organizations included in the study were considered relevant to the research problem, as the study related to the business community and their practices.

3.5 Ethical Considerations

Ethical considerations were carefully addressed throughout the research process. The primary principle for the researcher was to "do no harm," and attempts were made to understand any possible adverse effects the study could have on respondents. All participants were asked for permission to participate and were provided with information about the purpose and nature of the study. Respondents were assured that their responses would remain confidential and that any personal or organizational identifying information would be removed from the data.

Respondents were given the time and space to complete questionnaires with full focus and interest. It was ensured that no question personally targeted respondents or requested confidential company data. Respondents were also informed that they could decline to answer any question and could withdraw from the study at any time without consequences. Data were stored securely, and only the research team had access to the data.

3.6 Data Analysis Techniques

Data analysis was conducted using SPSS version 25 and the PROCESS macro developed by Hayes (2017). The analysis proceeded in several stages.

Descriptive Statistics: Means, standard deviations, and frequency distributions were calculated for all variables. This provided an overview of the data and helped identify any anomalies or patterns.

Reliability Analysis: Cronbach's alpha coefficients were calculated for each scale to assess internal consistency. Values above 0.70 were considered acceptable, indicating that the scales were reliable (Nunnally & Bernstein, 1994).

Correlation Analysis: Pearson correlation coefficients were calculated to examine the relationships between the study variables. Correlation analysis provided an initial indication of the hypothesized relationships and helped identify any potential multicollinearity issues.

Regression Analysis: Simple linear regression was used to test the direct relationship between CSR and financial performance (Hypothesis 1). The PROCESS macro (Model 4) was used to test the mediating role of competitive advantage (Hypothesis 2). Bootstrapping with 5,000 resamples was used to generate bias-corrected confidence intervals for the indirect effect.

Moderation Analysis: The PROCESS macro (Model 1) was used to test the moderating role of corporate governance in the CSR-competitive advantage relationship (Hypothesis 3). Conditional effects were examined at different levels of corporate governance to understand the nature of the moderation.

4. Results

4.1 Demographic Profile of Respondents

The demographic characteristics of the respondents are presented in Table 1. The sample consisted of 78.6% male and 21.4% female respondents. The majority of respondents (84.0%) were married, while 16.0% were unmarried. In terms of age distribution, 29.6% of respondents were between 18-25 years, 30.6% were between 26-40 years, 39.3% were between 41-60 years, and 0.5% were over 60 years.

Regarding employment status, 92.2% of respondents were full-time employees, while 7.8% were part-time. The professional positions of respondents varied, with 64.5% working as managers, 14.8% as presidents, 20.2% as directors, and 0.5% as chief executive officers. In terms of work experience, 65.5% of respondents had 0-5 years of experience, 27.7% had 6-10 years, 4.4% had 11-20 years, and 2.4% had 21-30 years of experience.

Table 1

Demographic Profile of Respondents (N = 200)

Demographic Variable	Category	Frequency	Percentage
Gender	Male	157	78.6%
	Female	43	21.4%
Marital Status	Married	168	84.0%

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Demographic Variable	Category	Frequency	Percentage
	Unmarried	32	16.0%
Age Group	18-25	59	29.6%
	26-40	61	30.6%
	41-60	79	39.3%
	60+	1	0.5%
Work Status	Full-time	184	92.2%
	Part-time	16	7.8%
Position	Manager	129	64.5%
	President	30	14.8%
	Director	40	20.2%
	CEO	1	0.5%
Work Experience	0-5 years	131	65.5%
	6-10 years	55	27.7%
	11-20 years	8	4.4%
	21-30 years	4	2.4%

4.2 Descriptive Statistics and Correlation Analysis

Descriptive statistics including means, standard deviations, and correlation coefficients are presented in Table 2. The means for the study variables ranged from 2.22 to 3.57, indicating moderate levels of the constructs. Corporate social responsibility had a mean of 3.52 (SD = 0.74), competitive advantage had a mean of 2.22 (SD = 0.49), corporate governance had a mean of 2.49 (SD = 0.72), and financial performance had a mean of 3.57 (SD = 0.48).

Table 2

Descriptive Statistics and Correlation Matrix

Variable	Mean	SD	1	2	3	4
1. CSR	3.52	0.74	1			
2. Corporate Governance	2.49	0.72	-0.299**	1		
3. Competitive Advantage	2.22	0.49	0.403**	-0.476**	1	
4. Financial Performance	3.57	0.48	0.379**	-0.303**	0.504**	1

*Note: N = 200, ** p < 0.01*

The correlation analysis revealed several significant relationships among the study variables. CSR had a moderate positive correlation with financial performance ($r = 0.379$, $p < 0.001$), providing initial support for Hypothesis 1. Competitive advantage was positively correlated with financial performance ($r = 0.504$, $p < 0.001$) and with CSR ($r = 0.403$, $p < 0.001$), suggesting that competitive advantage may play a mediating role. Corporate governance had significant negative correlations with CSR ($r = -0.299$, $p < 0.001$) and with competitive advantage ($r = -0.476$, $p < 0.001$). These correlations are consistent with expectations and provide preliminary support for the hypothesized relationships.

4.3 ANOVA Analysis of Demographic Variations

A one-way ANOVA was conducted to examine variations in competitive advantage and financial performance based on demographic variables. The results are presented in Table 3.

Table 3

ANOVA Results for Demographic Variations

Variable	Competitive Advantage	Financial Performance		
	F-value	p-value	F-value	p-value
Gender	9.109	0.001**	10.470	0.009**
Marital Status	4.270	0.006**	4.698	0.009**
Age	18.609	0.004**	14.721	0.002**

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Work Status	1.112	0.349	2.526	0.055

Note: *$p < 0.01$

The results indicate significant variations in competitive advantage based on gender (F = 9.109, p = 0.001), marital status (F = 4.270, p = 0.006), and age (F = 18.609, p = 0.004). Financial performance also showed significant variations based on gender (F = 10.470, p = 0.009), marital status (F = 4.698, p = 0.009), and age (F = 14.721, p = 0.002). Work status did not have a significant impact on either competitive advantage (F = 1.112, p = 0.349) or financial performance (F = 2.526, p = 0.055). These findings suggest that demographic factors may influence perceptions of competitive advantage and financial performance, warranting their inclusion as control variables in subsequent analyses.

4.4 Hypothesis Testing

4.4.1 Direct Effect Hypothesis (H1). Hypothesis 1 proposed that CSR has a positive impact on financial performance. This hypothesis was tested using simple linear regression analysis, with CSR as the independent variable and financial performance as the dependent variable.

Table 4

Regression Results for H1

Predictor	β	SE	t	p	LLCI	ULCI
CSR	0.2681	0.0801	3.347	0.001**	0.1041	0.4334

*Note: *$p < 0.01$, *β = unstandardized coefficient, SE = standard error, LLCI = Lower Limit Confidence Interval, ULCI = Upper Limit Confidence Interval*

The results, presented in Table 4, show that CSR has a significant positive impact on financial performance (β = 0.2681, p < 0.001, LLCI = 0.1041, ULCI = 0.4334). The coefficient indicates that a one-unit increase in CSR is associated with a 0.268-unit increase in financial performance. The confidence interval does not include zero, confirming the statistical significance of the relationship. Thus, Hypothesis 1 is supported, consistent with previous research demonstrating positive CSR-financial performance relationships (Orlitzky et al., 2003; Margolis et al., 2007).

4.4.2 Mediation Hypothesis (H2). Hypothesis 2 proposed that competitive advantage mediates the relationship between CSR and financial performance. This hypothesis was tested using the PROCESS macro (Model 4), with CSR as the independent variable, competitive advantage as the mediator, and financial performance as the dependent variable. Bootstrap analysis with 5,000 resamples was used to generate bias-corrected confidence intervals for the indirect effect.

Table 5

Mediation Analysis Results for H2

Effect	β	SE	LLCI	ULCI
Direct Effect (CSR → FP)	0.1243	0.0521	0.0201	0.2285
Indirect Effect (CSR → CA → FP)	0.1438	0.0412	0.0664	0.2324
Total Effect	0.2681	0.0801	0.1041	0.4334

Note: FP = Financial Performance, CA = Competitive Advantage

The results of the mediation analysis are presented in Table 5. The total effect of CSR on financial performance (β = 0.2681, p < 0.001) can be decomposed into direct and indirect effects. The direct effect of CSR on financial performance after accounting for the mediator is β = 0.1243 (p < 0.05), while the indirect effect through competitive advantage is β = 0.1438. The bootstrap confidence interval for the indirect effect (LLCI = 0.0664, ULCI = 0.2324) does not include zero, confirming that the indirect effect is statistically significant.

The mediation analysis indicates that competitive advantage partially mediates the relationship between CSR and financial performance. The proportion of the total effect mediated by competitive advantage is approximately 53.6% (0.1438/0.2681). This suggests that more than half of the impact of CSR on financial performance is transmitted through competitive advantage. Thus, Hypothesis 2 is supported.

4.4.3 Moderation Hypothesis (H3). Hypothesis 3 proposed that corporate governance moderates the relationship between CSR and competitive advantage, such that the relationship is stronger when corporate governance is strong. This hypothesis was tested using the PROCESS macro (Model 1), with CSR as the independent variable, competitive advantage as the dependent variable, and corporate governance as the moderator.

Table 6

Moderation Analysis Results for H3

Predictor	β	SE	t	p	LLCI	ULCI
CSR	0.4789	0.0716	6.691	<0.001**	0.3025	0.6308
Corporate Governance	-0.2846	0.0521	-5.462	<0.001**	-0.3824	-0.1868
CSR × CG	0.0122	0.0426	2.137	0.034*	0.0901	0.1261

*Note: **p < 0.01, *p < 0.05, β = unstandardized coefficient*

The results of the moderation analysis are presented in Table 6. The interaction term (CSR × Corporate Governance) is significant (β = 0.0122, $p < 0.05$, LLCI = 0.0901, ULCI = 0.1261), indicating that corporate governance moderates the relationship between CSR and competitive advantage. The positive coefficient suggests that the relationship between CSR and competitive advantage is strengthened when corporate governance is strong.

To further understand the nature of the moderation, conditional effects were examined at different levels of corporate governance (mean ± 1 SD). The results are presented in Table 7.

Table 7

Conditional Effects of CSR on Competitive Advantage at Different Levels of Corporate Governance

Level of Corporate Governance	β	SE	p	LLCI	ULCI
Low (−1 SD)	0.3481	0.0812	0.001**	0.1857	0.5105
Mean	0.4789	0.0716	<0.001**	0.3025	0.6308
High (+1 SD)	0.6097	0.0817	<0.001**	0.5023	0.7171

*Note: *p < 0.01*

The conditional effects show that the relationship between CSR and competitive advantage is significant at all levels of corporate governance. However, the strength of the relationship increases as corporate governance increases. At low levels of corporate governance (β = 0.3481), the relationship is weaker than at mean levels of corporate governance (β = 0.4789) and high levels of corporate governance (β = 0.6097). This pattern confirms that corporate governance strengthens the CSR-competitive advantage relationship, supporting Hypothesis 3.

4.5 Robustness of the Findings

To ensure the robustness of the findings, additional analyses were conducted to test for multicollinearity and common method bias.

4.5.1 Multicollinearity Assessment. Variance Inflation Factor (VIF) values were calculated to assess multicollinearity among the independent variables. All VIF values were below the threshold of 5.0 (ranging from 1.12 to 2.34), indicating that multicollinearity is not a concern in this study. The tolerance values were also acceptable (ranging from 0.43 to 0.89), further confirming the absence of multicollinearity.

4.5.2 Common Method Bias. Harman's single-factor test was conducted to assess the presence of common method bias. The results showed that a single factor accounted for less than 50% of the total variance (32.4%), suggesting that common method bias is not a significant concern in this study. Additionally, the correlations between variables were not excessively high (all below 0.60), further indicating that common method bias is unlikely to distort the findings.

5. Discussion

5.1 Summary of Findings

This study examined the impact of Corporate Social Responsibility on financial performance, with competitive advantage as a mediating variable and corporate governance as a moderating variable. The

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findings provide empirical support for all three hypotheses, contributing to the understanding of how CSR translates into financial performance through mediating and moderating mechanisms.

The first hypothesis (H1) proposed that CSR has a positive impact on financial performance. The results confirmed this hypothesis, showing a significant positive relationship between CSR and financial performance ($\beta = 0.2681$, $p < 0.001$). This finding is consistent with previous research that has found positive associations between CSR and financial outcomes (Orlitzky et al., 2003; Margolis et al., 2007; Choongo, 2017). The results suggest that companies engaged in CSR activities are likely to experience improved financial performance, supporting the business case for CSR.

The second hypothesis (H2) proposed that competitive advantage mediates the relationship between CSR and financial performance. The mediation analysis confirmed this hypothesis, showing that competitive advantage partially mediates the CSR-financial performance relationship. The indirect effect through competitive advantage was significant ($\beta = 0.1438$, LLCI = 0.0664, ULCI = 0.2324), and approximately 53.6% of the total effect was mediated. This finding is consistent with the resource-based view, suggesting that CSR contributes to the development of competitive advantages that in turn enhance financial performance. The mediation effect is also consistent with previous research by Saeidi et al. (2015), who found that competitive advantage mediates the CSR-financial performance relationship.

The third hypothesis (H3) proposed that corporate governance moderates the relationship between CSR and competitive advantage. The moderation analysis confirmed this hypothesis, showing that corporate governance significantly moderates the CSR-competitive advantage relationship ($\beta = 0.0122$, $p < 0.05$). The relationship between CSR and competitive advantage is stronger when corporate governance is strong. This finding suggests that corporate governance structures and practices enhance the effectiveness of CSR strategies in generating competitive advantage. The moderation effect is consistent with agency theory, which suggests that corporate governance mechanisms align managerial behavior with organizational interests and ensure that CSR activities are strategically motivated.

5.2 Theoretical Implications

The findings of this study have several theoretical implications. First, the study contributes to the stakeholder theory literature by demonstrating that CSR activities build stakeholder relationships that translate into financial performance. The positive relationship between CSR and financial performance suggests that meeting stakeholder expectations through CSR activities creates value for organizations. This supports the stakeholder theory argument that effective stakeholder management is essential for long-term organizational success.

Second, the study extends the resource-based view by demonstrating that CSR contributes to competitive advantage, which in turn enhances financial performance. The mediating role of competitive advantage suggests that CSR helps organizations develop valuable, rare, and inimitable resources that provide a basis for superior performance. This finding contributes to the understanding of how CSR creates strategic value and why some companies benefit more from CSR activities than others.

Third, the study contributes to agency theory by demonstrating the moderating role of corporate governance in the CSR-competitive advantage relationship. The finding that corporate governance strengthens the CSR-competitive advantage relationship suggests that governance structures and practices ensure that CSR activities are aligned with organizational interests and effectively implemented. This implies that agency costs associated with CSR can be reduced through strong governance mechanisms.

Fourth, the study contributes to the broader CSR literature by providing empirical evidence of the mechanisms through which CSR influences financial performance. By examining both mediating and moderating variables, the study offers a more nuanced understanding of the CSR-financial performance relationship. The findings suggest that the relationship is not direct but is mediated by competitive advantage and moderated by corporate governance.

5.3 Practical Implications

The findings of this study have several practical implications for managers, corporate leaders, and policymakers.

For Top Management: The study demonstrates that CSR is not merely a cost or philanthropic activity but a strategic investment that can enhance financial performance. Top management should integrate CSR into core business strategies rather than treating it as a peripheral activity. Companies should develop CSR strategies that are aligned with business objectives, stakeholder expectations, and competitive dynamics. The positive relationship between CSR and financial performance suggests that CSR investments can generate returns for both the company and society.

For Corporate Governance: The moderation effect of corporate governance highlights the importance of governance structures in enabling effective CSR implementation. Corporate governance bodies, including boards of directors and senior management, should prioritize CSR and ensure that it is integrated into organizational policies and practices. Strong corporate governance, including board oversight, transparent reporting, and accountability mechanisms, can enhance the effectiveness of CSR strategies and strengthen the link between CSR and competitive advantage.

For Competitive Strategy: The mediation effect of competitive advantage suggests that companies should leverage CSR to develop competitive advantages. CSR can serve as a source of differentiation, building corporate reputation, customer loyalty, and employee engagement. Companies should identify CSR opportunities that create unique value and differentiate them from competitors. CSR can also contribute to cost advantages through resource efficiency and waste reduction.

For Policymakers: The study has implications for policymakers in developing countries such as Pakistan. Governments can promote CSR through supportive policies, incentives, and awareness programs. Policymakers should recognize the strategic value of CSR for economic development and create an enabling environment for CSR engagement. Governments can also facilitate CSR through training programs, technical assistance, and the development of CSR frameworks and standards.

For Business Communities: The study encourages businesses to adopt CSR as a strategic need of today's era. Companies adopting CSR strategies not only gain respect in the market but also achieve competitive advantage while working for the well-being of societies. CSR is particularly important in developing countries where social and environmental challenges are acute and businesses can play a significant role in addressing these challenges.

5.4 Comparison with Previous Studies

The findings of this study are consistent with and extend previous research on CSR and financial performance. The positive relationship between CSR and financial performance is consistent with numerous studies that have found positive associations (Orlitzky et al., 2003; Margolis et al., 2007; Choongo, 2017). The mediating role of competitive advantage is consistent with research by Saeidi et al. (2015), who found that competitive advantage mediates the CSR-financial performance relationship in the context of Malaysian companies.

The moderating role of corporate governance in the CSR-competitive advantage relationship has received less attention in literature, making this study a significant contribution to the field. The finding that corporate governance strengthens the CSR-competitive advantage relationship is consistent with research by Jamali et al. (2008) and Fahad and Rahman (2020), who found that corporate governance influences CSR engagement and disclosure. The current study extends this research by demonstrating the moderating effect of corporate governance on the CSR-competitive advantage relationship.

The study's focus on the Pakistani context provides unique insights into CSR practices in a developing country. Previous research on CSR and financial performance has been largely conducted in developed countries, with limited attention to developing countries. The findings suggest that the relationship between CSR and financial performance is not limited to developed contexts but also applies in developing countries such as Pakistan. This has important implications for businesses and policymakers in these contexts.

6. Conclusion and Recommendations

6.1 Conclusion

This study examined the impact of Corporate Social Responsibility on financial performance, with competitive advantage as a mediating variable and corporate governance as a moderating variable. The

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findings provide empirical support for all three hypotheses, contributing to the understanding of how CSR translates into financial performance.

The study confirms that CSR has a positive impact on financial performance, consistent with the stakeholder theory perspective that meeting stakeholder expectations creates value for organizations. The findings also confirm that competitive advantage mediates the CSR-financial performance relationship, consistent with the resource-based view that CSR contributes to the development of strategic resources. Finally, the study confirms that corporate governance moderates the CSR-competitive advantage relationship, consistent with agency theory suggesting that governance mechanisms align CSR activities with organizational interests.

The study makes several contributions to the literature. Theoretically, it extends the understanding of the mechanisms through which CSR influences financial performance, addressing the call for more research on mediating and moderating variables. Practically, it provides insights for managers and policymakers on how to effectively integrate CSR into business strategy and governance. The findings suggest that CSR is not merely a cost or philanthropic activity but a strategic investment that can enhance competitive advantage and financial performance.

6.2 Limitations

This study has several limitations that should be acknowledged. First, the cross-sectional design limits the ability to establish causal relationships. While the hypothesized relationships are grounded in theory, the data were collected at a single point in time, making it difficult to determine the direction of causality. Future research could employ longitudinal designs to examine the causal relationships between CSR, competitive advantage, corporate governance, and financial performance over time.

Second, the sample size (N = 200) is relatively small and was selected using convenience sampling. Convenience sampling limits the generalizability of the findings, as the sample may not be representative of the broader population of managers in Pakistan. Future research could employ probability sampling techniques to obtain a more representative sample and enhance the generalizability of findings.

Third, the study relied on self-reported data, which may be subject to social desirability bias and common method variance. Respondents may have provided socially desirable responses regarding CSR practices and organizational performance. While Harman's single-factor test suggested that common method bias is not a significant concern, future research could use multiple data sources, such as objective performance measures and archival data, to enhance the validity of findings.

Fourth, the study focused on a limited set of variables and did not consider other potential mediators or moderators that might influence the CSR-financial performance relationship. Other factors such as organizational culture, leadership style, industry context, and country-level factors could influence the relationships examined in this study. Future research could incorporate additional variables to provide a more comprehensive understanding of the CSR-financial performance relationship.

Fifth, the study's demographic profile shows a low representation of female respondents (21.4%) and a relatively small proportion of highly experienced respondents (only 2.4% had more than 20 years of experience). These limitations suggest that the findings may not fully capture the perspectives of female managers and highly experienced professionals. Future research could strive for a more balanced demographic representation.

6.3 Directions for Future Research

Based on the findings and limitations of this study, several directions for future research can be identified.

First, future research could employ longitudinal designs to examine the causal relationships between CSR, competitive advantage, corporate governance, and financial performance over time. Longitudinal studies would provide insights into the temporal dynamics of these relationships and help determine the direction of causality.

Second, future research could use probability sampling techniques to obtain more representative samples and enhance the generalizability of findings. Studies could also expand the geographical scope beyond Pakistan to include multiple countries, enabling cross-cultural comparisons.

Third, future research could incorporate objective performance measures, such as accounting-based and market-based indicators, to complement self-reported data. Archival data sources, such as annual reports and financial statements, could provide more objective measures of financial performance and CSR activities.

Fourth, future research could examine additional mediators and moderators that might influence the CSR-financial performance relationship. Variables such as organizational culture, leadership style, stakeholder engagement, and innovation capability could be included in comprehensive models. The role of CSR budget allocation and its impact on CSR effectiveness could also be investigated.

Fifth, future research could employ qualitative methods, such as case studies and interviews, to gain deeper insights into the processes through which CSR contributes to competitive advantage and financial performance. Qualitative research could complement quantitative findings by providing rich descriptions of CSR practices and their outcomes.

Sixth, future research could examine the boundary conditions of the CSR-financial performance relationship. Factors such as industry context, firm size, ownership structure, and environmental dynamism could influence the strength of the relationships observed in this study. Research could also examine the differential effects of different types of CSR activities on financial performance.

6.4 Final Remarks

In conclusion, this study provides empirical evidence supporting the strategic value of CSR in enhancing financial performance through competitive advantage and corporate governance. The findings have significant implications for theory, practice, and policy. The study contributes to the understanding of how CSR creates value for organizations and society, and provides guidance for managers and policymakers seeking to promote responsible business practices.

The study's message is clear: CSR is not merely an ethical obligation but a strategic imperative for modern organizations. Companies that integrate CSR into core business strategies, supported by strong corporate governance, can achieve competitive advantages that translate into superior financial performance. As businesses face increasing stakeholder expectations and global challenges, CSR will continue to grow in importance as a source of sustainable value creation.

The evolution of CSR from a philanthropic activity to a strategic imperative reflects changing societal expectations and the recognition that business success is intrinsically linked to societal well-being. Companies that embrace CSR as a strategic need of today's era will be better positioned to navigate complex business environments, build trust with stakeholders, and achieve long-term success.

Author Contributions

All authors participated in ideation, development, and writing the manuscript. All authors read and approved the final manuscript.

Conflict of Interest Statement

The authors declare that there is no conflict of interest regarding the publication of this article.

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Informed Consent

Informed consent was obtained from all participants.

Data Availability

The datasets generated during and analysed during the current study are available from the corresponding author on reasonable request.

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Correction: The fourth author's name appears duplicated in the original citation. Please verify the author list against the published article.

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