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**The impact of corporate social responsibility on  
financial performance**

Evidence from Finland

School of Accounting and Finance

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**ABSTRACT:**

Throughout recent history, there have been significant changes to the business sector, notably to stakeholder groups, corporate duties, and business operations. More than at any other time in history, corporations are starting to show care for the environment, society, and their stakeholder groups. As a result, companies increasingly disclose their CSR initiatives, and parallelly, a growing amount of research are being held to understand the nature of the association between corporate social responsibility (CSR) and corporate financial performance (CFP). Even though the subject has been the focus of multiple studies from the decade of 1950, the question still lacks a definitive answer.

As a result, this study aims to find does CSR has any favorable influence on financial performance based on Finland's publicly traded companies. Both profitability and firm value are compared to CSR, which is assessed using both the total ESG and specific aspects. This thesis retrieved CSR (lag) and CFP data from LSEG data base between 2010 and 2022, and use the Panel least squares model, to analyze the linkage between CSR and CFP.

Unexpectedly, CSR has no statistically significant correlation with financial performance either with the account-based or market-based CFP measures. Furthermore, CFP has minimal links to ESG at both the overall and individual element levels. Although this thesis concludes that there is no major association, the nature of the relationship remains ambiguous and, as with earlier research, must be examined further.

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**KEYWORDS:** corporate social responsibility (CSR), corporate financial performance (CFP), Environmental social & governance (ESG), Return on Assets (ROA), Market to book ratio (MBR)

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## Abbreviations

CFP	Corporate Financial Performance
CSR	Corporate Social Responsibility
ESG	Environmental, Social, Governance
ROA	Return on Assets
MBR	Market to Book ratio
TBL	Tripple Bottom Line

## **1 Introduction**

Throughout recent history, sustainability and business responsibility have matured into significant megatrends that are changing and reshaping society on a worldwide basis. Businesses are starting to think about how their actions can affect because people care more about societal environmental issues. Besides making money for shareholders, corporations are required to address various corporate social responsibility (CSR) challenges, which help with sustainable development locally and worldwide. To meet the social expectation towards CSR, companies are sharing more details about their CSR related activities.

Unlike in the past, modern society is highly concerned about the matters that affect its surroundings. Since society always keeps an eye on the actions of corporations, organisations are compelled to think more about their activities and their impact on society. In order to preserve their reputation and gain stakeholder attraction in the competitive world, modern corporations participate in more CSR initiatives and reveal them in various forms because they believe that if they can differentiate themselves through CSR activities among their rivals, they can achieve competitive advantages. Furthermore, people are more prepared to pay for eco-friendly products and services, even though they are slightly more expensive, compared to products and services that are not generated in a sustainable manner. CSR can be identified as a strategy that businesses frequently employ to get a competitive advantage.

Climate change, global warming, using too many natural resources, and different types of pollution are huge environmental problems threatening communities worldwide. Individuals and businesses can seriously harm the environment with their activities. To be a good citizen of the planet, we all need to focus on these issues and do our part in reducing environmental impact to preserve the Earth for future generations, at the very least. Recent cases like Enron and Madoff highlight the importance of being socially responsible. Companies that implement

CSR programs frequently pay back to society up to a certain level through their environmental, social and governance programs.

Malik (2014) introduces CSR as a company's charitable actions towards various stakeholder groups including shareholders, clients, suppliers, employees, communities, and regulators. The stakeholder group surpasses the shareholder group, which comprises equity investors, in terms of breadth. Friedman (1970) on the contrary, argues that organizations should prioritize the wealth of their shareholders over other stakeholders. Recent accounting, environmental, and labor controversies emphasize the significance of transparent business practices and the rising expectations for corporations to continually enhance their social, environmental, and economic performance (Tsoutsoura, 2004).

Friede, Bassen & Busch (2015) point out that the beginning of CSR research happened in the 1970's. In the same year, renowned economist Milton Friedman draws society's attention stating that unless shareholders decide otherwise regarding societal or environmental obligations, the main objective of a business should be optimizing shareholder value. Conversely, in 1984 Freeman, presents an opposing viewpoint suggesting that neglecting CSR might lead to short-term profitability but hinder long-term success. Stakeholders set standards and assess firms' conduct making it imperative for management to heed stakeholder anticipations for bolstering company value (Wood & Jones, 1995). Waddock and Graves concur in 1997 by stating that businesses eventually benefit from implementing CSR initiatives. Despite varying views on long-term business responsibilities, the majority favors the acknowledgment of obligations beyond shareholders despite the substantial time and financial investment required for CSR initiatives.

Numerous scholarly articles have been published over recent decades exploring the link between CSR and CFP across diverse settings; however existing empirical studies offer conflicting findings on this association. To promote CSR in a business organisation or any other kind of entity locally or globally, it's crucial to know the degree to which CSR and financial performance are related.

### **1.1 Purpose of the study**

Finland has been regarded as a global leader in sustainability and corporate social responsibility during recent years, being at the top of the charts. In 2023, Finland becomes the first spot in both the Sustainable Development Report (Sustainable Development Report, 2023), and The Country Sustainability Ranking (Robeco, 2023). According to Salmi, Jussila & Hämäläinen (2022), sustainability increasingly popular in Finland. Finnish companies with over 500 employees or revenue 40 million euros must report on CSR activities but the responsibility does not limit to corporations, government sector also equally responsible (World Economic Forum, 2023). However, the focus remains on environmental issues, given the prevalence of environmentally sensitive industries like forestry, paper production, and energy (Niskala and Pretes, 1995). Exploring how Finnish companies integrate environmental, social, and governance aspects into their CSR efforts is intriguing. Delving into the CSR practices of top Finnish enterprises reveals how they communicate these efforts. Financial indicators will gauge how these initiatives impact corporations based on their reporting accuracy.

Understanding the effect of CSR on economic results by analysing data of listed corporations in Finland is the main expectation of this study. Prior research has mostly concentrated on certain geographical regions, industry sectors, economic conditions, or competitive landscapes (Choi & Lee, 2018; Goss & Roberts, 2011). By considering publicly traded companies in Finland, research

targets to close the information gap about the influence of CSR attempts on economic results in Finland's perspective.

This research uses two types of measures for financial performance: market-based market-to-book ratio (MBR) and accounting-based return on assets (ROA) to determine the connection between CSR and CFP. It also investigates CSR from several angles and offers a comprehensive study of more current data that hasn't been explored by earlier research. Overall, the study adds fresh data to the literature regarding whether raising social responsibility (CSR) spending may still improve financial performance or merely whether CSR is just an expense that has no financial return for organisations.

As to Yoon, Lee & Byun (2018) the environmental, social, and governance (ESG) rating is a widely accepted proxy for corporate social responsibility (CSR). As ESG shields all aspects of corporate social performance, the ESG measure is selected for this study to quantify corporate social performance. Initially Total ESG score is compared with economic performance to respond to the initial research query. Then the scores of each dimension of ESG in order to address the second study question.

Accordingly, these are questions that this study provides answers to:

1. Can CSR increase financial benefits of businesses?
2. Can all three pillars of ESG make similar influence on financial benefits?

As for the first question, expect answers in a broader sense to reflect the impact of all the business's CSR operations, overall ESG score is utilised. Even though, the literature is inconsistent with the result, this study will provide clear understanding about the CSR's impact

on economic benefits in the context of Finland. The second question seeks answers in individual component level such as how environmental pillar effect CFP. Hence, the scores of individual dimensions of ESG are compared with CFP.

## **1.2 Hypothesis**

The research objective is to discover whether CSR, improves the economic benefits of Finnish businesses. Despite conflicting findings, majority who study on the topic find proof to demonstrate a favourable linkage between CSR and CFP (Waddock & Graves , 1997; Husted, 2005; Rodgers, Choy & Guiral, 2013). Because the prior research has produced excellent proof to show a favourable correlation between CSR and financial success, it is expected that this association will also hold true for listed companies in Finland. This assumption promotes the major hypothesis of the study, which is as follows:

H1: Financial performance benefits from corporate social responsibility

The main hypothesis proposes that a corporation's financial performance should be positively connected with its overall ESG score. The study also investigates the connection between CFP and the three ESG characteristics independently to better understand the elements that lead to the expected positive relationship. According to Lee, Kang & Kim (2018) environmental and social components of ESG, increase firm profitability. After conducting a study in Germany, Velte (2017) find that a corporation's economic benefits are considerably improved by corporate governance. Hence, the main hypothesis is broken down into three smaller hypotheses for clarity:

H1a: Financial performance benefits from ESG's environmental dimension

H1b: Financial performance benefits from ESG's social dimension

H1c: Financial performance benefits from ESG's governance dimension

The literature contains conflicting empirical findings on how overall ESG has impact on financial success of the business, also the relationship between specific ESG components and economic success. However, as a greater part of the literature offers evidence in favor of this theory, it is assumed for the sake of this study that each of the three ESG characteristics positively affects the financial results of organizations.

### **1.3 Framework of the study**

The research is organized according to the following order. The significance, hypothesis, and research challenge have been introduced in the first chapter. The second chapter provides a full description of CSR under numerous subheadings such as drivers, CSR history, reporting framework, CSR in Finland, CSR measurement, causality, and so on. The third chapter focuses on the theoretical framework, which provides a deeper grasp of CSR theories. Carrol's pyramid, Elkington's triple bottom line, stakeholder theory introduced by Freeman, and shareholder theory introduced by Friedman's are all covered in the first section. A discussion of Ganga and Male's taxonomy of CSR theories follows. The fourth chapter, literature review section outlines important discoveries and reviews the body of academic work that demonstrates the link between CFP and CSR. Regression models, methods, and research data are covered in the 5th chapter while the next chapter opens with the analytical part and is followed by descriptive statistics. In Chapter 7, the research findings are summed up, and the study is concluded with some broad conclusions, possibilities for research in the future. Furthermore, the constraints of current research and probable prospects for potential research will be explored.

## **2 Corporate Social Responsibility**

Community is progressively demanding corporations to contribute more to society than just producing goods and services (Choi, Han & Kwon, 2019). As for companies, some only participate in CSR projects to meet legal requirements from the government and other authorities, and they are not actively tackling this issue. Certain businesses actively engage in socially conscious endeavors because they understand that society's trust in their business can result in long-term prosperity. Because of this, a business that practices trust-based business can maintain positive connections with a variety of stakeholders, which will improve its financial performance over time (Sang & Simon, 2015). Moreover, it has been shown that businesses employ CSR to set themselves apart from rivals (Smith, 2007). As a result, corporations that participate in CSR activities are viewed favorably by society, and CSR initiatives are now acknowledged as a natural obligation of enterprises. Consumers favor purchasing socially conscious products, and investors give socially conscious investments top priority.

### **2.1 CSR definitions**

CSR is difficult to define since the idea differs among its users and people interpret it differently (Chandler, 2020). Dahlsrud (2008) conduct a comprehensive investigation on CSR and discover 37 alternative definitions. Chakraborty (2015) states that though there are CSR definitions from 1930's today's CSR origins from mid-1950's. According to Rahman, Ali & Nedelea (2017) the dominant socio-economic and ecological settings of the 1950s influenced the emergence of numerous CSR ideas. When look at the last few decades of CSR history, each definition is unique, and no two definitions can be used interchangeably for any purpose (Yadlapalli, Rahman & Gunasekaran, 2020).

According to UN Industrial Development Organization CSR is

*"A managerial philosophy which enables businesses to incorporate ecological and social concerns to business activities and relationships with all related parties"* (United Nations Industrial Development Organization, ei pvm).

CSR is

*"The accountability of companies for the effects they have on society as a whole"* according to the European Commission (ei pvm).

Further, the World Business Council for Sustainable Progress, introduce CSR as an ongoing obligation of firms to behave morally and enable financial progress and enhance the standard of living of all the influencing parties of the business. According to Carroll A. B. (1991), CSR describe as a corporation's ethical attitude towards its constituents or stakeholders. Likewise, there are so many definitions on CSR.

Overall, due to the availability of number of definitions it's hard to determine what the actual CSR consists of. As a result, the concept of "greenwashing" might arise from a company's CSR consequences. According to Rahman, Ali & Nedelea (2017), many corporations advertise eco-friendly practices while concealing their true activities; this practice is known as green washing, and it prompts stakeholders to question the sincerity of all firms' green marketing.

## **2.2 Evolution of CSR**

Chaffee (2017) states that the social aspect in business conduct traces back to institutions where people gather such as hospitals, orphanages, homes for the elderly. Between the 16th and 17th centuries, businesses became increasingly popular as an instrument of social

progress due to the influence of the English Monarch. The modern concept of Corporate Social Responsibility (CSR) commenced in the early 20<sup>th</sup> century. Bowen (1953) identified CSR as an employer's societal duty for the greater good. According to Jhawar & Gupta (2017), Howard R. Brown's book of Social Responsibilities of the Businessman (1953) evidenced the official debut of the notion of corporate social responsibility (CSR) in 1950s. Keith Davis characterized CSR as business decisions made with considerations beyond mere economic gain or technical interests (Davis K., 1960). Walton (1967) a notable scholar in this area, discussed various models of social responsibility like household model, vendor model, including his own fundamental concept.

Throughout the 1970s, interpretations of CSR expanded significantly. According to Nobel laureate Milton Friedman (1970) an organization's only duty is to fulfill owners' profit objectives while operating within legal boundaries and ethical norms of society. This viewpoint sparked ongoing debates for decades. Sethi (1975) distinguished between "social obligation," "social responsibility," and "social responsiveness" in assessing corporate social performance.

By 1990, innovative definitions of CSR arose. Freeman's stakeholder theory added depth to CSR literature. Archie B. Carroll (1991), a key figure in CSR theory, outlined various societal expectations of organizations at any given time encompassing economic, legal, ethical, and discretionary aspects. While Hopkins' (2004) definition emphasized ethical treatment of stakeholders claiming that the goal of social responsibility is to raise living conditions of all stakeholders. The Triple Bottom Line concept which is created by John Elkington (1997) focuses on people, planet, and profit.

Husted & Allen (2007) surveyed top executives from leading Spanish corporations based on Burke & Logsdon's (1996) five characteristics defining CSR . Their findings highlighted visibility, appropriability, voluntarism as critical strategic elements linked to value creation. Porter &

Kramer (2011) advocated for Creating Shared Value (CSV), necessitated by outdated corporate strategies overlooking long-term success drivers with a broader perspective.

### **2.3 Drivers for CSR**

According to Kolk (2010), corporations that declare their CSR performance can receive social benefits, because, by implementing common CSR standards such as Global Reporting Initiatives (GRI) companies can enhance the reputation through improved credibility. According to Idowu & Pappasolomou (2007), CSR reporting attempts to satisfy stakeholders' information needs. Firms can notify stakeholders through a proper CSR report that they are adhering to current regulations and societal conventions (Fernando & Lawrence, 2014).

Barnea & Rubin (2010) contend that managers are eager to get involved in CSR since it helps them to establish their reputation as socially responsible person, though this creates conflict with the interests of shareholders. According to Kolk (2010), good CSR reporting enables firms to measure and evaluate the level social responsibility achievements against targets, simplify the implementation of environmental plans, and effectively communicate corporate information locally and internationally. Deegan (2002) states that company managers undertake certain CSR activities such as engage in CSR activities and report them voluntarily due to following reasons:

- to comply with legal requirements
- consideration of economic rationality (to do right thing)
- managers belief that they are accountable for people to report
- to comply with conditions by lending organizations

- to comply with community expectations (community license to operate)
- in response to organizational legitimacy issues
- to attract investment money and attract powerful stakeholders
- to comply with industry rules
- To prevent imposing burdensome disclosure requirements
- to win specific reporting awards

Although some businesses believe that CSR reporting can be beneficial to their operations, others believe the reverse. According to Kolk (2010), some businesses fear that CSR reporting is too expensive or that it will harm their brand.

## **2.4 Guidelines and framework for CSR reporting**

To improve or harmonise reporting processes, several organisations have created voluntary reporting guidelines for ESG activities in response to the available condition on CSR disclosure and information demand (Christensen, Hail, L. & Leuz, 2021). Three commonly accepted CSR reporting standards are listed by Daniel & Ronald (2015): the United Nation's Global Compact, AA1000 Series, and the Global Reporting Initiatives (GRI).

The UN Global Compact provides principles-based CSR structure consisting of 10 principles covering different aspects such as human rights, workforce, ecological concerns, and against violations (United Nations Global Compact, ei pvm). Many firms implement the UN's principles into their CSR efforts, laying the framework for success in the future by adopting the ten principles through their overall approach (United Nations Global Compact, ei pvm).

The principles United Nation's:

### Human Rights

1. Organizations must ensure internationally recognized rights for human.
2. companies must certify nonviolence of human rights.

### Labour

3. support union freedom and accept the ability to negotiate together
4. abolish every type of force full and compelled labor.
5. Ban labour by children.
6. remove every type of job and occupational discrimination.

### Environment

7. Companies should take proactive actions for environmental issues.
8. Businesses should take the lead to encourage sustainable development.
9. Corporations should promote green technology

### Anti-Corruption

10. Businesses must combat all sorts of misconduct, including robbery and bribing

The AA1000 Assurance Standard is the main method employed by specialists in sustainability globally for environment-related activities. It assesses the sort and extent of a

company's commitment to the Sustainability Standards. To increase efficiency over time, organizations can use the globally recognized, principles-based AA1000AP (2018) framework to help them identify, prioritize, and address sustainability concerns (Accountability, ei pvm).

The most widely used sustainability reporting standards are provided by Global Reporting Initiatives, which cover variety of subjects, from ecology to taxes, rubbish to greenhouse gases, equality, and health and safety etc. This promotes high transparency and appropriate stakeholder interaction amongst firms and their interested parties (Global Reporting Initiatives, ei pvm).

## **2.5 CSR in Finland**

Olkkonen & Quarshie (2019) claim that the beginning of CSR in Finland may be linked to the start of the Industrialization period in the nineteenth century. Prior to the advent of industrial production, the most powerful Finnish enterprises was held by merchants as well as craftspeople. Even though the industrial revolution rapidly expands across several regions of Europe in the beginning of 1800's Finland has not established first factories which use industrial productions. According to Karisto, Pentti & Ilkka (1998) the industrial revolution began to have a major influence on people in Finland between 1860 and 1870s, when the country's timber industry was at its centre. After winning freedom in 1917, Finland proceeded to create social programmes and infrastructure (Karisto, Pentti & Ilkka, 1998).

Furthermore, the nature of corporate leadership began to shift, with business ownership becoming separate from management. However, in Finland, like in many other Western countries, this occurred quite late. Many duties that were formerly performed by companies become important tasks for towns and estates, showing how the CSR practices changing over the period (Karonen, 2004). Following independence, the state of Finland gained complete

responsibility over the national CSR policies and regulations (Mikkilä, Panapanaan & Linnane, 2015). At the end of 1970s and beginning of 1980s, the concept of stakeholder management spread into Finnish corporate practices such as planning and reporting (Mikkilä, Panapanaan & Linnane, 2015).

In general, Finland is a peaceful and stable country in which to conduct business. Nation-wide CSR activities are moulded by regulations, optional guidelines, and efforts from the government (Waddock S., 2008). Belonging to the European Union from 1995 and the United Nations from 1955, the country's CSR legislation is heavily influenced by EU-level guidelines as well as intergovernmental responsibilities and efforts.

According to Finland's Ministry of Economic Affairs and Employment, the corporation's social accountability strategy is founded on the concept that it is the duty of firms and their value chains to consider the effects they have on citizens, society, and the natural world. CSR in the government is overseen by the Ministry of Economic Affairs and Employment. The Foreign Ministry, the Prime Minister's Office, the Ministry of the Environment, and the Committee on CSR, which reports to the Ministry of Economic Affairs and Employment, all address CSR issues. The ISO 14000 standard series promotes Finland's sustainable development in terms of both ecological and economic goals by enhancing the performance of the organisation's processes, supply chains, and other supplies, as well as reducing energy use (SFS Finnish Standards, 2021). Standards can also be utilised to affect waste prevention and recycling, as well as the computation of waste volumes and prices (SFS Finnish Standards, 2021).

Additionally, the Finland Sustainable Forum (Finsif, 2024), which was established in 2010, performs a crucial part in Finland, encouraging sustainable and responsible investment practices. Through education and guidance, Finsif (2024), promotes the incorporation of societal, governance, and ecological concerns into the investment selection process to develop

a more sustainable and inclusive financial system in Finland (Finsif, 2024). As a party to the Paris Agreement and European Union, Finland is responsible for lowering its emissions of greenhouse gases and switching to an economy with a low carbon footprint (Ministry of the environment, ei pvm). Assessing and cutting down on the greenhouse gases are crucial for protecting Finland's natural heritage and for the welfare of its residents.

Understanding the global trend towards sustainable practices, Finnish companies are putting a strong emphasis on lowering their environmental impacts to succeed a competitive gain in global marketplaces. The Finnish government has established a goal of transforming Finland into a socially, economically, and environmentally sustainable society by 2030, as well as becoming carbon-neutral by 2035 (World Economic Forum, 2023). Finland, with its numerous habitats, is also concerned about biodiversity. Finland's commitment to preserving biological diversity is reflected in its wide network of national parks, wilderness regions, and nature reserves. Furthermore, Finland actively participates in global collaborations to address common environmental concerns and safeguard biodiversity (Biodiversity.fi, 2024).

## **2.6 Measuring of CSR**

According to Wolfe & Aupperle (1991), since there are multiple methods to evaluate CSR it's difficult to identify an optimal method that everyone can agree on. Waddock & Graves (1997) have the same concerns and they discuss the issues that can be encountered when assessing corporate social performance and evaluating other techniques. Maignan and Ferrell classify these different methodologies into three broad categories in 2000. Turker (2009) describes four ways for evaluating corporate social responsibility, and they are discussed below.

According to Turker (2009) Reputation indexes and databases are commonly used to evaluate corporate social initiatives. CSR indexes include ecological, societal, and governance (ESG) databases such as CSRHub, the European Union's Environment Agency, Bloomberg ESG data service, LSEG data and analytics (previously Refinitiv), Fortune index (Barnett, Henriques & Husted, 2020). ESG grading considers Eco social and governance issues to assess a company's CSR performance across major themes such as pollution and waste, community impact, labour standards and human rights, business ethics, and so on. Turker (2009), on the other hand, criticizes this method, claiming that this method is developed for measuring the CSR performance of enterprises in a certain location, and hence comparability of outcome is a major drawback. CSR procedures, for instance, might differ greatly across developed and emerging markets.

The second alternate technique is to employ single and multiple issue indicators. These kinds of measures include, for instance, corporate crime and pollution management performance. Academics find these indicators less valuable because they are limited to a few countries and do not provide a global perspective. The third method in the literature is to analyse the contents of business publications. due to recent huge trend on CSR research across world content analysis is being applied more and more to quantify CSR (Turker, 2009). However, as per McGuire (1988), there is a possibility that the details presented in a firm report might not align with the actual business activities.

The fourth way assesses CSR based on the values of individuals. CSR will be measured using the manager's personal CSR values and scaled to reflect the company's CSR performance. These strategies frequently place too much emphasis on the values of individuals rather than the genuine CSR efforts of businesses (Turker, 2009).

In 2017, Galant & Cadez analyze literature on different CSR assessment approaches and identify the positive aspects and negative aspects of every evaluation approach.

Measurement approach	Advantages	Drawbacks
<b>For CSR</b>		
- Indices	Data availability & comparability, multidimensionality recognised	Non-scientific, limited firm coverage (geography, size, industry)
- Content analysis	Flexibility for researcher	Researcher subjectivity, data non-disclosure, impressions management
- Questionnaire surveys	Flexibility for researcher	Researcher subjectivity, measurement error, non-response
- One-dimensional measures	Data availability & comparability	Theoretical invalidity
<b>For CFP</b>		
- Accounting-based indicators	Data availability & comparability	Historical data
- Market-based indicators	Contemporaneous data	Data only available for listed firms, also include systematic factors

**Figure 1.** Pros and cons of CSR measures (Galant & Cadez , 2017)

## 2.7 Measuring financial performance

As per Galant & Cadez (2017) there are two types of CFP measures; they are accounting-based or market-based measures. while accounting based measures can be derived from financial accounts which provide past data. though the Market-driven financial metrics correspond to anticipated future outcomes which can be derived only for publicly listed companies (Galant & Cadez , 2017).

As some scholars use combination of market based and accounting-based measure, Galant & Cadez present a summary of financial measures as follows;

Accounting-based	Market-based	Accounting- and market-based
ROA – return on assets	Stock returns	Tobin's Q
ROE – return on equity	Market value of a company	MVA – market value added
ROCE – return on capital employed	Change in stock returns	
ROS – return on sales		
Net operating income		
Net income		
Zmijewski score		

**Figure 2.** Types of financial performance measures (Galant & Cadez , 2017)

Though accounting indicators reflect efficiency and organizational capabilities more accurately, they are influenced by managers' voluntary allocation of funds to projects and policies. They represent the ability of management decision making process and administrative effectiveness, not the outside marketplace reactions to organisational activities (Orlitzky, Schmidt & Rynes, 2003). In 2014 Gregory;Jensen;& Singh point out that since future cash flows are integrated into stock prices, market-based measures are more forward looking and shows the future expectation.

## 2.8 Direction of Causality

In 1997 Waddock & Graves, identifies two theories on the concept of causality, and empirically evaluated. These are slack resources, and the theory of excellent management. According to slack resource theorists, increased economic achievement may result in the accessibility of slack resources, enabling businesses to make investments in socially responsible areas like eco system, workplace relations, and community engagement. exceptional management theorists emphasise the existence of a strong correlation, demonstrating that good management leads to financial success, and that exceptional financial performance leads to better management focusing on social performance enhances relationships with key stakeholders, leading to improved overall performance. They study whether investing in CSR leads to greater CFP or whether high CFP predicts increased investment in CSR activities. Through his study Waddock

et al. finds that the link works both ways that is improved CSR performance result in higher economical results, and more economical benefits results from increased CSR performance.

McGuire (1988) express that the availability of discretionary funding determines whether to begin or discontinue voluntary social and environmental activities. Similar ideas are also expressed by Shahzad, Mousa & Sharfman (2016) expressing corporates willingly participate in CSR activities if it has extra money than it needs for operations. Margolis & Walsh (2001) also find both CSR and CFP concepts depend on each other. Preston & O'Bannon (1997) sum up six potential ideas that describe the causality between CSR and economic results.

According to the meta-analysis held by Orlitzky, Schmidt & Rynes (2003), 37 of 84 sample investigations show how CSR effect on financial performance. Researchers find that wealthy organisations invest extra since they have the ability to do so, similarly social performance also assist companies to be financially wealthy. This is how CSR and CFP have a beneficial feedback cycle. Since the companies highly engage in CSR activities enjoy high financial benefits, financially successful companies highly engage in CSR activities make it difficult to identify where the cycle begins (Orlitzky, Schmidt & Rynes, 2003)

### **3 Theoretical background**

CSR has evolved throughout the decades, with various theories and notions offering comparable or opposing ideas to the literature. As a result, this chapter summarizes relevant theories and concepts. After introducing Shareholder Theory, Stakeholder Theory, Carroll's Pyramid, and the Triple Bottom Line are discussed. Finally, the famous CSR theory categorization by Ganga and Mele are addressed.

#### **3.1 Share holder theory, Stakeholder theory, Carrol's pyramid & Tripple Bottom Line**

While many scholars research CSR definitions, ideas, and models, Friedman (1970) introduces shareholder theory. Accordingly, maximizing the owner's wealth through increasing efficiency and productivity of operations is the main concern of a business. He is against the CSR concept in general, believing that firms' management's obligation is to optimise earnings for the company owners, while community problems should be addressed completely by open market systems and procedures. Furthermore, he presents that business should use scarce assets for profit-generating activities and not for social wellbeing activities (Friedman, 1970). Proteges of Freidman claim that CSR reduces a firm's competitiveness and dilutes the efforts of managers who are meant to focus on economic production (Davis, 1973).

The social aspirations of CSR and their connection to corporate success were strongly defended by proponents of the practice. Porter & Kramer (2011) propose that a reevaluation of business competitiveness should center on incorporating societal and charity commitments with the present profit-oriented approach. According to Freeman (1984), a firm's will be truly success if they facilitate the needs and expectations that stakeholders expect from a corporation is satisfied without just limiting to offer financial benefits to those who finance the business. This contrasts with Friedman (1970) shareholder theory. Freeman (1984) asserted that the capacity

of the business to effectively handle its relationships with different stakeholder groups determines its level of success.

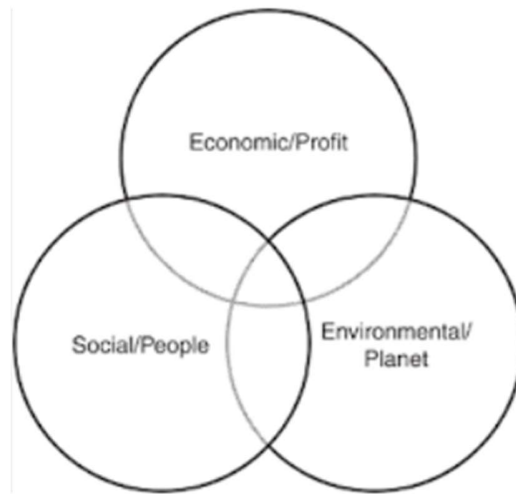
The stakeholder approach was established, and the principles of shared value were proposed by Porter & Kramer (2002). Businesses ought to generate value for all their stakeholders in addition to financial gain. Businesses should support society in addition to pursuing their financial goals. In 1991, the famous researcher Carroll introduced a pyramid of CSR, which explains the reasons for social responsibility and the way corporations should execute them. While having four components, the basement, and the most important component is the economic responsibilities, meaning the company should be profitable. The next component is legal responsibility; it's expected that companies obey legal requirements to be collectively accountable. The third component is made up of firms' ethical obligations, such as not to cause harm or be fair. The final level is philanthropic responsibilities, which require companies to make contributions to society. Voluntary works, money, or goods offerings for charity come under this category. Before adhering to philanthropic responsibilities, companies should fulfil the first three types of responsibilities.



**Figure 3.** Carroll's pyramid (Carroll A. B., 1991)

Companies can demonstrate social responsibility by prioritising economic objectives like sustainability and profitability. The next stage involves recognising regional and international rules and commitments. The third level involves a commitment to ethical norms. Finally, firms may carry out their charitable responsibilities towards society and the environment (Carroll A. B., 1991).

In recent decades, another well-known idea has been popularized which is the triple bottom line (TBL) accounting theory, developed by John Elkington in 1997. This method measures a company's overall success by maximizing all of its three bottom lines. The definition of triple bottom line is that a business's success cannot be measured solely by its economic performance. To really assess success, the health of both humans and the environment must be considered. According to Norman & MacDonald (2004), TBL, that refers to planet, people, and profit, is additionally referred to as a three-P model. Elkington (1997) defines triple bottom line as an approach for measuring and disclosing business outcomes considering profit, people and planet. In the broadest manner, the phrase encompasses every concept, difficulties, and procedures that corporations have to deal with to minimize any harm caused by their operations while also creating economic, social, and environmental benefit. This entails being clear about the company's goal and considering the needs of all stakeholders.



**Figure 4.** Triple bottom line (Elkington, 1997)

### **3.2 Categorization of CSR theories by Garriga & Mele**

Four kinds of CSR theories are discovered by Garriga & Melé (2004) after an analysis of the literature. Instrumental theories identify CSR as an instrument of increasing financial performance. The second group consists of political ideas. The third group is integrative theories and Legitimacy theory is discussed here. Firms obtain legitimacy from their stakeholders by incorporating social needs into corporate operations. The fourth group comprises of ethical theories that emphasize the morality of corporations in their activities. These theories address corporate social responsibility from a variety of angles, which means all theories are not profit motivated. Some explain and justify CSR initiatives arguing that corporations cannot always be described as profit-oriented entities (Garriga & Melé, 2004).

According to Garriga & Melé (2004) categorization is shortly described in this section. CSR is viewed as a tool that may be used to generate financial rewards in instrumental theories. These advantages are also expected to increase shareholder wealth. The enlightened stakeholder

theory and the shareholder theory are combined in instrumental theories, although the fundamental purpose is to increase the wealth of owners (Garriga & Melé, 2004). Since CSR initiatives offer benefits like competitive advantages financial benefits can be achieved through CSR activities (Garriga & Melé, 2004). Being the focus of instrument theories to enhance financial performance Garriga & Melé (2004) point out that all contributions to CSR must increase share value, if not they are financial waste. Since CSR always not result in financial benefits, this hypothesis is criticized in the literature (Bird & Casavecchia, 2007; Jensen, 2002)

A second group emphasises the social power of corporations, including their interaction with society and political responsibilities. As a result, the corporation may accept social responsibilities and cooperate in particular ways. Garriga & Melé (2004) refer to this group as political theories. There are two types of political theories: corporation constitutionalism theories and corporate citizenship ideas.

The study conducted by Davis K. (1967) is the foundation of corporate constitutionalism theory. He reasoned that businesses are social institutions with significant social power as they influence pricing and alter the market situation. So, conflict arises regarding the real rate and the amount that purchasers are willing to spend as a result. As prices are no longer set by free market competitors in the market, this goes against the ideal market principle. This is a good example to see how powerful institutions utilize their influence on the market. (Davis K., 1967).

In the 1980s, another idea is introduced to explain how business and society interact, which is "corporate citizenship" (Vidaver C. & Altman, 2000). Citizenship necessitates that they are required to abide by the rules, regulations, and moral guidelines set forth by the state and community. The corporate citizenship perspective was criticised by Matten, Crane & Chapple (2003), who claimed that it is only an academic perspective without any real-world applications.

According to Wood & Logsdon (2002), business citizenship is not the same as individual citizenship, but rather a subset of it.

As per Garriga & Melé (2004), legitimacy and integrative theories are a series of theories that look at the way enterprise combines societal requirements and make the conclusion that it needs community to survive, grow, and continue. Community standards give firms credibility and status. Therefore, to confirm that corporate acts adhere to societal ideals, business leadership should take social requirements into account. According to integrative theories, it is accepted that companies' social responsibilities can vary in line with the changes of social expectation. Therefore, businesses are supposed to be aware of the dominant societal expectations and design how they operate accordingly. This is the proper method that corporations must get social acceptance for their business operations. This group's views focus on identifying and responding to societal demands for legitimacy, acceptance, and status.

There are three main approaches discussed under integrative and legitimacy theories. They are Issues management, stakeholder management, the principle of public responsibility and Corporate social performance (Garriga & Melé, 2004). In the problem management section, it is explored how real CSR procedures differ from what society demands from a firm in terms of CSR. Businesses must identify present holes and do their best to fill them since market demands corporations to engage in greater CSR projects beyond they are prepared to. So, it makes it difficult for management to decide whether to act or not (Garriga & Melé, 2004).

According to Garriga & Melé (2004), the stakeholder management strategy focuses on interested parties such as vendors, consumers, workers, and owners in the organisation. As they are highly influenced by corporates choices, stakeholder management seeks to operate to satisfy the expectations of all stakeholder groups at their best. According to Fernando &

Lawrence (2014) research, organisations must identify the most influential stakeholders to fulfil their objectives. They do not want to completely overlook the least powerful stakeholders; but in complicated circumstances, those who have high influence, such as the workforce, clients, vendors, and owners, receive priority. Preston & Post (1981) contend that inside the parameters of applicable public policy, appropriate guidelines for lawful managerial behaviour can be established. However, practicality is challenging, as determining the specifics of the public accountability concept is a difficult undertaking that calls for careful managerial consideration (Preston & Post, 1981).

Ethical theories emphasise the necessity of doing the right thing and creating a positive society. This set of theories looks at CSR through the lens of the idea that businesses should view their social duties as ethical obligations. Stakeholder management falls under integrative theories as it may incorporate social needs, according to some authors. In 1984 Freeman established stakeholder management as an ethical framework publishing the famous book *Strategic Management: a Stakeholder Approach*. In their activities, businesses should adhere to commonly accepted rights such as human rights (Garriga & Melé, 2004).

## 4 Literature review

Academic research has extensively explored the potential connection between CSR and CFP over the years. Some scholars (Waddock & Graves, 1997; Husted B., 2005; Ribstein, 2005) have suggested a direct positive link between the two factors, arguing that CSR leads to financial benefits. On the contrary, other academics (Friedman, 1970; Preston & O'Bannon, 1997) propose an unfavorable relationship between CSR and economic results, pointing out greater costs associated with social responsibility initiatives compared to profits. A different perspective presented in some studies (McGuire, 1988) proposes a non-linear connection between CSR and CFP, while others (McWilliams & Siegel, 2001; Soana, 2011) suggest that these factors are unrelated, implying that corporate social responsibility does not impact company profitability significantly.

A thorough analysis of over 2000 individual studies published since the 1970s was conducted by Friede, Bassen & Busch (2015), indicating inconsistent findings. However, approximately 90% of these studies highlighted a positive relationship (Friede, Bassen & Busch, 2015) between business financial performance and ESG. Nearly half of the empirical research on CSR initiatives and firm success demonstrated a favorable influence of CSR activities, while around a quarter showed no substantial connection. Additionally, approximately 5% indicated a negative association, with the rest reporting inconclusive outcomes as per Margolis & Walsh's, meta-analyses in 2001.

Based on Soana's (2011) analysis of nineteen studies on this topic, one study detected a mixed correlation between CSR and CFP. In contrast, two identified a negative linkage, ten revealed a positive relationship, while six found no significant association between these variables in question.

The findings of Galant & Cadez (2017) are presented in Figure 5.

Nature of the CSR–CFP relationship	Representative references
Positive	Al-Tuwaijri et al., 2004; Burnett & Hansen, 2008; Erhemjamts et al., 2013; Rodgers et al., 2013
Negative	Baird, Geylani, & Roberts, 2012; Peng & Yang, 2014
No relationship	Alexander & Buchholz, 1978; Aupperle et al., 1985; Soana, 2011; Sun, Salama, Hussainey, & Habbash, 2010; McWilliams & Siegel, 2000
U-shaped/inverted U-shaped	Barnett & Salomon, 2012; Bowman & Haire, 1975

**Figure 5.** CSR and financial performance (Galant & Cadez, 2017)

Proponents of the adverse interaction contend that companies that engage in CSR face an economic disadvantage due to their spending that might be prevented or could have been paid for by others, such as authorities or people (Aupperle Carroll & Hatfield, 1985), despite the fact that the majority of people agree favourable linkage.

The assertion that social and financial accomplishments have a favourable association appears to be supported by most contributions; nevertheless, the results are not uniform and cannot be applied to all markets and industries. According to some writers (Husted, Allen & Rivera, 2010; Ribstein, 2005), a corporation that adopts a socially conscious strategy may see greater financial returns than one that does not. According to Nguyen, Vu, Nguyen & Le (2021), corporates financial performance strongly and favourably impact on their financial performance. Edmans (2012) asserts that companies with better employee happiness outperform their rivals in terms of stock returns. CSR programs have been demonstrated to greatly increase customer satisfaction and loyalty when they are implemented for the company's clients (Bhattacharya & Sen, 2006). This could therefore lead to better CFP.

Carter (2004) finds that effective internal CSR activities, including diversity and governance management, contribute to a healthy and ethical business culture. Further, he states that favourable business culture and working environment fosters commitment among employees and management, resulting to lower staff turnover and increased economic benefits. Cho, Chong & Young (2019) examine the correlation between CSR and financial achievements for 191 Korea Exchange-listed enterprises. Tobin's Q is employed to measure business value, while return on assets is used to represent profitability. Results show a favourable connection among CSR results, profitability, and market based economic results.

Raza, Muhammad, Rauf & Qamar (2012) use content analysis to explore the correlation between CSR and economic success during 1972 to 2012. His study is conducted focusing on number of financial variables from both accounting and market perspectives. When Tobin's Q is utilized as proxy for economic results it's find that highly significant linkage. All the other measures except stock market return also find favourable linkage. stock market return is the only measure which result in negative relationship.

Kim Cho & Park (2019), using 5040 big US organisations, reveal that corporations' social activities have favourable impact on their average economic success. Bowman & Haire (1975) discover that companies with CSR activities outperformed those without. Carroll & Shabana (2010) study business case to understand the reason behind CSR initiatives. they look at the situation with a narrow and broad perspective and reveal that organisations who engage in CSR activities receive benefits in return in numerous forms such as reputation, competitive edge over rivals, and risk reduction.

At the investigation conduct by Beck, Frost & Jones (2018) based on geographical areas of Australia, Hong Kong, and the United Kingdom to find the nature of the link between CSR vs CFP

using 116 listed companies, they reveal evidence for significant relationship. Friedman, 1970 contend that businesses that choose social activities incur expenses that are noticeably greater than profits, which deteriorates financial-economic outcomes. These expenses might be linked to the limitations imposed by geographical and business-related factors, the hiring of more personnel, and the higher cost of procedures or activities that meet stakeholder needs.

Rahman S. (2011) asserts that there is no connection between profitability and further CSR initiatives that engage the community, the market, and human resources. Franco Caroli, Cappa & Chiapp (2020) find that the duplication of efforts aimed at identical goals results in the simultaneous deployment of CSR and quality management being less beneficial to CFP than standalone CSR implementation. In the examination of Canadian enterprises, Mahoney & Roberts (2007) find no proof of a substantial linkage between CSR and economic results. Similarly in 2018 Atan et al. provide evidence for non-existence of linkage at their study based on Malaysian enterprises. The result of the study by Soana (2011) also produces same results.

A study performed by Nolle, Filis & Mitrokostas back in 2016 delves into the CSR – CFP linkage. Both linear and non-linear interactions are examined. A fascinating U-shaped association between accounting-based metrics and social performance metrics emerged when non-linear relationships are examined, despite the linear model failing to show any significant relationships. This investigation proposes that commitments to Corporate Social Responsibility (CSR) materialize only after reaching a certain CSP threshold. Notably, a considerable U-shaped correlation concerning governance aspects and financial prosperity within Environmental, Social, and Governance (ESG) sub-categories are pinpointed. Nonetheless, it is determined that CSR does not significantly influence firm value.

Barnett & Salomon (2006) conduct a study using mutual funds that practice socially responsible investing. They observe an evolving relationship over time between socially responsible funds

and their returns at the fund level. Their findings revealed a U-shaped yield curve for socially responsible investing funds. The researchers noted that at the organizational level, the relationship takes on an inverted U-shape curve - indicating that investing in CSR yields positive results eventually, but these benefits may diminish over time.

Yang, Lin & Chang (2010) conducts a study utilising listed firms in Taiwan and discovered that lag CSR has a favourable impact on accounting-based performance, but no such link exists for lag financial performance. Using various control variables, they investigate the link across industries. As a result, they demonstrate that CSR leads to lower market-based financial results within the finance sector while reporting a neutral connection in the electronic industry.

Sila & Cek (2017) conduct a study using annual ESG data on Australian enterprises spanning the years 2010 to 2016. He employs lagged independent variables and regression analysis to determine the influence. The data reveal that, social performance increases economic performance in greater extent while environmental performance increases financial performance to a lesser extent. However, there exists limited evidence of a powerful correlation between governance and economic outcomes.

Menicucci & Paolucci (2022) creates three econometric models with 105 Italian banking companies to find the impact of ESG initiatives on economic results. When analyse separately, the correlations between the ESG dimensions are inconsistent. The findings suggest that cutting emissions and waste favourably impact on operating and economic results. However, in terms of social issues, it has been proven that increased product responsibility lowers accounting performance.

Based on Korean publicly traded companies from 2008 to 2014 is examined by Han, Kim & Yu (2016). They discover that the governance dimension significantly and favourably correlates with accounting-based financial performance. Ultimately, they conclude that while improving governance responsibility will boost revenues, engaging in environmental operations will ultimately increase profits. In 2017 Velte investigates CSR- CFP linkage using data from German publicly traded enterprises between 2010 and 2014 and find that governance score reports the biggest influence on economic success.

## 5 Data and Methodology

The data and techniques utilised during the analytical section of the research will be discussed in this chapter. In the beginning provides sample data, which contains CSR and financial information, as well as descriptive statistics derived from the data sample. The second section describes each variable utilised during the research and how the regression equation is developed.

### 5.1 Data

Both CSR and Financial data will be discussed under this section. Financial data and CSR data make up the information. The dependent and control variables are created from financial data, whereas CSR data serves as the key independent variable. The LSEG database (formerly Refinitiv) is the source of both financial and CSR data.

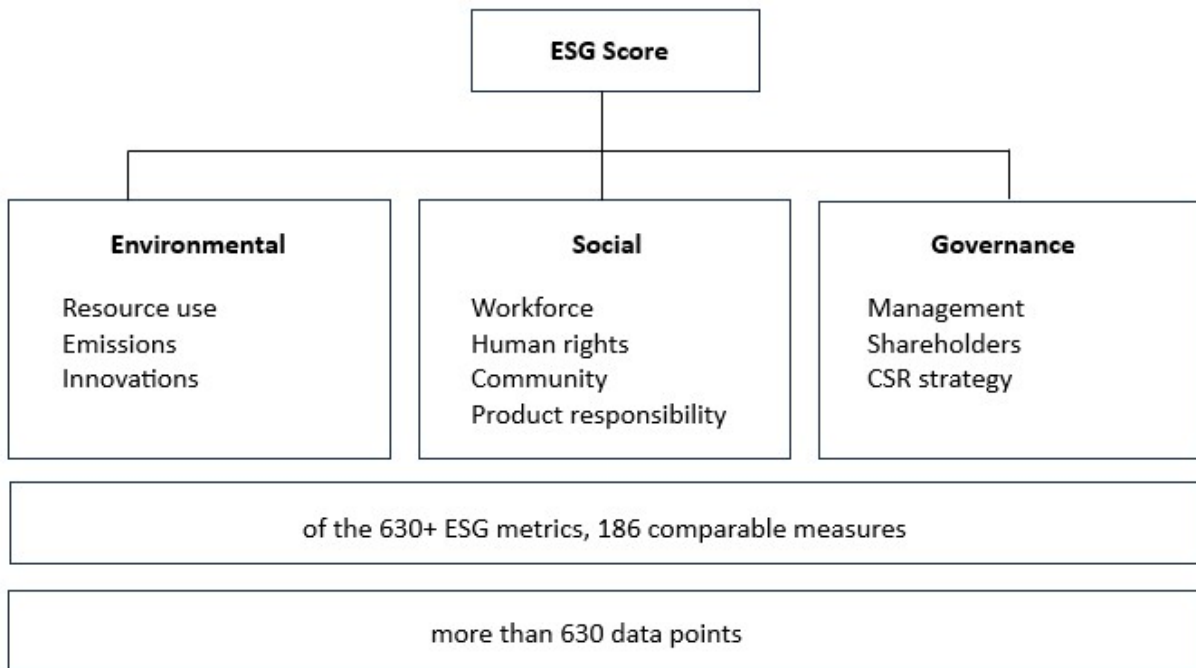
Between 2010 and 2022, all the public companies registered on the Helsinki Stock exchange were part of the first gathering of data. The lagged link between social responsibility and CFP is examined in the present research, which indicates that financial data is compared with ESG data from the prior year because CSR has a gradual impact on CFP as opposed to an immediate one (Brammer & Millington, 2008). In order to use the regression approach, every data point which needs to build variables of the study should be available throughout all firm-year combination. Hence, some firms which do not satisfy the requirement have to eliminate from the study. As a result, some companies stay shorter period in the study while some companies remain in the whole period from 2010 to 2022. Following data collection and cleaning, 465 distinct firm-year records make up the data sample. Each variable's outlier values are weighted at the 0.5% level to improve the accuracy of the results.

### 5.1.1 CSR data

The empirical section of the research uses the LSEG database's CSR data, which includes both the overall ESG score along with individual elements' results. For all regression models, ESG is utilized as vital independent variable which indicate organisations' CSR performance. Every score is assigned a number between 0 and 100, where higher numbers denote better CSR performance.

About 630 ESG data points from 10 different categories are collected and to create ESG scores by LSEG (2023). The proportionate weights allocated to each indicator category determine a company's score for each ESG pillar and to total ESG rating. The environmental pillar has three indicator classes: innovation, emissions, and resource utilisation. The societal pillar's components are labour, rights for people, society and corporate accountability. The core element of governance is composed of the management, owners, and the approach to CSR.

Figure 2 summarises Refinitiv's entire ESG structure.



**Figure 6.** ESG structure (Environmental, social and Governance scores from Refinitiv, 2022)

### 5.1.2 Financial Data

To create the dependent variables Market to Book Ratio (MBR) and Return on Assets (ROA), and number of control variables such as company size, leverage, and asset turnover, the LSEG database provides relevant information for the calculation part of this study. Depending on the Helsinki Exchange classification benchmark, every organization is allocated an industry classification factor as shown in table 1 in the descriptive statistics. This allows for the potential impact of differences across industries. The methodology chapter describes the construction of the primary variables of the research using the financial data gathered from LSEG database. The characteristics of the financial and CSR variables utilised for this research are outlined in the descriptive statistics part.

### 5.1.3 Descriptive statistics

While industry sector composition shows in table 1, table 2 shows the quantitative parameters such as mean, median, standard deviation of variables used in the study.

**Table 1.** Industry category composition

<b>Industry</b>	<b>Observations</b>	<b>As a percentage</b>
Financials	29	6 %
Consumer Services	56	12 %
Consumer Goods	28	6 %
Industrials	149	32 %
Real Estate	9	2 %
Telecommunications	29	6 %
Utilities	17	4 %
Technology	32	7 %
Basic Materials	71	15 %
Energy	13	3 %
Health Care	32	7 %
<b>Total</b>	<b>465</b>	<b>100 %</b>

Table 1 abundantly evident the fact that having 149 observations, industrial enterprises are the biggest industry group as a proportion of the overall quantity of firm-year observations, accounting for approximately 30% of the data sample. Basic materials and consumer services come in second and third, respectively, accounting for more than 10% of the observations, behind industrial enterprises. All the other industries are less significant, showing less than 10% share, while the real estate industry, which shows 2% become the smallest industry sector.

**Table 2.** Descriptive statistics

	Mean	Median	Max	Min	Std.dev	Observations
<i>financial data</i>						
<b>ROA</b>	4,98	4,53	33,25	-18,89	6,55	465
<b>MBR</b>	3,62	2,06	91,15	0,22	6,80	465
<b>Size</b>	7,84	7,92	13,30	4,12	1,76	465
<b>Leverage</b>	0,24	0,23	0,72	0,01	0,13	465
<b>Asset turnover</b>	1,02	0,93	4,52	0,02	0,60	465
<i>CSR data</i>						
<b>ESG</b>	57,78	62,50	92,18	10,63	18,54	465
<b>ENV</b>	60,01	62,50	96,01	0,00	23,86	465
<b>SOC</b>	60,35	62,50	95,84	8,67	20,05	465
<b>GOV</b>	50,51	45,84	98,56	6,97	22,28	465

Characteristics of financial variables will be discussed in the beginning of this section. Having an average of 4,98 and a median of 4,53 ROA is highly positive over the study period. Reporting a mean Market to Book ratio (MBR) of 3.62 means firms are clearly overvalued in comparison to their book equity worth. The study's control variable size, reports mean of 7.84 and a median of 7.92. The mean leverage of 0.24 shows that the average debt capital to equity capital ratio of the enterprises in the data sample throughout the study period is 24%. While showing a median asset turnover of 0,93, the mean asset turnover of 1,02 demonstrates the reasonably efficient use of assets to produce revenue over the study period.

The table's CSR data section reveals that although the ESG ratings are generally quite high across all three dimensions, there is a noticeable variation between maximum and minimum values. The table's minimum and maximum columns demonstrate that, on a scale from 0 to 100, the organizations highly engage in CSR activities score above 75, while the companies with lower CSR performance score below 25. The social and environmental aspects of ESG have, on average, yielded the highest results, with values of 60,35 and 60,01, respectively. With a mean score of 50.51, the corporate governance factor seems to have the lowest performance.

## 5.2 Methodology

While all publicly traded companies in Finland were considered for the duration of the sample, data for certain companies was not accessible for a few years. As a result, while some companies remain during entire study period from 2010 -2022, some companies remain for shorter period. Therefore, the sample of data represents unbalanced panel data. During the analysis part fixed effects for year and industry is used. Regression models with fixed effects have some variables that remain constant for all people or groups in the sample. Put differently, when it comes to industry fixed effects, different industry groups are permitted for the regression's intercept. To account for unobserved industry-specific traits that might be connected to the independent variables, fixed effects are applied. According to Sassen, Hinze & Hardeck's (2016) methodology, year and industry fixed effects are employed to account for fluctuations of the global economy that can directly affect enterprises' economic health throughout the duration used for data collection.

### 5.2.1 Variables

Financial ratios are used as dependent variable in the analysis part of this study, which looks at how Finnish companies' CSR performance affects their economic results. To evaluate the kind of influence the CSR has on profitability and the value of the business, economic results will be segregated based on their origin. Following the research methodology used by Velte (2017) Return on Assets (ROA) is used to indicate profitability. ROA represents the corporation's profits compared to total assets. ROA is computed as follows:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}} \quad (1)$$

Although ROA is a helpful indicator when assessing inner economic viability, it solely takes historical performance of the organisation into account. ROA is frequently criticized by scholars for being backward (Ely, 1995). Compared to account-based metrics like ROA, the MBR has a

greater forward-looking because it looks ahead. It is regarded as a market-based measure since it combines accounting values with investor expectations. The market to book ratio (MBR) may be a more accurate measurement because it incorporates a company's current and real-time financial performance. According to Aras & Yilmaz (2008) investors frequently use the MBR to show how the market views the valuation of a particular share. The MBR is a financial valuation index that measures the present value of a share against its book value (Pontiff & Schall, 1998). In a situation where the efficient market hypothesis holds, the company's share price captures every detail available in the market, including future profits forecasts, and so can be widely accepted (Sewell, 2011). The ratio is computed using the formula below:

$$\text{Market to Book Ratio (MBR)} = \frac{\text{Market Capitalization}}{\text{Book Value of equity}} \quad (2)$$

The present study investigates how corporate social responsibility (CSR) influences economic results by considering company value and profitability into account. Return on Assets is employed as the dependent variable in the regression models, which measure linkage between CSR and profitability. Using MBR as the dependent variable, the second series of regression models investigates how will be the link between firm valuation and social responsibility.

Since the endpoint of this study is to establish whether higher CSR performance leads to improved financial results, the ESG score is employed as the regression model's independent variable. We adopt ESG as a measure of CSR since Han, Kim & Yu (2016) identify ESG as the most widely used CSR metric in the literature. Because the ESG score will be used as a proxy for corporate social performance, it is expected that ESG factors completely account for it. Furthermore, the terms CSR and ESG are used interchangeably because the thesis does not attempt to discriminate between the two.

Regressing both financial ratios; ROA and MBR on the total ESG metric is the main concept of the regression model. To go into further detail on the specific ways that certain ESG factors impact financial performance. ESG dimension ratings are used as independent variables in additional regressions. The values provided for each independent variable are the ESG scores for each firm-year observation that were retrieved from the LSEG data repository.

Regression models incorporate a collection of control variables to address the potential influence of other features outside of CSR performance. Asset turnover, leverage, and the size are utilized for the current investigation in that purpose. Given that prior research has demonstrated that smaller businesses typically exhibit lower levels of CSR activities than larger organizations, The size of the company is treated as a meaningful control variable (Waddock & Graves (1997). Moreover, stakeholder engagement in a company's CSR initiatives may be correlated with its size (Velte, 2017). The log value of total asset is used to determine its size, in accordance with Guenster, Bauer, Derwall & Koedijk's (2011) methodology:

$$Size = \log(\text{book value of total assets}) \quad (3)$$

Because prior research suggests that corporations with significant leverage prefer to reveal greater details about corporate social responsibility, leverage is utilised as a control variable since financial institutions are paying them more attention (Atan, Alam, Said & Zamri, 2018). Leverage reduces the cost of financing and boosts corporate profitability. However, according to investment theory, leverage is another way to think of risk in an organisation, which is something that should be closely related to a company's market-based economic success.

The leverage can be computed as follows:

$$Leverage = \frac{\text{Book value of total debt}}{\text{Book value of total assets}} \quad (4)$$

Another crucial control variable to consider in this study is asset turnover. How asset turnover affects corporate performance, as noted by McGuire (1988) indicates that the organization is performing well and is making effective use of its resources. According to Nofiana (2020), a business's resources and operating circumstances improve with a higher asset rotation rate. By taking into consideration variations in asset utilization amongst enterprises, employing asset turnover for a control variable, it is possible for researchers to understand how social responsibility initiatives affect financial results.

$$\text{Asset Turnover} = \frac{\text{Net operating Income}}{\text{Average Total Assets}} \quad (5)$$

As explained in the beginning of this chapter, all the enterprises in the collection are classified under 11 groups based on the Helsinki Stock Exchange categorization benchmark adhere to the strategy of Choi & Wang, (2009). Regression models include the impact of industry differences as an extra categorical variable. Lastly, since market capitalization is thought to be significantly influenced by company profitability, regression models that employ MBR also incorporate ROA as an extra control variable. This strategy is consistent with Guenster, Bauer, Derwall & Koedijk (2011). Similarly, MBR functions as an extra control variable for the second set of regression equations.

### 5.2.2 Regression models

Of the two fundamental sets, the financial outcomes for the first set of models are represented by ROA, while the financial results for the second set of models are represented by MBR. Hence,  $ROA_{i,t}$  is the dependent variable,  $\beta_1 - \beta_7$  indicate the coefficients of the variables.  $ESG_{i,t}$  is the key independent variable for equation (6) that represents the total ESG. The models (7), (8), and (9) are built by replacing  $ESG_{i,t}$  with  $ENV_{i,t}$ ,  $SOC_{i,t}$  and  $GOV_{i,t}$  respectively, to evaluate specific dimensions of ESG for regression analysis. In this model,  $MBR_{i,t}$  is added as

an extra control variable. The industry dummy for company  $i$  is  $IND_i$  while the year dummy for year  $t$  is  $YEAR_t$ . Finally, the error term is given as  $\varepsilon_{i,t}$ .

$$ROA_{i,t} = \alpha + \beta_1 ESG_{i,t} + \beta_2 Size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 ATurnover_{i,t} + \beta_5 MBR_{i,t} + \beta_6 IND_i + \beta_7 YEAR_t + \varepsilon_{i,t} \quad (6)$$

$$MBR_{i,t} = \alpha + \beta_1 ESG_{i,t} + \beta_2 Size_{i,t} + \beta_3 Lev_{i,t} + \beta_4 Aturnover_{i,t} + \beta_5 ROA_{i,t} + \beta_6 IND_i + \beta_7 YEAR_t + \varepsilon_{i,t} \quad (10)$$

Models (10) employ the Market to Book ratio to represent market-based financial results indicated by  $MBR_{i,t}$ .  $ROA_{i,t}$  is the extra control variable in this model. The remaining variables are identical to those in models (6). In models (11), (12), and (13)  $ESG_{i,t}$  is substituted by  $ENV_{i,t}$ ,  $SOC_{i,t}$  and  $GOV_{i,t}$  to create models (11), (12), and (13) to identify the link at the individual dimension level.

Regression models (6) through (9) examine how CSR affects accounting-based monetary achievements, while models (10) through (13) assess how CSR affects economic outcomes based on the market.

## **6 Research Findings**

The findings from the investigation's empirical phase are described in the current section. First, using information from the initial set of regression equations that make up ROA, the effect of CSR on accounting-based economic results is explained. The following section argues how CSR initiatives affect market-based financial performance using data from next set of regression models that includes MBR.

### **6.1 CSR and Profitability**

When comparing the regression findings obtained against overall ESG, social, environmental, and governance using the regression equations (6) - (9), Table 3 illustrates how CSR influences profitability. The first model in table 3 is regression model (6), which depicts the association between overall ESG and business profitability, whereas models (7), (8), and (9) depict the relationship between each dimension of ESG and firm profitability.

**Table 3.** Relationship between CSR – profitability (ROA)

Variable	Firm Profitability (ROA)			
	(6)	(7)	(8)	(9)
ESG	0,007198 (0,7622)			
ENV		-0,006305 (0,7862)		
SOC			0,026510 (0,1612)	
GOV				-0,002624 (0,8696)
Size	0,760935 (0,3307)	0,84129 (0,2793)	0,661079 (0,3918)	0,831279 (0,2874)
leverage	-19,83617 (0,0000)	-19,8078 (0,0000)	-19,32876 (0,0000)	-19,96359 (0,0000)
Asset Turnover	1,407822 (0,2863)	1,366225 (0,3003)	1,629249 (0,2192)	1,381805 (0,2944)
Market to book ratio	0,070524 (0,1347)	0,071141 (0,1315)	0,068419 (0,1458)	0,071006 (0,1323)
Intercept	1,391682 (0,8402)	1,587757 (0,8182)	0,669352 (0,9227)	1,434453 (0,8353)
Industry fixed effect	yes	yes	yes	yes
Year fixed effect	yes	yes	yes	yes
R-squared	0,748666	0,748652	0,750134	0,748615
F-statistics	12,88117	12,8802	12,98226	12,87769
Number of Observations	465	465	465	465

Column (6) of the table shows that overall ESG has very weakly positive and insignificant relationship with ROA, indicating that it does not exist solid proof that ESG elements have a favourable impact on accounting-based results upon the data analyzed, implying, the observed 0,007198 relationship could be due to random chance rather than a real relationship between ESG and ROA. Regression models (7) and (9) show a slightly negative relationship, while model (8) shows a slightly positive relationship, implying that the data table shows social dimension has a weakly positive favorable impact on profitability, while the environmental and

governance dimensions have weakly negative relationships with firm profitability. Total, the findings show that neither the ESG elements nor the total ESG are a significant predictor of profitability evaluated as ROA.

firm size reports a positive coefficient when it considers overall level as well individual dimension level. According to the data, a firm's accounting-based financial performance improves with larger firm size. One probable argument could be that enterprises gain from their size through economies of scale. However, the data are not statistically significant, that means proof is not sufficient to express that company size has a significant effect on profitability. The impact of leverage on ROA is strongly negative and statistically significant, maybe because badly performing enterprises are compelled to rely excessively on debt financing, which reduces profitability due to high interest payments. Like the coefficient of control variable size, the control variable Asset turnover is also positive and statistically negligible throughout every regression model. It implies the companies are running well and making good use of their resources. There is insufficient data to draw any firm conclusions because the results are statistically meaningless that asset turnover has a major impact on ROA; perhaps this is due to random variation rather than a meaningful link. MBR is positively related to ROA, implying that business value rises in tandem with profitability, as one might predict.

The R-squared score of the regressions is comparatively high, approximately 75% across all four regression models, which means the factors of the regression model explains comparatively high proportion of variability in Return on Assets, implying that models explain a significant amount of variance.

## 6.2 CSR and business value

Table 4 summarizes the findings of the second set of regression equations that analyzed the association between CSR and market-based financial outcomes. Again, the four regressions have been developed using the overall and individual ESG dimension values. Table 4's first model is the regression model (10), which reflects the impact of overall ESG firm value, whereas models (11) through (13) indicate the linkage between individual ESG components and business value.

**Table 4.** Relationship between CSR – firm value (MBR)

Variable	Firm Value (MBR)			
	(10)	(11)	(12)	(13)
ESG	0,007234 (0,7974)			
ENV		0,015665 (0,5692)		
SOC			0,011157 (0,6069)	
GOV				0,011438 (0,5453)
Size	-1,408172 (0,1281)	-1,446309 (0,1158)	-1,422756 (0,1201)	-1,466428 (0,1125)
Leverage	0,66702 (0,8828)	0,495591 (0,9128)	0,821594 (0,8562)	1,054308 (0,8176)
Asset Turnover	-2,894956 (0,0637)	-2,880529 (0,0646)	-2,80784 (0,0742)	-2,918205 (0,0609)
ROA	0,098929 (0,1347)	0,099709 (0,1315)	0,096481 (0,1458)	0,099492 (0,1323)
Intercept	16,60344 (0,0416)	16,39022 (0,0444)	16,32823 (0,0456)	16,84415 (0,0385)
Industry fixed effect	yes	yes	yes	yes
Year fixed effect	yes	yes	yes	yes
R-squared	0,6577	0,657977	0,657913	0,658021
F-statistics	8,308819	8,31903	8,316682	8,320679
Number of Observations	465	465	465	465

The findings of Table 4 are in a way identical to the results of table 3. The coefficients of all four models are somewhat positive but statistically insignificant. There are favorable correlations between business value and ESG at both the overall and individual dimension levels. Nevertheless, because the findings are statistically insignificant, proofs are barely sufficient to reject the null hypothesis, concluding that neither the ESG aspects nor overall ESG performance is a significant factor of company value assessed as MBR.

The coefficients of company size are unfavourable and statistically insignificant in each of the four cases. This suggests that the market values tiny enterprises ahead of bigger, reputable businesses. Leverage has a favorable association with business value across each model, although it is statistically insignificant. Perhaps due to the low cost of capital and the capacity to capitalize on growth possibilities, the market may perceive leverage as a sign of confidence. Meanwhile, asset turnover has a negative connection in all four models. Firms with significant asset turnover may receive valuation reductions from the market because the market believes they are less focused on long-term value generation. ROA has a positive relationship with MBR, demonstrating that profitability rises in tandem with company value, as one should anticipate.

R-squared values are relatively high, at around 65% for each regression model, which means factors of the regression models explain a significant amount of the variability in MBR. This means that models account for a considerable part of variance, mostly through control factors such as company size, leverage, asset turnover, and ROA.

### 6.3 Discussion

The previous chapters presented the results of two types of regression models utilized to show the linkage between CSR and economic success utilizing publicly listed corporations on the Helsinki share market. The regression results prove the nonexistence of meaningful association between CSR and economic success at both the accounting and market levels. The statistical insignificance coefficients for the ESG variables as per table 3 explains the non-availability of meaningful linkage between CSR and accounting results. Similarly, the coefficients in table 4 reveal statistically insignificant associations across all four dimensions, implying that non existing of a statistically significant effect on the company's equity either. This suggests that neither total ESG nor particular aspects have a major impact on business profitability or value.

The following are the major research hypothesis described under first chapter:

H1: Corporate social responsibility has a positive effect on financial performance

The primary hypothesis is examined in this study's methodology by evaluating the correlation amongst a company's overall ESG score with two distinct financial achievement indicators, ROA and MBR. Evidence is not sufficient to reject the null hypothesis claiming there is no favourable association between CSR and CFP, as the total ESG score does not appear to have a meaningful impact on ROA or MBR.

The primary hypothesis was split into the following three categories to provide more detail on the impact of each ESG component on the economic benefits of business entities:

H1a: Corporate social responsibility's environmental dimension has a positive impact on financial performance.

H1b: Corporate social responsibility's social dimension has a positive impact on financial performance.

H1c: Corporate social responsibility's governance dimension has a positive impact on financial performance.

In line with the main idea, the three assumptions are examined scientifically by investigating the correlation between each individual dimension of ESG with ROA and MBR. The findings demonstrate nonexistence of significant correlation between any of the individual ESG factors with either ROA or MBR. As a result, similar to the main hypothesis, available proofs are barely sufficient to reject the null hypothesis of three sub hypotheses, indicating that there is no meaningful association between any one aspect of ESG and financial performance. During the sample period, CSR did not make a significant impact on company profitability of Helsinki Stock Exchange-listed enterprises at either the overall ESG level or the individual component level. Similarly, the CSR activities do not result in improved business value of corporations listed on the Helsinki Stock Exchange at the overall ESG or individual component levels during the study period. The main conclusion deviates from the main hypothesis, which is predicated on the widely held belief among scholars regarding the relationship between CSR and CFP—namely, that CSR positively affects financial benefits.

Meaning that findings are similar to the prior literature who find no connection between CSR and CFP (Atan, Alam, Said & Zamri, 2018; Soana, 2011). Even though the positive correlation has been thoroughly demonstrated in academic study, the actual results of previous studies are not entirely consistent. Accordingly, this analysis's outcomes are not accordance with those of (Beck, Frost & Jones, 2018; Husted, Allen & Rivera, 2010; Ribstein, 2005; Miller, Eden & Li, 2020), who find CSR has a favorable influence on economic benefits. Similarly, the results differ from the findings of Friedman (1970) and Jensen (2002), who find negative relationship

between CSR and economic results. However, according to the investigations of Abbott & Monsen (1979); Patten (1991); Atan, Alam, Said & Zamri (2018); Soana (2011) evidence that there is no association between CSR and financial benefits may be obtained.

Geographical and chronological factors may explain the discrepancy of outcomes. This study is different from the findings of Miller, Eden, & Li (2020) analyze how CSR effects on financial performance considering a mature and well-established US market, while Beck, Frost & Jones (2018) conducts their research in well-established markets, specifically Australia, Hong Kong, and the United Kingdom, which are fundamentally different from Finland. The measurement of CSR and CFP may change among studies, resulting in varied outcomes. Other factors that can cause conflicting outcomes include sample sizes, time spans, cultural and market expectations, and methodological variations.

Furthermore, firms may engage in CSR efforts for reasons other than financial return, such as risk mitigation, reputation management, or ethical considerations. In some circumstances, Finnish businesses may prioritise CSR projects that are consistent with their strategic goals or stakeholder expectations rather than those that provide the biggest financial return. As a result, the influence of CSR on economic results may be diminished if CSR concerns are predominantly motivated by non-financial considerations.

When examining the CFP's impact on each factor individually, only the social dimension increases profitability, whereas the ecological and governance dimensions report an unfavourable effect on profitability. Because the findings are not statistically significant, we must believe that neither dimension of ESG has a substantial impact on profitability. Similar to this study, in 1980 Chen & Metcalf discover that corporation's environmental performance has no influence on financial outcomes. However, the bulk of findings contradict previous research

that found negative (Makni, Francoeur & Bellavance, 2009; Lee, Kang & Kim, 2018) and positive links; (Guenster, Bauer, Derwall & Koedijk, 2011; Velte, 2017). Furthermore, when it comes to CSR and business value, individual dimensions show marginally positive associations. However, the negligible associations suggest that none of the individual dimensions of ESG have a major impact on business value.

## **7 Conclusions**

This chapter presents a thorough analysis about the investigation and a critical evaluation of the findings, bringing the investigation to a close. The key conclusions derived from the analytical section of the study are outlined in the beginning of the chapter. The topic of practical and theoretical constraints encountered during the research was then discussed. The thesis concludes with an appraisal of potential directions for further investigate on the same theme.

### **7.1 Summary of findings**

The notion of CSR begun in several decades, starting in the 1950s or perhaps earlier. While some academics contend that a corporation's key duty is to increase the prosperity of its shareholders alone, the majority of scholars contend that because businesses are integrated into society and have an impact on the environment, society, their responsibilities extend beyond simply wealth maximization of their shareholders. Additionally, the modern society is more concerned with social welfare and the environment, and even while eco-friendly goods and services cost a little more than conventional goods, customers are still wanting to compensate for them.

As a result, ecologically conscious companies are valued more highly by the public than traditional ones. The Nordic area is particularly concerned with environmental issues and social responsibilities because social responsibility has grown in importance for companies looking to stay competitive in the market. Consequently, businesses are forced to increase their CSR efforts and make them public. The question of whether businesses should be accountable to their stakeholders has been replaced with one of whether their CSR efforts would pay off financially for the organisation in the long run.

Determining if CSR enhances economic results of corporations is the aim of the research. The subject is extensively explored in academic literature in a wide range of geographical, industrial, situational, and temporal contexts. Prior studies produced empirical evidence that was somewhat inconsistent while majority find positive link. Upon reviewing the literature, it became apparent that the type of the CSR-CFP association in the Finnish context had not been adequately addressed. What makes Finland particularly fascinating is that it is one of the leading countries who engage in CSR activities. By utilising the most recent data available, this study investigates the CSR-CFP relationship in Finland, thereby bridging the obvious gap in the literature.

The observational results of the current research establish that there is no significant correlation between CSR and profitability in Finland. Similar outcomes were discovered between CSR and business value. When one delves deeper into each aspect of CSR, the same outcomes emerge for profitability and business value. That is, none of the three aspects have any considerable influence on profitability or business value. Overall, it is reasonable to conclude non-existence of meaningful association between CSR and economic benefits in Finland.

Overall, the outcomes of the current research present additional evidence for non-availability of linkage between CSR and financial performance, as reported in some earlier academic studies. The nature of the linkage between CSR and economic benefits has formerly been investigated in a variety of geographical locations, but not in Finland. Finland was selected as the study's primary focus since it is a pioneer in CSR matters. Moreover, the analysis utilises the latest data collection that is accessible, covering the years 2010 to 2022, to offer an up-to-date evaluation of the association between CSR and financial benefits.

## 7.2 Limitations and Suggestions

The study's purpose is to see if CSR improves financial performance of businesses in Finland. A large amount of scholarly literature has examined the subject in a variety of contexts such as geographical area wise, industry wise, situation wise. However, the empirical data provided by previous studies is quite inconsistent. The research has yet to address the evidence for a CSR-CFP link in Finland. To solve this issue, the current study is analysed data from 2010 to 2022. The LSEG database is used to gather financial and CSR data in order to determine whether or not CSR improves the financial performance of Finnish businesses and how important each ESG factor is in relation to financial success.

There are several perspectives from which to view the CSR-CFP link. While majority finds positive link, negative, neutral and U-shaped relationships also evident from literature. The link is not straightforward and can vary greatly among countries, markets, sectors, and even historical periods or the situation. Based on the findings of past research, a well acknowledged theoretical framework that demonstrates the essential reality of the association between CSR and financial benefits is very challenging to be developed.

During the research, various potential hurdles are identified. The most important issue to overcome is the difficulty in evaluating whether financial performance is caused by the ESG rating or other factors. This is extremely tough to verify because of the multiple factors that can influence a corporation's financial benefits. ESG evaluations typically have an indirect impact on the organisation via multiple stakeholders rather than an immediate one.

The study's second flaw is that its approach might not have completely taken into account the possibility that leaving out an additional factor that is connected to CSR performance could

have an impact on the regression's results. It plays a crucial role in figuring out financial performance as well. R&D and innovation efforts within a corporation are one instance of a missing variable of this kind. The following constraint relates to sample selection. Small and non-listed companies are automatically excluded from the study because the study only intended to collect data from publicly traded corporations. Corporations having poor CSR accomplishment may be less willing to submit the CSR data required to estimate the ESG results. Non-listed and less ethical companies may therefore be neglected in the sample, making it an inaccurate picture of Finland.

This investigation can be used as a beginning point of conversations on how CSR affects businesses in Finland. The other approaches, strategies, and circumstances used in previous analyses that covered other regions of the world offer fascinating new research opportunities for Finland. The topic should be examined more in underexplored parts of the world like different geographical areas, different industries. The current research observes at the association between CSR and economic benefits utilizing most typical control variables in the literature. Therefore, another intriguing extension to this research may be include previously recognized missing variables like investments on research and development activities and many more, for future studies. This may be a crucial factor when determining the connection between CSR and economic outcomes. This study utilizes only the data obtained by LSEG data base; hence it would be fascinating to conduct the research to see how linkage would be deviate if some other indicators of CSR success were used instead of the ESG grading provided by LSEG. Overall, there are numerous prospects for upcoming researchers to examine the association between CSR and economic benefits.

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