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# Corporate Social Responsibility and Financial Performance in Europe: The Moderating Effects of Industry, Culture, and Governance

Veda Fatmy | Venla Haavisto | Janne Äijö

School of Accounting and Finance, University of Vaasa, Vaasa, Finland

**Correspondence:** Veda Fatmy (vfatmy@uwasa.fi)

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## ABSTRACT

This paper investigates the relationship between corporate social responsibility (CSR) and financial performance for European firms, and the moderating roles of industry and country-specific factors in this relationship. Studying a sample of 2340 companies across 18 countries, we find Environmental, Social and Governance (ESG) scores to positively and significantly relate to both profitability and firm value, and that this relationship is significantly moderated by industry ESG sensitivity. Additionally, we show that firms in culturally CSR-rewarding countries have a significantly stronger relationship between their social and financial performance. We also find that country-level shareholder orientation positively moderates the relationship between CSR and firm performance, which is largely driven by the effects of good corporate governance on profitability and firm value. Overall, our findings suggest that policymakers need to account for country and industry-level effects to effectively improve the link between corporate sustainability and performance.

**JEL Classification:** M14, G32, L25, Z13

## 1 | Introduction

In recent years, corporate social responsibility (CSR) has become increasingly relevant to non-financial, financial, and market success. Representing the sum of a company's efforts in environmental sustainability, social responsibility, and attentiveness to the needs of both stakeholders and shareholders, CSR theoretically promises long-term benefits in areas ranging from higher firm reputation (Miller et al. 2020), to reduced litigation (Chakraborty et al. 2023) and environmental cleanup costs (Flammer 2013). These benefits are also evidenced in higher operating performance and market values. On the other hand, results indicating a negative, insignificant, nonlinear, or non-direct connection between social and financial performance also have to be acknowledged (Quéré et al. 2018; Ting and Yin 2018; Ghosh et al. 2023, 2024; Pareek et al. 2025, etc.). Variations may be attributed to differences in attitudes and expectations toward CSR based on external factors such as industry or region. In this paper, we re-examine the relationship between corporate social and financial performance for European firms, and determine whether industry sensitivity and country-specific social and governance factors affect this relationship.

Corporate social responsibility and its financial implications have found broad interest due to growing relevance and necessity. The works of academics reviewing literature on the effects of CSR on financial performance (Orlitzky et al. 2003; van Beurden and Gössling 2008; Margolis and Walsh 2003) present a strong business case for investments in CSR. These results are underpinned by compelling theoretical explanations for the financial benefits of CSR. Specifically, the legitimacy theory and the institutional theory both argue that conformity to

societal expectations and institutional standards is necessary for long-term success (Hogner 1982; DiMaggio and Powell 1983). Moreover, the stakeholder approach advocates for increasing the firm's sphere of accountability to a broader set of stakeholders to improve organizational performance, and the resource-based view proposes that the accumulation of valued strategic and human resources that provide long-term competitive advantages, and the reduction of various business and legal risks (Bowman and Ambrosini 2003).

However, businesses are subject to different social and regulatory environments, which impose unique operating conditions, altering the outcomes of their investments. For instance, the concept of attitudes, risks, and investment burdens related to CSR varying across industries is widely accepted in literature and practice. Dabic et al. (2016) provide a review of the aforementioned literature, noting that industry has a significant impact on the firm's engagement in CSR (Rowley and Berman 2000; O'Connor and Shumate 2010; Holder-Webb et al. 2008; Amato and Amato 2012, etc.), and that higher engagement may be driven by exposure to issues of activism (Hendry 2006) and policy or regulatory requirements (O'Connor and Shumate 2010). Industries that rely on the direct use of environmental resources such as Energy, use heavy equipment, or operate in large facilities, such as Utilities and Materials, are plausibly subject to stricter sustainability and social responsibility requirements. The relevance of industry for different dimensions of CSR is also acknowledged by ratings agencies such as LSEG (formerly known as Refinitiv), which publish Environmental, Social and Governance (ESG) scores, and weight metric scores in the Environmental and Social pillars of ESG based on industry materiality.

Differences in the importance of CSR across industries can be quantified by ways industries differ in their exposure to ESG-related risks and expenses, or whether the industries can be considered inherently anti-ESG. The former is more commonly referred to as ESG-sensitivity, and distinguishes between firms most and least affected by environmental regulations. The latter classifies industries as contested, or anti-ESG, if they deviate from socially acceptable practices, such as gambling or alcohol. Zaiane and Ellouze (2023), who study differences in the effects of CSR on financial performance across industries for European firms note that the perception of anti-ESG may vary between cultures, and argue that ESG-sensitivity is a more homogenous metric in a cross-country sample. Following their methodology, we study the effect of industry differences using environmental sensitivity as a metric to categorize firms into sensitive and non-sensitive industries. In doing so, we address the research question of whether firms that are sensitive to environmental risks and regulations experience a negative relationship between sustainability and firm performance due to more stringent industry regulations and higher stakeholder expectations.

Similar to how industry characteristics could affect the relationship between CSR and financial performance, regional or country-specific factors can also provide valuable information and potentially moderate the CSR-CFP link (Baughn et al. 2007; Cai et al. 2016; Stellner et al. 2015, etc.). Among region-specific characteristics that may be measured more precisely are statutory and regulatory conditions that impose frameworks for the company's environmental behavior or governance, and measures of economic development that determine the prioritization of sustainable growth among managers, stakeholders, and investors. Characteristics not as easily measured are values and collective behaviors that lend themselves to low or high estimations of sustainable business practices. The Hofstede cultural dimensions (Hofstede 1981, 1991) can be used to attempt to capture these differences in national culture, and have been widely applied in literature across various disciplines, including Finance (Karolyi 2016; Zheng et al. 2013; Boubakri et al. 2016; Chui et al. 2002; Eun et al. 2015; Shao et al. 2010, etc.). From the findings of these studies, it is evident that various elements of national culture may significantly impact organizational behavior and outcomes. However, studied separately, the results provide little guidance to policymakers. Given the complex nature of national cultural identity, it is worth investigating the research question of whether a measure that combines various elements of culture can reliably be shown to affect the relationship between sustainability and performance.

The study addresses three main gaps in existing research. First, we add to the extant literature on the relationship between corporate social and financial performance, and document significant effects of industry sensitivity on the relationship between CSR and firm value. We also delineate the effects of industry sensitivity on the relationship between each pillar of CSR and financial performance. With industry exposure to ESG risks having been evidenced to affect the link between CSR and profitability (Zaiane and Ellouze 2023), it is also important to determine whether investors are particularly sensitive to it, and whether the market overvalues companies in low exposure industries. And by disentangling the effects of industry exposure on the three pillars of CSR and their link with firm performance, we can learn whether the effects of these risks, which are mainly related to environmental sustainability, extend to other dimensions of social responsibility.

Second, we add to the literature on the moderating role of culture in the relationship between social and financial performance. Previous studies obtain separate coefficient estimates for each Hofstede cultural dimension (Hofstede 1981, 1991, 2011) as a moderator of social and financial performance (Sun et al. 2018; Shi and Veenstra 2021; Shin et al. 2023). However, countries possess a mix of cultural characteristics that can both positively and negatively impact the effects of corporate social activity. The significance of each cultural dimension on the outcome of engagement in CSR is therefore not as meaningful for investors and policy makers as the combined representation of country culture. To address this need, we configure a novel measure of overall cultural acceptance and encouragement of CSR using an adjusted cumulative of the Hofstede cultural dimensions. This measure indicates whether CSR is altogether more or less expected or rewarded within a country.

Third and finally, to the best of our knowledge, we are the first to study the moderating effects of country shareholder orientation, measured by the anti-director rights index (ARDI), and the anti-self-dealing index (ASDI) on the effects of CSR on financial performance. While CSR may be framed as incongruent with the aim of shareholder wealth maximization in the short term, the regulation of shareholder protection provides a

baseline standard of good corporate governance, which can reduce agency concerns as well as other potential cases of mismanagement. Therefore, it is worth examining the effects of operating in environments with stronger institutionalized governance mechanisms on the financial efficacy of CSR.

In line with previous studies on European samples (Karmani and Boussaada 2021; De Lucia et al. 2020), our results indicate that firms with higher ESG are more profitable, and have higher value. In addition, we find that while the overall ESG score has a stronger positive effect on value in non-ESG-sensitive industries, there is little difference between the effects of ESG on profitability across sensitive or non-sensitive industries. Moreover, performance in the Environmental pillar of ESG seems to be more strongly positively related to value and profitability in ESG-sensitive industries. Additionally, culture, measured by a combination of Hofstede's six dimensions (Hofstede 1981, 1991, 2011), is shown to have significant effects on the relationship between social and financial performance. Lastly, we show that country shareholder orientation has a significant, positive impact on how overall ESG, and especially the Governance pillar of ESG, affects firm value and profitability.

## 2 | Prior Literature and Hypothesis Development

CSR has been studied extensively for its effects on firm performance. Prior literature has investigated its relation to operating performance (Lee and Jung 2016; Price and Sun 2017; Wang et al. 2016; Taddeo et al. 2024; etc.), firm values (Buchanan et al. 2018; Jo and Harjoto 2011), and stock market performance (Dorfleitner et al. 2018; von Arx and Ziegler 2014; etc.), and risk-adjusted stock returns (Becchetti and Ciciretti 2009; Alexander and Buchholz 1978; etc.). Positive effects uncovered are in addition to, if not on account of several identifiable nonfinancial benefits, including reduced risk (Jo and Na 2012; Kim et al. 2021; Lu et al. 2022, etc.), improved reputation (Sirsly and Lvina 2019; Zhang et al. 2021), reduced information asymmetry (Cui et al. 2018), technological innovations of products and processes (Bocquet et al. 2017), and employee productivity (Sun and Yu 2015; Gubler et al. 2018). While the current evidence is not entirely congruent, it sufficiently motivates expectations of higher performance from socially responsible firms.

These expectations are not solely based on empirical evidence, but also have established theoretical foundations. The legitimacy theory proposes that firms wishing to succeed in the long term must build organizational reputation and legitimacy within their communities through behaviors that reinforce value to their stakeholders (Hogner 1982; Helm 2013). Using this theory to explain the value creation of CSR hinges on the assumption of some pre-existing importance of socially responsible corporate activities in the community, which lends credence to the argument that the effects of CSR are influenced by societal values. Nevertheless, a base level of social regard for socially and environmentally friendly practices and good governance is expected in most countries, supporting the idea that these practices are rewarded in the market.

Similarly, the institutional theory attributes the value-creating and rewarding properties of CSR to external influences. More specifically, it moves the focus away from broader societal standards, and toward a narrower circle representing the direct dealings of the firm, namely its industry peers, suppliers, customers, and regulatory bodies (DiMaggio and Powell 1983). Conforming to institutionally supported values can give firms better strategic opportunities in the supply chain, and better access to resources (Scott 1987). As the legitimacy theory suggests that firms operating within the same or similar social environment will move toward more homogenous levels of social performance to meet community expectations, the institutional theory indicates that firms within a similar regulatory environment or industry may also adopt similar levels of CSR. Therefore, both theories not only explain how CSR may be related to higher profitability and firm value, but also why this relation may vary by geographical or cultural regions, and industry.

The resource-based perspective of CSR additionally proposes more direct, internal channels of performance efficiency and value creation. This theory delineates ways in which engaging in socially responsible behaviors provides firms with important strategic and competitive advantages. Higher CSR generates intangible value through the development of corporate culture, employee satisfaction and productivity, and knowledge and capabilities that contribute to a pool of nonreplicable resources (Branco and Rodrigues 2006; Bowman and Ambrosini 2003). Through improved human resource management, managerial agility, and informational advantages for production and environmental processes, these resources can improve both operating performance and the firm's perceived value in the market (Branco and Rodrigues 2006).

Based on the theory and evidence provided thus far, we hypothesize a positive relationship between CSR and firm performance, stated as follows.

**Hypothesis 1.** *CSR is significantly and positively related to profitability and firm value.*

Following the implications of the institutional theory, the level of social responsibility expected from a firm is assumed to vary across industry. Variations may range from insignificant too large for each group or sector, and a portion of literature on the subject is devoted to the study of CSR in specific industries (Jiang and Wong 2016; Levy and Park 2011; Rhou et al. 2016; Casado-Díaz et al. 2014; Palazzo and Richter 2005, etc.). When categorizing industries into larger clusters, the focus is largely on the classification of controversial or contested industries (Jo and Na 2012; Cai et al. 2012; Kilian and Hennigs 2014; Jansen et al. 2024, etc.), which represent anti-ESG, or more accurately, anti-moral products and activities such as tobacco, alcohol and gambling. Industries may also be clustered by their sensitivity to ESG-related risks and expenses, which more directly represents the variation in CSR and its effects predicted by the institutional theory.

How industry ESG sensitivity affects the relationship between CSR and firm performance has not been conclusively evidenced in extant literature. Ahsan et al. (2022) find that ESG sensitivity increases the effects of CSR on firm value in a sample of 861 Chinese firms. On the other hand, Zaiane and Ellouze (2023) study a sample of 407 European firms and show that ESG

sensitivity does not significantly moderate the relationship between CSR and firm value. It must be noted that ESG sensitivity is mainly driven by industry sensitivity to various environmental risks, regulations, and expenditures. Firms that are greatly exposed to such risks may be at a disadvantage compared to firms that have to meet laxer regulations and expectations (Garcia et al. 2017; Reverte 2009). This burden of expectations may reduce or interfere with the operational efficiency of firms with higher ESG. Therefore, we hypothesize the following:

**Hypothesis 2.** *The positive effects of CSR on profitability and firm value are stronger in non-sensitive industries.*

Attitudes and expectations of social responsibility may depend on societal values, which are built and reinforced through culture. Several studies utilize the Hofstede's cultural dimensions (Hofstede 1981, 1991), which represent six measures of collective values. The literary exploration and resulting evidence on the moderating role of cultural values in the relationship between social and financial performance is inconclusive. In a global sample of 27 countries, a mix of 17 developed and 10 emerging economies, DasGupta and Roy (2023) find that the values of Individualism, Masculinity, Uncertainty Avoidance, Long-term Orientation and Indulgence positively moderate the relationship between CSR and firm performance, and that the Power Distance Index negatively moderates it. Meanwhile, in a global sample of 41 countries, Shi and Veenstra (2021) find Indulgence to in fact have negative influence the link between CSR and firm performance. More recently, Shin et al. (2023) find that Masculinity, Individualism, and Indulgence exert a positive force on the relationship between social and financial performance, while Power Distance and Long-term Orientation negatively affect it.

A possible explanation for the results of these studies conflicting with each other and with our argued effects is the potential for cultural or economic relativism in large samples to distort the observed effects of the Hofstede cultural dimensions. For example, Masculinity could very well have positive effects on the relationship between corporate social and financial performance in Asia, and these effects could be strong enough to subsume those observed in other continents or groups of nations. Additionally, countries that score higher on positively moderating cultural dimensions may also score higher on negatively moderating dimensions, diluting the significance of separate coefficient estimations. For these reasons, we investigate the role of culture on a relatively homogenous sample of 18 European countries, and construct a measure based on the adjusted cumulative results of the Hofstede cultural dimensions, which classifies countries as either *Rewarding Societies*, or *Non-Rewarding Societies*, based on the extent to which these countries facilitate and reward CSR.

## 2.1 | Rewarding Societies

The likelihood of corporations benefiting from their engagement in socially responsible activities is positively indicated by three of the six Hofstede measures. The first, Individualism versus Collectivism, represents whether each member of society has the freedom and power to influence their environment. Despite its name, Hofstede's measure of collectivism does not represent altruism or compassion toward the general community or the environment (Brewer and Venaik 2011), but instead refers to loyalty and cooperation within smaller in-groups, notably defined by interpersonal social relationships (Brewer and Chen 2007). Importantly, Triandis (2001) notes that collectivism leads people to prioritize their social bonds and in-group relationships, while individualism is characterized by a greater desire for justice. Therefore, corporate ESG activity, which furthers a sense of fairness or justice across a large sample of unrelated in-groups, and arguably at the expense of some in-groups (such as the deferment of immediate shareholder returns for stakeholder well-being and long-term value), is more likely to be facilitated and rewarded in Individualistic societies.

The second, Indulgence vs. Restraint, a relatively novel addition to the Hofstede cultural dimensions, indicates countries with greater personal freedoms and social acceptance of the fulfillment of natural human desires, as opposed to countries where these freedoms and desires are eschewed as deviations from tradition and duty (Hofstede et al. 2010). The freedoms afforded to persons in indulgent societies can foster higher empathy and compassion for strangers than in restrained societies, where a lower level of overall fulfillment is not something to be remedied, but endured. Luria et al. (2019) find that under the influence of efficient governments, Indulgence is positively associated with prosocial behaviors including donating, helping strangers, and volunteering.

The third, Long-term Orientation vs. Short-term Orientation measures a society's orientation toward the future as opposed to the past (Hofstede 1991). Long-term oriented societies are attuned to the potential for change, and have a tendency to act in the present in a manner that would more greatly affect future outcomes. In contrast, short-term oriented societies are anchored in the past, and align their morals and worldview with old traditions. Stronger long-term orientation would indicate greater societal regard for sustainable practices, which require present planning and investment for future longevity. The findings of Graafland and Noorderhaven (2020) confirm that long-term orientation is positively associated with CSR.

## 2.2 | Non-Rewarding Societies

The remaining three Hofstede cultural dimensions negatively indicate the likelihood of companies benefiting from their engagement in CSR. The first of these, Masculinity versus Femininity, represents collective behaviors modeled on attributes that may be considered masculine, namely competitiveness, force, and apathy toward the weak, as opposed to behaviors modeled on attributes that may be considered feminine, such as compassion and sympathy for the underdog (Hofstede 1991). A society defined by femininity would reward CSR efforts for their positive impact on the well-being of less powerful stakeholders, while a society defined by masculinity may consider these expenditures superfluous or unproductive. French and Weis (2000) confirm that femininity is associated with caring perspectives in decision makers in 5 out of 6 countries.

Secondly, Uncertainty Avoidance measures the society's collective aversion to unknown or ambiguous ideas, or activities that

deviate from tradition (Hofstede 1991). A country with high uncertainty avoidance is not financially risk averse, but rather less prepared to navigate situations without fixed rules, guidelines, and widely perceived social norms. In ethical contexts, higher uncertainty avoidance has been linked to less corporate whistleblowing (Cohen et al. 1992), and a lower perception of ethical dilemmas (Cherry et al. 2003). Voluntary engagement in CSR would be considered "uncertain," and therefore would not be rewarded in uncertainty avoidant societies.

Finally, the Power Distance Index is a measure of the widespread acceptance of unequal distribution of power within a society (Hofstede 1991). A higher score on the Power Distance Index indicates that members of a society are more tolerant of social inequalities, and of the established hierarchy. In such societies, less powerful stakeholders would be less likely to demand fairer, more equitable treatment from the firm. Cubilla-Montilla et al. (2019) find that the Power Distance Index reduces corporate transparency and is a strong negative indicator of the regulatory pressures toward sustainability.

Consequently, we hypothesize the following:

**Hypothesis 3.** *The positive effects of CSR on profitability and firm value are stronger in rewarding societies.*

Another factor that further distinguishes the countries in our sample is shareholder orientation. Similar to firm-level governance, which has been shown to moderate the link between CSR and firm performance (Mondal and Sahu 2025), country-level governance measures may also significantly impact the financial outcomes of corporate sustainable investments and practices. Measured by the country's score in the anti-director rights index (ARDI) and the anti-self-dealing index (ASDI) (Bilyay-Erdogan 2022; Djankov et al. 2008), shareholder orientation represents the number of protections present at a legal or regulatory level for corporate shareholders. Recognizing shareholders as an extension of the stakeholders whose interests are covered by the principles of CSR, and that shareholder protections lead to better firm governance which can improve CSR investment efficiency (Gompers et al. 2003; Bebchuk et al. 2008), it can be argued that high-CSR firms perform better in shareholder-oriented countries. Therefore, we present the following hypothesis regarding the moderating role of shareholder orientation.

**Hypothesis 4.** *The positive effects of CSR on profitability and firm value are stronger in shareholder-oriented countries.*

## 3 | Data and Variables

The data used in this study primarily consists of fundamental variables and ESG scores, which are obtained from LSEG. The six Hofstede dimensions of national culture are obtained from the Geert Hofstede website, and Worldwide Governance Indicators are obtained from the World Bank Group. After excluding five British Crown Dependencies, each of which has an insignificant number of firms and is not measured for Hofstede's cultural dimensions, or the ARDI and ASDI, the sample comprises 2407 companies spanning 29 countries. The distribution of the firms across these 29 countries, and the deviation of each country's ESG and pillar scores from the full sample average scores is presented in Table 1.

Firms are not evenly distributed across the 29 countries in our sample, with the United Kingdom having by far the largest share of 588 out of 2407 firms, while Bulgaria, Liechtenstein, and Slovakia have only 2 firms. Cyprus, Bulgaria, Iceland, and Malta noticeably underperform in CSR compared to the full sample, while Portugal, Spain, Italy, and France noticeably outperform in CSR. Since all regressions include country-fixed effects or are performed on larger, cross-country samples that share culture or governance, the variation in sampling from each country is not considered a source of bias in the empirical analysis. However, the data itself may be a biased representation of under-represented countries. To avoid such misrepresentation, countries with less than 25 firms in our sample are excluded, resulting in 2340 survivors across 18 countries. The distribution of these 2340 firms across industry and the deviation of each industry's average ESG and pillar scores from the full sample average scores are presented in Table 2.

The firms in our sample are fairly evenly distributed across 11 GICS industry sectors, namely Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities. Among these, Energy and Utilities have the lowest number of firms, 76 and 74 respectively. Despite their lower representation, the Energy sector modestly outperforms the overall sample in ESG and its pillar scores, while the Utilities sector also significantly outperforms in the Environmental pillar score. Meanwhile, the Financial sector and the Information Technology sector, which have 343 and 239 firms respectively, have consistently lower average scores across all ESG dimensions, and the Health Care sector, which has 231 firms, significantly underperforms the remaining industries in the Environmental dimension. Industrials, with 532 observations, has by far the largest number of firms.

### 3.1 | Firm Performance

Following prior literature (Cho et al. 2019; Wang et al. 2015; Belu and Manescu 2013; etc.), and focusing on both operating and market-based firm performance, we use return on assets (ROA) to measure firm profitability, and the natural logarithm of Tobin's Q to measure firm value. For comparability across recent studies that are more closely related to our research (Shin et al. 2023; Zaiane and Ellouze 2023; Karmani and Boussaada 2021), we calculate ROA as the ratio of net income to total assets, and Tobin's Q as the sum of the market value of equity and the book value of liabilities divided by the book value of total assets.

### 3.2 | Corporate Social Responsibility

Our primary independent variables are a firm's corporate social responsibility (CSR), and its performance in the three dimensions of CSR, namely its performance in the environmental, social and governance dimensions. We use Refinitiv's ESG Scores, which represent the firm's performance in 186 material metrics

**TABLE 1** | Distribution by country.

| Country | No. of companies | Frequency | $\mu_{i,\mathrm{ESG}}-\mu_{\mathrm{ESG}}$ | $\mu_{i,\mathrm{ENV}}-\mu_{\mathrm{ENV}}$ | $\mu_{i,\mathrm{SOC}}-\mu_{\mathrm{SOC}}$ | $\mu_{i,\mathrm{GOV}}-\mu_{\mathrm{GOV}}$ |
|---|---|---|---|---|---|---|
| Austria | 36 | 1.50% | 4.775 | 9.138 | 5.696 | −0.098 |
| Belgium | 51 | 2.12% | −0.893 | 1.087 | −1.555 | −0.735 |
| Bulgaria | 2 | 0.08% | −8.058 | −29.130 | −13.403 | 2.530 |
| Cyprus | 10 | 0.42% | −17.852 | −27.769 | −22.113 | −1.270 |
| Czech Republic | 3 | 0.12% | −0.216 | 6.367 | −5.800 | 0.671 |
| Denmark | 64 | 2.66% | −1.163 | −1.969 | −0.520 | −1.823 |
| Finland | 75 | 3.12% | 4.355 | 9.859 | 4.384 | −0.628 |
| France | 189 | 7.85% | 9.397 | 16.550 | 11.586 | 0.329 |
| Germany | 276 | 11.47% | 1.871 | 1.179 | 3.067 | 0.656 |
| Greece | 26 | 1.08% | −3.213 | −3.071 | −3.694 | −2.233 |
| Hungary | 7 | 0.29% | 3.844 | 8.833 | 4.369 | −1.185 |
| Iceland | 9 | 0.37% | −8.631 | −10.723 | −14.759 | 0.598 |
| Ireland | 50 | 2.08% | −0.973 | −1.441 | −0.733 | −0.284 |
| Italy | 120 | 4.99% | 5.881 | 7.703 | 8.420 | 1.235 |
| Liechtenstein | 2 | 0.08% | −0.121 | −2.696 | −0.340 | −0.386 |
| Luxembourg | 39 | 1.62% | 0.270 | −1.988 | 0.963 | 0.492 |
| Malta | 6 | 0.25% | −16.073 | −26.667 | −25.610 | 1.207 |
| Netherlands | 85 | 3.53% | 5.101 | 5.422 | 8.866 | −0.512 |
| Norway | 78 | 3.24% | 0.225 | 0.637 | 0.995 | −0.506 |
| Poland | 39 | 1.62% | −7.298 | −8.461 | −11.770 | 0.279 |
| Portugal | 15 | 0.62% | 12.054 | 18.404 | 14.869 | 1.096 |
| Romania | 8 | 0.33% | −0.461 | −4.389 | 3.188 | −3.558 |
| Russia | 44 | 1.83% | −7.769 | −6.478 | −12.993 | −1.122 |
| Slovakia | 2 | 0.08% | −13.855 | −5.103 | −24.910 | −3.720 |
| Slovenia | 3 | 0.12% | 8.068 | 10.509 | 11.072 | 2.038 |
| Spain | 74 | 3.07% | 12.180 | 17.027 | 17.562 | 0.722 |
| Sweden | 315 | 13.09% | −4.720 | −8.216 | −5.540 | −1.167 |
| Switzerland | 191 | 7.94% | −4.620 | −5.876 | −6.045 | −1.277 |
| United Kingdom | 588 | 24.43% | −3.146 | −5.493 | −4.613 | 0.863 |
| Sum/Variance | 2407 | 100.00% | 55.995 | 142.097 | 121.238 | 2.046 |

*Note:* This table presents the distribution of the sample firms across 29 European countries. Columns III – VI report the differences in the country average and the full-sample average *ESG Scores*, *Environmental Scores*, *Social Scores*, and *Governance Scores*, and the last row reports the overall variance in country average scores for each measure of corporate social responsibility.

that span the Environmental, Social and Governance pillars. These scores are calculated based on information presented in the firm's annual reports, CSR disclosure reports, official websites, independent media and news sources, stock exchange filings, and NGO websites. Once collected, this information is compiled into 10 categories. The pillar scores in the three dimensions of CSR are then calculated as the relative weighted sum of these categories, where category weights vary across industries when calculating the Environmental and Social pillar scores. ESG and its pillar scores range from 0 to 100, and are log-transformed when used as independent variables in our analysis.

### 3.3 | Country-Level Social and Governance Indicators

The 29 countries that are included in our sample share many similarities on account of their geographical and ethnic proximities. It is the differences in their cultural and political

**TABLE 2** | Distribution by industry.

| Industry | No. of companies | Frequency | $\mu_{i,\mathrm{ESG}}-\mu_{\mathrm{ESG}}$ | $\mu_{i,\mathrm{ENV}}-\mu_{\mathrm{ENV}}$ | $\mu_{i,\mathrm{SOC}}-\mu_{\mathrm{SOC}}$ | $\mu_{i,\mathrm{GOV}}-\mu_{\mathrm{GOV}}$ |
|---|---|---|---|---|---|---|
| Communication services | 135 | 5.77% | 0.341 | −4.071 | −0.034 | 0.997 |
| Consumer discretionary | 277 | 11.84% | 2.218 | 3.721 | 1.784 | 1.101 |
| Consumer staples | 127 | 5.43% | 5.451 | 8.031 | 4.893 | 3.395 |
| Energy | 76 | 3.25% | 2.341 | 4.431 | 1.916 | 2.034 |
| Financials | 343 | 14.66% | −3.224 | −2.937 | −4.107 | −0.862 |
| Health care | 231 | 9.87% | −2.232 | −10.571 | 0.796 | −0.967 |
| Industrials | 532 | 22.74% | −0.709 | −0.401 | 0.104 | −1.175 |
| Information technology | 239 | 10.21% | −5.278 | −9.879 | −3.906 | −3.769 |
| Materials | 172 | 7.35% | 4.876 | 8.219 | 3.154 | 4.783 |
| Real estate | 134 | 5.73% | −0.444 | 5.312 | −1.166 | −4.471 |
| Utilities | 74 | 3.16% | 5.114 | 9.971 | 2.961 | 3.663 |
| Sum/Variance | 2340 | 100.00% | 11.599 | 46.832 | 7.265 | 8.126 |

*Note:* This table presents the distribution of the sample firms across 11 industry categories specified by GICS sector names. Columns III – VI report the differences in the industry average and the full-sample average *ESG Scores*, *Environmental Scores*, *Social Scores*, and *Governance Scores*, and the last row reports the overall variance in industry average scores for each measure of corporate social responsibility.

climates that are interesting as possible moderators of the CSR-CFP channels (Kaasa et al. 2014; Kolman et al. 2003). First, an original country-level social indicator that represents how strongly a socially responsible company is likely to be rewarded for its efforts and investments in CSR is constructed using Hofstede's six cultural dimensions. Precedence for combining these dimensions to create predictor variables is found in prior literature, specifically in a study by Yeganeh (2013), which creates a compound index of culture that is designed to capture modernization. In our study, dimensions corresponding to *Rewarding societies* are marked as additions (+), and measures corresponding to *Non-Rewarding societies* are marked as deductions (−) when constructing the social indicator. A dummy variable is created to indicate whether a specific country is above or below the median sum total, and this variable is called *Rewarding Societies*.

$$\text{Rewarding Societies} = \sum \text{Cultural Dimensions}_{\text{Rewarding}} - \sum \text{Cultural Dimensions}_{\text{Non-Rewarding}}$$

Secondly, following Bilyay-Erdogan (2022), and employing the country-specific governance indicators used by Djankov et al. (2008), we investigate the moderating effects of the country's level of shareholder orientation on the relationship between corporate social and financial performance. To this effect, we use the anti-director rights index (ARDI) (La Porta et al. 1997, 1998) and the anti-self-dealing index (ASDI) (Djankov et al. 2008) as indicators of the level of shareholder protections. The ARDI ranges from 0 to 5, and tabulates the presence of various shareholder rights, including the ability to mail proxy votes and conduct cumulative voting, the requirement to deposit votes prior to the General Shareholder's meeting, the presence of an oppressed minority mechanism, and a less than 10% minimum share capital requirement for calling an Extraordinary Shareholders' meeting (La Porta et al. 1997). The ASDI is defined by Djankov et al. (2008) as the average of ex-ante and ex-post private control of self-dealing, and ranges from 0 to 1.

### 3.4 | Control Variables

In line with existing literature on firm performance (e.g., Frijns et al. 2016; Aldamen et al. 2012; Cahan et al. 2015; Waddock and Graves 1997), several variables reflecting firm and board characteristics are included as independent regressors in the empirical analysis. Specifically, firm-level controls include size (measured as the natural logarithm of total assets) and R&D intensity (measured as the ratio of Research and Development expenditures to revenues), because larger firms and firms with greater investments in innovation are more likely to benefit from economies of scale and economies of scope in developed markets (Baumol et al. 1982; Aw and Batra 1998), which would improve profitability. Moreover, larger firms attract significantly more investor attention (Wang 2017), and a higher intensity of R&D investments would improve competitive advantage and generate positive market reactions (Lengnick-Hall 1992; Chung and Wright 1998). Additionally, we control for leverage (measured as the ratio of total debt to total assets), which affects both performance and market valuation through managerial discipline, changes in taxable income and default risk (Meckling and Jensen 1976; Chung and Wright 1998). We also control for beta, specifically the annualized stock beta, as a market-based risk measure that is related to accounting-based performance (Beaver et al. 1970). Lastly among firm-specific characteristics, we control for sales growth (measured as the percent change in revenues over the past year) as an indicator of expected future performance (Brush et al. 2000; Zhang and Gong 2018).

Among board-specific characteristics, we control for board size (the number of members on the board of directors) because of its well-documented negative relationship with firm performance

**TABLE 3** | Variable definitions.

| | | |
|---|---|---|
| Independent variables | | |
| ESG score | Firm specific ESG performance | Combined ESG score from Refinitiv |
| Environmental score | Firm environmental responsibility | Industry-specific weighted sum of the firm's scores in Resource Use, Emissions, and Innovation |
| Social score | Firm social responsibility | Industry-specific weighted sum of the firm's scores in Workforce, Human Rights, Community, and Product Responsibility |
| Governance score | Firm governance | Weighted sum of the firm's scores in Management, Shareholders, and CSR Strategy |
| Moderating variables | | |
| ESG sensitivity | Industries with a higher than average exposure to ESG-related risks | Indicator that takes the value of 1 for firms in Materials, Utilities, and Energy |
| Non-ESG sensitivity | Industries with a lower than average exposure to ESG-related risks | Indicator that takes the value of 1 for firms in Financials, Communication Services, Information Technology, Consumer Staples, and Consumer Discretionary |
| Rewarding societies | ESG-positive culture | Cumulative of the Hofstede cultural dimensions Individualism (+), Indulgence (+), Long-Term Orientation (+), Masculinity (−), Uncertainty Avoidance (−), and Power Distance (−) |
| Anti-director rights index | Shareholder orientation | Country-specific measure of the level of anti-director rights |
| Anti-self-dealing index | Shareholder orientation | Country-specific measure of the level of anti-self-dealing measures |
| Control variables | | |
| Size | Firm size | Natural logarithm of total assets |
| Leverage | Indebtedness | Total debt/Total assets |
| Sales growth | Growth in revenues | $(\text{Total revenues}_{i,t} - \text{Total revenues}_{i,t-1})/\text{Total revenues}_{i,t-1}$ |
| R&D intensity | Research and development intensity | R&D expenditures/Revenues |
| Beta | Systematic firm risk | Volatility of a stock against its benchmark |
| Board size | Board size | Number of members on the board of directors |
| Board independence | Board independence | Percentage of independent members on the board of directors |

(Cheng et al. 2008), and board independence (the percentage of independent members on the board of directors), because of a similar but more contested relationship with performance (Shan 2019), and its role in governance quality (Bathala and Rao 1995). In addition, when studying the effects of CSR on profitability (ROA), the previous year's return on assets is included as an explanatory variable, and similarly, when studying the effects of CSR on firm value (Tobin's Q), the previous year's Tobin's Q is included as an explanatory variable. The regression analyses on the full sample also include country-, industry-, and year- fixed effects to control for systemic variation in performance across these variables.

Definitions of the variables used in this study are presented in Table 3.

### 3.5 | Descriptive Statistics

Table 4 displays the descriptive statistics for the CSR measures (*ESG Score*, *Environmental Score*, *Social Score*, and *Governance Score*), the measures of firm performance (*ROA* and *Tobin's Q*), and the control variables used in the regression analysis. Most of the firm years in our sample have positive net income, and the average firm is moderately profitable with a mean ROA of 0.028, or 2.8%. Most sample firms also have high valuations, with an average Tobin's Q of 2.057. The ESG and pillar scores appear symmetrical around the median, with average scores all ranging from 46.2 to 54.8. The *Environmental Score* has the lowest average and median of 46.2 and 46.7 respectively. The control variables *Size* and *Leverage* are replaced in Table 4 with total

assets and total debt to provide a more coherent description of these fundamentals. In our sample, the average firm has total assets worth €15.5 billion, and total debt worth €3.2 billion.

Next, we obtain correlation coefficients for the dependent and independent variables used in regressions to check for multi-collinearity. These coefficients are reported in Table 5, The ESG pillar scores are omitted for brevity, but it is worth noting that they are highly correlated with *ESG Score*, and produce similar correlation coefficients to those obtained between *ESG Score* and other variables. Most correlation coefficients obtained are statistically significant. Among the right-hand-side variables,

**TABLE 4** | Descriptive statistics.

| | 25th percentile | Mean | Median | 75th percentile | SD | No. of obs. |
|---|---|---|---|---|---|---|
| Dependent variables | | | | | | |
| ROA | 0.008 | 0.028 | 0.044 | 0.084 | 0.245 | 13,016 |
| Tobin's Q | 1.105 | 2.057 | 1.401 | 2.087 | 2.986 | 13,016 |
| Independent variables | | | | | | |
| ESG score | 35.69 | 51.24 | 52.35 | 67.86 | 20.95 | 13,016 |
| Environmental | 24.17 | 46.24 | 46.71 | 68.92 | 27.16 | 13,016 |
| Social | 37.21 | 54.81 | 56.36 | 74.51 | 23.77 | 13,016 |
| Governance | 31.34 | 50.12 | 50.91 | 69.08 | 23.28 | 13,016 |
| Total assets | 650 | 15557.16 | 2300 | 8300 | 59,341 | 13,016 |
| Total debt | 83.75 | 3204 | 500 | 2200 | 10210.72 | 13,016 |
| Sales growth | −0.042 | 0.238 | 0.061 | 0.176 | 2.429 | 13,016 |
| R&D intensity | 0.00 | 0.522 | 0.00 | 0.001 | 21.47 | 13,016 |
| Beta | 0.671 | 1.016 | 0.961 | 1.301 | 0.532 | 13,016 |
| Board size | 6.00 | 9.073 | 9.00 | 11.00 | 3.586 | 13,016 |
| Board independence | 40.00 | 56.99 | 58.33 | 75.00 | 27.13 | 13,016 |

*Note:* This table presents the descriptive statistics of the dependent variables: *ROA*, the ratio of net income to total assets, and *Tobin's Q*, the ratio of the sum of market value of equity and book value of liabilities to the book value of total assets, and the independent variables: *ESG Score*; *Environmental Score*; *Social Score*; *Governance Score*; *Total Assets*, in millions of Euros; *Total Debt*, in millions of Euros; *Sales Growth*, the change in total revenues over the past year; *R&D Intensity*, the ratio of Research and Development expenses to revenues; *Beta*, the annualized stock beta; *Board Size*, the number of members on the board of directors; and *Board Independence*, the percentage of independent members on the board of directors.

**TABLE 5** | Correlation coefficients.

| | | (i) | (ii) | (iii) | (iv) | (v) | (vi) | (vii) | (viii) | (ix) | (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (i) | ESG score | — | | | | | | | | | |
| (ii) | ROA | 0.089* | — | | | | | | | | |
| (iii) | Tobin's Q | −0.084* | 0.074* | — | | | | | | | |
| (iv) | Size | 0.581* | 0.166* | −0.257* | — | | | | | | |
| (v) | Leverage | 0.071* | −0.181* | −0.019* | 0.101* | — | | | | | |
| (vi) | Sales growth | −0.105* | −0.002 | −0.021* | −0.049* | −0.069* | — | | | | |
| (vii) | R&D intensity | −0.026* | −0.062* | 0.008 | −0.027* | −0.014 | 0.012 | — | | | |
| (viii) | Beta | 0.094* | −0.077* | −0.027* | 0.151* | 0.072* | −0.005 | 0.026* | — | | |
| (ix) | Board size | 0.442* | 0.043* | −0.121* | 0.601* | 0.017 | −0.083* | −0.017 | 0.022* | — | |
| (x) | Board independence | 0.251* | 0.004 | 0.013 | 0.097* | −0.003 | 0.074* | 0.009 | 0.065* | −0.111* | — |

*Note:* This table presents the correlation coefficients between the ESG Score, the measures of firm performance namely profitability (*ROA*) and value (*Tobin's Q*), and the control variables used in the main regression estimations. The control variables include *Size*, the natural logarithm of total assets, *Leverage*, the ratio of total debt to total assets, *Sales Growth*, the change in total revenues over the past year, *R&D Intensity*, the ratio of Research and Development expenses to revenues, *Beta*, the annualized stock beta, *Board Size*, the number of members on the board of directors, and *Board Independence*, the percentage of independent members on the board of directors. Correlation coefficients that are statistically significant at the 1% level are denoted by *.

sizeable coefficients are found between *ESG Score* and *Size* (0.581), *ESG Score* and *Board Size* (0.442), and *Size* and *Board Size* (0.601). The latter poses the risk of multi-collinearity, so in (un-tabulated) robustness tests, we perform the regressions with alternate specifications, including the omission of *Board Size*. These estimations produce results similar in magnitude and significance to those reported in Tables 6–10.

## 4 | Empirical Analysis

### 4.1 | Methodology

This study's data can be described as an unbalanced panel, where unobservable heterogeneity across firms and over time can be controlled for, improving estimation efficiency and reducing omitted variable bias (Baltagi 2008). Specifically, applying fixed effects methods when estimating regressions using panel data can address violations of the exogeneity assumption of the OLS and random effects models (Garcia-Castro et al. 2010), and provide consistent coefficient estimates. For this purpose, and consistent with the methodology of McWilliams and Siegel (2000), Garcia-Castro et al. (2010), and Jo et al. (2015), the following equation specifies the fixed-effects panel regressions:

$$\begin{aligned}\text{Financial Performance}_{i,t} = \alpha + \beta_1(\text{Corporate Social Responsbility})_{i,t} \\ + \beta_2\,(\text{Financial Performance})_{i,t-1} \\ + \beta_{3-7}\,(\text{Control Variables})_{i,t} + \gamma + \delta + \mu + \varepsilon,\end{aligned} \tag{1}$$

where the dependent variable, $\text{Financial Performance}_{i,t}$, represents profitability (*ROA*) and firm value (*Tobin's Q*) for firm *i* in year *t*. Corporate Social Responsibility is measured by the firm's *ESG Score*, and in alternate specifications, is replaced by the *Environmental Score*, the *Social Score*, and the *Governance Score* respectively. The control variables include *Size, Leverage*, *Sales Growth*, *R&D Intensity*, *Beta*, *Board Size*, and *Board Independence*. $\gamma$, $\delta$, and $\mu$ represent the inclusion of country-, industry-, and year-fixed effects.

Following Zaiane and Ellouze (2023), and Bilyay-Erdogan (2022), to test the moderating effects of (1) industry, (2) culture, and (3) country shareholder orientation, the full sample is split into two subsamples based on (1) the firm's presence in ESG-sensitive or non-sensitive industries, (2) the country's combined scores in the Hofstede dimensions Individuality, Indulgence, and Long-term Orientation less the combined scores in the dimensions Masculinity, Uncertainty Avoidance, and Power Distance, and (3) the country's positive or negative deviation from the average scores in ARDI and ASDI, respectively. The coefficient estimates obtained for the overall ESG Score and the Environmental, Social and Governance Scores in panel regressions are compared in magnitude and significance across these subsamples. Based on sub-sample selection, corresponding fixed effects are excluded. For example, in tests where the sample is split according to industry ESG sensitivity, industry-fixed effects are excluded. All fundamental variables used in the construction of dependent or independent variables are winsorized at the 1% and 99% levels. The regressions use robust standard errors that are adjusted for heteroscedasticity and clustered by firm.

### 4.2 | Results

First, we determine the relationship between firm performance, measured by *ROA* and *Tobin's Q* and CSR, measured by the overall *ESG Score*. The results are displayed in Table 6.

**TABLE 6** | ESG score and firm performance.

| | ROA | Tobin's Q |
|---|---|---|
| Constant | −0.179*** | 0.242*** |
| | (−3.41) | (10.49) |
| ESG score | 0.008** | 0.021*** |
| | (2.09) | (4.59) |
| $ROA_{t-1}$ | 0.648*** | N/A |
| | (9.99) | |
| Tobin's $Q_{t-1}$ | N/A | 0.871*** |
| | | (91.99) |
| Size | 0.011*** | −0.011*** |
| | (3.75) | (−7.55) |
| Leverage | −0.085*** | 0.032 |
| | (−2.86) | (1.45) |
| Sales growth | 0.003*** | −0.001*** |
| | (5.94) | (−4.13) |
| R&D | 0.001 | −0.001 |
| | (0.40) | (−4.63) |
| Beta | −0.012** | −0.005 |
| | (−2.49) | (−1.34) |
| Board size | −0.002*** | 0.001 |
| | (−3.52) | (1.25) |
| Board independence | 0.001 | −0.001 |
| | (1.60) | (−0.55) |
| Industry, country and year FE | Yes | Yes |
| Observations | 13,303 | 13,243 |
| *R*-squared | 0.362 | 0.846 |
| Adjusted *R*-squared | 0.359 | 0.845 |
| F-statistic | 55.11*** | 1253.83*** |

*Note:* This table presents the estimates of the fixed-effects panel regression specified by Equation (1). Firm performance is represented by profitability (ROA), measured as the ratio of net income to total assets in Column I, and by firm value (Tobin's Q), measured as the logarithm of the sum of the firm's market value of equity and book value of liabilities divided by the book value of total assets in Column II. The independent variable is the firm's corporate social responsibility measured by its overall ESG Score. The control variables are defined as follows: *Size* is thenatural logarithm of total assets; *Leverage* is the ratio of total debt to total assets; *Sales Growth* is the change in total revenues over the past year; *R&D Intensity* is the ratio of Research and Development expenses to revenues; *Beta* is the annualized stock beta; *Board Size* is the number of members on the board of directors; and *Board Independence* is the percentage of independent members on the board of directors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively.

ESG scores are positively, significantly related to both profitability and firm value. Based on the reported regression coefficients, a one standard deviation increase in the overall ESG score is associated with an increase in ROA corresponding to 0.167 or 16.7%, and an increase in Tobin's Q corresponding to 0.441. These results are consistent with the findings of some previous studies that corporate social responsibility positively affects financial operating performance and value (Karmani and Boussaada 2021; Zaiane and Ellouze 2023), but are incongruent with the results of Rocha et al. (2024), who report that while ESG positively affects value it has no effect on operating performance, and those of Candio (2024), who finds that ESG is negatively associated with profitability. In addition, we find that leverage and board size both negatively affect profitability, while size and sales growth negatively affect firm value. Next, we examine how each of the ESG pillar scores is related to financial performance. These results are reported in Table 7.

**TABLE 7** | Environmental, social and governance scores and firm performance.

| | ROA | | | Tobin's Q | | |
|---|---|---|---|---|---|---|
| | **E-Score** | **S-Score** | **G-Score** | **E-Score** | **S-Score** | **G-Score** |
| Constant | −0.157*** | −0.185*** | −0.187*** | 0.28*** | 0.244*** | 0.236*** |
| | (−3.10) | (−3.75) | (−3.86) | (11.32) | (10.52) | (10.25) |
| ESG score | 0.009** | 0.006* | 0.002 | 0.011*** | 0.015*** | 0.007** |
| | (4.64) | (1.70) | (0.87) | (5.88) | (4.66) | (2.38) |
| $ROA_{t-1}$ | 0.664*** | 0.649*** | 0.649*** | N/A | N/A | N/A |
| | (9.89) | (9.95) | (10.03) | | | |
| Tobin's $Q_{t-1}$ | N/A | N/A | N/A | 0.872*** | 0.873*** | 0.874*** |
| | | | | (93.37) | (92.25) | (93.13) |
| Size | 0.008*** | 0.011*** | 0.011*** | −0.011*** | −0.009*** | −0.008*** |
| | (3.39) | (4.16) | (4.13) | (−7.75) | (−7.51) | (−6.35) |
| Leverage | −0.086*** | −0.085*** | −0.085*** | 0.032 | 0.032*** | 0.032 |
| | (−2.87) | (−2.84) | (−2.85) | (1.44) | (1.44) | (1.46) |
| Sales growth | 0.003*** | 0.003*** | 0.003*** | −0.001*** | −0.001*** | −0.001*** |
| | (6.21) | (5.95) | (5.85) | (−4.02) | (−4.34) | (−4.26) |
| R&D | 0.001 | 0.001 | 0.001 | −0.001 | −0.001 | −0.001 |
| | (0.48) | (0.41) | (0.39) | (−4.53) | (−4.38) | (−4.60) |
| Beta | −0.012** | −0.012** | −0.012** | −0.004 | −0.004** | −0.004 |
| | (−2.55) | (−2.43) | (−2.45) | (−1.28) | (−1.14) | (−1.24) |
| Board size | −0.002*** | −0.002*** | −0.002*** | 0.001 | 0.001*** | 0.001 |
| | (−3.65) | (−3.25) | (−3.36) | (1.50) | (1.58) | (1.87) |
| Board independence | −0.001 | −0.001 | −0.001 | 0.001 | 0.001 | 0.001 |
| | (−1.49) | (−1.35) | (−1.22) | (0.60) | (0.21) | (0.09) |
| Industry, country and year FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 13,303 | 13,301 | 13,303 | 13,241 | 13,241 | 13,243 |
| *R*-squared | 0.364 | 0.362 | 0.362 | 0.847 | 0.847 | 0.846 |
| Adjusted *R*-squared | 0.361 | 0.361 | 0.359 | 0.846 | 0.846 | 0.845 |
| F-statistic | 66.86*** | 53.91*** | 51.37*** | 1255.10*** | 1260.32*** | 1213.89*** |

*Note:* This table presents the estimates of the fixed-effects panel regression specified by Equation (1). Firm performance is represented by profitability (*ROA*), measured as the ratio of net income to total assets, and by firm value (*Tobin's Q*), measured as the logarithm of the sum of the firm's market value of equity and book value of liabilities divided by the book value of total assets. The independent variable is the firm's performance in the Environmental, Social and Governance dimensions of CSR, measured by the Environmental Score (*E-Score*), the Social Score (*S-Score*), and the Governance Score (*G-Score*). The control variables are defined as follows: *Size* is the natural logarithm of total assets; *Leverage* is the ratio of total debt to total assets; *Sales Growth* is the change in total revenues over the past year; *R&D Intensity* is the ratio of Research and Development expenses to revenues; *Beta* is the annualized stock beta; *Board Size* is the number of members on the board of directors; and *Board Independence* is the percentage of independent members on the board of directors. The t-statistics in parenthesis are based on robust standard errors adjusted for heteroskedasticity and clustered by firm. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively.

Environmental performance (*E-Score*) is significantly and positively related to both profitability and value, with a one standard deviation increase in the score leading to an increase of 24.8% in ROA, and an increase of 0.303 in Tobin's Q. The firm's score in the Social pillar (*S-Score*) is only weakly related to profitability, with a one standard deviation increase leading to an increase of 14.3%. However, its positive effect on Tobin's Q is highly statistically significant, with a one standard deviation increase corresponding to an increase of 0.358. Lastly, while the firm's score in the Governance pillar (*G-Score*) seems to have no effect on its profitability, it has a positive if relatively small effect on Tobin's Q of 0.162 per standard deviation. These results suggest that the positive association between overall ESG and firm performance is largely driven by the firm's performance in social and environmental metrics of CSR.

### 4.2.1 | Industry Sensitivity

Following this, we try to determine the moderating effect of industry ESG sensitivity on the relationship between corporate

**TABLE 8** | Industry ESG-sensitivity as a moderator of CSR-CFP.

| **Panel A: ROA** | | | | | **Panel B: Tobin's Q** | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Non-ESG sensitive industries** | | | | | **Non-ESG sensitive industries** | | | |
| | **ESG Score** | **E-Score** | **S-Score** | **G-Score** | | **ESG Score** | **E-Score** | **S-Score** | **G-Score** |
| Constant | −0.012 | 0.022 | 0.002 | −0.008 | Constant | 0.251*** | 0.288*** | 0.251*** | 0.254*** |
| | (−0.39) | (0.73) | (0.08) | (−0.28) | | (8.24) | (8.95) | (8.23) | (8.39) |
| ESG score | 0.021*** | 0.009*** | 0.008** | 0.016*** | ESG score | 0.021*** | 0.011*** | 0.017*** | 0.008* |
| | (4.95) | (5.02) | (2.14) | (5.47) | | (3.17) | (5.03) | (3.71) | (1.75) |
| Controls | Yes | Yes | Yes | Yes | Controls | Yes | Yes | Yes | Yes |
| Country and year FE | Yes | Yes | Yes | Yes | Country and year FE | Yes | Yes | Yes | Yes |
| Observations | 5846 | 5845 | 5845 | 5846 | Observations | 5810 | 5809 | 5809 | 5810 |
| *R*-squared | 0.495 | 0.495 | 0.493 | 0.495 | *R*-squared | 0.858 | 0.858 | 0.858 | 0.857 |
| Adjusted *R*-squared | 0.492 | 0.492 | 0.489 | 0.492 | Adjusted *R*-squared | 0.857 | 0.857 | 0.857 | 0.856 |
| F-statistic | 84.43*** | 85.16*** | 89.69*** | 77.76*** | F-statistic | 817.76*** | 863.86*** | 819.83*** | 794.70*** |
| | **ESG sensitive industries** | | | | | **ESG sensitive industries** | | | |
| | **ESG Score** | **E-Score** | **S-Score** | **G-Score** | | **ESG Score** | **E-Score** | **S-Score** | **G-Score** |
| Constant | −0.228 | −0.197 | −0.224 | −0.223 | Constant | 0.139*** | 0.157*** | 0.134*** | 0.128*** |
| | (−0.84) | (−0.73) | (−0.82) | (−0.85) | | (2.78) | (3.11) | (2.69) | (2.61) |
| ESG score | 0.021 | 0.023*** | 0.007 | 0.001 | ESG score | 0.025*** | 0.015*** | 0.014** | 0.015** |
| | (1.45) | (3.32) | (0.96) | (0.10) | | (2.77) | (2.94) | (2.46) | (2.09) |
| Controls | Yes | Yes | Yes | Yes | Controls | Yes | Yes | Yes | Yes |
| Country and year FE | Yes | Yes | Yes | Yes | Country and year FE | Yes | Yes | Yes | Yes |
| Observations | 2139 | 2139 | 2139 | 2139 | Observations | 2133 | 2133 | 2133 | 2133 |
| *R*-squared | 0.073 | 0.074 | 0.072 | 0.072 | *R*-squared | 0.841 | 0.841 | 0.841 | 0.841 |
| Adjusted *R*-squared | 0.058 | 0.058 | 0.056 | 0.055 | Adjusted *R*-squared | 0.838 | 0.838 | 0.837 | 0.837 |
| F-statistic | 26.51*** | 26.74*** | 26.65*** | 26.65*** | F-statistic | 513.88*** | 463.83*** | 470.08*** | 490.80*** |

*Note:* This table reports the coefficient estimates of the fixed-effects panel regressions of profitability, *ROA*, measured as net income over total assets in Panel A, and firm value, *Tobin's Q*, measured as the sum of the market value of equity and book value of liabilities divided by the book value of total assets in Panel B, on the *ESG Score*, *E-Score*, *S-Score* and *G-Score*. The regressions are run for the two subsamples, *ESG Sensitive Industries* and *Non-ESG Sensitive Industries*, which are constructed based on the firm's inclusion in either the group of industries that are considered controversial from the perspective of corporate sustainability (Kilian and Hennigs 2014). Control variables specified by Equation (1), and country and year fixed effects and included in each regression. The t-statistics in parenthesis are based on robust standard errors adjusted for heteroskedasticity and clustered by firm. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively.

social and financial performance. ESG sensitivity is a binary variable that indicates the inclusion of the firm in an industry that is considered more heavily exposed to ESG risks such as environmental regulations. Owing to the time-invariance of this variable, we opt to test its moderating effects by splitting firms into separate subsamples namely *ESG Sensitive* and *non-ESG Sensitive*. We then perform panel OLS regressions on these subsamples specified by Equation (1), with the exclusion of industry-fixed effects. The results of these regressions are reported in Table 8.

Based on the coefficients in Panel A of Table 8, a standard deviation increase in the overall ESG score is associated with an increase in the ROA of *non-ESG Sensitive* firms that is 14.6% larger than that of *ESG Sensitive* firms. When looking at the effects of ESG pillar scores, it is evident that this difference is due to the differences in the effects of the firm's performance in the social and governance pillars of ESG. This is likely due to lower ESG investment and risk-mitigation costs for firms in non-ESG sensitive industries. ESG sensitivity may reduce organizational efficiency and restrict channels through which higher social responsibility can benefit operating performance. On the other hand, *ESG Sensitive* firms tend to be significantly more profitable if they perform well in the environmental pillar of the ESG score, suggesting that environmentally unfriendly behavior may be very costly for firms in these industries. In Panel B, the coefficient estimates for the ESG score and the pillar scores in regressions for Tobin's Q are consistently positive and significant for both the *ESG Sensitive* and *non-ESG Sensitive* samples of firms, consistent with the findings of Zaiane and Ellouze (2023).

#### 4.2.2 | Rewarding Societies

Next, we test the moderating effects of culture using binary country-specific indicators constructed using Hofstede's cultural dimensions. Regressions specified by Equation (1) are performed for the *Rewarding Societies* and *non-Rewarding Societies* subsamples, and country-fixed effects are excluded from these regressions. The results are reported in Table 9.

In *Rewarding Societies*, firms exhibit a positive and statistically significant relationship between their social and financial performance. Meanwhile, the regression coefficients of the overall ESG score and its pillar scores are consistently smaller and statistically insignificant for firms in *non-Rewarding Societies*. These findings are in contrast with those of Shi and Veenstra (2021), who determine Individualism to negatively moderate the relationship between a firm's social and financial performance in a global sample. However, as previously discussed, the positive moderating role of Individualism can be explained by the appropriate interpretation of this dimension, which does not represent a disinclination toward community welfare (Brewer and Venaik 2011). This inconsistency may also be explained by differences in the moderating effects of the cultural dimension in an otherwise homogenous and intra-continental sample of firms, and more specifically within Europe. In (un-tabulated) alternative regression estimations, we find subsamples created solely on the basis of the country's performance in each of the six dimensions produce coefficients comparable to those reported in Table 9.

#### 4.2.3 | Shareholder Orientation

Finally, we investigate the moderating effects of country-level institutional variables that reflect shareholder orientation, specifically the anti-director rights index (ARDI), and the anti-self-dealing index (ASDI). We create subsamples indicating the presence of the firm in a country with above or below median scores in ARDI and ASDI, and run regressions on ROA and Tobin's Q specified by equation (1) for the overall ESG Score, the Environmental pillar score, the Social pillar score, and the Governance pillar score across both subsamples. The results of these regressions are presented in Table 10.

The coefficient estimates for all measures of social responsibility are positive and significant in regressions on both ROA and Tobin's Q in the subsample of firms in high-ARDI and high-ASDI countries. This indicates that shareholder orientation does not diminish the value of CSR, and in fact, may increase it. While neither the ARDI nor the ASDI is highly correlated with the overall ESG score, shareholders are investing stakeholders, and their rights and protections are also an extension of the governance dimension of CSR. Consistent with this, the largest difference in coefficient estimates for the pillar scores in regressions for ROA and Tobin's Q is found in the Governance score, and this difference is a major driver of the difference in the financial effects of overall ESG on firm performance in the two subsamples. In the high-ARDI subsample, the coefficient estimate of the Social score in regressions on ROA is barely significant, and is actually lower than that in the low-ARDI subsample. Interestingly, there is no difference in the magnitude and significance of the Environmental score coefficient estimate in regressions on both ROA and Tobin's Q across both subsamples, suggesting that shareholder orientation is irrelevant for this dimension's effects on financial performance.

## 5 | Discussion

The results provide compelling evidence that corporate social responsibility (CSR) exerts a positive and statistically significant impact on both firm profitability and value, confirming Hypothesis 1. A generally positive link between CSR and financial performance has also been evidenced across Asia (Hou et al. 2016; Cheng et al. 2016; Mondal and Sahu 2025), and the United States (Waddock and Graves 1997; Miller et al. 2020; Al-Shammari et al. 2022), while mixed results were obtained for emerging economies (Boubakri et al. 2021; Singhal et al. 2024). Theoretically, our results align with the resource-based and stakeholder perspectives, which argue that CSR investments enhance firm reputation, operational efficiency, and stakeholder relationships (Karmani and Boussaada 2021; Zaiane and Ellouze 2023). However, the benefits of sustainability are arguably dependent on external contexts. They may vary by region, industry, or institutional quality, which motivates additional investigation of the moderating role of industry- and country-specific factors.

Our results also show that overall CSR has a stronger link with profitability in industries less exposed to ESG risks, but that environmental performance is more strongly and equally significantly linked to financial performance in sensitive industries.

**TABLE 9** | Country-specific overall social indicator as a moderator of CSR-CFP.

| Panel A: ROA | | | | | Panel B: Tobin's Q | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Rewarding societies | | | | | Rewarding societies | | | |
| | ESG Score | E-Score | S-Score | G-Score | | ESG Score | E-Score | S-Score | G-Score |
| Constant | −0.205*** | −0.165*** | −0.202*** | −0.204*** | Constant | 0.239*** | 0.297*** | 0.245*** | 0.227*** |
| | (−3.26) | (−2.56) | (−3.19) | (−3.38) | | (7.08) | (8.12) | (7.20) | (6.75) |
| ESG score | 0.011** | 0.011*** | 0.007* | 0.002 | ESG score | 0.033*** | 0.015*** | 0.021*** | 0.013*** |
| | (2.24) | (4.30) | (1.85) | (0.55) | | (5.03) | (5.79) | (4.56) | (2.89) |
| Controls | Yes | Yes | Yes | Yes | Controls | Yes | Yes | Yes | Yes |
| Industry and year FE | Yes | Yes | Yes | Yes | Industry and year FE | Yes | Yes | Yes | Yes |
| Observations | 7357 | 7356 | 7356 | 7357 | Observations | 7304 | 7303 | 7303 | 7304 |
| *R*-squared | 0.338 | 0.341 | 0.338 | 0.338 | *R*-squared | 0.842 | 0.843 | 0.842 | 0.842 |
| Adjusted *R*-squared | 0.336 | 0.338 | 0.336 | 0.335 | Adjusted *R*-squared | 0.841 | 0.842 | 0.842 | 0.842 |
| F-statistic | 76.87*** | 80.23*** | 74.63*** | 68.19*** | F-statistic | 739.75*** | 740.42*** | 720.80*** | 719.26*** |
| | Non-rewarding societies | | | | | Non-rewarding societies | | | |
| | ESG Score | E-Score | S-Score | G-Score | | ESG Score | E-Score | S-Score | G-Score |
| Constant | −0.101** | −0.092** | −0.101** | −0.099** | Constant | 0.182*** | 0.188*** | 0.189*** | 0.183** |
| | (−2.47) | (−2.08) | (−2.47) | (−2.42) | | (6.38) | (6.60) | (6.36) | (6.43) |
| ESG score | 0.002 | 0.003 | 0.003 | 0.001 | ESG score | 0.004 | 0.002 | 0.006 | −0.001 |
| | (0.35) | (1.36) | (0.51) | (0.27) | | (0.71) | (1.13) | (1.31) | (−0.44) |
| Controls | Yes | Yes | Yes | Yes | Controls | Yes | Yes | Yes | Yes |
| Country and year FE | Yes | Yes | Yes | Yes | Country and year FE | Yes | Yes | Yes | Yes |
| Observations | 5946 | 5945 | 5945 | 5946 | Observations | 5939 | 5938 | 5938 | 5939 |
| *R*-squared | 0.448 | 0.448 | 0.448 | 0.448 | *R*-squared | 0.848 | 0.848 | 0.848 | 0.848 |
| Adjusted *R*-squared | 0.445 | 0.446 | 0.446 | 0.445 | Adjusted *R*-squared | 0.848 | 0.848 | 0.848 | 0.848 |
| F-statistic | 45.59*** | 44.66*** | 44.71*** | 45.42*** | F-statistic | 970.2*** | 966.82*** | 989.66*** | 961.30*** |

*Note:* This table reports the coefficient estimates of the fixed-effects panel regressions of profitability, *ROA*, measured as net income over total assets in Panel A, and firm value, *Tobin's Q*, measured as the sum of the market value of equity and book value of liabilities divided by the book value of total assets in Panel B, on the *ESG Score*, *E-Score*, *S-Score* and *G-Score*. The regressions are run for the two subsamples, *Rewarding Countries* and *Non-Rewarding Industries*, which represent the firm's propensity to succeed or be rewarded for CSR activities in its country of origin, and is constructed using an adjusted total of Hofstede's cultural dimensions. Control variables specified by Equation (1), and country and year fixed effects and included in each regression. The t-statistics in parenthesis are based on robust standard errors adjusted for heteroskedasticity and clustered by firm. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively.

**TABLE 10** | Shareholder orientation as a moderator of CSR-CFP.

| Panel A: ROA | | | | | | Panel B: Tobin's Q | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shareholder-oriented | | | | | | Shareholder-oriented | | | |
| | ESG Score | E-Score | S-Score | G-Score | | | ESG Score | E-Score | S-Score | G-Score |
| Constant | −0.026 | 0.001 | −0.021 | −0.026 | | Constant | 0.259*** | 0.296*** | 0.259*** | 0.254*** |
| | (−0.91) | (0.04) | (−0.67) | (−0.91) | | | (8.77) | (9.45) | (8.78) | (8.66) |
| ESG score | 0.015*** | 0.009*** | 0.005* | 0.011*** | | ESG score | 0.027*** | 0.012*** | 0.016*** | 0.011*** |
| | (3.69) | (4.48) | (1.87) | (3.09) | | | (4.88) | (4.81) | (4.42) | (3.30) |
| Controls | Yes | Yes | Yes | Yes | | Controls | Yes | Yes | Yes | Yes |
| Industry and year FE | Yes | Yes | Yes | Yes | | Industry and year FE | Yes | Yes | Yes | Yes |
| Observations | 4873 | 4873 | 4873 | 4873 | | Observations | 9199 | 9189 | 9198 | 9199 |
| *R*-squared | 0.504 | 0.505 | 0.503 | 0.504 | | *R*-squared | 0.844 | 0.844 | 0.844 | 0.843 |
| Adjusted *R*-squared | 0.501 | 0.503 | 0.501 | 0.501 | | Adjusted *R*-squared | 0.843 | 0.843 | 0.843 | 0.842 |
| F-statistic | 43.73*** | 47.03*** | 44.72*** | 43.17*** | | F-statistic | 801.21*** | 806.07*** | 789.24*** | 786.20*** |
| | Non-shareholder-oriented | | | | | | Non-shareholder-oriented | | | |
| | ESG Score | E-Score | S-Score | G-Score | | | ESG Score | E-Score | S-Score | G-Score |
| Constant | −0.261*** | −0.231*** | −0.258*** | −0.258*** | | Constant | 0.147*** | 0.193*** | 0.151*** | 0.142*** |
| | (−4.74) | (−4.07) | (−4.69) | (−4.85) | | | (4.22) | (5.08) | (4.25) | (3.92) |
| ESG score | 0.008 | 0.009*** | 0.008 | −0.001 | | ESG score | 0.012 | 0.011*** | 0.011 | 0.004 |
| | (1.36) | (2.79) | (1.50) | (−0.39) | | | (1.45) | (3.60) | (1.46) | (0.64) |
| Controls | Yes | Yes | Yes | Yes | | Controls | Yes | Yes | Yes | Yes |
| Country and year FE | Yes | Yes | Yes | Yes | | Country and year FE | Yes | Yes | Yes | Yes |
| Observations | 8187 | 8185 | 8185 | 8187 | | Observations | 3801 | 3800 | 3800 | 3801 |
| *R*-squared | 0.361 | 0.362 | 0.362 | 0.361 | | *R*-squared | 0.857 | 0.857 | 0.857 | 0.857 |
| Adjusted *R*-squared | 0.359 | 0.361 | 0.359 | 0.358 | | Adjusted *R*-squared | 0.856 | 0.856 | 0.856 | 0.856 |
| F-statistic | 50.23*** | 58.83*** | 45.01*** | 43.93*** | | F-statistic | 718.52*** | 794.52*** | 737.78*** | 697.43*** |

*Note:* This table reports the coefficient estimates of the fixed-effects panel regressions of profitability, *ROA*, measured as net income over total assets in Panel A, and firm value, *Tobin's Q*, measured as the sum of the market value of equity and book value of liabilities divided by the book value of total assets in Panel B, on the *ESG Score*, *E-Score*, *S-Score* and *G-Score*. The regressions are run for the two subsamples, Shareholder-oriented and non-Shareholder-oriented, which represent the firm's presence in a country with ARDI and ASDI scores that are above and below the median ARDI and ASDI scores. Control variables specified by Equation (1), and country and year fixed effects and included in each regression. The t-statistics in parenthesis are based on robust standard errors adjusted for heteroskedasticity and clustered by firm. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels respectively.

This finding provides partial support for Hypothesis 2, and indicates that firms in ESG-sensitive sectors face higher compliance and adaptation costs that may offset the efficiency gains typically associated with CSR investments. For firms operating in environmentally intensive industries, however, environmental performance becomes a significant determinant of profitability, reflecting higher investment efficiency for compliance with sustainability in industries subject to stricter environmental regulations, once again in line with the resource-based perspective. Furthermore, the finding that Tobin's Q remains positively associated with ESG across both subsamples indicates that investors continue to value CSR, regardless of institutional pressure or regulatory expectations.

Looking at country-specific moderators, we find that firms in countries that are considered CSR-rewarding societies tend to have a stronger link between corporate social and finance performance, which supports Hypothesis 3. Cultures that encourage autonomy, ethical responsibility, and future-oriented behavior create conditions where CSR is both expected and rewarded. Conversely, in societies with high power distance, uncertainty avoidance, or masculinity, CSR may be perceived as less integral to business success. The configuration of the *Rewarding Societies* variable reinforces the idea that individualism can promote social responsibility through its intended emphasis on personal rights and responsibilities (Brewer and Venaik 2011). In the words of G. Hofstede, "Individualism does not mean egoism. [...] Collectivism does not mean closeness." Similarly, when interpreted as intended, Indulgence positively identifies societies where sustainability is more likely to be embraced out of genuine concern for quality of life, rather than as a perfunctory obligation.

Finally, consistent with Hypothesis 4, we find complementary rather than substitutionary mechanisms between governance and CSR. Operating within regulatory frameworks that provide better safeguards for shareholders allows firms to also enjoy a stronger link between their sustainability and financial performance. This finding is intuitive, because better governance is likely to reduce the risk of agency costs and prolonged mismanagement, and improve investment efficiency in CSR (Gompers et al. 2003; Bebchuk et al. 2008). Interestingly, the environmental dimension remains unaffected by differences in shareholder protection, implying that environmental performance is valued independently of corporate governance structures.

## 5.1 | Practical Implications

The findings presented in this study have several important practical implications for corporate managers, investors, and policymakers. It is apparent that CSR investments should be viewed not merely as compliance costs or moral obligations, but as strategic assets, that can enhance both operational performance and value. For companies, the resiliency of financial gains from environmental performance across various contexts underscores the importance of environmental innovation and technological efficiency. Environmental performance also demonstrates the most robust link to profitability, suggesting that it can lead to operational success and competitiveness.

For investors, ESG performance can serve as a reliable signal of firm quality and long-term viability. In markets with CSR-encouraging social norms and shareholder protections, ESG investments are more likely to generate superior financial returns. Consequently, investors may benefit from incorporating both firm-level ESG metrics and regional cultural and institutional indicators into their portfolio selection and risk assessment models. The results also have important implications for policymakers and institutions aiming to promote corporate sustainability, and underscore the importance of tailoring regulatory frameworks to account for industry-specific ESG risks, and strengthening shareholder protections.

## 5.2 | Limitations and Suggestions for Future Research

The limitations of this research should be acknowledged. First, the study measures CSR using LSEG's ESG scores. Although these are widely accepted in existing literature, they may not accurately portray various qualitative or strategic aspects of sustainability. Moreover, prior literature shows that ESG ratings across different agencies and data providers exhibit limited methodological overlap and low score correlations (Billio et al. 2021). Subsequent studies could supplement quantitative ESG data with textual analysis of sustainability disclosures and ESG reports, and the presented results could also be replicated using different sets of ratings and scores.

Secondly, while the study introduces important contextual moderators, these factors are implemented in the regressions as binary indicators based on thresholds. Such categorization is useful for demonstrating variation across groups, but may simplify complex phenomena such as non-linear effects, or reduce within-group heterogeneity. For example, ESG sensitivity within an industry can vary across firms depending on technological innovation, supply-chain dynamics, or market share. Future research could extend the study of exogenous industry and country-level factors by examining how they interact with each other and with firm characteristics.

Our analysis also focuses primarily on European firms, where CSR practices are strongly institutionalized and shareholder-oriented regulation is prevalent. Results might differ in emerging markets or regions with weaker regulatory frameworks, and lower social expectations. Extending this research to different international samples would provide valuable insights into regional CSR dynamics.

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