

# Handbook on Business Strategy: Balancing Societal Impact and Financial Success

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In a time when stakeholders expect more from businesses than just profits, integrating social impact into strategic planning has become more crucial than ever. This handbook aims to serve as a resource for leaders and managers trying to navigate the complex relationship between corporate social responsibility (CSR) and financial performance. By highlighting the dual goals of supporting community well-being while achieving economic success, this work reflects the modern spirit of responsible business. By thoroughly examining CSR practices, underlying theories, and case studies, readers will understand how ethical considerations and active engagement can enhance a company's reputation, foster customer loyalty, and support sustainable growth. As the landscape continues to shift, understanding how to balance these priorities will be crucial for businesses aiming to succeed in the 21st century.

## Synopsis

The ethos of Corporate Social Responsibility (CSR) underscores the significant role that businesses play in promoting societal well-being. It goes beyond just following rules; it involves actively participating in a range of activities, including charitable donations, community development, fair treatment of employees, and environmental care. Today, organizations are also held legally accountable for their CSR efforts, with consequences for non-compliance falling on their leadership. Therefore, managers must consider not only the financial impacts of their decisions but also their ethical implications. The past repercussions from high-profile scandals, such as Enron, serve as a stark reminder of the importance of integrity in corporate practices. This book aims to resonate with readers who value ethics,

community responsibility, and good citizenship in their daily lives, providing them with a deeper understanding of these essential topics.

Within its pages, this comprehensive exploration of corporate social responsibility draws on a rich tapestry of literary sources crafted by scholars and industry practitioners, complemented by anecdotes and insights from leaders and managers who have navigated the complexities of CSR firsthand. The objective is to forge an integrated framework that tackles pressing questions currently debated among professionals in the field. By synthesizing existing knowledge and illuminating the contentious aspects of CSR, this book makes a significant contribution to both academic discourse and real-world applications.

An ongoing and heated debate exists regarding the interplay between corporate social responsibility and financial performance. Proponents argue that ethical practices enhance a company's reputation, foster customer loyalty, attract top talent, and ultimately drive profits—a virtuous cycle of benefits. Conversely, skeptics caution that CSR efforts might impose costs that could potentially diminish profit margins. However, compelling evidence from recent trends indicates that organizations embracing CSR often enjoy superior financial outcomes, bolstering sustainable growth and providing a competitive advantage. Ultimately, the impact of CSR on economic performance is nuanced and can vary across industries, contingent on the nature of initiatives and their alignment with overarching business objectives.

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### Preface

Businesses serve a pivotal role in society, addressing consumer needs, generating employment, and advancing environmental sustainability. Their responsibilities extend beyond mere compliance with legal standards; they must innovate in product development and contribute to tax revenue, which supports public projects that enhance community welfare. A growing number of organizations are adopting strategies to improve their environmental performance and safeguard ecological systems. In an era marked by heightened social awareness, businesses are increasingly embracing their broader responsibilities. They engage in philanthropic initiatives, support healthcare, and implement comprehensive environmental strategies. This

shift underscores a growing recognition of corporate social responsibility (CSR) as essential for sustainable development and promoting social well-being. The foundations of this commitment are rooted in principles such as well-being, individual rights, and fairness.

Since 2020, Fortune 500 companies have collectively invested approximately \$20 billion annually in CSR initiatives. Furthermore, the 250 largest global corporations publish annual reports detailing their CSR activities (Oriol, 2022, Forbes). In the UK, the market for sustainable products grew in 2021 to a value of £ 41 billion (Johnson, 2024). While there is no legal obligation for such expenditures, stakeholders, including customers, citizens, employees, and investors, are increasingly demanding that corporations ensure their investments yield meaningful and positive societal outcomes. Nonetheless, the efficacy of these efforts continues to spark debate among experts, highlighting the complexities inherent in measuring corporate contributions to society. Some important foundations of corporate social

responsibility (CSR) were laid in the last two centuries by Rowen and Johnson (1953), who initiated the modern debate on corporate responsibility as an independent field requiring research in their book. They noted that hundreds of large businesses have become centers of power, making decisions that significantly affect citizens' lives in various ways. Following their work, Davis (1960) and others, like W. J. McGuire (1963), focused the theoretical discussion on defining corporate responsibility and the relationship between corporations and the societies in which they operate. They highlighted the role of business managers as guardians and nurturers of these relationships.

In 1971, H. L. Johnson expanded the concept of corporate responsibility through a stakeholder approach in his book. He argued that a responsible company balances a wide range of interests. Rather than solely maximizing profits for shareholders, such a company also considers the needs of its employees, suppliers, distributors, local communities, and the nation as a whole. A prominent historical case is the movement led by political activist Ralph Nader during the 1960s and 1970s, which advocated for a shift away from a singular focus on shareholder profit maximization towards embracing democratic principles in management practices. This approach promotes corporate engagement with marginalized communities, extending beyond mere philanthropic efforts. Nader's 1965 work, "Unsafe at Any Speed," criticized the automobile industry for prioritizing profit over consumer safety, igniting a movement that championed consumer rights and corporate responsibility. This activism shifted societal perspectives, leading to improved environmental standards, more equitable business practices, and a greater alignment with collective societal interests. The Rio Summit in 1992 marked a significant shift from the social responsibility of individual corporations to a global perspective on sustainability, a view promoted by global organizations.

At the turn of the century in 2000, the Global Compact initiative was launched at the United Nations General Assembly to establish a framework for businesses operating globally to collaborate on issues of development, implementation, and sustainability reporting. Despite a growing awareness of corporate responsibilities, financial fraud cases continue to emerge in the global business arena. The collapses of Enron and WorldCom led to a profound crisis in the business sector, prompting regulators and corporations to push for intensive legislation in the U.S., such as the Sarbanes-Oxley (SOX) Act, which establishes strict rules for corporate governance and accountability. The existing body of literature delineates three predominant paradigms of Corporate Social Responsibility (CSR). The first, termed the "Free Market Approach," posits that the primary focus of a business should be profit maximization, with social responsibilities emerging organically within a laissez-faire economic framework (Friedman, M. 1970, *Times Magazine*). This perspective emphasizes that by pursuing profit, businesses contribute to economic growth and innovation, which, in turn, can yield broader societal benefits. Advocates argue that when companies are free to

operate without excessive governmental regulation, they can allocate resources more efficiently, respond to consumer demands, and foster competition.

However, this approach does not dismiss the importance of ethical principles. It emphasizes that a sense of justice should guide corporate governance alongside profit-driven objectives. In practice, this means that businesses should not only seek financial gain but also consider the implications of their actions on stakeholders, including employees, customers, and the broader community. The second paradigm, known as "Government Responsibility," advocates for the creation of comprehensive regulatory systems designed to protect societal interests and promote public welfare. This approach enhances the first paradigm by emphasizing the importance of proactive management of social issues. It emphasizes that businesses must not only recognize and understand the social challenges they impact but also actively work toward solutions that benefit the public. By combining regulatory policies with responsible business conduct, this view promotes cooperation that involves both the government and the private sector collaborating to address pressing social issues, thereby striking a balance between economic growth and community well-being. Such teamwork is vital for sustainable development and raising the quality of life in communities. The third paradigm, termed "Leadership Free Will," posits that business leaders not only have a vested interest in remaining responsible but also bear a moral obligation to uphold it. This perspective highlights the complex interplay between organizations and their surrounding communities, underscoring the crucial role of leadership in cultivating a corporate culture that prioritizes social responsibility.

Within this framework, leaders are encouraged to think beyond mere profitability and consider the broader impacts of their decisions on various stakeholders, including employees, customers, and the broader community. This approach advocates for leaders to proactively integrate ethical considerations into their strategic decision-making processes, thereby reinforcing the symbiotic relationship between corporate entities and societal well-being. Moreover, this paradigm encourages leaders to foster an environment where ethical practices are not just guidelines but are deeply embedded in the company's values and operations. By doing so, they can inspire their teams to embrace a shared sense of purpose, drive innovation aimed at social good, and ultimately contribute to a sustainable future. In a world increasingly focused on corporate accountability, the "Leadership Free Will" paradigm serves as a crucial reminder that the choices made at the top can have far-reaching effects, making it imperative for leaders to act with intention and integrity.

In the dynamic landscape of Corporate Social Responsibility (CSR), several critical inquiries foster in-depth discourse:

- To whom should corporations be accountable?
- What specific responsibilities should they undertake?
- How can firms effectively embed social responsibility in their operational frameworks?
- What rationales, financial or otherwise, exist for the

adoption of CSR? How do companies navigate the balance between CSR commitments and profitability?

- Have CSR initiatives demonstrably achieved the societal benefits they aimed for and adequately addressed urgent social challenges?

This study offers an in-depth examination of these pivotal questions, presenting novel insights and findings that serve as fundamental pillars for the CSR discourse. The objective is to enhance comprehension among both academics and practitioners of the seamless integration of CSR initiatives within corporate strategies. It aims to identify a harmonious convergence of economic, social, and environmental imperatives with stakeholder aspirations, promoting a collective effort towards a more responsible and sustainable future.

Over the past decade, the dialogue surrounding CSR has significantly intensified among corporate leaders. Advocates assert that proactive corporate actions can catalyze specific socio-economic outcomes. Proponents of CSR suggest that businesses typically demonstrate operational efficiencies that often exceed those of government institutions, positing that profit objectives should be reconciled with a robust commitment to self-regulation and societal accountability. When executed effectively, strategic CSR not only fulfills corporate social responsibilities but also creates significant opportunities for differentiation in competitive markets. Despite a growing body of research linking CSR to leadership effectiveness and strong statistical correlations, significant gaps still exist in understanding how specific leadership qualities influence CSR engagement and the mechanisms behind these relationships. Current theories lack solid empirical evidence connecting CSR efforts with increased profitability or sustained competitive advantage. It remains possible that higher profitability enables companies to pursue social and environmental initiatives. However, the connection between social responsibility and financial performance remains unclear.

An ongoing scholarly debate examines the dichotomy between shareholder and stakeholder interests within organizational contexts. This divergence is particularly relevant in analyzing corporate responsiveness to market dynamics that necessitate attention to diverse CSR obligations. Nevertheless, there is a consensus among researchers that businesses may possess greater capabilities than governmental entities in addressing societal exigencies.

## Chapter 1: C.S.R. Perspective

### A. Business Social Responsibility

The concept of corporate social responsibility (CSR) emphasizes that businesses must assume a role that extends beyond merely seeking economic gains. This view is guided by the social needs of the community and society, which market forces often overlook. These needs often arise from market flaws, such as externalities and worries about how international trade affects workers in developing countries, where governments may lack both the willingness and the ability to deal with these social issues [1-5]. Managers and

directors must assume responsibilities that extend beyond merely enforcing rules. Their actions can lead to fines and lawsuits for damages, emphasizing their accountability. Organizations like Enron show this, where senior leaders face personal lawsuits. The legal system defines managers' duties, such as adhering to the ADA, FMLA, and FLCA, while ethical concerns add additional leadership responsibilities. The fundamental principle of social responsibility is rooted in concern for the moral consequences of one's actions, especially their potential effect on the interests of others (Davis, 1960, p. 46) [6]. Just like individuals in society, corporations are responsible for their influence across all areas. This means that people working in a corporate setting must act in line with the moral duties expected of citizens in a democratic society. Such behavior includes commitments to protect the environment and uphold human dignity. In their study, "Business Good Citizenship," Logsdon and Wood (2000) compare businesses to responsible citizens, suggesting they should promote public welfare while safeguarding individual interests.

A social responsibility approach is predicated on three principal characteristics. The initial characteristic is the differentiation between various systems of consideration, as discussed in Davis's (1960, p. 70) article, "Can Business Afford to Ignore Social Responsibility?" The business system is profit-oriented, whereas other systems may not yield direct financial returns. This distinction suggests that a corporation's decision-making processes can partially diverge from strict business considerations. Consequently, a practical decision made by a business corporation may be justified based on long-term goals, even if it diverges from immediate financial interests and is instead supported by alternative factors in the short term. In his book *Business & Society*, W. J. McGuire (1963, p. 144) states that CSR assumes that businesses have ethical duties to society in specific areas, as well as economic and legal responsibilities. These include, but are not limited to, paying taxes and following legal regulations. The company's responsibilities extend to every individual within the organization, covering all aspects of influence related to the interests of various stakeholders. This responsibility is mainly moral, based on principles of fairness, the ongoing respect for human dignity, and loyalty to the ideals of a democratic society, with proper regard for the freedom to live one's life according to personal preferences. We must always consider the potential effects the firm may have on others. The CAUX Round Table, founded in 1968, asserts that the global business community should play a key role in improving economic and social conditions worldwide. Its ethical framework is based on two main principles: Kiyoshi and respect for humanity, which are divided into general principles and practical applications.

The first principle emphasizes that businesses should extend their responsibilities beyond just shareholders to include a broader range of stakeholders. In contrast, the second focuses on the economic and social impacts of business activities, advocating for innovation, justice, and collaboration. Additionally, the framework requires business practices to go beyond legal requirements to build trust

while still adhering to laws, as this is a fundamental aspect. It promotes support for multilateral trade, environmental stewardship, and the prevention of illicit activities. The practical guidelines detail expected behaviors toward stakeholders, including customers, employees, shareholders, suppliers, competitors, and local communities. Committee for Development (1971) presented another characteristic of CSR, which includes two insights. One is that the business world operates based on public consent, and its fundamental goal is to serve society's needs productively. The second is that appropriate behavior within a particular corporation is based on three sub-concepts: a perception of appropriate behavior within a corporation, the behavior of individuals within a corporation, and the behavior of a democratic state and its citizenry.

The "Stakeholder Approach" proposed by Freeman and Reed (1983) emphasizes that corporations interact with diverse constituents, including employees, suppliers, customers, and the broader community. Legal mechanisms, like employment contracts and shareholders' voting rights, help protect these interests. Relationships between corporations and stakeholders are based on mutual exchange, where both parties benefit. Stakeholder expectations can influence the stability of these relationships, placing a responsibility on corporations to manage and meet those expectations. If expectations are not met, the obligation to compensate the affected party is complex and involves moral considerations. Vogel (2005) proclaims in his article "The Market for Virtue" that CSR is an ambiguous concept that means different things to different people and has trade-offs. The application differs among firms, but even firms can exhibit inconsistent behavior across different countries. He identifies a nuanced correlation between the firm's financial and social performance. There is a widespread lack of influence on sales and the ability to attract and achieve stakeholder loyalty for those actively involved. The discourse surrounding the role of government in corporate social responsibility (CSR) remains a contentious issue among scholars. Wirba (2024, p. 7447) emphasizes the importance of governmental involvement in promoting CSR initiatives, particularly in developing nations where such engagement is often voluntary. He posits that the government should strategically align CSR objectives with the broader goals of societal welfare by enacting relevant regulations, offering necessary support, promoting synergistic partnerships, and acknowledging exemplary corporate practices.

Conversely, Roosevelt (2000, p. 235) raises a cautionary note regarding the potential detrimental effects of government intervention, suggesting that it may infringe upon business interests and disturb the equilibrium of market competition. This dichotomy underscores the complexities of integrating governmental action within the CSR framework, necessitating a nuanced discussion on the balance between regulatory oversight and corporate autonomy in their social commitments. It is becoming increasingly common for organizations to adopt a formal CSR policy in contemporary Western societies, the European Union, and East Asian countries. Such policies manifest through various avenues,

including targeted social investments, collaboration with local communities, fostering meaningful relationships with employees and clients, and active engagement in environmental conservation and sustainability initiatives. Furthermore, organizations are expected to provide annual reports detailing their CSR activities concerning societal contributions, employee welfare, and shareholder interests.

In summary, many organizations address economic, environmental, and social issues through the "Global Reporting Initiative" (GRI) Standard, which helps present their Corporate Social Responsibility (CSR) initiatives. By adopting this standard, organizations can systematically assess their operations, enhancing the thoroughness and quality of their reports.

## B. Strategic CSR

Strategic corporate social responsibility (CSR) creates a fundamental connection between CSR efforts and a company's financial results. When CSR efforts are seen as valuable, managers are responsible for implementing these initiatives thoughtfully to maximize their positive economic effects. Scholars and practitioners argue that CSR becomes a strategic advantage for companies when they focus on social and environmental issues, using various practical methods and practices to address them (Porter & Kramer) [1,7-9]. A range of researchers and practitioners advocate that by adopting a strategic approach to CSR, organizations can cultivate productive relationships with stakeholders. Employee participation in the CSR initiatives has been shown to enhance morale and productivity, thereby significantly fostering customer loyalty. Consumers exhibit a marked preference for businesses that demonstrate a commitment to social and environmental responsibility. By integrating CSR into their overarching business strategies, companies can align their values with stakeholder expectations and promote a positive organizational culture. Companies that prioritize social responsibility tend to establish strong reputations, thereby attracting investors who are increasingly concerned with sustainability. Additionally, younger people are more likely to want jobs with organizations that align with their values. Actively promoting CSR initiatives can help businesses attract top talent and position themselves as leaders in responsible business practices.

In their influential article, "Society & Strategy," Porter and Kramer (2006) argue that integrating social policy into a company's strategic management framework is crucial for aligning social and economic goals. In 2011, they further developed this idea by introducing the concept of creating shared value (CSV), which highlights the interdependence of economic success and social progress. CSV suggests that companies can improve their economic performance while also addressing societal needs. However, some critics argue that CSV risks prioritizing economic outcomes over broader social and environmental responsibilities. Certain scholars argue that CSV is merely a rebranding of traditional CSR, failing to adequately address the broader issues related to sustainability and equitable growth. A prevailing view among supporters is that strategic corporate social responsibility

presents a significant business opportunity, potentially differentiating a company from its competitors when implemented effectively. Therefore, when CSR initiatives yield clear financial benefits, organizations should adopt a strategic approach to maximize profits while enhancing their reputation by demonstrating both ethical commitment and economic gains. This idea is illustrated by the META methodology, which Vishwanathan et al., used to thoroughly analyze the link between CSR and corporate financial performance (CFP) across 344 scholarly articles [7]. Their study identified four specific ways CSR influences CFP: improving company reputation, increasing stakeholder-related reputational value, reducing corporate risks, and boosting innovation capacity. The results showed that these factors explain only about 20% of the effects of strategic CSR on CFP, revealing a significant gap in research concerning the causal perceptions of strategic CSR and its real impact on a company's financial results.

Additionally, research by Singa and Mizra critically examined the corporate social responsibility activities of six major organizations: Amazon, Twitter, Apple, ExxonMobil, and Walmart [2]. This study aimed to clarify the complex relationship between businesses and society, highlighting the crucial role of stakeholders in forming and maintaining these links. The results showed that these organizations undertake significant strategic efforts, including substantial contributions to the global economy, extensive philanthropic work, and various actions aimed at meeting community needs and expanding societal expectations. This research underscores the importance of CSR as a crucial component of contemporary business practices. Finally, the "Upper Echelons Theory," articulated by Hambrick and Mason (1984), suggests that integrating CSR into strategic planning allows organizations to improve sustainability, gain competitive advantages, and contribute positively to social welfare. However, it is still clear that corporate social responsibility remains underexplored in academic literature, despite its growing importance in the field of corporate strategy. In practice, organizations are increasingly incorporating CSR into their core strategies, recognizing that both the educational and practical aspects of CSR are vital for companies to succeed in today's fast-changing global environment.

### C. Leadership Function

The role of leadership in formulating and advancing Corporate Social Responsibility (CSR) initiatives within organizations is paramount. Senior leaders' ethical values and perspectives often set the foundation for the company's CSR approach. When leadership prioritizes ethical behavior and social responsibility, it fosters a culture that permeates the organization, influencing its overarching operations and ethos (Saha et al., Fox et al.,) [10-13]. Advocating for social accountability is crucial for promoting initiatives and fostering community involvement that extends beyond basic regulatory compliance. This unwavering dedication amplifies the organization's reputation and cultivates stakeholder confidence and engagement. The 1981 "Round Table of 150 Big Businesses" statement emphasized that

businesses should serve public interests while pursuing profit, highlighting the need to balance stakeholder claims, including those of employees, suppliers, and society, in fulfilling shareholder interests. However, critics argue that the statement lacks a clear definition of corporate objectives, although it encourages leaders to consider the implications of their decisions and strive for long-term sustainability. In 1990, the Business Roundtable reinforced this idea, calling for a focus on all stakeholders while acknowledging the challenges in meeting diverse expectations [14]. The theory clarifies the assertion that corporations must actively promote social welfare while adeptly managing the diverse expectations of various stakeholders. It posits that leaders can cultivate long-term organizational success by aligning these interests with the company's overarching goals. Effective leadership in Corporate Social Responsibility (CSR) is critically important for the sustainability of an organization; it aligns business practices with broader societal values and expectations, thereby yielding positive outcomes for both the organization and the communities it serves.

A relevant example of this idea is found in "Upper-Echelons Theory," as explained by Hambrick and Mason (1984), which emphasizes the importance of ethical leadership by suggesting that leaders' psychological traits significantly impact organizational results. This theory considers CSR a strategic approach for achieving sustainability, gaining a competitive edge, and ultimately benefiting society. Academia and practitioners have increasingly focused on understanding how ethical leadership mediates CSR efforts, the interplay between different leadership styles and CSR practices within organizations, the impact of leaders' performance on CSR, and the connections between implicit and explicit CSR and leadership style. Findings revealed, firstly, that leaders who prioritize ethical behavior, transparency, and social responsibility can profoundly impact their organization's CSR endeavors by fostering a workplace culture that values these principles, motivating employees to participate in socially responsible activities, and actively supporting various CSR initiatives. Secondly, there is a strong positive relationship between leadership style and CSR.

Management styles that are particularly effective in promoting CSR include

- Transformational Leadership: Leaders who inspire and motivate employees to exceed their self-interests for the organization's and society's greater good.
- Servant Leadership: Leaders who prioritize the needs of others, empower employees, and promote a culture of service and social responsibility.
- Ethical Leadership: Leaders who act with integrity, fairness, and consideration of ethical principles set a positive example for the organization to follow.
- Authentic Leadership: Authentic leaders are characterized by their transparency, ethical behavior, and genuine concern for the well-being of employees and stakeholders; these attributes foster trust and credibility, which are essential during challenging periods.

In addition to the aforementioned styles, several other approaches were also explored, each with unique characteristics and applications. The Visionary style focuses on creating a clear and compelling future for the organization, inspiring others to buy into a shared vision and fostering innovation. This style is often associated with leaders who prioritize creativity and long-term goals. The Transcending style emphasizes adaptability and holistic thinking, looking beyond conventional boundaries to find solutions that integrate diverse perspectives. Leaders who employ this approach are often skilled at navigating complex environments and motivating their teams to adopt change.

The Professional style is rooted in expertise and competence. Leaders in this category often command respect through their knowledge and skills, making calculated decisions based on data and establishing best practices. The Knowledgeable style highlights the importance of informed decision-making, with leaders who prioritize continuous learning and development. They foster an environment where information sharing and expertise are valued, enabling teams to grow and improve. A focus on rules, processes, and hierarchy characterizes the Bureaucratic style. While it can ensure consistency and efficiency, it may also stifle creativity and responsiveness in fast-changing scenarios. Lastly, the Advocacy style champions the rights and interests of others, often focusing on social justice and ethical considerations. Leaders who embody this style are passionate about driving change and mobilizing support for causes that matter to them and their communities.

Each of these styles offers different strengths and challenges; understanding them can help organizations cultivate effective leadership tailored to their specific contexts and goals. Leadership orientation has a significant influence on corporate social responsibility (CSR) approaches, initiatives, leadership styles, and the skills required for effective leadership within organizations. Literature identifies four distinct types of leader orientation that shape their views on CSR and how they implement related activities. Notably, leaders often have different interpretations of their roles and responsibilities, which lie at the intersection of the business organization and the broader community.

Leaders' activities can range from fulfilling the fundamental needs of owners and shareholders, adhering to legal and regulatory frameworks, and generating employment opportunities to addressing the diverse requirements of all stakeholders. Some leaders perceive business as a mechanism for addressing and resolving social challenges. Researchers have presented a taxonomy examining the interplay of two key variables influencing leader orientation: the breadth of their focus, which can be either narrow or expansive, and the degree of accountability they feel towards their constituents. This framework classifies four types: Traditional Economists, Opportunity Seekers, Integrators, and Idealists. The first two categories are likely to adopt reactive CSR strategies, such as philanthropic initiatives, and they tend to concentrate on compliance with laws and regulations to mitigate legal risks. In contrast, those with a broader focus orientation

are inclined to transcend mere reactive strategies, instead embedding substantial CSR initiatives into their business strategies to benefit the larger society.

**In conclusion, leaders are more likely to integrate corporate social responsibility (CSR) into their core business strategies when they acknowledge their long-term benefits, such as an enhanced reputation, increased customer loyalty, and higher employee satisfaction. Conversely, if leadership views CSR initiatives as a threat rather than an opportunity, these efforts may not reach their full potential. In such instances, the organization's initiatives could be implemented superficially or approached with reluctance, ultimately diminishing their impact.**

#### D. CSR Implementation

Implementing CSR is a process that companies undertake to raise awareness and integrate social responsibility values within their organization. It communicates these initiatives both internally and externally, while also tracking the progress of their efforts. Researchers agree that incorporating Corporate Social Responsibility (CSR) into businesses is a complex process. Organizations must balance the interests of various stakeholders, both internal and external. Additionally, decisions in this context are influenced by factors such as industry type, regulatory landscape, timing of stakeholder interactions, and the methods of communication and information sharing (Ahmad et al.,) [5,8,15]. Current research identifies three distinct methods for implementing Corporate Social Responsibility (CSR) within a company: The Peripheral Approach, the Integrated Approach, and the Strategic Integrated Approach. These methods differ based on how deeply they are embedded in the organization's systems (see Table 1: Implementation Approaches, p. 21). The Peripheral Approach treats social initiatives as separate from core business functions, focusing on external activities such as charitable efforts to enhance legitimacy. In contrast, the Integrated Approach incorporates CSR into the company's essential operations, structure, and policies, making it a fundamental aspect of the business. The Strategic Integrated Approach embeds CSR into daily operations, routines, and policies. This approach aligns CSR with strategic decision-making and core capabilities, influencing the organization's functioning and shaping its interactions with internal and external stakeholders.

Additionally, CSR implementation can be categorized into Responsive and Strategic. The characteristics of these categories lead to varying impacts on financial and social performance, particularly in terms of the organization's engagement with social and environmental issues. Strategic CSR includes a variety of actions that, when implemented collectively, can benefit both the organization and society, potentially enhance overall performance, and drive socio-economic development. On the other hand, Responsive CSR encompasses defensive, promotional, and charitable initiatives that do not closely align with the firm's core strategic operations. Sustainability has evolved significantly over the past two decades, increasingly integrating with

corporate social responsibility (CSR) and highlighting their interrelatedness. The concept of sustainability is not viewed as disruptive in the same way as CSR. When considered alongside profit, focusing on people and the planet promotes a more holistic approach to business practices. Consequently,

numerous companies are committed to documenting and reporting their sustainability initiatives and achievements. Additionally, emphasizing environmental sustainability is crucial to integrating corporate social responsibility.

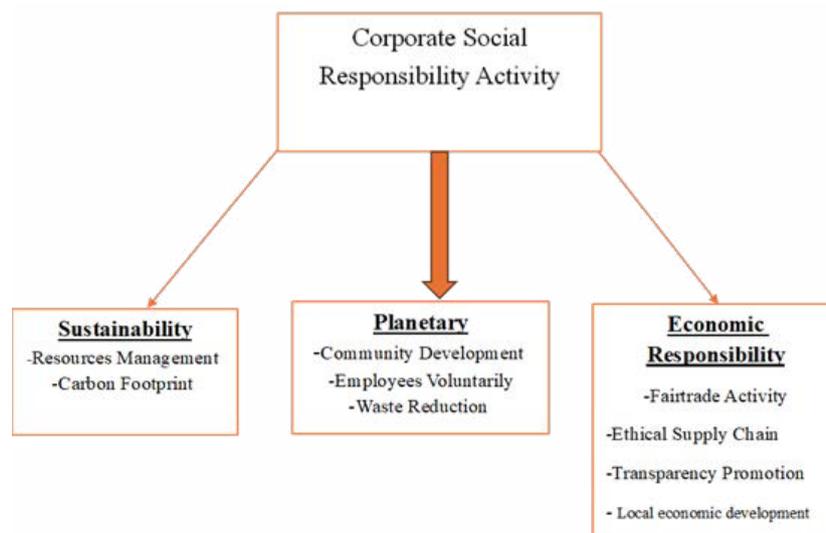
	Description	Focus	Category	Approach
1	Peripheral	Responsive	External activities, such as charitable efforts, can enhance an organization's legitimacy and credibility	Treats social initiatives as separate from core business
2	Integrated Approach	Integrative	Making CSR a fundamental aspect of the business.	Incorporate CSR into the company's essential operations, structure, and policies
3	Strategic Integrated Approach	Strategic Approach	Aligning CSR with strategic decision-making and core capabilities	Embeds CSR into daily operations, routines, and policies
4	T.B.L Framework	Integrative	Addressing shareholders' expectations and stakeholders	Balances social equity environmental stewardship and economic viability
5	Sustainability	Integrative	Emphasize environmental sustainability	Adopting environmentally friendly practices, such as reducing carbon emissions, conserving resources, and promoting renewable energy sources

**Table 1: Businesses' Social Responsibility Implementation Approaches**

**Note:** that the table offers structured methods for implementing CSR within an organization, ensuring it is integrated into operations or aligned with strategic goals.

According to "UNIDO" (2022), adopting the "triple bottom line" (TBL) framework helps organizations balance social equity, environmental stewardship, and economic

viability while addressing shareholders' expectations and stakeholders (see Figure 1, a structural model). It shifts the focus from profit as the sole measure of success to considering people, the planet, and profit in a balanced manner. Furthermore, it expands financial reporting to encompass social and environmental impacts for a more comprehensive view of success.



Note. By integrating these three areas, companies aim to achieve a balanced approach to business that promotes long-term sustainability and ethical responsibility. The TBL framework helps corporations measure and report their performance more comprehensively, beyond just financial metrics.

**Figure 1: The Triple Bottom Line Model**

Firms are increasingly adopting environmentally friendly practices, such as reducing carbon emissions, conserving resources, and promoting renewable energy sources. These initiatives help mitigate legal challenges linked to unethical conduct, foster innovation, and enhance brand development. Such actions create opportunities for entering new markets and realizing financial benefits. The existing literature outlines various frameworks for implementation. Literature also considers Corporate Social Responsibility (CSR) an important framework in the business world. Notably, Maon et al., reference Levin's change model, identifying nine essential steps integral to the implementation process: raising awareness, assessing organizational goals within their context, establishing a definition and vision, evaluating the current situation, developing a strategy, executing the selected plan, communicating effectively with organizational members, assessing performance, and institutionalizing the approach within company policy. Bunny-Pauly et al., propose a framework centered around three principal dimensions: commitment, embedding, and external collaboration. Fatima and Elbana, based on an empirical study that analyzed 122 scholarly articles, underscore the intricate nature of CSR practices and the various factors that influence their implementation [8]. They provide a comprehensive model addressing the complexities of implementing CSR. Their framework encompasses multiple levels, including institutions, industries, organizations, and individual stakeholders. It also takes a multi-dimensional approach, considering ethical, economic, legal, and discretionary elements.

### **E. Relationship between CSR, CSP, and CFP.**

Organizational theory, in the context of corporate social responsibility (CSR), presents diverse perspectives on the relationships and effects between CSR, corporate social performance (CSP), and corporate financial performance (CFP). Based on various studies, this is one of the most important topics for investors, concerning both academia and practitioners. Despite numerous studies on the subject, the findings are mixed (Baron, Orlinski et al., Salid et al.,) [16]. Some researchers provide evidence supporting a relationship between these variables, while others find the results inconclusive. A third perspective suggests that even if a connection exists, it is reciprocal: a strong CSR program can enhance CSP, and similarly, a high level of CSP can enable a company to invest in more advanced CSR initiatives. Furthermore, regarding their relationship, these studies suggest that a firm's strong financial performance may provide an opportunity to engage in socially responsible activities. Another interesting conclusion from this research is that the motivations behind CSR activities can differ, even if the outcomes are similar. Some motivations include core principles, avoiding government regulation, and the belief that CSR initiatives will boost demand for the firm's products. Therefore, it is recommended that CSR activities be analyzed from the perspective of the motivating factor.

This interconnected relationship between CSR, CSP, and CFP highlights the importance of a strategic approach to aligning corporate goals with social responsibility. Companies

must navigate these dynamics carefully, striking a balance between pursuing financial success and considering ethical implications and societal expectations. At the same time, academia must consider additional empirical studies to indicate the relationship between these variables. On the operational side, CSR implementation often leads to innovation, particularly in sustainable product development and energy-efficient practices. As companies integrate CSR into their core strategies, they can discover cost-effective solutions that not only reduce environmental impact but also improve operational efficiency. For instance, adopting renewable energy sources or circular economy models can significantly lower costs while demonstrating a commitment to sustainability. When studying new ventures, the relationship is positive; however, several moderating factors exist, including the nature of the sectors, the country's level of industrialization, and the intensity of environmental degradation. For instance, the study's findings in France show that the CSI concept the degree of social investment by the corporation in financial or other resources has a greater impact on financial performance compared to CSR. Ultimately, the successful integration of CSR, CSP, and CFP into a coherent framework enables organizations to align their financial goals with broader societal and environmental objectives. This alignment is not merely a moral imperative but a strategic necessity in a world increasingly focused on sustainable development.

## **Chapter 2: Shareholders and Social Responsibility.**

### **A. Investors' Approach**

Investors are crucial shareholders, providing essential capital for operations and influencing strategic decisions. Understanding their interests is vital for organizations to navigate challenges and achieve long-term success. Evaluating investments now goes beyond profitability, focusing on corporate social responsibility and employee welfare. Neglecting these aspects can increase skepticism about investment risks (Sonia & Abdelwahed) [4,9]. The relationship between corporate social responsibility (CSR) and investor behavior is a multifaceted issue that continues to garner attention in academic research and practical investment strategies. As awareness of social and environmental issues grows, an increasing number of investors consider CSR factors in their decision-making processes. The expansion of socially responsible investing (SRI) and rising environmental, social, and governance (ESG) criteria have led to an increasingly nuanced understanding of how CSR impacts investment. One significant aspect of this relationship is the growing demand among retail and institutional investors for companies to adopt sustainable practices. Many investors today are not solely concerned with financial returns; they also look at how companies impact society and the environment. Firms that actively engage in CSR initiatives can attract this demographic of investors, who may prioritize ethical considerations alongside financial performance.

Moreover, companies that invest in CSR often enjoy a strengthened brand reputation and customer loyalty, which can translate into revenue growth and profitability.

A positive public perception may also reduce the cost of capital, as investors perceive lower risk associated with firms committed to CSR. This is particularly important in industries that face scrutiny over their environmental and social impacts. However, there are also challenges. For instance, inconsistencies in CSR metrics and reporting can make it difficult for investors to assess a company's genuine commitment to social responsibility. Not all CSR efforts translate into financial profitability, and some investors may remain skeptical about the tangible benefits of CSR initiatives. The lack of standardized metrics can lead to greenwashing, where companies exaggerate their CSR efforts to appear more appealing to investors. Institutional investors, in particular, are increasingly advocating for greater transparency and accountability regarding CSR practices. They are pushing companies to develop more transparent communication about their sustainability strategies and the long-term impacts of their CSR initiatives. This preference signals a shift towards integrating CSR into core business strategies rather than treating it as an ancillary activity. The evolving investor landscape also reflects changes in global priorities. As climate change and social inequality become more pressing, investors will likely increase their focus on CSR. This trend shapes their investment strategies and compels companies to adapt and innovate in their approach to sustainability and social responsibility.

**In summary, although there is evidence of a positive link between CSR initiatives and investment appeal, the relationship is complex and affected by many factors. Investors are increasingly recognizing CSR as a crucial component of their decision-making process, but challenges persist in standardizing, ensuring transparency, and accurately measuring the impact of CSR. As this changing landscape continues to develop, companies that focus on and clearly communicate their CSR efforts may be better positioned to attract and keep diverse investors.**

### B. CSR and Financial Market Analysts

The CSR theory suggests that financial market analysts significantly influence business organizations, as they play a crucial role in providing funding for the company's strategic, sustainable, social, and environmental initiatives. As a result, firms must gain approval from the financial community. Earlier research on the link between the financial market and CSR professionals has shown that analysts tend to favor a responsible approach when shaping their strategies. This focus not only helps build a positive image with customers but also encourages healthy labor relations (Wang and Colleagues, DASH, Harvard Education; Dietmar & Florian) [17]. The second concern is compliance, which ensures that corporate actions align with legal expectations, positioning environmental responsibility as a fundamental aspect of corporate operations. The third aspect pertains to ethical responsibility, which is crucial for cultivating trust with investors and the community, as well as obtaining political permissions.

Lastly, philanthropic responsibility is also a crucial

component in ensuring the well-being of society. While there is a prevailing consensus in the market that financial priorities take precedence, this does not suggest that businesses should engage in unethical practices or strive only to meet the minimum legal standards for sustainability. Profit considerations should encompass the interests of all stakeholders within the firm, as their satisfaction can enhance shareholder value. Organizations often struggle to demonstrate how their activities directly contribute to profitability. For example, while it may be relatively straightforward to illustrate the benefits of environmental stewardship, articulating the value of philanthropic initiatives can be more complex. Therefore, it is essential to integrate environmental, social, and governance components into the organizational strategy to align more closely with analysts' expectations for achieving a competitive advantage. Moreover, allocating limited funds to the most productive users is a key guiding principle in financial markets. Those operating in financial markets are more inclined to direct scarce financial resources toward companies with the best CSR performance.

### C. Shareholders' Attitudes to Social Responsibility

The theory of organization, as outlined by Jensen and Meckling (1976), asserts that shareholders hold the most significance and are entrusted with the highest level of decision-making authority. The organization's management acts as agents for these shareholders, with directors overseeing a mechanism that monitors the agents' actions to ensure their decisions align with the shareholders' interests. Critics argue that managers' commitment to corporate social responsibility (CSR) often subjects them to short-term pressure from shareholders, although CSR initiatives are generally long-term investment strategies. However, there are instances where shareholders may accept lower returns in light of CSR policies. Research indicates that strong demand from investors and other stakeholders for CSR initiatives can enhance a company's value, potentially leading to a significant reduction in its cost of capital. Shareholders' attitudes toward CSR can vary widely, influenced by investment strategies, risk tolerance, and personal values. Some shareholders prioritize long-term sustainability over immediate financial returns. They understand that CSR initiatives can enhance brand loyalty, mitigate operational risks, and improve reputation, ultimately benefiting the company's bottom line. They may support management decisions that promote responsible practices, even when these do not yield short-term profits.

A segment of shareholders is motivated by ethical considerations, advocating for companies to operate socially responsibly. They believe businesses should contribute positively to society and the environment, often prioritizing these values over simple profit maximization. For these investors, CSR aligns with their personal beliefs and expectations of corporate behavior. Activists seek to influence corporate behavior to better align with social responsibility, often using their voting power to advocate for changes prioritizing stakeholder interests over mere shareholder returns. Despite the positive attitudes of some shareholders, others may express skepticism or resistance, particularly if

CSR initiatives conflict with short-term profit expectations. This ambivalence can create tension between management and shareholders, complicating decision-making. Overall, the growing recognition of the importance of CSR suggests a shifting landscape where many shareholders are increasingly viewing these initiatives as integral to sustainable financial success, influencing their expectations and engagement with management decisions.

#### D. Directors and Responsibility

"Board members are essential in driving the achievement of corporate social responsibility goals," which have become an essential part of contemporary business strategy. As leaders of the corporation, they are responsible for ensuring the company's financial performance while also operating ethically, thereby making a positive contribution to society. Due to changing public expectations and regulatory pressures, the focus has shifted to recognizing the need for sustainable business practices (Baron; Chitayat). One of the primary duties of directors concerning corporate social responsibility is to integrate these principles into the company's strategic plans. This involves understanding the potential social and environmental impacts of the company's activities and making decisions that support long-term sustainability. Directors should promote CSR initiatives that align with the organization's values and resonate with stakeholders, including customers, employees, and the broader community.

Effective governance requires that directors consistently assess the company's CSR strategies. This involves evaluating the impact of CSR initiatives, maintaining accountability, and adapting to stakeholder feedback and evolving societal needs. By promoting transparency and accountability in the reporting of CSR activities, directors can build trust and enhance the company's reputation. Furthermore, directors must oversee the allocation of resources for CSR initiatives, which involves making financial commitments and fostering a company culture that values ethical actions and community involvement. By integrating CSR into the company's core principles, directors can steer their organizations toward positive societal contributions while meeting business objectives. As the landscape of corporate responsibility continues to evolve, directors must remain agile and informed about emerging trends and expectations related to CSR. They should engage with stakeholders to understand their perspectives on social and environmental issues and actively incorporate these insights into decision-making processes.

**In summary, the roles of directors in CSR are multifaceted, encompassing strategic integration, accountability, transparency, resource allocation, and stakeholder engagement. By effectively fulfilling these responsibilities, directors can enhance corporate performance and contribute to a more sustainable and equitable society.**

### Chapter 3: Stakeholders and CSR

#### A. The impact of CSR on employee engagement

The decision by leaders in an organization to implement CSR activities within their systems is crucial for increasing team engagement in organizational efforts. Research indicates that employees often feel more pride and purpose when companies participate in CSR initiatives, such as environmental sustainability and community service. This link between individual values and the organization's core mission not only boosts job satisfaction but also enhances morale and loyalty among employees (Moris-Dasilva et al., Evans et al., Yadav et al., Sucket et al., Ghas, Kumar et al.,) [2,18,19].

When assessing their organization's commitment to social responsibility, employees often consider the following questions:

- Are the social goals prioritized by the organization aligned with its core business activities?
- How credible are the organization's messages regarding its social responsibility efforts?
- To what extent does the organization promote its CSR activities?

Studies show a strong link between CSR activities and employee attitudes, which positively affect workplace behavior. Specifically, a significant positive relationship exists between CSR involvement and employee intrinsic motivation. Additionally, intrinsic motivation has a notable positive connection with organizational commitment, with trust acting as a key mediating factor that connects social responsibility to organizational loyalty. For example, Evans (2020) and colleagues' survey of 250 employees in South Korea found a significant positive relation between CSR practices and levels of intrinsic motivation. Likewise, Gash (2018) studied 536 Indian team members and found that individuals with a strong sense of identity-related to their organization tend to value their company's CSR initiatives highly. Furthermore, employees who perceive that their organization values all stakeholders often report feeling more valued, which in turn builds trust and confidence, ultimately boosting their commitment to the company. This effect can manifest in various ways, such as increased loyalty and dedication to the company's success, thereby strengthening both the relationship between the firm and its employees and their connection to the workplace and community. When a company is committed to CSR, its employees tend to be more satisfied, engaged, and productive.

#### B. Customer and CSR

CSR activities in companies enhance customers' perceptions of the brand and contribute to building a more positive image. These efforts can increase profits and lower costs while also enabling direct engagement with community members, who offer valuable feedback and insights into responsible practices (Johnson, Carrington et al.,) [3,9,20,21]. Research indicates that consumers are becoming increasingly willing to pay more for products from companies that adopt socially responsible policies. These practices often reflect values such

as sustainability, fair trade, and ethical labor, with a clear trend among younger generations who are particularly concerned with environmental issues. Conversely, older generations tend to prioritize social equity and community engagement. Businesses must recognize these differences to develop effective corporate social responsibility (CSR) strategies that resonate with their target audiences. Customers are more likely to support and stay loyal to companies that demonstrate a genuine, long-term commitment to social and environmental responsibility. This alignment between a company's values and those of its customers helps build stronger relationships and encourages repeat business.

Statistical surveys highlight a shift in buying habits in developed countries. In the 2020s, approximately 63% of consumers prefer to purchase from companies that demonstrate social responsibility (Smith). In comparison, a 2019 study by Ethics Consumer (2022) in the UK found a 12% increase in the purchase of ethical products, with a market value of £41 billion. Additionally, in the United States, 70% of customers are willing to pay 10% more for sustainable products. The findings regarding the relationship between Corporate Social Responsibility (CSR) activities and consumer purchasing behavior reveal a nuanced landscape. Proponents of CSR argue that when companies engage in transparent and well-communicated sustainability practices, consumers are more likely to develop loyalty and make repeat purchases. This perspective is supported by research indicating that brands committed to social and environmental causes can enhance their reputation, resonating particularly well with ethically conscious consumers. Additionally, there is evidence that not all demographics prioritize CSR in their buying decisions, indicating that the effectiveness of CSR initiatives may vary across different consumer segments. Overall, while the positive relationship between CSR and consumer behavior is evident, understanding the specific needs and perceptions of consumers remains critical for brands aiming to leverage their CSR efforts effectively. Brands must strive for clear and relatable communication about their CSR initiatives to bridge the gap between their intentions and consumer understanding. Some argue that there is still confusion about what customers truly want from CSR, suggesting that many consumers may not fully understand the concept.

A crucial element in the firm-customer relationship is "customer education." This involves several key strategies, such as raising consumer awareness about CSR initiatives through effective communication and thorough reporting of the company's actions in sustainability, ethical sourcing, community involvement, and philanthropy. This approach can build trust and transparency, ultimately enhancing the company's brand credibility and reliability. Beyond customer loyalty, a firm's commitment to CSR also impacts the physical environment. However, the question remains: What is the impact of ethical business conduct on consumer purchasing behavior? The researchers conclude that it is challenging to influence buyers' consumption patterns without changing their values and perceptions. A lengthy

educational process and consideration of the policies and strategies of various firms are necessary. The connection is not immediate or straightforward. Studies show that consumers with ethical purchasing intentions often fail to follow through by purchasing ethical products (Carrington et al.). In summary, CSR practices can provide organizations with a significant competitive advantage, enabling them to navigate the constantly evolving global marketplace more effectively. These initiatives not only enhance customer perceptions but also strengthen the company's reputation and image. Additionally, engaging in CSR is associated with higher profitability and lower costs. Furthermore, these practices foster meaningful interactions with community stakeholders, enabling businesses to gather valuable feedback and insights that guide responsible actions.

### C. Suppliers and CSR

Suppliers play a crucial role in corporate social responsibility (CSR), which is the management of a business's sustainability and ethical posture. Companies can create a more resilient and responsible supply chain that reflects their core values by actively engaging suppliers in CSR initiatives. A key part of suppliers' CSR is adopting sustainable sourcing methods. This involves choosing suppliers that meet environmental standards, utilize renewable resources, and lower their carbon footprint. For example, companies might select suppliers that use eco-friendly materials or have certifications showing compliance with environmental laws. This strategy helps lessen environmental impact and attracts consumers who increasingly make purchasing decisions based on a company's sustainability efforts. Furthermore, building strong relationships with suppliers can enhance transparency and accountability.

Companies can collaborate with suppliers to develop codes of conduct that address labor practices, human rights, and community engagement. This ensures that suppliers not only meet legal requirements but are also committed to upholding ethical labor standards. For instance, suppliers can adopt fair labor practices, ensure safe working conditions, and provide fair wages, thus contributing to the overall well-being of their workforce. Another important aspect of suppliers' CSR is their involvement in local communities. Companies are increasingly expecting their suppliers to participate in community development initiatives. These can take various forms, from investing in local education and health services to supporting local economies by sourcing materials locally. Such initiatives not only enhance a supplier's social license to operate but also contribute positively to the communities in which they are situated. Furthermore, suppliers can also engage in innovation through sustainable practices, developing new technologies or processes that reduce waste and promote recycling. This proactive approach enables the purchasing company to meet its CSR goals and advance industry standards.

**Integrating CSR into supplier relationships is essential for building a responsible and sustainable supply chain. Companies that prioritize their suppliers' CSR strengthen**

**their brand reputation and support a broader movement toward ethical business practices, resulting in mutual benefits for all stakeholders involved. Collaboration between companies and suppliers in promoting CSR is critical to achieving long-term sustainability goals.**

#### **D. CSR Practice Impact on Cost of Capital**

Corporate Social Responsibility is crucial for the financial success of companies worldwide, particularly in striking a balance between sustainability and capital costs. Additionally, CSR has a significant impact on financial strategies and decision-making. As a result, more companies are adopting strategies to institutionalize sustainability practices, which helps decrease their capital expenditures [3,22-27]. Although the relationship between CSR and the cost of money may be complex, empirical studies indicate that a company's good CSR performance can influence the cost of capital. Since the risk is relatively small, this attracts more investors who support social responsibility. The same applies to low-cost loans. The standard explanation is that CSR initiatives reduce information asymmetry and investment risk, which leads to a lower cost of capital. Moreover, investors are often willing to accept lower financial returns when they recognize that a company is responsible and less risky to invest in. In many cases, good corporate responsibility even impacts credit pricing, with lenders viewing a responsible company as less likely to default. Some relevant research analyzed a sample of 430 S&P 500 companies in the United States from 2011 to 2019. Their findings indicated that the three dimensions of CSR have varying effects on the cost of capital. Additionally, financial stakeholders may need time to fully understand how lower risk levels can help reduce capital costs. Similarly, Ramirez et al., examined the relationship between CSR and the cost of capital among 202 Latin American firms from 2017 to 2019. Their results revealed an inverse relationship, emphasizing the importance of increasing transparency in internal processes and establishing strong control mechanisms to create value and ensure financial stability.

Several studies have investigated the relationship between corporate social responsibility (CSR) activities and the cost of capital for businesses, particularly those listed in the S&P 500 index. According to the Bloomberg index of financial data, these studies have found that companies with high environmental, social, and governance (ESG) ratings benefit from a lower cost of capital, not necessarily a lower cost of equity. A similar study conducted on S&P 500 companies between 2015 and 2021 reached the same conclusion. Additionally, research published by Harvard University indicated that firms with strong CSR performance face fewer financial constraints when they leverage two key mechanisms: stakeholder engagement and a higher likelihood of publicly disclosing their CSR activities. This transparency and accountability help to reduce information asymmetry between the firm and its investors. As a result, these firms position themselves favorably for obtaining financing in financial markets. Organizations that prioritize shareholder interests are encouraged to implement effective CSR practices. By managing costs effectively and

demonstrating that the benefits of CSR, such as the ability to charge premium prices and lower labor costs, outweigh the associated expenses, companies can gain a competitive edge. This connection between profitability and social responsibility highlights the importance of strategic cost management in achieving corporate success and meeting stakeholder expectations.

### **Chapter 4: Differences in Perspectives and Conflicts in the Organization**

#### **A. Owners and Managers' CSR Difference Perspectives and Conflicts**

The relevant literature highlights differences in attitudes between owners and managers within an organization, which arise from misaligned goals, interests, and roles. Some also argue that agency problems can result from information asymmetry. These differences can lead to conflicts in managing their relationship regarding social responsibility. Various sources present two main approaches to these conflicts: Normative and Discrepancy. The normative approach is based on attitudes and beliefs, considering conflict destructive to the organization. The Discrepancy approach views conflict as inevitable in any administration due to the inherent instability and imbalance in the organization's design, which is linked to violence, destruction, inefficiency, and irrationality (Tafel-Vila & Alas) [28]. Researchers explain the causes of conflicts using two contradictory theories: the agency theory and the stewardship theory. The first is characterized by a separation between ownership and control, where the owner has the financial capital but lacks the human capital to generate returns, and the manager, who possesses human capital but lacks the personal financial capital to invest. Therefore, the agency problem is created. It typically involves moral hazards, returns, risk aversion, and differing time frames. Other researchers explain the phenomenon according to the S-approach. That is, managers do not choose to act out of their interests, but rather act according to the needs of the organization and the owners in order to gain the recognition and appreciation of coworkers and bosses, because the utility they gain from activity as a result of activity for the benefit of the organization is greater than activity based on their interests.

#### **B. Managers, Stakeholders' Conflicts**

Different perceptions of CSR among stakeholders and managers may lead to conflicts within or outside the organization, significantly limiting management's decisions regarding CSR activities (Bridoux & Vishwanathan) [7]. Five motivations drive strong stakeholders to engage in value appropriation while pursuing short-term material gains. This can raise ethical or responsibility issues concerning the interests of weaker stakeholders. On the other hand, typically motivated stakeholders may choose to forgo short-term material benefits in favor of greater long-term benefits. Alternatively, they may believe it is fair to avoid resistance, as it is an essential human need. Furthermore, in their desire to reduce uncertainty about the future, the prevailing understanding is that salient morality is more important than material self-interest.

### C. The Trade-off Between CSR Needs and Business Demand

Literature suggests that integrating social responsibility into business operations may lead to synergistic benefits; however, companies frequently encounter intrinsic tensions that are often irreconcilable. These tensions arise from the diverse demands of various stakeholders and the need to avoid compromising the economic objective of maximizing shareholder profits (Zhao et al., Bahilana et al.,) [10,15]. Battilana et al., examine the inherent tensions between organizations' financial imperatives and social missions, shedding light on the intricate internal trade-offs necessitated by competing stakeholder demands [24]. The degree of conflict these organizations encounter is nuanced, influenced by their operational context and the level of economic freedom within their respective countries. Strategic organizational control mechanisms can serve as mitigating factors for this tension. Furthermore, economic freedom shapes private sector interests, concentration dynamics, and the interplay between state and corporate entities, thereby impacting the formulation of critical organizational decisions and core values. Adopting equitable dual-target reward systems represents a significant shift from conventional practices, as it allocates performance incentives across social and financial domains. This approach is pivotal for fostering a culture of social responsibility while alleviating internal conflicts. Conversely, an exclusive focus on financial returns exacerbates stress and discord within the organization.

A qualitative case study at "SmartCo," a European construction company, revealed a contradiction between economic and social demands. This suggests that incorporating corporate social responsibility (CSR) into a firm's business strategy often leads to internal tensions that require careful consideration by management. These tensions complicate decision-making for senior management and impact organizational performance, partnerships, and learning.

When assessing their organization's commitment to social responsibility, employees often consider the following questions:

- Are the social goals prioritized by the organization aligned with its core business activities?
- How credible are the organization's messages regarding its social responsibility efforts?
- To what extent does the organization promote its CSR activities?

Empirical studies consistently demonstrate a strong connection between CSR activities and employee attitudes, which positively influences workplace behaviors. Specifically, a significant positive correlation exists between CSR engagement and employee intrinsic motivation. Furthermore, intrinsic motivation has been shown to have a substantial positive association with organizational commitment, in which trust serves as a crucial mediating factor, bridging social responsibility and commitment to the organization. However, if a conflict exists between individual and organizational values, particularly in the context of

evolving CSR approaches, two methods for managing these trade-offs include avoiding tensions by prioritizing business objectives or achieving a deeper integration of the two by finding a balance or resolution. Consider Patagonia, the outdoor apparel brand that underwent structural adjustments in response to financial challenges. Despite the higher production costs, the company's commitment to using organic and sustainable raw materials has resonated with a consumer base that prioritizes eco-friendly practices.

This sustainable approach not only bolstered customer trust in the longevity and integrity of its products but also positioned Patagonia as a leader in corporate environmental responsibility. Furthermore, its profitability has enabled the implementation of initiatives addressing ecological issues, as exemplified by allocating 1% of total sales to support environmental organizations [29]. An insightful view on how managerial duties are changing with corporate social responsibility policies. Managers often deal with complex issues that can confuse even experienced legal experts, causing organizational embarrassment and possible conflicts of interest. This situation creates significant challenges for corporate leaders, who are hired for their ability to improve business management. As a result, they face difficulties that can lead to organizational problems and potential conflicts of interest.

**In conclusion, leaders face significant challenges in reconciling diverse performance metrics, particularly those related to ethical and social considerations. They must view CSR as a strategic asset rather than a hindrance to organizational objectives. Some firms may not have a clear economic justification for CSR in specific contexts. From this angle, CSR encompasses both economic considerations and ethical dimensions, thereby creating a conflict between a company's economic imperatives and social expectations. As a result, organizations expose themselves to internal tensions that require systematic management oversight. Moreover, leadership must strike a balance between meeting business objectives and fulfilling social responsibilities.**

### D. Good Corporate Governance (GCG), Social Accountability and Transparency

Corporate governance refers to the relationship between an organization's management, board of directors, shareholders, stakeholders, and other relevant parties (OECD, 2004). The OECD provides a set of principles for good corporate governance aimed at establishing mechanisms to manage and resolve conflicts, thereby safeguarding the interests of investors, shareholders, and stakeholders. As explained in various chapters, the authority delegated to the board ensures the effective implementation of these guidelines. Shareholders' responsibilities include appointing directors and auditors, as well as overseeing the proper management of the business. The success of a business today is influenced by many factors, including suppliers, creditors, employees, potential investors, government entities, regulators, borrowers, and trade organizations. Additionally, the local community and the general public have a direct stake in the

success of business activities. Four significant advantages for the business organization result from good corporate governance: Consulting services, including legitimacy, an additional channel for communicating information between the outside and inside the organization, access to support, and commitment from external parties. Transparency refers to an organization's openness in sharing information related to public resources and management activities with anyone who needs it, and it is associated with GAG.

Transparency is characterized by indicators such as availability, accessibility, clarity, and completeness of information, as well as openness to frameworks and processes that support transparency. This involves the organization publishing financial or other information intended for public access, enabling individuals to be aware of the organization's activities and operations. An example from HFI of six principles for transparency includes transparent and open access to the public, media publication of processes and activities, and financial details. Periodic reports are available to the public, including annual reports on allocation, budget, and profits. Accountability is the responsibility of those in power to ensure transparency, reporting, and disclosure of all activities conducted by the party holding authority. It is a core principle stating that an organization must be accountable for its performance, transparent, and fair. This obligation is grounded in five key principles: legal accountability, programming accountability, process accountability, fiscal accountability, and outcome accountability.

### E. Transparency and Accountability for Environmental Protection

In the first two decades of the 21st century, awareness of the effects of global warming, the devastating consequences of melting glaciers, and the need to evacuate populations from these regions in the future increased. These issues have led major institutions worldwide to focus closely on environmental changes and their potential impacts on human society. One well-known organization is the Ministry of Environment, which enacts laws aimed at protecting the environment. The laws include measures for air pollution control and waste management to promote sustainability, proper resource use, and the prevention of environmental damage. Additionally, they emphasize protecting public health and wildlife, establishing standards, authorizing regulatory agencies, and enforcing penalties for violations of these standards [27]. The issues discussed today include Earth's carrying capacity due to population growth, the use of non-renewable resources, food prices, political instability, civil wars that create waves of refugees, and their effects on the West.

Furthermore, questions arise about what should be done, what values should guide our attitude toward the environment, and what actions should be taken to protect both the environment and humans. Professional literature presents many theories dating back to the 1960s, including the anthropocentric approach, the biocentric approach (Dobson), the ecological justice approach (Elliott),

environmental justice (Engel & Engel), and some other approaches. The modern approach that bridges the last three approaches mature development, deep ecology, and environmental justice asserts that a balance can be found between economic development and environmental quality. For example, pollution prevention is economically beneficial in a world where capital is in high demand and competition is fierce. A pleasant environment is also an attractive environment and can draw entrepreneurs who support this approach. It is possible to attract capitalists. There is no contradiction between protecting the environment and promoting economic growth. Within such a system, there is room for everyone, including local and international economic organizations, as well as social movements, to contribute to preserving environmental quality.

**In summary, environmental ethics encompasses the values, principles, and procedures that guide a person's relationship with the environment. It addresses questions like: What is humanity's place within the environment, and how can it be protected? How can people living now and in the future be safeguarded? What environmental legacies, opportunities, and risks will they leave behind?**

## Chapter 5: Synthesis

### A. Conclusions and Lessons Learned

i. In today's complex business world, corporate leaders face the challenge of improving organizational performance while also meeting societal expectations. As the field of corporate social responsibility evolves, managers must navigate complex issues that can pose significant risks, including conflicts of interest and reputational damage. This highlights the importance of viewing CSR not just as a duty, but as a strategic tool that can enhance a competitive edge. The critical role that companies play in shaping both economic and social systems necessitates a comprehensive understanding of their responsibilities and rights toward society and local communities. Companies engage with multiple stakeholders, including shareholders, customers, suppliers, employees, and investors, navigating a complex web of expectations and obligations.

ii. Corporate Social Responsibility (CSR) has emerged as a pivotal element for business leaders who aspire to drive positive social change while minimizing the risk of government scrutiny. By implementing CSR policies, businesses can make substantial investments in social initiatives, foster stronger relationships with employees and customers, and promote environmental sustainability. The increasing demand for detailed annual CSR reports reflects the heightened emphasis on transparency regarding a company's social and environmental contributions.

iii. Effective leadership is integral to the successful implementation of CSR initiatives. Leaders who recognize the long-term benefits, such as an enhanced reputation and increased customer loyalty, are more likely to advocate for such efforts. Conversely, if CSR is perceived merely as a hurdle, its implementation may be superficial, thus undermining its overall effectiveness. The ethical values embraced by senior leaders significantly shape a company's CSR strategy and

organizational culture.

iv. Organizations must also consider employee expectations concerning CSR to enhance engagement and foster trust. Research indicates a robust correlation between CSR activities and employee attitudes, which can lead to improved workplace morale and performance.

v. To ensure successful CSR implementation, companies need to raise awareness, embed social responsibility values into their culture, communicate their initiatives transparently, and evaluate their impact to meet the needs of employees, customers, and the community. Building meaningful partnerships with local communities is crucial for fostering sustainable relationships that benefit both businesses and society.

vi. Investors are increasingly viewing socially responsible companies as lower-risk investments, making CSR an essential factor in investment choices. Organizations that prioritize and effectively communicate their CSR efforts are better positioned to attract a diverse range of investors.

vii. Incorporating CSR into supplier relationships is vital for developing a sustainable supply chain. Companies that promote CSR among their suppliers can enhance their reputation while encouraging ethical business practices, ultimately benefiting all parties involved. Collaboration is key to achieving long-term sustainability objectives.

viii. Corporate governance encompasses the interactions between management, the board, shareholders, and other stakeholders. The OECD provides principles for effective governance, which help to manage conflicts and protect stakeholder interests. By emphasizing shareholder needs, organizations can strengthen their CSR practices. The principles of Good Corporate Governance (GCG) play a vital role in addressing these challenges. By establishing robust mechanisms for managing conflicts and ensuring transparency, organizations can safeguard the interests of all stakeholders, including investors, employees, and the communities in which they operate. A wide range of external factors, including regulatory frameworks, community engagement, and ethical considerations in governance, often influence the success or failure of modern businesses.

ix. Transparency and accountability are not just ethical imperatives; they are essential components for environmental protection and sustainable business practices. As awareness of global environmental challenges grows, including the lasting impacts of climate change and resource depletion, businesses must commit to transparent

operations and accountable governance. This involves adhering to regulatory standards while actively contributing to the conservation of resources and public health.

x. Balancing profitability with social responsibility underscores the importance of effective cost management in achieving success while meeting stakeholder expectations. Companies can gain a competitive advantage by adeptly managing operational costs while demonstrating the benefits of CSR, such as the ability to charge premium prices and secure favorable supplier agreements.

xi. Environmental ethics are equally crucial, prompting reflections on humanity's responsibilities toward the environment and the protection of future generations.

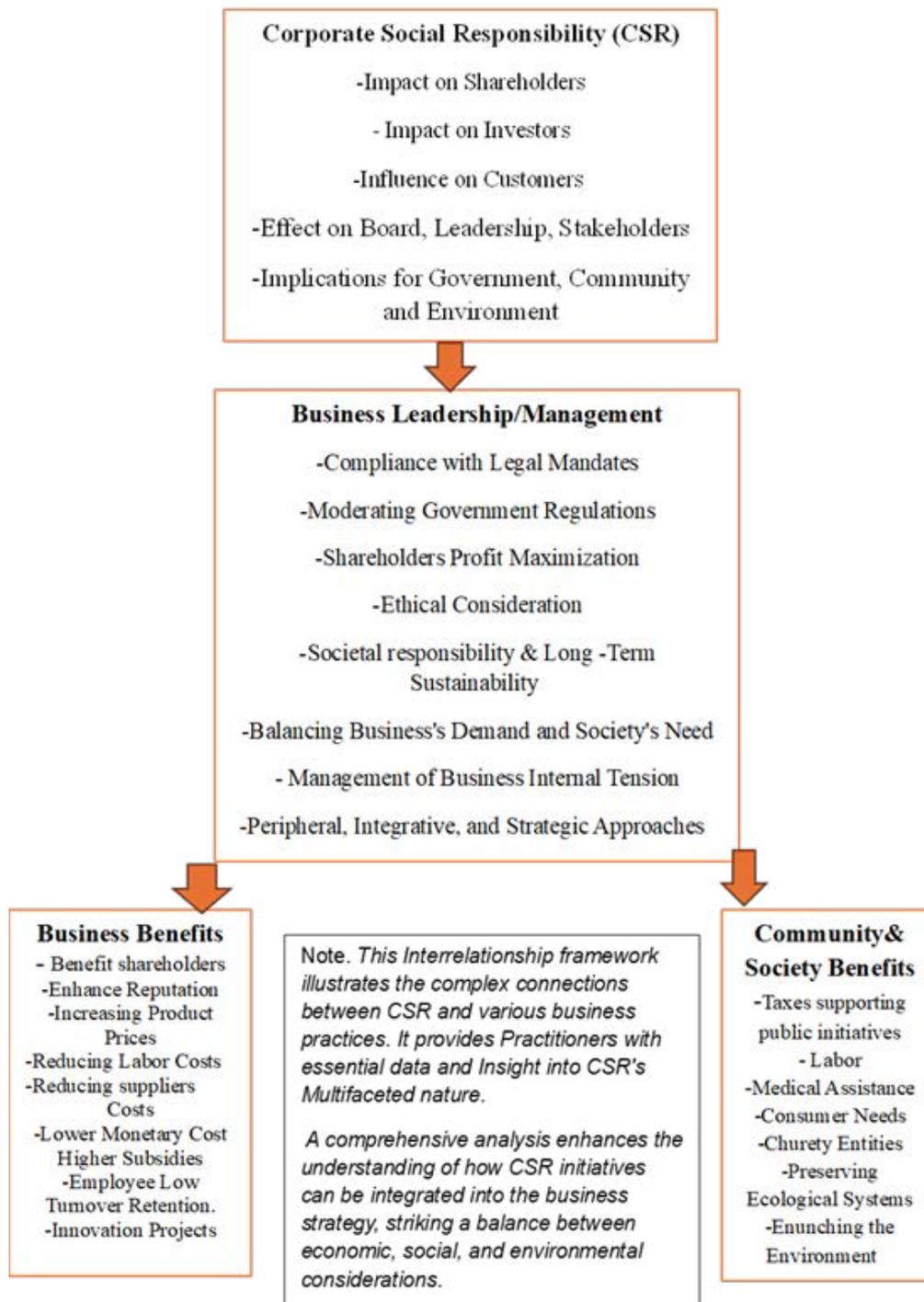
xii. Directors play multifaceted roles in embedding CSR into strategic frameworks, engaging stakeholders effectively, and enhancing corporate performance, all of which contribute to a more sustainable society. However, diverging perspectives between owners and managers can sometimes lead to conflicts regarding CSR initiatives.

xiii. Leaders must navigate a complex balance among various performance metrics, perceiving CSR as a strategic asset rather than a liability. This equilibrium is vital for nurturing community relationships and promoting sustainable practices. Companies that prioritize long-term value creation are strategically positioned for enduring success.

xiv. A firm commitment to CSR can bolster brand image and reputation, ultimately driving profitability. Companies that integrate CSR into their core strategies not only enhance their operational performance but also address pressing social and environmental challenges more effectively. Aligning corporate objectives with societal needs ensures that CSR has the potential to be a transformative force within the business landscape.

## B. Practical Concluding

Leaders must strive for a delicate balance between achieving business objectives and fulfilling their social responsibilities. Embracing the principles of strong corporate Governance, accountability, and transparency can help organizations position themselves as leaders in sustainability and ethical business practices. In doing so, they not only enhance their reputation but also contribute to a more equitable and sustainable future for all stakeholders. This proactive approach will ultimately define the success of businesses in an increasingly interconnected and conscientious world.



**Figure 2: CSR and Business Interrelationships Frameworks**

### C. Prospective Research.

Future research in Corporate Social Responsibility (CSR) should delve more deeply into how various CSR initiatives interact with different community dynamics and the nuanced ways they impact societal well-being. Researchers must carefully evaluate the alignment or misalignment between corporate objectives and the actual needs of communities. Shorter studies often overlook the complexities and trade-offs involved, resulting in oversimplified conclusions that miss important negative externalities. In addition to refining the evaluation of community engagement strategies, scholars should explore longitudinal studies that can capture the long-term effects of CSR initiatives on employee perceptions and

behavior, as well as community outcomes. By employing a triangulation approach, researchers can gain richer insights into the lived experiences of stakeholders directly impacted by corporate actions [30-49]. Moreover, future research should explore the role of technology and social media in shaping public perceptions of CSR efforts. Understanding how digital narratives affect stakeholder engagement can provide valuable insights into improving CSR strategies. By employing innovative and robust methodologies, future research can lead to a more comprehensive understanding of CSR's multifaceted impacts, promoting a more sustainable and responsible business landscape.

#### D. Theoretical concluding

Scholars must continue to explore the connected goals of corporate entities and societal needs. Currently, literature highlights a significant gap in examining the trade-off dilemmas between these two areas and the factors that could help ease their natural tension. Without a thorough understanding and strategic integration of CSR into corporate operations, companies risk missing out on the combined benefits and long-term success that can come from aligning business goals with social responsibilities.

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