Global Business and Economics Journal (ISSN 2816 6655)
Vol 6, Issue 1

CSR, Financial Performance, and Risk: A Theoretical Perspective Analysis

Oumaima ANTARI

PhD Student, Interdisciplinary Research Laboratory on Organizations

National School of Business and Management El Jadida

Chouaib Doukkali University, Morocco

Oumaimantari@gmail.com

Hicham SBAI

Full Professor, Interdisciplinary Research Laboratory on Organizations

National School of Business and Management El Jadida

Chouaib Doukkali University, Morocco

Sbaihicham@ymail.com

Oumaima BENAGUID

PhD Student, Interdisciplinary Research Laboratory on Organizations

National School of Business and Management El Jadida

Chouaib Doukkali University, Morocco

Oumaima.benaguid@hotmail.fr

Abstract

This paper explores the relationship between Corporate Social Responsibility (CSR), financial performance, and risk. The first section defines CSR and examines its theoretical implications, providing a solid foundation for understanding the concept. Key theories such as neoclassical theory, agency theory, stakeholder theory, and the resource-based view theory are examined to frame the analysis of CSR's impact on financial performance and risk. The paper then reviews the empirical literature, highlighting studies that analyze CSR's influence on profitability and different types of risk. While some studies suggest a positive relationship, others point to a complex and nuanced connection, emphasizing the importance of sectoral and contextual differences. The findings offer practical recommendations for businesses and policymakers seeking to balance CSR with financial objectives.

Keywords: CSR, financial performance, risk, stakeholder theory, agency theory

1. Introduction

Since the 1950s, human activity has driven environmental change at an unprecedented pace, transforming natural ecosystems—such as through rising greenhouse gas emissions—and reshaping socio-economic dynamics, particularly through rapid urbanization (Steffen et al., 2015). In response to these challenges, sustainable development has become a global priority. Introduced in the Brundtland Report (1987), the concept is defined by the United Nations as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." It is built on three interdependent pillars—economic, social, and environmental—aiming to balance economic growth, resource conservation, and social well-being.

Against this backdrop, Corporate Social Responsibility (CSR) has emerged as a strategic tool for businesses to address economic, environmental, and social challenges. CSR involves integrating these concerns into corporate strategies and operations, extending a company's responsibilities beyond short-term profit maximization. While CSR discussions date back to the 1950s, it gained more structured recognition in the 1990s with the adoption of international standards and frameworks. Today, as businesses navigate complex global challenges, CSR is increasingly linked to corporate performance, particularly in risk management and profitability.

One of the most debated topics in academic literature is the relationship between CSR and financial performance. However, empirical findings remain mixed. Some scholars argue that CSR enhances profitability by fostering stakeholder trust and long-term value creation (Donaldson & Preston, 1995). Others, drawing on Milton Friedman's (1970) perspective, contend that CSR imposes additional costs that undermine short-term profit maximization. This ongoing debate has fueled extensive discussions on CSR's financial implications (McWilliams & Siegel, 2001).

Similarly, research has explored CSR's impact on corporate risk (Orlitzky & Benjamin, 2001; Husted, 2005). Some studies suggest that CSR acts as a strategic lever for long-term sustainability, reducing reputational and operational risks while enhancing crisis resilience. Others argue that CSR, though well-intentioned, can strain financial resources and divert focus from core business priorities. However, growing evidence suggests that CSR can strengthen long-term corporate performance by lowering operational costs, attracting socially responsible investors, and mitigating risks—including financial distress and corporate failure.

This paper examines the theoretical foundations underlying the relationship between CSR, financial performance, and corporate risk. By exploring diverse theoretical perspectives, it seeks to provide deeper insights into how CSR influences firm outcomes in various economic and social contexts. The analysis integrates both classical management and finance theories linking CSR to profitability, as well as more recent frameworks that view CSR as a mechanism for risk mitigation and resilience.

Adopting a conceptual and theoretical approach, this study draws on an extensive literature review to develop an integrated framework explaining the impact of CSR on financial performance and risk. Key concepts such as profit maximization, risk management, and sustainability will be explored to uncover the mechanisms shaping these relationships. Ultimately, this research aims to contribute to a more comprehensive understanding of CSR's role in corporate performance—both in terms of financial returns and risk exposure.

The structure of the paper is organized as follows: Section 2 offers a comprehensive overview of Corporate Social Responsibility (CSR), delving into its various definitions and theoretical implications to provide a solid foundation for understanding the concept. Section 3 examines the key theoretical perspectives that underpin the analysis of CSR's influence on financial performance and risk, including Neoclassical theory, Agency theory, Stakeholder theory, and the Resource-Based View theory. These frameworks guide the exploration of how CSR interacts with organizational outcomes. In Section 4, the paper presents a thorough empirical review of existing studies on the impact of CSR on financial performance and risk, synthesizing key findings related to CSR's effect on profitability and its role in mitigating or exacerbating different types of risk. Finally, Section 5 concludes by summarizing the main insights, offering suggestions for future research, and discussing the practical implications of CSR for businesses and policymakers.

2. CSR: Definitions and theoretical implications

2.1. Definitions of CSR

Despite over six decades of research on CSR, no universally accepted definition has emerged (Campbell, 2007). Gond and Moon (2011) describe CSR as a "chameleon" due to the broad range of definitions it encompasses and its continuous evolution. While early discussions on corporate social responsibility date back to the 19th century, debates over the specific social obligations businesses should assume persist today.

Although often perceived as a modern managerial concern, the idea of business responsibility toward society dates back to ancient times, including the Code of Hammurabi (Pasquero, 2007). The concept began taking shape in the 1930s (Carroll, 1979), when Wendell Wilkie sought to raise awareness among business leaders about their social responsibilities (William Leuchtenburg, cited by Cheit, 1964). The modern understanding of CSR, however, emerged in the United States alongside the rise of capitalism, addressing questions about the role of corporations in society (Pasquero, 2005). While the concept is closely associated with the U.S., its academic treatment only gained momentum in the mid-1950s.

Over the years, scholars have attempted to define and clarify CSR, but their efforts have resulted in a multitude of definitions rather than a single, widely accepted one (Dahlsrud, 2008). As a result, CSR remains a broad and imprecise concept. Given this complexity, this discussion traces the historical evolution of CSR, drawing on Carroll's (1999, 2008) work to examine its development over the decades.

Howard R. Bowen, often regarded as the "father of CSR," introduced the concept into academic discourse with his book *Social Responsibilities of the Businessman* (1953). He argued that businesses should go beyond profit maximization and incorporate socially accepted values while considering societal expectations. This perspective laid the groundwork for CSR as a subject of academic debate. However, as the field evolved in the 1960s and 1970s, various definitions emerged without reaching a consensus (Wood, 1991).

During the 1960s, CSR gained traction with significant contributions from scholars. Davis (1960) argued that CSR extends beyond a company's economic interests and should be viewed within a managerial framework. Frederick (1960) emphasized the need for businesses to meet public expectations, while Milton Friedman (1962) took a contrasting stance, asserting that a company's sole responsibility is to maximize profits. McGuire (1963) expanded CSR's scope, seeing it as an obligation that extends beyond economic and legal duties. Walton (1967), as cited by Carroll (1999), highlighted the importance of a strong relationship between businesses and society, suggesting that corporate social responsibility (CSR) should be based on voluntary commitments rather than solely on legal or economic obligations. This perspective aligns with the broader evolution of CSR, where companies are expected to go beyond profit-making and actively contribute to societal well-being.

The 1970s saw a shift in CSR thinking, with Heald's *The Social Responsibilities of Business: Company and Community* (1970) proposing a model focused on community programs (Heald, 2018). In 1971, the Committee for Economic Development (CED) introduced a framework integrating economic and non-economic concerns, urging businesses to assume broader societal responsibilities. Carroll (1979) later defined CSR through four dimensions—economic, legal, ethical, and philanthropic—solidifying it as a voluntary business initiative.

During the 1980s, CSR definitions evolved to incorporate ethical considerations and stakeholder engagement. Jones (1980) suggested that businesses have responsibilities beyond shareholders and that CSR should be seen as an ongoing process rather than a final outcome. Freeman (1984) introduced stakeholder theory, emphasizing the importance of considering the interests of various groups in corporate decision-making. Epstein (1987) further linked CSR to business ethics, highlighting the positive impact of corporate decisions on stakeholders.

The 1990s marked a transition from defining CSR to integrating it into management practices. Wood (1991) proposed a model based on principles, processes, and outcomes, laying the foundation for operationalizing CSR. This decade also saw a growing emphasis on corporate social performance and business ethics. Carroll's (1999) retrospective analysis anticipated that CSR-related concepts would continue to expand in the 2000s.

The 2000s were shaped by financial crises and corporate scandals, reinforcing CSR's role in addressing governance failures. The collapse of Enron and similar cases led to stricter regulations and increased emphasis on corporate responsibility. In 2000, the World Business Council for Sustainable Development (WBCSD) defined CSR as an ethical commitment contributing to economic development and social well-being. By the end of the decade, CSR had become a core component of corporate strategies, further institutionalized through frameworks such as the ISO 26000 standard in 2010.

CSR's evolution from 1950 to 2000 reflects its transformation from a vague philanthropic notion to a structured approach centered on business performance (Andaloussi, 2021). This progression can be categorized into three main phases: formalization (1950–1960), expansion and diversification of definitions (1970–1980), and maturity and operationalization (1990–2000). Despite the lack of a single definition, CSR consistently involves voluntary and ethical action while adhering to economic and legal requirements (Allouche and Laroche, 2005).

2.2. CSR theories

Understanding the relationship between a company and the society in which it operates—and addressing CSR-related issues from both theoretical and empirical perspectives—requires an examination of various CSR theories. These theories are diverse and heterogeneous due to the evolving meaning of CSR over time and the numerous researchers who have analyzed the subject (Secchi, 2007). Moreover, the concept itself lacks consensus. While many CSR definitions share similarities, some are broad while others are more narrowly defined (Carroll, 2008). As a result, identifying and organizing the wide array of theories remains a challenge (Melé, 2008).

Since the 1970s, researchers have sought to classify CSR theories. Some have taken a broad analytical approach, such as McMahon (1986), who categorized CSR perspectives into rights-based and power-based models. Others have adopted a more specialized approach, including Garriga and Melé (2004), Windsor (2006), and Secchi (2007).

Garriga and Melé (2004) identified four main theoretical approaches to CSR: instrumental, political, integrative, and ethical theories. Windsor (2006) proposed three key perspectives: economic responsibility (emphasizing market-driven wealth creation), ethical responsibility (stressing corporate self-restraint and stakeholder rights), and corporate citizenship (bridging ethical and economic viewpoints). Secchi (2007) categorized CSR theories into three groups: utilitarian theories (focusing on competitive advantage), managerial theories (addressing CSR within corporate structures), and relational theories (examining company-environment interactions).
For this discussion, we adopt Garriga and Melé's (2004) classification, as it provides a comprehensive synthesis of CSR theories. These theories are outlined as follows:

2.2.1. Instrumental theories

Instrumental theories prioritize economic objectives, viewing companies as tools for wealth creation. Under this perspective, CSR is a means to enhance competitive advantage and financial performance. This approach includes shareholder value maximization theories (Jensen, 2002; Friedman, 1970), which argue that a company's primary responsibility is profit generation. Any social actions undertaken should contribute to this goal.
Other instrumental theories view CSR as a competitive advantage (Porter and Kramer, 2002) or a tool for social marketing, enhancing brand image and reputation (McWilliams and Siegel, 2001). Ultimately, instrumental CSR theories are driven by corporate self-interest, emphasizing financial gains from socially responsible initiatives (Aguinis and Glavas, 2019).

2.2.2. Political theories

Political theories focus on the relationship between corporate power and social responsibility, challenging the classical economic model of perfect competition. These theories argue that companies hold significant influence over markets and society, leading to concepts like corporate citizenship (Okoye, 2009).

Some scholars consider CSR and corporate citizenship to be interchangeable (Gara-Bach Ouerdian and Gaha, 2009). However, CSR represents a set of principles, whereas corporate citizenship reflects behaviors that demonstrate responsibility (Phillips and Claus, 2002). Within this framework, companies are viewed as social actors responsible for the impact of their activities on communities (Wood, 1991; Andriof and McIntosh, 2001).

2.2.3. Integrative theories

Integrative theories explore how companies incorporate social expectations into business activities, balancing economic goals with stakeholder interests (Guéry, 2013). The two most prominent integrative theories are stakeholder management and corporate social performance.
Stakeholder theory (Freeman, 1984) emphasizes integrating stakeholder concerns into business decisions to achieve mutual benefits. Corporate social performance (Wood, 1991) provides a framework linking CSR principles, social responsiveness, and tangible outcomes, positioning

social engagement as a pathway to corporate legitimacy. Integrative theories thus advocate for incorporating societal needs into corporate strategy.

2.2.4. Ethical theories

Ethical theories center on moral principles in the company-society relationship. CSR actions are assessed based on fairness and their contribution to societal well-being. These theories encompass normative stakeholder theory, universal rights, sustainable development, and the common good approach (Garriga and Melé, 2004).
Normative stakeholder theory (Donaldson and Preston, 1995) highlights the ethical obligation to consider stakeholder interests. Universal rights theories emphasize corporate adherence to human rights, labor rights, and environmental protection (Cassel, 2001). Sustainable development theory, though broader than CSR, requires businesses to meet present needs without compromising future generations (World Commission on Environment and Development, 1987). Lastly, the common good approach posits that companies, like individuals, must contribute to social welfare under fair and peaceful conditions (Melé, 2006; Mahon and McGowan, 1991).

Garriga and Melé's (2004) framework categorizes CSR theories based on their primary objectives. However, as CSR continues to evolve, its complexity increases due to the proliferation of perspectives and debates. In response, Melé (2008) later refined this classification, identifying four dominant CSR theories: corporate social performance (integrative theories), shareholder value theory (instrumental theories), normative stakeholder theory (ethical theories), and corporate citizenship theory (political theories). This refinement simplifies the CSR landscape by grouping the theories into four main categories, as shown in the table below.

Table 1. Main CSR theoretical approaches

CSR Theory Families	Main Theory	Description	Main Reference
Integrative Theories	Corporate Social Performance	Focuses on evaluating the company's societal commitments through its principles, processes, and outcomes.	Wood (1991)
Instrumental Theories	Shareholder Value Theory	Advocates profit maximization for shareholders as the company's main responsibility.	Friedman (1970)
Ethical Theories	Normative Stakeholder Theory	Places ethical and normative values at the center of the relationship between the company and its stakeholders.	Donaldson and Preston (1995)
Political Theories	Corporate Citizenship Theory	Considers the company as a responsible citizen with duties towards society.	Andriof and McIntosh (2001)

Source: Created by the authors.

Thus, examining the different CSR theories has helped us understand why companies integrate responsible practices into their strategies and, consequently, allocate additional resources to promote CSR (McWilliams and Siegel, 2001).

3. CSR, financial performance, and risk: theoretical foundations

Theories seek to explain the complex relationships between CSR, performance, and risk. This analysis aims to deepen our understanding of how these dimensions interact, showing how CSR practices can influence a company's strategic decisions and risk management.
We will explore the main theoretical approaches that highlight the connections between CSR, financial performance, and risk. Specifically, we will examine how CSR can act as a strategic tool, enhancing financial performance through reputation, stakeholder loyalty, and operational efficiency, while also serving as a risk management mechanism by improving governance and reducing the likelihood of failure.
This theoretical analysis provides a solid foundation for understanding how CSR impacts a company's overall performance, offering a valuable framework for interpreting empirical findings in studies within this field.

3.1. Neoclassical theory

According to neoclassical theory, the firm is viewed as a technological production function, led by a rational owner whose primary goal is to maximize profit (Baudry, 2003). CSR, from this perspective, is often linked to the work of Milton Friedman (1962, 1970), who argues that businesses should focus on creating value for shareholders rather than engaging in CSR activities (Friedman, 1970). For Friedman, CSR should be seen as a strategic tool to achieve economic objectives, not as an end in itself aimed at improving society or the environment.
In his landmark article *The Social Responsibility of Business Is to Increase Its Profits* (1970), Friedman asserts that a company's sole responsibility is economic—to maximize shareholder wealth. He believes that managers should use company resources to increase profits and, by extension, shareholder wealth. Any involvement in social or environmental initiatives, he argues, would be an abuse of trust, diverting resources from the company's primary goal and wasting funds that belong to shareholders, employees, and consumers.

Other neoclassical scholars, such as Danley (1980) and Velasquez (1985), maintain that social responsibility lies solely with individuals within the company, not with the company as a corporate entity. In a more radical view, Levitt (1958) argues that CSR is potentially harmful to society, as it incurs additional costs, reduces shareholder wealth, and creates a competitive disadvantage relative to rivals (Friedman, 1970).

3.2. Agency theory

Building on the neoclassical perspective and Friedman's (1970) liberal view, agency theory posits that CSR can become an agency problem, where managers' focus on social issues may undermine shareholders' interests. Developed by Jensen and Meckling (1976), agency theory examines the separation between ownership and management, highlighting that the decisions made by managers do not always align with the goals of shareholders. This misalignment can create information asymmetry and conflicts of interest.

Managers, as agents of shareholders, may prioritize personal social interests, such as investing in CSR initiatives to enhance their own reputation or gain favor with stakeholders (Cespa and Cestone, 2007). These actions can incur additional costs, ultimately reducing the company's profitability. Barnea and Rubin (2010) further argue that excessive engagement in CSR can lead to overinvestment, where resources are inefficiently allocated, thus diminishing shareholder value. This view suggests that while CSR may appear to benefit society, it could simultaneously harm the financial interests of the company and its shareholders.

3.3. Stakeholder theory

The stakeholder theory, developed by Freeman (1984), is a key framework for understanding the relationship between CSR, financial performance, and risk management. According to this theory, companies should aim to maximize value not only for shareholders but also for other stakeholders, such as employees, suppliers, customers, governments, and local communities. By engaging in CSR, companies can strengthen their relationships with these groups, enhancing their reputation and building a sustainable competitive advantage.
CSR is viewed as both a moral responsibility (Carroll, 1999) and a valuable opportunity for creating competitive advantages and long-term value for shareholders (McWilliams and Siegel, 2001). From a risk management perspective, stakeholder theory suggests that CSR helps reduce business risks by improving the company’s legitimacy and generating moral capital. This, in turn, shields the company from reputation crises and other potential disruptions (Godfrey, 2005).

3.4. Resource-Based View theory

The Resource-Based View (RBV) theory focuses on a company’s internal resources as key drivers of competitiveness and performance. According to this theory, CSR can enhance a company’s reputation and strengthen its competitive position by developing unique resources and capabilities (Barney, 1991). Investing in socially responsible practices can boost customer loyalty, improve employee satisfaction, and increase stakeholder commitment, ultimately leading to better long-term financial performance.

Each theory discussed provides a distinct perspective on CSR’s influence on financial performance and risk. While theories like neoclassical and agency theory emphasize the potential costs of CSR, others, such as stakeholder theory and RBV, argue that CSR can serve as a strategic tool to enhance performance and reduce risk.

4. CSR, financial performance, and risk: an empirical review

The historical evolution of CSR definitions highlights a growing connection between social responsibilities and financial objectives (Lee, 2008). One of the key areas of ongoing interest is the relationship between CSR and financial performance (Carroll, 2021). Large publicly listed companies, aiming for strong CSR ratings, often consider how their commitment to social responsibility affects their financial performance (Allouche & Laroche, 2005).

The increasing focus on CSR practices has expanded the literature on their financial impact, as well as on how CSR can help reduce risk (Chollet & Sandwidi, 2018). Since CSR practices can influence financial performance, it is important to also examine their impact on a company’s risk level. Financial performance and risk are typically analyzed together, with several studies suggesting that lower risk can decrease the likelihood of financial, social, or environmental crises that could affect a company's financial outcomes (Sharfman & Fernando, 2008).

A review of studies examining both the CSR-financial performance and CSR-risk relationships has revealed mixed results. Some studies suggest that CSR can have a positive or negative impact on financial performance and risk levels, while others find that although these relationships exist, they tend to be weak and inconsistent.

4.1. CSR and financial performance

The impact of CSR on financial and economic performance remains one of the most widely debated topics in empirical research. Despite decades of study, a clear consensus remains elusive. While some studies find a linear relationship—either positive or negative—others suggest a non-linear connection, or even no significant link at all.

Research on this topic dates back to the 1980s and 1990s (Carroll, 2021). A pivotal study by Griffin and Mahon (1997) reviewed 25 years of findings, concluding that CSR's positive effect on financial profitability was the most commonly reported outcome. McWilliams and Siegel (2000) extended this debate, arguing that while CSR fosters product and process innovation, it does not directly impact profitability.

By the early 2000s, a meta-analysis by Orlitzky et al. (2003) provided strong evidence of CSR's positive influence on financial performance, a view supported by subsequent studies (Allouche & Laroche, 2005; Margolis et al., 2009; Wang et al., 2016). However, as businesses face mounting pressure to integrate environmental and social considerations into their strategies, the relationship between CSR and financial outcomes remains complex. While early studies yielded mixed results, more recent research consistently highlights CSR's positive financial impact (Cho et al., 2019; Awaysheh et al., 2020; Amaazoul, 2021; Okafor et al., 2021; Aqabna et al., 2023; Wu et al., 2020; Abdul Waheed et al., 2021; Bahta et al., 2020; Fourati & Dammak, 2021). These findings underscore the need for deeper analysis into the mechanisms driving this relationship.

4.1.1. Theoretical perspectives on CSR and financial performance

The stakeholder theory posits that companies thrive when they address not only shareholders' interests but also those of broader stakeholders (Freeman, 1984). From this perspective, CSR serves both as a societal responsibility (Carroll, 1999) and a source of competitive advantage (McWilliams & Siegel, 2001). Firms that align with stakeholder expectations often enhance their reputation and profitability (Griffin & Mahon, 1997; Orlitzky et al., 2003). Similarly, the Resource-Based View (RBV) argues that CSR can be a strategic asset, driving competitive differentiation. Okafor et al. (2021) confirm this, showing that CSR strengthens a firm's market position and financial performance. According to RBV, CSR investments should be viewed as long-term value drivers rather than short-term costs.

Conversely, the agency theory presents a more skeptical perspective, suggesting that CSR can impose excessive costs on shareholders (Friedman, 1970). In this view, CSR expenditures may be driven by managerial self-interest rather than genuine corporate benefits, particularly when financial returns are unclear. Uyar et al. (2020) and Tenuta & Cambrea (2022) argue that CSR-related expenses can erode profitability, challenging the assumption that CSR is always financially beneficial.

Some research suggests a non-linear, U-shaped relationship between CSR and financial performance. Franco et al. (2019) propose that while moderate CSR engagement may dampen profitability, high levels of CSR investment can ultimately yield financial benefits once initial costs are offset. Conversely, other studies find no significant relationship, aligning with McWilliams and Siegel's (2001) equilibrium model, where CSR opportunities are exhausted at a certain point, leading to neutral financial effects. The absence of a clear link may also stem from mediating variables that shape the CSR-financial performance dynamic (Ullmann, 1985).

4.1.2. Recent empirical findings

Recent studies continue to explore the CSR-financial performance relationship across different contexts. Fourati and Dammak (2021) analyzed 3,274 listed firms (2009–2016) and found that higher CSR scores (across environmental, economic, social, and governance factors) positively influence financial performance (ROA and ROE). Homayoun et al. (2023), using panel data from UK firms (2006–2017), reported a similar positive correlation. Likewise, Aftab et al. (2023) demonstrated that CSR significantly enhances financial performance in Pakistan's manufacturing sector.
However, findings vary by region and industry. Prakash and Hawaldar (2024) examined Indian firms and found that CSR negatively affects financial performance, particularly in publicly owned companies. Their results suggest that CSR's impact depends on factors such as firm age and growth potential.

The relationship between CSR and financial performance remains a highly debated and multifaceted issue. While numerous studies support the positive impact of CSR, others highlight context-dependent effects, negative outcomes, or non-linear patterns. Integrating contextual factors and moderating variables is essential for a more nuanced understanding of this complex relationship.

4.2. CSR and risk

The relationship between CSR and risk has been widely studied, though much of the research has centered on the American market. Over the past few decades, various theories have emerged to explain CSR's influence on financial performance. When it comes to risk, two dominant perspectives stand out: stakeholder theory and the overinvestment hypothesis, both frequently used to analyze how CSR affects corporate risk exposure.

4.2.1. Stakeholder theory and CSR's role in risk mitigation

Stakeholder theory argues that companies should not focus solely on maximizing shareholder profits (Freeman, 1984). Instead, they should adopt a balanced approach where CSR initiatives not only drive profitability but also create social and environmental value. This perspective suggests that CSR engagement strengthens a company's resilience by fostering positive relationships with key stakeholders, ultimately protecting shareholder value (Godfrey, 2005) and ensuring long-term stability (Cornell & Shapiro, 2021).

By integrating social and environmental factors into their strategic decisions, firms can enhance their overall value (Albuquerque et al., 2019) and reduce exposure to various risks (Jones, 1995). CSR activities provide short-term benefits through improved stakeholder perceptions while reinforcing long-term defensive capabilities (Du et al., 2010). Conversely, failing to meet stakeholder expectations can erode reputation, increase risk premiums, and elevate operational costs, negatively impacting financial performance (Cornell & Shapiro, 1987). As Freeman (1984) notes, businesses that neglect stakeholder concerns may face consequences such as boycotts, strikes, or supply chain disruptions.

4.2.2. The overinvestment hypothesis: CSR as a potential risk factor

In contrast, the overinvestment hypothesis suggests that CSR engagement can introduce financial inefficiencies. From the standpoint of agency theory, CSR initiatives—though beneficial to some stakeholders—may not always align with shareholder interests (Friedman, 1970). Excessive investment in CSR, particularly when driven by managerial self-interest or reputational motives, can lead to inefficient capital allocation and diminished financial returns (Jensen, 2002). Barnea and Rubin (2010) argue that such overinvestment increases costs, which in turn raises financial risk and potential failure, especially if resources are diverted toward non-profitable social initiatives.

CSR's financial impact is not always positive or linear; in some cases, the marginal costs of CSR efforts outweigh the benefits, leading to resource misallocation. Firms that expand their CSR activities without clear return expectations may experience declining profitability or heightened financial volatility.

The complexity of the CSR-risk relationship underscores the necessity for further research to fully understand how CSR initiatives influence the financial stability and risk management strategies of companies. While existing studies provide valuable insights, there remain significant gaps in the literature regarding the underlying mechanisms through which CSR impacts risk and financial performance. These gaps are particularly evident when examining the varying effects of CSR across different industries, regions, and types of risks.

4.2.3. Empirical evidence on CSR and risk

Empirical research on the CSR-risk relationship presents mixed findings, highlighting the complexity of this dynamic. Farah et al. (2021) analyzed firms across 43 countries from 2005 to 2017 and identified an inverted U-shaped relationship between CSR and systematic risk—where initial CSR investments increase risk, but beyond a certain threshold, risk declines. Shahrour et al. (2022) found that CSR reduces default risk, with a stronger effect in civil law countries compared to common law countries. Similarly, Yarram and Adapa (2022) examined Australian firms and reported that CSR engagement curtails corporate risk-taking, while gender diversity is associated with lower overall risk. Mushafiq et al. (2024) provided further support for CSR's risk-mitigating effects, demonstrating a negative relationship between CSR and default risk among 497 S&P 500 firms, confirmed through the generalized method of moments. Maquieira et al. (2024) extended these findings to family-owned businesses, showing that higher ESG scores correlate with lower default risk, particularly in environmental and social dimensions. However, Korzeb et al. (2024) offered a contrasting perspective, finding that in the banking sector, ESG policies can increase default risk under certain conditions, suggesting that in financial institutions, such policies might elevate rather than mitigate financial vulnerability.

While stakeholder theory underscores CSR's role in reducing risk through enhanced stakeholder relations, the overinvestment hypothesis cautions against the financial downsides of excessive CSR spending. Empirical findings suggest that CSR's impact on risk is context-dependent, varying by industry, country, and corporate governance structure. Understanding these nuances is critical for firms seeking to optimize their CSR strategies while mitigating financial risks.

5. Conclusion

In conclusion, the various theories on CSR provide distinct yet complementary perspectives on its impact on business performance. The neoclassical theory, championed by Milton Friedman, prioritizes the maximization of shareholder profits and perceives CSR as a potential diversion from economic objectives. In contrast, the agency theory highlights the inherent risks of conflicts of interest between managers and shareholders, cautioning that excessive CSR investments may lead to increased costs and inefficiencies. The stakeholder theory, by contrast, stresses the importance of addressing the interests of all stakeholders, positing that CSR can strengthen a company's reputation, foster stakeholder loyalty, and create a sustainable competitive advantage. Meanwhile, the Resource-Based View (RBV) underscores the significance of internal resources, suggesting that CSR initiatives can enhance a company's competitiveness and long-term financial success by leveraging its capabilities and strengths.

Although these theories provide different lenses through which to understand the CSR-financial performance relationship, they collectively call for a nuanced and context-specific analysis. It is essential to incorporate moderating factors, such as corporate governance structures and the maturity of CSR practices, to gain a deeper understanding of how these elements shape performance outcomes and influence risk management. Future research should explore the role of these moderating variables to offer more tailored insights that reflect the unique challenges and opportunities that companies face in implementing CSR initiatives.

By accounting for both theoretical perspectives and contextual factors, businesses and regulators can more effectively guide CSR practices, ensuring that they maximize benefits while minimizing risks. This integrated approach will not only improve corporate performance but also foster long-term sustainability, helping organizations navigate the complexities of today's evolving business landscape.

References

Aftab, J., Abid, N., Sarwar, H., Amin, A., Abedini, M., & Veneziani, M. (2024). Does corporate social responsibility drive financial performance? Exploring the significance of green innovation, green dynamic capabilities, and perceived environmental volatility. *Corporate Social Responsibility and Environmental Management*, *31*(3), 1634-1653.

Aguinis, H., & Glavas, A. (2019). On corporate social responsibility, sensemaking, and the search for meaningfulness through work. *Journal of management*, *45*(3), 1057-1086.

Albuquerque, R., Koskinen, Y., & Zhang, C. (2019). Corporate social responsibility and firm risk: Theory and empirical evidence. *Management science*, *65*(10), 4451-4469.

Allouche, J., & Laroche, P. (2005). A meta-analytical investigation of the relationship between corporate social and financial performance. *Revue de gestion des ressources humaines*, (57), 18.

Amaazoul, H. (2021). RSE et performance financière : Étude auprès de 107 entreprises marocaines. *Recherches en Sciences de Gestion*, (1), 335-358.

ANDALOUSSI, M. B. (2021). Opérationnalisation de la stratégie de RSE : un cadre conceptuel pour concrétiser le management de la RSE. *Revue Internationale des Sciences de Gestion*, *4*(1).

Andriof, J., & McIntosh, M. (2001). Introduction. In J. Andriof & M. McIntosh (Eds.), *Perspectives on corporate citizenship* (pp. 13–24). Greenleaf Publishing.

Aqabna, S. M., Aga, M., & Jabari, H. N. (2023). Firm performance, corporate social responsibility and the impact of earnings management during COVID-19: evidence from MENA region. *Sustainability*, *15*(2), 1485.

Awaysheh, A., Heron, R. A., Perry, T., & Wilson, J. I. (2020). On the relation between corporate social responsibility and financial performance. *Strategic Management Journal*, *41*(6), 965-987.

Bahta, D., Yun, J., Islam, M. R., & Bikanyi, K. J. (2021). How does CSR enhance the financial performance of SMEs? The mediating role of firm reputation. *Economic Research-Ekonomska Istraživanja*, *34*(1), 1428-1451.

Barnea, A., & Rubin, A. (2010). Corporate social responsibility as a conflict between shareholders. *Journal of Business Ethics*, *97*, 71-86.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of management*, 17(1), 99-120.

Baudry, B. (2003). *Economie de la firme*. Paris : La découverte.

Bowen, H. R. (1953). Social Responsibility of the Businessman. New York: Harper and Row.

Campbell, J. L. (2007). Why would corporations behave in socially responsible ways? An institutional theory of corporate social responsibility. *Academy of management Review*, *32*(3), 946-967.

Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of management review*, *4*(4), 497-505.

Carroll, A. B. (1999). Corporate social responsibility: Evolution of a definitional construct. *Business & society*, *38*(3), 268-295.

Carroll, A. B. (2008). A History of Corporate Social Responsibility: Concepts and Practices.

Carroll, A. B. (2021). Corporate social responsibility: Perspectives on the CSR construct's development and future. *Business & Society*, *60*(6), 1258-1278.

Cassel, D. (2001). Human rights and business responsibilities in the global marketplace. *Business ethics quarterly*, 261-274.

Cespa, G., & Cestone, G. (2007). Corporate social responsibility and managerial entrenchment. *Journal of Economics & Management Strategy*, *16*(3), 741-771.

Cheit, E. F. (1964). Why managers cultivate social responsibility. *California Management Review*, *7*(1), 3-22.

Cho, S. J., Chung, C. Y., & Young, J. (2019). Study on the Relationship between CSR and Financial Performance. *Sustainability*, *11*(2), 343.

Chollet, P., & Sandwidi, B. W. (2018). CSR engagement and financial risk: A virtuous circle? International evidence. *Global Finance Journal*, *38*, 65-81.

Cornell, B., & Shapiro, A. C. (1987). Corporate stakeholders and corporate finance. *Financial Management*, 5-14.

Cornell, B., & Shapiro, A. C. (2021). Corporate stakeholders, corporate valuation and ESG. *European Financial Management*, *27*(2), 196-207.

Dahlsrud, A. (2008). How corporate social responsibility is defined: an analysis of 37 definitions. *Corporate Social Responsibility and Environmental Management*, *15*(1), 1-13.

Danley, J. R. (1980). Corporate moral agency: The case for anthropological bigotry. *Bowling Green Studies in Applied Philosophy*, *2*, 140-149.

Davis, K. (1960). Can business afford to ignore social responsibilities? *California Management Review*, 2(3), 70–76.

Donaldson, T. & Preston, L. (1995) The stakeholder theory of the corporation: Concepts, evidence, and implications. Academy of Management Review, 20(1), 65–91.

Du, S., Bhattacharya, C. B., & Sen, S. (2010). Maximizing business returns to corporate social responsibility (CSR): The role of CSR communication. *International journal of management reviews*, *12*(1), 8-19.

Epstein, E. M. (1987). The corporate social policy process: Beyond business ethics, corporate social responsibility, and corporate social responsiveness. *California management review*, *29*(3), 99-114.

Farah, T., Li, J., Li, Z., & Shamsuddin, A. (2021). The non-linear effect of CSR on firms' systematic risk: International evidence. *Journal of International Financial Markets, Institutions and Money*, *71*, 101288.

Fourati, Y. M., & Dammak, M. (2021). Corporate social responsibility and financial performance: International evidence of the mediating role of reputation. *Corporate Social Responsibility and Environmental Management*, *28*(6), 1749-1759.

Franco, S., Caroli, M. G., Cappa, F., & Del Chiappa, G. (2020). Are you good enough? CSR, quality management and corporate financial performance in the hospitality industry. *International Journal of Hospitality Management*, *88*, 102395.

Frederick, W. C. (1960). The growing concern over business responsibility. *California management review*, *2*(4), 54-61.

Freeman, R. E. (1984). *Strategic management: A stakeholder approach*. (Boston : Pitman Publishing Inc.)

Friedman, M. (1970). A theoretical framework for monetary analysis. *journal of Political Economy*, *78*(2), 193-238.

Friedman, M., & Friedman, R. D. (1962). *Capitalism and freedom.[By] M. Friedman, with the assistance of Rose D. Friedman*. University of Chicago Press.

GARA–BACH OUERDIAN, E., & Gaha, C. (2009). La citoyenneté d'entreprise : un déterminant de l'engagement organisationnel?. *La Revue des Sciences de Gestion*, (3-4), 55-61.

Garriga, E., & Melé, D. (2004). Corporate social responsibility theories: Mapping the territory. *Journal of business ethics*, *53*(1), 51-71.

Godfrey, P. C. (2005). The relationship between corporate philanthropy and shareholder wealth: A risk management perspective. *Academy of management review*, *30*(4), 777-798.

Gond, J. P., & Moon, J. (2011). Corporate social responsibility in retrospect and prospect: Exploring the life-cycle of an essentially contested concept. *ICCSR Research Paper Series*, *59*, 1-40.

Griffin, J. J., & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research. *Business & society*, *36*(1), 5-31.

Guéry, B. (2013). L'apport des présupposés de la théorie politique aristotélicienne pour penser la conception intégrative de la RSE. *Revue de l'organisation responsable*, *8*(1), 66-80.

Heald, M. (2018). *The social responsibilities of business: Company and community, 1900-1960*. Routledge.

Homayoun, S., Mashayekhi, B., Jahangard, A., Samavat, M., & Rezaee, Z. (2023). The controversial link between CSR and financial performance: the mediating role of green innovation. *Sustainability*, *15*(13), 10650.

Husted, B. W. (2005). Risk management, real options, corporate social responsibility. *Journal of business ethics, 60*, 175-183.

Jensen, M. C. (2002). Value maximization, stakeholder theory, and the corporate objective function. *Business ethics quarterly*, 235-256.

Jones, T. M. (1980). Corporate social responsibility revisited, redefined. *California management review*, *22*(3), 59-67.

Jones, T. M. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. *Academy of management review*, *20*(2), 404-437.

Korzeb, Z., Karkowska, R., Matysek-Jędrych, A., & Niedziółka, P. (2025). How do ESG challenges affect default risk? An empirical analysis from the global banking sector perspective. *Studies in Economics and Finance*, *42*(1), 89-114.

Lee, M. D. P. (2008). A review of the theories of corporate social responsibility: Its evolutionary path and the road ahead. *International journal of management reviews*, *10*(1), 53-73.

Levitt, T. (1958). The dangers of social responsibility. *Harvard Business Review*, 36, 41–50.

Mahon, J. F., & McGowan, R. (1991). *Searching for the common good: A process oriented approach*. Boston University, School of Management.

Maquieira, C. P., Arias, J. T., & Espinosa-Méndez, C. (2024). The impact of ESG on the default risk of family firms: International evidence. *Research in International Business and Finance*, *67*, 102136.

Margolis, J. D., Elfenbein, H. A., & Walsh, J. P. (2009). Does it pay to be good... and does it matter? A meta-analysis of the relationship between corporate social and financial performance. *And does it matter*.

McGuire, J. W. (1963). *Business and society* (Vol. 45097). SAGE Publications.

McMahon, T. F. (1986). Models of the Relationship of the Firm to Society. *Journal of Business Ethics*, *5*, 181-191.

McWilliams, A., & Siegel, D. (2000). Corporate social responsibility and financial performance: correlation or misspecification?. *Strategic management journal*, *21*(5), 603-609.

McWilliams, A., & Siegel, D. (2001). Corporate social responsibility: A theory of the firm perspective. *Academy of management review*, *26*(1), 117-127.

Meckling, W. H., & Jensen, M. C. (1976). Theory of the Firm. *Managerial Behavior, Agency Costs and Ownership Structure*.

Melé, D. (2006, October). Mainstream theories on normative corporate social responsibility: Analysis from catholic social thought. In *Proceedings of the VI International Conference on Catholic Church Social Thinking and Manager Education, The Good Company. Catholic Social Thought and Corporate Social Responsibility in Dialogue, Rome* (pp. 5-7).

Melé, D. (2008). Corporate social responsibility theories.

Minor, D., & Morgan, J. (2011). CSR as reputation insurance: Primum non nocere. *California Management Review*, **53**(3), 40–59. https://doi.org/10.1525/cmr.2011.53.3.40

Mushafiq, M., Prusak, B., & Markiewicz, M. (2024). Corporate social responsibility and forward default risk under firm and industry heterogeneity. *Entrepreneurial Business and Economics Review*, *12*(1).

Okafor, A., Adeleye, B. N., & Adusei, M. (2021). Corporate social responsibility and financial performance: Evidence from US tech firms. *Journal of cleaner production*, *292*, 126078.

Okoye, A. (2009). Theorising corporate social responsibility as an essentially contested concept: Is a definition necessary?. *Journal of business ethics*, *89*, 613-627.

Orlitzky, M., & Benjamin, J. D. (2001). Corporate social performance and firm risk: A meta-analytic review. *Business & Society*, *40*(4), 369-396.

Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization studies*, *24*(3), 403-441.

Pasquero, J. (2005). La responsabilité sociale de l'entreprise comme objet des sciences de gestion: un regard historique. *Responsabilité sociale et environnementale de l'entreprise*, 80-111.

Pasquero, J. (2007). Commentaire: éthique des affaires, responsabilité sociale et gouvernance sociétale: démêler l'écheveau. *Revue International de Gestion*, *32*(1), 112-116.

Phillips, R., & Claus, L. (2002). Corporate social responsibility and global HR: Balancing the needs of the corporation and its stakeholders. *Retrieved August*, *15*, 2007.

Porter, M. E., & Kramer, M. R. (2002). The competitive advantage of philanthropy. *Harvard Business Review*, *80*(12), 56-69.

Prakash, N., & Hawaldar, A. (2024). Moderating role of firm characteristics on the relationship between corporate social responsibility and financial performance: evidence from India. *Journal of Economics and Development*.

Secchi, D. (2007). Utilitarian, managerial and relational theories of corporate social responsibility. *International Journal of Management Reviews*, *9*(4), 347-373.

Shahrour, M. H., Girerd-Potin, I., & Taramasco, O. (2022). Responsabilité sociale des entreprises et réduction du risque de défaillance : l'effet modérateur du système juridique. *Finance Contrôle Stratégie*, (25-1).

Sharfman, M. P., & Fernando, C. S. (2008). Environmental risk management and the cost of capital. *Strategic management journal*, *29*(6), 569-592.

Steffen, W., Richardson, K., Rockström, J., Cornell, S. E., Fetzer, I., Bennett, E. M., ... & Sörlin, S. (2015). Planetary boundaries: Guiding human development on a changing planet. *science*, *347*(6223), 1259855.

Tenuta, P., & Cambrea, D. R. (2022). Corporate social responsibility and corporate financial performance: The role of executive directors in family firms. *Finance Research Letters*, *50*, 103195.

Ullmann A.A., (1985). Data in search of a theory: a critical examination of the relationship among social performance, social disclosure, and economic performance of U.S Firms. *Academy of Management Review*, Vol.10 (3), 540-557.

Uyar, A., Kilic, M., Koseoglu, M. A., Kuzey, C., & Karaman, A. S. (2020). The link among board characteristics, corporate social responsibility performance, and financial performance: Evidence from the hospitality and tourism industry. *Tourism Management Perspectives*, *35*, 100714.

Velasquez, M. G., & Rostankowski, C. (1985). Ethics, theory and practice.

Waheed, A., Hussain, S., Hanif, H., Mahmood, H., & Malik, Q. A. (2021). Corporate social responsibility and firm performance: The moderation of investment horizon and corporate governance. *Cogent Business & Management*, *8*(1), 1938349.

Wang, Q., Dou, J., & Jia, S. (2016). A meta-analytic review of corporate social responsibility and corporate financial performance: The moderating effect of contextual factors. *Business & society*, *55*(8), 1083-1121.

Windsor, D. (2006). Corporate social responsibility: Three key approaches. *Journal of management studies*, *43*(1), 93-114.

Wood, D. J. (1991). Corporate social performance revisited. *Academy of management review*, *16*(4), 691-718.

Wu, L., Shao, Z., Yang, C., Ding, T., & Zhang, W. (2020). The impact of CSR and financial distress on financial performance—evidence from Chinese listed companies of the manufacturing industry. *Sustainability*, *12*(17), 6799.

Yarram, S. R., & Adapa, S. (2022). Women on boards, CSR and risk-taking: An investigation of the interaction effects of gender diversity and CSR on business risk. *Journal of Cleaner Production*, *378*, 134493.