An analysis of Corporate Social Responsibility and Financial Performance with Moderating Role of Perceived Corruption: Evidence from Pakistan and Thailand

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1. Introduction

The relationship between corporate social responsibility (CSR) and financial performance has long been a matter of contention, with conflicting results. One stream of research discovered a positive relationship between CSR and financial performance [1-7], whereas another found a negative and a neutral relationship [8-10]. These perplexing findings have led both academic theorists and practitioners astray. Furthermore, while the majority of previous studies found a positive significant relationship between CSR and financial performance [6, 11, 12], a few studies suggested that the indirect relationship between these two components has yet to be investigated [1, 7]. Margolis & Walsh (2003) revealed in their meta-analysis of existing studies conducted between 1972 and 2002 that CSR was only used as a dependent variable in 15% of the studies and was utilized as an independent variable in the remaining studies. Recent CSR research has also been chastised for ignoring other variables that may influence corporate social activities [1, 2]. The impact of various contextual variables on the relationship has not been thoroughly investigated.

It is well acknowledged that situational or contextual factors are likely to influence corporate socially responsible activities [13, 14]. Some researchers assert that a firm's willingness to act in a corporate socially responsible way varies across national boundaries [15]. For example, [15] found systematic differences in managers' responses to socially responsible activities because of nation-specific political, cultural, and other institutional differences. Similarly, existing research affirms that corporate social responsibility decisions cannot be made in isolation from institutional mechanisms and perceived corruption, which are likely to have an impact on corporate social responsibility activities [14, 16-23]. Some studies, for example, have suggested a negative association between perceived corruption and CSR [14, 24-26]. Given that perceived corruption is observed as a cultural [27, 28] and institutional phenomenon [29], it becomes a strategic issue to include such institutional contextual mechanisms in existing CSR studies to better understand the relationship between CSR and financial performance because such country-specific institutions can have a significant impact on CSR practices [15, 17].

This study employs institutional theory [17, 30, 31] because institutionalists acknowledge that stakeholders, particularly in increasingly globalized economies, frequently want to ensure that firms are acting in a socially responsible way in addition to their self-interests [32]. Doh et al., (2010) discovered that firms tend to make decisions to invest more in socially responsible activities to reflect the concerns of their investors. Given that corruption has been identified as a country's institutional and cultural phenomenon [27, 33], it has become an essential element of recent research questions to investigate how corruption can moderate the relationship between CSR and financial performance. This study assumes that government agencies and government

institutions serve as a critical mechanism for communicating to the market information about firms' CSR activities and financial performance. In other words, these third parties may have a significant impact on a firm's decision to invest more in corporate socially responsible activities to improve its financial and non-financial performance [34, 35].

This study attempts to investigate whether perceived corruption moderates the relationship between corporate social responsibility and financial performance under the assumption that the relationship is contextually dependent. The moderating impact of perceived corruption will be carefully investigated by analyzing data from 236 firms in two Asian countries, such as Pakistan and Thailand. The main reason for selecting two countries is that Pakistan is in South Asia and Thailand is in Southeast Asia. These countries are in various regions of the continent, where regional cultures, norms, and values appear to be similar but overall distinguished.

Section 2 introduces the literature review on the connections between CSR, firm performance, and perceived corruption. Section 3 provides the main hypotheses in question. Section 4 describes the sample, research model, and analysis. Section 5 presents the statistical results. Finally, Section 6 describes the discussion and suggests future research directions.

2. Literature Review

2.1 CSR and financial performance

Carroll (1979) defines CSR as "a business's social responsibility, which includes the economic, legal, ethical, and discretionary expectations that society has of organizations at any given time." Over the last few decades, researchers have focused on CSR: what is it, why do firms act in socially responsible ways, and how do corporate socially responsible behaviors result in positive firm performance? Several previous studies have been carried out to answer these questions [36-39]. In addition to theoretical attributes, firms have become more enthusiastic about engaging in CSR practices as environmentally sensitive consumers' interest in sustainable and more environmentally friendly products and services has increased [40-42]. Firms can also improve their socially responsible behavior by engaging in philanthropic activities, accommodating resources, adhering to ethical codes, and enhancing organizational credibility [14].

Previous scholars have applied various theoretical approaches to investigate the relationship between corporate social responsibility and firm performance, such as the stakeholder perspective [5, 14, 43-45], the resource dependence perspective [46], and the resource-based view [47-51]. From these conventional perspectives, the general conclusion revealed overwhelming evidence for a positive relationship between CSR and firm performance [5, 9, 11, 52]. Nonetheless, some empirical studies found mixed outcomes, which could be attributed to different aspects of corporate social responsibility and different approaches to analyzing the relationship between CSR and firm performance [18], a lack of appropriate control over statistical analysis [22], and the 'stakeholder misalignment' delinquency [53]. The institutional theory has been applied more frequently to carefully answer the question of why firms behave in a socially responsible way. Campbell (2007), for example, argued that different national conditions may

influence the likelihood of corporations acting in socially responsible ways. He claimed that economic conditions, institutional conditions, the relative health of organizations, the health of the local economy, and the level of competition in the market could all influence a firm's CSR activities.

2.2 CSR, institutional theory, and corruption

Organizations operate in distinct institutional environments based on their country-specific contexts, social position, and geographic location [54]. The institutional theory has been used to investigate a firm's behavior in a variety of contexts and countries [23, 55]. According to Campbell (2007), institutions are the principal actors that limit or enable organizations to engage in CSR activities. He contended that the relationship between corporate social responsibility and financial performance could be influenced by a variety of institutional conditions and mechanisms in various situations and environmental contexts, such as public-private regulations, non-governmental organizations (NGOs), independent organizations to inspect a firm's behavior, and institutionalized rules and regulations of corporate behavior. The institutional theory appears to be at the core of what should be done with CSR, and CSR is certainly a division of corporate voluntary, discretionary, and ad hoc actions and practices toward society and business [30]. In other words, firms adopt voluntary and discretionary corporate socially responsible practices because society expects such behavior. The institutional theory provides a conceptual framework for investigating a mediating or moderating effect on the relationship between CSR and firm performance in greater depth [56].

CSR encompasses a wide range of social issues such as environmental law, human rights, labor law, and other fields in the framework, but anti-corruption and anti-bribery issues have received less attention than labor laws, human rights, environmental protection, and so on. This is confounding because corruption has a negative and harmful impact on people's general living conditions [57, 58]. Firms adopt CSR practices in the presence of policies, rules, and regulations, as well as the enforcement of the law, all of which have been identified as externally influential factors [59]. According to Collier (2002), external factors such as political stability and anti-corruption laws can lead firms to behave in a socially responsible way. Corruption has not received systematic attention from scholars in the field of corporate social responsibility, whereas the debate on CSR has mostly focused on issues such as organizations' complicity in violence, violations of human rights, and environmental degradation, with occasional references to corruption and ways to deal with it [60]. It could be due to a long-held belief that such corruption is always a governmental and institutional issue, and that organizations have little control or influence over corruption.

Corruption is defined differently by several social scientists [19, 21, 28]. However, the generalized definition of corruption is "behavior by a public servant, whether elected or appointed, which involves a deviation from his or her formal duties because of reasons of personal gain to himself or herself or to another private person with whom the public servant is associated" [21]. Bribes and kickbacks are the most common forms of corruption identified in previous research.

Corruption is widespread in emerging markets, increasing transaction costs for firms operating in these markets and posing a threat to their economies. It is essential, but difficult, to deal with corruption in these markets [61]. Illegal activities carried out in a corrupt environment not only wreak havoc on the company's image, corporate governance, and corporate reputation but also jeopardize the firm's ability to act in a socially responsible manner. Consequently, such illegal activities have significant negative ethical, legal, and institutional consequences. Firms may not be able to reduce such illicit activities in a corrupt environment because they are resisted by various rules and regulations, laws, norms, ethics, and standards related to corrupt practices in the country [14]. Paying bribes to get work done quickly, for example, is culturally acceptable in some Asian Pacific countries such as Pakistan, India, and Thailand, and kickbacks are common in buying and selling activities in China as well as the aforesaid countries [62]. According to the literature review, corruption harms a firm's economic performance because many managers reported corruption as a major barrier to doing business [63]. Conversely, some academics argue that corruption is beneficial to firm performance in Romanian corporations [64]. Nonetheless, corruption is a devastating political, institutional, cultural, and economic phenomenon that can have a broad impact on corporate social responsibility.

3. Hypotheses Development

3.1 CSR and firm performance

The debate over the relationship between corporate social responsibility and financial performance is not novel, but it has been intensifying over the last six decades. Previous scholars have viewed CSR as a critical factor in achieving economic goals, increasing profitability, and generating corporate wealth [65, 66]. As a consequence, many researchers attempted to look into a universal connection between corporate social responsibility and financial performance [67]. Empirical research has found an association between CSR and firm performance [6, 12]. Lin et al., (2009) investigated 1000 Taiwanese companies to investigate the effect of corporate social responsibility on firm performance and discovered a positive relationship between CSR and financial performance. Galbreath & Shum (2012) discovered a significant positive relationship between CSR and financial outcomes in Australian firms.

It is significant to investigate the relationship between CSR and firm performance based on previous empirical studies. As previously stated, the existing mixed results could be attributed to different aspects of CSR and various approaches to analyzing the relationship between CSR and firm performance [18], insufficient appropriate control over statistical analysis (Margolis & Walsh, 2003), and 'stakeholder misalignment' negligence [53]. Previous researchers adopted various approaches to examine the relationship between CSR and firm performance. Scholars have commonly used stakeholder theory, for instance, to examine the relationship [43-45] and discovered a significant positive relationship. Some researchers applied the resource-based view to investigate the relationship [48-50] and discovered a positive relationship between CSR and firm performance. After reviewing various schools of thought, it is possible to conclude that there

is overwhelming evidence of a strong positive relationship between CSR and firm performance [5, 9, 11, 52]. Hence, the following hypothesis is developed:

Hypothesis 1: *Corporate social responsibility has a positive relationship with corporate financial performance*

3.2 Corruption and firm performance

Corruption is presented as an established problem, and it is believed to be one of the most significant threats to the overall health of the functioning of a nation's political and economic institutions [63, 64, 68-70]. However, the accumulated anecdotal and formal statistical evidence in support of the detrimental effect of corruption on economic development as an established empirical regularity has remained perplexing. Corruption posed a serious obstacle to economic growth at the country level [71]. Nonetheless, profit-making organizations would be expected to plan an optimal level of corruption to increase their economic profitability, whereas the contextual impact of corrupt enactments on firm performance could be either negative or positive, depending on whether the negative spillovers of corrupt enactments influence the first prospective positive impact [69]. Therefore, the impact of corruption on firm financial performance could eventually be an empirical question. This study investigates the relationship between firm-level corruption and financial performance. Several previous researchers discovered a negative impact of corruption on firm performance [69], while others discovered a positive impact of corruption prevalent in the country on firm-level economic performance [64, 68].

Corruption, as earlier indicated, is the misuse of public power for personal gain, which may harm the firm and country-level economies [72, 73]. Taxation is the backbone of every country's economy, and companies are obligated to pay taxes to the government. Tax evasion, social security burdens, and institutional quality are all corrupt practices that a company can engage in. Executives are unwilling to pay taxes and prefer to keep all economic profits for themselves, which was identified as a corrupt practice in previous literature [74, 75]. Institutional quality, regulatory authorities, legal rules, bureaucracy, corruption, and a weak legal system may be the root causes that drive firms to act responsibly or irresponsibly [73]. Many Asian countries have low institutional quality, and anti-corruption laws are not strictly enforced [21]. Anti-corruption legislation enacted by law enforcement agencies is simply the establishment of ethical behavior practices by organizations in the public and private sectors, which are reviewed and measured by professional independent institutions. It is comprehensible that firms will be willing to act unethically when institutions commit law violations, such as through corruption, lowering their performance [17]. Hence, the following hypothesis is proposed:

Hypothesis 2a: *Low institutional quality and law enforcement (IQLE) has a negative impact on corporate financial performance*

It is appropriate to be concerned about the significant negative impact of corruption on a firm's economic growth. Corruption prevalence varies enormously across countries, and significant

variation is evident depending on other social and economic contexts. According to Neeman et al., (2008), the negative correlation between corruption and corporate economic growth exists only in countries with a high level of financial openness. On the other hand, for nations with less financial integration, the negative impact of corruption on corporate financial performance almost completely disappears. According to Aidt et al., (2008), the quality of institutions has a significant impact on the impact of corruption on a firm's and a country's economic growth: "corruption is detrimental to growth where there are high-quality political institutions, but otherwise has no impact on growth". Similarly, [76] discovered that corruption is less detrimental to performance in countries with less effective institutions, and it may even improve firm profitability where institutions are extremely ineffective. That is corruption benefits corporate economic profitability in low-income countries but becomes detrimental as the economy expands.

Internal compliance can be utilized to fight corruption. Hills et al., (2009) defined internal compliance as "corporations should continue to invest significantly in ethics and compliance programs to maintain or increase their level of integrity across all divisions and countries" (p. 4). Corruption is regarded as a legal and risk-management issue that necessitates a compliance-driven approach. Compliance and ethics divisions typically ignore external anti-corruption efforts, and CSR executives frequently overlook this social issue. Corporate executives are increasingly interested in addressing the negative impact of corruption on corporate financial performance, and they believe that a better ethical compliance program will help them compete effectively and make better decisions, which will boost firm performance [77]. Hills et al., (2009) proposed a variety of effective approaches and tools to help organizations develop strong ethics and internal compliance cultures.

Internal compliance and ethics management (ICEM) programs use a company's policies and procedures to monitor and prevent violations of rules and regulations, laws, and to encourage ethical behavior by and within the company [78]. Firms must improve their social reputation and integrity by investing significantly in compliance and ethics programs [20]. The belief that an organization's compliance and ethics program will influence illegal behavior is exemplified by provisions of the 'United States Federal Sentencing Guidelines,' which exhibit greater sentencing uniformity with harsher penalties for organizations that violate the law. Organizations that have an effective ethics compliance program are given a reduction in the penalties allowed by the guidelines in the event of a violation [78]. Firms with strong compliance and ethics programs would like to invest more in fighting corruption to effect illegal practices, reduce bribery, and reduce operational costs, all of which contribute to a firm's economic profitability. Hence, the following hypothesis is proposed:

Hypothesis 2b: *Strong internal compliance and ethics program (ICEM) has a positive impact on corporate financial performance*

3.3 Moderating the Role of Corruption

3.3.1 Institutional quality and law enforcement (IQLE)

Corruption and ethics have long been major concerns in political theory, public administration, institutionalization, law, society, and economics. As a result, corruption has become a major concern for institutions and law enforcement agencies [79]. Corruption has always existed in various forms in every society [16]. Organizations may be corrupt for one of two reasons: high tax and social security burdens, or institutional quality. First, the executives are dissatisfied with paying high taxes and prefer to keep all economic profits to themselves. Consequently, such executives' behavior is referred to as tax evasion, which is also referred to as corruption [74, 75]. Tax evasion or avoidance, which is considered corruption, has a significant negative impact on economic conditions and financial development [80]. Firms are less likely to be socially responsible when operating in a weaker economic environment [17]. Second, 'institutional quality,' regulatory authorities, rules of law, bureaucracy, corruption, and a weak legal system may become root causes that drive firms to act responsibly or irresponsibly [73].

Because corruption poses a distinct and significant threat to both business and society, companies should approach the issue through the lens of strategic CSR [20]. It is important to emphasize that anti-corruption measures are critical for strategic CSR and fighting corruption should be a top priority for legislative institutions and private organizations involved in the CSR movement [16]. The United Nations developed a Convention Against Corruption [81] (2004), demonstrating the fundamental essence of CSR [82, 83]. The U.N. convention has been signed by a total of 140 states. The primary objectives of the United Nations Convention are to strengthen signatory states by educating and advocating for them on the criminalities of corrupt practices, implementing rule of law against corruption, implementing anti-corruption measures, providing legal and technical assistance, and exchanging information [81].

Several Asian countries do not enforce anti-corruption laws, or the existing anti-corruption laws are so sophisticated that they do not address the type of corruption [21]. Anti-corruption legislation enacted by law enforcement agencies is simply the implementation of ethical behavior practices by organizations in the public and private sectors, which are reviewed and measured by professional independent institutions. Firms should develop internal anti-corruption strategies to deal with this threat to benefit not only themselves but also the nation, including the poorest and most vulnerable members of society [79]. Corruption is inextricably interrelated, with poor human development (health, education), and economic failure. It is comprehensible that firms would be willing to engage in unethical behavior when institutions violate the law, lowering their performance [17]. In other words, a corrupt environment will have a negative impact on the relationship between CSR and firm performance. Hence, this study investigates the following hypothesis:

Hypothesis 3a: *The positive relationship between CSR and corporate financial performance will be weakened by the negative moderating role of corruption in a national context where institutional quality is low and anti-corruption laws are not enforced.*

3.3.2 Internal compliance and ethical management (ICEM)

Compliance is defined as "corporations should continue to invest significantly in ethics and compliance programs to maintain or increase their level of integrity throughout all divisions and countries" [20]. Corruption is currently treated as a legal and risk-management issue, necessitating a compliance-driven approach. Compliance and ethics departments frequently disregard external anti-corruption efforts, and CSR executives frequently abandon this social issue. In comparison to other social issues affecting business directly or indirectly, corruption has received insufficient attention [20].

The annual cost of corruption is estimated to be $2.6 trillion, or nearly 5% of global GDP [62]. Over $1 trillion of this amount is paid in bribes each year, which harms fair competition and business profitability. Corruption incurs additional costs at the corporate level, resulting in costly operations such as operational costs, legal risk, and competitive risk. According to recent studies, corruption increases the cost of doing business by more than 10% in many countries, and this cost increases by 20% if the business is relocated from a low-corruption country to a medium- or high-corruption country [84, 85].

Because of the increased emphasis on corporate governance globally over the last two decades, corporations have acted more aggressively in terms of ethics management and internal compliance. Corporate executives are willing to highlight the negative consequences of corruption. They recognize that a strong ethical compliance program will assist them in competing productively, as well as in enhancing corporate social responsibility and superior decision making, which will inevitably improve their firm's performance [77]. Hills et al., (2009) proposed a variety of effective approaches and tools for building strong internal compliance and ethics cultures in organizations.

ICEM programs employ a company's policies and procedures to encourage ethical behavior by and within the firm, as well as to detect and divert violations of rules, regulations, and laws [78]. Firms must improve their social reputation and integrity by investing significantly in compliance and ethics programs [20]. The belief that a firm's compliance and ethics program will have an impact on illegal behavior is reflected in the provisions of the 'United States Federal Sentencing Guidelines,' which reveal a higher judgment uniformity with harsher punishments for organizations that violate the law. According to the guidelines, organizations that participate in a constructive ethics compliance program face a reduction in penalties at the time of fractionation [78]. A strong compliance and ethics program encourages firms to invest more in fighting corruption to minimize illegal practices, reduce bribery, and reduce operational costs, all of which contribute to the firm's economic outcome. Therefore, firms in good economic times will be more socially responsible [17], and the relationship between CSR and firm performance

will be strengthened in organizations with strong compliance and ethics programs. Hence, this study examines the following hypothesis:

Hypothesis 3b: *The positive relationship between CSR and corporate financial performance will be strengthened by the moderating role of corruption in a national context where organizations have a strong compliance and ethics program.*

4. Data and Methodology

4.1 Sample

Data for this study was collected by a survey conducted over the 2 years between 2018 and 2019 to investigate the extent to which a firm's belief emphasizes corporate social responsibility. The sample includes 1,232 large, medium, and small size firms in manufacturing and service industries in both Pakistan and Thailand. These randomly selected firms were registered in The Pakistan stock exchange limited (PSE) and the stock exchange of Thailand (SET), respectively. The data for corruption, firm performance, and control variables were collected from factual sources for the period corresponding to the survey [86]. Given that the major decisions such as CSR are mainly taken by corporate top management, a survey questionnaire was mailed to a prime executive in each firm (CEO, managing director, president, senior general managers, or general managers) measuring a firm's emphasis on CSR. There was a response rate of 19% (250 firms out of 1232) followed by e-mailing biweekly. 7 firms were removed from the data due to incomplete answers to questions. Finally, we included 236 firms that fulfilled the requirements needed to add to our data sample. We didn't find significant differences between responding and non-responding firms when compared along several dimensions. The final sample acquired from both countries consists of an almost identical proportion of firms in key characteristics such as firm age, firm size, and industry, as shown in Table 1.

***************** Place Table 1 around here ******************

A review of the previous literature shows that the dominant existing empirical studies employed sample data based on developed countries such as the EU or US [37], and the results show a positive impact of CSR on firm performance. Despite the lack of studies focusing on developing and underdeveloped countries, especially the context of Pakistan and Thailand, and being underutilized as a selected sample in worldwide research [87], it is also expected that similar outcomes will be found in Pakistan and Thailand.

4.2 Independent variables

[18] (1979) definition provides a refined concept of CSR because while it identifies the firm's commitment toward society, it systematically alternates the firms' responsibilities from bare profit earning and responsibilities of governments [88, 89]. This definition was often employed in several existing studies[37, 39].

Given that there is no universal method to measure CSR, two types of data have been commonly applied: the first one is based on secondary data and the second one is on primary data. The survey questionnaire of this study was adapted from that developed by [90]. The participants in the survey were asked to answer the extent to which an organization's philosophy emphasizes each factor on a scale of one ('it is not in the company code'), two ('it is in the company code but not implemented'), three ('it is in the company code but partially implemented'), four ('it is in the company code but substantially implemented'), and five ('it is in the company code but fully implemented'). To keep the value of items within the range of scale, the score of all items of CSR in different categories was summed up and divided by the number of items in that category.

Each survey respondent was supposed to be a decision-maker for their firm. A total of 236 top-level executives in 2 countries were queried about their perception of corruption in several different areas of government performance including judiciary reliability, government policy predictability, corruption problems, public services, and crimes. We used sector quotas in all countries and roughly 78% of the participating firms in the survey were included from the manufacturing sector in each country. We included ten questions about corruption in the survey and these questions were adapted from the study conducted by [63].

Previous empirical studies about corruption have analyzed data using a set of measures as proxies for analyzing the level of corruption or different states important for corruption to flourish. For example, the amount of bribes has been used as a unit of analysis to measure corruption [91]. Given the focus and nature, we believe that the respondents of the survey did not view corruption as the primary objective of the survey, and hence they perceived corruption as a part of the channel of the survey questionnaire about the business atmosphere in the countries. We acknowledged that the organization's managers considered the language for questions on corruption in the survey and expressed their opinions relying on ex-post impact of corruption on their business performance being managed by them.

Corruption and bribery corruption are hard to measure due to the secrecy that importantly surrounds corrupt transactions. For this study, we developed a questionnaire to measure corruption in two ways: Institutional quality and law enforcement (IQLE) and Internal compliance and ethical management (ICEM). The first measure of corruption, IQLE, denotes negative perception due to a low level of institutional quality and law enforcement. Institutions and law enforcement agencies (anti-corruption departments) are chosen as the base to measure this important variable. Anti-corruption and other law enforcement departments are responsible for reducing corruption in the country, and if the anti-corruption department works well, there will be a low level of corruption and vice versa. We measured it on a scale from 0 to 5 where 0 explains a high level of corruption and 5 means the least corruption level in the country. It means that the anti-corruption departments and other law enforcement departments are corrupt themselves and are unable to overcome corrupt practices which mean there is a high level of corruption in the country. A scale of 5 means that law enforcement agencies are working properly and there are fewer corrupt practices, representing a low level of corruption.

The second variable to measure the level of corruption, ICEM, is something that is under the control of firms: it is whether firms are responsible for increasing or decreasing the level of perceived corruption. This variable explains the firm's internal behavior regarding training programs arranged to teach employees about corruption and to avoid those practices as well as ethical management. This variable is also measured on a scale of 0 to 5, where 5 denotes a low level of corruption. In this variable, if the company follows rules and regulations of the country, arranges training and workshop programs about corruption and ethics, and has strong written ethics codes, there will be more likely to have less perceived corruption.

4.3. Dependent variable

This study is primarily interested in investigating how the relationship between CSR and firm performance is moderated by perceived corruption. Return on sales (ROS), return of assets (ROA), net profit ratio (NPR) and return on equity (ROE) have been utilized widely as fundamental proxies for financial performance [1, 5, 92]. This study employs NPR as a proxy for financial performance [1], given that most Pakistani companies use NPR as a representative proxy for their financial performance in financial statements and it is utilized by a large number of previous researchers [93, 94]. NPR is calculated by subtracting operating expenses and income tax from gross profit and divided by net sales of the year using the following formula. These data were collected from financial statements of participating firms for 2016 and 2017 and a mean of two years was computed to adjust variations of NPR in two years.

Net Profit Ratio = (Gross profit – Operating expenses – Income tax) / Net sales x 100

4.4 Control variables

This study controls for firm size, firm age, and GDP. It has been well known that the size of a firm influences the association between CSR activities and financial performance [2]. As per economies of scale, large firms execute better than small firms because large-size firms are in benefit to achieve higher efficiencies in their performance including higher purchasing power and lower costs. On the other hand, larger firms may have an opposite effect with higher costs due to their complex operational systems. This study measures firm size by annual turnover in "USD", given that Pakistan and Thailand deal with different currencies and we need to adjust the two countries' different currencies into a common currency to analyze our available data at a standard unit. Hence, this study measured firm size by annual turnover in USD [95].This study controls for firm age [96, 97]. While some existing studies show that firm age has a positive influence on firm performance (Coad et al., 2013), others found a negative impact of age on firm performance [98]. Hence, it is worth controlling for this variable to avoid such a confounding effect. This study measured a firm's age by the total number of years in corporate operation [95]. This study also controls for GDP for the years 2016 and 2017 in both countries to avoid any expectation of a particular direction [86].

4.5 Analysis

This study employs the following estimation regression model to test the moderating impact of perceived corruption between CSR and firm performance after controlling for other confounding variables that may influence CSR and firm performance.

$$FP_i = \beta^0 + \beta^1 CSR_i + \beta^2 IQLE_i + \beta^3 ICME_i + \beta^4 CSR_i x IQLE_i + \beta^5 CSR_i x ICEM_i + \beta^6 Control_i + \epsilon_i$$

Where FP_i represents financial performance for the firm i calculated as NPR; CSR_i is the average score of corporate social responsibility for the firm i in 2016-2017; $IQLE_i$ and $ICME_i$ are the mean score of perceived corruption; $CONTROL_i$ represents the firm size, firm age, and GDP.

[99] argue that the moderating analyses must be conducted to determine direct and moderating relationships. Particularly, a moderating effect is based on two analyses. A significant correlation must be found between the variables in question (e.g., CSR, IQLE, ICEM) and the dependent variable (financial performance) (Hypotheses 1, 2a, and 2b), and between the interaction terms in the main independent variables and dependent variable (Hypotheses 3a and 3b). In addition, the independent and moderating variables must be significant in explaining the connection to the dependent variable. A moderating impact, such as CSR*IQLE and CSR*ICEM, exists if the interaction terms significantly predict the dependent variable. Furthermore, the moderator variables should not have a collinearity problem with the independent variables. The primary relationships in question were tested using the nested regression analyses.

5. Results

5.1 Reliability and validity tests for CSR, IQLE, and ICEM variables

The reliability of CSR, IQLE, and ICEM scales were examined on internal consistency. The normal Cronbach's alpha coefficient was .916 for CSR, .861 for IQLE, and .793 for ICEM. For the internal consistency of the scale, the normal Cronbach's alpha was used because the items were measured on the same scale and the correlation between the items was used, while for the Guttman test, it varied between .825 and .932 with a lambda value 4 of .850 for CSR, varied between .689 and .866 with a lambda value 4 of .799 for IQLE, and varied between .634 and .799 with a lambda value 4 of .687 for ICEM.

We also executed the KMO's Measure of Sampling Adequacy and Bartlett's test of sphericity of the factor analysis for the average of the items of CSR, IQLE, and ICEM scale. These two measurements help to determine the ability of the data for factor analysis. The Bartlett test of sphericity must be significant ($X2 = 776.146$, df = 45, $p \leq 0.05$) for the factor analysis to be considered appropriate and the Kaiser-Meyer-Olkin's measure of sampling adequacy can indicate in advance if the sample size is large enough to reliably extract the factors. We confirmed that Bartlett's test was significant. KMO value was .878 for CSR, .828 for IQLE, and .815 for ICEM, where values between 0.8 and 0.9 are great and values below .5 are unacceptable. Hence, the KMO value indicates that the factor analysis can be suitably executed.

5.2 Results of correlation and regression analyses

The correlation matrix in Table 2 consists of the data of 118 firms from Pakistan and Thailand between 2016 and 2017, and it shows that CSR, NPR, IQLE, and ICEM are correlated positively and somewhere negatively, but the positive association is dominant. Table 2 provides means, standard deviation, and ranges as well. The correlation results show that CSR is positively correlated (r = 0.38) with NPR at a significant level. However, IQLE is negatively correlated (r = -0.42) with NPR but positively correlated (r = 0.11) with CSR. Finally, ICEM is strongly correlated with CSR (r = 0.13), IQLE (r = -0.16), and NPR (r = 0.25).

***************** Place Table 2 around here *****************

Table 3 explains the results of regression analyses to test the effects of corporate social responsibility on financial performance, the effects of IQLE and ICEM on financial performance, as well as the moderating impacts of IQLE and ICEM on the relationship between CSR and financial performance. The results in Model 1 of Table 3 show that firm size has a consistently positive impact on NPR at a significant level across all Models. It implies that large-size firms can perform better and can have higher profitability as compared to small-size firms (Coad et al., 2012). Age and GDP have no significant impacts on NPR across all Models. The existing empirical studies found mixed results about the effect of firm age on its financial performance such as a positive impact [96] and a negative impact [98], but firms with young age are more likely to grow faster and have better performance than medium and large size firms [100]. The sample data in Table 1 explains that the percentage of small size firms is much less than that of medium and large size firms, and it might be found that no significance was found on NPR across all Models. These findings may imply that the firms with 10 years or less behave like those with more than 10 years and less than 30 years and those with more than 30 years of foundation. GDP growth of Pakistan and Thailand is found between 5 and 6 for the years between 2016 and 2017 [86]. The previous research found that regional capital subsidization has a neutral or negative effect on firm performance [101]. Similarly, we found in Table 2 that GDP has a negative effect on NPR at a significant level.

***************** Place Table 3 around here *****************

This study ran several regressions to evaluate how corporate financial performance (i.e., NPR) is influenced by CSR and different perceived corruption variables such as IQLE and ICEM. CSR was included in Model 2 of Table 3, which was run to test whether a significant association between CSR and financial performance exists or not. Model 2 in Table 3 provides empirical evidence that CSR has a consistently positive relationship with financial performance across all Models at a strongly significant level, supporting Hypothesis 1.

Then, we added perceived corruption variables in Model 3, which was run to test whether the relationship between IQLE and financial performance (i.e., NPR) is negative or not and whether the relationship between ICEM and NPR is positive or not. The results in Model 3 explain that institutional quality and law enforcement (IQLE) has a negative effect on firm performance at a

strongly significant level, in turn supporting H2a. Model 3 also shows that contrary to IQLE, internal compliance and ethical management (ICEM) has a positive impact on financial performance. This means that if firms strongly adopt internal compliance, provide training to their employees, and manage ethical programs, they are likely to decrease corrupt practices and consequently enhance financial performance, supporting H2b.

Finally, interaction variables were added in Model 4 which investigates whether perceived corruption variables have moderating effects on the relationship between CSR and financial performance. H3a predicts that the positive relationship between CSR and corporate financial performance will be weakened by the negative moderating role of IQLE. Model 4 provides supporting evidence for H3a at a significant level. In H3b, this study proposes that the positive relationship between CSR and corporate financial performance will be strengthened by the moderating role of ICEM. The results in Model 4 also support H3b at a significant level. The results in Table 3 show that all hypotheses were strongly supported across all Models.

The interaction term between CSR and IQLE was added in Model 4, which expects that there is a negative moderating effect on the relationship between CSR and firm performance. Here, to avoid a problematic multicollinearity problem with the interaction term, the interaction terms were mean-centered. The results of VIF show that all variables in question showed smaller than 10, meaning that there is no problem of multicollinearity. The results in Model 4 indicate that the negative and significant moderating effect of IQLE on the relationship between CSR and firm performance could be identified. Namely, the results imply that the significant relationship between CSR and financial performance can be weakened under the institutional quality and law enforcement (IQLE) corruption context. The results in Model 4 provide empirical evidence that Hypothesis 3a was strongly supported. Likewise, the interaction term between CSR and ICEM was also added in Model 4. The results in Model 4 show that the relationship between CSR and financial performance gets stronger, strongly supporting the expected H3b. That is, the results imply that the significant relationship between CSR and financial performance can be much stronger under the internal compliance and ethical management (ICEM) corruption context.

6. DISCUSSION AND FUTURE STUDY

The objective of this research was to determine whether CSR improves corporate financial performance and whether corruption could act as a moderator in the relationship between CSR and financial performance. The findings of this study may contribute to the existing literature by providing empirical evidence that the relationship between CSR and financial performance can be moderated negatively and positively by two corruption variables: institutional quality and law enforcement (IQLE) and internal compliance and ethical management (ICEM).

This study was carried out to achieve three theoretical goals. The first goal was to theoretically validate the existing relationship between CSR activities and financial performance. More specifically, this study investigated how changes in CSR activities affect financial performance. According to the findings, a positive or negative change in CSR will either increase or decrease

financial performance. The second goal is to investigate the role of the institutional context in the relationship between CSR and financial performance, such as perceived corruption. [16] (2011) has only provided the link between corruption and firm performance as well as how to fight corruption through a corporate social responsibility strategy. This study discovered a significant negative relationship between IQLE and financial performance and a significant positive relationship between ICEM and financial performance, which is consistent with Arafa's argument. The findings suggest that implementing a firm strategy to combat corruption can significantly improve a firm's financial performance. The third goal was to contribute to the literature on the relationship between CSR and firm performance by carrying a context-specific approach and incorporating perceived corruption as a moderator. When IQLE is considered as a moderator, the results provided empirical evidence for the argument that IQLE is likely to weaken the relationship between CSR and financial performance. Similarly, the findings support the assertion that ICEM, as a moderator, will strengthen the relationship between CSR and financial performance. According to the findings, a firm with strong ICEM can maximize the benefits of positive change in the relationship between CSR and financial performance, whereas a firm with poor ICEM may deteriorate the relationship between CSR and financial performance.

According to the results of this study, CSR has a positive effect on corporate financial performance, whereas corruption in the form of IQLE has a negative effect on financial performance. Given that IQLE negatively moderated the relationship between CSR and financial performance, the findings imply that when the moderating impact of IQLE's national institutional context is presumed, the positive relationship between CSR and financial performance may be turned negative. Countries with high levels of corruption, such as Pakistan and Thailand, are more dependent on institutions, making them more likely to pay bribes, engage in corrupt practices, and invest less in CSR activities, implying that the positive relationship between CSR and firm performance is likely to change in such corrupted environments. According to the World Bank report (2017), the quality of institutions is low and law enforcement agencies act poor in high corrupt countries. This study also found a significant positive relationship between ICEM and financial performance. Further, the relationship between CSR and financial performance became much stronger when ICEM was considered as a moderator.

The results have some practical implications. To begin, the findings carefully suggest that the relationship between CSR and firm performance is context-dependent. As a result, identifying the contextual components that may strengthen or weaken the relationship between corporate social responsibility and firm performance is critical to the evolution of both managerial implications and theoretical understanding. Second, by examining two highly important corruption dimensions simultaneously with positive and negative consequences, this study can provide a better understanding of corruption's moderating role in the relationship between CSR and firm performance. According to the findings of this study, managerial decisions matter more in certain types of corruption environments than in others. To avoid corruption, corporate executives may invest more in training and development for internal compliance and ethical management and motivate ethical behavior within and outside the firm. As suggested from the

results that high spending in ICEM is likely to influence a firm's behavior to act in a more socially responsible way which leads to higher firm performance. Moreover, managers operating in a high corrupt environment where institutional quality is low and law enforcement institutions are performing poorly should pay more attention to socially responsible behaviors rather than pay bribes or commissions to get their work done illegally. CSR activities in society should not be done to maximize a firm's economic performance only but to enhance institutional performance for society as a whole and that can be done by reducing corruption in the country. Third, this study demonstrated the importance of CSR for the benefit of the company through the improvement of the company's behavior. Although great benefits are obtained for companies with good CSR, it is also important that corruption would be eliminated or decreased within companies. At a societal level, this study showed that the company can improve ostensibly its performance if the good practices of CSR are carried out and in turn, actions are taken to reduce or eliminate corruption which will result in better profitability for the company. The benefits obtained from CSR could result in improvement in the productivity of workers, satisfaction assured by customers, reduction of costs, improvement in the reputation and image of the company itself, and contribution to the reduction of poverty and the promotion of development. Last, a variety of firm and industry level factors may influence the net profit ratio, a proxy for financial performance in this study. Hence, any speculations of a causal relationship must be carried on very carefully.

Like most empirical research, this study contains several limitations that must be kept in mind while interpreting and generalizing the results. First, the measurement problem is the main issue in the study of corporate social responsibility. Relying on the survey methodology conducted by Goll and Rasheed (2004), our main objective was not to measure corporate social performance but to measure executives' perceptions of firm ideology, philosophy, and most important their perception of corruption prevailing in the country. There is a possibility that respondents' social desirability biases may over-or underestimate their firm's commitment to corporate social responsibility. Second, this study relies on a single top executive respondent from each firm. Given that the sample could be more reliable by collecting responses from multiple respondents in the same firm, we admit that the sample may not represent the whole firm in both countries. Third, this study collected data of perceived corruption such as perceived IQLE and perceived ICEM from the same respondent in the firm and it may be biased because if the respondent perceives that there are low-quality institutions and law enforcement agencies in the country, he may be biased to respond to ICEM. Fourth, this study considers only two dimensions of corruption such as IQLE and ICEM where IQLE has a negative impact on financial performance, but ICEM has a positive impact. Furthermore, IQLE has a negative moderating effect on the relationship between CSR and financial performance, but ICEM has a positive moderating effect. Consideration of additional and different dimensions could provide additional insights. Additional factors of corruption could be considered when examining the moderating relationship between CSR and firm performance, as we did with IQLE and ICEM. More data on CSR and corruption could be one of the best ways to investigate the moderating impact of the relationships. The reliability

of CSR, firm performance, and perceived corruption data are also an important issue as data collected from different sources may include significant divergence regarding how to evaluate the moderating relationship. Last, the sample was collected from small, medium, and large size firms from Pakistan and Thailand, thereby potentially limiting its generalizability to all firms around the world with less corruption index.

Regardless of the mentioned limitations, the results of this study could suggest that future studies need to move corporate social responsibility research from bivariate relationships to country, organizational, institutional, or more context-specific approaches to carefully explore the existing relationship between CSR and firm performance, given that the existing studies have provided still confusing findings.

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Table 1: Firm Characteristics in Sample

Perceived Corruption as An Institutional Context

Characteristics	Pakistan	Thailand
Age		
1 ~ 10 years	22 %	20 %
11 ~ 29 years	33 %	32 %
30 +	45 %	48 %
Size		
1 ~ 50 million $	19 %	15 %
51 ~ 100 million $	32 %	29 %
101 + million $	49 %	59 %
Industry		
Manufacturing	65%	61 %
Services	35 %	39 %

Table 2. Mean, Standard Deviations, and Correlations

Variables	Mean	SD	NPR	CSR	IQLE	ICEM	AGE	SIZE	GDP
NPR	10.95	4.67	1.00						
CSR	3.69	0.66	0.38***	1.00					
IQLE	0.81	0.78	-0.42***	0.11*	1.00				
ICEM	2.90	0.88	0.25***	0.13**	-0.16**	1.00			
AGE	2.34	0.62	0.28***	0.16**	-0.06*	0.21*	1.00		
SIZE	2.43	0.63	0.09	0.08	-0.07	0.02	-0.18**	1.00	
GDP	5.20	0.60	-0.28***	-0.15**	0.07	-0.12	-0.57**	0.34***	1.00

Note: Significance at: $*p < 0.1$, $**p < 0.05$, and $***p < 0.01$

Table 3: Effect of Perceived Corruption on Financial Performance

Variables	Dependent Variable: Net Profit Ratio			
	Model 1	**Model 2**	**Model 3**	**Model 4**
Independent variables				
Constant	14.099***(3.901)	5.600 (4.045)	4.507 (3.769)	4.169 (3.711)
SIZE	1.304*** (0.546)	1.078** (0.520)	1.023** (0.441)	0.910** (0.437)
AGE	1.598*** (0.493)	1.240*** (0.473)	0.695* (0.404)	0.304 (0.409)
GDP	-1.93*** (0.598)	-1.571*** (0.571)	-0.882* (0.492)	-0.568 (0.497)
CSR		2.174*** (0.419)	2.830*** (0.361)	2.768*** (0.358)
IQLE			-2.47*** (0.301)	-2.308*** (0.296)
ICEM			1.141*** (0.269)	1.117*** (0.262)
Interaction effects				
CSR x IQLE				-0.701** (0.305)
CSR x ICEM				0.527*** (0.191)
Obs.	236	236	236	236
R2	0.138	0.228	0.451	0.482
F Models	12.37***	17.06***	31.42***	26.40***

Note: $*p < 0.1$, $**p < 0.05$, $***p < 0.01$