

The Impact of Corporate Social Responsibility on Financial Performance within Companies Listed on Bucharest Stock Exchange

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Abstract: Purpose: The purpose of the study is to investigate the impact of corporate social responsibility through its dimensions (environmental, community, and human resources) on financial performance through its dimensions (ROA and ROE) within companies listed on Bucharest Stock Exchange.

Design/ methodology/ approach: The researcher used a quantitative descriptive analysis. Where corporate social responsibility was measured based on the content analysis of the financial statements among selected firms and financial performance was measured by selected financial ratios. The researcher used purposive sampling technique by selecting 30 listed companies from all sectors.

Findings: The results suggested a positive and direct significant impact of both environmental and human resources dimensions on financial performance. On the other hand, community had no impact on financial performance.

Keywords: Corporate social responsibility, financial performance, and Bucharest Stock Exchange.

1. Introduction

Considering competition in the market is an essential and important issue among companies, by which different companies seek to attract their customers. Interestingly, companies in each market care more about: quality, price, and the offered service. Moreover, competing in the market generally is being considered due to the nature of the market itself and the good produced from each involved company.

Considering a country's listed companies on its stock exchange and their role in the economy of that particular country is vital and essential generally. Keeping in mind, that in the recent time there exist a great competition among different markets. By which that required to follow new systems and techniques such as the system of corporate social responsibility. It was stated by Mehedi and Jalaludin (2020) that at a company; corporate social responsibility is essential that it presents the achievement of particular needed obligations based on the society where a firm operates.

Interestingly, nobody can deny the impact of corporate social responsibility on a company's employees. Hongdao et al., (2019) mentioned that employees' performance can be enhanced and improved within a firm by applying transformational leadership that is essential in order to motivate its employees by being engaged in social activities.

Moving to financial performance, it was mentioned by Kim et al., (2021) that financial performance is being used among companies as a tool to measure its potential growth and current development. Also, in the same study it was indicated that having a high financial performance will grab the attention of managers since it plays a major role into both the development and structure of a company. In addition, Suhadak et al., (2019) added that financial performance of a firm reflects its efficiency and effectiveness to meet its goals. By which efficiency represents the ratio related to the input and output, where appropriate input will lead to have optimum output. On the other hand, it was mentioned that effectiveness reflects management ability in selecting accurate goal for the purpose of gaining particular goals.

In this current study the researcher will investigate the impact of corporate social responsibility on financial performance within companies listed on Bucharest stock exchange.

1.1 The study problem and its questions

Q1: Is there any significant impact of corporate social responsibility through its dimensions (environment, community, human resources) on ROA of companies listed on Bucharest Stock exchange?

Q2: Is there any significant impact of corporate social responsibility through its dimensions (environment, community, human resources) on ROE of companies listed on Bucharest Stock exchange?

1.2 Research Model

The model of the study was developed depending on different studies. For example: Pinhero (2021) where the researcher studied the environmental indicator as a dimension of corporate social responsibility. In addition, Rossi et al., (2021) studied local community among the dimensions of corporate social responsibility, while Gherhes (2018) considered human resources management indicator as one of the dimensions of corporate social responsibility. On the other hand, Suhadk et al., (2019) took into consideration both ROA and ROE as indicators in measuring financial performance. The following is the developed model:

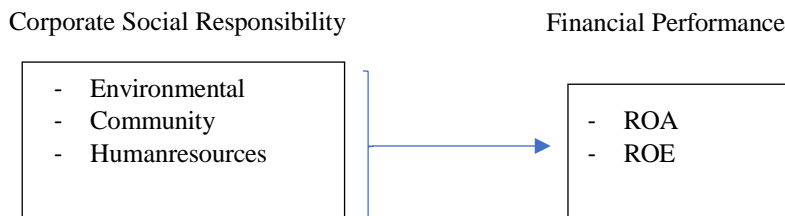


Figure 1: Study Model

Sources: Pinhero (2021), Rossietal., (2021), Gherhes (2018), & Suhadketal., (2018)

2. Theoretical Framework and Previous Studies

2.1 Corporate Social Responsibility

As what was mentioned by Tabirca et al., (2019) that the development in the definition of corporate social responsibility was made in accordance to economic, environmental, social, and political dimensions. It was added that corporate social responsibility deals with different issues, such as: environment, philanthropy, human rights, economy, legality, sustainable development, business ethic, and well-being.

Moreover, Wang and Pala (2021) stated that corporate social responsibility refers to the behaviors that are attached with the requirements and norms that are considered by direct stakeholders. Where corporate social serves for the purpose of meeting stakeholders' expectations. In addition, Zainee and Puteh (2020), stated that corporate social responsibility refers to a business social responsibility that includes legal, discretionary, economic, and ethical expectation of a society regarding organizations at a particular time.

In addition, Carroll (1979, 1991) recognized four different corporate social responsibility aspects, that are: economic, ethical, legal, and philanthropic. Based on Zainee and Puteh (2020), the researchers added that the developed model of corporate social responsibility by Carroll (1991) is being followed by many companies in order to contribute into the activities of corporate social responsibility among their stakeholders.

2.2 The Dimensions of Corporate Social Responsibility

In this current conducted study, the researcher considered three dimensions, that are: environmental, community, and human resources. Below is a description for each dimension as follows:

2.2.1 Environmental

It was stated by Leaniz et al., (2019) that the notion of the image of environmental corporate social responsibility is being defined as a group of perceptions regarding a corporate that are represented by the association of a particular corporate in the memory of customers. In addition, Kim (2018) indicated that managers employ environmental disclosure in order to either increase or maintain their corporate's legitimacy. Also, it was mentioned that the strategic way for a firm in managing its environmental practices, existed on a continuous manner from reactive to proactive practices.

Moreover, it was mentioned by Leaniz et al., (2019) that issues related to environmental practices are considered to be important for a society. By which most of the companies worldwide admit their environmental accountability. In the same study, it was added that customers can benefit from environmental schemes by providing both reliability and quality guarantees.

2.2.2 Community

In the study conducted by Agostini and Mechant (2019), the development in the concept of community is related to the original formulation Tönnies. Where he applied a dichotomy by the differentiation among both communal relationships and the attachment interest-based relations, that attracted other researchers such as: Weber. In the same study, it was indicated that in modern societies they evolved community based on skills and interest rather than locality.

Moreover, Hendrayani et al., (2019) stated that it is being expected by the synergy regarding partnership within corporates, there is a consideration for both the community and government that is known as tripartite partnership. Also, Hendrayani et al., (2019) added that there is a district-level corporate social responsibility forum in order to combine cooperation processes in solving mutual problems, managing relations, and evolving confidence among corporates, community, and government.

2.2.3 Human Resources

In accordance to Mihajlovic (2016), it was stated that traditionally HR managers were responsible to hire, manage compensation, select, and train employees. While recently, they are more responsive and flexible by performing the mentioned tasks. Also, it was added that they can be involved in strategic decision in their corporates. Moreover, Vrchota and Rehor (2019) mentioned that the practices by HR in a certain corporate have to be complementary for each other. That is being attained for the purpose of enhancing the performance of employees and improving the competitive advantage in a certain corporate. In the same study, the researchers added that HR is essential for organizational effectiveness. Where an effective and efficient HR management has an impact on the success and performance of a corporate.

2.3 Financial Performance

Based on what was mentioned by Kim et al., (2021) that financial performance for a company is being used as a tool to identify its potential growth as well its development. It was added that there are several indicators in order to measure financial performance. While selecting the most suitable ratio is accomplished based on the purpose and the objects of the study. In addition, Suhadak et al., (2019) indicated that having a good financial performance in a firm is an indicator of having an increment in its value. Moreover, Suhadak et al., (2019) mentioned that financial performance reflects a firm's effectiveness and efficiency in order to meet its goals. By which an increment in financial performance is needed for the purpose of grabbing investors' attention.

Back to Kim et al., (2021), the researchers added that using and applying different financial ratios, reflects important information regarding the financial performance with a company. Furthermore, Suhadak et al., (2019) indicated the theory of Signaling by which it presents the type of information that should be considered in the financial reports for users to recognize the financial performance of a company. In addition, it was added that this theory is the most appropriate one to be considered whenever discussing the relation between corporates' financial performance and value.

2.4 Hypotheses

H1: There is a positive impact of corporate social responsibility on ROA in companies listed on Bucharest Stock Exchange.

H1.1: There is a positive impact of environmental on ROA in companies listed on Bucharest Stock Exchange.

H1.2: There is a positive impact of community on ROA in companies listed on Bucharest Stock Exchange. H1.3:

There is a positive impact of human resources on ROA in companies listed on Bucharest Stock Exchange.

H2: There is a positive impact of corporate social responsibility on ROE in companies listed on Bucharest Stock Exchange.

H2.1: There is a positive impact of environmental on ROE in companies listed on Bucharest Stock Exchange.

H2.2: There is a positive impact of community on ROE in companies listed on Bucharest Stock Exchange. H2.3:

There is a positive impact of human resources on ROE in companies listed on Bucharest Stock Exchange.

3. Study Methodology

3.1 The Used Method

In this current conducted study, the researcher used a quantitative descriptive analysis. Interestingly, it is useful to mention some of the advantages of adopting quantitative research approach in general. For example, it was stated by Rahman (2017) that the obtained results from quantitative approach can be generalized over the entire population.

3.2 Population and Sample

The population of the study are 84 companies that are listed on Bucharest Stock exchange. Interestingly, the researcher used purposive sampling technique by selecting 30 listed companies from all sectors, by which that made 35% of the entire population. There researcher's selection was based on certain conditions, such as: a firm should be operated continuously and a firm should be listed on stock exchange over years. However, it was

added by Sharma (2017) examples of using purposive sampling technique, such as: It allows generalization and it gives researchers a variety of non-probability techniques when selecting their sample.

3.3 Measuring Variables

The independent variable of this study is corporate social responsibility and it is going to be measured through three dimensions that are:

- Environmental
- Community
- Human resources

While the dependent variable is financial performance that will be measured by:

- Return on Assets (ROA)
- Return on Equity (ROE)

Therefore, measuring corporate social responsibility was done based on the content analysis of the financial statement among selected firms. Basically, the researcher used the dummy variables that are: “1” and “0”.

Moving to financial performance that will be measured by ROA and ROE. Below is how these two dimensions will be calculated.

First, ROA is defined by Hargrave (2022) as the financial ratio that reflects a firm’s profitability based on its total assets and it’s calculated by the following formula:

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

Second, ROE is defined by Fernando (2021) as a tool that is being used to measure a firm’s profitability and its effectiveness in creating profits and its calculated by the following formula:

$$\text{ROE} = \text{Net Income} / \text{Average Stakeholders' Equity}$$

4. Statistical Analysis and Hypothesis Testing

After collecting the data for this study, it was confirmed that the data were free of extreme values that could distort the results and show unreal results, affecting the accuracy of the results obtained, where extreme values were excluded by 5% of the upper and lower values of all variables in order to achieve homogeneity and moderation of the data entered for statistical analysis, and based on the Explore test. According to the studies of (Drezner and Turel, 2011; Khruasom and Pongpullponasak, 2017), one of the most important pillars to be relied upon in choosing the type of analysis tests is to ascertain the extent to which they follow the normal distribution by conducting specific tests, in order to be able to determine the type of tests appropriate to analyze the study data.

Table 1: The normal distribution of the study variable

No.	Variables	Kolmogorov-Smirnov(Sig>=0.05)
1	ROA	Sig = 0.064
2	ROE	Sig = 0.053
3	Environmental	Sig = 0.093
4	Community	Sig = 0.089
5	Humanresources	Sig = 0.072

Source: Authors’ own research.

Based on the studies of (Drezner and Turel, 2011; Khruasom and Pongpullponasak, 2017), the significant level of the Kolmogorov-Smirnov test was higher than (5%), indicating that the variable follows the normal distribution. According to the presented results, which showed that the probability value of the Kolmogorov-Smirnov test was higher than ($0.05 \leq \text{Sig}$), which shows that all study variables follow the normal distribution, enabling the researcher to complete the analysis tests and rely on parametric tests to measure the study hypotheses.

4.1 Descriptive Statistics

After extracting data for study variables from the financial statements of the study sample companies, the descriptive statistics tests were conducted as follows:

Table 2: Descriptive statistics for the study variables

Variables	Minimum	Maximum	Mean	Std. Deviation
ROA	-0.12	0.38	0.0354	0.06385
ROE	-0.81	0.59	0.0440	0.15760
Environmental	0.00	0.50	0.3170	0.10180
Community	0.00	0.50	0.4064	0.14530
Humanresources	0.00	0.33	0.6206	0.09764

Source: Authors' own research.

Table 2 presents the results of descriptive statistics tests of study variables, and it is noted from the table that the arithmetic mean of return on equity is (0.0440) and this indicator is good, indicating that there are returns to these enterprises benefit their owners. With regard to the rate of return on assets, the arithmetic mean of this indicator reached (0.0354), and this value indicates that the study sample makes profits on its assets, as the lowest value of return on assets reached (-0.12), compared to the highest value which is (0.38), and the difference indicates that there is dispersion where the value of the standard deviation reached (0.06385). It is also noted that the arithmetic mean of the Environmental dimension reached (0.3170), which indicates a low disclosure level of this dimension, and the arithmetic mean of the Community dimension was (0.4064), while the arithmetic average of the Human resources dimension was (0.6206), which indicates a good disclosure level about the human resources dimension.

4.2 Study Hypotheses Test

H1: There is a positive impact of corporate social responsibility on ROA in companies listed on Bucharest Stock Exchange.

It was found that there is no linear interference problem in the study models through the use of both (Variance Inflationary Factor) (VIF) and (Tolerance factor), where the values of all variables were less than (10), and the results presented in the table below showed that the (Tolerance) coefficient for all variables obtained values greater than (0.10), and according to the study of (Vörösmarty, G and Dobos, 2020; Norušis, 2006), it is clear that all the independent study variables exceeded these two indicators, which means that there is no linear interference problem, and therefore the multiple regression test was relied upon to test the study hypotheses, as follows:

Table 3: The results of the multiple regression test for the first study model

Sig(F-statistic):	200.0	R:	0.657		
F-statistic:	11.264	R ² :	0.432		
S.E.of regression:	0.06315	AdjustedR ² :	0.403		
Variable	Sig.T	T-Statistic	Coefficient	Tolerance	VIF
Constant	0.009	2.624	-----	-----	-----
Environmental	0.041	3.640	0.279	0.371	2.695
Communityservices	0.818	-0.230	-0.018	0.718	1.393
Human resources	0.001	4.427	0.466	0.379	2.642

Source: Authors' own research.

It is noted from the table that the calculated F value reached (11.264), which is significant at a level of (0.05), indicating that the first proposed study model was appropriate, and the results of the regression analysis showed that the value of (Sig. F-statistic) which reached (0.002) is less than the level of test significance which is (5%), and based on the correlation value of (R = 0.657) and the low value of (Sig. F-statistic), the first main hypothesis is accepted, indicating that there is a positive impact of corporate social responsibility on ROA in companies listed on Bucharest Stock Exchange.

The results of the regression analysis also showed that the value of (Adjusted R²) reached (0.403), which means that only about 40.3% of the fluctuations that occur in the ROA can be explained by the changes that occur by applying Corporate Social Responsibility. According to the study of (Nasidi et al., 2021) which classified the explanatory power, it was found that the explanatory power of this model is medium and reliable in the process of predicting and interpreting the financial performance measured by ROA.

The results of the regression analysis also showed that the level of significance for all dimensions of corporate social responsibility decreased at the level of significance of (Sig.T < 0.05), except for the dimension of Community services, where the level of significance increased from (5%) to (Sig.T < 0.05 = 0.818), indicating that there is an impact of the dimensions of the corporate social responsibility represented by (environmental, and human resources) on ROA, and it was found that these dimensions have a positive impact based on the Coefficient value, and accordingly the first and third sub-hypotheses are accepted and the second sub-hypothesis is rejected. Also, the Coefficient value for the Environmental dimension reached (0.279), and this value indicates that the Environmental dimension ranks last in terms of the impact on ROA among the dimensions examined in the study within the application of Corporate Social Responsibility. The Coefficient value for the human resources dimension reached (0.466), indicating that this dimension ranks first in terms of the impact on ROA in companies listed on Bucharest Stock Exchange among the dimensions examined by the study within the application of Corporate Social Responsibility.

H2: There is a positive impact of corporate social responsibility on ROE in companies listed on Bucharest Stock Exchange.

Table 4: The results of the multiple regression test for the second study model

Variable	Sig.T	T-Statistic	Coefficient	Tolerance	VIF
Constant	0.766	-0.298	-----	-----	-----
Environmental	0.048	1.998	0.197	0.368	2.718
Communityservices	0.749	0.320	0.025	0.717	1.395
Human resources	0.036	3.490	0.352	0.375	2.664

Source: Authors' own research.

It is noted from the table that the calculated F value reached (4.162), which is significant at a level of (0.05), indicating that the second proposed study model was appropriate, and the results of the regression analysis showed that the value of (Sig. F-statistic) which reached (0.007) is less than the level of test significance which is (5%), and based on the correlation value of (R = 0.442) and the low value of (Sig. F-statistic), the second main hypothesis is accepted, indicating that there is a positive impact of corporate social responsibility on ROE in companies listed on Bucharest Stock Exchange.

The results of the regression analysis also showed that the value of (Adjusted R²) reached (0.190), which means that only about 19.0% of the fluctuations that occur in the ROE can be explained by the changes that occur by applying Corporate Social Responsibility. According to the study of (Nasidi et al., 2021) which classified the explanatory power, it was found that the explanatory power of this model is weak and unreliable in the process of predicting and interpreting the financial performance measured by ROE.

The results of the regression analysis also showed that the level of significance for all dimensions of corporate social responsibility decreased at the level of significance of (Sig.T < 0.05), except for the dimension of Community services, where the level of significance increased from (5%) to (0.05 = 0.749 < Sig.T), indicating that there is an impact of the dimensions of the corporate social responsibility represented by (environmental, and human resources) on ROE, and it was found that these dimensions have a positive impact based on the Coefficient value, and accordingly the first and third sub-hypotheses are accepted and the second sub-hypothesis is rejected. Also, the Coefficient value for the Environmental dimension reached (0.197), and this value indicates that the Environmental dimension ranks last in terms of the impact on ROE among the dimensions examined in the study within the application of Corporate Social Responsibility. The Coefficient value for the human resources dimension reached (0.352), indicating that this dimension ranks first in terms of the impact on ROE in companies listed on Bucharest Stock Exchange among the dimensions examined by the study within the application of Corporate Social Responsibility.

5. Discuss Findings and Recommendations

5.1 Results of the study

This current study aimed to investigate the impact of corporate social responsibilities by its dimensions (Environmental, community, and human resources) on financial performance within listed companies on Bucharest.

Stock Exchange. It is a quantitative research approach where the data was collected from the financial statements of the selected firms. Interestingly, listed below are the results of this study that are followed by a brief discussion:

- 1) The first main hypothesis is accepted, where there is a positive impact of corporate social responsibility on ROA. That might be justified; since ROA is a tool that reflects how a firm can increase its profitability based on its total assets. Therefore, corporate social responsibility may enhance firms' performance by efficiently support image creation of a firm and maintaining its reputation. Based on the findings of the study, it presented the effect the selected dimensions of corporate social responsibility on ROA as follows:
 - (a) There is a positive impact of environmental dimension on ROA: That might be justified because that reflects the environmental responsibility of a firm, where an enhanced environmental practice is being considered useful to improve firm's performance. By which managers use suitable resources that will help in increasing net income in order to increase ROA. The result is consistent with the study conducted by Simionescu and Dumitrescu (2018) where the study resulted in that environmental dimension of corporate social responsibility has an impact on financial performance.
 - (b) There is no impact of community dimension on ROA. That might be justified because for a firm to be involved in charity events has no effect on its revenue and profitability. This result is contrast with the study conducted by Simionescu and Dumitrescu (2018) where the study resulted in that local community has an impact on financial performance.
 - (c) There is a positive impact of human resources dimension on ROA. That might be justified because ROA can be increased by staffing, where this factor is among the responsibilities of human resources in a certain firm. This result is consistent with the study conducted by Franzoni et al., (2021) where the study resulted in that there is a positive relation of human resources on performance.
- 2) The second main hypothesis is accepted, where there is a positive impact of corporate social responsibility on ROE. That might be justified because by applying corporate social responsibility it reflects how investors care about issues related to the environment, economy, and social practices. Where one of the characteristics of ROE that it reflects whether investors are having a good earning or not. Based on the findings of the study, it presented the effect the selected dimensions of corporate social responsibility on ROE as follows:
 - (a) There is a positive impact of environmental dimension on ROA: That might be justified because corporates are considered more profitable by concerning more about the impact of environmental practices as factors to be considered to enhance their performance. The result is consistent with the study conducted by Cincalova (2021) where the study resulted in that environmental dimension has a positive impact on ROE.
 - (b) There is no impact of community dimension on ROE. That might be justified as mentioned above that for a firm to be involved in charity events has no effect on its revenue and profitability. This result is contrast with the study conducted by Simionescu and Dumitrescu (2018) where the study resulted in that local community has a positive impact on ROE.
There is a positive impact of human resources dimension on ROE. That might be justified because profitability based on ROE can be increased by managing the employment system in a corporate and perform different practices in order to enhance its profitability. Furthermore, that will positively effect corporate's performance. This result is consistent with the study conducted by Gimeno-Arias et al., (2021) where the study resulted in that human resource has an impact on performance.

At the end, it is worth mentioning that the dimension human resources had a greater impact on financial performance than environmental dimension. Also, it was found that generally corporate social responsibility had a greater impact on ROA than ROE.

5.2 Limitations and Recommendations

There were two limitations that the researcher faced while conducting this study, that are: not all the selected companies followed corporate social responsibility over the past years especially for the period before the year 2014. Where that might be justified because there is no imposed law that forces corporates to apply corporate social responsibility. Another limitation is lack of previous studies that considered content analysis of financial statements by "0" & "1" and then being converted to percentages that were linked to financial percentages and indicators.

At the end, the researcher based on the findings of the study came up with a set of recommendations, such as: corporates are encouraged to follow and apply corporate social responsibility in order to enhance corporates' performance, Promote the establishment of new business that follows corporate social responsibility, Employees should be rewarded for being involved in corporate social practices in order to enhance profitability, and finally conducting further studies in the future by considering different countries in order to allow comparison.

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