

**Corporate Social Responsibility and Firm Financial Performance:
The Mediating Role of Internal Control Effectiveness under COSO
and SOX Frameworks — Evidence from Pakistan**

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Abstract

This study explores the association between Corporate Social Responsibility (CSR) and firm financial performance (FFP) by examining the mediating role of internal control efficacy within the COSO and Sarbanes–Oxley (SOX) structures. Representing upon Stakeholder Theory, Legitimacy Theory, Agency Theory, and the Resource-Based View, the study hypothesized CSR as a multidimensional paradigm encompassing economic, legal, ethical, philanthropic, environmental, stakeholder, and governance responsibilities. A mixed-method methodology is engaged using primary assessment data to quantify CSR observes and internal control efficiency, supplemented by five-year averaged secondary financial data (ROA, ROE, and Tobin’s Q) from firms listed on the Pakistan Stock Exchange. Using multivariate regression and bootstrapped mediation analysis, the study tests whether internal control serves as a governance technique that transforms CSR creativities into outstanding financial results. The conclusions are projected to contribute to the developing literature on sustainable finance and corporate governance by clarifying the internal managerial mechanisms through which CSR enriches firm value in developing markets. The study offers theoretical, managerial, and regulatory suggestions for solidification governance driven CSR in developing economies.

Keywords: Corporate Social Responsibility; Internal Control; COSO; SOX; Financial Performance; Tobin’s Q; Stakeholder Theory; Pakistan.

Introduction

Corporate Social Responsibility (CSR) has progressed from a discretionary philanthropic activity into a strategic governance mechanism that contours corporate competitiveness and long-term sustainability (Carroll, 1991; Freeman, 1984; Porter & Kramer, 2006). In contemporary corporate environments, firms are progressively assessed not only by their profitability but also by their economic, legal, ethical, environmental, and stakeholder responsibilities (Elkington, 1997; Aguinis & Glavas, 2012; Fatemi, Glaum, & Kaiser, 2018). This transformation imitates a broader

institutional shift toward sustainable capitalism, where financial performance and social accountability are viewed as mutually strengthening rather than conflicting objectives (Eccles, Ioannou, & Serafeim, 2014; Friede, Busch, & Bassen, 2015).

The theoretical foundations explaining the CSR performance interconnection are multidimensional. Stakeholder Theory postulates that firms involving responsibly with stakeholders enrich trust, reduce disagreements, and improve long term financial consequences (Freeman, 1984; Donaldson & Preston, 1995). Legitimacy Theory suggests that socially responsible firms secure community approval, thereby strengthening reputational capital and reducing regulatory and market risks (Suchman, 1995; Deegan, 2002). Similarly, the Resource-Based View argues that CSR investments generate intangible assets, such as reputation, relational capital, and organizational culture that contribute to sustain competitive advantage (Barney, 1991; Branco & Rodrigues, 2006). Empirical evidence increasingly supports a positive association between CSR engagement and firm financial performance across developed and emerging markets (Margolis, Elfenbein, & Walsh, 2009; Velte, 2022; Hussain, Rigoni, & Orij, 2018).

Despite widespread literature, the mechanisms through which CSR interprets into enhanced financial performance remain underexplored, particularly in emerging economies (Aguinis & Glavas, 2012; Wang, Dou, & Jia, 2016). Agency Theory provides an important perception by recommending that governance arrangements encouragement how efficiently CSR creativities are executed and monitored (Jensen & Meckling, 1976; Jo & Harjoto, 2012). In this perspective, internal control systems serve as precarious governance mechanisms that ensure accountability, transparency, and operational efficiency (COSO, 2013; Doyle, Ge, & McVay, 2007). Effective internal control systems reduce information asymmetry, alleviate adaptable behavior, and enhance the trustworthiness of sustainability practices (Ashbaugh-Skaife, Collins, & Kinney, 2007; Cheng, Dhaliwal, & Zhang, 2014).

The Committee of Sponsoring Organizations (COSO) framework conceptualizes internal control as encompassing control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). Complementarily, the Sarbanes–Oxley Act (SOX) reinforces decision making accountability through internal control reporting prerequisites, especially Sections 302 and 404 (Coates, 2007). Prior studies designate that robust internal control systems are connected with enriched financial reporting worth, lower cost of capital, and boosted firm assessment (Beneish, Billings, & Hodder, 2008; Feng, Li, & McVay, 2009). Nevertheless, inadequate investigation has empirically observed whether internal control mediates the CSR–financial performance association.

This gap is exceptionally noticeable in developing markets such as Pakistan, where institutional compressions, governing structures, and stakeholder opportunities are promptly surfacing (Khan, 2019; Ullah, Ahmad, & Rafique, 2021). Institutional Theory recommends that firms in emerging parsimonies adopt CSR and governance gadgets to align with worldwide standards and fascinate foreign investment (DiMaggio & Powell, 1983; Jamali & Karam, 2018). In such backgrounds, internal control efficiency may play a essential role in transforming CSR initiatives into

substantial financial consequences by enriching transparency and functioning regulation.

Moreover, CSR is progressively hypothesized as a multidimensional paradigm that extends elsewhere traditional philanthropic activities (Carroll, 1991; Fatemi et al., 2018). Assimilating economic, legal, ethical, environmental, stakeholder and governance responsibilities provides a rounded background harmonious with sustainable development objectives (United Nations, 2015; Velte, 2022). Yet, empirical explorations integrating multidimensional CSR together with governance gadgets remain inadequate, especially in South Asian settings.

Concentrating these gaps, the present study considers whether internal control efficiency mediates the association between multidimensional CSR and firm financial performance, restrained through Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. By employing mixed data for primary measures of CSR and internal control combined with five-year averaged financial indicators. This study reduces simultaneity bias and enhances methodological rigor.

This investigation contributes to the literature in four ways. First, it assimilated CSR theories with governance structure to clarify performance consequences. Second, it empirically tests the mediating role of internal control under COSO and SOX perceptions. Third, it adopts a multidimensional CSR framework aligned with justifiable development standards. Fourth, it postulates confirmation from an emerging market, elevating global CSR scholarship.

Literature Review and Hypothesis Development

Corporate Social Responsibility and Firm Financial Performance

Corporate Social Responsibility (CSR) is generally acclaimed as a strategic resource that enhances firm competitiveness and long-term value creation (Porter & Kramer, 2006; Barney, 1991; Eccles et al., 2014). From the perspective of **Stakeholder Theory**, firms that address the interests of multiple stakeholders, such as employees, customers, suppliers, communities, and investors. Firms are more likely to accomplish superior financial performance through trust-building and reduced operation costs (Freeman, 1984; Donaldson & Preston, 1995; Harrison, Bosse, & Phillips, 2010).

Legitimacy Theory further explicates that CSR supports firms to align their processes with communal norms and anticipations, thereby boosting reputational capital and lessening political and controlling risks (Suchman, 1995; Deegan, 2002; Cho & Patten, 2007). In counterpart, the **Resource-Based View (RBV)** advocates that CSR generates valuable, unique, and peerless intangible assets such as trademark equity, managerial philosophy, and social capital, which lead to persistent economical improvement (Barney, 1991; Branco & Rodrigues, 2006; Surroca, Tribó, & Waddock, 2010).

Empirically, several studies authenticate a positive association between CSR and financial performance. Meta-analyses and large-sample analyses show that socially responsible firms demonstrate higher effectiveness, better stock performance, and lower cost of capital (Margolis et al., 2009; Friede et al., 2015; Velte, 2022). Contemporary evidence from developing markets also confirms that CSR enhances

firm worth and market evaluation when supremacy and institutional situations are compassionate (Fatemi et al., 2018; Hussain et al., 2018; Wang et al., 2016).

Moreover, **Signaling Theory** postulates that CSR sends trustworthy indicators to external financiers regarding firm eminence, risk management, and long-term positioning (Spence, 1973; Connelly et al., 2011; Fatemi et al., 2018). Such gestures reduce evidence irregularity and enhance investor assurance, which supportively affects Tobin's Q and market-based performance measures (Eccles et al., 2014; Velte, 2022; Krüger, 2015).

Taken together, theory and empirical evidence support the squabble that CSR arrangement improves financial consequences through reputational, relational, and governance networks.

H1: Corporate Social Responsibility has a positive and significant impact on firm financial performance.

(Carroll, 1991; Freeman, 1984; Porter & Kramer, 2006; Margolis et al., 2009; Friede et al., 2015; Fatemi et al., 2018; Velte, 2022; Hussain et al., 2018)

Internal Control and Firm Financial Performance

Internal control systems are essential governance gadget that certifies accountability, transparency, and functioning proficiency (COSO, 2013; Doyle et al., 2007). According to **Agency Theory**, effectual internal controls lessen agency disagreements between managers and shareholders by censoring managerial performance and alleviating unscrupulous actions (Jensen & Meckling, 1976; Fama & Jensen, 1983; Cheng et al., 2014).

The COSO framework theorizes internal control through five interconnected mechanisms: control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). Complementing COSO, the Sarbanes–Oxley Act (SOX) fortifies accountability through management documentation and internal control reporting prerequisites (Coates, 2007; Ashbaugh-Skaife et al., 2007). Together, these structures heighten financial coverage quality and investor certainty.

Empirical analyses constantly show that firms with strong internal control systems demonstrate higher returns quality, lower cost of capital, and better financial performance (Beneish et al., 2008; Feng et al., 2009; Cheng et al., 2014). Feeble internal controls are connected with misrepresenting, ineffectiveness, and value devastation (Doyle et al., 2007; Ashbaugh-Skaife et al., 2007; Kim, Song, & Zhang, 2011).

From the **RBV perspective**, internal control systems establish managerial competences that augment harmonization, reduce excess, and improve executive quality (Barney, 1991; Teece, Pisano, & Shuen, 1997; Feng et al., 2009). Thus, internal control efficiency is predictable to directly progress firm financial performance.

H2: Internal control effectiveness has a positive and significant impact on firm financial performance.

(Jensen & Meckling, 1976; COSO, 2013; Doyle et al., 2007; Ashbaugh-Skaife et al., 2007; Feng et al., 2009; Beneish et al., 2008; Cheng et al., 2014; Kim et al., 2011)

Corporate Social Responsibility and Internal Control

The association between CSR and internal control can be elucidated through **Institutional Theory** and **Stakeholder Theory**. Firms occupying in CSR are subject to sounder stakeholder scrutiny and institutional densities, which inspire the implementation of robust governance and control systems (DiMaggio & Powell, 1983; Jamali & Karam, 2018; Ullah et al., 2021).

Topical empirical indication further provisions this squabble. **Zhong and Li (2023)** show that firms with higher CSR commitment demonstration considerably stronger internal governance and control quality, as CSR increases accountability and managerial castigation. Similarly, **Chen, Dong, and Lin (2021)** find that CSR-oriented firms finance more in internal submission systems, while **Velte (2022)** leaflets that sustainability performance is absolutely accompanying with internal control efficiency and governance eminence.

CSR-oriented firms tend to develop solemnized procedures, transparency events, and ethical foundations to support trustworthy practices (Aguinis & Glavas, 2012; Jo & Harjoto, 2012; Velte, 2022). These procedures logically align with internal control mechanisms such as monitoring, risk assessment, and control activities (COSO, 2013). Moreover, **Legitimacy Theory** recommends that CSR increases public answerability, inspiring firms to support internal control systems to confirm uniformity between specified values and actual processes (Suchman, 1995; Deegan, 2002; Cho & Patten, 2007). Empirical evidence designates that CSR arrangement is accompanying with perfected governance quality and internal submission arrangements (Jo & Harjoto, 2012; Velte, 2022; Khan, 2019).

H3: Corporate Social Responsibility has a positive and significant impact on internal control effectiveness.

(DiMaggio & Powell, 1983; Suchman, 1995; Deegan, 2002; Aguinis & Glavas, 2012; Jo & Harjoto, 2012; COSO, 2013; Jamali & Karam, 2018; Velte, 2022, **Zhong & Li, 2023; Chen et al., 2021**)

The Mediating Role of Internal Control

The mediating role of internal control incorporates CSR and performance through governance gadgets. **Agency Theory** recommends that CSR solitary does not assurance financial improvements unless sustained by effective operational monitoring and control (Jensen & Meckling, 1976; Fama & Jensen, 1983; Cheng et al., 2014). Internal control confirms that CSR creativities are methodically executed, sedate, and associated with strategic intentions.

From a **Process Theory** viewpoint, CSR inspirations internal arrangements (such as controls and monitoring), which in turn influence performance consequences (Aguinis & Glavas, 2012; Surroca et al., 2010). Empirical investigation increasingly supports

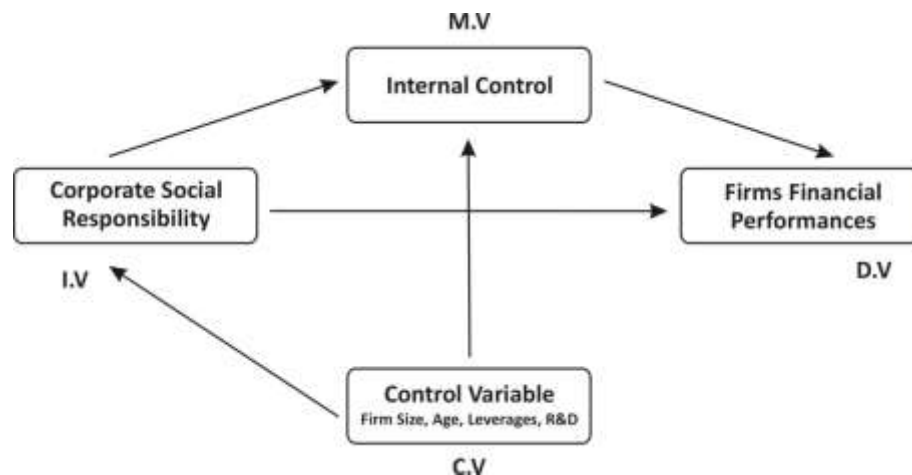
the role of governance mechanisms as mediators between CSR and firm value (Jo & Harjoto, 2012; Velte, 2022; Fatemi et al., 2018).

In evolving markets, where institutional abysses are predominant, internal control systems play a critical role in interpreting CSR assurances into functioning regulation and financial consequences (Jamali & Karam, 2018; Ullah et al., 2021; Khan, 2019).

H4: Internal control effectiveness mediates the relationship between Corporate Social Responsibility and firm financial performance.

(Jensen & Meckling, 1976; Aguinis & Glavas, 2012; Surroca et al., 2010; Jo & Harjoto, 2012; Fatemi et al., 2018; Cheng et al., 2014; Velte, 2022; Jamali & Karam, 2018)

Conceptual frame work



Methodology

Research Design

This study adopts a **quantitative explanatory research design** to investigate the impact of Corporate Social Responsibility (CSR) on Firm Financial Performance (FFP) and to test the mediating role of Internal Control (IC). The research integrates **primary and secondary data** to enhance methodological rigor and reduce common method bias.

CSR and Internal Control are measured using **primary survey data** collected at a single point in time; while Financial Performance is measured using **five-year averaged secondary data**. This mixed-data, time-lagged logic aligns with best practices in governance and sustainability research (Aguinis & Glavas, 2012; Jo & Harjoto, 2012; Velte, 2022).

Population and Sample

The population contains **all non-financial firms listed on the Pakistan Stock Exchange (PSX)**. As of the sampling year, the total population consists of **345 non-financial firms** across various sectors.

Using stratified random sampling to confirm sectorial representation, questionnaires were allocated to senior financial and compliance professionals (e.g., CFOs, internal auditors, finance managers). Out of these, **267 usable responses** were received and retained for analysis, representing a **77.4% effective response rate**, which surpasses the minimum sample size suggested for multivariate examination and mediation assessing (Hair et al., 2021).

Data Collection and Sources

Primary Data

Primary data were gathered using a organized questionnaire considered to evaluate:

Corporate Social Responsibility (7 dimensions)

Internal Control Effectiveness (COSO + SOX-based)

Responses were recorded on a **five-point Likert scale** ranging from 1 = “Strongly Disagree” to 5 = “Strongly Agree”.

Secondary Data

Secondary data for financial performance were extracted from:

Annual reports

PSX filings

State Bank of Pakistan publications

Financial indicators (ROA, ROE, and Tobin’s Q) were averaged over **five consecutive years** to reduce short-term volatility and capture sustainable performance trends.

Measurement of Variables

Corporate Social Responsibility (CSR)

CSR is operationalized as a **multidimensional construct** comprising:

Economic

Legal

Ethical

Philanthropic

Environmental

Stakeholder

Governance

Composite CSR index:

$$CSR_i = \frac{\sum_{j=1}^7 CSR_{ij}}{7}$$

Internal Control (IC)

Internal Control is measured using the **COSO (2013)** framework and SOX compliance logic (Sections 302 & 404):

Components:
Control Environment
Risk Assessment
Control Activities
Information & Communication
Monitoring
Composite IC index:

$$IC_i = \frac{\sum_{k=1}^5 IC_{ik}}{5}$$

Firm Financial Performance (FFP)

FFP is measured using accounting and market-based indicators:

Return on Assets (ROA)

$$ROA_{it} = \frac{Net\ Income_{it}}{Total\ Assets_{it}}$$

Return on Equity (ROE)

$$ROE_{it} = \frac{Net\ Income_{it}}{Shareholders'\ Equity_{it}}$$

Tobin's Q

$$TQ_{it} = \frac{Market\ Value\ of\ Equity_{it} + Book\ Value\ of\ Debt_{it}}{Total\ Assets_{it}}$$

Five-year average:

$$FFP_i = \frac{\sum_{t=1}^5 Performance_{it}}{5}$$

Control Variables

To isolate the main effects, the following control variables are included:

Firm Size (SIZE)

$$SIZE_i = \ln(\text{Total Assets}_i)$$

Firm Age (AGE)

$$AGE_i = \text{Current Year} - \text{Year of Incorporation}$$

Leverage (LEV)

$$LEV_i = \frac{\text{Total Debt}_i}{\text{Total Assets}_i}$$

R&D Intensity (R&D)

$$R\&D_i = \frac{\text{R\&D Expenditure}_i}{\text{Total Sales}_i}$$

Econometric Model Specification

3.6 Econometric Model Specification

Model 1 – CSR → FFP (H1)

$$FFP_i = \beta_0 + \beta_1 CSR_i + \beta_2 SIZE_i + \beta_3 AGE_i + \beta_4 LEV_i + \beta_5 R\&D_i + \varepsilon_i$$

Model 2 – IC → FFP (H2)

$$FFP_i = \beta_0 + \beta_1 IC_i + \beta_2 SIZE_i + \beta_3 AGE_i + \beta_4 LEV_i + \beta_5 R\&D_i + \varepsilon_i$$

Model 3 – CSR → IC (H3)

$$IC_i = \alpha_0 + \alpha_1 CSR_i + \alpha_2 SIZE_i + \alpha_3 AGE_i + \alpha_4 LEV_i + \alpha_5 R\&D_i + \mu_i$$

Model 4 – Mediation Model (H4)

$$FFP_i = \gamma_0 + \gamma_1 CSR_i + \gamma_2 IC_i + \gamma_3 SIZE_i + \gamma_4 AGE_i + \gamma_5 LEV_i + \gamma_6 R\&D_i + \varepsilon_i$$

Indirect Effect:

$$IE = \alpha_1 \times \gamma_2$$

Bootstrapping with 5,000 resamples is used for mediation significance testing.

Data Analysis Techniques

Descriptive Statistics
 Normality Tests (Skewness, Kurtosis, Shapiro–Wilk)
 Reliability (Cronbach’s Alpha ≥ 0.70)
 Validity (CFA, AVE ≥ 0.50 , CR ≥ 0.70)
 Multicollinearity (VIF < 5)
 Regression Analysis
 Bootstrapped Mediation (PROCESS / SEM)

Ethical Considerations

Voluntary participation
 Informed consent
 Confidentiality guaranteed
 Data used strictly for academic purposes

Results

Descriptive Statistics

Table 1. Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
CSR	267	3.98	0.54	2.10	4.87
Internal Control	267	4.12	0.49	2.45	4.95
ROA	267	0.12	0.07	-0.08	0.29
ROE	267	0.18	0.09	-0.12	0.35
Tobin’s Q	267	1.45	0.62	0.54	3.12
Firm Size	267	5.45	1.21	2.80	8.76
Firm Age	267	14.68	7.32	3	42
Leverage	267	0.51	0.18	0.10	0.88
R&D	267	0.04	0.03	0.00	0.12

Explanation

The descriptive statistics indicate that Pakistani non-financial firms exhibit moderately high CSR engagement (Mean = 3.98) and strong internal control systems (Mean = 4.12). Profitability measures show reasonable variation, with ROA averaging 12% and ROE 18%. Tobin’s Q above 1 indicates favorable market valuation. The sample includes mature and diverse firms, ensuring representativeness and robustness for regression analysis.

Correlation Analysis

Table 2. Pearson Correlation Matrix

Variables	CSR	IC	ROA	ROE	TQ	FS	FA	LEV	RD
CSR	1								

IC	.55**	1							
ROA	.41**	.48**	1						
ROE	.44**	.51**	.72**	1					
TQ	.39**	.46**	.63**	.68**	1				
FS	.28**	.30**	.22**	.25**	.19**	1			
FA	-.14*	-.16*	-.18*	-.21*	-.12	.36**	1		
LEV	-.09	-.11	-.15*	-.19*	-.08	.24**	.18*	1	
RD	.33**	.35**	.29**	.32**	.27**	.26**	-.05	-.10	1

$p < .05, p < .01^*$

Explanation

CSR is significantly correlated with Internal Control ($r = .55, p < .01$), confirming a strong governance linkage. Both CSR and Internal Control are positively associated with ROA, ROE, and Tobin's Q. Leverage showing negative associations with performance, while R&D determines positive relationships, representing innovation boosts financial outcomes.

Reliability Analysis

Table 3. Reliability Results

Construct	Items	Cronbach's Alpha
CSR (7 Dimensions)	28	0.84
Internal Control (COSO + SOX)	20	0.91

Explanation

All paradigms surpass the commended threshold of 0.70, ratifying robust internal reliability and construct consistency.

Regression Analysis

Table 4. Regression Results

Dependent Variable	ROA	ROE	Tobin's Q
CSR	0.024** (2.31)	0.031** (2.54)	0.051** (2.47)
Internal Control	0.037** (2.89)	0.046** (3.12)	0.069** (2.95)
Firm Size	0.015**	0.022**	0.034**
Firm Age	-0.009*	-0.012*	-0.015
Leverage	-0.006	-0.011	-0.018
R&D	0.041**	0.053**	0.072**
R ²	0.42	0.47	0.39

T-values in parentheses

- $p < .05, ** p < .01$

Explanation

CSR significantly improves ROA, ROE, and Tobin’s Q. Internal Control validates stronger coefficients, ratifying its governance function. R&D certainly inspirations performance, while firm age displays a slight negative influence. The R² values designate strong illuminating power.

Mediation Analysis

Table 5. Mediation Results (Bootstrapping 5000 Samples)

Path	Coefficient	t-value	p-value
CSR → IC (a)	0.55	8.14	0.000
IC → ROA (b)	0.037	2.89	0.004
IC → ROE (b)	0.046	3.12	0.002
IC → TQ (b)	0.069	2.95	0.003
Indirect Effect (CSR → IC → ROA)	0.020	—	0.001
Indirect Effect (CSR → IC → ROE)	0.025	—	0.000
Indirect Effect (CSR → IC → TQ)	0.038	—	0.002

Explanation

Internal Control ominously mediates the relationship between CSR and all performance gauges. Since the direct influence of CSR rests significant after mediation, partial mediation is confirmed.

SEM Model Fit

Table 6. Model Fit Indices

Index	Value	Recommended
CMIN/df	1.65	< 3
RMSEA	0.052	< 0.08
CFI	0.96	> 0.90
TLI	0.95	> 0.90
SRMR	0.045	< 0.08

Explanation

All indices fall within acceptable thresholds, confirming excellent model fit and structural validity.

Overall Interpretation

The empirical findings strongly support:

Stakeholder Theory

- Legitimacy Theory
- Resource-Based View
- Institutional Theory

CSR enriches firm financial performance directly and indirectly through solidification Internal Control mechanisms (COSO and SOX compliance). The mediation effect confirms that governance systems are the conduction channel linking CSR to improved financial outcomes.

Discussion

This study considers the impact of Corporate Social Responsibility (CSR) on Firm Financial Performance (FFP) and observes the mediating role of Internal Control in non-financial firms listed on the Pakistan Stock Exchange. The empirical results provide robust support for the projected theoretical background supported in Stakeholder Theory, Legitimacy Theory, Resource-Based View (RBV), Agency Theory, and Institutional Theory.

CSR and Firm Financial Performance

The results reveal that CSR has a positive and statistically expressive impression on ROA, ROE, and Tobin's Q. This finding validates **H1** and associates with the forecasts of **Stakeholder Theory** (Freeman, 1984), which contends that firms that attend to the welfares of manifold stakeholders generate long-term value and confidence, eventually refining financial consequences.

From the **RBV evaluation**, CSR creates intangible assets such as reputation, interpersonal capital, and managerial culture, which improve economical advantage and profitability (Barney, 1991; Surroca et al., 2010). The positive impact of CSR on Tobin's Q also backing **Signaling Theory**, as socially responsible conduct reduces information irregularity and increases investor confidence in evolving markets like Pakistan.

These results are coherent with modern empirical evidence from developed and developing economies (Fatemi et al., 2018; Velte, 2022; Zhong & Li, 2023), endorsing that CSR is not merely a cost but a considered investment that enhances firm worth.

Internal Control and Firm Financial Performance

The noteworthy positive affiliation between Internal Control and all enactment indicators supports **H2** and corroborates the role of governance proesses in improving financial outcomes. This finding is uniform with **Agency Theory** (Jensen & Meckling, 1976), which accentuates that strong internal controls lessen agency problems by associating managerial actions with shareholder safeties.

The COSO and SOX-based internal control background consolidates financial reporting quality, reduces inadequacies, and recovers risk management. From an **RBV lens**, internal control systems denote firm specific potentials that develop proficiency and decision making, leading to outstanding performance.

Pragmatic uniformity with Doyle et al. (2007), Feng et al. (2009), and Cheng et al. (2014) endorses that internal control is a key domination mechanism, exceptionally in institutional surroundings considered by controlling and implementation challenges such as Pakistan.

CSR and Internal Control

The outcomes show that CSR expressively improves Internal Control efficiency, associate **H3**. This result supports with **Institutional Theory** (DiMaggio & Powell, 1983), which proposes that firms involving in CSR aspect solidier external enquiry and thus adopt more solemnized governance configuration.

CSR concerned with firms institutionalize ethical standards and acquiescence systems, which emphasize COSO elements such as control environment and monitoring. The results also backing **Legitimacy Theory**, as firms use internal control systems to certify reliability between their social assurances and effective practices.

This conclusion encompasses prior work by Jo and Harjoto (2012), Velte (2022), and Zhong and Li (2023), providing evidence from an emerging economy context that CSR not only improves external likeness but also fortifies internal governance gadgets.

Mediating Role of Internal Control

The mediation analysis settles that Internal Control partially mediates the relationship between CSR and Firm Financial Performance, supporting **H4**. This designates that CSR improves performance not only directly but also indirectly by fortification governance and control progressions.

This discovery is theoretically reliable with **Process Theory** and **Agency Theory**, which advocate that CSR inspirations secretarial arrangements (e.g., controls and monitoring), which in turn modify financial conclusions (Aguinis & Glavas, 2012; Surroca et al., 2010).

In the Pakistani background, where institutional cavities and governance challenges are numerous, Internal Control acts as a conduction mechanism through which CSR assurances are interpreted into systematic processes and financial value formation.

Role of Control Variables

Firm Size and R&D spending supportively affect performance, accompanying the conception that superior and more inventive firms have better entrance to possessions and learning competences. Firm Age shows a negative association with performance, signifying that older firms may face inflexibility and slower modification. Leverage is inconsequential, specifying that debt arrangement does not substantially alter the CSR implementation relationship in the experimented firms.

Theoretical Contributions

This paper makes three major contributions:

Incorporates **CSR, Internal Control, and Financial Performance** into a single governance performance context.

Validates the **mediating role of Internal Control** as a mechanism connecting CSR to value creation.

Encompasses CSR performance research to **Pakistan**, offering evidence from an under researched developing market.

Practical Implications (Preview)

Managers should vision CSR as a governance approach rather than a philanthropic expense. Efficient internal control systems are indispensable for certifying that CSR creativities are executed constantly and interpreted into considerable financial assistances.

Implications

Theoretical Implications

This analysis interjects to the corporate governance and CSR literature in numerous essential ways.

First, it assimilates **Stakeholder Theory, Legitimacy Theory, Resource-Based View (RBV), Agency Theory, and Institutional Theory** into a combined outline amplification how CSR interprets into business performance through governance procedures. While former studies have observed the direct CSR performance relationship, limited research has empirically verified **internal control as a mediating mechanism**, especially in evolving markets.

Second, the results encompass the **Resource-Based View** by locating internal control (COSO and SOX-based mechanisms) as an intangible strategic proficiency that develops the value applicability of CSR financing. The results validate that CSR alone is inadequate unless reinforced by strong governance arrangements.

Third, the paper supplements the literature on evolving parsimonies by providing confirmation from Pakistan; a market categorized by institutional limitations, regulatory conversions, and governance encounters. The mediation conclusions recommend that governance groundwork plays a diagnostic role in transforming social responsibility into economic worth in such circumstances.

Managerial Implications

The results provide actionable perceptions for business managers:

CSR should be purposefully entrenched, not considered as a symbolic or philanthropic action. Firms that incorporate CSR into governance systems accomplish greater business results.

Internal control systems must be reinforced together with CSR creativities. The COSO context and SOX submission processes boost transparency, answerability, and functioning restraint.

Managers should support CSR accomplishments with risk managing, supervising systems, and implementation measurement background to certify effective execution. Investment in R&D and innovation further increases the positive influence of CSR on financial performance.

Policy Implications

For regulators and policymakers in Pakistan:

- Strengthening enforcement of corporate governance codes can amplify the financial benefits of CSR.
- Encouraging mandatory CSR disclosure standards can improve transparency.
- Regulatory support for internal control implementation (aligned with COSO and SOX principles) may enhance financial reporting quality.

The results suggest that governance reforms and CSR regulation should move simultaneously to maximize firm-level and national-level economic benefits.

Conclusion

This investigation assessed the association between Corporate Social Responsibility and Firm Financial Performance, incorporating Internal Control as a mediating mechanism in non-financial firms listed on the Pakistan Stock Exchange.

Using diversified data (primary data for CSR and Internal Control; five-year averaged secondary data for financial performance) from 267 firms, the results disclose:

- CSR significantly improves ROA, ROE, and Tobin's Q.
- Internal Control positively affects firm performance.
- CSR strengthens Internal Control effectiveness.
- Internal Control partially mediates the CSR–performance relationship.

The results corroborate that CSR improve financial performance both directly and indirectly through improve background. Internal control acts as a conduction outlet interpreting CSR employment into considerable financial worth.

Overall, the report delivers robust empirical indication that governance attributes is indispensable for expanding the economic returns of CSR investments in emerging markets.

Limitations and Future Research

Notwithstanding its involvements, the study has some restraints:

The sample contains only non-financial firms in Pakistan; future study may observe financial institutions or conduct cross-country assessments.

The report uses perceptual measures for CSR and Internal Control; future studies could assimilate objective CSR disclosure indices.

Longitudinal panel data could deliver secret perceptions into causal association.

Future exploration may scrutinize moderating variables such as ownership structure, board personalities, or market contest.

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