

-RESEARCH ARTICLE-

## CORPORATE SOCIAL RESPONSIBILITY AND FIRM FINANCIAL PERFORMANCE: A CASE OF SME'S SECTOR IN VIETNAM

**Hai Thi Thanh, Tran**

School of Accounting, University of Economics Ho Chi Minh City (UEH),  
Ho Chi Minh City, Vietnam

Email: [thanhhai@ueh.edu.vn](mailto:thanhhai@ueh.edu.vn); ORCID: 0000-0001-8502-6020

**Tron, Van Nguyen\***

Nong Lam University – Ho Chi Minh City, Vietnam

Email: [nvtron@hcmuaf.edu.vn](mailto:nvtron@hcmuaf.edu.vn)

\*Corresponding author: Tron, Van Nguyen; Email: [nvtron@hcmuaf.edu.vn](mailto:nvtron@hcmuaf.edu.vn)

### —Abstract—

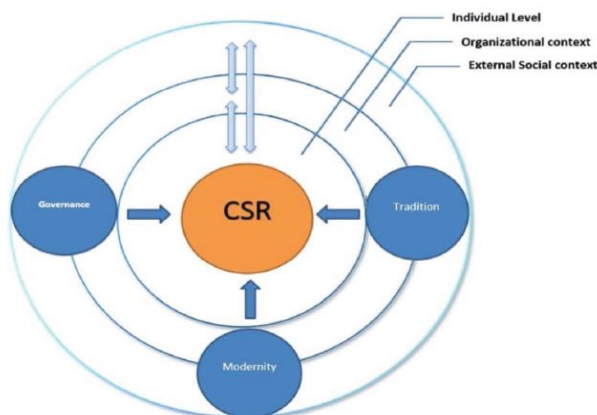
The topic of Corporate Social Responsibility (CSR) has acquired significant traction among academics and practitioners in recent years, resulting in a rise in its prominence. The Vietnamese market has a heightened awareness of corporate social responsibility, recognizing the significance of balancing economic development, social progress, and environmental sustainability. Consequently, this research aims to investigate the connection between CSR and the financial performance of SMEs in Vietnam. From 2017 to 2022, the survey examines a sample of 250 SMEs in Vietnam. "the two-step System Generalized Method of Moments (GMM) estimator" is used to analyze the data. CSR and its dimensions are used as predictors, whereas financial performance is used as an outcome. The analysis investigates the impact of CSR and its dimensions on financial performance, using stakeholder theory as the theoretical framework. This study provides strong evidence of a positive relationship between corporate social responsibility and financial performance. The findings indicate that CSR as a whole, as well as its specific facets, have a positive impact on financial performance. These results are consistent with the tenets of stakeholder theory, according to which firms that actively engage in CSR initiatives and resolve stakeholder concerns are more likely to achieve improved financial outcomes. The findings emphasize the importance of incorporating CSR into business strategies and the potential advantages of responsible and sustainable business practices.

Citation (APA): Tran, H. T. T, Tron, V. N. (2023). Corporate Social Responsibility and Firm Financial Performance: A Case of SME's Sector in Vietnam. *International Journal of Economics and Finance Studies*, 15(02), 195-213. doi:10.34111/ijefs.202315210

**Keywords:** Corporate Social Responsibility, Environmental Responsibility, Economic Responsibility, Social Responsibility, Financial Performance

## 1. INTRODUCTION

Corporate Social Responsibility (CSR) has acquired traction among academics and practitioners in recent years, resulting in its growing prominence (Xia, Zhe, Jiayu, Bingyan, & Songtao, 2020). CSR is "a self-regulatory business model that fosters an organization's social accountability to itself, its stakeholders, and the public" By incorporating CSR, businesses demonstrate their awareness of their economic, social, and environmental societal impact (Amacha & Dastane, 2017; S.-Z. Huang, Sadiq, & Chien, 2021). CSR is a management concept which "integrates social and environmental considerations into a company's business operations and interactions with its stakeholders." It is commonly understood to be the pursuance of a "Triple-Bottom-Line approach" that seeks to "balance economic, environmental, and social imperatives while addressing the expectations of shareholders and stakeholders" (C. T. Nguyen, Nguyen, & Nguyen, 2022). According to Steiner (1971), CSR encompasses economic, legal, and voluntary activities. However, Friedman (1962), a prominent thinker on CSR in the 1960s, argues for a profit-driven perspective, arguing that corporations should solely concentrate on maximizing shareholder wealth and leave social issues to the government. Thus, the concept of corporate social responsibility has evolved over time, expanding from a limited focus on economic obligations to include a broader range of legal, ethical, and philanthropic obligations (Carroll, 1979). This comprehensive perspective is frequently illustrated by the well-known "CSR pyramid model" (Figure 1), which emphasizes the company's commitment to meeting societal expectations across economic, legal, ethical, and discretionary / philanthropic domains (Carroll, 2016). Fundamentally, a company's social responsibilities require the simultaneous fulfillment of these multifaceted dimensions, in accordance with society's evolving expectations and demands at any given time.



**Figure 1:** Conceptual Framework in Vietnam

**Source:** [C. Nguyen and Nguyen \(2021\)](#)



**Figure 2:** The CSR Pyramid  
**Source:** Minh and Hong (2022)

Since its introduction in 2002, CSR has emerged as a relatively novel concept in the Vietnamese context (Ang, Shao, Liu, Yang, & Zheng, 2022; Chen et al., 2023). In recent years, the Vietnamese market has become more cognizant of corporate social responsibility (CSR), recognizing the significance of balancing economic growth, social development, and environmental sustainability. Individual-level factors, organizational context, and the broader external social context impact the nature of CSR in Vietnam, including its conceptualizations and implementation (Figure 2). Traditional values, modernity, and governance practices are intertwined with these variables. However, many Vietnamese businesses require education regarding the nature and essence of CSR. They frequently correlate

CSR is predominantly associated with philanthropic activities instead of the broader concept of CSR and its multifaceted elements. C. Nguyen and Nguyen (2021) found that less than 20% of Vietnamese firms comprehend the concept of corporate social responsibility.

Even though the relationship between corporate social responsibility (CSR) and financial performance (FP) has received considerable attention in business and management research, further exploration of this relationship in the context of Small and Medium-Sized Enterprises (SMEs) in Vietnam is warranted. While previous studies (Feng, Akram, Hieu, & Hoang Tien, 2022; C. T. Nguyen et al., 2022; Tran, Nguyen, & Darsono, 2023) have provided valuable insights into the positive association between CSR and FP across global settings, the specific impact of overall CSR (OV-CSR), economic CSR (EC-CSR), environmental CSR (EN-CSR), and social CSR (SO-CSR) on the FP of SMEs in Vietnam has not been adequately investigated. Therefore, an exhaustive study is necessary to fill this gap in the literature and generate valuable insights for theoretical comprehension and practical application.

Understanding the relationship between CSR and FP is, therefore, of the uttermost importance for SMEs operating in Vietnam, as it can guide strategic decision-making and organizational practices. By examining the effects of OV-CSR, EC-CSR, EN-CSR, and SO-CSR on FP, this study makes significant contributions to the existing body of knowledge. First, it provides empirical evidence regarding the relationship between CSR and FP in Vietnam's SME sector. This elucidates the unique dynamics and nuances that shape this relationship within the Vietnamese business landscape, considering its distinctive cultural, economic, and regulatory characteristics. Second, the study enhances our comprehension of the disparate effects of the various dimensions of CSR on FP. By undertaking separate analyses of these dimensions, the study identifies the areas of CSR with the greatest potential for enhancing FP, thereby providing valuable insights for companies seeking to optimize their CSR strategies. Thirdly, this study's findings guide policymakers and business executives in Vietnam, assisting them in formulating effective CSR policies and practices aligned with their organizational objectives and contributing to sustainable development. By understanding the impact of CSR on FP, businesses can make informed decisions regarding resource allocation and prioritize CSR initiatives that generate the most value for stakeholders and the organization. This research ultimately enhances the academic comprehension of the CSR-finance nexus and its implications for SMEs in Vietnam. Exploring the specific context of Vietnam increases the generalizability and applicability of the findings, thereby contributing to the larger body of knowledge regarding the relationship between CSR and FP.

## 2. LITERATURE REVIEW

Extensive academic research has elucidated the complex connection between CSR and FP (Aguinis & Glavas, 2012; Sadiq, 2020). Advocates of corporate social responsibility assert that it has the potential to generate favorable financial outcomes for businesses. According to stakeholder theory, prudent corporate managers should carefully consider the diverse interests of stakeholders when formulating business decisions, recognizing that satisfying these stakeholders' expectations is crucial for achieving optimal FP (Jahmane & Gaies, 2020). By judiciously implementing CSR practices that cater to the well-being of employees, such as investments in fostering a harmonious work-life balance and optimizing working conditions, firms can effectively improve employee satisfaction and job performance, resulting in measurable FP gains. Nirino, Ferraris, Miglietta, and Invernizzi (2022) provide empirical evidence to support this notion, demonstrating that companies with higher employee satisfaction generate significantly superior stock returns relative to their industry counterparts. Moreover, firms that demonstrate a steadfast commitment to CSR are more likely to attract highly talented job applicants and retain them once hired, thereby reducing turnover rates and mitigating the costs associated with recruitment and training initiatives (Chien et al., 2021; Okafor, Adeleye, & Adusei, 2021).

Examining CSR practices aimed at customers reveals that such concerted efforts considerably increase customer satisfaction and foster unwavering customer loyalty (Ajaz, Shenbei, & Sarfraz, 2020), which positively affects FP (Anderson, Fornell, & Mazvancheryl, 2004). Moreover, when CSR attributes are thoughtfully integrated into the fabric of products, such as incorporating environmentally friendly features, it can facilitate the organic penetration of new markets, allowing businesses to command premium prices and effectively differentiate themselves from competitors (S.-Z. Huang, Chien, & Sadiq, 2022; Shabbir & Wisdom, 2020). Previous research has also highlighted the significant benefits of CSR initiatives in maintaining positive relationships with other stakeholders, such as suppliers, communities, regulators, investors, creditors, and activist groups, thereby facilitating a variety of advantageous outcomes, such as increased revenues, decreased capital costs, and reduced firm-level risk (Malik, 2015). Cheng, Ioannou, and Serafeim (2014), in their exhaustive examination of the interaction between CSR and firm financial constraints, identify two distinct channels through which CSR has a discernible effect on external financing. These channels included reducing agency expenses through increased stakeholder engagement and enhanced transparency made possible by comprehensive CSR reporting practices. The culmination of these channels enables businesses to navigate the complex external financing landscape with enhanced efficiency, thereby reducing financial constraints. Moreover, CSR initiatives can serve as a barrier against the emergence of negative externalities and associated costs, such as environmental pollution penalties (Jayachandran, Kalaignanam, & Eilert, 2013; Sadiq et al., 2023).

Therefore, despite the potential imposition of additional costs, the accruing benefits of CSR are anticipated to outweigh such expenditures (Li, Fu, Han, & Liang, 2023). Following the tenets of the resource-based viewpoint, these multifaceted benefits include the strategic creation of exclusive firm resources. Adherence to CSR principles can effectively enhance corporate reputation (Zhu, Sun, & Leung, 2014), cultivate an unwavering sense of customer loyalty (Bag & Omrane, 2022), and foster a work environment with high employee morale (Velte, 2022). By possessing these invaluable firm-level assets and rare, unique, imitable, and irreplaceable capabilities, organizations can cultivate a sustainable competitive advantage over their industry rivals.

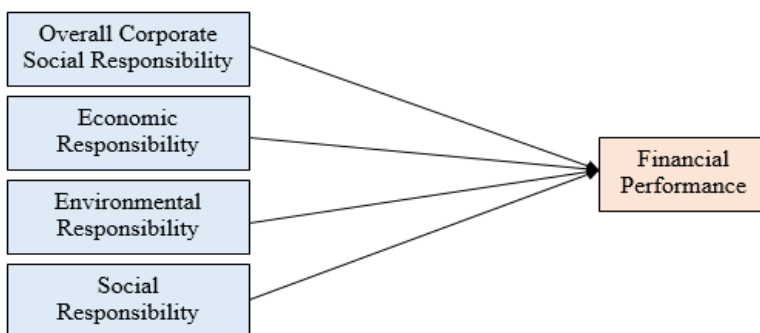
In the context of emerging economies, Kao, Yeh, Wang, and Fung (2018) empirical study disclosed a significant finding indicating a negative impact of CSR on FP in China. In contrast, Arshad, Othman, and Othman (2012) researched Malaysia and found a positive correlation between CSR and FP, concentrating specifically on 17 Islamic banks from 2008 to 2010. B. T. N. Nguyen et al. (2015) conducted a Vietnamese study highlighting the significance of CSR disclosure and its relationship with FP. The findings revealed a negative correlation between employee disclosure and firm value, while environmental information disclosure positively influenced firm value. In addition, N. Nguyen (2018) conducted an in-depth analysis of annual reports from 31

Vietnamese commercial banks and discovered a negative correlation between CSR and FP. Despite the growing interest in CSR in recent years, it is important to note that most empirical studies in this field have predominantly focused on developed nations.

In addition, the lack of a unified measurement standard for CSR and the disparity in disclosure requirements worldwide, particularly in developing nations, pose significant challenges for researchers attempting to comprehend the complexities of CSR theory and practice, particularly when conducting cross-country analyses. Moreover, the findings of studies conducted in Vietnam regarding the relationship between CSR and FP are inconsistent. Consequently, a compelling need is to conduct a comprehensive investigation using the most recent data to re-examine CSR practices among Vietnamese SMEs and provide valuable insights for theory and practice.

## 2.1 Theoretical Framework and Hypotheses

Stakeholder theory provides a framework for the positive relationship between CSR and FP. Businesses exist within a network of interconnected stakeholders, including employees, customers, suppliers, communities, and shareholders, all of whom have distinct interests. [Ajaz et al. \(2020\)](#) state that satisfying stakeholder requirements and incorporating them into business strategies fosters trust, reputation, and brand image, thereby contributing to FP. First, focusing on social responsibility attracts and retains high-quality employees who value ethical practices, well-being, and community involvement. Positive work environments, equitable compensation, and opportunities for advancement improve operational efficiency and financial performance ([Devie, Liman, Tarigan, & Jie, 2020](#)). Second, CSR initiatives have a positive effect on customer relations. As consumers seek out socially responsible brands, integrating CSR increases customer loyalty, attracts new customers, and distinguishes the company. Positive customer perceptions of CSR initiatives fuel sales, market share, and long-term commitment contribute to a company's financial success ([Partalidou, Zafeiriou, Giannarakis, & Sariannidis, 2020](#)).



**Figure 3:** Theoretical Framework

Source: Author Generated

Furthermore, it is essential to have strong relationships with suppliers, communities, and external stakeholders. CSR promotes collaboration, trust, and long-term partnerships, thereby assuring the stability of supply chains. Engaging in philanthropy, environmental conservation, and community development increases a company's social license to operate, mitigating reputational risks and gaining stakeholder support (Feng et al., 2022). Consequently, stakeholder theory highlights the positive effects of CSR on FP. Businesses can develop relationships, improve their reputation, attract and retain employees, satisfy customers, and mitigate risks by addressing stakeholder requirements. Integrating CSR into business strategies is essential for long-term financial prosperity. In light of these compelling considerations, the following hypotheses are proposed:

H<sub>1</sub>: Overall, CSR has a positive impact on FP.

H<sub>2</sub>: Economic CSR has a positive impact on FP.

H<sub>3</sub>: Environmental CSR has a positive impact on FP.

H<sub>4</sub>: Social CSR has a positive impact on FP.

## 2.2 Theoretical Framework

The relationship between a set of predictors, including overall CSR, economic CSR, environmental CSR, and social CSR, and the dependent variable financial performance is illustrated in [Figure 3](#).

## 3. RESEARCH METHODOLOGY

### 3.1 Data and Sample

This study's sample was drawn from a survey conducted by the esteemed "Central Institute of Economics Management (CIEM) of the Ministry of Planning and Investment" in conjunction with the esteemed "General Statistics Office (GSO) of Vietnam." The biennial survey is a comprehensive research endeavor and includes information from 2016 to 2022. The survey focuses predominantly on small and medium-sized enterprises (SMEs) and aims, among other relevant aspects, to collect vital information regarding FP, business history, employment, business environment, and background characteristics. A final sample size of 250 SMEs has been determined through a meticulous process of data cleaning and the exclusion of unregistered SMEs, assuring the highest standards of accuracy and reliability for the study. A random selection process was conducted to provide adequate companies with sufficient data for analysis. The firms that lacked CSR disclosures during the study period were also excluded from the sample.

### 3.2 Variables

This study examines financial performance (FP), a crucial indicator of a company's overall success, as the dependent variable. FP is measured using the widely

acknowledged accounting-based return on assets (ROA) metric. Academic and business communities widely employ ROA to evaluate the historical aspects of FP (Khuong, Liem, Thu, & Khanh, 2020). Previous research has demonstrated its applicability for this application (Cavaco & Crifo, 2014). Notably, it was decided not to use market-based performance indicators in a developing market like Vietnam. Multiple factors influence this decision. First, the relatively smaller market scale increases the potential for market manipulation and herding behavior (Pham & Tran, 2020). Such occurrences distort the market's valuation of a company's worth. To ensure the validity and reliability of the analysis, the study concentrates solely on ROA as an accounting-based metric for capturing the FP of SMEs. By utilizing this established and dependable indicator, the study effectively factors for the historical dimensions of performance, providing a solid basis for evaluating FP on the Vietnamese market.

The objective of this study is to examine the independent variables associated with economic CSR (EC-CSR), environmental CSR (EN-CSR), and social CSR (SO-CSR). To assess CSR activities comprehensively, we have devised an overall CSR index (OV-CSR) incorporating these dimensions. Noting that measuring CSR can be complicated due to the wide variety of activities involved is essential. Using only a singular CSR index could result in more precise findings. Our study considered the disclosure requirements outlined in "Circular 155" by the Ministry of Finance alongside the "GRI-GSSB series of standards." These guidelines provide a framework for assessing CSR disclosure across three critical dimensions: the "economic, environmental, and societal" impacts of a company's operations. We have compiled a comprehensive set of indicators categorized according to GRI standards for our analysis. These indicators have been categorized into three clusters (C. T. Nguyen et al., 2022). The first cluster relates to EC-CSR and consists of six evaluation criteria for the economic impact of a business on the local community and government. The second cluster concentrates on EN-CSR, which consists of eight standards that evaluate the environmental impact of businesses. The third cluster focuses on SO-CSR, which consists of 19 standards that assess a company's support activities for citizens, employees, government agencies, local government, suppliers, and suppliers (C. T. Nguyen et al., 2022). Using these rigorous measurement frameworks and indicator groups, we intend to analyze CSR activities across multiple dimensions to gain a deeper and more nuanced understanding of the topic.

Following a comprehensive evaluation of the reports, we extracted relevant information regarding the abovementioned standards. To evaluate a company's adherence to these standards, we employ a scoring system that awards 1 point if the company's content corresponds with a particular standard. In contrast, otherwise, a score of 0 is recorded. This rigorous scoring mechanism enables us to calculate scores for each measure attributed to a company in a given year. To determine the CSR dimension for "firm  $i$  in year  $t$ , denoted by  $j$ ," we add the scores obtained for the corresponding standards. Essentially, the CSR dimension for the company  $i$  in year  $t$  is determined by summing

the scores associated with the applicable standards. By adopting this holistic strategy, we can effectively quantify and analyze the firm's CSR performance over time along the following dimensions:

$$CSR_{ij} = \frac{\sum_{k=1}^n SCORE_{jk}}{n} \quad (1)$$

Where:  $CSR_{ij}$  indicates the total score of an  $i^{th}$  firm received for a  $j^{th}$  aspect divided by the full scores of standards for *the*  $j^{th}$  part; " $0 \leq CSR_{ij} \leq 1$ ".  $n$  indicates 6,8,19 signifying numbered criteria for apiece  $j^{th}$  element. A weighted average approach suggested by [Alkhalailah \(2016\)](#) has been chosen in similar studies.

The OV-CSR is then measured using the below-mentioned formula:

$$OV - CSR_{it} = \frac{\sum_{i=1}^3 CSR_{it}}{3} \quad (2)$$

Where:  $OV-CSR_{it}$  is the overall CSR for the  $i^{th}$  firm in  $t$  time ( $0 \leq CSR_{it} \leq 1$ ). Following [Cavaco and Crifo \(2014\)](#), we employed an average-weighted approach.

Several control variables are also included to account for potential confounding factors. Based on previous research ([C. T. Nguyen et al., 2022](#); [Tran et al., 2023](#)), these variables include firm size (FS), liquidity (LQ), and leverage (LV). FS is determined by calculating the natural logarithm of total assets, LQ is determined by the ratio of current assets to current liabilities, and LV is determined by the ratio of total liabilities to total assets. By incorporating these control variables, the study intends to reduce potential confounding effects and isolate the relationship between the variables of interest.

### 3.3 Econometric Models

To address the dataset's unique characteristics and the model's dynamic nature, this study employs "the two-step System Generalized Method of Moments (GMM) estimator." This decision is consistent with prior research by [C. T. Nguyen et al. \(2022\)](#). Applying the GMM method in this study is especially advantageous because it can address endogeneity concerns deriving from including a lagging outcome variable as an explanatory variable in the model ([C. T. Nguyen et al., 2022](#)). Using the GMM estimator, the study addresses potential endogeneity concerns and guarantees the accuracy of the estimates in dynamic panel data models. The GMM regression is subjected to two fundamental tests to validate statistical inferences: "the Hansen test and the autocorrelation of order 2 test" ([C. T. Nguyen et al., 2022](#)). These tests are essential for assessing the robustness of the estimates and validating their suitability for deriving statistically significant conclusions. The relationship between CSR and FP is examined utilizing two distinct models. Model-1 evaluates the impact of CSR in year  $t$ -

1 on FP in year t, whereas model-2 examines the impact of the three dimensions of CSR in year t-1 on FP (Pham & Tran, 2020).

$$\begin{aligned}
 \text{Model 1: } FP_{it} &= \beta_0 + \beta_1 FP_{it-1} + \beta_2 OV - CSR_{it-1} + \beta_3 FS_{it} + \beta_4 LQ_{it-1} + \beta_5 LV_{it} + \mu_{it} \quad (3)
 \end{aligned}$$

$$\begin{aligned}
 \text{Model 2: } FP_{it} &= \beta_0 + \beta_1 FP_{it-1} + \beta_2 EC - CSR_{it-1} + \beta_3 EN - CSR_{it-1} + \beta_4 SO - CSR_{it-1} + \beta_5 FS_{it} + \beta_6 LQ_{it-1} + \beta_7 LV_{it} + \mu_{it} \quad (4)
 \end{aligned}$$

#### 4. ANALYSIS AND RESULTS

The mean scores of the predictors representing various aspects of CSR are displayed in ascending order in Table 1: EN-CSR (0.2102), SO-CSR (0.2942), and EC-CSR (0.3954). These numbers indicate that Vietnamese publicly traded companies disclose and participate actively in social responsibility activities. EC-CSR activities have the maximum prevalence, with approximately 39.5% of the economic standards being met by firms in the research sample. In contrast, approximately 29.4% of the criteria in the social movements domain are met by businesses. In addition, the completion rate for EN-CSR activities mandated by GRI standards is a meager 21%.

**Table 1: Descriptive Statistics**

Variables	Min.	Max.	Mean	Std. Dev.
OV-CSR	0.0600	0.7900	0.4968	0.1323
EC-CSR	0.0700	0.8900	0.3954	0.0942
EN-CSR	0.0400	0.8700	0.2102	0.1431
SO-CSR	0.1000	0.9300	0.2942	0.0863
ROA	-0.5839	0.6389	0.0437	0.1034
FS	19.6315	41.6271	31.6412	0.9637
LQ	0.2967	8.3762	3.0649	0.6488
LV	0.3481	0.9257	0.5782	0.0674

However, when OV-CSR activities are considered, firms in the cohort demonstrate a higher level of participation (49.7%). This composition may help explain why EN-CSR has a relatively low value. Regarding the remaining variables' mean scores, the study reports an average score of 0.0437 for ROA, which provides insight into the typical FP of the sampled firms. In addition, the mean values for FS, LQ, and LV are respectively 31.6412, 3.0649, and 0.5782. These variables provide significant insight into the characteristics and financial profiles of the sampled firms.

The correlation analysis of the variables is presented in [Table 2](#), revealing significant findings. Notably, a positive correlation is observed between OV-CSR and ROA, indicating that companies that disclose information about their social responsibility activities tend to achieve higher FP. This is consistent with the notion that proactive CSR engagement positively impacts financial outcomes. In addition, EC-CSR, EN-CSR, and SO-CSR all exhibit positive correlations with ROA. This suggests that businesses' economic, environmental, and social responsibility activities are associated with enhanced FP. These findings highlight the significance of adopting a comprehensive approach to CSR, as it incorporates multiple dimensions that collectively contribute to improved financial outcomes. Notably, the correlation coefficients between the predictors indicate no multicollinearity concerns. This indicates that the variables are relatively independent and lack excessive redundancy, enhancing the analysis's robustness. Nevertheless, it is essential to recognize that the correlation analysis captures only the associations between individual pairings of variables and does not account for possible interactions among the variables included in the models. To account for the total impact of these variables, the estimation procedure will employ the "System GMM" estimator, which permits the examination of dynamic relationships and controls for potential endogeneity issues.

**Table 2: Multicollinearity Analysis**

Variables	OV-CSR	EC-CSR	EN-CSR	SO-CSR	ROA	FS	LQ	LV
OV-CSR	1							
EC-CSR	0.0346	1						
EN-CSR	0.0489	0.2487	1					
SO-CSR	-0.1674	-0.1934	0.2909	1				
ROA	0.2813	0.0423	0.0633	0.0631	1			
FS	0.0942	0.2004	-0.1587	0.3170	0.1036	1		
LQ	-0.3471	0.0679	0.2712	-0.1632	0.1444	0.2455	1	
LV	0.0093	-0.1326	-0.0869	0.0858	-0.0881	0.0991	0.2212	1

The estimation results are displayed in [Table 3](#), which reveals noteworthy findings. The autocorrelation of order two and overidentification tests for models (model-1 and model-2) yield statistically insignificant p-values. This indicates that the estimation results are robust and valid for undertaking reliable statistical inferences following established guidelines ([Roodman, 2009](#)). In addition, the coefficients associated with lagged outcome variables are statistically significant. This highlights the significance and suitability of employing dynamic models in the analysis, which allow for the incorporation of past values and capture the dynamic nature of the relationships between the examined variables. Incorporating latent outcome variables improves the model's ability to account for temporal dynamics and provides a thorough understanding of the investigated relationships.

The estimation results presented in model-1 of Table 3 indicate a positive relationship between OV-CSR and ROA, which is consistent with prior empirical studies (Devie et al., 2020; Javed, Rashid, Hussain, & Ali, 2020; Okafor et al., 2021) and supports hypothesis 1. This finding suggests that companies engaging in and disclosing extensive CSR activities, as captured by the OV-CSR measure, tend to attain higher FP levels, as ROA indicates. This positive relationship is consistent with the notion that effective CSR practices can generate tangible benefits for businesses, potentially increasing their profitability and FP (Ali, Danish, & Asrar-ul-Haq, 2020). The consistent findings across studies provide empirical support for the positive effect of OV-CSR on ROA, highlighting the relevance and significance of integrating comprehensive CSR strategies into organizational decision-making processes (Alwaysheh, Heron, Perry, & Wilson, 2020).

**Table 3: System GMM Results**

Variables	Model-1: Overall CSR			Model-2: CSR Dimensions		
	Coefficient	Std. Error	T-Stat.	Coefficient	Std. Error	T-Stat.
C	0.0642	0.0175	3.6741***	0.0941	0.0202	4.6666***
OV-CSRit-1	0.1067	0.0262	4.0673***	---	---	---
ROAit-1	0.4931	0.1260	3.9122***	0.4366	0.1181	3.6978***
EC-CSRit-1	---	---	---	0.2671	0.0421	6.3471***
EN-CSRit-1	---	---	---	0.3118	0.0425	7.3329***
SO-CSRit-1	---	---	---	0.6541	0.2132	3.0674***
FS	0.0347	0.0689	0.5037	0.0296	0.0277	1.0671
LQ	0.0671	0.0649	1.0333	0.0551	0.0278	1.9844**
LV	0.1673	0.0439	3.8122***	0.0966	0.0170	5.6759***
AR (1) Test [p-value]	0.0000***			0.0043***		
AR (2) Test [p-value]	0.1634			0.2413		
Hansen Test [p-value]	0.2781			0.3479		

Note: “\*\*\* p≤0.01; \*\* p≤0.05”

We adopt a more granular approach by decomposing CSR activities into three distinct components: EC-CSR, EN-CSR, and SO-CSR, in recognition of the limitations of relying solely on an aggregate CSR index. By examining the personal effects of these components on FP, we hope to obtain a deeper understanding of the specific aspects of CSR that impact organizational outcomes. This decomposition enables a more nuanced comprehension of the relationship between CSR and FP, allowing us to discern the relative contributions of economic, social, and environmental responsibility to the overall success of an organization. Model-2 of Table 3's estimation results demonstrates a positive relationship between EC-CSR and ROA, thereby supporting Hypothesis 2. This finding indicates that firms that prioritize economic responsibility and actively engage in activities to maximize economic impact demonstrate higher levels of FP (Long, Li, Wu, & Song, 2020). The positive relationship between EC-CSR and ROA suggests that by meeting their financial obligations, such as generating profits,

contributing to the local economy, and managing resources responsibly, firms can improve their FP and create long-term value for their stakeholders (Barauskaite & Streimikiene, 2021). Theoretically, the findings contribute to comprehending the relationships between CSR and FP by highlighting the importance of economic responsibility. The findings support the notion that EC-CSR is a key driver of FP, highlighting the significance of considering the economic dimension of CSR when evaluating its impact on financial outcomes (Feng et al., 2022). From a practical standpoint, the findings suggest that firms should incorporate economic responsibility into their CSR strategies and practices to improve their FP. By prioritizing EC-CSR, businesses can achieve their financial goals and demonstrate their dedication to sustainable business practices and societal well-being (Feng et al., 2022).

The estimation results from Model-2 of Table 3 support Hypothesis 3, as they disclose a positive effect of EN-CSR on firm FP as measured by ROA. The positive impact of EN-CSR on FP is an important finding that has attracted increasing attention in academic research and business practice. This relationship suggests that firms that actively engage in environmentally responsible practices and disclose their initiatives tend to achieve superior financial results (Nirino et al., 2022). Cost savings is one of the main mechanisms through which EN-CSR positively impacts FP. Businesses can reduce their operational costs by instituting sustainable practices such as energy efficiency measures, waste reduction, and resource conservation. Adopting renewable energy sources, for instance, can reduce energy costs, while waste management strategies can reduce disposal expenses (J. Huang, 2022). These cost reductions contribute directly to increased profitability and overall FP.

The estimation results also indicate that SO-CSR positively affects ROA, confirming H4. Businesses that engage in social responsibility initiatives and activities typically enjoy improved financial results. This effect is attributable to several significant factors. First, SO-CSR improves stakeholder relationships by addressing social issues such as employee welfare, community development, and ethical business practices (Bag & Omrane, 2022). By cultivating positive relationships with employees, customers, suppliers, and local communities, businesses can increase employee satisfaction, customer loyalty, and overall reputation, resulting in improved FP. Satisfied employees are more likely to be motivated and productive, leading to increased operational efficiency and cost savings.

Moreover, customers who perceive a company to be socially responsible are more likely to support it by making repeat purchases and recommending its products or services to others (Xue et al., 2022). Another significant way social CSR positively impacts financial planning is by mitigating risks and enhancing resilience. By proactively addressing social issues like diversity and inclusion, equitable labor practices, and community development, businesses can reduce the likelihood of legal and regulatory violations, reputational harm, and negative public sentiment (Hang, Sarfraz, Khalid,

Ozturk, & Tariq, 2022). Managing these social risks proactively enables businesses to maintain compliance, avoid costly penalties, and enhance their long-term sustainability and FP. In addition, SO-CSR fosters innovation and generates new business opportunities. By addressing social needs and challenges, businesses can identify untapped market segments, create innovative products or services, and acquire a competitive edge (Mariani, Al-Sultan, & De Massis, 2023).

## 5. CONCLUSION AND POLICY IMPLICATIONS

This study examines the relationship between CSR and FP among Vietnamese SMEs. Using stakeholder theory as its theoretical foundation, this analysis examines the impact of CSR, including its EC-CSR, EN-CSR, and SO-CSR dimensions, on FP. This study provides strong evidence of a positive relationship between CSR and FP. The findings indicate that CSR as a whole and its specific dimensions have a positive effect on FP. These results are consistent with the tenets of stakeholder theory, according to which firms that actively engage in CSR initiatives and resolve stakeholder concerns are more likely to achieve improved financial outcomes. Various underlying mechanisms are responsible for the positive relationship between CSR and FP.

By prioritizing the needs and interests of stakeholders, businesses can cultivate stronger relationships with employees, customers, suppliers, and the local community. This, in turn, results in increased employee satisfaction, consumer loyalty, and a positive reputation, which ultimately leads to financial success. In addition, CSR initiatives allow businesses to manage and mitigate risks effectively. Firms can avoid reputational harm, legal liabilities, and regulatory violations by addressing their operations' social and environmental hazards. Proactive risk management improves firms' long-term viability and financial performance.

These findings have significant implications for small and medium-sized enterprises (SMEs), not only in Vietnam but also in other contexts. By adopting CSR and incorporating it into their business strategies, companies can positively impact society and improve their FP. Policymakers and stakeholders should acknowledge the significance of CSR in promoting sustainable and responsible business practices and consider providing support and incentives to firms that engage in socially responsible activities.

The findings underscore the need for policymakers to prioritize developing and implementing frameworks that promote the incorporation of CSR into business strategies. This can be accomplished by developing guidelines, standards, and best practices highlighting CSR benefits and providing implementation guidance. By promoting CSR as a key driver of FP, policymakers can incentivize businesses to adopt responsible practices and align business objectives with societal and environmental requirements. In addition, policymakers should consider implementing regulatory

measures that encourage and recompense CSR efforts. This may involve offering tax incentives, grants, or other monetary rewards to businesses that engage in socially responsible behavior. Policymakers can encourage wider adoption and increased investment in responsible practices by providing tangible benefits to businesses that invest in CSR. Furthermore, it is essential to implement regulations that ensure transparency and accountability in CSR reporting, allowing stakeholders to evaluate the credibility and impact of CSR efforts.

Moreover, policymakers can be pivotal in fostering collaboration between the public and private sectors to address social and environmental issues. Policymakers can facilitate the exchange of knowledge, resources, and expertise between enterprises, civil society organizations, and government agencies by establishing dialogue and partnership platforms. This collaborative approach improves the efficacy and impact of CSR initiatives, resulting in enhanced food production and sustainable development.

This study contributes to the expanding literature on CSR and FP by providing empirical evidence of the positive effect of CSR on the performance of SMEs in Vietnam. The findings emphasize the importance of incorporating CSR into business strategies and the potential advantages of responsible and sustainable business practices. However, it is essential to acknowledge the study's limitations. The analysis was limited to small and medium-sized enterprises in Vietnam, which may limit the applicability of the findings to other industries and nations. In addition, the study relied solely on quantitative data and did not investigate the specific mechanisms by which CSR influences FP. Future research could employ qualitative methods to understand better the processes and factors that shape the relationship between CSR and FP.

## ACKNOWLEDGMENT

This research is partly funded by the University of Economics Ho Chi Minh City (UEH), Vietnam.

## REFERENCES

- Aguinis, H., & Glavas, A. (2012). What we know and don't know about corporate social responsibility: A review and research agenda. *Journal of Management*, 38(4), 932-968. doi: <https://doi.org/10.1177/0149206311436079>
- Ajaz, A., Shenbei, Z., & Sarfraz, M. (2020). Delineating the influence of boardroom gender diversity on corporate social responsibility, financial performance, and reputation. *Logforum*, 16(1), 61-74. doi: <http://dx.doi.org/10.17270/J.LOG.2019.376>
- Ali, H. Y., Danish, R. Q., & Asrar-ul-Haq, M. (2020). How corporate social responsibility boosts firm financial performance: The mediating role of corporate image and customer satisfaction. *Corporate Social Responsibility and Environmental Management*, 27(1), 166-177. doi: <https://doi.org/10.1002/csr.1781>

- Alkhalaileh, E. A. F. a. M. (2016). The Relationship between Corporate Social Responsibility's Disclosure and Financial Performance: An Empirical Study of Jordanian Companies Listed on Amman Stock Exchange. *Jordan Journal of Business Administration*, 12(2), 401-415. Retrieved from <https://platform.almanhal.com/Files/2/96670>
- Amacha, E., & Dastane, D. O. (2017). Sustainability practices as determinants of financial performance: A case of Malaysian corporations. *The Journal of Asian Finance, Economics and Business*, 4(2), 55-68. Retrieved from <https://ssrn.com/abstract=2976089>
- Anderson, E. W., Fornell, C., & Mazvancheryl, S. K. (2004). Customer satisfaction and shareholder value. *Journal of marketing*, 68(4), 172-185. doi: <https://doi.org/10.1509/jmkg.68.4.172.42723>
- Ang, R., Shao, Z., Liu, C., Yang, C., & Zheng, Q. (2022). The relationship between CSR and financial performance and the moderating effect of ownership structure: Evidence from Chinese heavily polluting listed enterprises. *Sustainable Production and Consumption*, 30, 117-129. doi: <https://doi.org/10.1016/j.spc.2021.11.030>
- Arshad, R., Othman, S., & Othman, R. (2012). Islamic corporate social responsibility, corporate reputation and performance. *International Journal of Economics and Management Engineering*, 6(4), 643-647. doi: <https://doi.org/10.5281/zenodo.1074857>
- Awaysheh, A., Heron, R. A., Perry, T., & Wilson, J. I. (2020). On the relation between corporate social responsibility and financial performance. *Strategic Management Journal*, 41(6), 965-987. doi: <https://doi.org/10.1002/smj.3122>
- Bag, S., & Omrane, A. (2022). Corporate social responsibility and its overall effects on financial performance: Empirical evidence from Indian companies. *Journal of African Business*, 23(1), 264-280. doi: <https://doi.org/10.1080/15228916.2020.1826884>
- Barauskaite, G., & Streimikiene, D. (2021). Corporate social responsibility and financial performance of companies: The puzzle of concepts, definitions and assessment methods. *Corporate Social Responsibility and Environmental Management*, 28(1), 278-287. doi: <https://doi.org/10.1002/csr.2048>
- Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy of management review*, 4(4), 497-505. doi: <https://doi.org/10.5465/amr.1979.4498296>
- Carroll, A. B. (2016). Stakeholder thinking in three models of management morality: a perspective with strategic implications. In *The Corporation and its Stakeholders* (pp. 139-170). University of Toronto Press. doi: <https://doi.org/10.3138/9781442673496-010>
- Cavaco, S., & Crifo, P. (2014). CSR and financial performance: Complementarity between environmental, social and business behaviours. *Applied Economics*, 46(27), 3323-3338. doi: <https://doi.org/10.1080/00036846.2014.927572>
- Chen, S.-L., Su, Y.-S., Diep, G. L., Sivanandan, P., Sadiq, M., & Phan, T. T. H. (2023). The impact of environmental knowledge and green supply chain practices in improving sustainable energy production: the moderating role of green behavior and green leadership. *Environmental Science and Pollution Research*, 30(19), 57017-57031. doi: <https://doi.org/10.1007/s11356-023-26340-7>

- Cheng, B., Ioannou, I., & Serafeim, G. (2014). Corporate social responsibility and access to finance. *Strategic management journal*, 35(1), 1-23. doi: <https://doi.org/10.1002/smj.2131>
- Chien, F., Sadiq, M., Nawaz, M. A., Hussain, M. S., Tran, T. D., & Le Thanh, T. (2021). A step toward reducing air pollution in top Asian economies: The role of green energy, eco-innovation, and environmental taxes. *Journal of environmental management*, 297, 113420. doi: <https://doi.org/10.1016/j.jenvman.2021.113420>
- Devie, D., Liman, L. P., Tarigan, J., & Jie, F. (2020). Corporate social responsibility, financial performance and risk in Indonesian natural resources industry. *Social Responsibility Journal*, 16(1), 73-90. doi: <https://doi.org/10.1108/SRJ-06-2018-0155>
- Feng, Y., Akram, R., Hieu, V. M., & Hoang Tien, N. (2022). The impact of corporate social responsibility on the sustainable financial performance of Italian firms: Mediating role of firm reputation. *Economic research-Ekonomska istraživanja*, 35(1), 4740-4758. doi: <https://doi.org/10.1080/1331677X.2021.2017318>
- Friedman, M. (1962). *Capitalism and freedom*. Chicago, IL: University of Chicago Press. Retrieved from <https://press.uchicago.edu/ucp/books/book/chicago/C/bo68666099.html>
- Hang, Y., Sarfraz, M., Khalid, R., Ozturk, I., & Tariq, J. (2022). Does corporate social responsibility and green product innovation boost organizational performance? a moderated mediation model of competitive advantage and green trust. *Economic Research-Ekonomska Istraživanja*, 35(1), 5379-5399. doi: <https://doi.org/10.1080/1331677X.2022.2026243>
- Huang, J. (2022). Corporate social responsibility and financial performance: The moderating role of the turnover of local officials. *Finance Research Letters*, 46, 102497. doi: <https://doi.org/10.1016/j.frl.2021.102497>
- Huang, S.-Z., Chien, F., & Sadiq, M. (2022). A gateway towards a sustainable environment in emerging countries: the nexus between green energy and human Capital. *Economic research-Ekonomska istraživanja*, 35(1), 4159-4176. doi: <https://doi.org/10.1080/1331677X.2021.2012218>
- Huang, S.-Z., Sadiq, M., & Chien, F. (2021). The impact of natural resource rent, financial development, and urbanization on carbon emission. *Environmental Science and Pollution Research*, 1-13. doi: <https://doi.org/10.1007/s11356-021-16818-7>
- Jahmane, A., & Gaies, B. (2020). Corporate social responsibility, financial instability and corporate financial performance: Linear, non-linear and spillover effects—The case of the CAC 40 companies. *Finance Research Letters*, 34, 101483. doi: <https://doi.org/10.1016/j.frl.2020.101483>
- Javed, M., Rashid, M. A., Hussain, G., & Ali, H. Y. (2020). The effects of corporate social responsibility on corporate reputation and firm financial performance: Moderating role of responsible leadership. *Corporate Social Responsibility and Environmental Management*, 27(3), 1395-1409. doi: <https://doi.org/10.1002/csr.1892>
- Jayachandran, S., Kalaignanam, K., & Eilert, M. (2013). Product and environmental social performance: Varying effect on firm performance. *Strategic Management Journal*, 34(10), 1255-1264. doi: <https://doi.org/10.1002/smj.2054>

- Kao, E. H., Yeh, C.-C., Wang, L.-H., & Fung, H.-G. (2018). The relationship between CSR and performance: Evidence in China. *Pacific-Basin Finance Journal*, 51, 155-170. doi: <https://doi.org/10.1016/j.pacfin.2018.04.006>
- Khuong, N. V., Liem, N. T., Thu, P. A., & Khanh, T. H. T. (2020). Does corporate tax avoidance explain firm performance? Evidence from an emerging economy. *Cogent Business & Management*, 7(1), 1780101. doi: <https://doi.org/10.1080/23311975.2020.1780101>
- Li, J., Fu, T., Han, S., & Liang, R. (2023). Exploring the Impact of Corporate Social Responsibility on Financial Performance: The Moderating Role of Media Attention. *Sustainability*, 15(6), 5023. doi: <https://doi.org/10.3390/su15065023>
- Long, W., Li, S., Wu, H., & Song, X. (2020). Corporate social responsibility and financial performance: The roles of government intervention and market competition. *Corporate Social Responsibility and Environmental Management*, 27(2), 525-541. doi: <https://doi.org/10.1002/csr.1817>
- Malik, M. (2015). Value-enhancing capabilities of CSR: A brief review of contemporary literature. *Journal of Business Ethics*, 127, 419-438. doi: <https://doi.org/10.1007/s10551-014-2051-9>
- Mariani, M. M., Al-Sultan, K., & De Massis, A. (2023). Corporate social responsibility in family firms: A systematic literature review. *Journal of Small Business Management*, 61(3), 1192-1246. doi: <https://doi.org/10.1080/00472778.2021.1955122>
- Minh, T. D. T., & Hong, P. T. T. (2022). Do Corporate Social Responsibilities Support Its Financial Performance? Evidence of the Listed Firms in Vietnam. *Jurnal Ekonomi & Studi Pembangunan*, 23(1), 1-20. doi: <https://doi.org/10.18196/jesp.v23i1.14187>
- Nguyen, B. T. N., Tran, H. T. T., Le, O. H., Nguyen, P. T., Trinh, T. H., & Le, V. (2015). Association between corporate social responsibility disclosures and firm value—Empirical evidence from Vietnam. *International Journal of Accounting and Financial Reporting*, 5(1), 212-228. doi: <http://dx.doi.org/10.5296/ijafr.v5i1.7394>
- Nguyen, C., & Nguyen, L. (2021). The relationship between corporate social responsibility and financial performance: empirical evidence from Vietnam. *The Journal of Asian Finance, Economics and Business*, 8(8), 75-83. doi: <https://doi.org/10.13106/jafeb.2021.vol8.no8.0075>
- Nguyen, C. T., Nguyen, L. T., & Nguyen, N. Q. (2022). Corporate social responsibility and financial performance: The case in Vietnam. *Cogent Economics & Finance*, 10(1), 2075600. doi: <https://doi.org/10.1080/23322039.2022.2075600>
- Nguyen, N. (2018). The effect of corporate social responsibility disclosure on financial performance: Evidence from credit institutions in Vietnam. *Available at SSRN 3101658*, 14(4), 109. doi: <http://doi.org/10.5539/ass.v14n4p109>
- Nirino, N., Ferraris, A., Miglietta, N., & Invernizzi, A. C. (2022). Intellectual capital: the missing link in the corporate social responsibility–financial performance relationship. *Journal of Intellectual Capital*, 23(2), 420-438. doi: <https://doi.org/10.1108/JIC-02-2020-0038>
- Okafor, A., Adeleye, B. N., & Adusei, M. (2021). Corporate social responsibility and financial performance: Evidence from US tech firms. *Journal of Cleaner Production*, 292, 126078. doi: <https://doi.org/10.1016/j.jclepro.2021.126078>

- Partalidou, X., Zafeiriou, E., Giannarakis, G., & Sariannidis, N. (2020). The effect of corporate social responsibility performance on financial performance: the case of food industry. *Benchmarking: An International Journal*, 27(10), 2701-2720. doi: <https://doi.org/10.1108/BIJ-11-2019-0501>
- Pham, H. S. T., & Tran, H. T. (2020). CSR disclosure and firm performance: The mediating role of corporate reputation and moderating role of CEO integrity. *Journal of Business Research*, 120, 127-136. doi: <https://doi.org/10.1016/j.jbusres.2020.08.002>
- Roodman, D. (2009). A note on the theme of too many instruments. *Oxford Bulletin of Economics and statistics*, 71(1), 135-158. doi: <https://doi.org/10.1111/j.1468-0084.2008.00542.x>
- Sadiq, M. (2020). The impact of environmental, social and governance index on firm value: evidence from Malaysia. *International Journal of Energy Economics and Policy*, 10(5), 555-562. doi: <https://doi.org/10.32479/ijeep.10217>
- Sadiq, M., Ngo, T. Q., Pantamee, A. A., Khudoykulov, K., Ngan, T. T., & Tan, L. P. (2023). The role of environmental social and governance in achieving sustainable development goals: evidence from ASEAN countries. *Economic research-Ekonomika istraživanja*, 36(1), 170-190. doi: <https://doi.org/10.1080/1331677X.2022.2072357>
- Shabbir, M. S., & Wisdom, O. (2020). The relationship between corporate social responsibility, environmental investments and financial performance: evidence from manufacturing companies. *Environmental Science and Pollution Research*, 27, 39946-39957. doi: <https://doi.org/10.1007/s11356-020-10217-0>
- Steiner, G. A. (1971). *Business and Society*. RandomHouse, New York, NY.
- Tran, D. P., Nguyen, P. T. H., & Darsono, S. N. A. C. (2023). Level of Corporate Social Responsibility Disclosure and Financial Performance: A Case Study in Ho Chi Minh City, Vietnam. *Journal of Accounting and Investment*, 24(1), 187-204. doi: <https://doi.org/10.18196/jai.v24i1.15832>
- Velte, P. (2022). Meta-analyses on corporate social responsibility (CSR): a literature review. *Management Review Quarterly*, 72(3), 627-675. doi: <https://doi.org/10.1007/s11301-021-00211-2>
- Xia, C., Zhe, M., Jiayu, S., Bingyan, T., & Songtao, X. (2020). Corporate social responsibility and unsecured debt: evidence from China. *The Journal of Asian Finance, Economics and Business*, 7(11), 1-11. Retrieved from <https://db.koreascholar.com/Article/Detail/400937>
- Xue, Y., Jiang, C., Guo, Y., Liu, J., Wu, H., & Hao, Y. (2022). Corporate social responsibility and high-quality development: do green innovation, environmental investment and corporate governance matter? *Emerging Markets Finance and Trade*, 58(11), 3191-3214. doi: <https://doi.org/10.1080/1540496X.2022.2034616>
- Zhu, Y., Sun, L.-Y., & Leung, A. S. M. (2014). Corporate social responsibility, firm reputation, and firm performance: The role of ethical leadership. *Asia Pacific Journal of Management*, 31, 925-947. doi: <https://doi.org/10.1007/s10490-013-9369-1>