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When CSR Meets Audit Expertise: Examining the Relationship Between CSR and Financial Performance

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Abstract

The main objective of this study is to examine the relationship between Corporate Social Responsibility (CSR) and financial performance, considering the interactive role of Audit Committee Expertise (ACE), in companies listed on the Tehran Stock Exchange. In this study, CSR and ACE are considered independent variables, while financial performance is considered the dependent variable. To this end, 145 companies listed on the Tehran Stock Exchange were examined over the period from 2019 to 2024. After selecting the sample and collecting the required data, the research variables were calculated. Finally, the Chow and Hausman tests were employed to analyze the data and test the research hypotheses. The results of the hypothesis tests indicated that CSR has a direct and significant relationship with financial performance. The results of the second hypothesis showed that CSR does not have a significant relationship with financial performance in companies with highly specialized audit committees. In other words, due to the absence of a significant relationship between ACE and financial performance, ACE also neutralizes the direct relationship between CSR and financial performance.

Keywords: Corporate social responsibility, Audit committee expertise, Financial performance.

1 | Introduction

Corporate Social Responsibility (CSR) has become an important component of business strategy in recent years. Researchers and business practitioners have increasingly focused on the relationship between CSR and financial success in emerging countries. CSR refers to a business's commitment to conducting its operations in a socially and environmentally responsible manner. This indicates that, in addition to generating profits, a business also considers its impact on various stakeholders and society. Scholars have extensively examined the impact of CSR on business success, with mixed results. The relationship between CSR and financial performance varies depending on the context and industry. Empirical evidence and theoretical foundations

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suggest that CSR and financial outcomes may be positively correlated in developing economies. However, it is essential to recognize that the impact of CSR on financial performance is complex and may not always be immediately or clearly observable. This is because it often involves intangible outcomes and long-term strategic considerations. Observational data from emerging economies have provided insights into the correlation between CSR and financial outcomes. However, conflicting claims have been made regarding these outcomes. Some studies have identified a favorable correlation. Companies that allocate resources to CSR initiatives, such as community development programs or environmentally sustainable practices, achieve better financial performance than their peers.

Furthermore, the implementation of CSR policies can help companies operating in emerging markets mitigate potential risks associated with environmental and social concerns. As Frederiksen [1] stated, this, in turn, can enhance their financial stability and ability to withstand challenges. According to previous studies, companies with strong CSR performance may have an advantage in obtaining capital and financing on more favorable terms. Investors have greater confidence in these companies because they perceive them as being less risky. Consumers in developing markets are becoming increasingly aware of social and environmental issues. Companies that align themselves with these priorities through CSR initiatives may attract more customers, resulting in increased sales and revenues. In developing markets, regulatory authorities may encourage or mandate CSR practices. Companies that comply with such regulations may benefit from specific advantages, such as tax exemptions or government contracts.

However, CSR may lead to lower financial performance for early adopters due to the absence of a robust system for measuring and reporting the benefits of sustainability reporting and disclosure. Moreover, heavy investment in CSR activities may divert resources away from core business activities. Cavaco and Crifo [2] argue that engaging in CSR activities that satisfy one stakeholder group may dissatisfy another group and potentially harm financial performance. Companies operating in developing markets may engage in CSR activities merely to comply with social expectations and government regulations rather than as part of a strategic business decision. Empirical evidence in the literature supports these arguments.

In addition, there are factors that affect the relationship between CSR and financial performance. The audit committee is an important factor that has received relatively less attention. The audit committee is responsible for overseeing a company's financial reporting, internal controls, and risk management. Therefore, for effective corporate governance, the expertise of audit committee members is of great importance. This study examines the relationship between CSR and corporate financial performance in the Iranian capital market. In addition, it investigates how the experience of audit committee members alters the relationship between CSR and business performance in developing markets. The objective of this study is to determine whether the experience of audit committee members moderates the relationship between CSR and corporate financial performance.

This study employs various regression analyses to assess the moderating effect of audit committee members' expertise on the relationship between CSR and corporate financial performance. By focusing on developing markets, particularly within the distinctive context of regions such as Iran, the findings of this study contribute to the existing literature on CSR and corporate performance. Although the impact of CSR on business performance in developed economies has been extensively examined, our research addresses a significant knowledge gap by investigating how it affects developing markets. Understanding the relationship between CSR and corporate performance in these contexts is crucial because they present both opportunities and challenges for businesses seeking to implement CSR practices. Furthermore, our findings have practical implications for businesses operating in developing regions. We emphasize the value of having audit committee members who possess the necessary skills and are capable of addressing the complexities associated with measuring and reporting CSR. Our research enables businesses to understand how CSR affects their bottom line, communicate CSR strategically, and benefit from the rewards of their efforts. The knowledge gained from our study can be utilized by policymakers to develop regulations that encourage CSR in emerging economies. Our research emphasizes the importance of appointing audit committee members

with specialized knowledge and calls upon policymakers to consider such expertise as a critical factor in overseeing and promoting CSR practices within their regulatory frameworks.

The relationship between the audit committee and CSR has received increasing attention in recent years. Audit committees are responsible for overseeing a company's financial reporting and disclosure and play a key role in ensuring that the company complies with legal and regulatory requirements. Accordingly, audit committee members' expertise is believed to be a major factor in promoting sustainable performance and disclosure within a company. By providing oversight and guidance regarding social and environmental risks and opportunities, audit committee members with greater expertise can help ensure that companies manage their CSR activities effectively and responsibly.

Studies have found a positive relationship between Audit Committee Expertise (ACE) and CSR. For example, a study by Mohammadi et al. [3] found that audit committee financial expertise had a positive effect on CSR performance in Iranian companies during 2012–2018. The authors argued that audit committee members with greater expertise are better able to identify and monitor social and environmental risks and opportunities, which can lead to improved CSR performance. They also argued that other audit committee characteristics, such as size and independence, may affect CSR.

Similarly, a study by Dwekat et al. [4] found that ACE had a positive effect on CSR disclosure for a sample of European companies listed on the STOXX 600 Index during 2012–2018. The authors suggested that audit committee members with greater expertise are better able to understand the importance of CSR disclosure and can work more effectively with management to ensure that the company discloses accurate and relevant information regarding its CSR activities. In contrast, Bualay and Al-Ajmi [5] reported a negative relationship between audit committee financial expertise and sustainability reporting in banks in the Gulf Cooperation Council (GCC) countries between 2013 and 2017. This suggests that, within the context of the GCC countries during that period, having a higher level of financial expertise on the audit committee may not have resulted in increased sustainability reporting by banks.

Although the concept of CSR has been widely discussed in theory and practice, there is still no universally accepted conceptual definition of it. In the classification of CSR components, three dimensions, economic, social, and environmental, have been identified. The measurement of CSR can be conducted in three areas: The interests of shareholders and employees, the interests of society and the public, and environmental considerations. In terms of the interests of shareholders and employees, improved financial performance, reduced operating costs, enhancement of the company's name and reputation, increased sales and customer trust, greater productivity and higher quality, reduced need for new regulations, access to capital, improved product safety, and reduced need for new guarantees are considered as criteria.

Regarding the interests of society and the public, participation in charitable activities, provision of voluntary employee programs, public participation in general education, employment and programs supporting homeless people, and product safety and quality are taken into consideration. With regard to environmental considerations, increased recycling of materials, greater product functionality and durability, greater use of renewable resources, and the application of environmental management tools in business plans, including life-cycle and cost assessments and environmental management standards, are used as indicators of corporate responsibility. In this regard, senior corporate managers, through the participation of human and financial resources and through negotiation and reaching common outcomes with other components of civil society, such as non-governmental organizations, the United Nations, and local and regional governments, can play an important role in implementing organizational social responsibility strategies.

On the other hand, measuring market performance in the decision-making process is one of the most important issues in the field of financial economics; therefore, the application of financial and market measures to evaluate corporate performance is essential. In competitive environments, managers should use the performance measurement process to consciously guide operations appropriately toward progress and in accordance with the organization's intended objectives and strategies [6]. Corporate social accountability and adherence to business social ethics generate positive signals in society, directing public opinion, particularly

investors, toward the company. Under such circumstances, the company's share value increases in the market and shareholders' wealth is maximized. Therefore, the first hypothesis of our study examines the effect of CSR on financial performance. In line with the main hypothesis of the study, we intend to examine the effect of ACE on financial performance through CSR. Accordingly, the second hypothesis of our study examines the moderating role of ACE in the relationship between CSR and financial performance.

2 | Literature Review

Li et al. [7], in a study entitled "CSR and financial performance in a cross-country context: A meta-analysis," analyzed 223 studies from different countries and found that the relationship between CSR and corporate financial performance is generally positive and significant. This relationship is more evident in developing economies, weaker financial markets, and countries with stronger voluntary CSR disclosure.

Husein [8], in a study entitled "the relationship between CSR and financial performance: Reflections on the U.S. technology industry," examined 89 technology companies listed on the NASDAQ and concluded that CSR has a positive and significant effect on accounting performance but a negative effect on market performance. Among the dimensions of CSR, the environmental and governance pillars had positive effects, whereas the social pillar had a negative effect on accounting performance.

Lin et al. [9], in a study entitled "the long-term impact of CSR on financial performance: Evidence from emerging markets," using data from companies in emerging markets, found that CSR has a positive and significant effect on long-term financial performance. This effect was stronger in companies with consistent and sustainable CSR strategies.

Phan et al. [10], in their study entitled "disruptive and incremental innovations as mediators in the CSR–financial performance relationship: Evidence from Vietnam," demonstrated that disruptive innovation plays a strong mediating role in the relationship between CSR and financial performance. Furthermore, the effect of CSR on incremental innovation is stronger in state-owned enterprises.

Wijesiri et al. [11], in a study entitled "examining the relationship between CSR and financial performance in social enterprises: The mediating role of productivity," analyzed data from microfinance institutions in Latin America and found that productivity plays an important mediating role in translating CSR into sustainable financial outcomes. These findings indicate that CSR can simultaneously promote economic and social objectives.

Kaleem et al. [12], in a study entitled "examining the relationship between CSR and financial performance: the role of artificial intelligence in improving CSR and financial outcomes," demonstrated that the use of artificial intelligence in CSR implementation can increase its effectiveness and efficiency and generate higher financial returns compared with traditional CSR techniques. The study highlights the role of artificial intelligence in ESG monitoring, risk analysis, and enhancing investor confidence.

Seyfideli and FarhadTouski [13], in a study entitled "examining the impact of social responsibility on financial performance, financial stability, and financial inclusion in Iranian commercial banks," found that social responsibility has a positive and significant effect on financial performance, financial stability, and financial inclusion. In other words, increasing social responsibility activities can lead to improved profitability, reduced risk, and the expansion of banking services within society.

Salehi et al. [14], in a study entitled "examining the relationship between social responsibility and cash flows in companies listed on the Tehran Stock Exchange," concluded that although companies engage in social activities, no significant relationship was observed between the level of social responsibility and cash flows. This finding highlights the need for greater attention to how CSR activities are implemented and how their financial returns are measured.

Meviani and Syafruddin [15], in a study entitled "the impact of social responsibility on financial performance with audit quality as a moderation variable in Indonesia," concluded that CSR has a positive and significant

effect on financial performance and that audit quality plays an effective mediating role in this relationship. Thus, companies with higher audit quality derive greater financial benefits from CSR.

Fakhari and Fallahpour [16], in a study entitled "examining the mediating effect of financial performance on the relationship between social responsibility and market value added in companies listed on the Tehran Stock Exchange," found that return on assets and Tobin's Q ratio, as indicators of financial performance, mediate the relationship between social responsibility and market value. This means that stronger financial performance can enhance the effect of social activities on firm value.

Aghaie Chadeghani et al. [17], in a study entitled "the effect of corporate social responsibility and managerial ability on firm value considering the role of profitability in companies listed in the Tehran Stock Exchange," demonstrated that CSR and managerial ability have a positive and significant effect on firm value. In other words, an increase in CSR and managerial ability leads to an increase in firm value. In addition, the results indicate that profitability strengthens the relationship between CSR and managerial ability and firm value.

Rostami et al. [18], in a study entitled "Investigating the moderating role of ownership concentration on the relationship between corporate social responsibility performance and information asymmetry in companies listed on the Tehran Stock Exchange," found, based on the results of the first hypothesis, that there is a significant relationship between CSR performance and information asymmetry. The results of the second hypothesis indicated that the ownership structure weakens the negative relationship between CSR performance and information asymmetry.

H1: There is a significant relationship between CSR and financial performance.

H2: There is a significant relationship between CSR and financial performance in companies with highly specialized audit committees.

3 | Research Method

This study employs an applied research design and uses a quantitative approach to investigate the relationship between CSR and financial performance, with particular emphasis on the moderating role of ACE. The statistical population consists of companies listed on the Tehran Stock Exchange. The study covers the period from 2019 to 2024.

The sample was selected from the population based on predefined selection criteria and data availability. After applying the relevant criteria and excluding companies with insufficient or incomplete information, a final sample of 145 companies was obtained. Accordingly, the study analyzes the observations of these companies over the six-year study period using panel data techniques.

3.1 | Statistical Population

All companies listed on the Tehran Stock Exchange constitute the statistical population of the present study, and the proposed hypotheses will be examined and tested in relation to this population. Due to the large size of the statistical population and the existence of certain inconsistencies among its members, the following criteria were established for selecting the statistical sample. Accordingly, the sample was selected using systematic elimination. The criteria are as follows:

The companies must have been listed on the stock exchange before 2019 and their shares must have been traded on the stock exchange from the beginning of 2019. The companies must not have experienced operational interruptions during the years 2019-2024, and their fiscal year must have ended on March 20 in order to enhance comparability. The companies must not have changed their fiscal year during these years, and the required information must have been available for data extraction. The companies must not belong to banks and financial institutions, investment and intermediary companies, holding companies, or leasing companies, because the disclosure of their corporate governance structures differs. In addition, the companies must have been profitable. Based on the aforementioned criteria, 145 companies were selected as the systematic and purposive sample for the period from 2019-2024.

3.2 | Models and Variables

The following models are used to test the hypotheses:

Model 1:

$$ROA\,it = b0 + b1CSRit + b2SIZEit + b3AGEit + b4LEVit + b5DIVit + b6LIQit + b7SGi + vit. \quad (1)$$

Model 2:

$$ROAit = b0 + b1CSRit + b2ACEit + b3(CSRit \times ACEit) + b4SIZEit + b5AGEit + b6LEVit + b7DIVit + b8LIQit + b9SGi + vit. \quad (2)$$

In these models, ROA represents financial performance, SIZE represents firm size, AGE represents firm age, DIV represents earnings per share, SG represents the percentage growth in the firm's sales, CSR represents CSR, LEV represents financial leverage, LIQ represents liquidity, ACE represents ACE, b0 represents the constant term, b1 to ... represent the parameters associated with the control variables, the subscript i denotes the firm number, and the subscript t indicates the time period under study. The symbol vit is used to denote the random error term conventionally used in regression models.

3.2.1 | Dependent variable

ROA (financial performance): Return on assets is calculated by dividing net income by total assets.

3.2.2 | Independent Variables

In this study, CSR is measured using the indicators of the social impacts of the company's activities, social commitments, and the company's social benefits. In this study, following Su et al. [19], CSR is measured using the indicators of the social impacts of the company's activities, social commitments, and social benefits, as expressed in the following relationship:

$$CSRi = Csociety + Cenvironment + CLeverage.$$

CSRi: Represents the CSR of firm i. Csociety: Represents the social impacts of the activities of firm i, which is calculated using the following formula:

Csociety: $(-1) \times$ [(operating cash flow of firm i − net income of firm i) / total assets of firm i]

Cenvironment: Represents the social commitments of firm i, which is calculated using the following formula:

Cenvironment: total assets of firm i /(total value of shares of firm i + total cash and cash equivalents of firm i)

CLeverage: Represents the social benefits of firm i, which is calculated as follows:

CLeverage: Total value of shares of firm i / (short-term liabilities of firm i + long-term liabilities of firm i)

ACE represents ACE. Accordingly, if the audit committee has at least one member with financial expertise, it is assigned a value of 1; otherwise, it is assigned a value of 0.

3.3 | Control Variables

Firm Size: The natural logarithm of total assets at the end of the fiscal year. Financial leverage: In this study, financial leverage refers to the ratio of total liabilities to total assets. Earnings per share: In this study, earnings per share refers to the logarithm of earnings paid per share. Liquidity: In this study, liquidity refers to the ratio of current assets to current liabilities. Firm age: In this study, firm age refers to the number of years from the establishment of the company to the year of the study. Sales growth: Sales growth is calculated as the difference between the firm's sales in year t and year t−1, divided by sales in year t−1:

$$\text{Sale growth} = \frac{\text{Sale i, t} - \text{Sale i, t_1}}{\text{Sale i, t_1}}.$$

The coefficient b1 in the first model and the coefficient b3 in the second model indicate whether each hypothesis is supported or rejected.

4 | Results and Findings

4.1 | Descriptive Statistics of the Data

The following table presents the descriptive statistics of the research variables over the study period. The descriptive statistics of the research variables, which were measured using company data during the test period, include the mean, median, standard deviation, minimum, and maximum values (*Table 1*).

Table 1. Descriptive statistics of research variables.

Variable Description		Mean	Median	S.D	Min	Max	Skewness	Kurtosis
Firm Age	Age	1.191	1.230	0.235	0.301	1.690	-0.319	3.071
Corporate social responsibility	CSR	2.900	2.005	2.152	1.259	9.584	1.018	4.213
Corporate social responsibility in companies with highly specialized audit committees	CSR*ACE	1.210	0.000	1.889	0.000	7.488	0.796	3.059
Dividend	DIV	1.977	2.352	1.157	0.000	3.813	-0.773	2.155
Audit committee expertise	ACE	0.214	0.000	0.365	0.000	1.000	0.057	1.003
Financial leverage	LEV	0.624	0.609	0.256	0.1145	0.935	0.487	2.956
Liquidity	LIQ	1.222	1.081	0.713	0.340	3.284	1.375	4.709
Return on assets	ROA	0.306	0.365	0.123	-0.250	0.950	-1.756	5.219
Sales growth	SG	0.135	0.112	0.305	-0.393	0.825	0.442	2.871
Firm size	SIZE	6.010	5.589	0.738	4.686	8.058	0.849	3.417

For example, for the leverage variable, the mean, median, standard deviation, minimum, maximum, skewness, and kurtosis are 0.624, 0.609, 0.256, 0.1145, 1.235, 0.487, and 2.956, respectively. Since the mean leverage is greater than the median leverage, the distribution of leverage among the statistical sample is right-skewed. This can also be observed from the positive value of the skewness coefficient.

4.2 | Correlation Coefficient Between the Research Variables

The following table presents the degree of correlation among the main research variables. Positive coefficients indicate positive correlations between the respective variables, and vice versa. For example, the correlation coefficient between firm size and sales growth is 0.070, whereas the correlation coefficient between leverage and firm size is −0.008. Similarly, the correlation coefficients and their significance levels for the other variables can be observed in the *Table 2*.

Table 2. Descriptive statistics and skewness of the leverage variable.

	Age	ACE	DIV	CSR*ACE	CSR	SG	ROA	LIQ	LEV	SIZE
Age	1.000									
CSR	0.173				1.000					
CSR*ACE	0.053			1.000	0.174					
DIV	-0.237		1.000	0.026	-0.402					
ACE	-0.081	1.000	0.281	0.623	-0.294					
LEV	0.150	-0.265	-0.354	0.034	0.634				1.000	
LIQ	-0.040	0.122	0.152	-0.018	-0.327			1.000	-0.655	
ROA	-0.177	0.238	0.343	0.051	-0.304		1.000	0.033	-0.286	
SG	-0.052	0.159	0.067	0.076	-0.137	1.000	0.156	0.107	-0.128	
SIZE	-0.111	0.114	0.176	0.090	0.026	0.070	0.865	-0.208	-0.008	1.000

If the correlation coefficient between the independent variables ranges from 0 to 0.25, the correlation is considered weak; if it ranges from 0.25 to 0.50, the correlation is considered moderate; if it ranges from 0.50 to 0.75, the correlation is considered relatively strong; and if it ranges from 0.75 to 1.00, the correlation is considered very strong. In this table, the correlation coefficient between financial performance and firm size is 0.865, which indicates a strong correlation. However, since these two variables are not independent variables in the same model, this high correlation does not create a problem.

4.3|Testing the First Main Hypothesis

The F-statistic (160.69) indicates that the overall regression model is statistically significant. As shown in the lower section of the table, the coefficient of determination (R^2) and the adjusted coefficient of determination (Adjusted R^2) of the model are 0.77 and 0.76, respectively. Therefore, it can be concluded that, in the aforementioned regression equation, approximately 76% of the financial performance of the companies in the sample is explained by the independent and control variables. In *Table 3*, positive (negative) values in the coefficient column indicate the direct (inverse) effect of each variable on the financial performance of the company.

Table 3. Correlation coefficients among research variables.

Variable Name		Variable Coefficient	Coefficient Value	t-Stat	Sig.
Constant		β_0	0.59	2.77	0.00
CSR	CSR	β_1	0.08	13.06	0.00
Firm Age	Age	β_2	-0.23	-3.07	0.00
Dividend	DIV	β_3	0.06	5.61	0.00
Financial leverage	LEV	β_4	0.12	2.02	0.04
Liquidity	LIQ	β_5	0.08	4.07	0.00
Sales Growth	SG	β_6	0.06	2.64	0.00
Firm Size	SIZE	β_7	0.89	34.00	0.00
Coefficient of determination		0.77	F-statistic		160.69
Adjusted coefficient of determination		0.76	P-value		0.0000
			Durbin-Watson Statistic		1.89
Chow test: 26.69 (significance level: 0.00)		Hausman test: fixed-effects panel model	Heteroskedasticity test: Heteroskedasticity present GLS		Jarque–Bera test Significance Level: 0.00

The F-statistic (160.69) indicates that the overall regression model is statistically significant. As shown in the lower section of the table, the coefficient of determination (R^2) and the adjusted coefficient of determination (Adjusted R^2) of the model are 0.77 and 0.76, respectively. Therefore, it can be concluded that, in the aforementioned regression equation, approximately 76% of the financial performance of the companies in the sample is explained by the independent and control variables. In *Table 3*, positive (negative) values in the coefficient column indicate the direct (inverse) effect of each variable on the financial performance of the company.

Test result: The significance level (p-value) of the CSR variable (0.00) is lower than the significance level considered in the present study (5%). Furthermore, the absolute value of the t-statistic associated with this variable (13.06) is greater than the critical t-value obtained from the table at the corresponding degrees of freedom. Therefore, the H_0 hypothesis is rejected at the 95% confidence level, and H_1, which states that "there is a significant relationship between CSR and the financial performance of the company," is supported. This relationship is positive and statistically significant.

4.4|Testing the Second Main Hypothesis

The F-statistic (142.32) indicates that the overall regression model is statistically significant. As shown in the lower section of the table, the coefficient of determination (R^2) and the adjusted coefficient of determination (Adjusted R^2) for the model are 0.77 and 0.76, respectively. Therefore, it can be concluded that approximately 76% of the financial performance of the companies under study is explained by the independent and control variables included in the regression model. In *Table 4*, positive (negative) values in the coefficient column indicate the direct (inverse) effect of each variable on financial performance.

Table 4. CSR significance test and hypothesis results.

Variable Name		Variable Coefficient	Coefficient Value	t-Stat	Sig.
Constant		β_0	0.60	2.84	0.00
Corporate Social Responsibility	CSR	β_1	0.08	12.47	0.00
Audit Committee Expertise (ACE)	ACE	β_2	0.00	0.17	0.86
CSR in Companies with Highly Specialized Audit Committees	CSR*ACE	β_3	0.00	0.61	0.54
Firm Age	Age	β_4	-0.23	-3.07	0.00
Dividend	DIV	β_5	0.06	5.58	0.00
Financial Leverage	LEV	β_6	0.12	1.99	0.04
Liquidity	LIQ	β_7	0.08	4.11	0.00
Sales Growth	SG	β_8	0.06	2.59	0.00
Firm Size	SIZE	β_9	0.89	34.08	0.00
Coefficient of determination		0.77	F-statistic		142.32
Adjusted coefficient of determination		0.76	P-value		0.0000
			Durbin-Watson Statistic		1.88
Coefficient of determination		Hausman Test: Fixed-Effects Panel Model	Heteroskedasticity test: heteroskedasticity present (GLS)		Jarque–Bera Test Significance Level: 0.00

The F-statistic (142.32) indicates that the overall regression model is statistically significant. As shown in the lower section of the table, the coefficient of determination (R^2) and the adjusted coefficient of determination (Adjusted R^2) for the model are 0.77 and 0.76, respectively. Therefore, it can be concluded that approximately 76% of the financial performance of the companies under study is explained by the independent and control variables included in the regression model. In *Table 4*, positive (negative) values in the coefficient column indicate the direct (inverse) effect of each variable on financial performance.

Test result: The significance level (p-value) of the CSR variable in companies with highly specialized audit committees (0.54) is greater than the significance level considered in the present study (5%). Furthermore, the absolute value of the t-statistic for this variable (0.61) is smaller than the critical t-value obtained from the statistical table at the corresponding degrees of freedom. Therefore, the H_0 hypothesis is not rejected at the 95% confidence level, and H_1, which states that "CSR in companies with highly specialized audit committees has a significant relationship with financial performance," is not supported. Accordingly, no statistically significant relationship is observed between CSR and financial performance in companies with highly specialized audit committees. The direct relationship between CSR and financial performance can be analyzed from several key perspectives. This relationship is generally considered positive and significant; however, it involves certain complexities of its own.

5 | Discussion and Conclusion

The purpose of this study was to investigate the relationship between CSR and financial performance and to examine whether ACE alters this relationship in companies listed on the Tehran Stock Exchange. The findings provide evidence that the relationship between CSR and financial performance is not independent of the corporate governance environment in which CSR activities are implemented and monitored. In particular, the results indicate that CSR is positively and significantly associated with financial performance when considered in the baseline model. However, after incorporating ACE and its interaction with CSR, the interaction term is not statistically significant. This finding suggests that the relationship between CSR and financial performance does not significantly differ according to the level of ACE in the companies examined.

The results of the first hypothesis demonstrate a positive and statistically significant relationship between CSR and financial performance. The estimated coefficient of CSR is 0.08, with a t-statistic of 13.06 and a significance level below 5%. Therefore, the hypothesis proposing a significant relationship between CSR and financial performance is supported. This finding suggests that companies that demonstrate greater commitment to social, environmental, ethical, and stakeholder-related responsibilities tend to exhibit better financial performance. One possible explanation for this finding can be provided through stakeholder theory. Companies that respond effectively to the interests of their stakeholders may develop stronger relationships with customers, employees, investors, suppliers, and other relevant groups. Such relationships can contribute to customer loyalty, employee commitment, operational efficiency, and ultimately improved financial outcomes.

The finding can also be interpreted through legitimacy theory. CSR may enable firms to maintain and strengthen their legitimacy within the broader social and institutional environment. Companies that demonstrate responsible behavior may receive greater acceptance from society and other stakeholders, thereby reducing reputational risks and potential conflicts. This improved legitimacy may create economic benefits through enhanced corporate reputation, stronger market relationships, and improved access to financial resources. In addition, responsible corporate behavior may contribute to lower perceived risk and, consequently, a reduction in financing costs. Investors may also perceive firms with stronger CSR performance as better positioned to manage social and environmental risks, which can increase their attractiveness to investors whose investment decisions incorporate environmental, social, and governance considerations.

The positive relationship between CSR and financial performance may further reflect the long-term economic benefits of responsible corporate behavior. CSR initiatives can improve employee motivation and productivity, strengthen organizational commitment, enhance customer perceptions, and support the development of a favorable corporate image. Although some CSR activities require substantial initial expenditures, their benefits may accumulate over time and ultimately contribute to improved financial performance. Therefore, CSR should not necessarily be viewed as a purely discretionary cost; when appropriately designed and aligned with corporate objectives, it can represent a strategic investment capable of generating economic value.

The results of the second hypothesis provide a more nuanced interpretation of this relationship. Although the coefficient of CSR remains positive and statistically significant in the extended model, the coefficient of ACE is statistically insignificant, and more importantly, the interaction term between CSR and ACE is not statistically significant. The interaction coefficient is approximately zero, with a t-statistic of 0.61 and a significance level of 0.54. Consequently, there is insufficient statistical evidence to conclude that ACE significantly moderates the relationship between CSR and financial performance. In other words, the positive association observed between CSR and financial performance in the baseline model cannot be attributed to differences in ACE.

This finding may be explained by the primary responsibilities and institutional position of audit committees. ACE is generally associated with financial reporting, internal control, risk management, and oversight of the

external and internal auditing processes. Although these functions can contribute substantially to corporate governance, they do not necessarily imply direct responsibility for the formulation, implementation, or strategic evaluation of CSR activities. Consequently, even when an audit committee possesses a high level of financial and accounting expertise, such expertise may not be sufficient to influence the extent to which CSR activities translate into financial benefits.

Another possible explanation is the limited integration of CSR into the strategic and governance structures of companies. If CSR is treated primarily as a social or reputational activity rather than as an integral component of corporate strategy, the expertise of the audit committee may have limited influence on its financial consequences. In such circumstances, the audit committee may concentrate primarily on traditional financial reporting and control issues, while CSR-related decisions remain under the responsibility of executive management or other governance bodies. Therefore, the presence of financially sophisticated audit committee members does not necessarily guarantee that CSR activities will be systematically evaluated in terms of their potential financial consequences.

The absence of a significant moderating effect may also be associated with the time horizon of CSR activities. Many of the economic benefits associated with CSR, including reputation enhancement, customer loyalty, employee commitment, and stakeholder trust, may materialize over a relatively long period. The annual financial performance measures used in empirical research may therefore fail to fully capture the delayed effects of CSR. This issue may be particularly relevant when CSR investments require substantial initial expenditures while their economic returns emerge gradually. Accordingly, ACE may not appear to moderate the CSR–financial performance relationship within the relatively short observation period examined in this study.

The correlation analysis provides additional descriptive evidence regarding the relationships among the research variables. Most of the correlations are within weak to moderate ranges, suggesting that severe linear associations among the explanatory variables are generally not evident. Although a relatively strong correlation is observed between financial performance and firm size, these variables do not represent independent variables simultaneously entering the same explanatory role in the model; therefore, this correlation does not in itself indicate a multicollinearity problem in the research framework. The regression results also demonstrate that the models possess substantial explanatory power. In both specifications, the coefficient of determination is approximately 0.77 and the adjusted coefficient of determination is 0.76, indicating that approximately 76% of the variation in financial performance is explained by the variables incorporated into the models. Moreover, the statistically significant F-statistics confirm the overall significance of the estimated regression models.

The control variables also provide some meaningful insights into the determinants of financial performance. Firm size exhibits a strong positive and statistically significant coefficient, suggesting that larger firms tend to achieve higher levels of financial performance within the sample. This result may reflect economies of scale, greater access to financial resources, stronger market positions, and more developed organizational capabilities. Dividend policy, liquidity, financial leverage, and sales growth also show positive and statistically significant relationships with financial performance. These findings indicate that firms with stronger liquidity positions, higher sales growth, and particular financial and dividend characteristics may experience better financial outcomes. In contrast, firm age has a negative and statistically significant coefficient, suggesting that older firms do not necessarily achieve superior financial performance. This may be related to organizational rigidity, slower adaptation to changing market conditions, or the accumulation of less efficient organizational structures over time.

Overall, the findings suggest that CSR can be an important factor associated with improved financial performance among companies listed on the Tehran Stock Exchange. However, the results do not support the assumption that ACE significantly changes this relationship. The evidence therefore points toward a distinction between the general benefits of CSR and the specific governance mechanisms through which those benefits are realized. While CSR may create economic value through stakeholder relationships, legitimacy,

reputation, and risk reduction, the expertise of audit committees, particularly when primarily focused on accounting and financial reporting, may not be sufficient to influence this value-creation process.

From a practical perspective, the findings emphasize the importance of integrating CSR into the core strategic framework of firms rather than treating it as a peripheral organizational activity. Companies may benefit from developing clear and measurable CSR objectives and linking them to operational and financial goals. The establishment of dedicated CSR units or the appointment of specialized CSR managers could facilitate the systematic planning, implementation, monitoring, and evaluation of CSR activities. In addition, transparent and continuous CSR reporting can provide investors and other stakeholders with more reliable information regarding the social and environmental consequences of corporate activities and their potential economic implications.

The findings also suggest the need for greater integration between corporate governance and sustainability management. Although audit committees play an important role in financial oversight, their effectiveness in the CSR domain may be enhanced by incorporating sustainability-related expertise or by establishing stronger coordination between audit committees and other governance mechanisms responsible for sustainability. The use of internationally recognized reporting and measurement frameworks, such as GRI, ESG, and SASB, together with appropriate adaptation to the institutional and economic characteristics of Iran, may also improve the comparability and reliability of CSR information.

Despite these contributions, the study has several limitations that should be considered when interpreting its findings. First, CSR was measured using the model developed by Su et al. [19]. Although this measure provides a structured approach to assessing CSR, alternative measurement frameworks may capture different dimensions of CSR and could potentially produce different empirical results. Therefore, the observed relationship between CSR and financial performance may be sensitive to the measurement approach adopted. Second, the relatively short time series available for each firm prevented the use of firm-level time-series regression models. Consequently, the study relies on panel-data estimation to exploit the available cross-sectional and temporal variation [20], [21].

Future research can address these limitations by employing alternative CSR measurement frameworks and separately examining the environmental, social, and governance dimensions of CSR. Such an approach may reveal that different dimensions of CSR have different effects on financial performance. Future studies may also incorporate mediating variables such as corporate reputation, brand image, employee commitment, financial risk, cost of capital, and stakeholder engagement to provide a more comprehensive explanation of the mechanisms through which CSR affects financial performance. In addition, researchers may employ more advanced econometric and structural approaches, including structural equation modeling, PLS-SEM, or other causal inference techniques, to investigate the direction and mechanisms of these relationships more rigorously.

In conclusion, the evidence from companies listed on the Tehran Stock Exchange indicates that CSR is positively and significantly associated with financial performance. However, ACE does not significantly moderate this relationship. The findings therefore suggest that the financial benefits of CSR may depend more strongly on the strategic integration and effective implementation of responsible corporate practices than on the financial expertise of audit committee members alone. Strengthening CSR measurement, improving sustainability reporting, integrating CSR into corporate strategy, and developing governance structures with appropriate sustainability expertise may provide a more effective pathway for translating responsible corporate behavior into sustainable financial value.

Abbreviation

CSR	Corporate Social Responsibility
ACE	Audit Committee Expertise
GCC	Gulf Cooperation Council

Conflict of Interest

The authors declare no competing interests related to this study. The authors alone are responsible for the content and writing of this manuscript.

Data Availability

All relevant data generated or analyzed during this study are included in this published article. No supplementary datasets are available.

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Use of Artificial Intelligence

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