



The impact of Corporate Social Responsibility on Financial Performance: The Moderating role of Investor Sentiments

Maedeh El-Sadat Shaker Ardakani¹, Zohreh Arefmanesh^{2*},

Mohammad Mahdi Bozorg³

1. MSc of accounting, Yazd university, Yazd, Iran. msardakan1999@gmail.com

2. Associate Professor, Department of Accounting and finance, Faculty of Economics, management and Accounting, Yazd University, Yazd, Iran. arefmanesh@yazd.ac.ir

3. PhD. student in Finance-Financial Engineering, Yazd university, Yazd, Iran.

mmbozorg@stu.yazd.ac.ir

1. Introduction

Financial performance, a key driver of corporate sustainability and long-term viability, reflects a firm's efficiency in generating revenues and profits (Barney, 1991). It is assessed via metrics like return on assets (ROA), return on equity (ROE), and return on sales (ROS), critical for stakeholders such as managers, investors, and creditors. Corporate social responsibility (CSR) is a strategic imperative, enhancing stakeholder trust, competitive advantage, and growth. CSR reflects a firm's commitment to ethical conduct, environmental stewardship, and social engagement, positively affecting financial performance by improving reputation and attracting responsible investors (Orlitzky et al., 2003). Investor sentiment, a behavioral finance construct, shapes investment decisions and market dynamics (Baker & Wurgler, 2006). It drives asset pricing beyond fundamentals and influences perceptions of CSR

initiatives, moderating their financial impact. This study investigates how CSR affects financial performance and whether investor sentiment moderates this relationship, providing evidence on CSR's effectiveness under varying market sentiments in the Iranian context.

2. Hypotheses

The research hypotheses are as follows:

H1: Corporate social responsibility positively affects financial performance.

H2: Investor sentiment moderates the relationship between corporate social responsibility and financial performance.

3. Methods

This quantitative, longitudinal study adopts a deductive–inductive design, covering 2016 to 2023. The independent variable is corporate social responsibility (CSR), measured across five dimensions (human resources, community responsibilities, products and services, customer orientation, energy efficiency), with financial performance (ROA, ROE, ROS) as the dependent variable and investor sentiment as the moderating variable. Control variables include firm size, board structure, financial leverage, and market-to-book ratio. Data were extracted from Rahavard Novin, Codal, and TSE Client systems. From 737 firms listed on the Tehran Stock Exchange, 179 were selected via systematic sampling. Multicollinearity was assessed using the Variance Inflation Factor (VIF), confirming its absence. Chow and Hausman tests determined the appropriate panel data model, estimated using EViews.

4. Results

H1: CSR positively affects financial performance, with significant effects ($p < 0.05$) across ROA, ROE, and ROS, supporting H1. H2: Investor sentiment significantly moderates the CSR–financial performance relationship for ROA and ROE, with significant interaction terms, but not for ROS, partially supporting H2.

5. Conclusion

This study demonstrates that CSR, through its human resources, community, product, customer, and energy efficiency dimensions, positively influences financial performance, particularly under favorable investor sentiment. Firms with robust CSR practices achieve superior financial outcomes, due to enhanced stakeholder engagement and investor confidence. Investor sentiment influences how CSR efforts are valued, amplifying financial benefits during optimistic periods and weakening them during pessimistic ones. Managers should align CSR strategies with investor expectations, leveraging transparent communication to maximize financial returns. Policymakers should promote CSR adoption to enhance market efficiency and investor trust. Future research could explore how governance mechanisms interact with CSR and sentiment.

Keywords: Corporate social responsibility, financial performance, investor sentiment, competitive advantage, social performance.