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The Role of Company Size on the Relationship Between Corporate Social Responsibility, Audit Quality, and Firm Performance

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ABSTRACT

This study explores the impact of corporate social responsibility (CSR) practices and audit quality (AQ) on the financial performance of non-financial firms in Pakistan, also considering how company size may act as a moderator. CSR disclosure was assessed using a checklist covering social, environmental, and governance aspects, while for audit quality, a dummy variable is used. The study relies on panel data from 2021 to 2024. The performance is measured using Return on Equity (ROE). The study employed pooled OLS and fixed effects regression models to account for firm-specific differences. Findings of the study indicate that higher levels of corporate social responsibility (CSR) disclosure and audit quality are significantly positively linked to better firm performance and play a very important role in enhancing reputation, governance, and stakeholder trust. Conversely, the relationship between firm size and performance is significant and negative, suggesting that larger firms may be less efficient and that size can diminish resource advantages. This research adds to governance and sustainability discussions by providing specific evidence from Pakistan and offering valuable insights to policymakers, corporate leaders, and investors.

Keywords: *Corporate Social Responsibility, Audit Quality, Firm Size, Governance, Sustainability*

INTRODUCTION

Organizational effectiveness is a very important measure of an organization's performance in terms of attaining both strategic and operational objectives of an organization. It is an indication of the ability of the firm to make sustainable profits, ensure efficiency, and provide long-term value to the shareholders and the stakeholder communities at large. Firm performance is one of the most important indicators of managerial skill, competitive strength, and strategy in the academic environment and professional

practice. The most common indicators used during performance analysis are financial numbers like Return on Assets (ROA), which measures the earnings in contrast to the usage of assets, and Return on Equity (ROE), which measures the profitability as viewed by the shareholder. Strong performance is so crucial in achieving growth and stability of a firm in competitive markets. A company that is performing well is likely to get better chances of investment and access to funds. On the national scale, their inputs contribute to economic growth by creating employment, making tax collections, and innovating. Nonetheless, the operational efficiency or market conditions are not the only determinants of performance outcomes, but rather governance structures, ethical behavior, and stakeholder relationships, as well as the disclosed information quality.

Corporate Social Responsibility (CSR) or voluntary incorporation of social, environmental, and ethical issues in business decisions and operations is one of the factors that is becoming more and more relevant. The CSR activities can encompass environmental conservation, social welfare activities, work health and safety, and ethical product development. Companies show accountability and commitment towards the well-being of the wider society through the public release of CSR activities via annual reports or sustainability reports. Various studies have associated the engagement of CSR with the enhancement of better performance results through improved corporate image, enhanced relationships with stakeholders, reduced reputational risk, and the attraction of investors who are conscious of sustainability. CSR is on the rise in Pakistan as the current social requirements and regulatory systems are being transformed to promote sustainable business conduct.

The quality of an audit also has a critical influence on the performance of a firm. Effective audits enhance the quality of financial and non-financial reporting, minimize the chances of fraudulent reporting, and increase trust among the stakeholders. This study is based on a stronger framework, as compared to previous studies, which have tended to measure the quality of audits only by the fact of whether a firm was audited by one of the Big Four accounting firms or not. In this case, the content analysis is considered to assess the quality of the audit based on Audit Quality Indicators (AQIs), which have been released by the Institute of Chartered Accountants of Pakistan (ICAP, 2018) and the International Federation of Accountants (IFAC, 2015). The approach encompasses a wider collection of qualitative and quantitative characteristics and gives more insight into the effectiveness of audits in the corporate sector of Pakistan.

Company size is another key performance factor. Such large companies tend to have a larger financial base and an established system of governance, together with increased publicity, and this may compound the advantages of CSR programs and the quality of audits. Regulators, investors, and other stakeholders are also much closer to them, thus providing greater incentive to ensure transparency and proper reporting. Smaller companies, on the other hand, might not have enough resources and less formal procedures, which might hinder their capability of maximally using CSR or audit practices to enhance performance. The current research examines the correlation between CSR disclosure, quality of audit, and firm performance, including the aspect of the size of the company as an added factor of explanation. Data used in the research are the non-financial firms listed on the Pakistan Stock Exchange (PSX) between 2021-2024. The 131-item checklist used to measure CSR disclosure is a combination and revision of indicators used by Sembiring (2005) and Kansal and Singh (2012), where all three aspects of the environment, social, and governance indicators applicable to Pakistan are covered. The audit quality is measured using ICAP and IFAC frameworks, which provide a more context-relevant and detailed measure in comparison with traditional binary methods.

This study contributes to the literature in two important aspects. First, it uses improved and context-specific measurement instruments to disclose CSR and audit quality, where gaps in the methodology of previous studies are eliminated. Second, it dwells upon the non-financial sector of Pakistan, an important

aspect of the country's economy that has been comparatively under-researched in the context of CSR and audit. This study offers a balanced perspective on the performance drivers of the firms in a young market through the combination of firm performance indicators with the sophisticated CSR and audit indicators, and considering the size of the company. The findings of the research have a direct application in the work of various stakeholders. The findings can be used by the managers of the corporation to balance between CSR and audit strategies with the performance objectives. The results can be helpful to policymakers and regulators who aim to formulate policies that would facilitate accountability and transparency. To investors, the study emphasizes the significance of the non-financial elements in determining the financial results. Finally, the study will aim at enhancing good governance, viable growth, and enhanced corporate performance in the non-financial sector in Pakistan.

LITERATURE REVIEW

Ikram et al. (2019) examined the impact of CSR, governance, and audit practices on the outcomes of firms in Pakistan. A survey of 240 Pakistani SMEs was conducted between 2015 and 2018. Using a structural equation model, the study finds that CSR enhances employee commitment and reputation, which results in improved performance. Similarly, Rasheed et al. (2018) also found that CSR investments and disclosures enhance the financial performance in the non-financial sector in Pakistan. Furthermore, Maeeni et al. (2021) focused on the governance area and conducted panel regressions on UAE firms during the period 2018-2021, finding that CSR disclosure practices were better with larger audit committees, greater expertise, and larger firm size. Aziz et al. (2023) presented this analysis further to audit quality, using Smart-PLS to analyze Malaysian manufacturing firms during the period 2019-2021. The result found that the size of the auditor, independence, and expertise of auditors enhanced earnings quality, and that audit quality mediates the effects. These findings, when put together, indicate that CSR activities, governance structure, and characteristics of auditors strengthen performance in firms and disclosure transparency as well as earnings reliability.

Wang et al. (2023) analyzed U.S. firms (1991-2018) and found that the higher the CSR scores (KLD/MSCI), the better financial reporting quality is demonstrated in terms of better forecasts, fewer earnings surprises, and higher analyst coverage, particularly in low agency conflict firms and long-term institutional ownership. Lamptey et al. (2023), a study of 3,661 U.S. firm-years (2011-2016) indicated that CSR engagement, as measured by features in the 100 Best Corporate Citizens list, augments audit report lag, indicating that CSR activities create complexity and audit risk and hence take longer to complete audits. An investigation involving European and South African companies (2017-2022) by Velte (2025) found that an increase in the quality of audit quality (Big Four affiliation, audit fees) results in improved materiality disclosure in integrated reports, and the effect is greater when carbon assurance is reported at a reasonable level and ISAE 3000 aligned. Together, these demonstrations imply that CSR enhances the quality of financial reporting, given that it prolongs audits with further examination, and that high audit quality enhances believability of integrated reporting, especially with strict assurance practices supporting the claims.

A cross-reporting quality transfer effect was supported by Pasko et al. (2023), who examined the quality of CSR disclosures and found that Big Four auditors of 5,257 Chinese A-share firms during (2009-2018) reported higher performance. Moreover, better CSR disclosure involvement correlates with increased audit fees, particularly with Big Four auditors whose verification would be more complex and subjected to increased scrutiny, minimize fraudulent practice and increase firm performance. Chouaibi and Hichri (2021) found that 130 European industrial firms had a significant positive effect on the quality of integrated reporting, whilst there was no impact on audit firm size or overall behavior. Collectively, these results indicate that institutional audit quality (e.g. Big Four certification) and individual auditor

characteristics (expertise, ethics) are critical to CSR and integrated reporting credibility, but more significant levels of CSR commitments also come at higher audit costs.

Saeed et al. (2025) revealed that the increased quality of audit, represented as Big Four affiliation, audit fees, and unqualified opinions, minimizes CSR decoupling, which results in more credible reporting. Kuzey et al. (2024) revealed that CSR controversies are alleviated by high-quality board monitoring and the audit committee, and that larger, independent, and expert boards represent an effective protection against the risks of CSR controversies. In a prospective study of U.S. companies on the 100 Best Corporate Citizens list (2009-2022), Huang et al. (2025) found that CSR, and employee relations in particular, improve future operating performance; CSR-oriented companies were less likely to avoid payment to the IRS and had elevated audit fees, indicative of increased ethical commitment. Usman et al. (2024) found that greater gender diversity and audit committee expertise in reducing classification shifting, and greater size of the audit committee in Germany, amplified it. Gunn et al. (2024) and Marsintauli et al. (2025), Elmaghrabi (2021), and Yadav and Srivastava (2023) investigated the impact of CSR-audit. Gunn et al. (2024) found that CSR increases the credibility of auditors and client acquisition, particularly among non-Big Four firms.

Saleh et al. (2021) examined the relationship between board gender diversity and firm financial performance of Palestinian firms during 2010-2017. The result of the study finds that board gender diversity positively but insignificant impacts firm performance, whereas CSR positively influences the firm performance. Mohammadi et al. (2020) studied multivariate panel regression on Iranian firms (2012-2018) and revealed that board size, independence, audit committee size, independence, and financial expertise increase the scores of CSR, but managerial ownership and CEO duality do not affect it. Wahyono et al. (2019), who studied the relation of CSR disclosure, corporate governance, audit independence, audit quality, and firm size to earnings management among the Indonesian food and beverage companies (2014-2017), found that earnings management is not significantly correlated with CSR disclosure, corporate governance, auditor independence, audit quality, and firm size. Taken together, these studies indicate that there is mixed evidence on the impact of CSR and governance: on the one hand, CSR and some of its features improve firm performance and CSR ratings, but on the other hand, its impact on earnings management does not seem to be great.

The role of audit quality in determining the reporting and performance outcomes was studied by Habbash and Alghamdi (2021), Garcia-Sanchez et al. (2020), and Maqsood et al. (2021). Habbash and Alghamdi (2021) studied Saudi companies (2014-2018) with the help of panel regression and discovered that Big Four auditors decrease earnings management, and auditor tenure has nonlinearity, with both too short and too long tenures associated with increased earnings manipulation. European firms were considered in a study by Garcia-Sanchez et al. (2020) (2013-2017) using the OLS regression, and the authors stated that Big Four auditors and industry specialists would improve the quality of integrated reporting, whereas the tenure of auditors did not matter. Maqsood et al. (2021) analyzed 620 companies in the eight European nations (2010-2019) and indicated that the quality of auditing moderates the ESG-CFP relationship: ESG reduces ROA and increases revenues, and more so in Big Four-audited companies. Taken together, these studies point to the centrality of audit quality in limiting the earnings management, enhancing reporting quality, and influencing the financial implications of ESG engagement.

Sinan Zuhair et al. (2024), Elena Petrova et al. (2023), and Amelya and Nazar (2021) studied the impact of governance, audit market, and CSR on the financial reporting outcomes. Zuhair et al. (2024) employed a fixed-effects panel regression model to analyze Dubai banks between 2010-2022, and the authors established that higher audit committee independence and size minimize earnings management, whereas other characteristics are not vital. The analysis of 14 of the EU countries (2011-2020) revealed that

increased competition in the audit market will enhance the quality of reporting, excessive concentration will negatively affect reporting quality, and an increased term of the auditor will reinforce the positive impact (Petrova et al. 2023). Amelya and Nazar (2021) concentrated on the companies in Indonesia (2016-2020) and discovered that the quality of earnings is positively impacted by CSR, but no significant effect of environmental awareness and quality of audit committees. These studies together demonstrate that governance mechanisms, market competition, and CSR can improve the quality of reporting, but with varying impacts across situations.

RESEARCH METHODOLOGY

Data

The secondary quantitative data have been extracted from the annual reports and financial statements of non-financial firms listed on the Pakistan Stock Exchange (PSX). The scale used to measure CSR disclosure is a 131-item adapted Semiring (2005) and Kansal and Singh (2012) checklist to cover social, environmental, and governance indicators relevant to the Pakistani setting. Quality of audit is measured by Audit Quality Indicators (AQIs) provided by ICAP (2018) and IFAC (2015). Return on Equity (ROE) is a proxy of firm performance. The company's size is calculated using total assets and market capitalization.

Time Horizon

The research has a longitudinal (panel) time horizon, spanning four years from 2021 to 2024. This timeframe enables the evaluation of changes in CSR disclosure, audit quality, and firm performance over time and across different firms.

RESULT AND DISCUSSION

Descriptive Statistics

Table 1: Descriptive Statistics

	Obs	Mean	Std. Dev.	Min	Max
ROE	277	0.3974	3.2896	-3.4475	51.8781
SIZE	277	14.99997	5.0061	3.0860	23.0788
AQ	277	0.5812	0.4943	0	1
CSR	277	35.8730	21.2959	3.82	100

The descriptive statistics show that the average value of the return on equity (ROE) is 0.39 with a very large standard deviation of 3.28. This indicates that most firms are characterized by low profitability, but some are doing very well, hence extreme values (maximum = 51.87). The average size of the firm (Size ln) is about 15. The values lie between 3.08 and 23.07, which implies that there are both small and very large firms in the sample. The mean audit quality (AQ) is 0.58, which means that almost one out of five firms is audited by high-quality auditors, indicating moderate financial reporting reliability. The average score of CSR disclosure is 35.87 out of 100, which implies that the commitment to CSR activities among sampled firms is rather low, yet some firms disclose a lot (up to 100).

Table 2: Correlation Matrix

	ROE	SIZE	AQ	CSR
ROE	1.0000			
SIZE	-0.0276	1.0000		
AQ	0.0974	-0.0242	1.0000	
CSR	-0.0799	-0.1136	0.0389	1.0000

The correlation table shows that audit quality is weakly positively related to firm performance (ROE = 0.097), implying that the increased audit oversight might play an important role in enhancing profitability. There is a weak negative relationship between CSR and performance (ROE = -0.079), which suggests that being involved in CSR does not necessarily lead to high returns. Finding no multicollinearity issue in the data set.

Table 3. Variance Inflation Factor

Variable	VIF	1/VIF
Csr	1.01	0.9858
Sizeln	1.01	0.9867
Aq	1.00	0.9981
Mean VIF	**1.01**	

All the VIF results are near 1.0, which indicates that there is no problem of multicollinearity between the independent variables. This implies that the degree of correlation between CSR, audit quality, and firm size is not very high and can be safely incorporated collectively in the regression model without affecting the outcomes.

Table 4: Ordinary Least Squares

	Coefficients	Standard Error	t Stat	P>|t|	[95% Conf. Interval]
AQ	0.6653	0.3996	1.66	0.097	-0.1215 , 1.4520
CSR	0.0136	0.0093	1.45	0.078	-0.0319 , 0.0048
SIZE	-0.0231	0.0397	-0.58	0.561	-0.1012, 0.0550
_cons	0.8439	0.7771	1.09	0.0278	-0.6860, 2.3738

The pooled OLS regression shows that the quality of auditing is positively correlated with ROE (0.665), although the value is significant at 10%. There is also a positive coefficient between CSR and (0.013), though this is not significant. Firm size has an insignificant but negative influence on the ROE (-0.023). The three independent variables explain a very small percentage of the variation in firm performance (R2=0.0177). This implies that CSR, audit quality, and the size of the firm are not strong predictors of performance in a pooled environment.

Table 5: Fixed Effect Model

	Coef.	Std. Err	t	P>|t|	[95% [Conf. Interval]
AQ	0.333421	0.131015	2.54	0.011	0.0754725 , 0.5913701
CSR	0.006636	0.003079	2.16	0.032	-0.0126972 , -0.0005745
SIZE	-0.03398	0.012959	-2.62	0.009	-0.0594974, -0.0084682
_cons	0.765601	0.253984	3.01	0.003	0.2655429, 1.265659

The fixed effect regression gives more significant information as it adjusts for unobserved firm-specific effects. The findings demonstrate that the quality of audit has a positive and significant impact on the performance of the firm (0.333, p = 0.011), which proves that a higher quality of audit in the company leads to better financial performance of the company. Another beneficial and significant effect (b = 0.0066, p = 0.032) is observed on CSR, that CSR activities will increase the long-term performance when the firm characteristics are controlled. The size of the firm is, however, negatively and significantly related to performance (-0.034, p = 0.009), which suggests that larger firms could be inefficiently run, causing lower profitability. These results indicate that good governance (quality of audits), and conscientiousness (CSR) enhance the performance of firms, whereas scale can be a limiting factor to performance.

DISCUSSION

The findings in this research indicate that there is significant evidence about the interaction between corporate social responsibility (CSR), audit quality (AQ), and firm size as determinants of the financial performance of non-financial firms in Pakistan. Using panel data 2021-2024 and a combination of pooled and fixed-effects regression results, the results can be interpreted more subtly than has typically been the case in previous studies. In the fixed-effects model, CSR disclosure is significantly and positively correlated with firm performance, although the pooled regression model indicated there was only a weak dependence. This outcome is consistent with the stakeholder theory, which states that companies that invest in social and environmental responsibility create a stronger reputation, less reputational risk, and increase stakeholder trust, which leads to better financial results. Ikram et al. (2019) and Rasheed et al. (2018) found similar positive correlations within the Pakistani context, and Setiawan et al. (2022) did the same in Indonesia. The result, however, is contrary to the study by Wahyono et al. (2019) in Indonesia and Dewi and Monalisa (2016) in mining companies, who held that CSR disclosure did not significantly influence the performance of companies. The scope of the data may be one cause of this divergence. This was done with a heterogeneous sample of Pakistani non-financial firms, whereas the other two articles were sector-specific, which could have reduced the effect of CSR on financial performance. The other reason might be the variation in methodology. With the fixed-effects regression, this study could identify the real effect of CSR that may be masked in a simple regression by adjusting the study to firm-specific heterogeneity. The findings indicate that the level of audit quality is significantly and positively related to the level of firm performance when the issue of unobserved heterogeneity is considered. This conclusion underlines that quality audit enhances the trustworthiness of financial reporting, minimizes information asymmetry, and earns the trust of investors. This is evident in a positive correlation between audit quality and firm performance reported by Riaz et al. (2021) in Pakistan, and the moderating ties between the ESG-performance relationship and audit quality reported by Maqsood et al. (2021) in European firms.

The findings, however, do not coincide with Marsintoauli et al. (2025), who stated that audit quality made no significant impact on the Indonesian firms. One answer is methodological: their research employed moderated regression, but this one employed fixed-effects modeling, which captures long-lasting firm-to-firm differences. The other reason is contextual: the quality of audit in one country may be more important than in another because governance implementation systems and audit market maturity differ considerably across countries. Another especially interesting finding of this research is the adverse and substantial association between firm size and performance. Whilst larger companies are generally more able to enjoy economies of scale, stronger networks, and easier access to capital, in Pakistan, these might be more than countered by inefficiencies, bureaucracy, and agency issues that lower profitability. This finding is in line with Guest (2009), who might contend that bigger decision boards and bigger firms are prone to lose decision-making quality and efficacy. Conversely, Prakash and Hawaldar (2024) in India and Saputra et al. (2024) in Indonesia conducted studies that concluded that firm size increased the

positive effects of CSR on performance. The explanation of such inconsistency is the difference in context. The size can assist firms in capitalising on CSR initiatives in markets with enhanced governance systems and institutional arrangements. In Pakistan, though, lax enforcement, political relationships, and managerial inefficiencies might deny larger companies their ability to employ their size to financial benefit. In short, findings indicate that CSR and AQ are two significant performance enhancers in the Pakistani non-financial sector, whereas firm size acts as a detrimental performance enhancer. These findings are broadly comparable with international evidence on CSR and audit quality, but differ in the role size plays, as a local issue of governance and agency inefficiency. The study can therefore be both theoretical and practical in that in a developing economy, CSR and AQ need to be used as strategic performance tools, and large companies need to overcome the structural inefficiencies in the operational environment to release their potential.

CONCLUSION

This study concludes that corporate social responsibility (CSR) and audit quality (AQ) play a significant and positive role in enhancing the financial performance of non-financial firms in Pakistan, whereas firm size demonstrates a negative association with performance. The results show that CSR initiatives strengthen reputation, reduce risks, and build stakeholder trust, while higher audit quality improves financial reporting credibility, reduces information asymmetry, and attracts investor confidence. Conversely, larger firms in Pakistan appear to suffer from inefficiencies, bureaucracy, and agency conflicts that undermine profitability, contrasting with evidence from countries with stronger governance and institutional systems where firm size enhances performance. These findings highlight the importance of contextual factors such as governance quality and enforcement mechanisms in shaping corporate outcomes. The study contributes theoretically by reinforcing stakeholder theory and practically by suggesting that firms in developing economies should adopt CSR and ensure high audit quality as strategic performance tools. At the same time, policymakers and managers must work to overcome structural inefficiencies in larger firms to unlock their potential and achieve sustainable financial growth.

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