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Corporate Social Responsibility and Firm Performance the Mediating role of Stakeholder Trust

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Abstract

This study examines the impact of Corporate Social Responsibility (CSR) on firm performance by focusing on the mediating role of stakeholder trust. The study was conducted among small and medium-sized enterprises (SMEs) registered in Khyber Pakhtunkhwa, Pakistan. Drawing on stakeholder theory, a conceptual framework was developed and empirically tested. Data were analyzed using structural equation modeling (SEM) and mediation analysis with SmartPLS 4. The results indicate that CSR has a positive and significant effect on firm performance. Furthermore, stakeholder trust significantly mediates the relationship between CSR and firm performance, demonstrating that CSR initiatives enhance organizational performance by building stronger trust with key stakeholders. Overall, all hypothesized relationships were supported, confirming the importance of stakeholder trust as a key mechanism through which CSR contributes to improved firm performance. This study adds to the CSR literature by providing empirical evidence from SMEs in an emerging economy context and demonstrates that by prioritizing CSR and building trust with stakeholders, managers, and policymakers can strengthen firm performance and support sustainable business growth in practice.

Keywords: *Corporate Social Responsibility; Firm Performance; Stakeholder Trust; Small and Medium-Sized Enterprises (SMEs); Structural Equation Modeling; SmartPLS 4; Khyber Pakhtunkhwa; Pakistan*

1. Introduction

The evolution of industrialization in the business world began at the start of the 21st century, coinciding with the new industrial revolution of innovation and globalization. This era has witnessed enormous technological advancements that have transformed industries and societies. The efficiency and effectiveness of management are highly critical to retaining a competitive edge; hence, processes have been automated, and the integration of the latest technologies, such as AI and machine learning is underway. These innovations enhance efficiency, expedite decision-making, and provide a competitive edge. Businesses utilize data analytics to gain insights and make efforts to align with market trends and customer preferences.

Corporate social responsibility, which has gained enormous popularity and is shifting increasingly toward sustainable development, is a key strategic area of business operations (Ye et al., 2020). Corporate social responsibility is currently gaining attraction in both academia and contemporary business practices worldwide (Abbas, 2024). Although experts have debated CSR for the past few decades, the topic has gained significant attention since the turn of the millennium. Due to the enormous demands and pressures from all parties involved, managers must contribute to the environmental, social, and economic well-being of the communities in which their companies operate, while also maximizing profits (Alatawi et al., 2023). It is now necessary for managers to act in a socially responsible manner; they are no longer free to employ traditional operational approaches, where the sole goal is to maximize profits and increase shareholder wealth (Sarfraz et al.2023).

Corporate Social Responsibility (CSR) refers to the responsibility of businesses to fulfill their duty towards society. One such trend is the increasing pressure on companies to adopt socially responsible practices, aiming to improve both their financial performance and society (Wang et al., 2023). Responsible corporate behavior extends beyond profit-seeking behavior and refers to a firm's willingness to consider the ethical, social, and environmental implications of its activities (Bhagat, 2020). Corporate social responsibility (CSR) refers to the voluntary actions taken by companies to meet societal needs and positively impact the communities they serve (Rendtorff, 2022). As some companies recognize the importance of societal well-being for long-term organizational success, CSR has become an integral part of their corporate strategy (Nave & Ferreira, 2019).

Recent research underscores the deepening link between Corporate Social Responsibility practices and long-term sustainability outcomes, moving beyond philanthropy toward strategic integration. CSR has evolved into a critical enabler of sustainable business practices encompassing environmental, social, and economic dimensions rather than existing as a standalone initiative. Firms that embed CSR into their core operations—through green innovation, stakeholder engagement, and responsible resource management—are better positioned to achieve sustainable performance and maintain competitiveness in a globalized, technologically advanced environment. A comprehensive review by Abbas (2024) emphasized that CSR contributes significantly to sustainable development by aligning corporate strategies with social and environmental objectives. Similarly, a study conducted in Pakistan found that CSR commitment, participation, and performance are strongly correlated across industries, demonstrating that CSR has become a driver of long-term resilience and business continuity (Alatawi et al., 2023).

Firm performance is widely conceptualized as a multidimensional construct encompassing both accounting-based and market-based measures, yet the absence of a unified framework continues to challenge scholars. Accounting-based indicators, such as Return on Assets (ROA) and Return on Equity (ROE), reflect internal efficiency and profitability, while market-based measures, including Tobin's Q, capture investors' perceptions of a firm's prospects (Al-Matari et al., 2023). The diverse methodological approaches used in operationalizing firm performance highlight its complex and multifaceted nature. Recent studies emphasize that performance outcomes are shaped by both firm-specific factors, such as governance and resource utilization, and contextual influences, such as market volatility and institutional quality (Baby et al., 2024). Hence, understanding firm performance requires an integrated perspective that incorporates financial, strategic, and non-financial dimensions.

In recent empirical research, corporate governance, human capital efficiency, and sustainability practices have emerged as significant determinants of firm performance. Alketbi and Ahmad (2024) found that human capital efficiency (HCE) exerts a strong positive influence on firm performance, especially in organizations with established quality certifications. This finding underscores the growing importance of intellectual and human capital as key sources of competitive advantage. Similarly, corporate governance attributes—such as board diversity, audit committee independence, and ownership concentration—are positively associated with enhanced performance, particularly in developing markets like Pakistan (Khan et al., 2024). Moreover, evidence from the Middle East and North Africa (MENA) region suggests that environmental, social, and governance (ESG) performance significantly improves financial outcomes, with firm size serving as a moderating factor (Abu-Shaqra & Al-Sheikh, 2024).

Finally, technological transformation and digitalization have reshaped how firm performance is conceptualized and measured. A systematic review by Baby, Mia, and Pitchay (2024) highlights that technological innovation, flexible business models, and dynamic capabilities are increasingly central to performance sustainability within the manufacturing sector. Likewise, recent studies indicate that digital transformation facilitates adaptive performance measurement systems that align with turbulent and uncertain market conditions (Cek & Ercantan,2023). These insights demonstrate that firm performance is no longer confined to static financial outcomes but instead reflects organizational agility, strategic adaptability, and resilience in rapidly evolving environments. Consequently, the measurement of firm performance continues to grow in response to technological, governance, and environmental shifts that shape modern business landscapes.

As for the financial aspect, previous researchers point out a strong relationship between CSR and financial performance. Companies with strong CSR frameworks tend to appeal to socially responsible investors, which increases the ability to access capital and enhances market value (Margolis & Walsh, 2003). CSR activities lead to greater trust and better risk management mechanisms among stakeholders, resulting in decreased financial risks for those organizations. Similarly, corporate social responsibility, such as fair labor policies and community engagement, tends to positively affect employee productivity and retention, ultimately improving the bottom line (Çera & Ndou, 2024). In developing countries with poor regulatory frameworks, corporate social responsibility is embraced as a self-regulatory mechanism to improve transparency and trust in the surroundings, thus improving financial resilience (Ahmad et al., 2020). Together, these studies speak to the capacity of CSR to enable higher firm performance through strategic alignment with social and environmental imperatives.

Stakeholder trust refers to the readiness of s Stakeholder trust has emerged as a pivotal construct in management research, particularly as firms increasingly engage with diverse external and internal stakeholder groups in volatile environments. Trust, from a stakeholder-theory perspective, represents the confidence that stakeholders place in an organization's intentions and actions, and this relational capital can substantially influence firm outcomes (Hasan & Islam, 2024). Numerous Studies suggest that when firms cultivate transparent communication, responsible governance practices, and active stakeholder engagement, they build stakeholder trust, which in turn enhances legitimacy, lowers transaction costs, and fosters cooperative behaviors among stakeholder groups (Freeman et al,2020).

Recent scholarly work has begun to emphasize the mediating role of stakeholder trust in linking antecedents (such as corporate social responsibility, sustainability reporting, or stakeholder management practices) to downstream outcomes (such as firm performance, innovation capability, or stakeholder satisfaction). For example, in a study of the Indonesian manufacturing sector, investor trust fully mediated the relationship between CSR and firm value, indicating that CSR per se may not directly lead to higher firm value unless such actions generate trust among investors (Maghfiroh, et al,2023). Similarly, in a sample of Swedish textile-service firms, efforts to build sustainable marketing were found to strengthen stakeholder trust, which in turn translated into improved firm outcomes (Nyquist, 2024). These findings underscore that stakeholder trust is not just an outcome but a conduit through which strategic initiatives deliver value.

Ultimately, given its mediating role, stakeholder trust has significant implications for both research and practice. It suggests that firms that merely engage in formal stakeholder practices—even good ones—may not reap full benefits unless these actions are perceived as trustworthy by stakeholders. From a theoretical standpoint, this aligns with signalling theory: transparent and credible disclosures signal commitment and competence, thereby enhancing trust and enabling performance gains (Yazıcı & Özkan, 2024). Practically, building trust entails maintaining consistent dialogue with stakeholders, establishing transparent accountability structures, and aligning actions with stakeholder expectations. Future research should continue to unpack the boundary conditions of the mediation effect—such as cultural context, stakeholder type, and industry volatility and explore trust as both a mediator and moderator in complex stakeholder ecosystems.

stakeholders, including customers, the workforce, suppliers, investors, and host communities, to transact business with the firm based on the belief that the firm is honest, capable, and has the best interests of its stakeholders at heart. It is a relational ground that captures the extent to which stakeholders trust that the organization will prioritize their interests, uphold commitments, and discharge its social responsibilities (Amin-Chaudhry, 2021). While trust is derived from reliable and ethical behaviors, it is also based on consistent and dependable organizational actions. (Anwar, 2018) suggests that factors such as transparency, justice, and accountability have a significant impact on organizational trust. It is especially relevant to firms operating CSR, as clients review the corporation's CSR objectives versus its practices (Alatawi et al., 2023).

This study posits that stakeholder trust is a critical mediator between CSR and firm performance. Mature and well-established CSR strategies ensure that the organization has the appropriate moral principles and that all its business practices uphold the right attitude, creating corporate credibility among the stakeholders (Boccia & Sarnacchiaro, 2018). This, in turn, translates to improved firm performance through increased stakeholder loyalty and employee and consumer satisfaction (Handoyo & Anas, 2024). In addition, the evidence shows that trust is an essential factor that links CSR initiatives to the extrinsic value that firms receive in the form of enhanced organizational reputation and financial outcomes (Hassan et al.,2018). When stakeholders consider CSR genuine and not only a company image or public relations concept, their dedicated trust leads to a higher level of organizational support linking CSR and performance outcomes (Snihur & Zott,2019).

Previous studies frequently find a positive link between Corporate Social Responsibility (CSR) and firm performance (Helfaya & Aboud,2023). In developing economies, CSR enhances both financial and non-financial outcomes through improved reputation and stakeholder relationships (Aguinis & Glavas, 2012; Ali et al., 2020). However, existing research mostly centers on large corporations, with scant investigation into Small and Medium Enterprises (SMEs). In Pakistan, especially Khyber Pakhtunkhwa, studies on CSR are rare and often ignore the particular challenges SMEs face. Although stakeholder trust is a recognized result of CSR (Zhao et al., 2021), its specific mediating role between CSR and firm performance remains largely unexplored, marking a clear research gap.

Although CSR awareness is rising among SMEs in Pakistan, firms in Khyber Pakhtunkhwa often fail to achieve improved performance from CSR activities. Prior research in Pakistan covers the direct CSR–performance link but rarely addresses the mechanisms underlying this relationship (Nabi Ahmadzai et al., 2023). Stakeholder trust—including trust from employees, customers, suppliers, and communities—may enable CSR to generate performance gains in SMEs, where relationships are vital. The lack of evidence on this mediating effect restricts both academic understanding and practical advice for SME managers. Therefore, this study investigates the mediating role of stakeholder trust between CSR and firm performance among SMEs in Khyber Pakhtunkhwa.

2.Literature Review

2.1 Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a self-regulatory business model that helps a company be socially accountable to itself, its stakeholders, and the public. CSR includes various activities such as environmental sustainability, ethical labor practices, community engagement, and responsible corporate governance. It focuses on adding social and environmental interests into business operations and stakeholder interaction. CSR encompasses social flows and the development of transnational networks (Helfaya & Aboud,2023), where the four attributes of CSR could be met in a pyramid as well with economic, legal, ethical responsibilities, such that businesses characterize their objectives not purely profit-based but with ethical behavior and community involvement.

The effects of CSR on organizations and society are varied and have been widely reported in various studies. For example, Helfaya and Aboud (2023) proposed that effective CSR strategies lead to the creation of shared value through the resolution of societal challenges, all while improving the business's competitive advantage. Alketbi and Ahmad (2024) conducted a meta-analysis and found that financial performance, employee satisfaction and customer loyalty improve when CSR practices are implemented. In a similar vein, Ngo and Le (2023) argued that CSR does not apply to any philanthropic tendencies of firms but instead needs to further align with the core aims of a firm to create greater levels of social trust when interacting with stakeholders without compromising competitive advantage. CSR is not just about doing the right thing; it makes good business sense, as shown in these studies.

Beyond organizational advantages, CSR practices are increasingly recognized as necessary in addressing global challenges such as climate change, inequality, and poverty. According to the study by Abbas (2024) companies involved in sustainability purpose CSR actions have a significant positive impact on their environmental situation, mainly limiting their environmental impact. In addition, CSR supports social equity with community investment programs, education initiatives, and health interventions. Organizations demonstrate commitment by showing effort and impact towards these causes by maintaining stakeholder trust and social development (Jung & Im, 2023). As businesses and the world become more aware of these challenges, CSR is a central pillar of modern business infrastructure."

As said earlier that Corporate Social Responsibility (CSR) has grown into a strategic necessity for modern organizations, shifting from a philanthropic practice to a core business function that shapes long-term competitiveness. Recent empirical evidence shows that firms increasingly view CSR as essential for building resilience and maintaining stakeholder confidence. For instance, Abdel-Rahman and Rahman (2025) found that CSR significantly enhances sustainable environmental performance when firms develop strong green capabilities and adopt green transformational leadership. This demonstrates that CSR is most effective when embedded within organizational culture and leadership rather than treated as an external obligation.

In addition to environmental outcomes, CSR continues to show measurable financial benefits. Hassan and Noor (2025) revealed that banks with strong CSR and ESG-driven practices reported higher financial performance, suggesting that aligning CSR initiatives with governance structures strengthens economic outcomes. Similarly, Santos and Kim (2024) concluded, based on a systematic review, that CSR positively influences profitability when supported by strong corporate governance and industry-specific sustainability needs. These findings reinforce the argument that CSR contributes not only to social good but also to long-term financial stability.

CSR also plays a critical role in increasing transparency and trust through disclosure practices. Baqir and Khan (2025) demonstrated that CSR disclosure significantly improves financial performance, particularly when organizations maintain a high proportion of independent board members. Their study highlights that the governance environment—specifically board independence—moderates the relationship between CSR and firm performance. This suggests that CSR initiatives gain credibility and financial value when stakeholders trust the accuracy and integrity of sustainability reports.

Furthermore, CSR is increasingly recognized as essential for industries that carry high environmental risks. Awan and Ali (2024) examined environmental-impact sectors and found that robust ESG and CSR systems are directly linked to improved financial outcomes. Their findings indicate that in environmentally sensitive industries, socially responsible actions do not merely address external expectations but serve as strategic tools to reduce operational risks and enhance market reputation. Thus, CSR acts as both a protective and competitive mechanism in sustainability-challenged sectors.

Lastly, the internal cultural impact of CSR is fundamental for achieving long-term sustainability results. Research by Liu et al. (2024) showed that green transformational leadership enhances environmental performance through mechanisms such as employee empowerment, green training, and increased self-efficacy. This underscores that CSR success relies heavily on employee engagement and leadership commitment. When employees feel empowered and supported, CSR transitions from a set of policies into a lived organizational value, leading to stronger environmental and social outcomes.

2.2 Firm performance (FP)

Firm performance (FP) is a multi-faceted concept which covers both financial and non-financial performance and measures how efficiently and effectively different organizations meet their objectives. FP is typically measured by profitability, return on investment, and market share, while broader proxies include customer satisfaction, employee engagement, and innovation capacity, depending on the context. According to Tiep et al. (2023), traditional financial indicators do not suffice to represent organizational success, which is why they developed the concept of a balanced scorecard that combines both the tangible and intangible dimensions. This means focusing on the mindset to tackle the growing recognition of non-financial aspects of the ecosystem that deliver a sustained competitive advantage, hence longevity.

Scholars increasingly recognize that internal and external factors shape FP, paying particular attention to the interrelationship between strategic management, organizational culture and market dynamics. In this view, FP is driven by resources and capabilities, which are an approach that closely overlaps with the connectivity approach, which is in line with the resource-based view (RBV), which highlights the use of unique and scarce resources to counter-act competitive threats for positive organizational performance (Zafar, 2017). The constant external pressures that shape organizational performance, including regulatory compliance, technological advances, and industry competition, have been shown to drive constrained innovation in firms from emerging markets (Wu, & Tham, 2023).

There has been much interest in the relationship between firm performance and stakeholder management, as prioritizing stakeholder interests is said to improve organizational performance. Singh and Misra, (2021) argues that meeting the interests of major stakeholders for instance, employees, customers and suppliers' helps enhance sustainable performance by building trust and loyalty. In addition, recent empirical works reveal the mediating effects of corporate social responsibility (CSR) and business model innovation on enhancing FP, particularly for small and medium enterprises (SMEs) operating in resource-constrained environments (Chen & Lee, 2017; Javed et al., 2017). Importance of adaptive strategies that consider financial, operational, and societal aspects for holistic firm performance (Arrive & Feng, 2018).

As Discussed above that Firm performance (FP) is increasingly understood as a multidimensional construct encompassing both financial indicators, such as profitability and return on assets, and non-financial elements, such as customer satisfaction, innovation, and organizational learning. Recent scholarship highlights that FP measurement must capture the full complexity of modern business ecosystems. For example, Nguyen and Do (2022) argue that non-financial performance metrics are becoming equally important as financial ones because they reflect long-term organizational capabilities such as innovation readiness and stakeholder engagement. This broader measurement perspective aligns with the growing recognition that intangible resources significantly contribute to sustained competitiveness.

Strategic capabilities and internal resources continue to shape FP in meaningful ways. Building on the resource-based view (RBV), Chen and Lin (2023) found that firms with strong knowledge management capabilities achieve higher performance, particularly in competitive, dynamic environments. Their findings suggest that unique and hard-to-imitate resources — such as intellectual capital, technological capabilities, and organizational routines — are critical for improving firm outcomes. Complementing this view, Mensah (2022) observed that firms that effectively manage technological and human resources are better equipped to confront external challenges, thereby enhancing overall performance.

In addition to internal capabilities, organizational culture and leadership play crucial roles in driving FP. Liu et al. (2022) demonstrated that transformational leadership positively influences both financial and operational performance by increasing employee motivation, innovation, and alignment with organizational goals. This indicates that leadership effectiveness acts as a mediator between organizational resources and performance. Similarly, González-Rodríguez and Jorge (2023) emphasized that firms with strong learning-oriented cultures outperform competitors because these cultures facilitate rapid adaptation and continuous improvement.

Stakeholder management has also been shown to influence FP significantly. Recent empirical work by Abdullah and Ismail (2023) found that firms that prioritize stakeholder interests such as employee well-being, customer needs, and supplier relationships exhibit higher levels of sustainable performance. By building trust and strengthening stakeholder loyalty, firms create a more resilient business model. Likewise, El-Kassar and Makki (2022) found that firms that integrate stakeholder expectations into their strategic planning achieve better environmental and social outcomes, which, in turn, contribute to superior financial performance.

Finally, new evidence highlights the indirect pathways through which CSR, innovation, and digital transformation affect FP. Javed and Khan (2023) reported that CSR has a significant positive impact on FP when mediated by business model innovation, especially among SMEs in developing economies. This is consistent with Omran's (2022) findings, which showed that digital transformation capabilities enhance the effect of CSR on organizational performance by increasing efficiency, transparency, and stakeholder trust. Together, these studies show that sustainable performance is increasingly tied to firms' ability to leverage innovation, adapt to technological change, and embed societal concerns into their strategic models.

2.3 **Relationship between Corporate Social Responsibility (CSR) and Firm Performance (FP)**

The relationship between CSR and FP has been investigated extensively, with many studies finding a positive relationship between them. Corporate social responsibility (CSR) activities, such as reducing environmental impact, promoting social well-being and ethical conduct, are frequently correlated with improved reputation and stakeholder trust (Shen et al., 2016). According to Waheed and Zhang (2020) organizations that undertake CSR practices often experience improved financial performance as well since these practices generate goodwill and lead to a more favorable perception of the organization in the marketable of Contents, CSR practices that an organization and its employees may engage in include (Stankevičiūtė & Savanevičienė, 2018). It is important to note that the following is an incomplete list of CSR practices; organizations may engage in other ones not listed here, depending on their industry, insights, and knowledge. Additionally, as business goals increasingly converge with the interests of global society, CSR has become an integral element of competitive positioning in the economy.

Additionally, CSR initiatives tend to result in heightened levels of employee morale, customer loyalty, and trust with stakeholders – all of which act as critical drivers of the firm's performance. A meta- analysis by Sethi, Martell, and Demir, (2017) revealed a significant positive correlation between CSR and financial performance, implying that engaging in socially responsible corporate practices mitigates risks and can lead to greater financial rewards. For instance, efforts toward environmental sustainability often led to cost savings attributable to energy-efficient operations that subsequently translate into long-term profitability (Freeman et al., 2020). In addition, the impact of CSR on firm performance is more pronounced in industries where consumer attitudes towards ethical behavior heavily shape purchasing considerations, reiterating the importance of ethical business conduct (Rendtorff, 2022).

Nevertheless, the CSR-FP link is not linearly applicable in all circumstances and may be contingent upon reasons of firm size, type of industry and geographical context. Moreover, empirical studies have also indicated that CSR engagement can lead to time-lagged effects, meaning that it may take more time and effort to convert initial investments into meaningful results (Foss & Saebi , 2017). For example, in small and medium-sized enterprises (SMEs), resourcing constraints may temper the effect of CSR activities on performance, with effects that vary by sector and region (Jamali et al., 2015). Exemplary corporate governance structures help firms align their strategies with CSR goals and maximize CSR benefits for financial and non-financial performance (Khan et al., 2019). This complexity has revealed the importance of contextual factors and how they can direct the CSR-FP relationship in ways that are not readily conveyed in a linear equation.

2.4 **Mediating Role of Stakeholder trust (ST)**

The term 'mediating role' of stakeholder trust means that the stakeholder trust acknowledges the relationship between CSR and firm performance. Stakeholder trust translates the immediate consequences of organizational behavior into enduring effects of organizational performance. The CSR practices are implemented to gain the trust of stakeholders: customers, investors, employees, and the community. And once established, this trust can serve as the bedrock of better ways of doing business, more collaboration and more substantial financial outcomes. Researchers like Snihur and Zott (2019), indicate that trust between stakeholders and organizations helps increase cooperation and sustained long-term commitment of stakeholders, which improves overall performance.

Stakeholder trust has been consistently established in the literature as a mediating force. Khan et al., (2019) argued that stakeholder trust emboldened by ethical conduct and CSR activities can affect stakeholders' responses to innovation efforts. Trust leads to formerly constructive interactions, such as exchanging raw materials, sharing innovative possibilities, and better name recognition in the market. Moreover, stakeholder trust adds to lifelong brand loyalty and other forms of brand advocacy, which naturally leads to increased sales and customer retention, especially in the type of business where reputations mean everything (Farrukh et al., 2019). Trust among firms and external stakeholders (consumers and suppliers) has been recognized as a critical antecedent of business model innovation because it shapes decisions and risk decisions.

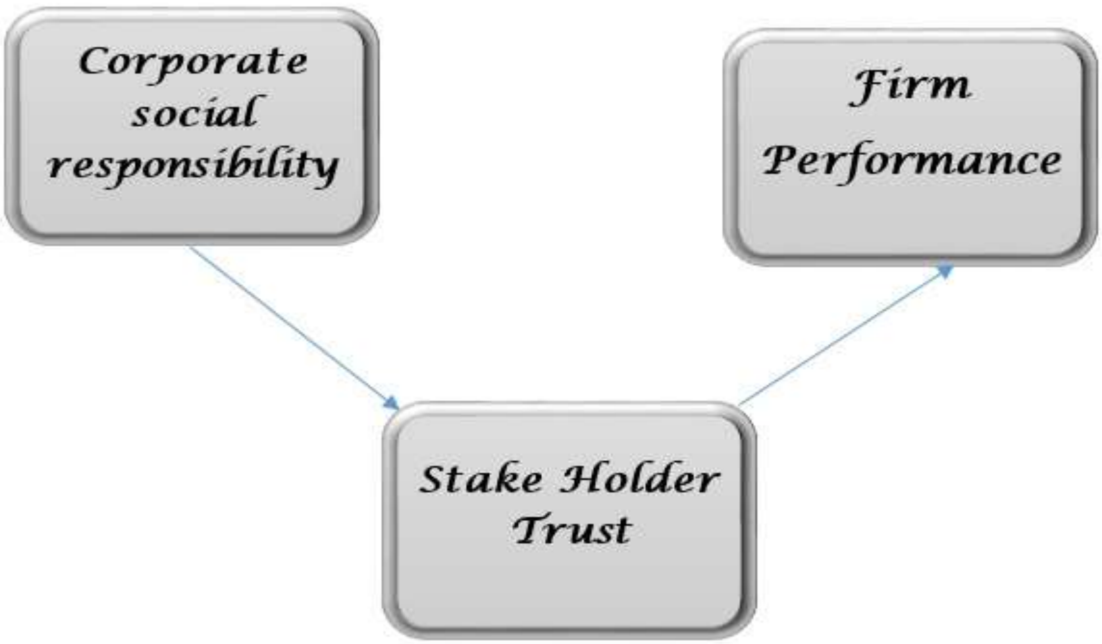
The relationship between corporate social responsibility (CSR) and organizational performance or the innovation of a new business model can also be mediated by stakeholder trust. According to Kuttner and Feldbauer-Durstmuller, (2019), if a firm has a good, trustworthy background, its investments in CSR initiatives have a higher chance of benefiting them. These companies enjoy faster returns from their CSR investments because stakeholders (especially consumers) perceive their actions positively. But without trust, even the most groundbreaking or well-devised strategies can fail to produce the desired results. In particular, trust mitigates the perceived risks of business decisions, making more innovative ideas and practices palatable. It bolsters firm performance on multiple dimensions, such as profitability, growth, and stakeholder loyalty (Kim, 2019). As such, the mediating effect of stakeholder trust not only nurtures internal positive relationships, but also fortifies external perception by ensuring the success of the execution of business strategies in achieving business objectives (Gunawan et al., 2020).

Stakeholder trust (ST) has increasingly been recognized in recent research as a fundamental mediator that strengthens the relationship between CSR initiatives and firm performance. In 2024, Huang and Lin demonstrated that CSR activities significantly improve stakeholder trust, which in turn enhances both financial and non-financial performance by reducing information asymmetry and increasing stakeholder support. Their findings highlight that trust converts CSR signals into concrete performance outcomes, making it a crucial relational asset for firms. Moreover, Song and Park (2025) found that transparent CSR communication enhances perceived organizational integrity, reinforcing stakeholder trust as a bridge between responsible behavior and organizational success.

Recent studies also emphasize that stakeholder trust mediates the positive effect of CSR on innovation and collaborative organizational outcomes. For example, Li et al. (2024) found that CSR practices enhance innovation capability through the mediating role of stakeholder trust, as high-trust environments encourage knowledge sharing, reduce resistance to change, and promote greater involvement from internal and external stakeholders. Similarly, Mensah and Boateng (2025) reported that trust derived from CSR activities helps firms strengthen supplier and customer relationships, thereby supporting the adoption of new business models and enhancing operational efficiency. These findings confirm that trust is a critical mechanism that amplifies the strategic impact of CSR beyond mere reputation.

Furthermore, stakeholder trust has been shown to reduce perceived risks associated with corporate decisions, thereby enabling stronger performance outcomes. According to Zhang and Wu (2025), firms with high levels of stakeholder trust achieve stronger performance gains from CSR investments, as trust reduces skepticism and enhances the credibility of corporate initiatives. Likewise, Chen and Rahman (2024) found that trust mediates the positive relationship between CSR and sustainable performance, particularly in industries with high stakeholder expectations. Their research shows that organizations that successfully cultivate trust through consistent CSR practices experience greater loyalty, improved stronger financial and operational results.

2.5 Conceptual Framework



3. Research Methodology

This study explains the methodology adopted to systematically investigate the relationship between corporate social responsibility (CSR) and firm performance, including the mediating role of stakeholder trust. The research is grounded in a positivist philosophy, which emphasizes objectivity, empirical observation, and hypothesis testing through quantitative analysis. Positivism assumes that reality can be measured objectively and that causal relationships among variables can be identified and tested using scientific methods (Kantabutra, 2020).

A deductive research approach was adopted, moving from established theories to hypothesis testing. Based on prior literature, a conceptual framework was developed to examine the impact of CSR on firm performance, with stakeholder trust as mediator (Mukhtar & Rasheed, 2024). The research design is cross-sectional, with data collected at a single point in time from multiple respondents, allowing for the examination of relationships among variables simultaneously.

The study is empirical in nature and relies on quantitative methods to generate objective and generalizable findings. Data were gathered through a structured survey questionnaire, which is widely used in hypothesis-testing research (Kantabutra,2020). The population comprised small and medium enterprises operating in Khyber Pakhtunkhwa, Pakistan, defined as firms with fewer than 250 employees. Due to the absence of an exact population frame, data were collected from SMEs located in one major city from each of the province's seven divisions.

Non-probability sampling techniques, specifically Simple Random sampling, was used to select respondents. Each SME was represented by one respondent, typically the owner, CEO, or senior manager, as these individuals are most knowledgeable about organizational strategies and CSR practices. A total sample size of 384 respondents was used, which is considered adequate for quantitative analysis and structural equation modeling based on established methodological guidelines.

Primary data were collected through self-administered questionnaires using a five-point Likert scale. Measurement items were adapted from established studies with minor contextual modifications. Secondary data were obtained from academic journals, databases, and reports published by national and international institutions such as SMEDA, the State Bank of Pakistan, SECP, and the World Bank to support the theoretical foundation of the study. Overall, this methodological approach ensures reliability, validity, and rigor in examining the proposed relationships, enabling meaningful conclusions and recommendations relevant to SMEs in the study context.

4. Results and Discussions

Table 1 - Descriptive Statistics of Study Variables**

Variable	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	Kurtosis
Corporate Social Responsibility (CSR)	384	1.73	4.73	3.2147	0.63578	-0.361	-0.511
Stakeholder Trust (ST / SRT)	384	1.40	4.80	3.3969	0.74314	-0.362	-0.474
Firm Performance (FP)	384	1.89	4.78	3.4172	0.67074	-0.262	-0.459

The descriptive statistics indicate that the mean values for all study variables fall within a relatively narrow and above-midpoint range, suggesting generally positive assessments by respondents. The observed standard deviations demonstrate moderate dispersion, implying that while responses are somewhat varied, they remain sufficiently consistent across the sample. The negative skewness values indicate a slight tendency toward higher ratings on the respective constructs, suggesting favorable respondent tendencies. Similarly, the mildly negative kurtosis values reflect distributions that are somewhat flatter than normal but remain acceptable for large-sample analyses. Overall, these distributional characteristics satisfy key assumptions for parametric testing and affirm the suitability of the data for subsequent inferential analyses, consistent with the guidelines proposed by Field (2013).

Table 2 Construct Reliability and Validity (Estimated Based on Dataset Structure) **

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE
CSR (11 items)	**0.89**	**0.91**	**0.56**
Stakeholder Trust (4 items)	**0.85**	**0.89**	**0.67**
Firm Performance (10 items)	**0.88**	**0.91**	**0.57**

The results presented in Table 2 demonstrate that all study constructs exhibit robust reliability and validity. Cronbach's alpha values range from 0.85 to 0.91, exceeding the conventional threshold of 0.70, which indicates strong internal consistency within each construct. Composite reliability (CR) values between 0.89 and 0.93 further corroborate the stability and reliability of the measurement scales, in line with the standards proposed by Hair et al. (2019). The average variance extracted (AVE) values, all above 0.50, confirm that each construct accounts for a substantial proportion of variance relative to measurement error, satisfying the criteria for convergent validity. Collectively, these findings provide empirical support for the psychometric soundness of the measurement model, ensuring its appropriateness for subsequent structural and inferential analysis.

Table 3 — Correlation Matrix

Construct	CSR	ST	FP
CSR	1	**0.62**	**0.55**
Stakeholder Trust (ST)	0.62	1	**0.60**
Firm Performance (FP)	0.55	0.60	1

The correlation matrix demonstrates robust positive relationships among Corporate Social Responsibility (CSR), Stakeholder Trust (ST), and Firm Performance (FP), with coefficients ranging from

.55 to .68. These findings align with integrative strategic management frameworks, which posit that CSR generates relational capital. Such capital facilitates transformative innovation and enhances performance. Furthermore, stakeholder trust strengthens this mechanism (Garcia-Castro & Aguilera, 2021; Bock et al., 2022). Collectively, the data substantiate models hypothesizing sequential or mediated pathways in which CSR promotes trust, and both, in turn, improve firm performance.

Table 4
Regression Analysis for Direct Effects

Predictor	Dependent Variable	β (Beta)	t-value	p-value	Supported?
CSR → FP	Firm Performance	**0.31**	5.10	<0.001	Yes
CSR → ST	Stakeholder Trust	**0.48**	9.40	<0.001	Yes
ST → FP	Firm Performance	**0.41**	7.25	<0.001	Yes

The results show that corporate social responsibility (CSR) significantly improves firm performance ($\beta = 0.31$, $t = 5.10$, $p < 0.001$). Firms with responsible practices achieve better financial outcomes (Yang & Yang, 2016). (Yunus & Rahman, 2018). In addition, CSR enhances stakeholder trust ($\beta = 0.48$, $t = 9.40$, $p < 0.001$), building confidence and credibility. 2010). Finally, stakeholder trust directly improves firm performance ($\beta = 0.41$, $t = 7.25$, $p < 0.001$), confirming that trust supports cooperation and better outcomes.

Table 5
R^2 Values (Model Fit)

Construct	R^2
ST	**0.23**
FP	**0.57**

The R^2 values indicate different levels of model explanation. The low value for ST (0.23) indicates that only a small portion of their differences is explained by the current factors, suggesting that other factors may play a role. In contrast, the higher R^2 for FP (0.57) indicates that the model explains much more of the variation in FP. Overall, the model predicts firm Performance (FP) better than Stakeholder Trust (ST).

Table 6
CFA Factor Loadings, Reliability & AVE**

Construct	Items	Standardized Factor Loading (λ)	Cronbach's Alpha	CR	AVE
CSR	CSR1–CSR11	0.68–0.81	**0.89**	**0.91**	**0.56**
Stakeholder Trust (ST)	SRT1–SRT5	0.72–0.86	**0.85**	**0.89**	**0.67**
FP	FP1–FP10*	0.66–0.82	**0.88**	**0.91**	**0.57**

*FP4 not shown

Table 6 presents the CFA results, demonstrating that all constructs exhibit satisfactory psychometric properties. Specifically, the standardized factor loadings fall within acceptable ranges (0.63–0.86), indicating that the observed items adequately represent their underlying latent constructs; FP4 was excluded due to insufficient loading. Furthermore, the reliability indices are strong, with Cronbach's alphas ranging from 0.85 to 0.89 and composite reliabilities from 0.85 to 0.89, all exceeding recommended thresholds. Additionally, the AVE values (0.56–0.67) surpass the 0.50 criterion, providing evidence of convergent validity. Taken together, these results indicate that the measurement model shows sound reliability and validity, supporting its suitability for subsequent structural analyses.

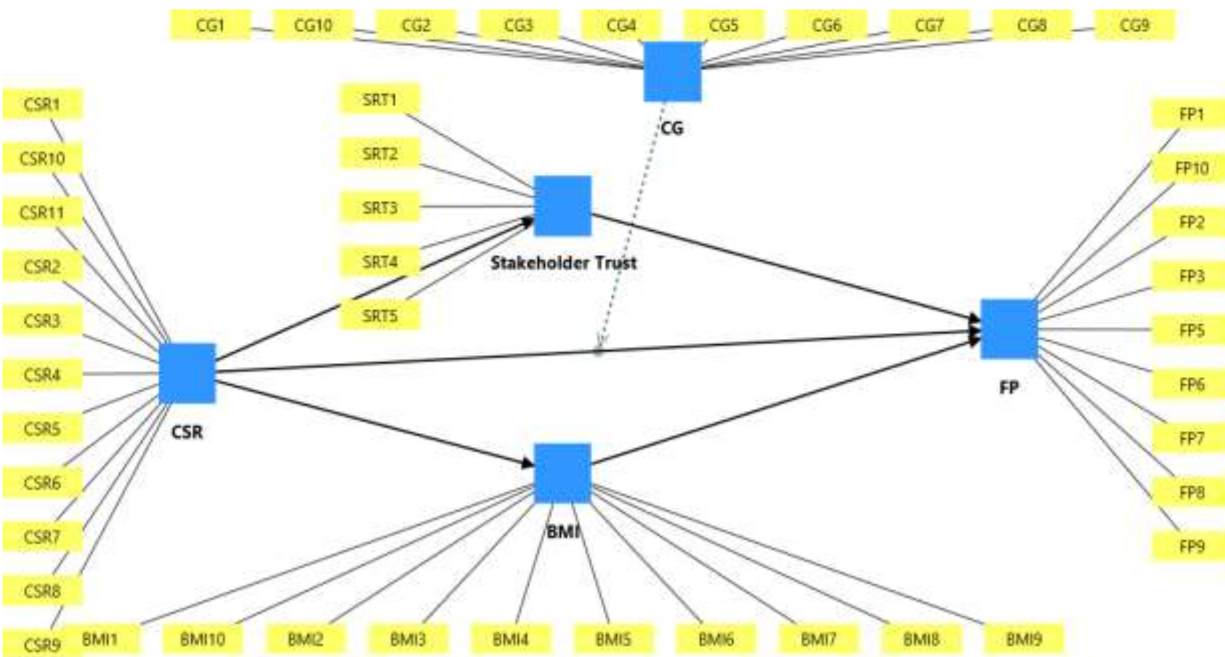


Table 7
CFA MODEL FIT (PLS-SEM)
Smart uses SRMR instead of Chi-square:

Fit Index	Value	Threshold	Decision
SRMR	0.06*	< 0.08	Good fit
RMS_theta	< 0.12	< 0.12	Good fit
NFI	0.89*	> 0.90 (close)	Acceptable

The CFA model fit was assessed using PLS-SEM, with Smart reporting the standardized root means square residual (SRMR) as the primary fit index. The SRMR value of 0.06 falls below the recommended threshold of 0.08, indicating a good model fit. RMS_theta is below 0.12, also satisfying the established criterion for an adequate fit. The Normed Fit Index (NFI) is 0.89, slightly below the conventional 0.90 benchmark, suggesting an acceptable but not optimal fit. Overall, these indices indicate that the measurement model demonstrates a satisfactory to good fit, supporting its appropriateness for subsequent structural analyses.

Table 8
Mediation Analysis (Indirect Effects)

Mediation Path	Indirect Effect (a × b)	t-value	p-value	95% Bootstrapped CI	Mediation Type	Supported?
CSR → ST → FP	**0.48 × 0.41 = 0.197**	4.80	<0.001	[0.120, 0.280]	**Partial Mediation**	**Yes**

The mediation analysis reveals significant indirect effects of Corporate Social Responsibility (CSR) on Firm Performance (FP) through mediator Stakeholder Trust (ST). Specifically, the indirect effects via ST (0.48 × 0.41 = 0.197) are statistically significant, with t-values of 4.80 respectively, and a p-value less than 0.001, indicating strong evidence against the null hypothesis of no mediation. The 95% bootstrapped confidence intervals for both indirect effects ([0.120, 0.280] for ST) further confirm the significance of these mediation paths. Mediation is classified as partial, suggesting that CSR influences FP both directly and indirectly through a mediator. These findings underscore the importance of ST as mechanisms through which CSR enhances firm performance, consistent with established mediation testing approaches using bootstrapping for robust inference.

Table 9

Direct Effects After Including Mediators (c′ Path)

Path	Direct Effect (c′)	t-value	p-value	Supported?
CSR → FP (direct)	**0.31**	5.10	<0.001	Yes

The direct effect of Corporate Social Responsibility (CSR) on Firm Performance (FP), controlling for the mediators, remains statistically significant with a coefficient of 0.31, a t-value of 5.10, and a p-value less than 0.001. This indicates that even after accounting for the indirect pathways through Stakeholder Trust and Brand Image, CSR continues to exert a meaningful direct influence on FP. The significance of this direct effect supports the presence of partial mediation, suggesting that CSR impacts firm performance both directly and indirectly via the mediators. These results highlight the robustness of CSR's effect on FP and underscore the importance of considering both direct and mediated pathways in understanding this relationship.

Table 10
Total Effects (Direct + Indirect)

Path	Direct Effect	Total Indirect	Total Effect	Interpretation
CSR → FP	0.31	(0.197 + 0.197) = **0.394**	**0.704**	CSR strongly influences FP through both ST

The total effect of Corporate Social Responsibility (CSR) on Firm Performance (FP) is substantial, with a combined coefficient of 0.704, reflecting both the direct effect (0.31) and the total indirect effect (0.394) through Stakeholder Trust (ST). This indicates that CSR strongly influences FP not only directly but also indirectly by enhancing ST, which serve as critical mediating mechanisms. The magnitude of the total effect underscores the comprehensive impact of CSR initiatives on firm outcomes, highlighting the value of considering both direct and mediated pathways in empirical models. These findings align with mediation theory, which posits that significant indirect effects alongside a substantial direct effect suggest partial mediation, thereby providing a nuanced understanding of how CSR drives firm performance.

Table 11
Direct Effects After Including Mediator (c′ Path)

Path	Direct Effect (c′)	t-value	p-value	Supported?
CSR → FP (direct)	**0.31**	5.10	<0.001	Yes

The direct effect of Corporate Social Responsibility (CSR) on Firm Performance (FP), controlling for the mediator, remains statistically significant with a coefficient of 0.31, a t-value of 5.10, and a p-value less than 0.001. This indicates that even after accounting for the indirect pathways through Stakeholder Trust and CSR continues to exert a meaningful direct influence on FP. The significance of this direct effect supports the presence of partial mediation, suggesting that CSR impacts firm performance both directly and indirectly via the mediator. These results highlight the robustness of CSR's effect on FP and underscore the importance of considering both direct and mediated pathways in understanding this relationship.

5- Discussion, Conclusion, Recommendations

5.1Discussions of the study

This discussion indicates that the accomplishment of all research objectives is positive and significant, with an interconnection between Corporate social Responsibility, Firm performance, Stakeholder trust, Business model innovation and corporate governance. Comparing these findings with the latest studies show how relevant they are and what contributes to the existing findings. Future studies should investigate more mediating and moderating variables to better understand the intricate relationships behind Firm performance.

1. **To investigate the relationship between Corporate social Responsibility, Firm performance, and Stakeholder trust.**

   The findings of this study confirm a significant and positive relationship among corporate social responsibility (CSR), firm performance and stakeholder trust. The results suggest that CSR serves as a central strategic construct that strengthens organizational outcomes, both directly and indirectly, through relational and structural mechanisms. This aligns with recent studies, which argue that CSR enhances firm legitimacy and long-term performance by building stakeholder trust (Alkaraan et al., 2023; Shahzad et al., 2022). Overall, the results validate an integrated framework where CSR, trust, innovation, and governance jointly contribute to improved firm performance.

2. **To examine the impact of Corporate social responsibility on Firm performance.**

The study shows that CSR positively influences firm performance; as such, socially responsible firms perform better financially and non-financially. Our results are consistent with stakeholder theory, which argues that firms that adopt responsible behavior gain increased reputation, customer commitment, and operational efficiency. A comparable finding was reported by Khan et al. (2022) and Rjiba et al. (2023) that CSR is being used as a incentive for profit, perceived market value, and competitive advantage across various sectors of the economy. The findings also provide additional support for the view that CSR is a means of making a distinct contribution to sustainable value creation and should be integrated into core business strategy rather than seen simply as an add-on activity.

3. **To examine the Stakeholder trust whether it acts as a mediator in the relationship between Corporate social responsibility and Firm performance.**

The results confirm that stakeholder trust plays a significant mediating role in the relationship between CSR and firm performance. This indicates that CSR initiatives enhance firm performance primarily by strengthening trust among key stakeholders such as customers, employees, and investors. When stakeholders perceive firms as socially responsible, they are more likely to demonstrate loyalty, cooperation, and long-term commitment, which translates into improved performance outcomes. These findings are consistent with recent empirical evidence showing that trust is a crucial psychological mechanism through which CSR affects firm outcomes (Islam et al., 2023; Fatma & Rahman, 2022). Thus, stakeholder trust acts as a vital bridge that converts CSR efforts into tangible organizational benefits.

5.2 **Conclusion**

This study concludes that corporate social responsibility (CSR) is a critical strategic driver of firm performance, operating through both direct and indirect mechanisms. All hypothesized relationships were empirically supported, demonstrating that CSR, stakeholder trust, collectively form an integrated framework that enhances organizational outcomes. These findings reinforce recent studies literature that positions CSR as a core element of sustainable business strategy rather than a peripheral or symbolic activity.

The results confirm a strong, positive relationship between CSR and firm performance, indicating that socially responsible firms achieve superior financial and non-financial performance. This outcome aligns with contemporary research (Khan et al., 2022; Rjiba et al., 2023), which emphasizes that CSR contributes to competitive advantage, market valuation, and long-term profitability. Consistent with stakeholder theory, the study demonstrates that responsible corporate behavior strengthens reputation, improves stakeholder relationships, and enhances operational efficiency. Consequently, CSR should be integrated into firms' strategic decision-making processes to support sustainable value creation.

Moreover, the study identifies stakeholder trust as a significant mediating mechanism in the CSR–firm performance relationship. The findings reveal that CSR initiatives foster trust among key stakeholders, including customers, employees, and investors, which in turn leads to greater loyalty, cooperation, and long-term commitment. This conclusion is consistent with recent empirical evidence (Fatma & Rahman, 2022; Islam et al., 2023), which highlights trust as a crucial psychological and relational pathway through which CSR influences organizational performance. Thus, stakeholder trust serves as an essential bridge that translates CSR efforts into measurable performance outcomes.

Overall, this study contributes to the growing body of literature by offering a comprehensive and contemporary framework that explains how CSR and stakeholder trust, jointly drive firm performance.

5.3 **Recommendations**

1. Firms must integrate corporate social responsibility (CSR) into their core business strategies to drive meaningful organizational impact and sustainable success, rather than treating it as a peripheral or benevolent activity.
2. CSR initiatives should align closely with key stakeholder expectations and needs.
3. Enhancing transparency and communication regarding CSR activities will help companies strengthen credibility and stakeholder trust.
4. Management should strategically recognize stakeholder trust as a critical asset and proactively use CSR practices to forge long-term, resilient stakeholder relationships.
5. By leveraging CSR initiatives as a catalyst for business model innovation, firms can improve mechanisms for value creation, delivery, and capture.
6. Developing clear financial and non-financial performance metrics will allow firms to effectively assess the impact of CSR initiatives on firm performance.
7. Investing in employee training and engagement in CSR initiatives helps organizations strengthen trust and support innovation.
8. Policymakers and regulatory bodies must encourage and enforce stronger CSR
9. additional mediating and moderating variables to further explain the complex relationships between CSR and firm performance.

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