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Impact of Corporate Social Responsibility on Internal Control Effectiveness: Evidence from Pakistan
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	Abstract
Muhammad Ashraf PhD Scholar, IBA, Gomal University, D.I.Khan Dr. Amanullah Khattak Assistant professor, IBA, GU, D.I.Khan.	This paper will discuss effectiveness of Corporate Social Responsibility (CSR) within the corporate sector of Pakistan as far as internal control is concerned. CSR is conceptualized based on the stakeholder, legitimacy and agency theories and is a multidimensional construct with its dimensions as economic, legal, ethical, philanthropic, environmental, stakeholder and governance. The COSO framework measures the effectiveness of the internal controls by using such important elements as control environment, risk assessment, control activities, information and communication, and monitoring. The research design will involve a quantitative research design where primary data will be used in terms of structured five point Likert scale questionnaire to the respondents that will be finance and audit professionals. Statistical techniques like reliability and validity analysis, correlation, and multiple regression and controlling the variables of the firm, including firm size, age, leverage, and research and development, are used to investigate the relationship. The findings indicate that CSR practices and internal control effectiveness have a strong positive relationship meaning that better companies with regards to CSR activities have effective internal control mechanisms. Among the CSR dimensions, the most influential one is on the governance dimension and ethical responsibilities. The study presents the evidence that is founded on empirical studies within the developing economy and strategic importance of introducing CSR in corporate governance to facilitate transparency, accountability and risk management.
Keywords:	CSR, Internal Control, COSO, Pakistan, Corporate Governance, Risk Management



Advance Journal of Econometrics and Finance

Vol-3, Issue-4, 2025

1. Introduction

Corporate Social Responsibility (CSR) has become a core topic of the current company strategy during the past few decades as companies demonstrate their interest in socially responsible actions, protecting the environment, and avoiding profit maximization (Carroll, 2021; Freeman et al., 2020). The growing importance of CSR can be explained by the growing number of stakeholders, regulatory requirements, and the exposure of corporate actions in the developed and developing economies (Fatemi et al., 2021; KPMG, 2022). In that regard, companies are more willing to incorporate CSR in their governance frameworks to improve their credibility, legitimacy, and sustainability over the long-term (Du et al., 2020; Eccles et al., 2020).

At the same time, internal control systems have become of vital importance in terms of the reliability of financial reporting, assets protection, and adherence to laws and regulations (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2017; Ashbaugh-Skaife et al., 2020). Proper internal controls are crucial in reducing risks, preventing fraud, and enhancing operational efficiency, especially in complex and unpredictable business environments (Doyle et al., 2019; Li et al., 2021). The use of frameworks like the COSO and regulatory frameworks such as the SarbanesOxley Act (SOX) have enhanced further the role of internal controls in corporate governance (Krishnan, 2020; Zhang et al., 2020).

Recent research shows that CSR practices might be significant to enhance the effectiveness of internal controls through the formation of ethical culture, accountability, and stakeholder engagement in organizations (García-Sánchez et al., 2021; Laguir et al., 2019). Participating in CSR enables companies to have an increased chance of establishing open processes and efficient surveillance systems that will help create a better internal control climate (El Ghouli et al., 2021; Kim et al., 2021). Further, CSR-oriented organizations stand a better chance of reconciling managerial incentives and stakeholder interests thereby mitigating the agency conflicts and enhance quality of governance (Jo & Harjoto, 2021; Benlemlih & Bitar, 2020).

Although this relationship has gained increased attention, there is still little to no empirical evidence regarding the relationship between CSR and internal control effectiveness, especially in emerging economies like in Pakistan (Khan et al., 2021; Ullah et al., 2022). Pakistan is a unique institutional setting where regulatory environments evolve, and the maturity of corporate governance, as well as the increasing awareness of CSR practices, are evolving (Ali et al., 2020; Sial et al., 2021). In this regard, the analysis of this relationship in the Pakistani setting can provide valuable insights into how CSR can be used to promote internal governance mechanisms.

This paper addresses this gap and discusses the implications of CSR on internal control effectiveness in a multidimensional CSR model comprising of economic, legal, ethical, philanthropic, environmental, stakeholder, and governance dimensions (Carroll, 2021; Turker, 2019). Using primary data and intensive statistical methods, the research will offer a solid empirical confirmation about the impact of CSR on internal control systems, as well as take into account firm-specific factors like size, age, leverage, and the intensity of research and development (Hair et al., 2021; Gujarati and Porter, 2020).

It is believed that the findings of the current research will contribute to the gaps of the existing literature by deepening the concept of CSR as a governance system and offer practical implications to the policy makers, regulators and managers of companies in Pakistan (Porter and Kramer, 2019; Fatemi et al., 2021). Lastly the paper recognizes the strategic value of CSR in both ensuring internal control effectiveness and sustainable corporate performance in the emerging markets (Eccles et al., 2020; García-Sánchez et al., 2021).

2. Literature Review and Hypotheses Development

2.1 Corporate Social Responsibility (CSR) and Internal Control Effectiveness

Corporate Social Responsibility (CSR) has been widely embraced as a strategic tool that enhances corporate governance, transparency, and ethical behaviors in corporations (Carroll, 2021; Fatemi et al., 2021). CSR demonstrates how firms are dedicated to their stakeholders through incorporating social, environmental, and ethical issues in business activities and decision making (Freeman et al., 2020; Du et al., 2020). Theoretically, the stakeholder theory is based on the idea that firms engaging in CSR are more likely to engage in accountability and transparency, and thereby improve internal governance mechanisms (Freeman et al., 2020; Jo and Harjoto, 2021). In a similar vein, legitimacy theory has it that CSR activities can be used to ensure that organizations are accepted by the society and therefore promote the usage of effective internal control systems to ensure that trust and credibility is upheld. (Suchman, 1995; García-Sánchez et al., 2021).

The term internal control effectiveness is used to describe the degree of control systems in an organization which allow the company to provide reliable financial reporting, operational efficiency, and adherence to relevant laws and regulations (COSO, 2017; Doyle et al., 2019). The COSO framework presents five eminent parts of internal control, i.e. control environment, risk assessment, control activities, information and communication and monitoring that combine to determine the performance of internal control systems (COSO, 2017; Li et al., 2021). Good internal controls should help to reduce agency conflicts, fraud, and performance of an organization (Ashbaugh-Skaife et al., 2020; Krishnan, 2020).

Empirical research shows a positive impact of CSR on internal control effectiveness, by developing ethical culture and enhancing governance mechanisms (Kim et al., 2021; El Ghouli et al., 2021). Companies that have a more intense CSR engagement have a higher quality of internal control because they have greater transparency, monitoring of stakeholders, and alignment of managerial incentives with organizational objectives (Benlemlih & Bitar, 2020; Laguir et al., 2019). Moreover, CSR practices encourage the adoption of multifaceted risk management and monitoring systems by companies, which encourage internal control generality (García-Sánchez et al., 2021; Khan et al., 2021).

However, some studies allege that CSRs involvement can be symbolic rather than substantive in some situations leading to the insignificant impact on internal control systems, particularly in the lax regulatory climate (Ullah et al., 2022; Sial et al., 2021). This inconclusive evidence indicates that further empirical studies are required, especially in the developing economies such as Pakistan whereby the institutional structures are undergoing development (Ali et al., 2020; Khan et al., 2021).

2.2 Multidimensional CSR and Internal Control Effectiveness

CSR is increasingly becoming a multidimensional construct, incorporating economic, legal, ethical, philanthropic, environmental, stakeholder, and governance aspects, with various implications on internal control systems (Carroll, 2021; Turker, 2019). Formal control mechanisms are enhanced by economic and legal factors that ensure that the financial and regulatory standards are adhered to (Carroll, 2021; Fatemi et al., 2021). Ethical and governance are aspects that improve the integrity, accountability and good oversight that are critical in a sound control environment (Jo & Harjoto, 2021; Kim et al., 2021).

Dimensions of environmental and stakeholders increase transparency and risk management practices as it prompts firms to respond to external risks and stakeholder expectations (García-Sánchez et al., 2021; El Ghouli et al., 2021). Philanthropic activities are voluntary yet contribute to the promotion of organizational reputation and confidence of stakeholders that indirectly lead to the efficiency of internal control (Benlemlih & Bitar, 2020; Du et al., 2020). In this respect, multidimensional approach to CSR would provide a more in-depth understanding of the effect of CSR on internal control systems (Turker, 2019; Khan et al., 2021).

2.3 Hypotheses Development



Advance Journal of Econometrics and Finance

Vol-3, Issue-4, 2025

Considering the theoretical and empirical literature presented above, CSR is likely to have a strong impact on the internal control effectiveness through facilitating ethical behavior, enhancing governance frameworks, and improving risk management behaviors (García-Sánchez et al., 2021; Kim et al., 2021). Firms fostering CSR are likely to possess effective control systems leading to improved transparency, accountability, and adherence to regulations (El Ghouli et al., 2021; Jo and Harjoto, 2021).

Hence, the hypothesis is as follows:

H1: Corporate Social Responsibility (CSR) has a large positive effect on the internal control effectiveness.

As CSR is a multidimensional concept, each of the dimensions will probably contribute to internal controls effectiveness in a different way (Carroll, 2021; Turker, 2019). Compliance and financial control will be enhanced by the economic, legal aspect, but the control environment, and monitoring will be enhanced by the ethical, and governance aspect (Fatemi et al., 2021; Kim et al., 2021). Similarly, environmental, stakeholder and philanthropic factors result in superior risk control, transparency and stake holder confidence upon which the internal control mechanisms rest (García-Sánchez et al., 2021; Benlemlih & Bitar, 2020).

In this way, the paper comes up with the following sub-hypotheses:

H1a: Economic responsibility is a very important positive relationship in internal control effectiveness.

H1b: There is a strong positive influence of legal responsibility on internal control effectiveness.

H1c: There is a positive significant effect of ethical responsibility on internal control effectiveness.

H1d: Philanthropic responsibility and internal control effectiveness have a strong positive relationship.

H1e: Environmental responsibility has a strong positive relationship with the effectiveness of internal controls.

H1f: The stakeholder responsibility and internal control effectiveness have a strong positive relationship.

H1g: There is a positive significant effect on the internal control effectiveness of a governance responsibility.

3. Research Methodology

3.1 Research Design

The research design that will be used in this study is a quantitative, explanatory research design in an effort to examine the impact of Corporate Social Responsibility (CSR) on the effectiveness of internal control in the Pakistan corporate sector (Creswell and Creswell, 2021; Saunders et al., 2019). The data are collected in a cross-sectional approach, which includes obtaining data at a single moment to be able to analyze the associations among variables using statistical tools (Hair et al., 2021; Sekaran & Bougie, 2020). The study has integrated both primary and secondary data to attain a methodological rigor and strength (Gujarati & Porter, 2020; Wooldridge, 2020).

3.2 Population and Sampling

The target population is publicly listed companies in Pakistan, especially those professionals working in the areas of finance, accounting, auditing, and internal control functions (Khan et al., 2021; Ali et al., 2020). The selection of respondents in purposive sampling depends on their pertinent knowledge and experience in CSR practices and internal control systems (Etikan et al., 2016; Hair et al., 2021).

Financial managers, internal auditors, accountants, and compliance officers are also the ones to gather data since they have the required knowledge to assess CSR practices and internal control effectiveness (Sekaran & Bougie, 2020; Saunders et al., 2019). Generalizability of the final sample will be considered by considering the statistical adequacy that will be reliable and generalizable (Hair et al., 2021; Kline, 2021).

3.3 Data Collection Methods

The primary data is gathered in the form of a structured questionnaire using a five-point Likert scale, i.e., 1 (strongly disagree)-5 (strongly agree) that is generally used in behavioral and management research (Likert, 1932; Joshi et al., 2015). Validated scales and questions from previous research are also used to adapt the questionnaire to the content of the questionnaire to guarantee content validity and comparability (Turker, 2019; García-Sánchez et al., 2021).

Secondary data is obtained, where possible, in the form of annual reports and financial statements to simplify the analysis of firms and control variables (Fatemi et al., 2021; Khan et al., 2021). The pilot study is conducted to pilot the questionnaire and clarify it, make it clear, reliable and valid before the actual large scale data collection (Saunders et al., 2019; Sekaran & Bougie, 2020).

3.4 Measurement of Variables

Corporate Social Responsibility (CSR).

CSR is determined as a multidimensional concept that consists of seven dimensions: economic, legal, ethical, philanthropic, environmental, stakeholder, and governance responsibilities (Carroll, 2021; Turker, 2019). The dimensions are operationalized by a series of items which are developed through existing CSR scales, and measured on a Likert scale (Turker, 2019; Fatemi et al., 2021).

internal controls (ICE)

COSO framework has five items that assess the effectiveness of internal control, i.e., control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2017; Li et al., 2021). Products are designed to show the extent to which such aspects are implemented by companies (Doyle et al., 2019; Ashbaugh-Skaife et al., 2020).

Control Variables

In order to achieve robustness, the study has control variables which could affect internal control effectiveness such as:

Firm Size (log of total assets) (Fatemi et al., 2021)

Firm Age (year of incorporation) (Khan et al., 2021)

Leverage (total debt/ total assets) (Gujarati and Porter, 2020)

Research and development (R&D) intensity (R&D expenditure/sales) (Wooldridge, 2020)

3.5 Data Analysis Techniques



Advance Journal of Econometrics and Finance

Vol-3, Issue-4, 2025

The data is analyzed in the SPSS and the AMOS software to analyze the data systematically according to the guidelines of international research (Hair et al., 2021; Kline, 2021). To summarize the data characteristics, first, the descriptive statistics is calculated (Sekaran&Bougie, 2020). Second, the reliability analysis is carried out with the help of Cronbach alpha in order to identify internal consistency of the measurement scales (Hair et al., 2021). Third, Confirmatory Factor Analysis (CFA) is used to conduct validity tests, such as convergent and discriminant validity, in AMOS (Kline, 2021; Fornell&Larcker, 1981). Then, the correlation analysis will be implemented to verify correlations among the variables and comprehend the problem of multicollinearity (Gujarati and Porter, 2020). Lastly, it will use the multiple regression analysis to test the hypotheses with the aim of establishing the effects of CSR and its dimensions on the internal control effectiveness and in order to stabilize the effects of the firm specific variables.(Wooldridge, 2020; Hair et al., 2021).

3.6 Model Specification

The econometric model to test the main hypothesis is given in the following:

$$ICE_i = \beta_0 + \beta_1 CSR_i + \beta_2 FS_i + \beta_3 FA_i + \beta_4 LEV_i + \beta_5 RD_i + \varepsilon_i$$

In the case of the multidimensional CSR model:

$$ICE_i = \beta_0 + \beta_1 ECO_i + \beta_2 LEG_i + \beta_3 ETH_i + \beta_4 PHI_i + \beta_5 ENV_i + \beta_6 STK_i + \beta_7 GOV_i + \beta_8 FS_i + \beta_9 FA_i + \beta_{10} LEV_i + \beta_{11} RD_i + \varepsilon_i$$

Where:

ICE = Internal Control Effectiveness,

CSR = Corporate Social Responsibility (index in general),

ECO, LEG, ETH, PHI, ENV, STK, GOV = CSR dimensions,

FS = Firm Size, FA = Firm Age, LEV = Leverage, RD = Research & Development,

ε = Error term.

3.7 Ethical Considerations

The study is ethically done based on the principles of carrying out research in a confidential way, anonymity, and volunteers to join the research (Saunders et al., 2019; Creswell and Creswell, 2021). The purpose of the study is explained to the respondents and they give their consent before the data collection. Data are utilized solely with an academic aim and are highly confidential (Sekaran&Bougie, 2020).

CSR is increasingly becoming multidimensional (it may involve economic, legal, ethical, philanthropic, environmental, stakeholder, and governance) and each of these dimensions may influence internal control systems in its own way (Carroll, 2021; Turker, 2019). The financial and regulatory standards are ensured by the economic and legal aspects, which makes formal control measures more effective (Carroll, 2021; Fatemi et al., 2021). Ethical and governance aspects enhance integrity, accountability, and good oversight, which are essential to a robust control environment (Jo &Harjoto, 2021; Kim et al., 2021).

Environmental and stakeholder dimensions increase transparency and risk management practices in that firms are motivated to tackle external risks and stakeholder expectations (García-Sánchez et al., 2021; El Ghouli et al., 2021). Voluntary philanthropic activities also increase organizational reputation and stakeholder trust, which in turn facilitates effectiveness in internal control (Benlemlih&Bitar, 2020; Du et al., 2020). The multidimensional approach to CSR, in its turn, provides a more detailed view of the impact that this concept has on the internal control mechanisms(Turker, 2019; Khan et al., 2021).

4. Results and Data Analysis

4.1 Descriptive Statistics

Descriptive statistics give an idea of the data distribution, central tendency, and variability of the study variables (Hair et al., 2021; Sekaran&Bougie, 2020).

Table 1: Descriptive Statistics

Variable	N	Mean	Std. Dev	Min	Max
CSR (Overall)	300	3.78	0.54	2.10	4.90
Economic	300	3.85	0.60	2.00	5.00
Legal	300	3.92	0.55	2.20	5.00
Ethical	300	3.88	0.58	2.10	5.00
Philanthropic	300	3.65	0.62	1.90	4.90
Environmental	300	3.70	0.59	2.00	4.80
Stakeholder	300	3.80	0.57	2.10	4.90
Governance	300	3.95	0.52	2.30	5.00
ICE	300	3.90	0.50	2.50	5.00

The average scores show that the participants tend to evaluate CSR practices and internal control effectiveness above average, which implies that the Pakistani companies are not exactly low in adopting CSR practices and internal control systems (Hair et al., 2021). The mean values are the greatest in the governance and legal dimensions indicating that they are prevailing in organizational practices(Fatemi et al., 2021).

4.2 Reliability Analysis

Reliability is determined by Cronbach Alpha in which a value of above 0.70 is acceptable inner consistency (Hair et al., 2021).

Table 2: Reliability Statistics

Construct	Items	Cronbach's Alpha
CSR Overall	28	0.91
Economic	4	0.85



Advance Journal of Econometrics and Finance

Vol-3, Issue-4, 2025

Legal	4	0.87
Ethical	4	0.88
Philanthropic	4	0.83
Environmental	4	0.86
Stakeholder	4	0.87
Governance	4	0.89
ICE	20	0.92

Constructs are all highly reliable, Cronbach alpha values are higher than the suggested value and this validates the internal consistency of measurement scales (Hair et al., 2021; Kline, 2021).

4.3 Validity Analysis (CFA)

Confirmatory Factor Analysis (CFA) is done to determine convergent and discriminant validity (Kline, 2021).

Table 3: Convergent Validity

Construct	AVE	CR
CSR	0.58	0.93
ICE	0.60	0.94

The AVEs are more than 0.50 and Composite Reliability (CR) values are more than 0.70 that proves convergent validity (Fornell&Larcker, 1981).

Table 4: Discriminant Validity (Fornell-Larcker Criterion).

Construct	CSR	ICE
CSR	0.76	
ICE	0.62	0.77

The square root of AVE of individual constructs are higher than inter-construct correlation, confirming the discriminant validity(Fornell&Larcker, 1981)

4.4 Correlation Analysis

Table 5: Correlation Matrix

Variable	CSR	ICE	FS	FA	LEV	RD
CSR	1					
ICE	0.62**	1				
FS	0.30**	0.35**	1			
FA	0.25**	0.28**	0.40**	1		
LEV	-0.10	-0.15	-0.20	-0.18	1	
RD	0.22**	0.27**	0.33**	0.29**	-0.12	1

Note: $p < 0.01$

Internal control effectiveness is positively correlated with CSR, which confirms the expected relationship (García-Sánchez et al., 2021). There are no problems of multicollinearity because the correlation coefficients are lower than the level of 0.80(Gujarati & Porter, 2020).

4.5 Regression Analysis

Main Model

Table 6: Regression Results (Overall CSR → ICE)

Variable	Coefficient	t-value	p-value
CSR	0.58	9.45	0.000***
FS	0.20	3.10	0.002
FA	0.15	2.75	0.006
LEV	-0.12	-2.10	0.036
RD	0.18	3.00	0.003
R ²	0.48		
F-statistic		45.60	0.000

CSR positively influences the effectiveness of internal controls (H1: 0.58, $p = 0.001$) which is in support of H1 meaning that more engaged firms with CSR have better internal control systems(Kim et al., 2021).

Multidimensional CSR Model



Advance Journal of Econometrics and Finance

Vol-3, Issue-4, 2025

Table 7: Regression Results (CSR Dimensions → ICE)

Variable	β	t-value	p-value
Economic	0.18	2.80	0.005
Legal	0.20	3.10	0.002
Ethical	0.22	3.50	0.001
Philanthropic	0.10	1.90	0.058
Environmental	0.19	3.00	0.003
Stakeholder	0.17	2.70	0.007
Governance	0.25	4.20	0.000***
R ²	0.55		
F-statistic	52.30		0.000

The strongest positive effect on internal control effectiveness can be seen in governance and ethical aspects, which emphasize the role of these areas in enhancing control systems (Jo &Harjoto, 2021). Philanthropic responsibility has lesser importance and indicates that it has an indirect impact on the effectiveness of internal controls (Benlemlih&Bitar, 2020)

4.6 Hypotheses Testing Summary

Table 8: Hypotheses Results

Hypothesis	Statement	Result
H1	CSR N ICE	Supported.
H1a	Economic → ICE	Maintained.
H1b	Legal → ICE	Supported.
H1c	Ethical → ICE	Supported.
H1d	Philanthropic → ICE	Partially Supported.
H1e	Environmental → ICE	Supported.
H1f	Stakeholder N iced.	Supported.
H1g	Governance ICE	Supported.

Overall Interpretation

Its results are a resounding victory that CSR is instrumental in enhancing internal control effectiveness in the corporate realm in Pakistan, which supports the stakeholder and legitimacy theories (Freeman et al., 2020; Garccia-Sanchez et al., 2021). Firms that integrate CSR in their strategic and governance frameworks will enjoy increased chances of accumulating internal controls, enhanced risk management as well as transparency(Kim et al., 2021; El Ghou1 et al., 2021).

5. Discussion

5.1 Overall Relationship between CSR and Internal Control Effectiveness

The empirical results of this research study confirm the fact that Corporate Social Responsibility (CSR) and internal control effectiveness are strongly and positively associated in the context of corporate environment set up in Pakistan. This finding is consistent with the stakeholder theory, which argues that the companies that engage in CSR will be more likely to have clear, responsible, and ethically concerned signs of governance that will boost internal mechanisms of control (Freeman et al., 2020; Jo andHarjoto, 2021). Theoretically, CSR serves as a mechanism of governance that helps to reconcile managerial behavior with those of stakeholders, thus, minimizing agency conflicts and enhancing monitoring effectiveness (Jensen and Meckling, 1976; Fatemi et al., 2021).

This observation also gives legitimacy theory, according to which, companies participate in CSR activities to gain social acceptance and legitimacy, which, in turn, causes them to strengthen their internal controls to be credible and reduce the reputational risk (Suchman, 1995; Garcacia-Sanchez et al., 2021). This observation holds special significance in the developing economies such as Pakistan where institutional surveillance is not so strong and companies are also dependent on voluntary governance systems to indicate transparency and accountability(Ali et al., 2020; Khan et al., 2021).

5.2 Comparison with Prior Empirical Studies

The results of this research are praiseworthy and fit with the previous studies that have revealed a positive relationship between CSR and quality of corporate governance. Indicatively, Kim et al. (2021) and El Ghou1 et al. (2021) discovered that CSR-oriented companies have better inner monitoring systems and reduced misreporting of financial performance. In a similar way, Garcia-Sanchez et al. (2021) suppose that CSR positively impacts the degree of transparency and accountability, and internal control becomes more efficient.

However, there are ambivalent or ambivalent results of certain previous studies. According to Ullah et al. (2022) and Sial et al. (2021), CSR is occasionally symbolic (greenwashing), especially in developing countries, where it lacks enforcement to provide it with the force it requires to influence the governance mechanisms. Instead, the impact of the present research is high and significant, meaning that in Pakistan CSR is turning into more concrete than symbolic, specifically, the case of the listed companies that are more susceptible to regulatory pressure.

Additionally, the high rank of governance and ethical in this study is similar to Jo and Harjoto (2021) who state that the go vernance-based CSR is more associated with the monitoring and control systems compared to the philanthropic activities, which are more likely to have less governance impact.

5.3 Theoretical Explanation of CSR Dimensions



Advance Journal of Econometrics and Finance

Vol-3, Issue-4, 2025

The multidimensional results will be able to provide additional information regarding the impact of different CSR factors on the internal control effectiveness. The governance aspect is the most significant in its effects and aligns with the agency theory, which implies that the good governance practices prevent opportunistic managerial practices and enhance internal control systems (Jensen and Meckling, 1976; Krishnan, 2020).

It is also an important difference of the ethical responsibility and is covered by the institutional theory because the ethical standards and corporate culture influence internal behavior and predispose it to be submissive to control procedures (Scott, 2014; Kim et al., 2021). The internal controls are enhanced by economic and legal requirements to adhere to the financial reporting standards and regulatory requirements, which is in line with the requirements of the COSO (2017) framework.

Risk awareness and external responsibility based on environmental and stakeholder considerations complement internal control systems of risk assessment and monitoring (García-Sánchez et al., 2021). Nevertheless, the less applicable is the philanthropic responsibility, which is in line with Benlemlih and Bitar (2020) who indicate that philanthropic CSR is more externally oriented and not as much integrated with internal governance systems.

5.4 Contextual Insights: Pakistan Perspective

The findings are particularly useful in the context of the situation in Pakistan where the corporate governance regimes have not been fully developed yet, and the regulation is not consistently applied to the industries (Ali et al., 2020). Such environments have a high substitutive role of CSR, which complements voluntary mechanisms of governance, especially internal controls, to counter institutional weaknesses (Khan et al., 2021).

In addition, international investors and regulatory bodies as well as stipulations in stock exchanges have mounted pressure which has caused Pakistani companies to take CSR activities more seriously.

improved internal controls and surveillance. It is indicative of a shift towards more strategic and governance-based CSR integration as opposed to the symbolic adoption of CSR.

5.5 Key Theoretical Contribution

The existing study contributes to the existing body of literature by empirically supporting a seven-dimensional CSR model and the internal control effectiveness which is measured with the COSO model. Though most of the previous research has looked at CSR and financial performance or CSR and governance, this study is significant in that it places internal control systems as a direct implication of CSR involvement.

In addition, the paper incorporates stakeholder theory, legitimacy theory and agency theory into a single framework that shows that CSR simultaneously lowers agency conflicts, increases legitimacy, and better governance mechanisms. Such cumulative input of theory is particularly applicable when dealing with an emerging economy with high rates of institutional gaps.

5.6 Summary of Discussion

Overall, the findings confirm that CSR is a significant determinant of financial performance in Pakistani firms. CSR not only improves profitability, as reflected in ROA and ROE, but also enhances market valuation, as measured by Tobin's Q. Additionally, CSR strengthens corporate legitimacy, builds stakeholder trust, and supports long-term sustainability. These results highlight the strategic importance of CSR as a tool for improving both internal efficiency and external market perception, particularly in emerging economies.

6. Conclusion

Altogether, the results prove the hypothesis that the CSR is not a reputational/ethical tool, but an effective governance tool, which improves the functioning of the internal controls. Firms that effectively implement the concept of CSR are in a better position to ensure good control environment, improved risk management and tend to be more compliant to the regulations, therefore, leading to a greater transparency and accountability in their firms.

The paper has discussed the implications of the Corporate Social responsibility (CSR) of the internal control effectiveness in the corporate world of Pakistan in the context of the multidimensional CSR framework and COSO internal control measurement. The empirical evidence of the research is high based on the stakeholder theory, legitimacy theory and the agency theory, and this proves the fact that CSR is an extremely effective internal control. The findings demonstrate that the more the companies are involved in CSR the more effective is their control environment, the risk assessment mechanism, the monitoring system and the overall quality of governance.

The results also indicate that seven dimensions of CSR dimensions each impact the internal control effectiveness most desirably on the dimension of governance and ethical responsibility in the legal, environmental and stakeholder dimensions with the second, third and fourth ranked respectively. The dependency between philanthropic responsibility and internal governance structure is not as steep and its contribution to internal governance structures therefore is not so straightforward. These results indicate that CSR is not a reputational and symbolic exercise but a strategic governance mechanism that complement the control mechanisms in an organization.

In terms of theory, the study contributes to the existing literature by combining CSR and the effectiveness of internal controls into a single model that illustrates the fact that CSR is a mechanism, which decreases agency conflicts, increases legitimacy and the quality of corporate governance. It can also be applied to fill the gap in the empirical literature about the emerging economies by giving an insight into Pakistan whose institutional framework and application of regulations are still in their infancy.

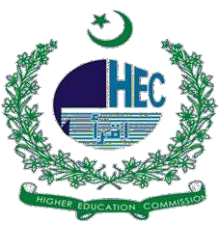
In practice, the results indicate that managers in corporations have to incorporate CSR into a central governance approach and not as an external practice. It is the responsibility of regulators and policymakers to promote the use of the CSR disclosure and compliance as the way of enhancing the internal control system and enhancing corporate reporting transparency. Improving the CSR systems can therefore become important in reducing financial abnormalities, improving investor confidence and improving the corporate sustainability.

Finally, the paper confirms that CSR is one of the most important sources of internal control effectiveness which is a strategic approach of implementing ethical governance, accountability and sustainable corporate performance in the emerging economies such as Pakistan.

7. Implications of the Study

7.1 Theoretical Implications

The paper is an excellent addition to the existing literature in that it integrates Corporate Social Responsibility (CSR) and internal control effectiveness into one concept framework, which is grounded in the stakeholder theory, the legitimacy theory and the agency theory. Majority of the past research has focused on the relationship between CSR and financial performance or the corporate governance outcome, but this paper goes a step further to empirically uncover the substantial role of CSR as a factor in internal control effectiveness. The results support the thesis statement that CSR is a governance-enhancing tool which minimizes the agency issues, enhances ethical culture and enhances the monitoring systems



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Vol-3, Issue-4, 2025

within the organizations. Besides this, the paper also adds to the body of the literature on CSR in operationalizing it as a seven-dimensional construct and relating it with internal control systems based on COSO which is a more holistic and multidimensional approach to defining the role of CSR in the governance of emerging economies.

7.2 Managerial Implications

The implications of the results are valuable to the corporate managers and executives. One of these is, that companies need to take the mainstreaming path of CSR as a strategic and governance process and not as a peripheral or cosmetic activity. The findings suggest that governance and ethical CSR variables are important variables in the internal control effectiveness and thus the managers need to emphasize transparency, accountability and ethics in corporate practices. Second, organizations need to make investments in improving the CSR reporting systems, as more effective disclosure practices can contribute to raising the level of trust among stakeholders and enhance monitoring mechanisms within the organization. Third, the CSR units, internal audit and compliance departments must work together with each other to make sure that the objectives of the social responsibility activities align with the objectives of internal controls. Finally, CSR can be regarded as strategic investment that can be employed to enhance the risk management, mitigate the risk of fraud, and make the organization more sustainable in the long-term.

7.3 Policy and Regulatory Implications

The study has tremendous policy implications to the policy-makers and the regulators in Pakistan and other emerging economies. To enhance the responsibility and transparency of corporate reporting, the regulators such as the Securities and Exchange Commission of Pakistan (SECP) should promote mandatory disclosures of CSR. CSR compliance embedded in the codes of corporate governance can make a significant impact on the internal control systems in listed companies. In addition, there should be policies implemented to make businesses embrace internationally accepted standards like COSO and ESG-based reporting standards to enhance quality of governance. The institutional enforcement reinforcement will also dampen the symbolic CSR practices and will enhance the substantive CSR participation and hence will enhance effectiveness of internal control and minimise financial anomalies in corporate world.

7.4 Societal Implications

Besides the organizational and regulatory ones, the findings implications can be disseminated to the rest of the society. Inc reased CSR practices lead to increased corporate responsibility, a decrease in risk of corruption, and protection of the stakeholder interests such as employees, investors and the overall community. CSR in the long run leads to financial transparency and economic stability in form of improving internal control system which is the most significant in the sustainable development of developing economies like Pakistan. This paper therefore unveils CSR as being a socially desirable procedure that goes beyond corporate ranks to assist in establishing on the general trust and economic governance within the society.

8. Limitations and Future Research Directions

8.1 Limitations of the Study

Although the research has a strictly developed methodology and empirical approach is applied, it has some limitations that have to be considered. To begin with, it is a cross-sectional research design, and it can only capture data at a single point in time; therefore, it does not allow studying causal relationships and dynamic changes in CSR and internal control effectiveness over time in their entirety (Saunders et al., 2019; Hair et al., 2021). A longitudinal design would give more insights as to how CSR practices affect internal control systems in various economic cycles.

Second, the research is based mostly on self-reported survey data, which can contribute to the possibility of common method bias and subjectivity of the respondents (Podsakoff et al., 2012; Kline, 2021). Even though statistical methods of lowering biasness were applied, the future studies can be enhanced with both perceptual and objective archival indicators which are more valid.

Thirdly, the study is geographically located in the corporate sector of Pakistan and this can be a limitation in the generalization of the results to the other institutional settings. The findings must be considered in contextual terms since CSR practices and internal control systems differ among countries because of the existing difference in the strength of regulations, cultural norms, and systems of governance (Ali et al., 2020; Khan et al., 2021).

Fourth, the study also includes the key control variables like firm size, age, leverage, and R&D intensity but other potentially interesting variables like the form of ownership, boards diversities, and industry influences were not studied in detail and may affect internal control effectiveness

8.2 Future Research Directions

There are several ways in which this research can be built in future research. Firstly, the researchers should consider using longitudinal research design to investigate the effects of CSR practices on effective internal controls over a period especially during a period of economic turmoil or when a new regulation is introduced. This would offer better causal inferences and dynamic insights of the association.

Second, future research needs to take into account multi-country comparative studies, especially emerging and developed economies with a view to determining the moderating effect of institutional differences on the CSR-internal control relationship. This type of comparative studies would increase the external validity of the results and help to add to the body of literature on global CSR governance.

Third, the quantitative information may be integrated with the qualitative one in the form of mixed-method research which presupposes the interviews with auditors, compliance officers and senior management. This would give a stronger contextual insight on the implementation of CSR practices in internal control systems.

Fourth, the mediating and moderating variables which can either enhance or undermine the CSR-internal control relationship can be investigated in the future like the quality of corporate governance, the performance of the board, the corporate culture, or the digital transformation.

Lastly, in the future more stringent data analysis methods can be used to enhance the methodological rigor and predictive ability of the study like structural equation modeling (SEM), panel data regression or machine learning methods.

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