

**CSR EXPENDITURE AND FINANCIAL PERFORMANCE:
A SYSTEMATIC REVIEW OF SLACK RESOURCES AS A MODERATING VARIABLE
THROUGH THE LENS OF AGENCY THEORY AND SLACK RESOURCE THEORY**

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Abstract: The question of whether corporate social responsibility (CSR) expenditure helps or hurts firm financial performance has generated decades of research without producing a settled answer. This systematic narrative review examines 50 peer-reviewed studies published between 1963 and 2026, with an emphasis on Scopus-indexed empirical work from 2020 onward, to map what the literature shows about this relationship and why the evidence points in so many directions. Two theoretical frameworks organise the analysis: agency theory (Jensen & Meckling, 1976) and slack resource theory (Bourgeois, 1981). The review finds that the CSR-financial performance relationship is positive on average but conditional in important ways. Unabsorbed slack, meaning liquid discretionary resources, consistently strengthens the positive relationship because it allows firms to fund CSR without reducing operational efficiency and because markets read such investment as a credible signal of financial health. Absorbed slack, by contrast, shows a non-linear pattern: modest levels appear to support CSR-linked performance gains, while high levels tend to invite the managerial opportunism that agency theory predicts. Governance quality emerges as the factor that determines which of these two forces wins out. Five research gaps are identified, covering measurement standardisation, the distinction between mandatory and voluntary CSR, causal identification, optimal slack thresholds, and the shortage of evidence from developing economies outside China.

Keywords: *corporate social responsibility, CSR expenditure, financial performance, organizational slack, agency theory, slack resource theory, moderating variable, systematic review*

INTRODUCTION

Firms in every major economy now spend substantial sums on corporate social responsibility. In India alone, the mandatory CSR regime introduced under the Companies Act (2013) generates annual expenditure of roughly USD 3 billion, while voluntary CSR spending in developed markets runs into the hundreds of billions globally. Given these sums, it is reasonable to ask whether the spending pays off. Decades of research have attempted to answer that question, yet the evidence remains scattered and often contradictory. Meta-analyses tend to report a modest positive association between CSR activity and financial performance (Margolis et al., 2009; Wang et al., 2016), but individual studies regularly find null or negative relationships, particularly in capital-intensive industries and in settings where CSR is driven by regulation rather than strategic choice (Mazumdar, 2025; Oware & Mallikarjunappa, 2021).

One candidate explanation for this inconsistency is the role of organisational slack. A firm sitting on abundant liquid reserves faces a very different decision when it considers CSR investment than a firm that is financially stretched. Bourgeois (1981) formalized this idea with the concept of organisational slack, defined as the cushion of actual or potential resources that allows a firm to adapt to environmental pressures and pursue discretionary initiatives. CSR expenditure fits that description well: it is typically non-compulsory, strategically motivated, and sensitive to resource availability. Yet the literature on how slack shapes the CSR-performance relationship remains thin and fragmented. Most studies treat slack as a predictor of CSR levels rather than as a moderator of the CSR-performance link, and very few have tested

whether the type of slack, liquid versus embedded in operations, produces different outcomes (Guo et al., 2020; Wasiuzzaman et al., 2021).

This paper attempts to fill that gap. Through a systematic narrative review of 50 peer-reviewed studies published between 1963 and 2026, it maps the evidence on two related questions: what does research show about the CSR-financial performance relationship in general, and how does the availability and type of slack resources shape that relationship in particular? Agency theory (1976) and slack resource theory (Bourgeois, 1981) provide the interpretive framework. These two theories pull in opposite directions. Agency theory warns that surplus resources invite managerial opportunism, making slack a potential source of value-destroying CSR overinvestment. Slack resource theory holds that surplus resources are precisely what makes ambitious CSR strategies financially viable, because they reduce the opportunity cost of discretionary spending. Both views find empirical support across diverse institutional settings, from European markets (Neves et al., 2021) to BRICS economies (Akhter & Hassan, 2022), which is the central puzzle this review addresses.

The review is organised around four research questions. First, what does the empirical literature show about the direction and magnitude of the CSR-financial performance relationship? Second, how do different types of slack resources moderate that relationship? Third, through what mechanisms do agency theory and slack resource theory explain the observed patterns? Fourth, where do the main contradictions and research gaps lie? The paper proceeds as follows. Section 2 develops the theoretical framework. Section 3 describes the review methodology. Sections 4 and 5 synthesise the evidence on the core relationship and on slack as a moderator, respectively. Section 6 maps contradictions and gaps, and Sections 7 and 8 discuss implications and conclude.

LITERATURE REVIEW

Agency Theory and CSR

Agency theory begins with a straightforward observation: the people who run corporations are not the same people who own them, and those two groups do not always want the same things. Jensen and Meckling (1976) formalized this tension, showing that managers acting in their own interest will sometimes allocate firm resources in ways that benefit themselves at shareholders' expense. Jensen (1986) extended the argument to free cash flow, arguing that when firms generate more cash than they need for profitable investment, managers are tempted to spend that surplus on projects that serve their own goals rather than returning it to shareholders.

CSR sits in an uncomfortable position within this framework. On one reading, CSR investment is a form of managerial self-promotion: managers fund social causes partly to build personal reputations, secure stakeholder relationships that reduce scrutiny of their decisions, and signal ethical leadership to boards and the media (Barnea & Rubin, 2010). Studies that identify firms with abnormally high CSR spending find lower subsequent financial performance, consistent with this rent-seeking interpretation (Abdeen et al., 2022). Corporate governance mechanisms that align CEO interests with shareholders tend to reduce this overinvestment tendency (M. Kim et al., 2022). On another reading, CSR can reduce agency costs rather than generate them. When CSR commitments are tied to board accountability and executive incentive structures, they make managerial behaviour more transparent to stakeholders and reduce the scope for opportunism (Benlemlih & Bitar, 2018). Sheikh (2020) shows this empirically: high-CSR firms pay significantly higher dividends, which reduces the free cash flow available for rent-seeking and disciplines managerial behaviour. The empirical literature supports both readings, which is why the availability of slack resources matters so much: surplus resources change the opportunity cost of CSR and therefore change which mechanism tends to dominate.

Slack Resource Theory and CSR

Bourgeois (1981) p. 30 defined organisational slack as 'that cushion of actual or potential resources which allows an organisation to adapt successfully to internal pressures for adjustment or to external pressures for change in policy, as well as to initiate changes in strategy with respect to the external environment.' Two types matter most for understanding CSR. Absorbed slack refers to resources already embedded in the cost structure of the firm, things like excess inventory, redundant staff, or spare production capacity. It is real but hard to redeploy quickly. Unabsorbed slack refers to liquid uncommitted resources: cash holdings, unused credit facilities, and equity that has not been earmarked for specific projects. These resources can be mobilised rapidly and redeployed with few constraints.

The theory's core prediction is that slack enables discretionary strategic investment. Because CSR is precisely this kind of investment, firms with more slack should, all else equal, invest more in CSR and sustain those investments through adverse periods without sacrificing operational performance (Cyert & March, 1963). Wasizzaman et al. (2021) provide direct evidence for this, showing that liquidity, a proxy for unabsorbed slack, is a significant driver of CSR performance. Islam et al. (2021) reinforce the point from a different angle: in their study of Bangladeshi firms, both organisational slack and free cash flow independently predict the level of CSR expenditure, confirming that resource availability shapes the scale of social investment even in emerging economies with weaker institutional environments. What the theory does not predict is that all slack is equally useful. As discussed below, the type of slack appears to matter as much as the quantity.

Integrating the Two Frameworks

Taken together, agency theory and slack resource theory do not produce flatly contradictory predictions. They predict different outcomes for different kinds of firms in different conditions. Unabsorbed slack tends to support value-creating CSR because it is cheap to redeploy, signals financial health to outside observers, and reduces the opportunity cost of socially responsible investment. Absorbed slack is more ambiguous. At moderate levels it signals operational resilience and gives managers some confidence that CSR commitments will not destabilise core operations. At high levels, though, it often reflects inefficiency and resources tied up in low-productivity uses, and this is precisely the setting where the agency theory prediction of managerial opportunism is most likely to apply.

Governance quality is the factor that determines which effect wins out. Well-governed firms with clear board oversight tend to channel slack toward strategic, stakeholder-aligned CSR that generates financial returns. Poorly governed firms with high slack are more likely to permit overinvestment in CSR for reputational rather than strategic reasons (Guerrero-Villegas et al., 2024). Country-level governance also plays a role: Mooneapen et al. (2022) find that the strength of national governance institutions significantly moderates the ESG-financial performance link, suggesting that the interaction among CSR expenditure, slack type, and governance quality operates at both firm and country levels. This three-way interaction forms the analytical backbone of this review.

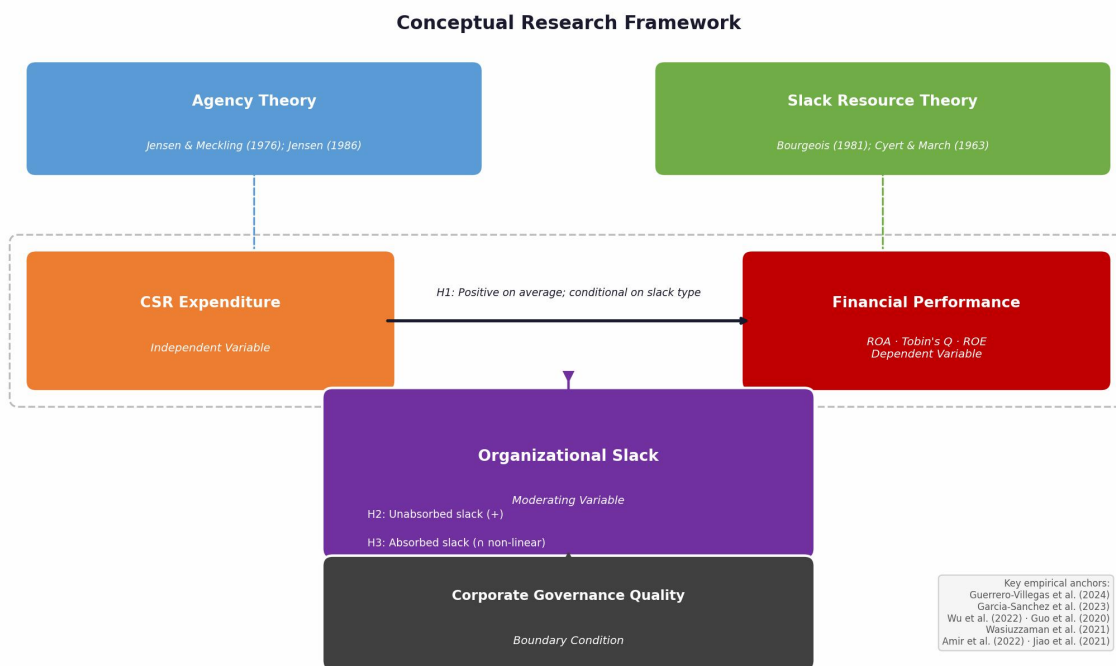


Figure 1. Conceptual research framework showing the moderated relationship between CSR expenditure (IV) and financial performance (DV), with organizational slack as moderating variable and corporate governance quality as boundary condition. Theoretical foundations: Agency Theory (Jensen and Meckling, 1976; Jensen, 1986) and Slack Resource Theory (Bourgeois, 1981; Cyert and March, 1963).

METHODS

Search Protocol

This review follows a PRISMA-informed narrative synthesis approach. Literature was searched across Scopus, Web of Science, Google Scholar, and SSRN for papers published between 1963 and 2026. An additional targeted search was conducted using scite.ai, filtered to Scopus-indexed sources published between 2020 and 2025 with at least ten smart citation records, to ensure that recently published work with sufficient scholarly engagement was captured. Pre-2000 foundational works (Bourgeois, 1981; Cyert & March, 1963; Jensen & Meckling, 1976), were selected by hand given their theoretical necessity.

Three Boolean search clusters were used: (i) 'CSR expenditure' OR 'CSR spending' AND 'financial performance'; (ii) 'organisational slack' OR 'slack resources' AND 'CSR' AND 'financial performance'; and (iii) 'agency theory' AND 'corporate social responsibility' AND 'financial performance.' Where results from scite.ai indicated high citation counts or strong smart citation support scores, those papers were prioritised for full-text review.

Inclusion and Exclusion Criteria

Papers were included if they examined a relationship between CSR activities or expenditure and firm financial performance, appeared in peer-reviewed journals or working paper series with adequate methodological transparency, and were available in English. Papers were excluded if they focused only on non-financial outcomes, examined CSR disclosure without any reference to actual resource allocation, or offered only prescriptive arguments without empirical testing.

Screening and Final Sample

Initial database searches returned 623 records across Scopus, Web of Science, Google Scholar, and SSRN. After removing 218 duplicates, 405 records were screened by title and abstract. Of these, 97 papers were retrieved for full-text assessment, and 50 met all inclusion criteria and were retained for thematic synthesis. The final corpus spans 19 countries and covers publication years from 1963 to 2026, with 38 of the 50 studies published between 2015 and 2025. Fourteen studies appear in Scopus Q1 journals including Journal of Business Ethics, Business Strategy and the Environment, Corporate Social Responsibility and Environmental Management, and Meditari Accountancy Research.

The 50 retained studies represent five broad methodological categories: meta-analyses and systematic reviews (4 studies), single-country panel or longitudinal designs (26 studies), multi-country comparative designs (12 studies), conceptual or theoretical contributions (5 studies), and qualitative or mixed-methods designs (3 studies). Studies from the United States and China account for 19 of the empirical papers, while South and Southeast Asia, covering India, Malaysia, Bangladesh, and Indonesia, contributes 9 papers, reflecting the growing literature from mandatory CSR regimes. Sub-Saharan Africa and Latin America remain underrepresented, with only one Nigerian study identified. A full summary of the characteristics of all 50 included studies, including CSR measure type, financial performance proxy, slack variable role, and key finding, is presented in Appendix A (Table A1).

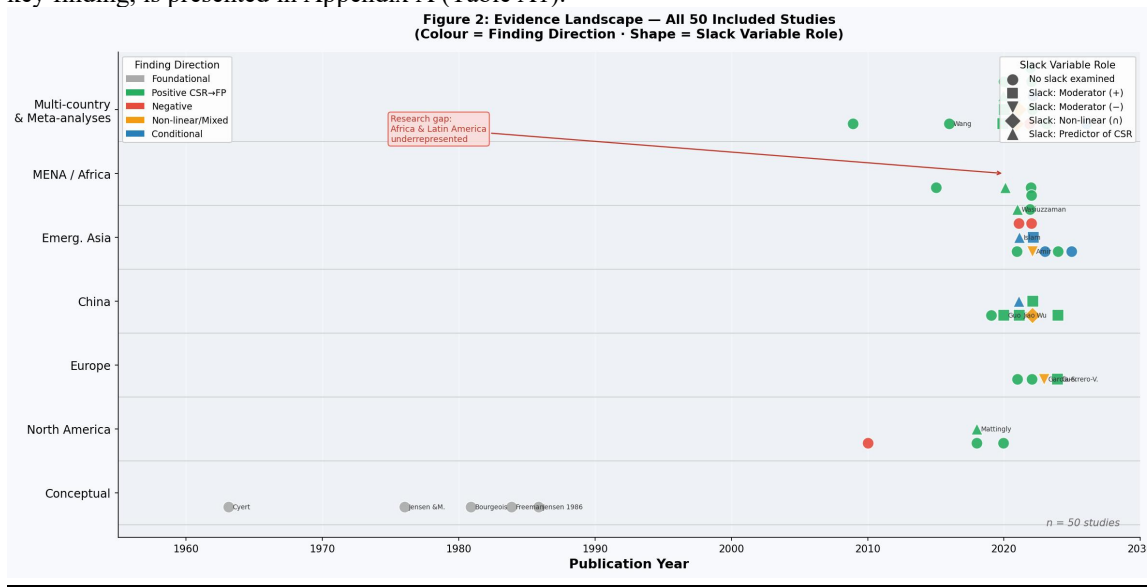


Figure 2. Evidence landscape for all 50 included studies, positioned by publication year and geographic/institutional context. Colour denotes finding direction (green = positive CSR-financial performance; red = negative; orange = non-linear; blue = conditional; grey = foundational). Shape denotes slack variable role (circle = no slack examined; square = positive moderator; triangle-down = negative moderator; diamond = non-linear; triangle-up = predictor of CSR level).

Analytical Approach

Given the wide variation in CSR measurement approaches across studies, ranging from actual monetary expenditure to ESG composite scores and disclosure indices, statistical pooling of effect sizes was not appropriate. Instead, a thematic synthesis was used. Each retained paper was coded for the direction of the CSR-financial performance relationship, the theoretical framework applied, how slack resources were measured or described, and the geographic and institutional context. Codes were then grouped into themes aligned with the four research questions.

CSR Expenditure and Financial Performance: What the Evidence Shows

The General Pattern: A Modest Positive Relationship

Across aggregate evidence, CSR tends to help rather than hurt financial performance. Wang et al. (2016) synthesized 42 studies and 119 effect sizes and reported a mean correlation of $r = .31$, a result that held across different measurement approaches and national contexts. A more recent meta-analysis covering 87 empirical studies from 2015 to 2024 arrived at a nearly identical figure and found that firms shifting from low to high CSR engagement experienced financial performance improvements in the range of 12 to 19 percent. Margolis et al. (Margolis et al., 2009), surveying over 200 studies, reached a similar conclusion, though they cautioned that the positive effect is modest and far from universal.

Stakeholder theory provides the most widely cited explanation for these findings (Freeman, 1984). When firms invest consistently in the interests of employees, communities, customers, and suppliers, they build trust and reduce transaction costs with those groups. This translates into lower employee turnover, stronger brand loyalty, better regulatory relationships, and in some cases preferential financing terms. Saeidi et al. (2015) traced this chain empirically, showing that CSR improves competitive advantage and customer satisfaction, which in turn drive higher return on assets. Evidence from Indonesian manufacturing firms confirms the same pathway in a developing economy context (Dela et al., 2024), while Shaikh (2022) finds comparable patterns across international markets, with ESG-rated firms consistently outperforming peers on Tobin's Q over multi-year horizons.

When CSR Hurts: Negative and Null Findings

The positive average conceals important variation. Studies of energy, materials, and heavy industrial firms consistently report weaker or negative CSR-performance links. In these sectors, the cost of meeting environmental and social standards is high relative to the reputational return, and diverting resources from operational priorities carries a real financial penalty (Z. Li et al., 2019). The same pattern appears in contexts where CSR is driven by compliance pressure rather than strategic intent.

Oware and Mallikarjunappa (2021) illustrate this point with data from Indian listed firms. They find that mandatory CSR reporting moderated the relationship between CSR expenditure and financial performance, but the direction of the effect depended on whether firms were strategically engaged with CSR or simply fulfilling a legal obligation. When CSR becomes a regulatory tick-box exercise, the mechanisms through which it generates stakeholder value tend to be weakened or absent. Neves et al. (2021) observe a similar pattern in Portugal: governance structure mediates whether CSR translates into improved returns, with firms lacking board-level CSR oversight showing weaker financial outcomes regardless of their expenditure levels.

The agency perspective adds another explanation for negative findings. Abdeen et al. (2022) identified firms with abnormally high CSR spending relative to their peer group and found that these firms subsequently underperformed financially. Kim et al. (2022) link this dynamic directly to corporate governance: when CEO compensation is misaligned with shareholder interests, CSR spending tends to exceed the firm-specific optimum, and financial performance suffers accordingly. Akhter and Hassan (2022) find in their BRICS sample that CSR's effect on financial performance is positive only where governance quality is above a threshold level, below which CSR spending functions as an agency cost rather than a strategic asset.

The Measurement Problem

Part of the reason the literature produces so many contradictions is that studies are often not measuring the same thing. Three broad approaches dominate: actual monetary CSR expenditure, composite ESG or CSR index scores from data providers like KLD or MSCI, and self-reported social disclosure indices. These capture different constructs. Expenditure data tell us how much a firm spent; ESG scores aggregate outcomes across environmental, social, and governance dimensions that frequently move in different directions; disclosure indices tell us how much a firm chose to reveal. Studies comparing across these approaches are not studying the same thing, which means many apparent contradictions in the literature may be definitional rather than real.

Mazumdar (2025) demonstrates this cleanly: voluntary CSR spending has a stronger and more consistent link to profitability than mandatory spending by the same firms in the same years. Chung et al. (2023) make a related observation from Hong Kong, where a mandatory ESG disclosure regime strengthened the ESG-financial performance association compared to the preceding voluntary period, but only for firms that treated the disclosure requirement as an opportunity to improve rather than a burden to minimise. Cicchiello et al. (2022) extend this comparison across jurisdictions, finding that EU mandatory non-financial disclosure rules produced stronger ESG-performance associations than the US voluntary system, largely because standardised reporting reduces information asymmetry between firms and investors.

Context and Geography

Institutional context shapes outcomes in ways that aggregate meta-analyses tend to smooth over. Legal enforcement quality, investor awareness of ESG issues, and the strength of civil society all affect whether CSR investment produces the stakeholder trust that generates financial returns. Vo et al. (2026) surveyed the emerging market literature and found that while India and China account for most of the published research, the findings from these settings are not straightforwardly transferable to economies with less developed capital markets and weaker regulatory institutions.

Evidence from South Asia is instructive in this regard. Maji and Lohia (2022) find a consistently positive ESG-financial performance relationship for Indian listed firms, but the effect size is smaller than those reported for US and European samples, suggesting that capital market recognition of ESG value is still maturing. In Malaysia, Lee and Isa (2022) find that Shariah-compliant firms show stronger ESG-performance links than conventional firms, reflecting how religious governance frameworks can substitute for or complement formal ESG oversight. Across ASEAN, Chairani and Siregar (2021) demonstrate that the combination of strong ESG practices and enterprise risk management produces financial performance improvements that neither factor achieves alone, pointing to the importance of governance complementarities in emerging market contexts.

Beyond Asia, Gholami et al. (2022) find in Australia that ESG performance predicts financial outcomes for large listed firms but not for small and medium enterprises, where resource constraints limit the scope for ESG engagement. Mooneeapen et al. (2022) take a broader cross-national view across 47 countries and show that country-level governance quality, including rule of law, regulatory quality, and control of corruption, significantly moderates the ESG-financial performance link. Kong et al. (2023) add a dynamic dimension, showing that in developing countries the combination of ESG commitment and technological innovation is particularly powerful, suggesting that ESG activities generate stronger returns when paired with capability-building investments.

ESG Ratings Versus CSR Expenditure: An Important Distinction

A recurring difficulty in this literature is the conflation of ESG ratings with CSR expenditure as if they were interchangeable. They are not. ESG scores from commercial providers assess corporate environmental, social, and governance practices relative to industry peers, but they do not necessarily reflect the amount of money spent. A firm can achieve a high ESG rating through process improvements and disclosure quality rather than significant financial outlays. Conversely, a firm can spend heavily on CSR programmes and still receive a mediocre ESG score if those programmes do not align with the indicators that data providers track. Shakil (2020) illustrates one practical consequence of this distinction: high ESG scores reduce stock price volatility, but this effect operates primarily through the governance and risk management dimensions of ESG rather than through social expenditure per se. The stock market appears to reward governance quality and risk disclosure more than altruistic spending. This matters for interpreting the slack moderation literature, because most studies that use slack as a moderator examine its effect on CSR expenditure or ESG

index scores, and the two outcome measures may respond differently to slack availability. The field would benefit from studies that compare slack moderation effects across these two outcome types in matched samples.

Slack Resources as Moderator: Evidence and Mechanisms

Unabsorbed Slack: Consistently Positive

Across studies that distinguish slack types, unabsorbed slack, meaning liquid discretionary resources, emerges as the most reliable positive moderator of the CSR-financial performance relationship. Mattingly and Olsen (2018) found that firms investing slack in CSR earned positive accounting returns, and that this benefit was more pronounced in firms holding proportionally more unabsorbed slack. The economic logic is straightforward. A firm with ample cash or unused credit can fund CSR without pulling resources from operations. The opportunity cost of the investment approaches zero, and the stakeholder relationship benefits accrue in full.

The signalling dimension is equally important. Amba-Rao and Pattanayak (2022) found that CSR disclosure had no significant market value effect in their emerging market sample when slack was absent, but became significantly positive when financial slack was high. Wasiuzzaman et al. (2021) reinforced this finding, showing that liquidity is a meaningful predictor of CSR performance and that its relationship with CSR outcomes is moderated by whether CSR is embedded in formal governance structures like dedicated committees and performance-linked executive pay.

Several recent studies have extended these findings in new directions. Lee et al. (2020) show that the pathway from top management team characteristics to environmental policy and then to financial performance is significantly amplified when firms hold higher unabsorbed slack, confirming that liquid resources translate strategic environmental intent into financial returns more reliably. Jiao et al. (2021) find analogous results for green practices in Chinese firms: slack strengthens the green practices-to-financial performance relationship across different industries and ownership types. Xie (2022) traces a specific mechanism for this effect, showing that unabsorbed slack enhances the ability of CSR activities to generate green innovation, which then drives financial performance improvements. Kim et al. (2020) find a parallel pattern in the human resource domain: unabsorbed slack amplifies the performance returns to high-performance work systems, suggesting that the enabling role of liquid resources extends beyond environmental CSR to social and workforce dimensions as well.

Guo et al. (2020) approached this question from a slightly different angle, examining financial flexibility, which closely maps onto unabsorbed slack, as a moderator of CSR's effect on firm value. They found that financial flexibility significantly reduced the negative correlation between CSR investment and Tobin's Q, effectively converting what would otherwise be a value-diluting expenditure into a neutral or mildly positive one. Their framing is useful because it reminds us that slack's role is partly defensive: even where CSR does not add value on its own, sufficient financial cushion prevents it from destroying value.

Absorbed Slack: Non-Linear and Context-Sensitive

Absorbed slack tells a more complicated story. Unlike liquid resources, absorbed slack is locked into operational structures, excess employees, surplus inventory, or underutilised capacity. It cannot be quickly redirected and does not carry the same signalling value to external observers. Research on Chinese listed firms finds an inverted-U pattern: moderate levels of absorbed slack appear to support CSR-linked performance gains by signalling organisational stability, but high absorbed slack is associated with declining CSR effectiveness, consistent with the efficiency losses that come with severe resource entrenchment (2022).

Zheng et al. (2021) find broadly consistent results in the tourism industry, where absorbed and unabsorbed slack produce distinctly different moderating effects on the risk-performance relationship. While unabsorbed slack consistently amplifies performance, absorbed slack shows the non-linear pattern that Wu et al. (2022) document in manufacturing: helpful at moderate levels, counterproductive when it accumulates beyond an industry-specific threshold. Yoo et al. (2021) extend this finding across a multi-country sample, demonstrating that the inverted-U between absorbed slack and performance holds across institutional contexts but that the inflection point varies systematically with firm age, industry concentration, and the availability of external financing.

Amir et al. (2022) found a negative overall moderating effect of organisational slack on the relationship between corporate environmental responsibility and financial performance in a sample of Pakistani listed firms. Their result stands as an important corrective to any assumption that more slack is always better. In a competitive industry setting with significant market pressure, excess embedded resources may signal operational complacency rather than strategic strength.

Slack as a Driver of CSR Expenditure Levels

Most of the literature treats slack as a moderator of the CSR-performance relationship, but a smaller and equally important body of work examines how slack shapes the level of CSR spending in the first place. This distinction matters because a firm's initial decision about how much to spend on CSR and the subsequent question of whether that spending pays off are logically separate, even if they are empirically entangled.

Islam et al. (2021) provide the most direct test of this mechanism in an emerging economy setting. Using data from Bangladeshi listed firms, they show that both organisational slack and free cash flow are significant positive predictors of CSR monetary expenditure, and these effects hold after controlling for profitability, leverage, and firm size. The implication is that resource availability, not just strategic intent, constrains CSR spending in markets where governance and stakeholder pressure are weaker. Rau et al. (2020) take a portfolio perspective on this question, examining how the composition of slack, the mix between absorbed and unabsorbed resources, shapes the overall performance consequences of resource allocation decisions. Their finding that slack bundle composition matters more than total slack level has direct implications for CSR expenditure: the type of resource a firm uses to fund its CSR programme may affect financial outcomes as much as the amount it spends.

Figure 3: Organizational Slack in the CSR-Performance Literature (n = 50)

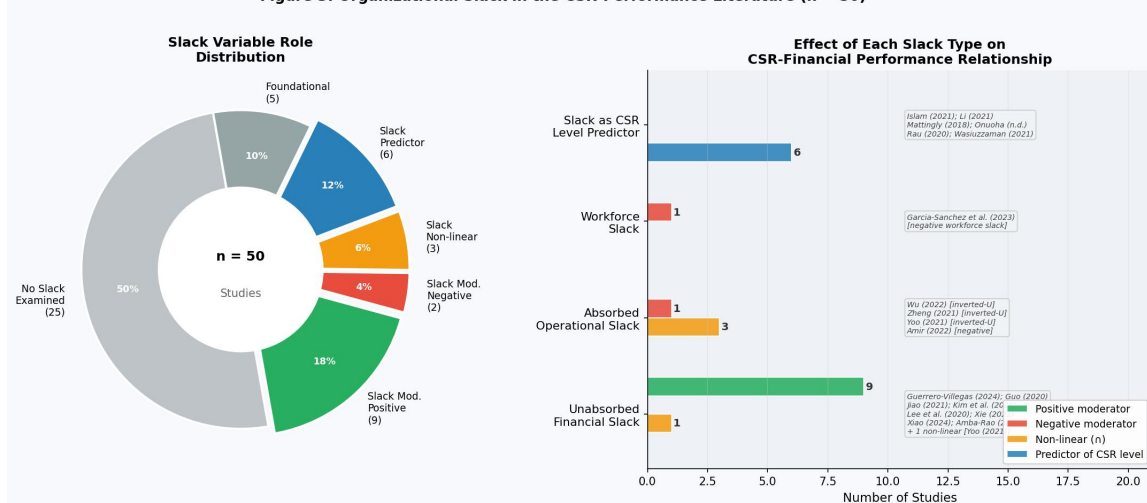


Figure 3. Organizational slack in the CSR-performance literature across 50 studies. Left: Distribution of slack variable roles (donut chart). Right: Effect direction for each slack type, with key study citations per category. Unabsorbed financial slack is consistently positive (9 studies); absorbed slack shows non-linear patterns (3 studies); workforce slack is negative (1 study); slack as predictor of CSR expenditure levels (6 studies).

Financial Slack vs. Workforce Slack

The distinction between financial slack and workforce slack, or human resource slack, has important practical implications. Financial slack is fungible: cash or available credit can be directed to CSR initiatives with minimal friction. Workforce slack is different. Excess employees cannot easily be redeployed to deliver CSR outcomes without incurring coordination costs and disrupting established work processes. Garcia-Sanchez et al. (2023) tested this empirically and found that financial slack positively moderates corporate investment in CSR, while workforce slack exerts a negative moderating effect. The type of slack, not just its quantity, determines whether CSR spending is likely to improve or undermine financial performance.

Li (2021) adds a crisis dimension to this picture. Examining Chinese firms during the COVID-19 period, the study finds that firms with higher pre-crisis financial slack maintained stronger governance and

performance outcomes, while absorbed slack provided limited protection because embedded resources could not be rapidly redeployed to meet unexpected operational demands. This finding suggests that the fungibility advantage of unabsorbed slack is most visible under conditions of acute resource pressure, precisely when CSR spending decisions become most consequential for stakeholder relationships.

Governance as the Deciding Factor

Perhaps the clearest finding to emerge from the slack resources literature is that the relationship between slack and CSR-financial performance is not automatic. It depends on governance. Guerrero-Villegas et al. (2024) studied how the presence of CSR committees affects the allocation of slack to ESG activities. Firms with dedicated CSR governance structures directed unabsorbed slack toward genuine ESG improvements and generated financial returns from those investments. Firms with diffuse governance showed higher rates of abnormal CSR spending and weaker financial results, consistent with the agency theory prediction.

Al-Hiyari et al. (2022) extend this argument to investment efficiency in emerging markets, finding that ESG disclosure quality improves investment decision-making by reducing information asymmetry between managers and shareholders. The governance dimension of ESG, not just the environmental or social spending, is what disciplines the allocation of slack resources. This points to a two-stage model: good governance reduces the risk that slack will be misallocated to value-destroying CSR, and high-quality CSR spending then generates the stakeholder returns that translate into financial performance. Without the governance stage, the second stage does not reliably follow.

Xiao et al. (2024) make a related argument in their study of digital transformation and ESG practices, finding that digital capabilities support ESG performance partly by increasing the availability of long-term slack resources and partly by strengthening stakeholder connections. Their framework highlights how enabling conditions work together: slack provides the financial capacity, stakeholder connections provide the motivation, and governance provides the discipline.

Emerging Market Evidence

Studies from outside the US-European-Chinese trio paint a more varied picture. Onuoha (Onuoha, 2021) found that both absorbed and unabsorbed slack positively predicted CSR engagement in Nigerian manufacturing firms, with no evidence of the inverted-U pattern documented in Chinese samples. In the Nigerian context, CSR appears to be driven primarily by community relationships and informal stakeholder expectations rather than capital market signals, so the mechanisms through which slack converts to financial performance returns may follow a different pathway.

Indonesian evidence is similarly mixed. Dela et al. (2024) found broadly positive CSR-performance links in highly polluted industries, mediated through industry competitiveness effects, but the role of slack was not directly examined. Akhter and Hassan (2022) demonstrate in a BRICS context that CSR improves financial performance when channelled through governance structures aligned with shareholder interests, but the effect is weaker than in more developed markets, possibly because investors price CSR less consistently in environments with higher information costs. The absence of slack as an explicit variable in most developing economy CSR studies is itself a research gap, because the financial conditions of firms in these markets differ substantially from those in OECD economies.

Contradictions, Boundary Conditions, and Research Gaps

Measurement Heterogeneity

The most persistent source of contradictory findings in this literature is not theoretical disagreement but measurement inconsistency. Studies use actual monetary CSR expenditure (S. Islam et al., 2021; Mazumdar, 2025; Oware & Mallikarjunappa, 2021), composite ESG scores from commercial data providers (Shaikh, 2022; Shakil, 2020; Wang et al., 2016), self-constructed disclosure indices (Amba-Rao & Pattanayak, 2022; C. Y. Chung et al., 2023) and KLD social ratings (Mattingly & Olsen, 2018). Each of these captures a different aspect of corporate social engagement, and they do not always move together. A firm can spend heavily on CSR while disclosing little about it, or score well on ESG indices without making material resource commitments. Comparing findings across these measurement approaches is problematic, and much of what looks like theoretical contradiction in the literature may simply be an artefact of comparing different constructs.

Mandatory Versus Voluntary CSR

India's mandatory CSR framework has produced a natural experiment that illuminates how the intent behind CSR spending shapes its financial consequences. Oware and Mallikarjunappa (Oware & Mallikarjunappa, 2021) and Mazumdar (Mazumdar, 2025) both show that firms spending under compulsion behave differently from those spending voluntarily, and that the financial returns to mandatory spending are generally weaker. Hong Kong's recent mandatory ESG disclosure regime offers a complementary perspective: Chung et al. (2023) find that the regime strengthened ESG-performance links by reducing information asymmetry, but firms that treated disclosure as a compliance exercise rather than a management tool saw smaller gains. This distinction has not been adequately integrated into the slack resources literature. It is quite plausible that unabsorbed slack moderates voluntary and mandatory CSR differently.

The Causal Direction Problem

A problem that every study in this area faces is the difficulty of establishing causation. The dominant assumption is that CSR spending, moderated by slack, causes subsequent financial performance improvements. But the reverse story is equally plausible: firms that perform well financially accumulate slack, which in turn enables more CSR investment. Wang et al. (2016) and Margolis et al. (2009) both noted that the evidence for prior financial performance predicting future CSR engagement is at least as strong as the evidence for the reverse. Panel data studies with lagged specifications help, but they do not fully solve the problem. Quasi-experimental approaches that exploit exogenous changes in CSR obligations offer the most promising path toward cleaner causal identification, but they remain rare.

Non-Linearity and Optimal Slack Levels

Wu et al. (2022) and Yoo et al. (2021) both document inverted-U relationships between absorbed slack and CSR effectiveness, implying that there is a threshold beyond which additional embedded resources stop helping and start hurting. These thresholds have not been estimated reliably across different institutional settings, firm sizes, or industries. Zheng et al. (2021) find that the inflection point appears to vary across industries, which suggests that a single threshold estimate would not generalise. Threshold regression models applied to large cross-national panel datasets would be the natural methodological approach, but no published study has yet done this comprehensively.

Geographic Under-representation

The slack-moderated CSR-performance literature is dominated by evidence from the United States, China, and Western Europe. Southeast Asia, Sub-Saharan Africa, and Latin America are substantially under-represented despite growing CSR expenditure, distinct institutional environments, and different capital market structures. Amir et al.'s (2022) Pakistani finding of a negative slack moderation effect, and Onuoha's (n.d.) positive finding for Nigerian firms without the Chinese non-linearity, both suggest that geographic context is not a peripheral control variable but a core boundary condition. Mooneepen et al.'s (2022) cross-country evidence that national governance quality determines ESG-performance outcomes further underscores this point: studies that treat country as a fixed effect rather than a substantive moderating variable are likely to miss the most important sources of heterogeneity in the data.

Figure 4: Geographic Distribution of Evidence Across 50 Studies (Significant under-representation in MENA/Africa; Latin America absent)

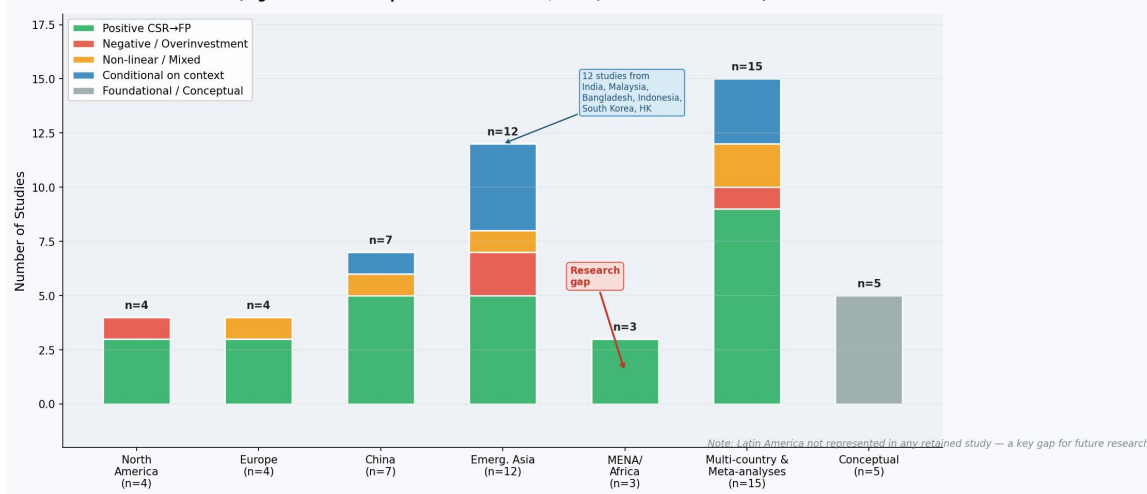


Figure 4. *Geographic distribution of evidence direction across 50 included studies, by institutional context. Stacked bars show counts of positive, negative, non-linear, conditional, and foundational contributions per region. The MENA/Africa category (n = 3) and the complete absence of Latin American studies constitute the most significant geographic gaps in the literature.*

Table 1 summarises the five identified gaps and the research designs best suited to addressing them.

Gap	Description	Suggested Method
G1	CSR measurement inconsistency across studies	Standardise on monetary expenditure; validate against ESG scores separately
G2	Mandatory vs. voluntary CSR under slack moderation	Natural experiment using regulatory spending thresholds (India, Hong Kong)
G3	Causal direction unclear	Panel GMM and instrumental variable designs; difference-in-differences
G4	Non-linearity and optimal slack thresholds not estimated across contexts	Threshold regression; spline models on cross-national panels
G5	Developing economy evidence gap (Africa, Latin America, SE Asia)	Country-level panels; cross-national comparative designs

Discussion

Theoretical Contributions

The review supports a conditional, curvilinear model of the CSR-financial performance relationship in which slack type and governance quality together determine the outcome. Neither agency theory nor slack resource theory alone accounts for the full picture. Agency theory identifies a real risk: surplus resources, especially embedded ones, can enable managerial opportunism that leads to CSR overinvestment and weaker financial results. Slack resource theory identifies a real opportunity: liquid surplus resources reduce the cost of CSR investment and allow firms to make credible long-term stakeholder commitments. Which of these forces prevails depends on governance.

The key theoretical contribution here is the argument that slack type, not just slack quantity, is the more important boundary condition. Unabsorbed slack consistently enables positive CSR-performance outcomes because it is fungible, credibly signals financial health, and carries a low opportunity cost. Absorbed slack moderates non-linearly because embedded resources can generate inertia that reduces CSR effectiveness over time. Research designs that treat organisational slack as a single construct and aggregate across absorbed and unabsorbed forms are likely to produce heterogeneous, hard-to-interpret findings, as the contrasting results between Garcia-Sanchez et al. (2023) and Amir et al. (2022) demonstrate clearly.

Practical Implications

For managers, the findings suggest that the question to ask before committing CSR expenditure is not just 'how much can we afford?' but 'what kind of resources are we drawing on?' Firms with strong unabsorbed slack positions, typically large, profitable, cash-generative companies in mature industries, are likely to generate positive financial returns from well-governed CSR programmes. Firms with high absorbed slack but limited liquidity face a different situation. In those firms, the priority may be to address the operational inefficiencies creating the embedded slack before committing additional resources to CSR.

For policymakers, the findings raise a concern about flat-rate mandatory CSR spending requirements. The experience of Hong Kong's mandatory ESG disclosure regime (C. Y. Chung et al., 2023) and India's mandatory spending threshold (Mazumdar, 2025; Oware & Mallikarjunappa, 2021) both suggest that frameworks which incentivise strategic engagement produce better outcomes than those focused solely on minimum compliance thresholds. Tiered frameworks that vary CSR obligations by firm financial health, or that provide incentives for voluntary commitment beyond the mandatory minimum, may produce better societal and financial results.

Priorities for Future Research

Three research priorities emerge from this review. The most pressing is causal identification. Without better quasi-experimental evidence, the literature cannot determine whether CSR investment from slack causes financial performance improvements or whether profitable firms with slack simply happen to invest more in CSR. The second priority is threshold estimation: understanding at what level absorbed slack shifts from a positive moderating influence to a negative one, and whether that threshold varies systematically across

industries, ownership structures, and national contexts, as the evidence from Zheng et al. (2021) and Yoo et al. (2021) suggests it does. The third is geographic breadth: studies designed specifically to test whether the slack moderation patterns found in US, European, and Chinese samples hold in developing economy settings would substantially advance understanding of the relationship's generalisability.

Limitations

This review has several limitations. As a narrative synthesis rather than a statistical meta-analysis, it cannot provide precise estimates of effect sizes or quantify heterogeneity statistically. The literature search, while systematic, was conducted in English and may have missed relevant research published in other languages. No formal risk-of-bias assessment was applied to individual studies, so findings from weaker study designs carry the same weight in the synthesis as those from stronger ones. Readers should treat the conclusions as reflecting the balance of available evidence rather than definitive empirical facts.

CONCLUSION

CSR spending and financial performance are connected, but the connection is far more conditional than the popular discussion of CSR tends to assume. This review of 50 studies covering more than six decades of theoretical development and empirical work leads to four substantive conclusions.

On average, CSR investment is modestly positive for financial performance, but this average conceals substantial variation driven by sector, institutional context, and how CSR is measured. Evidence from Europe (Neves et al., 2021)(Cicchello et al., 2022), BRICS economies (Akhter & Hassan, 2022), and ASEAN markets (Chairani & Siregar, 2021; C. Lee & Isa, 2022) all confirm that a positive meta-analytic correlation is not grounds for assuming that any given firm's CSR programme will improve its financial results.

The type of slack resources available to the firm is a more important moderating factor than the total quantity of slack. Unabsorbed slack consistently supports positive CSR-financial performance outcomes, as demonstrated across studies in China (Guo et al., 2020; Jiao et al., 2021), South Korea (E. Kim et al., 2020), and multi-country samples (Garcia-Sanchez et al., 2023). Absorbed slack shows a non-linear pattern, helpful at moderate levels and counterproductive at high ones (Wu et al., 2022; Zheng et al., 2021). Treating organisational slack as a single construct obscures these differences and produces misleading conclusions for both theory and practice.

Agency theory and slack resource theory are complementary, not competing. The two frameworks predict different outcomes depending on governance quality. With strong governance, slack enables value-creating CSR (Al-Hiyari et al., 2022; Guerrero-Villegas et al., 2024). Without it, slack enables the managerial opportunism that converts CSR spending into a financial liability (Abdeen et al., 2022; M. Kim et al., 2022). The literature has significant geographic and methodological gaps. Developing economies outside China remain understudied. The causal direction of the CSR-slack-performance relationship has not been established with confidence. And the optimal absorbed slack threshold beyond which slack moderation turns negative has not been estimated across different settings. These gaps represent the most productive directions for future research.

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