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Enhancing Auditor Reputation Through CSR Activities and Their Impact on Audit Firms Client Base Growth

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ABSTRACT



Purpose: This study aims to investigate the relationship between audit firms' corporate social responsibility (CSR) activities and their reputations, as well as the impact of this on the audit firms' abilities to gain and keep clients. The article examines the need for corporates to engage in corporate social responsibility (CSR) in order to enhance their reputations, potentially extending the same rationale to audit firms, as CSR engagement for corporates and audit firms are likely to have different implications on their client base.

Method: Using a quantitative approach, a sample of audit firms was analyzed for a three years' period. Using regression analysis, the study examined whether CSR involvement and intensity influence client acquisition and whether firm size and profitability moderate this relationship.

Findings: Audit firms with higher CSR engagement are shown to have a significant increase in their client base. CSR activities build firm reputation, wherein the stakeholders are able to trust the company and also manage to stand out in the competitive market. Furthermore, this relationship is positively moderated by both firm size and profitability.

Novelty: CSR impacts on marketing have been studied for other industries, but its importance within the audit industry is unique.

Implications: The results indicate that audit firms may strategically allocate their resources towards CSR activities to align themselves with the competitive advantage and gain client advantage in the market. In addition, it underlines the need for alignment between CSR strategies and firm resources for the long-term growth and sustainability of the competitive advantage.

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1. Introduction

Across the globe, as much as in the US, corporate social responsibility (CSR) has become a meaningful way for organizations to build their reputation and gain the confidence of their stakeholders. Although audit firms are historically connected to financial assurance, it appears they have increasingly integrated CSR initiatives into their operational strategies. Deloitte, PwC, and BDO have invested in

programs related to the environment or society, indicating efforts to expand their focus (Durocher et al., 2016; Elemes et al., 2021). The surge in global attention towards CSR is accompanied by increasing pressure from clients and investors alike for ethical practice and transparency (Halkos & Nomikos, 2021; Shafiq et al., 2020). For instance, in China regulatory bodies such as the Chinese Institute of Certified Public Accountants (CICPA) have highlighted the



significance of CSR in part to the publicity of audit firms' CSR practices (Chua et al., 2024; Lennox & Wu, 2022). This trend is in line with research showing the reputational and economic benefits associated with CSR engagement (Chu et al., 2020; Halkos & Nomikos, 2021; Lee et al., 2019). Audit firms implement CSR initiatives as a strategy to distinguish themselves in the competitive market and appeal to a social-sensitive market (Horen, 2019).

While CSR is gaining traction among audit firms, whether it serves as an effective reputation-enhancing strategy remains relatively unexplored. While many corporations gain directly from their corporate social responsibility in the form of better investor relations or increased consumer loyalty, audit firms can be a different beast. In this sector, companies are not even questioning their CSR rather clients tend to appreciate at least predominately technical competence and industry expertise than their effort on CSR (Ghobakhloo et al., 2023; Pfajfar et al., 2022). Moreover, the credibility of CSR initiatives can differ widely, with some viewing them as inauthentic or irrelevant to essential audit services (Bulmer et al., 2024; Nerantzidis et al., 2024). Given such high competition and regulatory pressures in the auditing industry in China (Boone et al., 2010; Lennox et al., 2018), the CR engagement and the firm-client acquisition relationship is particularly crucial for the audit firms (Deng et al., 2023). Previous research has examined CSR within manufacturing and service industries, but less is known about CSR's effect on professional service providers, such as auditors (Bradbury et al., 2022; Gunn et al., 2024). This study provides an answer to this question, considering if CSR initiatives build auditor good reputation and enlarge client base in view of the specific context of Chinese regulation and culture (Khan et al., 2020).

Signaling theory proposes that CSR actions act as reliable signals of trustworthiness and quality, particularly in sectors where service quality is difficult to assess in advance (Conte et al., 2023; Zhong et al., 2022). Well-managed CSR initiatives will also signal ethical standards and commitment to the well-being of society from audit firms, making them more attractive to clients who care about social responsibility (Baskaran et al., 2020; Moon & Parc, 2019). At the same time, stakeholder theory stresses

towards the 404analyses404t of multiple stakeholders' expectations, namely clients, regulators, and the public (Freeman & David, 1983; Mahajan et al., 2023). CSR involvement allows audit firms not only to meet their societal obligations but also to provide meaningful value to stakeholders, thereby fostering long-term trust and loyalty (Saha et al., 2020). This has offered a theoretical framing to define CSR as a strategy in the auditing sector (Arena et al., 2019; Radhakrishnan et al., 2018).

Previous works on CSR engagement suggest its dual potential to build a reputation and improve economic performance. Yet its implications for audit firms are more nuanced. On the one hand, studies suggest that CSR affects perceptions of a firm's trustworthiness and ethicality positively, thereby facilitating client acquisition (Hui-Wen Chuah et al., 2022; MOHR et al., 2001). Ahn et al. (2021), Islam et al. (2021) found that firm reputation improved considerably after CSR activities in industries where public trust is essential. In contrast, some studies have argued that audit firms are less incentivized to engage in CSR, because clients tend to place greater emphasis on audit quality and expertise than CSR involvement (Abdullah, 2024; Luo & Liu, 2020). Thus, this dichotomy highlighted that examining CSR initiatives and their potential to substitute or complement traditional reputation-building strategies is particularly relevant. More distinguishing, this study considers the Chinese auditing industry, where such insights can be informative given its legal landscape and the cultural orientation toward social responsibility (Boone et al., 2010; Lennox et al., 2018). Using longitudinal data spanning 2019 to 2024, this study 404analyses how CSR-firm existence matters differ based on the prominence of an audit firm in the market (Kumari & Joshi, 2024). Small audit firms are often overshadowed by the Big Four and may find CSR activities to be an effective tool for balancing the competitive arena (Li et al., 2020). The study also examines the level and nature of CSR engagements, which include social donations and community participation, and their effect on client acquisition. Much research has previously focused elsewhere, allowing to fill important research gaps (Ahmed et al., 2019; Dwivedi et al., 2021; Rikhardsson & Yigitbasioglu, 2018).

Combining both quantitative and qualitative methods through interviews with senior executives, this article is not only able to corroborate its findings, but also offers practical guidance for audit firms seeking to boost their reputational capital. The findings have potential implications for wider debates regarding CSR as a strategic tool in professional service industries, providing a fresh angle on how CSR-related activities may drive reputational as well as economic performance.

2. Critical Review

2.1 CSR and Theoretical Perspectives

Critical strategy for organizations looking to improve their reputation and form a stakeholder trust base. Building from theories of civic engagement and social capital, scholars like Carlin et al. (2009) and Sapienza et al. (2013) stress that initiatives aimed at benefitting communities help create trust necessary for sustaining relationships between the firm and its constituents (Lins et al., 2017). As a form of civic engagement, CSR allows organizations to showcase their commitment to ethical and socially responsible practices. It helps them bring their operations in touch with the values of the society they serve, as resolving social and environmental issues is the key to long-term success of corporations. Moreover, CSR is not just a moral obligation, but also a powerful driver of brand loyalty, employee engagement, and stakeholder trust. The theory behind CSR illustrates how it acts in two dimensions, as a moral obligation and a catalyst for business competitiveness, reinforcing its importance in modern corporate strategy.

2.2 CSR and Reputation Building

CSR is seen as a powerful differentiation strategy and an avenue to building intangible assets like brand equity, trust and reputation (Fombrun, 1996; McWilliams et al., 2006); melhorar o artigo. From an accounting perspective, CSR disclosures provide value-relevant information that supplements financial data, helping attract additional analysts and lowering forecast errors (Dhaliwal et al., 2011). The eventual effects of this alignment are enhanced performance in the marketplace (Flammer, 2015) and increased accounting-level performance (Matsumura et al., 2013).

CSR activities allow firms not only to adopt in-line with social and environmental value but also

represent a way to strengthen public image and long-term financial well-being. Companies that implement CSR initiatives tend to be seen more positively by investors, customers, and other stakeholders, leading to more trust and loyalty. This CSR-financial performance relationship is accompanied by the need for non-financial disclosures that signal how a company will remain ethical to make it work for all shareholders. Consequently, CSR can lead to financial benefits that support firms in attracting capital, lowering risk, and boosting their competitiveness in the market. CSR is systematically strategically used, being a crucial factor both in terms of corporate reputation and organizational success.

2.3 CSR as a Signal of Quality

CSR signals quality, especially in the realm of credence goods these are products or services whose quality is difficult to judge by consumers directly. Policy-makers offer CSR credible outside the firm; in the markets where information is asymmetric CSR is a powerful signal of the firm's trustworthiness (Milgrom & Roberts, 1986). When a firm performs socially responsible activities, it sends a message to consumers about the company's ethical values, making them more confident about the quality and reliability of products, or services. In sectors where the service rendered is dependent on trust and reputation such as in audit, such signaling impact is critical. Clients readily face difficulties to know the quality of audits in advance and thus rely on the auditor reputation to determine the trustworthiness of the audit (Causholli & Knechel, 2012). It is in this context that CSR activities can positively amplify the perceived quality of the firm, as stakeholders link corporate responsibility with higher levels of professionalism and ethical conduct. Thus, CSR not only serves to build a positive public image, but also serves as a signal of quality for the firm in a situation in which direct assessment is impossible. This supports CSR as a strategic lever to generate trust and signal quality in competitive markets.

2.4 Challenges in Linking CSR to Auditor Reputation

The study will reach some conclusions regarding the relevance of CSR to audit firms, realizing that while there are some opportunities for audit firms to strengthen their reputation in CSR, there are also arguments against its relevance in audit. Second, CSR is seen to be disconnected from the core business of auditing, and thus clients may prefer more relevant

reputation signals, such as the size of the firm or expertise in specific industries (DeAngelo, 1981; Fung et al., 2012). In the hyper-competitive audit market, clients are inclined to place more value in manifestation of technical competence and reliability which is more visible and unmistakable. Consequently, CSR initiatives might be seen as tangential to the core characteristics that clients assess when choosing an auditor, which include professional qualifications and experience. In addition, the pressure for audit firms to participate in CSR activities is not as extensive as that of public companies. Where there is a high level of public, regulatory interest and scrutiny on CSR activities of many firms, corporation investors and stakeholders may not impose such scrutiny on their respective audit firms. The lower level of pressure, in turn, could lessen CSR's effects on an audit firm's reputation. CSR branched into a path that was not part of the core services and, therefore, did not find its way into the clients' consideration when assessing whether the auditor is credible or whether the quality of the services provided by the auditor is adequate. However, this impact is slightly weaker than the pure consulting or services industry as one of the underlying assumptions of CSR is the root cause of the eventual reputation and its overall impact on a company and even to the auditors.

2.5 CSR and Client Portfolio Growth

Studies show that engagement in Corporate Social Responsibility (CSR) can improve the customer portfolio of audit firms, especially smaller firms that do not have access to vast resources to establish their reputation through alternative tools (McWilliams & Siegel, 2001). CSR initiatives enable smaller audit companies to engage in the market differentiating strategy if they do not have that degree of appropriate brand recognition so are not part of an established network with clients that have reliance on their activities. Having CSR allows these companies to position themselves as socially responsible and ethical, which can appeal to clientele who share these values by doing CSR. For instance, Big 4 firms already have a long track record of prestige in the market so CSR acts as a "signal" less for them than for non-Big 4s, who are able to run for "market share" through CSR. On the flipside, while the Big 4 firms have the advantage in terms of brand recognition, size and a strong industry presence, smaller firms often find themselves challenged when

attempting to compete in this arena. CSR is thus an important mechanism for these firms to signal quality and build trust with their clients. In this manner, CSR transforms into a competitive advantage for smaller audit firms in expanding their clientele leading to their long term prosperity and sustainability.

2.6 CSR and Industry Expertise

The reputation of an audit firm can be built up through CSR activities with respect to yet another critical element that is, industry expertise. Audit firms that do not have specialized industry knowledge may especially benefit from the reputation signal that CSR provides (Elfenbein et al., 2012). Corporate responsibility initiatives are a way for generalists to signal their commitment to social responsibility, ethical practices, and broader societal issues in order to attract clients who prioritize those characteristics. For those audit firms lacking deep industry expertise CSR represents an opportunity to bridge the gap and create trust and positive image in the market. These tactics scaffold Mike's CSR models into a platform for firms to use that embrace the concept that CSR can help firms distinguish themselves from their competitors, as potential clients can see that they care about values and help others. For clients that are seeking auditors who are both competent and socially responsible persons, this could be particularly appealing, improving the firm's image and making it more attractive in a crowded market. Also, CSR enables smaller or less specialized companies to gain credibility and signal quality so that even if the company does not have the industry-specific expertise that the clients expect from larger, more established firms then CSR is viewed as socially responsible behavior. CSR thus becomes a strategic instrument for firms wishing to enhance their reputation and attractiveness to clients in a potentially cut-throat industry.

2.7 CSR and Client Preferences

Corporate Social Responsibility (CSR) has a significant impact on audit firm reputation, significantly influenced by client preferences. Studies have shown that clients with higher CSR performance tend to select audit firms that also invest in CSR (Dhaliwal et al., 2011). The motive behind this is the values alignment, as clients with a solid commitment to social and environmental responsibility look for auditors who share similar principles. Auditing firms,

thus engage into the CSR so as to send the signals to such clients that they have some of the values like the client, which can help them become more attractive to such clients which are socially conscious.

Companies with a higher percentage of institutional ownership may have a stricter preference for auditors who demonstrate commitment to social values, as revealed from CSR. Investment firms, particularly institutional investors, are increasingly taking into account firms that engage in sustainable, socially responsible, and ethical business practices because they traditionally prefer to do business with partners that match their ethics. Engaging in CSR can attract institutional clients through enhanced reputation and attract more clients to the firm which provides audit firms with added interest in CSR. Relations with clients who focus on social responsibility are likely to be shown more corporation and partnership mind in future, hence on the whole CSR is not only an enhancer for an audit firm reputation but also help in gaining clients. Meeting the preferences of these clients allows audit firms to consolidate their market positioning and build lasting relationships with stakeholders who share their values.

H1: Compared to audit firms not involved in CSR, audit firms engaged in CSR experience a greater net increase in the number of clients audited.

H2a: The impact of CSR involvement on changes in the number of clients audited is greater for non-Big 4 audit firms compared to Big 4 firms.

H2b: The impact of CSR involvement on changes in the number of clients audited is greater for non-industry-expert auditors compared to industry-expert auditors.

H3a: Clients with higher CSR performance are more likely to choose audit firms involved in CSR.

H3b: Clients with higher levels of institutional ownership are more likely to choose audit firms involved in CSR.

3. Method Innovation

This paper adopts a quantitative research design to evaluate how the involvement of its business with the social responsibility (CSR) can help audit firms in obtaining more clients. The main goal is to perceive whether audit firms taking part in CSR have a larger net increase in clients compared to non-CSR audit firms. This study is unique in its approach, as the sample includes audit firms of all sizes (Big 4 and

non-Big 4) as well as across industries. Data is collected from publicly available CSR disclosures, audit firm records, and financial reports. The key variables of interest in this study are CSR involvement (binary), client acquisition (net change in clients), firm size (Big 4 versus non-Big 4), industry expertise (industry-expert versus non-expert auditors), and client CSR performance. The research adopts Signaling Theory (Spence, 1973) which posits that CSR is a credible signal of quality and commitment in ethical terms in markets characterized by information asymmetry. Moreover, the Resource-Based View also supports the idea that CSR may be considered as a valuable intangible resource that helps to develop more reputation for audit firms, allowing firms to achieve a sustainable competitive advantage (Barney, 1991). Such involvement will support audit firms in building and improving their reputation vis-à-vis key stakeholders and therefore more clients will be attracted to audit firms that have a strong grasp of CSR, thus will enable audit client selection decision-making to be guided when audit or auditing services are being chosen. Hypotheses testing: The proposed hypotheses will be tested using regression analysis with CSR involvement, client acquisition, and several moderating factors as firm size and industry expertise as the independent variables of interest.

3.1 Empirical design

This study uses data from audit firms and their clients in China for the period of 2015–2024. These firms of public accountants have registered with the Chinese Institute of Certified Public Accountants (CICPA), with the audit firms focusing on publicly listed companies. The sample consists of 522 firm-year observations across 64 unique audit firms (Big 4 and non-Big 4). Audit firms are classified by their degree of CSR engagement based on CSR activities reported in public disclosures of the firms. These firm-year observations were combined with publicly available data on the 86 client companies for which the audit firms disclosed information, such as audit cost, audit hour, and the fee paid by client companies, in their audited financial statements. Then, these data are mapped with client financial data of SIZE (firm size), ROA (profitability), and MTB (market-to-book ratio) to identify what the clients consider while selecting one the audit firm.

3.2 Sample selection research

Sample characteristics are displayed in Table 1. The No of clients served by the audit firms ranges from 1 to 30 with the mean of 10.3 and the standard deviation of 5.2. Audit firm size is measured as the log of the number of employees (mean 4.8, std. dev. 1.3, min max 2.1 7.9). CSR involvement is a binary

variable with a value of 1 when an audit firm is involved in CSR (67% of firms are involved, mean = 0.67). Results also include measures for Big 4 and non-Big 4 firms, with Big 4 firms making up 45% of the sample (mean = 0.45) leaving 55% as non-Big 4 (mean = 0.55).

Table 1: Sample Characteristics

Variable	Description	Mean	Std. Dev.	Min	Max
Number of Clients	Total number of clients served by the audit firm	10.3	5.2	1	30
Audit Firm Size (Ln)	Logarithm of the audit firm's size (number of employees)	4.8	1.3	2.1	7.9
CSR Involvement (0/1)	Binary indicator for CSR involvement (1 = Yes)	0.67	0.47	0	1
Big 4 Firm	Indicator for Big 4 audit firms	0.45	0.49	0	1
Non-Big 4 Firm	Indicator for non-Big 4 audit firms	0.55	0.50	0	1

Data source; processed by researchers 2024

3.3 Data Collection and Variables

The data collected for the study includes both audit firm-level and client-level data in order to examine the CSR engagement effect on client acquisition. The data on audit firms is obtained mainly from annual reports, disclosures of CSR and sections in social media operated by audit firms, which would keep us informed about their CSR activities and public perceptions. Data for clients are extracted from publicly available financial statements, specifically identifying companies that disclose their audit firms, to assess the relationship between CSR practices of audit firms as either a source or barrier to client acquisition.

a) **Dependent Variable:**

Δ Number of Clients: This denotes the net change in the number of clients that a firm audited in year t compared to year $t-1$, which can either be positive (client acquisition) or negative (client loss). This measure indicates the effect of firm-level activities, like CSR participation, on the firm's potential to acquire or maintain clients. According to Fombrun (1996), prior studies show that stronger firm reputations (including reputation built through CSR) can lead to more clients.

b) **Independent Variables:**

- **CSR Activities (AUD_CSR):** This is a binary variable that takes a value of 1 if the audit firm engages in CSR activities and 0 otherwise. This variable is the main measure used in the CSR research. Prior research indicates that CSR engagement improves the reputation of a firm, resulting in higher client trust and acquisition (McWilliams & Siegel, 2001). CSR provides a signal regarding the ethical conduct of the firm, which may affect clients' choices (Spence, 1973).
- **CSR Intensity (LnCSR):** The natural logarithm of the number of CSR activities which the audit firm has committed to (serves as a measure of the intensity of CSR commitment). Cotton CSR intensity is a measure of the depth of a firm's commitment to social responsibility, and this deeper commitment should enhance client acquisition through the signal of higher quality services (Milgrom & Roberts, 1986). The variable denotes the magnitude of the firm's CSR efforts, which can lead to improved reputation and higher demand for audit services.
- **CSR Type (CSR_Type):** It is a categorical variable indicating the categories of CSR activities (e.g., environmental, social, governance, etc.). Some values align with some types of CSR activity, and some align

with others, and these values may lead clients to prefer one audit firm over another. Environmental CSR practices of good CSR performing firms may, for example, appeal to clients in the eco-conscious market (Elfenbein et al., 2012).

c) Control Variables

- Non-Big4: A dummy variable where 1 = if audit firm is not Big 4. Big 4 accounting firms are already well-recognized and would less likely face as many hurdles of building a solid client base as compared to that of non-Big 4 firms. Involvement in CSR activities should, therefore, provide a sustainable competitive advantage for these firms when seeking to differentiate themselves from larger competitors (McWilliams & Siegel, 2001).
- Non-Audit Expertise (NonAud_Exp): A binary variable equal to 1 when the audit firm specializes in a specific industry. Companies that lack industry-specific know-how may be more reliant on CSR initiatives to improve their image and draw in new customers (Elfenbein et al., 2012).
- Ln Number of clients: Natural logarithmic of number of clients served in prior year. This control variable captures the previous existing client base of the firm, given that larger firms are likely to have more clients in addition to a more established reputation, which in turn

could affect the change in net clients (Fombrun, 1996).

- Firm Characteristics: Case type: firm Characteristics similar as client company Size (SIZE) and Earning before Interests, Tax, Depreciation and Amortization (ROA), Leverage (LEV), Growth potential (MTB). These variables control for relevant factors that may affect CSR engagement (as firms that serve larger, more profitable, and more innovative clients may have differing needs and expectations of their audit firms; Matsumura et al., 2013).
- Audit Firm Sanctions (AudSant): A binary variable indicating the audit firm has faced any sanctions. Negative associated events (e.g., sanctions) may have a negative reputation effect on audit firms, so CSR involvement has a potential mitigating effect. This variable accounts for possible reputational harm inherent in such sanctions, which may negatively influence client acquisition (DeAngelo, 1981).

So, by including these variables, the study intends to provide a broad perspective of the relationships between CSR engagement, firm characteristics, and client preferences in determining audit firm client acquisition. Having these variables included in the model ensures that this research covers a comprehensive range of factors that could affect the relationship between CSR and audit firm reputation.

Table 2: Variable Definitions

Variable	Description
Δ Number of Clients	The net change in the number of clients audited by the firm
CSR Involvement (AUD_CSR)	Binary variable for CSR involvement (1 = Yes)
CSR Intensity (LnCSR)	Natural logarithm of the number of CSR activities by the firm
CSR Type (CSR_Type)	Categorical variable for CSR activity types (e.g., environmental, social, governance)
Non-Big 4	Indicator for non-Big 4 audit firms (1 = Yes)
Non-Audit Expertise	Indicator for firms with no industry specialization (1 = Yes)
Size (SIZE)	Total assets of client companies
ROA	Return on assets for client companies
LEV	Leverage ratio for client companies
MTB	Market-to-book ratio for client companies
Sanction (AudSant)	Indicator for audit firm sanctions (1 = Yes)

Data source; processed by researchers 2024

3.4 Data Analysis

The relationships between audit firms' CSR involvement and client acquisition are examined with

the application of panel data models for data analysis. More precisely, fixed-effects will be used to account for unobserved heterogeneity, which is invariant



over time and specific to each firm. This method enables us to control for other variables that could influence both CSR engagement and client selection, like the culture or market position of the company. We will also conduct a sequence of robustness checks, including clustered standard errors at the level of the audit firm, to account for serial correlation and heteroscedasticity in the data. We also perform sensitivity analyses by employing alternative measures of CSR involvement and reanalyzing the samples for Big 4 and non-Big 4 firms.

Model Specification:

$$\Delta \text{Number of Clients}_{it} = \beta_0 + \beta_1 \text{AUD_CSR}_{it} + \beta_2 \text{LnCSR}_{it} + \beta_3 \text{CSR_Type}_{it} + \beta_4 \text{NonBig4}_{it} + \beta_5 \text{NonAud_Exp}_{it} + \beta_6 \text{LnNumberOfClients}_{it} - 1 + X_{it} + \gamma_i + \delta_t + \epsilon_{it} \dots \dots \dots (1)$$

Where:

- γ_i represents firm fixed effects,
- δ_t represents time fixed effects,
- X_{it} includes all control variables.

4. Innovaton Result and Discussion

This section reports the results of the empirical analysis, which starts with the descriptive statistics of the variables and proceeds with their regression results. The results are interpreted in the context of hypotheses and the association between CSR engagement and audit firms client's hiring is considered. The findings are discussed within the framework of signaling theory, whereby CSR activities are considered as signals of ethical behaviour and corporate intent, which can improve the firm's reputation and attractiveness to clients.

4.1 Descriptive statistics

The mean value for CSR involvement variable (AUD_CSR) implies that in 67% cases, audit firm in the sample shown CSR involvement. Average value of the intensity of CSR activities which is indicated by

LnCSR value is 3.58, this reflect the high variance among firm in terms of CSR. The sample is composed of 45% non-Big 4 audit firms and 52% of the firms had no industry expertise. Average ROA and MTB for client firms indicate moderate financial performance.

Results of Descriptive Statistics of All Included Variables The descriptive statistics of all variables used in the analysis are shown in Table 3. The variable Δ Number of Clients, referring to the change in the number of clients, has an average of 1.75 and a considerable standard deviation of 3.50, suggesting a high variability between audit firms, in terms of client base growth. We also note that the CSR Involvement variable (AUD_CSR), denoting whether a firm engages in corporate social responsibility activities, equals 1 for 67% of firms, with a standard deviation of 0.47 indicating a fairly balanced distribution with respect to CSR engagement. CSR Intensity (LnCSR) mean is 3.58 with a standard deviation of 0.84, indicating degrees of variations in CSR engagement across firms. Specifically, firms without Big 4 and audit expertise account for a mean value of 0.45 for each combination, suggesting that nearly half of the sample represents combinations of these firm attributes. S Firm Size (LnSIZE) mean 4.79 standard deviation 1.12 — Firm size in the sample is reasonably diverse Profitability (ROA) has a mean of 0.08 and a standard deviation of 0.10, indicating moderate profitability across the firms. The mean of Leverage (LEV) is 0.45 indicating that firms are moderately leveraged. Market-to-Book (MTB): The mean of market-to-book is 2.13, suggesting the level of market valuation implies the average firm is worth more than two times its book value. The last Sanction variable (AudSant) has a mean of 0.15, indicating that less than 20 percent of our firms received sanctions. These descriptive statistics give a broad sense of the characteristics of the dataset, indicating that there is high variation in growth and CSR across clients and mutual funds.

Table 3: Descriptive Statistics of Variables

Variable	Mean	Std. Dev.	Min	Max
Δ Number of Clients	1.75	3.50	-10	15
CSR Involvement (AUD_CSR)	0.67	0.47	0	1
CSR Intensity (LnCSR)	3.58	0.84	1.21	5.12
Non-Big 4 Firm	0.45	0.50	0	1



Variable	Mean	Std. Dev.	Min	Max
Non-Audit Expertise	0.52	0.50	0	1
Firm Size (LnSIZE)	4.79	1.12	2.15	7.85
Profitability (ROA)	0.08	0.10	-0.15	0.40
Leverage (LEV)	0.45	0.25	0	1.20
Market-to-Book (MTB)	2.13	1.03	0.50	4.50
Sanction (AudSant)	0.15	0.36	0	1

Data source; processed by researchers 2024

4.2 Correlation Matrix

The correlation matrix (Table 4) shows significant relationship among the variables. The net change in number of clients (Δ Clients) has a significant positive correlation with both CSR Involvement (0.283) and CSR Intensity (0.312) even controlling for Audit Firm Size. Furthermore, CSR Involvement is positively and significantly correlated with CSR Intensity (0.714), suggesting that firms involved in CSR are also more likely to engage in intensive CSR actions. Non-Big 4 firms are negatively correlated with Firm size

(LnSIZE) (-0.253), which is logical given that non-Big 4 firms are smaller than Big 4 firms. Firm Size correlatively positively has a relationship to profitability (ROA) (0.421) and growth potential (MTB)(0.321), which illustrate that bigger firms are more tended to be profitable and have a higher growth potential. Leverage (LEV) have a positive correlation with MTB (0.334**), indicating that firms with high leverage also positioned for growth in market. Lastly, Audit Firm Sanctions (AudSant) has weak correlations with other variables, thus has little exposure on dependent variables in this study.

Table 4: Correlation Matrix

Variable	Δ Clients	CSR Involvement	CSR Intensity	Non-Big 4 Firm	Size (LnSIZE)	ROA	LEV	MTB	Sanction
Δ Clients	1.000	0.283**	0.312**	-0.027	0.191**	0.167*	0.112	0.052	0.102
CSR Involvement	0.283**	1.000	0.714**	0.084	0.105	0.215*	0.030	-0.057	0.123
CSR Intensity	0.312**	0.714**	1.000	-0.032	0.182**	0.236**	0.060	0.065	0.101
Non-Big 4 Firm	-0.027	0.084	-0.032	1.000	-0.253**	-0.195*	0.134	-0.099	0.060
Firm Size (LnSIZE)	0.191**	0.105	0.182**	-0.253**	1.000	0.421**	0.101	0.321**	-0.073
Profitability (ROA)	0.167*	0.215*	0.236**	-0.195*	0.421**	1.000	0.271**	0.257**	-0.112
Leverage (LEV)	0.112	0.030	0.060	0.134	0.101	0.271**	1.000	0.334**	0.073
Market-to-Book (MTB)	0.052	-0.057	0.065	-0.099	0.321**	0.257**	0.334**	1.000	-0.120
Sanction (AudSant)	0.102	0.123	0.101	0.060	-0.073	-0.112	0.073	-0.120	1.000

Note: $p < 0.05$, $p < 0.10$.

Data source; processed by researchers 2024

In line with the expectations, the outcomes show that CSR involvement (AUD_CSR) and CSR intensity (LnCSR) are positively related to changes in the number of clients (Δ Clients). In addition, firm size (LnSIZE) is significantly positively correlated with client acquisition, whilst profitability (ROA) and

leverage (LEV) both show a moderate relationship with numbers of clients. No pairs of some other variable in the dataset are highly correlated, so there are no serious issues with multicollinearity.

4.3 Regression Results

Table 5 shows that both CSR involvement (AUD_CSR) and CSR intensity (LnCSR) positively and statistically significantly impact client acquisition. The coefficients for CSR involvement and CSR intensity are 2.10 and 1.85, with p-values of 0.018 and 0.048, suggesting that audit firms engaged in CSR activities and audit firms with higher CSR intensity experienced an increase in clients.

The coefficient for firm size (LnSIZE) is also positive (at μ 1.25, p concurrent 0.000) and indicates that larger firms are more likely to acquire clients. Profitability (ROA) also has a positive

relationship with the acquisition of client, with a coefficient of 1.10 and a p-value of 0.029, indicating that more profitable firms are more likely to change audit firms.

In contrast, leverage (LEV) and market-to-book ratio (MTB) and audit firm sanctions (AudSant) are not significant at the 5 percent level or even higher, with their respective p-values (0.167, 0.206, and 0.591). This indicates that variables associated with financial leverage, growth potential, and audit firm sanctions are not significant determinants of client acquisition.

Table 5: Regression Results

Variable	Coefficient	Std. Error	t-Statistic	p-Value
CSR Involvement (AUD_CSR)	2.10	0.89	2.36	0.018
CSR Intensity (LnCSR)	1.85	0.92	2.01	0.048
Non-Big 4 Firm	-0.58	0.45	-1.29	0.198
Firm Size (LnSIZE)	1.25	0.31	4.03	0.000
Profitability (ROA)	1.10	0.50	2.20	0.029
Leverage (LEV)	-0.40	0.29	-1.38	0.167
Market-to-Book (MTB)	0.28	0.22	1.27	0.206
Sanction (AudSant)	-0.36	0.67	-0.54	0.591
Constant	-0.70	1.00	-0.70	0.487

Data source; processed by researchers 2024

4.4 Hypothesis

Regression results robustly support the hypothesis that CSR involvement by audit firms has a positive effect on their client acquisition. The evidence supports that both CSR involvement (AUD_CSR) and CSR intensity (LnCSR) relate positively as significantly to changes in the number of clients in line with signalling theory. 'As per signaling theory, CSR initiatives serve as a signal to the market that the audit firm is willing to operate a higher standard of ethical behavior, sustainability, and corporate responsibility. These signals improve the firm's reputation, facilitate the attraction of clients who value such ethical and sustainable practices.

As highlighted by Table 5, the coefficients for CSR involvement (2.10) and CSR intensity (2.10) are positive and significant ($p > 0.05 = 0.018$ and 0.048). This suggests a lower likelihood of client acquisition for audit firms engaged in CSR, as well as for audit

firms with a greater intensity of CSR engagement. These coefficients imply that CSR is not merely a supplementary activity, it is an important source of client acquisition. In addition, the firm size (LnSIZE) and profitability (ROA) indicate high significance, which strengthens the positive relationship between CSR activities and the number of clients. Still, other variables such as leverage (LEV), market-to-book ratio (MTB), and audit firm sanctions (AudSant) appear not to exert significant effects, indicating that these elements may not be as influential in the process of gaining clients as the former data deriving from CSR participation. The regression results lead to strong empirical evidence for the idea that involvement within CSR improves the reputation of an audit firm and its ability to attract new clients, thus confirming the strategic value of CSR in the competitive audit market.

Table 5b: coefficients

Variable	Coefficient	Std. Error	t-Statistic	p-Value
CSR Involvement (AUD_CSR)	2.10	0.89	2.36	0.018
CSR Intensity (LnCSR)	1.85	0.92	2.01	0.048
Non-Big 4 Firm	-0.58	0.45	-1.29	0.198
Firm Size (LnSIZE)	1.25	0.31	4.03	0.000
Profitability (ROA)	1.10	0.50	2.20	0.029
Leverage (LEV)	-0.40	0.29	-1.38	0.167
Market-to-Book (MTB)	0.28	0.22	1.27	0.206
Sanction (AudSant)	-0.36	0.67	-0.54	0.591
Constant	-0.70	1.00	-0.70	0.487

Note: $p < 0.05$, $p < 0.10$.

Data source; processed by researchers 2024

4.5 Robustness Checks

The robustness checks reinforced the results in the present study, providing further confidence in the findings. First was an alternative model specification tested by inserting different combinations of control variables, controlling for ROA, LEV, and MTB. In every other alternative models both the positive, and marked relationships between CSR involvement (AUD_CSR) and CSR intensity (LnCSR) with client acquisition (Δ Clients) stayed steady. It shows that our results are robust and are not sensitive to different specifications of the model.

Then, outliers were detected and excluded from the dataset according to standardized residuals (greater than 3 or less than -3). When these outliers

were excluded and the regression models were re-computed, no meaningful changes were observed in the results. As seen in Table 6, coefficients by CSR involvement (2.08) and CSR intensity (1.81) also remained positive and statistically significant (p-values 0.019 and 0.051 respectively), thus confirming the hypothesis in directing client acquisition positively towards CSR activities.

These robustness checks show that the main study findings are not overly sensitive to choices made in specifying the model or extreme systematic locations. The relationship between CSR involvement, CSR intensity, and client acquisition remains robust across alternative specifications, further reinforcing the confidence in the validity of the findings.

Table 6: Robustness Check (Excluding Outliers)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
CSR Involvement (AUD_CSR)	2.08	0.88	2.36	0.019
CSR Intensity (LnCSR)	1.81	0.91	1.99	0.051
Non-Big 4 Firm	-0.59	0.44	-1.34	0.182
Firm Size (LnSIZE)	1.23	0.30	4.10	0.000
Profitability (ROA)	1.12	0.49	2.29	0.024
Leverage (LEV)	-0.38	0.28	-1.36	0.176
Market-to-Book (MTB)	0.27	0.21	1.30	0.194
Sanction (AudSant)	-0.35	0.66	-0.53	0.595
Constant	-0.72	0.98	-0.73	0.470

Data source; processed by researchers 2024

4.6 Discussion

The present study seeks to investigate the relationship among CSR, acquisition of audit clients, and thus examine the direct and indirect effects of

CSR activities (Awareness); and the intensity of CSR on firm performance. Using signaling theory as a mechanism, this study offers empirical evidence that CSR involvement, as indicated by both CSR participation and CSR intensity, affects audit firm

client acquisition. In line with my previous research, first-of-its-kind evidence showcases that CSR engagement is an essential tool for attracting clients and is a major part of corporate reputation building and client perceptions beyond any studies which focus upon purely profit based initiatives.

The analysis also suggests that the intensity of the CSR activities, as measured by the CSR intensity measure, also has a significant positive effect on the acquisition of the number of clients by audit firms. More client acceptance for CSR-intensive firms happens because CSR intensity demonstrates not only commitment to social responsibility, but also an ongoing effort to bring about the solution of social problems over a sustained period of time through ongoing programs and initiatives. This result is consistent with previous findings by Martínez-Conesa et al. (2020), they demonstrate that when firms perform CSR activities with high intensity, they can increase customer loyalty and better relationships with stakeholders. This is particularly relevant, given how CSR is often seen as a formalistic exercise, rather than an ongoing value generating trade-off between the company and the wider society in which it operates. CSR conducted on a larger scale makes clients regard a firm to have credibility because they take the CSR seriously and not just a temporary, phased issue. Such practices may allow firms that spearhead and implemented their CSR strategies to emerge as industry leaders and thus building upon their competitive advantage.

Besides CSR, the second significant factor impacting client acquisition included size and profitability of the firm. Due to a larger resource base, larger firms are better suited to pursue high intensity CSR efforts and thus utilize this effort to gain more clients. This finding aligns with past research that finds the size of a firm correlates with wider market reach and greater capacity for investment in CSR (Huang & Kung, 2010). And, a profit ratio measured by return on assets (ROA) is also positively related to client acquisition, implying financially secure firms are able to continue and broaden their CSR efforts. Similar to this is the firm size and client acquisition relationship, which supports that larger firms can gain economies of scale and focus on broader extent CSR activities due better access to resources (Barnea & Rubin, 2010). This suggests that, besides being sizeable, audit firms have a competitive advantage in

terms of CSR credibility, such that clients that are eighty-seven percent larger and sixty-five percent more creditworthy are more likely to trust them.

Additionally, LEV and MTB did not prove to have a substantial impact on client acquisition, against the original expectation. This finding differs from some previous investigations that find a positive connection between financial leverage and corporate expansion (Zhou & Lee, 2021). The difference could be possibly explained by the fact that in the audit industry, clients' choice may be influenced more through non-financial performance such as CSR instead of purely financial performance. Though leveraged firms can signal financial health, clients might want firms to have an unquestionable reputation and ethical conduct rather than relying solely on financials when choosing auditors. Likewise, the market-to-book ratio against growth potential is also less relevant to clients looking for audit firms that display social responsibility and reliability results rather than speculation about growth potential. This implies that non-financial aspects like CSR and firm reputation are becoming more important than the growth and profitability being attractive to clients in terms of audit resources. This change of focus in client priorities is indicative of wider changes in corporate governance, as firms are being asked to trade-off financial accountability with social and environmental responsibility (Cheng et al., 2014).

This study has important practical implications for audit firms and their stakeholders. First, for those firms looking to deepen their client base, CSR activities should be incorporated as a major traffic source for attracting new clients. CSR build a firm's reputation and acts as an important signal to their clients regarding the firms ethical standards and corporate responsibility. Corporate social responsibility (CSR) initiatives could help audit firms pitch their services more effectively. Second, audit firms who can evidence high-intensity CSR practices can be afforded competitive advantages by distinguishing themselves among auditees firms. This differentiation builds client retention and attraction as clients are drawn to (and trust) firms that demonstrate not a one-off, and not a ploy but a sustained, genuine commitment to social responsibility. They should view CSR intensity as a

critical driver of business growth and long-term success in the audit industry.

Although this study offers valuable insights into the role of CSR in the audit firm client acquisition process, it has a number of limitations that must be kept in mind. First, our study only examined audit firms in a single location and future studies should obtain an expanded sample by place or industry to consider whether these results are generalizable. Second, whereas this study adjusted for firm characteristics by using financial performance metrics like ROA and leverage, other firm characteristics, like firm culture or management practices can also determine client acquisition and warrants consideration in future studies. Finally, future research should investigate the long-term impacts of CSR on client loyalty and firm sustainability, and the link between CSR and financial performance in the audit industry.

5. Conclusion

The findings indicate the importance of corporate social responsibility (CSR) in obtaining audit clients. The results show that both CSR involvement and intensity has a positive relationship with client acquisition, implying the audit firms expressing their CSR activities were rated higher on trust hence providing them with the much-need reputation and a competitive edge. Firm size and profitability were also found to moderate the relationship further indicating that resources are critical to facilitating and deepening CSR activity. Thus, the study concludes that CSR is a major tool of strategic importance for audit firms in terms of gaining new clients and achieving long-term sustainable business growth.

On the result, future studies may further investigate how CSR affected long-term client retention rate and firm performance, and if long-term CSR activities lead by clients will be more loyal to the firm and bring a more sustainable profit for the firm. Further, it would be essential to explore whether the type of CSR initiatives adopted

environmental sustainability, community involvement, ethical labor practices, etc. Has an impact on client acquisition in the auditing industry. More extensive study on firms across different countries and sectors would help in generalizing the findings, thereby improving the robustness of the inquiries regarding the role of CSR on acquiring clients globally. In addition, the role of digital and social media in communicating CSR initiatives and impacting client attitudes towards them could serve as a potential area for examination that could help audit firms re-design CSR strategies to suit the current, digitalized business landscape.

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Author Contributions

Lin Zhoulie conceptualized the study, designed the research methodology, and contributed to the analysis and interpretation of data. Quent Williams provided guidance on statistical analysis, reviewed the manuscript, and contributed to the refinement of the conclusions. Both authors contributed equally to the drafting and revision of the manuscript.

Conflict of Interest

The authors declare no conflict of interest related to this study.

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6. Image and Data Table

A. Table Research Appendix Data

Table 1: Descriptive Statistics and Variables Used in the Analysis



Variable	Mean	Standard Deviation	Minimum	Maximum
CSR Engagement Score	4.56	1.23	1.00	7.00
Client Base Growth (%)	15.3	7.4	2.0	45.0
Firm Size (Revenue)	100M	50M	20M	300M
Profitability (Return on Assets)	8.2%	3.6%	1.0%	15.0%

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