**Journal of Economic and Leadership**
**Volume. 1 No. 4 Desember 2024**
e-ISSN : 3048-3387, end p-ISSN : 3048-3395 Page 43-60
DOI: https://doi.org/ 10.70142/jbl.v1i4.12
*Available online at* : https://jurnal-jbl.stiekasihbangsa.ac.id/index.php/jbl/

# Assessing the Impact of Supply Chain Financing Mechanisms on Advancing Corporate Social Responsibility: A Comparative Literature Review

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***Abstract****. This qualitative literature review explores the role of supply chain financing (SCF) mechanisms in promoting corporate social responsibility (CSR) through a comparative analysis of eight key studies. The findings reveal that SCF mechanisms, such as reverse factoring, dynamic discounting, and green financing, significantly enhance CSR adoption by mitigating financial constraints and fostering sustainable practices across supply chains. However, the effectiveness of these mechanisms varies by industry, region, and organizational context, underscoring the need for tailored approaches. The review highlights the potential of advanced technologies, including blockchain and AI, to increase transparency and scalability. Limitations include a focus on developed economies and the lack of standardized metrics for assessing SCF's impact on CSR. This study provides critical insights for future research and practical applications of SCF to align financial and sustainability objectives.*

***Keywords:*** *Supply Chain Financing, Corporate Social Responsibility, Sustainability, Green Financing, Blockchain in Supply Chain*

## INTRODUCTION

In the evolving landscape of global commerce, the integration of Corporate Social Responsibility (CSR) into supply chain operations has become imperative. Companies increasingly adopt Supply Chain Financing (SCF) mechanisms as an alternative to traditional bank financing to enhance CSR compliance, particularly among financially constrained suppliers (Xiaole Chen et al., 2023). This study critically examines the effectiveness of different SCF mechanisms—such as buyer financing, bank financing, and hybrid approaches—in promoting socially responsible practices within decentralized supply chains.

The growing reliance on SCF mechanisms stems from their ability to alleviate the financial constraints of suppliers while influencing their adherence to socially responsible practices. Conventional bank financing, for instance, often imposes high interest rates on suppliers with low collateral values due to perceived risks of audit failure (Xiaole Chen et al., 2023). Such practices may inadvertently discourage compliance efforts, thereby undermining the overall profitability and sustainability of supply chains. Conversely,

*Received: November 21, 2024; Revised: Desember 12, 2024; Accepted: Desember 22, 2024; Online available: Desember 28, 2024*

buyer financing can align the interests of buyers and suppliers by offering lower interest rates, although this approach is susceptible to opportunistic behavior when supplier collateral values are high (Deng et al., 2018). Supplier engagement, adoption of green technologies, and collaboration with stakeholders, is crucial for improving operational efficiency, reducing environmental impact, and enhancing the company's reputation (Ruslaini & Eri Kusnanto, 2020). Recognizing these limitations, scholars have proposed hybrid mechanisms, such as buyer-financed rewards for audit compliance under bank financing arrangements, to address these challenges (Chen et al., 2020b).

SCF mechanisms play a dual role in supply chain management—providing financial liquidity to suppliers and incentivizing adherence to CSR standards. CSR has a negative but not significant effect on accrual earnings management practices (Kumandang, C. & Hendriyeni, N.S., 2021). Research suggests that SCF mechanisms are particularly effective in addressing systemic inefficiencies in socially responsible supply chains. For example, buyer financing has been shown to enhance supplier compliance when coupled with mechanisms such as shared audits and collective penalties (Caro et al., 2018). Additionally, hybrid financing models, which combine bank lending with buyer-offered incentives, have demonstrated the potential to mitigate risks associated with audit failures while maximizing total supply chain profitability (Xiaole Chen et al., 2023).

The literature also highlights the challenges of aligning financial mechanisms with CSR objectives. For instance, Babich and Tang (2012) noted that deferred payments and inspection-based mechanisms could deter opportunistic supplier behaviors, fostering a culture of compliance. Similarly, Rui and Lai (2015) emphasized the importance of designing financing contracts that discourage supplier evasion of buyer audits. These findings underscore the necessity of tailoring SCF strategies to the unique financial and operational constraints of suppliers.

The dichotomy between buyer and bank financing has been extensively debated in the context of CSR promotion. Buyer financing, characterized by direct financial support from buyers to suppliers, has garnered attention for its ability to lower interest rates and improve compliance incentives. However, the potential for exploitation by buyers, particularly when suppliers possess high-value collateral, remains a significant drawback

(Deng et al., 2018). In contrast, traditional bank financing, while often costlier, can serve as a neutral alternative that mitigates conflicts of interest. The higher interest rates associated with bank financing, however, may disincentivize CSR compliance, particularly among resource-constrained suppliers (Buzacott & Zhang, 2004).

Empirical evidence underscores the context-dependent efficacy of these mechanisms. For example, de Zegher et al. (2019) demonstrated that bank financing coupled with buyer rewards could enhance compliance and profitability, particularly for suppliers with limited collateral. Conversely, when suppliers possess substantial collateral, buyer financing—despite its potential for exploitation—may still outperform bank financing in promoting CSR adherence (Chen et al., 2019).

Given the limitations of both buyer and bank financing, hybrid approaches have emerged as a promising alternative. These mechanisms integrate financial and operational incentives to address the inherent trade-offs of each financing model. For instance, Xiaole Chen et al. (2023) proposed a reward-based hybrid model where buyers incentivize audit compliance under a bank-financed arrangement. This approach not only mitigates the risks of opportunistic behavior but also enhances supplier motivation to adopt CSR practices. Operational resilience as a novelty for corporate sustainable longevity is a differentiator to increase the capacity and responsiveness of the company's management to face conditions of uncertainty (Irawan, D., 2022).

Moreover, joint and shared audit mechanisms have been identified as critical components of hybrid SCF strategies. Caro et al. (2018) highlighted the efficacy of shared audits in promoting transparency and accountability, thereby reducing the likelihood of supplier non-compliance. Audit partner rotation and the use of non-audit services can either worsen or improve audit quality depending on the context of the company and the financial statements being audited (Rizal, M., et al, 2024). Similarly, Kalkanci and Plambeck (2020a) emphasized the role of mandatory and voluntary disclosure mechanisms in fostering socially responsible sourcing practices. These findings suggest that hybrid SCF models, which combine financial rewards with robust audit frameworks, can optimize CSR outcomes across diverse supply chain contexts. There is a complex relationship between big bath accounting practices, corporate governance, and information asymmetry in determining a company's audit costs (Rizal, M., et al, 2024).

The implementation of SCF mechanisms to promote CSR is not without challenges. The high costs associated with audit and compliance monitoring, coupled with the risk of supplier evasion, pose significant barriers to the widespread adoption of these mechanisms (Plambeck & Taylor, 2016). Additionally, the lack of standardized frameworks for evaluating supplier compliance further complicates the integration of SCF into CSR strategies (Chen et al., 2020a). Employee engagement behavior has a positive effect on employee creativity (Wajong et al., 2020).

Despite these challenges, the potential benefits of SCF mechanisms in advancing CSR objectives are substantial. Studies have shown that well-designed SCF strategies can enhance supply chain transparency, mitigate reputational risks, and improve stakeholder profitability (Guo et al., 2015). Furthermore, the integration of technology—such as blockchain and AI—into SCF systems offers new avenues for enhancing compliance monitoring and reducing operational inefficiencies (Kraft et al., 2020).

The intersection of SCF mechanisms and CSR represents a dynamic area of research with significant implications for supply chain management. By critically evaluating the efficacy of buyer, bank, and hybrid financing models, this study aims to contribute to the broader discourse on socially responsible supply chains. Future research should explore the role of emerging technologies and innovative audit frameworks in optimizing SCF strategies, thereby advancing the collective goal of sustainable and ethical global commerce. Sustainability, innovation, and dynamic factors are important capabilities for multi-finance companies that need to be strengthened and developed (Patricia, M. C, 2023).

## LITERATURE REVIEW

Supply chain financing mechanisms (SCF) have become pivotal in addressing the dual goals of improving financial performance and enhancing corporate social responsibility (CSR). This review synthesizes recent literature to evaluate how SCF influences CSR implementation across various industries, emphasizing responsible production and sustainability practices. The operational resilience influences corporate sustainable longevity directly and indirectly through innovation performance (Thoha et al., 2021).

The integration of supply chain financing mechanisms into CSR practices is gaining momentum as firms face increasing pressure to align economic goals with social and environmental objectives. Chen et al. (2023) highlight that SCF can alleviate financial constraints for small and medium-sized enterprises (SMEs), enabling them to adopt responsible production practices. This review explores key theoretical and empirical contributions to understanding the interplay between SCF and CSR. CSR has negative impact to accrual earnings management and positive impact to real earnings management through cash flow operation and they're not significant (Kumandang, C., & Hendriyeni, N., 2021).

Xiaole Chen et al. (2023) argue that SCF helps SMEs overcome capital barriers to invest in sustainable practices, particularly in industries with high environmental impact. Digitalization plays a significant role in driving technological innovation in the micro, small, and medium enterprises sector (Chaidir, M., et al, 2024). Their study demonstrates that short-term financing improves production standards and reduces waste. Similarly, Alan and Gaur (2018) show that asset-based lending encourages operational investments, which indirectly promote CSR by enhancing efficiency and reducing resource consumption.

Chen et al. (2019) find that increased transparency through SCF improves sustainability practices under NGO scrutiny. Their findings suggest that financing mechanisms tied to transparency encourage firms to adopt socially responsible behaviors. Similarly, Guan et al. (2020) emphasize the role of supplier audits facilitated by SCF in ensuring compliance with CSR standards.

Certification schemes supported by SCF have proven effective in promoting CSR. Chen and Lee (2017) argue that contingency payments and certifications linked to SCF enhance supplier responsibility. In addition, Caro et al. (2018) find that joint audits and collective penalties encourage compliance with environmental and labor standards, reducing risks of social irresponsibility.

Porteous et al. (2015) highlight the role of financial incentives in motivating suppliers to adopt CSR practices. SCF mechanisms, such as deferred payments tied to compliance, have been shown to reduce supplier evasion and improve adherence to CSR requirements (Plambeck & Taylor, 2016).

Chen et al. (2020b) warn that supplier-auditor collusion may undermine the effectiveness of SCF mechanisms. Addressing this requires robust monitoring frameworks and third-party oversight.

Yoshino and Taghizadeh-Hesary (2018) highlight the difficulties SMEs face in accessing SCF, particularly in developing economies. They suggest policy interventions to facilitate SCF adoption and improve access for financially constrained suppliers.

In manufacturing, SCF mechanisms, such as revenue-sharing contracts, have shown mixed results. While Cachon and Lariviere (2005) find that such contracts align incentives for sustainability, Babich and Tang (2012) argue that opportunistic behaviors may persist without stringent penalties. Adopting aforward-thinking strategy that ensures both the company's financial success and its ability to thrive amidst challenges, changes, and uncertainties is a cornerstone of sustainable leadership for business resilience (Sugiharti, T., 2023).

Yi et al. (2021) demonstrate that SCF promotes responsible sourcing and reduces environmental risks in agricultural supply chains. Their study underscores the importance of tailored financing solutions to address sector-specific challenges.

Policy frameworks that integrate SCF with CSR goals can enhance adoption rates and effectiveness. IFC (2016) suggests that partnerships between financial institutions and regulatory bodies can incentivize responsible practices.

SCF mechanisms play a critical role in promoting CSR by addressing financial barriers and incentivizing responsible practices. While challenges persist, strategic implementation and supportive policies can unlock the full potential of SCF in driving sustainable development. Effective corporate governance and sustainable leadership will help a company perform much better (Kusnanto, E., 2022).

## METHODS

This study employs a qualitative literature review methodology, which is a systematic approach to analyzing and synthesizing existing academic literature on supply chain financing (SCF) mechanisms and their role in promoting corporate social responsibility (CSR). The qualitative review approach is suitable for understanding complex and interdisciplinary topics, allowing for the identification of patterns, gaps, and emerging themes across multiple studies (Snyder, 2019).

The literature was sourced from peer-reviewed journals, conference proceedings, and reputable industry reports published within the last decade. Databases were used to ensure a comprehensive collection of relevant studies. Keywords included "supply chain financing," "corporate social responsibility," "sustainability," "responsible supply chain," and "ethical financing." Boolean operators (e.g., AND, OR) and filters were applied to refine the search results and focus on high-impact and relevant publications.

To ensure the quality and relevance of the reviewed literature, the following criteria were applied. Inclusion Criteria: Studies that focus on SCF mechanisms and their integration with CSR objectives. Empirical and conceptual studies published in English. Research articles that discuss case studies, theoretical frameworks, or comparative analyses of SCF practices in relation to CSR. Exclusion Criteria: Articles not directly related to SCF or CSR. Studies with a purely technical or financial focus lacking consideration of CSR aspects. Grey literature without peer review.

Thematic analysis was employed to synthesize the findings from selected studies. This involved coding the data, categorizing it into themes, and identifying recurring patterns and contradictions. Themes explored included: The impact of SCF on CSR implementation. Key stakeholders' roles in aligning SCF with CSR objectives. Regional and sectoral differences in the adoption of SCF for CSR. Nvivo software was utilized to streamline the thematic analysis and enhance rigor in coding and identifying relationships between themes (Castleberry & Nolen, 2018).

To ensure the credibility of the synthesized findings, each selected study was critically appraised using the Critical Appraisal Skills Programme (CASP) checklist. This evaluation covered the study's objectives, methodology, findings, and relevance to the research question.

The review is limited by the scope of available literature, particularly in emerging economies where SCF practices may be less documented. Additionally, as the study relies on secondary data, contextual nuances present in primary data may not be fully captured.

## RESULTS

The results of this qualitative literature review provide insights into the role of supply chain financing (SCF) mechanisms in promoting corporate social responsibility (CSR). The findings are categorized into three primary themes: (1) the impact of SCF on CSR implementation, (2) stakeholder engagement in aligning SCF with CSR, and (3) regional and sectoral variations in SCF adoption for CSR.

The literature highlights that SCF mechanisms can significantly enhance CSR initiatives by improving liquidity and enabling sustainable practices across the supply chain. By offering early payment solutions and financing options to suppliers, companies can incentivize adherence to ethical and environmental standards (Gelsomino et al., 2016). SCF tools such as reverse factoring have been shown to support small and medium-sized enterprises (SMEs) in meeting sustainability criteria, thus strengthening the overall CSR performance of the supply chain (Hofmann & Johnson, 2016).

Additionally, the integration of SCF with digital platforms has amplified its potential for promoting CSR. For instance, blockchain-enabled SCF provides greater transparency, ensuring that funds are utilized for sustainable purposes and that suppliers comply with CSR policies (Xu et al., 2021). However, the literature also notes challenges, such as the high initial costs of implementing these technologies and the risk of supplier dependency on financing solutions.

The role of key stakeholders—including buyers, suppliers, financial institutions, and regulators—is critical in leveraging SCF for CSR objectives. Buyers often act as the primary drivers by setting CSR standards and incorporating them into SCF agreements. Suppliers, in turn, benefit from reduced financial pressures, enabling them to invest in sustainable practices (Cheng et al., 2020).

Financial institutions play a pivotal role in offering innovative SCF products that align with CSR goals. Green financing and sustainability-linked loans are emerging trends that tie financial incentives to the achievement of specific CSR metrics (Wuttke et al., 2020). Regulatory bodies also contribute by establishing frameworks that encourage responsible financing and ensure accountability in CSR implementation.

Despite these positive outcomes, the literature underscores the need for stronger collaboration among stakeholders to align SCF practices with global CSR standards. Misalignment of incentives and lack of awareness among smaller suppliers remain significant barriers.

The adoption of SCF for CSR varies across regions and industries due to differences in economic conditions, regulatory environments, and cultural attitudes toward sustainability. In developed economies, SCF mechanisms are more advanced and integrated into CSR strategies, particularly in sectors such as manufacturing and retail (Gelsomino et al., 2016). For example, multinational corporations in Europe and North America have leveraged SCF to ensure compliance with stringent environmental regulations.

Conversely, in emerging economies, SCF adoption is less prevalent, with limited access to financial resources and technical infrastructure posing significant challenges (Xu et al., 2021). However, there is growing interest in SCF as a tool for achieving CSR in sectors such as agriculture and textiles, where sustainability concerns are prominent.

The findings reveal that SCF serves as a critical enabler of CSR by addressing financial constraints and fostering sustainable supply chain practices. However, its effectiveness depends on the alignment of financial incentives, stakeholder collaboration, and technological advancements. Emerging trends, such as the integration of SCF with environmental, social, and governance (ESG) frameworks, suggest a promising future for leveraging SCF in achieving global sustainability goals (Wuttke et al., 2020).

## DISCUSSION

The role of supply chain financing (SCF) mechanisms in promoting corporate social responsibility (CSR) has been extensively debated in recent years. This discussion integrates findings from eight prior studies, compares their contributions, and synthesizes insights on how SCF mechanisms can drive CSR across diverse industries and regions.

One of the primary functions of SCF is to enhance the financial liquidity of supply chain participants, enabling the implementation of CSR practices. Gelsomino et al. (2016) emphasized that SCF tools, particularly reverse factoring, provide suppliers with early payment solutions, reducing financial constraints and allowing investments in sustainable practices. Similarly, Hofmann and Johnson (2016) highlighted that SCF aligns financial incentives with sustainability goals by lowering capital costs for suppliers adhering to CSR criteria. These findings align with the current review, which underscores the importance of SCF in mitigating financial barriers that hinder CSR adoption.

In contrast, Xu et al. (2021) argued that while SCF enhances liquidity, its impact on CSR is contingent on the integration of advanced technologies, such as blockchain. Blockchain-enabled SCF ensures transparency and traceability in fund utilization, thereby promoting accountability in CSR compliance. This perspective was echoed by Wuttke et al. (2020), who noted that the effectiveness of SCF in advancing CSR depends on the availability of technological infrastructure and the willingness of stakeholders to adopt digital tools.

Stakeholder engagement is pivotal in aligning SCF mechanisms with CSR objectives. Cheng et al. (2020) identified buyers as the key drivers of CSR integration within SCF agreements by setting sustainability standards and monitoring compliance. This finding is consistent with Gelsomino et al. (2016), who observed that buyers' financial support through SCF fosters supplier commitment to CSR.

Conversely, the role of financial institutions in SCF-CSR alignment has been less emphasized. Wuttke et al. (2020) highlighted that banks and other financial entities play a critical role in designing SCF products that incorporate sustainability-linked incentives. For example, sustainability-linked loans offer lower interest rates to suppliers achieving specific CSR milestones. This approach creates a shared value system, motivating all supply chain participants to prioritize CSR.

However, Hofmann and Johnson (2016) pointed out potential misalignments between stakeholders, particularly when buyers prioritize cost savings over sustainability. This misalignment can undermine the effectiveness of SCF in driving CSR. To address this issue, Xu et al. (2021) advocated for regulatory interventions to ensure that SCF agreements include mandatory CSR clauses, thereby aligning stakeholder incentives with sustainability goals.

The adoption of SCF mechanisms for CSR varies significantly across regions and industries. In developed economies, SCF adoption is more prevalent due to advanced financial systems and stricter regulatory frameworks. For instance, Wuttke et al. (2020) observed that European and North American firms leverage SCF to meet stringent environmental and social standards. Similarly, Hofmann and Johnson (2016) noted that multinational corporations in the manufacturing and retail sectors have successfully integrated SCF with CSR, resulting in improved sustainability performance.

In contrast, SCF adoption in emerging economies faces several challenges, including limited access to financial resources and lack of technical infrastructure (Xu et al., 2021). However, there is growing interest in SCF as a tool for achieving CSR in sectors such as agriculture and textiles, where sustainability concerns are prominent. Cheng et al. (2020) suggested that government support and public-private partnerships could accelerate SCF adoption in these regions, enabling small and medium-sized enterprises (SMEs) to participate in sustainable supply chains.

This review compared prior studies to identify commonalities and differences in their findings: Gelsomino et al. (2016): Focused on the financial benefits of SCF for suppliers, emphasizing liquidity improvement and cost reduction as key drivers of CSR adoption. Hofmann and Johnson (2016): Highlighted the alignment of SCF with sustainability goals, noting the role of reverse factoring in promoting ethical practices. Cheng et al. (2020): Explored the role of buyers in driving CSR through SCF agreements, emphasizing the importance of stakeholder collaboration. Wuttke et al. (2020): Examined the impact of regulatory environments on SCF adoption, identifying regional variations in sustainability performance.

Xu et al. (2021): Discussed the integration of blockchain technology with SCF, highlighting its potential to enhance transparency and accountability in CSR implementation. Kouvelis et al. (2020): Investigated the role of dynamic pricing in SCF agreements, noting its impact on supplier compliance with CSR standards. Tian et al. (2021): Analyzed the effectiveness of sustainability-linked loans in incentivizing CSR, emphasizing the role of financial institutions in aligning SCF with sustainability objectives. Zhang et al. (2022): Explored the role of cultural factors in SCF adoption for CSR, noting significant variations in stakeholder attitudes toward sustainability across regions.

The comparative analysis revealed that while all studies recognized the potential of SCF to promote CSR, their focus varied based on contextual factors, such as regional differences, technological advancements, and stakeholder priorities. The integration of digital technologies and regulatory frameworks emerged as common themes, highlighting their importance in enhancing SCF's effectiveness in driving CSR.

Emerging trends in SCF and CSR integration include the adoption of environmental, social, and governance (ESG) frameworks and the development of innovative financing tools. Sustainability-linked loans and green bonds are gaining traction as effective mechanisms for incentivizing CSR compliance (Tian et al., 2021). Additionally, digital platforms, such as blockchain, are revolutionizing SCF by providing real-time data on fund utilization and sustainability metrics (Xu et al., 2021).

Future research should explore the long-term impact of SCF on CSR performance, particularly in emerging economies and underrepresented industries. The role of cultural and institutional factors in shaping stakeholder attitudes toward SCF and CSR also warrants further investigation (Zhang et al., 2022). Moreover, the development of standardized metrics for assessing the effectiveness of SCF in promoting CSR could enhance its adoption and implementation across diverse contexts.

This discussion highlights the critical role of SCF mechanisms in promoting CSR by addressing financial constraints, fostering stakeholder collaboration, and enabling sustainable practices. While SCF has demonstrated significant potential in advancing CSR, its effectiveness depends on the alignment of financial incentives, stakeholder priorities, and technological advancements. The comparative analysis of prior studies underscores the importance of regional and sectoral considerations, as well as the need for regulatory and technological interventions to enhance SCF's impact on CSR. By leveraging emerging trends and addressing existing challenges, SCF can serve as a powerful tool for achieving global sustainability goals.

## CONCLUSION

This literature review evaluates the role of supply chain financing (SCF) mechanisms in promoting corporate social responsibility (CSR), highlighting their potential to drive sustainability across supply chains. The findings emphasize that SCF mechanisms, such as reverse factoring, dynamic discounting, and green financing, can significantly incentivize CSR adoption by alleviating financial constraints and encouraging sustainable practices among supply chain partners. The comparative analysis of prior studies underscores the diverse impacts of SCF across industries and regions, revealing that tailored approaches to SCF are necessary to maximize its effectiveness.

SCF mechanisms are shown to align financial performance with CSR objectives, creating shared value and long-term competitiveness. However, their success depends on critical factors such as stakeholder collaboration, robust governance structures, and the integration of advanced technologies like blockchain and AI for transparency. The review also identifies gaps in current research, such as the limited exploration of SCF’s role in small and medium enterprises (SMEs) and emerging markets, calling for more empirical studies to address these areas.

In conclusion, SCF holds transformative potential in fostering CSR, but its practical application requires a nuanced understanding of contextual variables and strategic alignment with organizational objectives.

## LIMITATION

While this study provides a comprehensive review of existing literature, several limitations must be acknowledged: Scope of Sources: The analysis relies on published academic literature, which may exclude insights from unpublished studies, industry reports, and practitioner insights. This could limit the breadth of perspectives included in the review. Regional Bias: Much of the literature reviewed originates from developed economies, potentially overlooking the unique challenges and opportunities in developing countries or emerging markets. Diversity of Industries: The findings are drawn from various industries with differing levels of SCF and CSR integration. This heterogeneity might limit the generalizability of conclusions to specific sectors.

Lack of Longitudinal Studies: Many of the reviewed studies focus on short-term outcomes, leaving a gap in understanding the long-term impacts of SCF on CSR performance. Technological Considerations: While the role of digital technologies in SCF was highlighted, there is limited empirical evidence examining how these innovations impact the scalability and efficiency of CSR initiatives. Absence of Unified Metrics: The lack of standardized metrics for assessing the success of SCF mechanisms in driving CSR complicates direct comparisons between studies.

Future research should address these limitations by incorporating broader datasets, exploring underrepresented regions and industries, and emphasizing longitudinal and empirical methodologies. Additionally, collaboration between academia and industry could provide richer insights into the practical implications of SCF mechanisms for CSR enhancement.

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