



## **The Corporate Social Responsibility and Firms' Financial Performance: Evidence from Financial Sector of Pakistan**

**Tanveer Bagh<sup>1</sup>, Muhammad Asif Khan<sup>2\*1</sup>, Tahir Azad<sup>3</sup>, Shamila Saddique<sup>4</sup>, Muhammad Atif Khan<sup>5</sup>**

<sup>1</sup>University of Azad Jammu and Kashmir Mazafarabad, Pakistan, <sup>2</sup>School of Economics, Huazhong University of Science and Technology, Wuhan, P.R. China, <sup>3</sup>Department of Commerce, Government Boys Post Graduate College for Palandri, Azad Kashmir, I.R. Pakistan, <sup>4</sup>Huazhong University of Science and Technology (HUST), Wuhan, P.R. China. <sup>5</sup>Department of Commerce, University of Management Sciences and Information Technology, Kotli I.R. Pakistan. \*Email: [khanasif82@hotmail.com](mailto:khanasif82@hotmail.com)

### **ABSTRACT**

Competitiveness of financial sector has increased manifold and the issue of corporate social responsibility (CSR) has become an indispensable concern parallel to concentrating on profitability enhancement. Businesses are considered as social units, they have to serve stakeholders, and tend to execute CSR on priority basis and subsequent disclosure as well. Unhealthy CSR policies may cause externalities and eventual relinquished customers. The main purpose of study is to shed light on the impact of CSR on financial performance (FP) of banking sector of Pakistan, using a sample of 30 commercial banks listed with Pakistan stock exchange for the period of 10 years from 2006 to 2015, selected based upon market capitalization. We applied pooled regression models to investigate the impact of CSR on FP. Empirical findings signify the robustness of pooled model that documented a positive and significant impact of CSR on return on assets, return on equity and earnings per share. This premise holds that CSR has positive and significant impact on FP of selected commercial banks of Pakistan. Based upon key findings, this study postulates CSR phenomenon is considered as an essential growth element and FP-boosting tool by banking industry of Pakistan. Eventually, mainstream of the studies on CSR are in context of well-established companies and nations, however, developing nations are least emphasized, thus the findings of this study greatly contribute in body of knowledge as well as offer pivotal implications for policy makers and governance of financial sector.

**Keywords:** Corporate Social Responsibility, Financial Performance, Financial Sector, Pooled Regression

**JEL Classifications:** M14; L25; O16

<sup>1</sup> Corresponding author is serving as Assistant Professor at Department of Commerce, University of Science and Technology since 2006, while he is currently PhD Finance and Banking Scholar at School of Economics, Huazhong University of Science and Technology (HUST), P.R. China (430074)

### **1. INTRODUCTION**

Banking sector functions as the backbone for an economy, because the expansion of industries, capital formation, agriculture and international trade largely depends on sound footing of the banking system of a country. It plays the role of hub for smooth functioning of economic activities nationally and across the globe, and eventual modernization and innovation in the industry has raised the standard of living.

#### **1.1. Corporate Social Responsibility (CSR)**

Howard Schultz famous quotes about CSR “companies should not have a singular view of profitability. There needs to be a balance

between commerce and social responsibility. The companies that are authentic about it will wind up as the companies that make more money.” A former CEO of Unilever Niall Fitzgerald has quite rightfully stated:

“Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it because it is good for our business.”

The CSR is one of the confrontational issues in the contemporary corporate world as well as in the arena of management in broad spectrum. It has drawn consideration and got a striking significance around the globe. In the heightened competitive business

environment, the sustainability of the businesses highly relies on the efficiency and effectiveness of the financial management function. It has become a challenge for managers and they need to be answered (Akinyomi, 2013). According to McWilliams and Siegel (2001) CSR is doing all those activities which are not forced by law of those countries in which are not forced by law of those countries in which they are running their business and which are not for the primary benefits of the business but for the benefits of the society." Likewise, CSR expressed as a persistent commitment by the businesses regardless of their nature, to behave in a way that are in line with ethics and contribute to the economic development by fine-tuning and improving the standard of living of the people. They also added that the CSR in these days is coming below the practices of corporate governance umbrella (Mughal, 2014).

In the present era, most of the corporations, principally concentrating on the profitability and providing goods and services to the society and their contribution to the public betterment are confined. Moreover, now a day, societies are demanding from corporations to have more contribution for their development (Belal and Momin, 2009). According to Wibisono (2007), the implementation of CSR, is considered as an investment, rather cost in the present world. Today, corporations assigning much of their resources to CSR associated affairs and struggling hard to embrace the consequent significance. Besides this, firms are endeavoring to recognize this phenomenon with the aim of, creating social value a head of wealth maximization through profit (Yang et al., 2010; KPMG, 2011). Regardless of all the activities associated with CSR are certainly convert into societal benefits (Nelling and Webb, 2009). Governments and customers are claiming more ethical behaviors from all the corporations to full fill these demands organizations are stepping up themselves to integrate CSR as part of their business, mission statement, human resources strategies, laws relating to environment, norms and values and organizational culture in order to satisfying customer and other concerning parties (Kashyap et al., 2006). Most of the admired corporations around the global, wonderfully implement the idea of CSR, consequently their financial performance (FP) and good will are picking up as compared to those firms who are not considering CSR concept as profit boosting tool (Poddi et al., 2009). In the last couple of years the issue of CSR is treated as most cantankerous and emerging research topic among financial management scholars (Burton and Goldsby, 2009).

## 1.2. CSR in Pakistan

Pakistan has been confronting sever economic challenges nationally and globally due to governance crux, natural catastrophe, weak institutions, corrupt administrative practices and policies. Therefore, the issue of governess is there and the corporate governance is not mature. Although corporations are making money but their contribution for society is limited. In Pakistan, the social sector has been least focused, compared to other sectors of the economy such as education and health, in terms of investment made. In addition to this, due to difference of interest between the society and corporate sector the subject of CSR has been most unnoticed, which is not encouraging for the development of Pakistan (The Economic Survey of Pakistan, 2015). The banking sector is considered key player in Pakistan's economy and the importance of banks cannot be ignored because

they helped a lot like flood-affected peoples as well as many others natural calamities (Malik et al., 2015). This is an example of CSR.

In Pakistan, the thought of CSR has been promulgated by multinational corporations, like Nectle and Unilever while, banking companies like HBL and MCB started assistance in grooming talent, other donations in health and educations issues. Some of the companies are endeavoring and contributing in environmental safety. Some of the banks are integrating CSR with their mission statement, strategies and objectives. HBL foundation is also working for the society with the aim of advancing and improving the quality of life of the people of Pakistan (MCB and HBL Sustainability Report, 2011).

## 1.3. Problem Statement

The idea of CSR is well explored, well known, and contains essentials features that in turn proved helpful to the corporation success and its existence. However, most of the previous researches studies carried on the association between CSR and FP still unexplored, not well settled and ambiguous and open the doors to performed more research investigation on this specific topic (Wijesinghe and Senaratne, 2011). The issue of CSR has not yet been known and explored in the developing countries like Pakistan. The focus of developing nations is to maximize profit. In Pakistan, the crusade of CSR is few years old and not much recognized. Moreover, in Pakistan there are only few companies having their on CSR policy among these companies most of the firms are multinational. So far, the position of CSR is at its premature level in developing countries (Mujahid and Abdullah, 2014). Due to the application of international trade, thought of globalization and industrialization epoch profound interest in the last couple of years, in the CSR has experienced. On this premise, business complexities have increased at large; new demands for improved transparency along with better corporate citizenship are demanded (Jamali and Mirshak, 2007). Malik and Nadeem (2014) stated that CSR has turned out to be the well-recognized and hot topic in the last couple of years. They also argued that in these days, most of the companies in the commercial world issue CSR reports along with their annul statements.

The people who influence the corporations affairs demanded to have a more improve social, economic and the environmental benefits. More importantly, modernization, technological knowledge, commercialization, economic integration, volatile economic condition and globalization have putted pressure on the corporation. By considering this fact, developing nations need to have some mechanisms for the sake of survival especially when they are doing business worldwide. The notion of CSR and FP are imperative for the organization long run success and its good will. On these grounds, there is a matter of attention and there is knowledge gap so we believe that there is a need to study impact of CRS on firm's FP of selected banks listed in Pakistan stock exchange (PSX).

## 1.4. Research Objectives

To investigate the aforementioned problem statement, we have stated following objectives.

1. To analyze, whether CSR influence firms' FP of the selected banks listed PSX
2. To empirically investigate, the impact of CSR on the FP of the selected banks listed in PSX.

## 1.5. Significance of the Study

This study empirically explores the impact of CSR on the FP of the targeted banks and it will be significance in the following ways. We found most of the studies on CSR have been conducted in developed countries but fewer in developing countries like Pakistan, where CSR practices and importance of CSR are not well recognized. Thus, this study will be advantageous in this regard. Further, the study finding and recommendations will be immense importance to the students, and people who have interest in conducting research in this area. The present study will also provide literature that will in turn develop better insight into them. The study has social implications, along with detail understanding about importance of CSR activities and expected social behavior. It will also help policy makers in making strategies by incorporating economic and social aspects, consequently sustainable growth will promote, especially for banking companies under study by demonstrating the impact of CSR on the FP.

## 2. REVIEW OF LITERATURE

### 2.1. CSR

According to McWilliams and Siegel (2001), CSR is set of all those activities, not forced by law of those countries. Whereas Mughal, (2014) argue that it is persistent commitment by the businesses regardless of their nature, to behave in a way that is in line with ethics and contribute to the economic development, and declare it an integral part of governance. Conventionally, some scholars favor profit maximization objective of the firms as prime responsibility of the firm to use its resources to increase the profit. The supporter of this view added CSR is expressed by external interference, over regulations and laws, immoral condemnation, attack, defilement of shareholders rights, and groundless confiscation of owners property and resources (Friedman, 1970; Henderson, 2005; Lantos, 2001). In these days, the supporters of this idea are of the views that everywhere we see in the commercial world, the organizations are facing the thought of CSR and the CSR is becoming an important part of their strategies, objectives, mission statement and culture. For the most part, corporations are inspired and motivated to behave socially and must contribute for the development of the society (Iqbal et al., 2013).

Furthermore, Carroll (1979) supports this thought stats, since 1970s, many research scholars conducted studies on CSR and paid more consideration heading towards CSR besides CSR CSP and taken together. Under the umbrella of CSR all stakeholders of the firms are treated in a socially acceptable manner and when firms behave socially that in turn improves the stakeholder standard of living (Hopkins, 1999). Although companies are involved in, deploying resources in the CSR activities believed of increasing corporate image and FP. Conversely, He also argued that there is no analogy and al researcher do not conclude the same results (Balabanis et al., 1998).

### 2.2. FP

Weber (2009) in his study reported that "FP" is a blend of financial state of affairs along with a firm's ability to meet its policy business compulsions and commitment. Besides, Weber also added that long term or policy obligations and commitment of a concern indicate

the financial outcomes projected from putting into practice the particular line of actions and policies in specific point in time. These strategies and maneuvers should be consistent and their time frame usually more the 2-3 years. According to Marshall (1920) in ordinary sense, FP expressed as an act of undertaking financial activities however, in the broader sense; FP relates to the degree to which financial or monetary objectives been realized by an entity. Furthermore, FP is the process of gauging the monetary achievements of the business affairs by implementing polices and strategies in specific point in time. In this regard he also reported there are number of accounting and market base measures including return on assets (ROA), return on equity (ROE), earnings per share (EPS), net profit, operating profit, gross profit, return on capital employed, P/E are employed to estimate the monetary health and the firm's efficiency in utilizing available monetary resources.

McGuire et al. (1986) employed accounting measures to measure monetary performance of a concern some of the assumptions and limitations one must take into consideration; (1) Accounting indicators are historical in nature and they merely capture historical information; (2) accounting proxies are subject to bias and manipulation as well as the factor of different accounting policies and procedures is involved. Moore and Spence (2006) argued that, regardless of the limitations accounting based proxies are relatively better choice than market based and other mechanisms. Thus, it magnifies the scope of using accounting measures to measure the monetary performance.

### 2.3. CSR and FP

The association between CSR and FP has been well explored and much developed in the contemporary literature. The linkage between CSR and FP may be neutral, positive or negative and yet there is no consensus among researchers (Ullmann, 1985). There are three school of thought found in the literature on CSR. First school of thought found positive association between CSR and FP (Preston and O'bannon, 1997; Preston & O'bannon, 1997; Mutasim and Salah, 2002; Toutsoura, 2004; Choi et al., 2010; Weshah et al., 2012; Torugsa, 2012; Iqbal et al., 2013; Govindarajan and Amilan, 2013; Murtaza et al., 2014; Ofori et al., 2014; Fu and Shen, 2015; Kiran et al., 2015; Jie and Hasan, 2016; Yusoff and Adamu, 2016) and recommended investment on the CSR activities because CSR improves the value of firms.

The second group reported a negative connection between CSR and FP and embracing the concept of maximizing the firms profit by using its resources. They are not in favour of the notion of investing resources on CSR (Margolis and Walsh, 2003; Makni et al., 2009; Cellier and Chollet, 2011; Wati et al., 2011; Iqbal et al., 2012; Babalola, 2012; Singh, 2014; Hirigoyen and Poulain-Rehm, 2014).

The third school of thought measured neutral association between CSR and FP, documented a miscellaneous relationship, and suggested consideration of many other dynamics that can impede researchers from safe conclusion (Mohamed Zain and Jangu, 2006; Mehar and Rahat, 2007, Soana et al., 2011; Kang et al., 2010; Iqbal et al., 2012; Chek et al., 2013; Allen, 2014; Adeneye and Ahamad, 2015).

### 2.4. Theoretical Frame Work

The review of empirical and theoretical literature revealed an excellent contribution in body of knowledge on association between CSR and firms' FP and most of the studies have taken into account developed countries, whereas, there is scant amount of evidence from least developed nations like Pakistan. In addition, the existing literature is not sufficient and lacks analogy and consensus and it needs evidences from less developed nations. Therefore, the motivation behind the study is to enrich the literature by abridging the knowledge gap identified in the literature pertaining CSR and FP and to offer valuable suggestions to banking sector practitioners and policy makers (Figure 1).

### 2.5. Development of Hypothesis

Based upon the in-depth aforementioned literature reviewed regarding impact of CSR on firm's FP, we postulated the following hypothesis to document the evidence from developing country i.e. Pakistan and to contribute in existing literature:

*Research hypothesis: Corporate social responsibility has positive and significant impact on financial performance of Pakistani selected banks listed in Pakistan stock exchange (PSX).*

## 3. METHODOLOGY

### 3.1. Research Model

According to the nature of study and research objective, following econometrics model is applied to test the hypothesis:

$$RP = \beta_0 + \beta_1 CSR + \epsilon \tag{1}$$

To operationalize the research objective above regression equation is further divided into three equation respective to each proxy of FP.

$$ROA = \beta_0 + \beta_1 CSR + \epsilon \tag{1a}$$

$$ROE = \beta_0 + \beta_1 CSR + \epsilon \tag{1b}$$

$$EPS = \beta_0 + \beta_1 CSR + \epsilon \tag{1c}$$

Where,

FP represents financial performance, ROA symbolizes return on assets, ROE designates return on equity and EPS denote earnings

per share have been taken as proxies of dependent variable whereas CSR symbols CSR treated as independent variable and  $\epsilon$  is serving as an error term in the equation of the study.

### 3.2. Variables Description

#### 3.2.1. CSR

CSR is independent variable that is gauged by extraction the investment made in CSR like donation, education, health social welfare and other natural catastrophes for CSR reports of banks under study. This choice is consistent with Shoukat and Nadeem (2014); Malik and Nadeem, (2014) and Murtaza (2014).

#### 3.2.2. FP

FP is dependent variable measured by using widely acceptable accounting measures ROA, ROE and EPS respectively. FP reports represent FP, position and health of an entity in a specific point in time and accounting period. However, choice of using ROA, ROE and EPS as reasonable proxies, is in line with Shoukat and Nadeem (2014) and Malik and Nadeem, (2014). Study variables and subsequent measures are presented in Appendix I.

### 3.3. Population and Sampling

The population of the study was commercial banks listed with PSX, however, the study employed market capitalization approach to choose 30 top ranked commercial banks for the purpose of analysis and data collection (Appendix II).

### 3.4. Data Source and Statistics

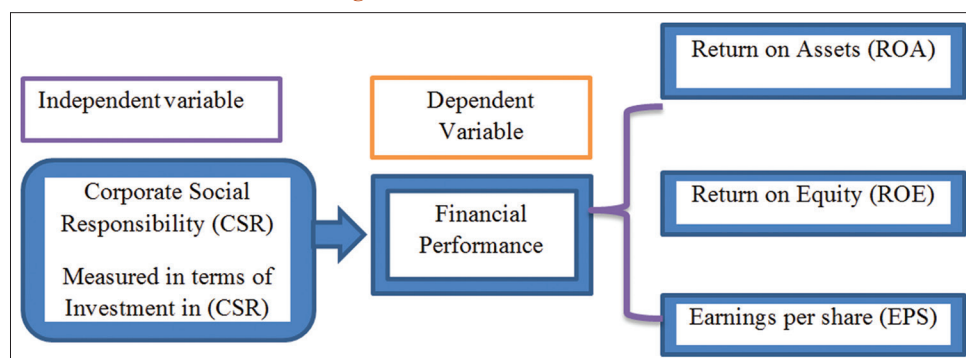
This study constructed on base of secondary data for the period of 10 years ranging from 2006 to 2015, collected from annual audited financial reports of respective banks, the statistical division of state bank of Pakistan SBP and the website of PSX. This research is quantitative in nature and meticulously Pooled regression analysis has been used for analysis along with E-Views.

## 4. RESULT AND DISCUSSION

### 4.1. Regression Analysis

Table 1 represents the statistical output of Equation 1a for the impact of CSR and ROE. P value corresponding to CSR is fulfilling the significance criteria, thus first hypothesis is accepted; implies that CSR has positive and significant impact of on ROA of selected commercial banks of Pakistan (H1). Adjusted R<sup>2</sup> (coefficient of determination) value is 92.63% designates the deviation or

Figure 1: Theoretical frame work



changeability in the dependent variable ROA can be elucidated by explanatory variable CSR of selected commercial banks of Pakistan which also capturing maximum variation of the model.

The remaining (7.38%) error term in the model signifies unexplained fraction. In addition to this, F value is used to gauge the overall fitness of the model of this study. It is astute from the significance column the F statistics and P value which is less than the standard. It is statistically significant, suggesting that the first regression model has the predictive power and potency to significantly predict the outcome of the variable. In the Table 4.1 the value of  $\beta$  value is in positive direction and P-value is lesser than the standard 0.05 so it demonstrates that there is a positive and statistically significant impact of CSR on ROA of selected commercial banks of Pakistan. On this premise the first hypothesis is accepted. The results are in line with (Choi et al., 2010; Iqbal et al., 2013; Fu and Shen 2015; Ofori et al. 2014; Lee et al., 1997; Jie and Hasan, 2016; Kiran et al., 2015; Murtaza et al., 2014). Moreover, the first model Durbin-Watson stat value 0.242002 signifies model one is free from multicollinearity.

Statistical output of regression analysis for Equation 1b, is reported in Table 2 and similar to 1a, our hypothesis is accepted because,  $P < 0.05$  that indicates the significant impact of CSR ROE of selected commercial banks of Pakistan (H2). Adjusted  $R^2$  (coefficient of determination) 95.54% volatility in the ROE is observed by CSR and the remaining variant i.e. 4.46% could be explained by unexplained aspect including error term. In addition, it is incisive from the significance column the F statistics and  $P = 0.000000$  is less than the standard.

It is statistically significant, second model similarly first model is robust to predict the effect of the variable. The value of  $\beta$  is positive and P value which is lesser than the standard 0.05 demonstrates that there is a positive and statistically significant impact of CSR on ROE of selected commercial banks of Pakistan. On this premise the second hypothesis is accepted. The results are in confirmation with previous studies (Choi et al., 2010; Iqbal et al., 2013; Fu and Shen, 2015; Ofori et al., 2014; Lee et al., 1997; Jie and Hasan, 2016; Kiran et al., 2015; Murtaza et al., 2014).

Table 3 expresses the regression equation 1c output for CSR and EPS while P value and coefficient imply a positive significant impact of CSR on EPS, thus our hypothesis is accepted (H3). Adjusted  $R^2$  (coefficient of determination) 82.77% designates the deviation or variability in the dependent variable EPS can be expounded by explanatory variable CSR of selected commercial banks of Pakistan. The remaining 17.24% is not explained by model, which may due to unknown factors.

In addition, it is insightful from F statistics and P value (0.000000), which is less than the standard 0.05. The value of F test divulging that has the projecting power to significantly predict the effect of the variable. The value of  $\beta$  is positive and P value which is lesser than 0.05 validating that there is a positive and statistically significant impact of CSR on EPS of selected commercial banks of Pakistan. On this premise the third hypothesis is accepted. The results are also in conformity with previous studies (Choi et al., 2010; Iqbal et al., 2013; Fu and Shen, 2015; Ofori et al., 2014; Lee et al., 1997; Jie and Hasan, 2016; Kiran et al., 2015; Murtaza et al., 2014).

**Table 1: The CSR and ROE**

| Variable              | Coefficient | SE                  | t statistic | Prob.    |
|-----------------------|-------------|---------------------|-------------|----------|
| C                     | 0.684922    | 0.115513            | 5.929406    | 0.0000   |
| CSR                   | 0.020901    | 0.000342            | 61.18139    | 0.0000   |
| $R^2$                 | 0.926259    | SE of regression    |             | 1.242018 |
| Adjusted $R^2$        | 0.926011    | F statistics        |             | 8.743162 |
| Mean                  | 6.225530    | Prob. (F statistic) |             | 0.000000 |
| dependent variable    |             |                     |             |          |
| SD dependent variable | 4.566102    | Durbin-Watson stat  |             | 0.242002 |

Decision rule: If  $H_1$  ( $P < 0.05 < 0.020901$ ), the hypothesis is accepted, otherwise rejected. ROE: Return on equity, SE: Standard error, SD: Standard deviation, CSR: Corporate social responsibility

**Table 2: The corporate social responsibility and ROE**

| Variable              | Coefficient | SE                  | t statistic | Prob.    |
|-----------------------|-------------|---------------------|-------------|----------|
| C                     | 0.174868    | 0.095628            | 1.828631    | 0.0685   |
| CSR                   | 0.022597    | 0.000283            | 79.90238    | 0.0000   |
| $R^2$                 | 0.955405    | SE of regression    |             | 1.028213 |
| Adjusted $R^2$        | 0.955256    | F statistics        |             | 9.384390 |
| Mean                  | 5.815490    | Prob. (F statistic) |             | 0.000000 |
| dependent variable    |             |                     |             |          |
| SD dependent variable | 4.860863    | Durbin-Watson stat  |             | 0.304284 |

Decision rule: If  $H_1$  ( $P < 0.05 < 0.022597$ ), the hypothesis is accepted, otherwise rejected. ROE: Return on equity, SE: Standard error, SD: Standard deviation, CSR: Corporate social responsibility

**Table 3: The CSR and EPS**

| Variable              | Coefficient | SE                  | t statistic | Prob.     |
|-----------------------|-------------|---------------------|-------------|-----------|
| C                     | 3.959268    | 0.183047            | 21.62979    | 0.00000   |
| CSR                   | 0.020476    | 0.000541            | 37.82521    | 0.00000   |
| $R^2$                 | 0.827621    | SE of regression    |             | 1.968161  |
| Adjusted $R^2$        | 0.827042    | F statistics        |             | 14.3076   |
| Mean                  | 9.387420    | Prob. (F statistic) |             | 0.000000  |
| dependent variable    |             |                     |             |           |
| SD dependent variable | 4.732500    | Durbin-Watson stat  |             | 0.0121378 |

Decision rule: If  $H_1$  ( $P < 0.05 < 0.020476$ ), the hypothesis is accepted, otherwise rejected. SE: Standard error, SD: Standard deviation, CSR: Corporate social responsibility, EPS: Earnings per share

It is clearly proved from the empirical results that when the Pakistani commercial banks upsurge the sum of money in CSR that, in turn the FP on account of banks under study will also boost.

## 5. CONCLUSION AND RECOMMENDATIONS

Competitiveness of financial sector has increased manifold and the issue of CSR has become an indispensable concern parallel to the concentrating on profit. The businesses are considered social entities; they have to serve stakeholders, and tend to execute CSR on priority basis and subsequent disclosure as well. The main purpose of present study is to shed light on the impact of CSR on FP of banking sector of Pakistan, using a sample 30 commercial banks listed on PSX for the period of 10 years from 2006 to 2015, selected on the basis of market capitalization. We applied

pooled regression models to investigate the impact of CSR on widely used proxies of FP; ROA; ROE and EPS, have been used to gauge FP. Empirical findings signify the robustness of pooled model that documented a positive and significant impact of CSR on ROA, ROE and EPS, this premise holds that CSR has positive and significant impact on FP of selected commercial banks of Pakistan. Based upon key findings, this study postulates CSR phenomenon is considered as an essential growth element and FP boosting tool and commercial banks of Pakistan. Eventually, main stream of the studies on CSR is in context of well-established companies but less are in context of developing nation and this study contributes by validating key findings of previous studies, thus the finding of this study are in turn of greater importance for policy makers and managers.

Following important policy recommendations are provided based upon the findings of the study:

- i. CSR has become a universal phenomenon with rising acceptability among all stakeholders. Business units are now considered social units; they have to serve stakeholders, and tend to execute CSR on priority basis and subsequent disclosure as well. According to McWilliams and Siegel (2001) CSR practices are not forced by law, yet produce optimistic output and positive impact on profitability, needs to be included among strategic business policies for long run success.
- ii. Unhealthy CSR policies may cause externalities, resulting an injury to stakeholders' interests/benefits and disappointed stakeholders may turn around as relinquished customer as well as source of declining earnings.
- iii. Furthermore, policy makers are suggested to make sure CSR related disclosure, that will not only yield profitability but also it will magnify the market value of shares of that unit, ultimately accumulation of manifold social and economic benefits.
- iv. In addition, based upon key findings, this study postulates that CSR phenomenon as an essential growth element and FP-boosting tool. Eventually, mainstream of the studies on CSR are in context of well-established companies and nations, however, developing nations are least emphasized, thus the findings of this study greatly contribute in body of knowledge as well as offer pivotal implications for policy makers and governance of financial sector.

The findings of the study are incapable of generalization due to the following limitations: Firstly, the study has taken into account only banking companies, although number of firms are listed with PSX, therefore, the model can be used with relatively large sample size from Pakistan.

Secondly, it used 10 years data for analysis, nevertheless we found positive significant impact of CSR on FP, yet extended time span consideration may produce interesting results.

Thirdly, there is handful literature available on CSR in less developed or developing countries and we accounted only Pakistan, although a set of five or greater sample of developing countries for analysis would come up with relatively solid opinion.

Fourthly, it is rational to contemplate the set of developing and developed nation to investigate the CSR practices and consequent impact on FP.

Finally, we suggest contemplating shareholder wealth maximization, relatively a more realistic measure of market value (as dependent variable), and rather traditional proxies of FP (ROA, ROE and EPS).

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## APPENDICES

### Appendix I: The study variables and measurement

| Description         | Symbols | How to measure  |
|---------------------|---------|---|
| DV                  | FP      |   |
| FP                  |         |   |
| Proxies to FP       |         |   |
| Return on assets    | ROA     | ROA=Net profit or income after taxes/total assets                                   |
| Return on equity    | ROE     | ROE=Net profit after taxes/shareholders equity                                      |
| Earnings per shares | EPS     | EPS=Total earnings available for common shares holders/number of shares outstanding |
| IV                  | CSR     | CSR=Investment in corporate social responsibility                                   |
| CSR                 |         |   |

CSR: Corporate social responsibility, ROA: Return on assets, ROE: Return on equity, EPS: Earnings per share, FP: Financial performance

### Appendix II: List of banks analyzed (listed with PSX)

| Serial number | Names of banks                      | Serial number | Names of banks                |
|---------------|-------------------------------------|---------------|-------------------------------|
| 1             | Allied Bank Limited                 | 16            | Summit Bank Limited           |
| 2             | United Bank Limited                 | 17            | Citi Bank Limited             |
| 3             | Askri Bank Limited                  | 18            | Royal Bank Limited            |
| 4             | Bank Al Falha                       | 19            | Metropolitan Bank Limited     |
| 5             | Bank Al Habib Limited               | 20            | The Bank of Khyber Limited    |
| 6             | Faysal Bank Limited                 | 21            | The Bank of Panjab Limited    |
| 7             | Habib Bank Limited                  | 22            | The Bank of Sindh Limited     |
| 8             | JS Bank Limited                     | 23            | Meezan Bank Limited           |
| 9             | KASB Bank Limited                   | 24            | Prime Commercial Bank Limited |
| 10            | Muslims Commercial Bank Limited     | 25            | PICIC Bank Limited            |
| 11            | Nib Limited                         | 26            | Atlas Bank Limited            |
| 12            | Samba Bank Limited                  | 27            | Bolan Bank Limited            |
| 13            | Silk Bank Limited                   | 28            | Standard Chartered Bank       |
| 14            | Soneri Bank Limited                 | 29            | Union Bank Limited            |
| 15            | Standard Chartered Pakistan Limited | 30            | Saudi Commercial Bank         |

PSX: Pakistan stock exchange

### Appendix III

| Hypothesis     |   | Coefficient | P value | Status   |
|----------------|---|-------------|---------|----------|
| H <sub>1</sub> | CSR has positive and significant impact on ROA of selected commercial banks of Pakistan | 0.020901    | 0.0000  | Accepted |
| H <sub>2</sub> | CSR has positive and significant impact on ROE of selected commercial banks of Pakistan | 0.022597    | 0.0000  | Accepted |
| H <sub>3</sub> | CSR has positive and significant impact on EPS selected commercial banks of Pakistan    | 0.020476    | 0.0000  | Accepted |

Decision criteria H<sub>1</sub> (P<0.05<0.020901); H<sub>2</sub> (P<0.05<0.022597); H<sub>3</sub> (P<0.05<0.020476). CSR: Corporate social responsibility, ROA: Return on assets, ROE: Return on equity, EPS: Earnings per share