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Corporate social responsibility and financial performance linkage: Evidence from commercial banks of Pakistan

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Abstract

This study is aimed at achieving the two main objectives. The first, is to investigate the impact of CSR on the financial performance of the firm and the second is to examine what are determinants of CSR investment? For achieving both objectives this study analyzes the data of 14 listed commercial banks from 2012 to 2018 through pooled ordinary least square regression, fixed effect, and random effect models in Eviews 9. Contrary to the findings of previous studies conducted on commercial banks of Pakistan, the results suggest no significant impact of CSR on the financial performance of the commercial banks this means CRS investment does not create any financial payback for the sample banks, however, administrative expense, total deposit to total equity, bank size and inflation have a statistically significant impact on the financial performance of the sample banks.

While exploring the determinants of CSR investment, the findings of this study show that larger return on equity of banks demotivates the CSR investment in the banking sector. The results further evidenced that a larger amount in deposits and advances encourages the sample bank to invest more in CSR, however, results also suggest that larger commercial banks invest less in CSR activities.

Keywords: Corporate social responsibility, financial performance, commercial banks

1. Introduction

Corporate social responsibility (CSR) is a strategic decision that is helping the firm to enhance its value. The main purpose of CSR is to portray the firm's good image in society by developing strong relationships with stakeholders through spending handsome amount for the betterment of the general public with the ultimate aim to benefit firms' performance (Franco, Caroli, Cappa, & Del Chiappa, 2020). The scope and budget of CSR are varying tremendously among CSR practicing firms. Some firms are more inclined to keep the environment clean, while other firms' priorities can be education, community development, healthcare, etc. Because CSR is not an obligation by law in general and in Pakistan in particular, the budget is also varying extremely. Some firms spend a handsome amount on CSR while other firms are spending just an insignificant amount. Businesses around the globe have acknowledged the financial and non-financial effect of CSR on the overall financial performance of the firm (W. Ali, George, & Zeeshan, 2017; Paltrinieri, Dreassi, Migliavacca, & Piserà, 2020; Wut, Xu, & Wong, 2021). Thus ignoring the CSR could be more costly than the amount spent on CSR practices. Contrary to traditional profit maximization theories, CSR introduced a stakeholder-oriented concept (Paltrinieri et al., 2020) which assists the firm in earning the sympathies of the general public via huge CSR investments. This can have a positive effect on the financial performance of CSR practicing firms.

CSR seems no more optional because some countries such as China, UK, Singapore, etc. have made it mandatory for companies to report CSR investment in their annual report. In the USA although the firms don't need to invest in CSR most firms taking it as mandatory. India became the first country that has made CSR investment mandatory on a certain profitability level since April 1, 2014.

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Positive responses from the society to CSR practicing firms reported by studies around the globe could dispirit the traditional notion that firms have nothing to take with any activity that may not maximize the wealth of shareholders (Ramzan, Amin, & Abbas, 2021). Bsch-Badia, Montllor-Serrats, and Tarrazon (2013) conclude that corporations adopted CSR for value creation this goal has substituted the traditional corporate goal of profit maximization. Although theoretically, it seems that CSR practicing firms have to spend a certain amount for philanthropic activities which will increase the overall expense of the firm thus hurt the wealth of shareholders but the majority of recent studies such as (Franco et al., 2020; Magrizos, Apospori, Carrigan, & Jones, 2020; Pham & Tran, 2020; Ramzan et al., 2021) report a direct or indirect positive effect of CSR on financial performance. CSR investment should be treated as a strategic move, not an expense (Wibisono, 2007). High-CSR investments assist the firm to mitigate the agency problem by paying a higher dividend to stockholders (Benlemlih, 2019). CSR can also be used as a tool to achieve higher tax shield benefits.

Most of the CSR studies have been conducted in the developed world such as Europe and the USA, (Ramzan et al., 2021). This indicates that if not all many firms are practicing CSR in the developed world however the limited number of studies on CSR has been conducted in the emerging world in general and Pakistan is way lag behind in CSR practice in particular (Ramzan et al., 2021). The effect of CSR on the financial performance of the banking sector is an underexplored area in Pakistan. A few studies have been conducted to examine the effect of CSR on financial performance for example (Bagh, Khan, Azad, Saddique, & Khan, 2017; Iqbal, Ahmad, Basheer, & Nadeem, 2012; Malik & Nadeem, 2014; Ramzan et al., 2021) on banking sector of Pakistan. The possible reasons could be difficulty in collecting the data, lack of researchers' interest, etc.

The chances of getting positive feedback on CSR from citizens of the developed world are more than that of citizens in emerging countries. The possible reason may be that the citizens of developed countries are more aware of the importance of CSR activities and thus it may portray the soft image of companies in citizens' mind as a result CSR investing companies' products may be given priority by citizens while making a purchase decision which can ultimately leave a positive effect on the financial performance of the firm. As compared to the developed world, the citizen of emerging counties may not be well aware of the significance of CSR practices because many issues such as poverty, education level, development, extremism, cultural value, etc. are way different in developing countries (I. Ali, 2011). Therefore the CSR investment may get an insignificant response from the public that may not be reflected by improvement in the financial performance of CSR practicing firms in developing countries such as Pakistan. Thus the main purpose of this study to investigate the effect of CSR investments on the financial performance of the CSR practicing firms. Furthermore, most of the studies have taken CSR as an independent variable (Bagh et al., 2017; Iqbal et al., 2012; Malik & Nadeem, 2014; Ramzan et al., 2021) to check if CSR investments have any impact on the financial performance of the CSR practicing firms. Contrary to these studies, this study also investigates if more profitable CSR practicing firms invest more in CSR. For testing this effect of profitability on CSR investments, this study takes CSR investments also as the dependent variable. Therefore, the following two research questions have been formulated to answer in this study.

1. Do profitable firms invest more in CSR?
2. Do financial firms that invest more in CSR are experiencing more profit?

The remaining sections in a research paper are in the following order. The next section briefly reviews the related literature on key components of CSR, its theories, and empirical evidence related to the impact of CSR on the financial performance of the firm. This is followed by variable and hypotheses development based on a certain discussion. In methodology, the conceptual frame of this study, data sources and collection method, and the statistical models to analyze the data are discussed. The results are then reported and compare with previous studies in general and those conducted in Pakistan in particular. Last but not least, the conclusion, discussion, limitation, and recommendations have been presented.

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2. Literature review

The literature on CSR and its impact on financial performance is explored in this section. A good number of studies have been conduction to measure the impact of CSR on the financial performance of the firm and the findings of those studies produce mixed results.

2.1. Theories relating CSR

Diverse definitions of CSR, its theories are part of literature. According to the recent definition of CSR by provided International Organization for Standardization in ISO26000 *"firms' decision making in accordance with transparent and ethical behavior and the responsibility of the firms on the impact of the organization's decisions and activities on society and the environment"*.

"The definition of CSR is not always clear. Here we define CSR as actions that appear to further some social good, beyond the interests of the firm and that which is requires by law. This definition underscores that to us CSR mean going beyond the law" (McWilliams & Siegel, 2001)

"Corporate social responsibility (CSR) is a self-regulating business model that helps a company be socially accountable—to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society, including economic, social, and environmental"(Investopedia, 2021).

Widely discussed the theory of CSR in literate are neoclassical theory, stakeholder theory, social contracts theory, and legitimacy theory.

2.1.1. Neoclassical theory

This theory emphasizes that firm should engage itself in those activities that may minimize the cost and maximize the profitability of the firm by strictly follow the law of land where the firm is operating its activities (Hinson Robert & Ndhlovu Tidings, 2011). This view of economists discourages CSR types of investments. The firm should engage itself only in the activities which it is abided by law thus going beyond that is not the only deviation from the basic goal of wealth creation but also put an extra burden on the firm (Zhi Tang, Clyde Eirikur Hull, & Sandra Rothenberg, 2012). Contrary to neoclassic theory, (Bsch-Badia et al., 2013) argue that CSR investment should be considered as a core competency for value creation. (Shaw, 1988) argued on mulligan's theory that not all the firms are working for profit as the school and hospitals are running and giving their services for the sake of the public welfare not for making a profit.

2.1.2. Stakeholder theory

Stakeholders are anybody interested in operations of the business such as shareholders, creditors, government, customers, suppliers, communities, employees, etc. so this theory debates that firm should create value not only for shareholders but all the stakeholders. The firm's success is known by its economic growth means maximum profit and non-economic success by corporate social responsibility investment in the favor of the stakeholders (Freeman, 2010). Donaldson and Preston (1995) guided that stakeholder theory rises the firms to adopt the corporate social responsibility activities to check the impact on all its constituents, viz. the theory argued that financial success is contingent on its capacity to make and implement the corporate strategy which achieves its relation by stakeholders successfully. Stakeholder theory results that a corporation handles its stakeholders properly and is attached to corporate social responsibility (Öberseder, Schlegelmilch, & Murphy, 2013).

2.1.3. Social Contracts theory

For Gray et al. (1996) society is itself made up of a series of social followers and the social contract between members. If we see from CRS perspective its responsibility of businesses to act in an accountable way moreover their commercial interest in that the social order, social contract theory was carried out by Donaldson and Dunfee in 1999 which assisted the managers in decision making in an ethical framework.

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They distributed among macro social agreements in the framework of societies and macro-social contract that gave backing to the native public

2.1.4. Legitimacy theory

Legitimacy theory Suchman (1995, p. 574) reflects that "*Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions*". According to Suchman (1995), it's a perception that operations and functions of the entities or firms are appropriate, desirable, and well-disciplined in the system that is socially built and is based on the beliefs, values, and norms. The definition by Moir 2001 said that legitimacy theory resembles stakeholder theory tells that firms within norms and limitations of their civilizations in simple it forms the social contracts between the society and firms. The research was carried out on the area of CSR such as the impact of the CSR on the wealth of the shareholders and the financial performance of the companies so that the positive and negative impact among these variables can be analyzed such as corporate social responsibility and financial performance of the firms and wealth of shareholders. For this research work, the three most important variables have been selected and these are the CSR, financial performance of firms, and wealth of shareholders. The sample size consists of ten firms and only those firms were selected that are involved in the CSR activities and on the other hand, 10 other firms have also been taken that are not involved in the CSR activities. This research evaluates the value of those firms on the financial aspects like ROE and ROA and for evaluating the wealth of the shareholders; the stock price and EPS are used so that difference between financial performance and wealth of shareholders can be figured out in the CSR and non-CSR firms. According to the study of(Abdullah, 2014), there lies a positive relationship between CSR, financial performance, and the wealth of the shareholders.

2.2. CSR and financial performance

(Franco et al., 2020) explore the effect of CSR on financial performance in the hospitality industry through analyzing the panel data from 2012 to 2017. The data examined were collected from the Thomson Reuters Eikon database and find a u-shaped form, because CSR could generate improvement in financial performance if and only the firm could be successful in developing a solid relationship with the stakeholder. They also found that the concurrent execution of CSR and quality management could convert the overall cost into the financial benefit of firms.

While investigating the food industry (Nirino, Miglietta, & Salvi, 2019) assess the impact of CSR on financial performance. The data was collected from 190 companies of food and beverages and for analysis of the data, ordinary least square regression was used to test the research model's validity. The analysis of data reveals, that there is a positive impact of CSR governance on the social and environmental outcomes that have real societal concerns among the stakeholders of the companies in the food and beverages industry. Mixed results were also shown like social outcome had a positive effect on the financial performance of the firms whereas environmental outcome shows the negative effect.

samira, Noor, and Md. (2018) test the effect of CSR on the financial performance of the agribusiness industry of Bangladesh. The data was collected for the period 2015 to 2017 and there was the use of the purposive sampling method. The data was analyzed through correlation and regression techniques. The finding revealed that ROE and net income significantly positively correlated to the financial performance of CSR practicing firms. They concluded that CSR may be taken as a financial performance-boosting tool in the agribusiness industry of Bangladesh.

Wang and Sarkis (2017) argue that mixed results about CSR effect of corporate financial performance were the triggering force behind this study. They tested the mediating effect of CSR outcomes on the relationship between CSR governance and corporate financial performance through analyzing the data of 500 green US firms from 2009 to 2013. They collected the data of CSR governance from the Bloomberg database and financial performance data through the COMPUSTAT database. They find the significant

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mediating impact of CSR on the relationship between CSR governance and corporate financial performance. Using the 10-year stock market data of the Japanese stock market, (Shirasu & Kawakita, 2020) find a positive effect of CSR on long term stock investment. This indicates the investors in this market are significantly worried about the social activities of the firms.

Bhattacharyya and Rahman (2019) test the impact of mandatory CSR expenditure for large and profitable firms—Indian companies Act 2013 on the financial performance of the firm. Consistent with the "shareholder value maximization" notion, they find a significant positive impact of CSR on the financial performance of the firm as measured through ROA and cash flow from operations. They further claim that mandatory CSR spend was not the only determinant of the financial performance rather, firm-specific factors such as firm size, cash flow from the operation, cash holding have moderating effect.

Huang, Sim, and Zhao (2020) investigate the reason behind the mixed results about the effect of CSR on the financial performance of the firm. They carried out a meta-analysis based on 437 primary studies on the subject. The disagreement in the outcomes of these studies is because of macro-level economic fluctuations because most of the studies ignore to consider the macroeconomic variable while examining the effect of CSR. Thus this study includes macro-economic variables such as GDP and inflation to fill the gap found by (Huang et al., 2020). They further argue that the true positive effect of CSR on the financial performance of a firm can be reconciled if macroeconomic fluctuation may be considered.

the study on the impact of CSR on financial performance moderating role of ownership concentration of non-financial institution the data collected from 2014 to 2018 that result shows that there is a positive relationship between CSR and performance (Elif, 2019). Using from the food industry (Nirino et al., 2019) assess the impact of CSR on the financial performance of the firms to check the impact of the CSR on the financial performance of the firms by using the framework and hypothesis was formulated in a way that shows that there exists a positive impact of the CSR governance on the CSR environment. The data was collected from 190 companies of food and beverages and for analysis of the data, ordinary least square regression was used to empirically test the research model's validity. After testing and analysis, it was interpreted that there lies a positive impact of the CSR governance on the social and environmental outcomes that have real societal concerns among the stakeholders of the companies in the food and beverages industry. Mixed results were also shown like social outcome had a positive effect on the financial performance of the firms whereas environmental outcome shows the negative effect. In the context of Indian companies (Prasad, 2018) research on the impact of the CSR activities on the wealth of the stakeholders in which pattern of price to earnings ratios of the firms was used. For this, six different sectors were selected such as FMCG, banking sector, software sector, and pharmaceutical sector, power, and energy sector of the Indian state. The relationship between the CSR expenditures and change in price to earnings ratio was detected for the year 2014-2016 and it was interpreted that if there is high spending on the CSR activities by the firms, there will be an enhancement in the goodwill of the companies and it will reflect the enjoyment of the discounts in the stock market. This research work provided evidence regarding this for the first time in history that there exists a relationship of the listed companies of the Indian stock exchange. For this, regression was used for the data analysis. It has been indicated that there is a significant impact on the wealth of the shareholders in the infrastructure and power and energy sector. Lukman Olatunji (2020) they have researched Nigeria pharmaceutical firms " where he used regression fixed-effect model where the study found that community development expenditure has no significant impact on the performance of the pharmaceutical industry on Nigeria but environment expenditure has a significant and helpful effect on firms financial performance whereas no effect was found on employee relation expenditure.

A few studies have been conducted to examine the impact of CSR on the financial performance of firms in Pakistan. (Bagh et al., 2017) analyze the data of 30 commercial banks listed on the Pakistan Stock Exchange over the time horizon of 10 years—from 2006 to 2015 through pooled regression and find the significant positive effect of CSR on ROA, ROE, and EPS of the commercial banks of Pakistan. (Iqbal et

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al., 2012) probe the data of 156 listed non-financial firms belonging to Textile, Tobacco, chemical, and cement sectors from 2010 to 2011. They find CSR does not affect the leverage of the firm however it has a significant negative impact on the market value of the stock. By using the data of an undefined number of the banks from 2008 to 2012 (Malik & Nadeem, 2014) claiming positive relationship between CSR and financial performance of the banks but according to their analysis and reported results in the research articles none of the results is statistically significant thus their claim of the positive effect is unreliable because the p-value in all reported results is more than 0.05. (Ramzan et al., 2021) investigate the topic mentioned above by analyzing the data of 20 Pakistani commercial banks from 2008 to 2017 and find a significant positive impact of CSR on the financial performance of the firms. The results of these studies may not show the true impact of CSR on the financial performance of the firm in general and the financial performance of the banks in Pakistan in particular because of the following reasons. Firstly, none of the above-mentioned studies are using the popular panel data models—fixed effect and random effect. Secondly, almost all of these studies have used the data of the years in which there was a global financial crisis. Thirdly, they have also not checked the effect of financial performance on CSR to answer the question of more CSR spending firms experience a better financial performance. Therefore this study is conducted to find the true effect of CSR on the financial performance of the firm by overcoming the all above draw backs in previous studies.

3. Variables and hypotheses

There is a large number of studies on CSR taking the CSR investment as an independent variable but this study takes the CSR as an independent variable as well as CSR as a dependent variable—which, to the best of our knowledge couldn't find the previous studies. The purpose of taking CSR as the dependent variable is to probe if the better financially performing firms invest more in CSR.

3.1. Dependent and independent variables

The aim of this study is two-fold because this study is not only to examine the impact of CSR on the financial performance of the firm but also what are the determinants of CSR therefore all the financial performance—(ROA, ROE, and EPS) and CSR are mutually exclusively dependent and independent variables however other constantly independent variables are administrative expense (AE), advance net provision (ANP), and total deposit to total equity (TDTE) and control variables such as size (SZ), GDP and inflation.

CSR activities portray the good image of the firm in the stakeholder mind which also helps the firms to develop better relationships with stakeholders, as a result, positive responses from the general public can be expected. This will create an indirect impact on the bottom line of the income statement. ROA, ROE, and earnings per share are widely used surrogates of the financial performance of any firm. All these proxies of financial performance are sensitive to the change in income of the firm. Patric (2019) did a study on the impact of CSR on financial performance where the result discovered that CSR has a positive relation with EPS. By using the data of non-financial listed firms on Borsa Istanbul (BIST 100 index) from 2014 to 2018 (Akben-Selcuk, 2019) shows that corporate social responsibility has a positive relationship with financial performance. Consistent with stakeholder theory we expect a positive relationship between CSR and financial performance.

H1a: CSR investment has a positive impact on ROA and vice versa

H2a: CSR investment has a positive impact on ROE and vice versa

H3a: CSR investment has a positive impact on EPS and vice versa

According to neo-classical theory, the firms should be target oriented that their sole target should be to maximize the wealth of shareholders and any activity beyond this puts an extra financial burden on the firm

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which can deviate the efforts of firms from wealth maximization. So firms should avoid such kind activities such as CSR activities. (Chetty, Naidoo, & Seetharam, 2015) investigated the impact of CSR on corporate financial performance by collecting the data of South African firms from 2004 to 2013 and found no effect of CSR on the financial performance of the firm. (Grizel, 2019) investigated the same topic and could find any significant effect of CSR on ROA and EPS. (Malik & Nadeem, 2014) also couldn’t find any significant relationship between CSR and ROA, ROE, and EPS while examining the impact of CSR on the financial performance of Pakistani firms. Consistent with the above argument this study develops the following hypotheses.

H1b: CSR investment has a negative effect on ROA and vice versa

H2b: CSR investment has a negative impact on ROE vice versa

H3b: CSR investment has a negative impact on EPS vice versa

3.2. Independent variables

This study is focusing on the banking sector of Pakistan therefore above mentioned independent variables are being selected such as administrative expenses, total deposit to total equity, advance net provision to total assets. The more the firm involves itself in CSR activities the larger can be its administrative expenses because CSR activities require more effort to pay on social activities thus additional administrative time hence more administrative cost may be required therefore we expect a positive relationship between CSR investment and administrative expense of the firms. An increase in administrative cost is not only because of CSR this may be the indication of active business is being done by the firm which may have a positive effect on the financial performance of the firm. By making strong relationships with the general public through CSR investments, the Pakistani banks may be successful in attracting more deposits from the stakeholders and disburse advances to stakeholders therefore the positive effect of CSR can be expected on total deposit and advances. More deposit and advance by the bank is a sound indication of the better financial performance. Based on the above discussion the following hypothesis is developed to test.

H4: Admin expense is positively related to CSR and Financial Performance

H5: Total deposit to total equity is positively related to CSR and Financial Performance

H6: Advance net provision is positively related to CSR and Financial performance

3.3. Control Variables

Size as a control item used in previous studies, it is concluded that using control items gives significant help and support to measure the true effect of the company’s activities (R. Ali et al., 2020). The purpose of including the size as a control variable is to control the effect of firm size on the financial performance of the firm and also to check if the larger firm is investing more the CSR activities because we have use CSR as a dependent variable as well. Larger firms are required to borrow more and issue more shares to support their assets and operations. The larger firms are mature and have fewer growth opportunities thus they may not generate abnormal profits to satisfy their shareholders' wealth maximization goal thus larger firms may invest in CSR activities. Therefore we are expecting a positive effect of Size on Financial performance and CSR. We have included two other macroeconomic variables such as GDP and inflation in this study as control variables on the recommendation of (Huang et al., 2020) which they found as key variables to include to overcome the contrary results produced by studies on this important area around the globe. It is expected that the GDP growth rate may have a positive impact on CSR investment by the firm because the improvement in GDP growth rate brings prosperity to the economy which may positively affect the earnings of the firm thus a similar effect may be expected on the CSR. However, inflation in an economy disturbs the real income and earnings of the firm therefore we expect a negative effect of inflation on the CSR of the firm.

H7: Firm size is negatively related to CSR and financial performance

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H8: GDP growth rate has a positive impact on CSR and financial performance

H9: Inflation is negatively related to CSR and Financial performance

4. Methodology

Is CSR an extra financial burden on the firm which affect negatively the wealth of shareholder or it is a tool to develop strong relationships with stakeholders that may have a positive effect on the financial performance of the firm?

4.1. Data

This study mainly relies on secondary data. The quantitative data of 14 listed commercial banks of Pakistan from 2012 to 2018 have been collected through various reliable sources. The sources of data collection are the website corporate philanthropy of Pakistan and open doors.pk, audited financial reports of the sample commercial bank and reports of State Bank of Pakistan with the title "Financial Statements Analysis of Financial Sector 2014-2018" and remaining financial data was collected from SBP similar earlier report. The sample selection is motivated by the availability of the data. The data of CSR investment was difficult to find thus websites and annual reports of commercial banks were probed to collect the data. Initially, we tried to consider the entire financial sector but later on, we decided to limit our study just to commercial banks because CSR investment data was missing even though many firms in the financial sector mentioned CSR just in the text of their annual reports.

Most of the studies using secondary panel data are facing two common problems—outliers and missing data (I. Ali, van Groenendaal, & Weigand, 2020). The same was the issue with this study. Literature has well guided how to deal with these two common issues. We identified the outliers in this study through min and max values and a box plot. The outliers were trimmed and winsorized in Eviews 9. Fortunately, we didn't face a missing data issue because of the limited number of samples.

4.2. Models

Unlike other studies recent studies (Bagh et al., 2017; Malik & Nadeem, 2014; Ramzan et al., 2021) conducted in Pakistan to investigate the impact of CSR on the financial performance of banks could develop only pooled ordinary least square model, we are developing three widely used panel data models such as pooled ordinary least squared, fixed effect model and random effect model. For testing the impact of CSR investment on financial performance through pooled ordinary least squares equation and fixed/random effect models as shown by the equation I and equation III respectively. The dependent variable is financial performance such as ROA and ROE and CSR and other variables such as AE, ANP, TDTE, and control variables for example SZ, GDP and inflation are independent variables. To examine the impact of independent variables on CSR investment through pooled and fixed/random effect we developed equations II and IV respectively. By the financial performance we mean ROA, ROE, and EPS in the equation I, II, III, and IV (I. Ali, 2011; I. Ali et al., 2020; Iqbal et al., 2012; Irfan, Iram, Arifa, Ghulam, & Shagufta, 2021; Ramzan et al., 2021).

$$\mathrm{FP_{it}} = \beta_0 + \beta_1 \mathrm{CSR_{it}} + \beta_x \mathrm{X_{it}} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(I)}$$

$\mathrm{FP_{it}}$ = the measure of financial performance—ROA and ROE of the firm $\mathrm{i^{th}}$ in time t
β_0 = constant
β_1= Coefficient for $\mathrm{CSR_{it}}$
β_x= Coefficient for all independent variables included in the equation and x = 2, 3, 4…..n representing the coefficient number of independent variables.
$\mathrm{X_{it}}$ = Regressors
ε_{it} = error term
i = number of firms i.e. = 1, 2, 3……N
t = the time period i.e. = 1, 2, 3…… T

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$$CSR_{it} = \beta_0 + \beta_1 FP_{it} + \beta_x X_{it} + \varepsilon_{it} \ldots\ldots\ldots \text{(II)}$$

CSR_{it} = the measure of CSR investment by the firm i^{th} in time t
β_0 = constant
β_1= Coefficient for FP_{it}—ROA, ROE, and EPS
β_x= Coefficient for all independent variables included in the equation and x = 2, 3, 4…..n representing the coefficient number of independent variables.
X_{it} = Regressors
ε_{it} = error term
i = number of firms i.e. = 1, 2, 3……N
t = the time period i.e. = 1, 2, 3…… T

$$FP_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_x X_{it} + u_{it} \ldots\ldots\ldots \text{(III)}$$

$$CSR_{it} = \beta_0 + \beta_1 FP_{it} + \beta_x X_{it} + u_{it} \ldots\ldots\ldots \text{(IV)}$$

The fixed/random effect model can be explained in the same way as the pooled least square model has been explained.

Table 1: Definition of variables

Proxies	Definition in this study	Definition in previous studies
CSR	$CSR = \log of\ CSR\ investment$	(Abdullah M. M., 2014) (Ting, 2020a) (Mohammed, GARBA, & ABDULRAZAQ, 2020)
ROA	$ROA = \frac{Net\ Income}{Total\ Assets}$	(Akbar-Selcuk, 2019) (Rizwan Ali, 2019) (I. Ali, 2011) (Ting, 2020b) (Arifa, Irfan, Raheem, Athar, & Maliha, 2020) (Mohammed et al., 2020) (Irfan et al., 2021) (Athar, Irfan, & Rehman, 2020)
ROE	$ROE = \frac{Net\ Income}{Total\ Equity}$	(Chetty, Naidoo, & Seetharam, 2014) (Ting, 2020b) (I. Ali, 2011) (Mohammed et al., 2020) (Irfan et al., 2021)
EPS	$EPS = \frac{Net\ Income}{No.\ of\ shares}$	(Mohammed et al., 2020) (Ramzan et al., 2021) ((Khurshid, 2017) (Arifa et al., 2020) (Marlin, 1972)
SIZE	$SZ = natural \log of\ total\ assets$	(Ali R., 2019) (Athar et al., 2020) (MuhammadRamzan, 2021; Ting, 2020b) (Gonenc, 2021; Ö Abdurrahman, 2020)
Admin expense	$AE = \frac{administration\ expenses}{Profit/(loss)\ before\ taxation}$	(SBP, 2018)
Advance net provision	$ANP = \frac{Advances\ net\ of\ provision}{total\ assets}$	(James Nguyen, 2021)

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Total deposit to total equity	$TDTE = \frac{Deposits\ and\ other\ accounts}{Total\ equity}$	(SBP, 2018) (Ö Abdurrahman, 2020)

This study defines the variables following the previous studies as shown by the third column of Table 1. The literature on CSR and financial performance help to used ROA, ROE, and EPS as proxies for financial performance. CSR has also been measured as a natural log of CSR investment because each of the variables in this study is either the ratio or log of a certain number such as size is a natural log of total assets. The purpose of converting these two variables into a log was to bring them in order so that they could be used with other variables measured in ratios. Furthermore, this study used the GDP and inflation as macroeconomic control variables and are measure as GDP growth rate and inflation rate in percentage.

CSR has been measured differently in the literature. (La Rosa, Liberatore, Mazzi, & Terzani, 2017) measured CSR as social score, (Jin, Kanagaretnam, Lobo, & Mathieu, 2017) used social capital index as a proxy for CSR. Some studies such as (Lee & Park, 2009; Zhi Tang, Clyde Eiríkur Hull, & Sandra Rothenberg, 2012; Zhou, Pan, & Wang, 2015) measured CSR as MSCI KLD 400 Social Index. Some of the studies such as those conducted by (Iqbal et al., 2012; Ramzan et al., 2021) used the actual CSR investment. Following them, this study is measuring CSR as actual investment done by bank in CSR.

5. Empirical results

the results of various analyses for example descriptive statistics, correlation analysis, pooled regression analysis, fixed effect model, random effect model, and the Hausman tests are generated after analyzing the data using Eviews 9.

5.1. Descriptive statistics

Table 2 shows descriptive statics of variables in this study. The average ROE and ROA are 15.2 percent and 11.2 percent respectively however the average EPS is 6.303 which indicates that the average sample commercial banks earn PKR6.303 per share between 2012 and 2018. The median of ROA, ROE, and EPS is 1.8 percent, 14.9 percent, and PKR 3.535 respectively. ROA of sample banks is fluctuating between 22.2 percent and -0.8 percent however the variation in ROE is from 29.6 percent to -2 percent. EPS is varying from PKR -0.092 to 21.786 with a standard deviation of 6.998. Instead of CSR, CSRI in table 2 is more meaningful to discuss because we measure CSR as a log of CSR investment, and interpreting actual value is easier to understand than the log values. The CSRI is ranging from PKR 0.019 million to 387 million with an average of 43.570 million. This means that the average sample commercial bank invest PKR 43.5 million in different CSR activities however the minimum investment in CSR is very low i.e. 0.019 million that’s why the standard deviation for CSRI is as high as 78.091.

Independent variables such as TDTE is fluctuating 5.570 to 20.090 with an average of 11.99; AE has a mean of 1.465 and varies from 0.76 to 2.49; ANP is positioning between 23.7 and 55.03, with an average of 37.682; the average size of the sample banks is 20.678 and ranges from 10.975 to 28.267; the GDP growth rate is varying between 3.7 percent to 5.8 percent during the sample years with an average of 4.5 percent and average inflation during sample period is 5.6 percent and fluctuating from 2.5 percent to 9.7 percent.

Unlike (Ramzan et al., 2021), the Jarque-Bera statistics’ p-values for many variables is greater than 0.05, as shown in table 2, which indicates that data of most of the variables in this study is normally distributed. (Ramzan et al., 2021) couldn’t have any variable in their study with a p-value of Jarque-Bera statistic less than 0.05. It is also mentioned in the literature that it is very difficult to achieve normal distribution of macro-economic variables in panel data sets because the value is repeating for every firm included in the

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sample for analysis. (Rapach, 2002) investigate the stationarity of a macroeconomic variable in panel data sets and find non-stationarity of sample panel data of a macroeconomic variable such as real GDP.

Table 2: Descriptive Statistic

	Mean	Median	Max.	Min.	Std. Dev.	Jarque-Bera	Probability
ROA	0.112	0.018	0.222	-0.008	0.064	2.274	0.305
ROE	0.152	0.149	0.296	-0.020	0.083	3.180	0.204
EPS	6.303	3.535	21.786	-0.092	6.998	23.813	0.000
CSR	6.971	7.130	8.587	4.279	0.940	4.859	0.088
TDTE	11.990	11.205	20.090	5.570	3.672	5.113	0.078
AE	1.465	1.350	2.490	0.760	0.494	4.597	0.100
ANP	37.682	36.310	55.030	23.700	6.990	5.014	0.082
SZ	20.678	26.549	28.267	10.975	7.760	14.426	0.001
GDP	0.045	0.042	0.058	0.037	0.007	11.382	0.003
INF	0.056	0.051	0.097	0.025	0.024	7.257	0.027
CSRI*	43.570	13.500	387.000	0.019	78.091		

*The figures are in million rupees

5.2. Correlation analysis

This section analyzes the correlation among the variables (see Table 3). The purpose of this analysis to check for any multicollinearity issue and to determine the relationship among the variables. All dependent independent variables have been included in this analysis because of the dual purpose of this study, as discussed above, all the variables are independent in one or another way. Table 3 shows the coefficient and p-value of correlation for each of the variables. CSR is significantly and negatively correlated to only ANP. ROA is significantly and positively correlated with AE, ANP, EPS, and GDP and significantly negatively correlated with inflation and Size. ROE is significantly positively related to AE and EPS. Results also show a positive correlation between EPS and AE and a negative correlation between EPS and ANP and TDTE. AE has a strong and statistically positive correlation with ANP, TDTE.

Table 3: Correlation Matrix

Correlation Probability	AE	ANP	CSR	EPS	GDP	INF	ROA	ROE	SZ	TDTE
AE	1.000									

ANP	0.565	1.000								
	0.000	-----								
CSR	-0.145	-0.306	1.000							
	0.273	0.019	-----							
EPS	-0.493	-0.334	0.164	1.000						
	0.000	0.010	0.216	-----						
GDP	0.112	-0.112	0.023	-0.121	1.000					
	0.400	0.398	0.862	0.362	-----					

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INF	0.056	0.206	-0.019	-0.154	-0.480	1.000				
	0.676	0.117	0.889	0.246	0.000	-----				
ROA	0.523	0.265	-0.063	0.295	0.345	-0.307	1.000			
	0.000	0.043	0.636	0.023	0.007	0.018	-----			
ROE	-0.380	-0.195	0.119	0.266	-0.192	0.019	0.244	1.000		
	0.003	0.138	0.370	0.042	0.145	0.889	0.062	-----		
SZ	-0.228	0.209	-0.202	0.200	-0.039	0.024	-0.281	0.111	1.000	
	0.083	0.112	0.124	0.128	0.771	0.859	0.031	0.401	-----	
TDTE	0.345	0.073	0.058	-0.259	0.187	-0.095	0.049	0.092	0.183	1
	0.008	0.582	0.662	0.048	0.156	0.474	0.715	0.488	0.166	-----

5.3. CSR and Financial Performance

Table 4 and Table 6 show the results of Pooled Regression, Fixed Effect, and Random Effect for ROA and ROE respectively. According to pooled regression CSR has a very weak and insignificant impact on ROA with a p-value of 0.851 and ROE with a p-value of 0.964. This means CSR investment has no impact on the financial performance of the firm. However, AE has a strong, statistically significant, and positive impact on ROA which supports hypothesis H4. Consistent with H9, the coefficient -4.632 and p-value 0.022 for inflation indicate its strong, significant, and negative impact on ROA. TDTE has a weak but significant positive effect on the ROE of the commercial banks in Pakistan this favors the H5. The adjusted R-squared for pooled regressions in Table 4 and Table 6 are 0.374 and 0.204 for ROA and ROE respectively. These results point toward model fit thus it can be interpreted that all the independent variables jointly determine 37.4 percent and 20.4 percent of ROA and ROE respectively. Durbin Watson's results in both tables are closer to 2 which indicates no autocorrelation issue.

Table 4: Effect of CSR on ROA

	Pooled Regression		**Fixed Effect**		**Random Effect**	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	-0.372	0.554	8.856	0.184	-0.372	0.563
ROE	0.301	0.670	-0.913	0.374	0.301	0.677
EPS	-0.005	0.501	-0.004	0.746	-0.005	0.510
CSR	0.009	0.851	-0.022	0.803	0.009	0.855
TDTE	-0.021	0.161	0.036	0.338	-0.021	0.170
AE	0.375	0.010	0.154	0.450	0.375	0.012
ANP	0.006	0.484	0.002	0.896	0.006	0.494
SZ	-0.006	0.343	-0.447	0.181	-0.006	0.354
GDP	9.889	0.129	12.622	0.153	9.889	0.137
INF	-4.632	0.022	-2.864	0.254	-4.632	0.025
R-squared	0.471		0.582		0.471	
Adjusted R-squared	0.374		0.345		0.374	
F-statistic	4.852		2.454		4.852	

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Prob. (F-statistic)	0.000	0.008	0.000
Durbin-Watson stat	1.925	2.114	1.925

Before discussing the results of fixed effect or random effect, it is required to check for the results of Hausman tests in Tables 5 and Table 7 for ROA and ROE respectively because the Hausman test helps in deciding if the fixed effect model or random effect model is suitable. The null hypothesis of the Hausman test is random effect model is suitable and the null hypothesis can only be rejected if the p-value is less than 0.05. According to the results of the Hausman test in Table 5, the p-value is 0.428 which greater than 0.05 thus null hypothesis cannot be rejected rather accepted, and in Table 7 null hypothesis is rejected because the p-value is 0.013 which is less than 0.05 which means null hypothesis can be rejected. It can be concluded from the above discussion that the results of the random effect model and fixed effect model are suitable for ROA and ROE respectively to discuss. We will stick to the verdict of the Hausman Test and only discuss its recommended regression results.

Table 5: Results of the Huseman Test for ROA

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.105	9	0.428

According to the results of the random effect model in Table 4, it can easily be observed that the results of the random effect model are consistent with that of pooled regression therefore we couldn't find a significant change in results while moving from pooled regression to random effect. In this case, the Random effect model holds the results of pooled regression with a trivial change in p-value.

Table 6: Effects of CSR on ROE

	Pooled Regression		**Fixed Effect**		**Random Effect**	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	0.235	0.039	3.122	0.000	0.333	0.002
EPS	0.002	0.206	0.001	0.441	0.002	0.151
CSR	0.000	0.964	-0.002	0.863	-0.007	0.471
TDTE	0.008	0.004	0.013	0.008	0.009	0.004
AE	-0.067	0.002	-0.060	0.020	-0.067	0.001
ANP	0.002	0.232	0.000	0.917	0.000	0.799
SZ	-0.002	0.199	-0.141	0.002	-0.001	0.429
GDP	-2.161	0.078	-0.595	0.651	-2.591	0.013
INF	-0.101	0.791	0.090	0.805	-0.045	0.891
R-squared	0.303		0.651		0.309	
Adjusted R-squared	0.204		0.492		0.210	
F-statistic	3.047		4.100		3.126	
Prob.(F-statistic)	0.006		0.000		0.005	
Durbin-Watson stat	1.615		2.324		1.660	

Consistent with the results of the Hausman test in Table 7 we will discuss the results of fixed effect only. Hence results of the fixed effect model in Table 6 show the significant and positive effect of TDTE on the ROE of a commercial bank that supports H5. This indicates that an increase in deposit of the bank enhances

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the return on equity of the bank. The coefficient of -0.060 with a p-value of 0.020 for AE show its significant and negative impact on ROE this point out that the bank with more administrative expense can experience a lower return on equity. This study finds a significant negative effect of size on ROE this specifies that larger firms are earning less return on equity. Adjusted R-squared of 0.492 indicates that around 50 percent of ROE of sample commercial bank is determined by independent variables. The result of the Durbin-Watson test shows no autocorrelation issue with the model.

Table 7: Results of the Hausman Test for ROE

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	19.406	8	0.013

As mentioned above, the other main objective of this study is to test what is determining the CSR investment. Thus to achieve our second objective we take the CSR as the dependent variable and the interpretation of results dynamic regression model shown (lag dependent variable is included as the independent variable) in Table 8 help to answer this interesting question. According to the results of pooled regression size is negatively affecting the CSR at a significance level of 10 percent. This means that larger firms investing less in CSR activities this consistent with H7. The coefficient for ROE is -3.469 with a p-value of 0.042 show a strong significant and negative impact of ROE on CSR investment this is indicating the support in the favor of H2B. This can further be interpreted as one unit increase in ROE lowers 3.469 unit in CSR investment by sample commercial banks. 51.2 percent of CSR are determined by pooled regression model and Durbin-Watson stat. shows no autocorrelation problem.

Table 8: Effect of Financial Performance on CSR

	Pooled Regression		**Fixed Effect**		**Random Effect**	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	2.383	0.073	-7.257	0.592	2.383	0.029
ROA	-0.266	0.373	0.060	0.843	-0.266	0.274
ROE	-3.469	0.042	-0.613	0.760	-3.469	0.013
TDTE	0.044	0.183	0.161	0.034	0.044	0.104
AE	-0.303	0.388	-0.206	0.529	-0.303	0.289
ANP	0.021	0.339	0.068	0.017	0.021	0.241
SZ	-0.026	0.090	0.508	0.457	-0.026	0.039
GDP	-9.078	0.496	3.019	0.835	-9.078	0.403
LAGCSR	0.787	0.000	-0.079	0.682	0.787	0.000
R-squared	0.590		0.807		0.590	
Adjusted R-squared	0.512		0.678		0.512	
F-statistic	7.569		6.252		7.569	
Prob(F-statistic)	0.000		0.000		0.000	
Durbin-Watson stat	2.302		2.088		2.302	

The results of the Hausman test for CSR in Table 9 are favoring the results of the fixed effect model because the p-value is less than 0.05 thus null hypothesis is rejected and the alternative hypothesis is accepted. According to the fixed-effect model, ANP and TDTE have a significant and positive effect on CSR this is consistent with H5 and H6 hypotheses. Therefore it can be concluded that the banks with larger deposits

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and advances invest more in CSR activities. There is no autocorrelation issue with the model as indicated by the Durbin-Watson stat of 2.088 and adjusted R-squared indicates that around 70 percent of CSR is determined by all the independent variables jointly.

Table 9: Results of the Hausman Test for CSR

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	32.205	8	0.000

This study is distinctive because this study is not only finding the effect of CSR on the financial performance of the firm but also simultaneously determine which financial variables determine the CSR, therefore its contribution to the literature is also unique.

6. Conclusion

The purpose of this study is twofold—first to examine the impact of CSR on the financial performance of commercial banks in Pakistan from 2012 to 2018 and second to test what are determinants of CSR. The findings of this study indicate no significant impact of CSR on the financial performance which shows CRS investment does not create any financial payback for the sample banks, however, administrative expense, total deposit to total equity, bank size, and inflation have a statistically significant impact on the financial performance of the sample banks. As evidenced by the results of this study, despite spending a handsome average amount on CSR activities every year the sample banks have been unsuccessful in converting CSR investment into indirect financial benefits this could be because of no disclosure and/or unadvertised philanthropic activities by sample bank.

While probing that what determines the CSR investment this study finds a significant negative impact of ROE on CSR investment this means that larger return on equity of banks demotivates the CSR investment in the banking sector. As demonstrated by the findings of this part of the research, the CSR investment is significantly and positively affected by total deposit to total equity and advance net provision, this indicates that a larger amount in deposits and advances encourages the sample bank to invest more in CSR investment. Contrary to this, results also show larger banks invest less in CSR investment.

This study suggests that for getting a positive response from society which may be reflected by improved financial performance, the banks should not only invest in philanthropic activities but also develop the soft image of the bank in clients' minds and make strong relationships with stakeholders through CSR disclosures and its advertisement. The central bank and government should incentivize and motivate CSR investment by offering certain incentives especially in developing countries such as Pakistan.

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