ISSN 2286-4822
www.euacademic.org

EUROPEAN ACADEMIC RESEARCH
Vol. VIII, Issue 9/ December 2020

Impact Factor: 3.4546 (UIF)
DRJI Value: 5.9 (B+)

Impact of Corporate Social Responsibility on Financial Performance of Banks in Pakistan

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Abstract

The current study focuses on corporate social responsibilities in baking sector of Pakistan with specific aim to investigate the impact of CSR on the financial performance of banks in Pakistan. To attain the objectives of the study multiple indicators such as the impact of CSR spending, CSR diversity, CSR separate division on the financial performance of Pakistan banking industry, have been incorporated. In addition, this paper analyzes trend in CSR with respect to baking system the in country. To achieve the objectives of the study quantitative research methodology has been employed. Secondary data available on public and privates in Pakistan has been analyzed based on dependent variable i-e Return on Asset (ROA) and Return on Equity (ROE) and CSR as an independent variable. The study uses different proxies including CSR Spending (CSRSP), CSR Diversity (DIVT), CSR Separate Division (DIVN), and CSR Index (CSR). The findings include the positive and significant impact of proxies on each measure of financial performance. Moreover, this paper shows that banks have better performance if they spend a higher amount on CSR, invest the CSR funds in a higher number of fields, or establish a separate CSR division. The findings are in line with the stakeholders' theory that explains the interests of all the stakeholders of a company. The findings of relative significance tests show that CSR spending and separate CSR division are more significant factors of financial performance. The banks can own the financial operations of more institutions with higher investment in CSR that will positively impacts financial performance. Similarly, CSR effective and efficient management is very important to achieve the desired objectives.

Keywords: CSR, baking sector, financial performance, return on asset, return on equity, Pakistan baking sector, investment in CSR

CHAPTER 1

INTRODUCTION

1.1 Background

The term 'Corporate Social Responsibility' (CSR) has a plethora of definitions that emerge over time. The definitions cover various aspects of CSR. However, there are some of the components are common in most of the definitions. Most of the definitions are agreed at the point that CSR is a corporate engagement with society. More specifically, CSR is a private and self-regulating business model that enables a company to be socially accountable and take care of all the stakeholders' interests (Kotler & Lee, 2008; Sheehy, 2015). The ISO 26000 is a recent development in the field of CSR that provides a comprehensive description and standards of CSR. It provides guidance about CSR and helps businesses to translate their policies of CSR into effective actions. According to the ISO 26000, social behavior contains seven basic elements including accountability, ethical behavior, transparency, respect for stakeholder interests, respect for international norms of behavior, respect for the rule of law, and respect for human rights.

The first comprehensive and explicit work about CSR has provided by Howard Bowen in 1953 in his book "*The Social Responsibilities of the Businessman*". Heald, a contemporary of Bowen, defines corporate social responsibility as an obligation of a company to the society- not only for maximization of economic performance but also for humanitarian and constructive social policies. After that, a series of scholars provide various definitions of CSR to cover the dimensions and scope of CSR. Dahlsrud (2008) analyzed 37 definitions of CSR and provided five basic dimensions of CSR, that is, environmental dimension, stakeholder dimension, economic dimension, voluntariness dimension, and social dimension. The environmental dimension is related to the natural environment and includes environmental concerns of business. The stakeholders' dimension means the interaction of business with all the stakeholders, that is, investors, suppliers, employees, stockholders, customers, and community. The economic dimension is the financial aspect of CSR that means the contribution of CSR in economic development and business operations. The voluntariness dimension means obligations that are not prescribed by the law but based on the ethical values. The social dimension refers to the relationship and interaction between business and society.

All the aspects and dimensions of CSR are key factors for the success of any business. And hence, actively engage in CSR activities is a core requirement for the survival of any business. Therefore, CSR attracts more attention of managers, investors, business experts, regulatory authorities, and researchers (Reinhardt, Stavins, & Vietor, 2008). CSR is not just to be engaged in charitable activities but making plans and policies for the development of all the stakeholders (M. T. Khan, Khan, Ahmed, & Ali, 2012). In this regards, Maç and Çalış (2011) classify CSR as implicit CSR and explicit CSR. Implicit CSR refers to the role of a corporation for the interest and concerns of society. For example, the values and norms of a society that impose the corporations to considers them in defining the collective obligations. Explicit CSR means the corporate policies in the interest and development of the society. It includes policies, strategies, and voluntary programs of business to address societal misperceptions and align the social values and business values (Maç & Çalış, 2011).

Literature provides both anecdotal and empirical evidence that CSR activities significantly influence the value and performance of firms. It enhances the goodwill of firms in society, attracts new investors, and strengthens the linkage with all stakeholders. Currently, in the age of competition firms are difficult to overlook CSR management due to the role of CSR in business. The focus of businesses is extending from wealth creation to stakeholder satisfaction (Harrison & Freeman, 1999). Because of the satisfaction of all the stakeholders is important for both economic and non-economic objectives of the firms (Pirsch, Gupta, & Grau, 2007). Stakeholders refer to both primary and secondary stakeholders. Primary stakeholders include shareholders and investors, customers, employees, suppliers, public entities (Clarkson, 1995) whereas secondary stakeholders refer to all those other stakeholders who are not directly engaged in the organization's economic activities but are able to exert influence or are affected by the organization. Consumers' buying behavior also associated with CSR activities of firms. CSR positively influences the purchasing intention of consumers (Rahim, Jalaludin, & Tajuddin, 2011).

The banking sector of Pakistan continuously adds developments to CSR operations. Many banks established a separate division for CSR management. Currently, CSR is an integral part of corporate policy in many larger banks including National Bank of Pakistan, United Bank Limited, and Habib Bank Limited, Allied Bank Limited, Muslim Commercial Bank, Askari Bank, and Bank Al Habib. In the case of Pakistan CSR plays a very important role in increasing the customers. CSR funds help to get all the banking operations of larger organizations like hospitals, universities, testing agencies, and other manufacturing and services companies. The organization gives its banking operation to those banks that offer better packages and give more funds of CSR for development purposes. However, the literature lacks empirical evidence about the relationship of CSR with the performance of the Banks. Therefore, the study aims to explore the relationship of CSR with the financial performance of Banks in Pakistan.

1.2 Problem Statement

The banking sector of Pakistan is developing CSR management since the previous two decades. The started to establish a separate division for CSR and publish formal reports of their CSR activities. Regulatory authority, Security and Exchange Commission of Pakistan also encourage the corporate sector to disclose maximum information about CSR. However, there is a lack of information that how CSR affects the performance of Banks. Either it is just a waste of money or gives some positive feedback? Generally, there exists an ideal level of CSR that managers calculate through cost and benefit analysis of the CSR investments (McWilliams & Siegel, 2001). However, empirical literature provides mix results about the consequences of CSR. Friedman (2007) explains the engagement in CSR as agency problems and argue that some of the self-interest managers use the resources of shareholders for their own social and political purpose. At the same time other studies such as Bihari and Pradhan (2011), Afiff and Anantadjaya (2013), and Kao, Yeh, Wang, and Fung (2018), report a positive influence of CSR activities on financial performance. In regards to the mix results, it seems likely that only effective and efficient management of CSR positively affects the financial performance of the firms. In contrast, if there is no proper check and balance on CSR funds then it may negatively affect the performance of the firms. In the case of Pakistan, the banks are increasing the CSR funds. Therefore, the shareholders should also know the financial outcomes of the CSR activities.

1.3 Research Questions

In light of the above problem statement, the study attempts to explore the association between CSR and financial performance in the Banks of Pakistan. Previous studies focus only on funds of CSR that firms spent in different fields. However, CSR depends on many other factors like level of diversity, advertising, research and development, and labor market (McWilliams & Siegel, 2001). Therefore, the study does not focus only on the spending of CSR but also take in consideration some other aspect of CSR including, CSR spending, CSR diversity, and CSR separate division. More specifically, the study aims to answer the following questions:

i. What is the impact of CSR spending on the financial performance of the Banks in Pakistan?
ii. What is the impact of CSR diversity on the financial performance of the Banks in Pakistan?
iii. What is the impact of CSR separate division on the financial performance of the Banks in Pakistan?
iv. What is the joint effect of CSR's indicators on the financial performance of the Banks in Pakistan?

1.4 Research Objectives

The core objective of the study is to investigate the impact of CSR on the financial performance of banks in Pakistan. The study uses multiple indicators of CSR and financial performance. To address the research questions, the specific objective of the study are listed below:

i. To investigate the impact of CSR spending on the financial performance of the Banks in Pakistan?
ii. To investigate the impact of CSR diversity on the financial performance of the Banks in Pakistan?
iii. To investigate the impact of CSR separate division on the financial performance of the Banks in Pakistan?
iv. To investigate the joint effect of CSR's indicators on the financial performance of the Banks in Pakistan.

1.5 Scope and Significance of the study

The study investigates the relationship of CSR with financial performance in the banking sector of Pakistan. The banking sector of Pakistan shows an increasing trend in CSR. The banks are spending CSR funds in multiple fields including education, health, and sports, etc. while some banks established a separate division for management of CSR activities. To address the research questions fairly, the study takes multiple aspects of CSR in consideration. Further, the results are also validated with multiple analysis techniques. The study aims to investigate the research questions with both univariate analysis and multivariate analysis.

The findings of the study are useful for shareholders, managers, and policymakers. The agency conflicts between shareholders and managers always exist. The shareholders are doubtful about the consequences of CSR spending that either managers use the funds for own political or social interests or it will add value to the Bank. Similarly, managers also doubtful about the financial outcome of the CSR funds. The study provides the impact of CSR funds on the financial performance of the banks that may help in the reduction of agency problems between shareholders and managers. Further, it may also help the poly-makers to formulate efficient and effective corporate CSR rules and regulations. They may able to revise and adjust the codes of CSR according to the financial impacts of CSR activities.

1.6 Outlines

The report contains five chapters. Chapter 1 is the introduction that provides discussion about the background of the study, problem statement, research questions, research objectives, and significance of the study. Chapter 2 is the literature review that provides a detailed review of literature, theoretical background and hypothesis development for the study. Chapter 3 is the methodology that presents detail information about the sample, data of the study, measurement of variables, and econometric models. Chapter 4 is the results and discussion that reports empirical results of the econometric models and discussion on these results with the comparison of literature. Chapter 5 is the conclusion and recommendations that provide the concluding remarks of the study, implications of the study, recommendations, limitations of the study, and future research suggestions.

CHAPTER 2

2- THEORETICAL FRAMEWORK

2.1- Corporate Social Responsibility (CSR)

The concept of corporate social responsibility is as old as the social sense of human society. Researchers state that there is substantial evidence that the companies carry out activities to improve the society even before any specific term like, and corporate social responsibility was used to express the idea. However, excessive environmental and air pollution, industrial waste and huge resource depletion, in addition to labor rights violations and workers' safety issuers during the industrial revolution in the late eighteenth and nineteenth centuries, further highlighted the importance and need for Corporate Social Responsibilities (Carroll & Shabana, 2010).

In the 1950s the ideas got formal recognition among academicians when Howard R. Bowen wrote a book with the title of "Social Responsibilities of the Businessman" in 1953. In that book the term "Corporate Social Responsibility" was introduced and operationalized the idea and gave first definition that "the obligation of businessmen is to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (Bowen, 1953). Later, Carroll (1979) formalized the concept and gave the comprehensive definition which is still commonly used in academic literature. He stated that "the corporate social responsibility encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time".

In 1991, the Corroll redefine the concept again and added the philanthropic expectations to his previous definition. Meanwhile, in a recent study, Carroll examined his almost 40 years old model of CSR again and concluded that this definition is still highly relevant (Carroll, 2016). Furthermore, the European Commission (2018) defined CSR as "the responsibility of enterprises for their impact on society". They also stated that to become socially responsible, companies shall follow the law, but also integrate concerns of social, environmental, ethical, consumer, and human rights matters into their operations. The Commission argues that CSR is in the interest of the firm as well as the society and the economy. (European Commission, 2018).

The importance of CSR is twofold. First is the normative practice with philanthropic objectives and altruism. Second is the practical implications that the CSR is in the best interest of the company. For having these two dimensions, CSR continues to be a hot topic for scholars in both ethics and social sciences, as well and for economics and finance. Modern literature on CSR is largely focused on how an organization should behave and what should be the ultimate behavior of the organization as a social entity (Murphy & Schlegelmilch, 2013). The latest studies in this regard affirm the legitimacy of CSR as the dominant model of legitimate corporate behavior and ethical approach of doing business in society.

The literature on the financial impact of CSR is quite mixed. Some studies have concluded that CSR improves the financial performance of the company in long run, while other studies have found that only certain CSR efforts generate considerable value Margolis, Elfenbein, and Walsh (2008). As Margolis et al. (2008) some studies report the positive impact of CSR on firm value in the short-run and negative in the long-run. (Dimson, Karakas, & Li, 2012) examine the impact of CSR on firm performance and conclude that firms that are engaged in CSR activaties report higher returns than the market. Especially the firms that focus on corporate governance and environmental issues produce a higher impact on financial performance.

Margolis et al. (2009) conducted a meta-analytic review on the impact of CSR on financial performance and found positive but marginal impact of CSR on financial performance. Meanwhile, the studies like Becchetti, Di Giacomo, and Pinnacchio (2008) and Becchetti et al. (2008) show that the companies involve in CSR activities have a lower return on equity. However, according to Ioannou and Hawn (2016) CSR enhances the financial performance of the firm when the public is aware of the firm's social and environmental initiatives. Therefore, advertising CSR efforts are necessary expenditures for firms to get monetary benefits from CSR activities. The finding of Hong, Kubik, and Scheinkman (2012) supports this idea that firms should first develop a certain level of financial wherewithal before they initiate CSR activities in a meaningful way.

2.2- Theories of CSR

The concept of social responsibility is explicitly emerged from the mid of 20th century. The field of CSR found rapid growth and today it has a number of terminologies, theories and approaches. corporate sustainability and corporate citizenship are alternative concept of the corporate social responsibility that some scholars compare with the classical view of the CSR (Van Marrewijk & Werre, 2003; Wood, 2002). Similarly, different theories use same terminologies for different meaning. Following are some theories this paper discusses.

2.2.1- Instrumental theories

Instrumental theories are a group of theories that focuses on achievement of economic objectives. The group is in line with views of Friedman that only one business responsibility towards the society is to maximize the profitability of shareholders stay in legal and ethical framework of the country. There are three main sub-group in the instrumental theories that discussed below:

Maximizing the Value of shareholder: According to the view of maximizing the shareholders' value, the key criteria of evaluation for corporate social activity is to maximize the shareholders' wealth.

Competitive advantages achievement: The main focus of theories in the group is on allocation of corporate resources in such a way that give a competitive advantage. First, it focuses on social investment in competitive context. Second, it focuses on the resources of the firms to take competitive advantage and documented by Barney (1991) as resource-based view shows the ability of the firms to use their physical, human, and organizational resources to take competitive advantage. Third, focus on business strategies for lower income level of population. Mostly, lower class is overlooked in formulating strategies product.

Cause-related marketing: The cause-related marketing is the way toward defining and executing marketing exercises that are portrayed by an idea from the firm to contribute a predetermined add up to an assigned reason when customers participate in a revenue-providing trades that fulfill the mutual targets of customers and business (Varadarajan & Menon, 1988).

2.2.2- Political theories

The political group of theories include the theories and approaches of CSR that explain the association and interaction between society and firms. There are two major political theories, which are, corporate citizenship and Corporate Constitutionalism. *Corporate Citizenship:*

The concept of corporate citizenship is not a new one however the explicit work on corporate citizenship was familiarized in 80s. The concept of corporate citizenship is mostly related to the field of political sciences. The social contract theory provides a base to the theories of corporate citizenship. *Corporate constitutionalism*: The concept of Corporate constitutionalism highlights the business power in the society. The major on the concept is done by K. Davis (1960). Davis provide the principles of management of social power. He argues that the practical role of managers and business visualize the social power responsibility.

2.2.3- Ethical theories

There is a third class of theories or approaches that mainly focus on the moral and ethical requirements that bond the connection among business and society. They depend on rules that express the best activity or the need to accomplish a better society. Such theories include *normative stakeholder theory, universal rights sustainable development and the common good approach*

2.3- Corporate Social Responsibility in developing countries

CSR research has focused more on developed economies than developing countries. In the developing world, CSR research is still relatively underdeveloped and largely relies on conventional case studies or descriptive studies. The most significant CSR models such as (Carroll, 1991) etc. are developed in the US context. The implementation of policies, frameworks, and find drawn in the developed economies in the settings of developing countries are always prone to be questioned (Amos, 2018; Egri & Ralston, 2008; Kolk & Lenfant, 2010). The CSR orientations of firms operating in developing countries are different from those of operating in the developed world. The firms' CSR efforts of operating in deveining countries are focused more on charity taking and philanthropic activities (Dobers & Halme, 2009; Muthuri & Gilbert, 2011).

2.4- Corporate Social Responsibility in Pakistan

In Pakistan, the practices of corporate social responsibilities (CSR) are growing up very quickly and most of the listed companies disclose their CSR practices. The beginning of CSR in Pakistan took place when international media highlighted the child labor trend of Pakistan (Winstanley, Clark, & Leeson, 2002; Yunis, Durrani, & Khan, 2017). After that many Non-governmental organizations (NGOs) started work in Pakistan to propagate the awareness about CSR (SECP, 2005). The government also encourages CSR practices by providing grants and tax relief to firms. As a result, the National Forum for Environmental and Health (NFEH) distributed CSR business awards among 36 companies in 2012. In the recent CSR summit 2019, it distributed awards among 55 companies. The awarded companies included both financial and non-financial firms listed in the Pakistan stock exchange. According to the survey report of the Security and Exchange Commission of Pakistan (SECP), Pakistani companies contribute CSR in the field of health, education, environment, donations, sport, workshops & training, singing, natural disaster, and women empowerment, etc. The report shows that many of the large firms are taking part in CSR activites related to environmental development like energy conservation and recycling of wastage).

The scope of CSR was still limited in 2005 as found by the survey report of Pakistan Centre of Philanthropy (PCP). The report focuses on philanthropic activities and found that many of the companies conduct philanthropic activities through donations only. The main for the charity and donation-based activities could be the tax benefits. The survey report of 2006 of the same organization shows an increase in philanthropy activities however it still found a lake of proper distribution and diversification.

The CSR activities start to influence the economic profits of firms, and the local firms can improve their profitability if they actively participate in CSR practices like Multinational National Companies (MNCs) (Janda & Wilson, 2006). Ahmad (2006) argue that CSR like western style is not in practice in Pakistan, however, it is growing up, and most of the companies do CSR activities mainly by focusing on philanthropy and employee welfare. Ali et al. (2010) and Naqvi et al. (2013) attempt to investigate the relationship of CSR with product service, brand image, customer satisfaction and purchase intentions of customers. The findings of these studies suggest that CSR can be a factor of competitive advantage; firms try to inflate their competitive advantage and market share through CSR activities.

2.5- CSR in the banking sector of Pakistan

In Pakistan, both the Government of Pakistan and the private sector are making efforts for the development of the CSR practices. Pakistan has multiple problems like funds deficits, energy crises, and poverty. In such circumstances, the role of CSR become more worthy. Besides other corporate sectors, the banking sector also actively participates in CSR activities including health, education, donations, sports, foods, shelter, and clothes, etc. The commercial banks contribute more to CSR activities. Many banks including, the National bank, MCB bank, CITI bank are international award winners of CSR. According to survey report of Pakistan Centre of Philanthropy (PCP), there were few public listed banks including Habib Bank Ltd., United Bank Ltd., Allied Bank Ltd., National Bank of Pakistan, Fysal Bank Ltd., and Habib Metropolitan Bank that got place in top 25 CSR public listed companies. Currently, the banking sector of Pakistan participates in diverse CSR practices. Major banks' activities in CSR are discussed in the below section.

National Bank of Pakistan (NBP) is one of the largest commercial banks in Pakistan. According to a disclosure report of NBP, CSR is a complementary element of the short and long-term strategies and policies. NBP established a Division that manages the CSR program. With regard to the best performance in CSR, the banks received many national and international awards. On the basis of the best overall CSR performance, NBP is awarded the "Gold Medal on CSR". NBP received eight awards due to the invaluable program of CSR in the 10th National Forum for Environmental and Health (NFEH) Summit and Awards and 7th International Corporate Social Responsibility Summit and Awards in 2018. The Bank participates in key CSR areas including Health, Education, Culture and relief for disasters, Special persons, and women & children.

Habib Bank Ltd. (HBL) also contributes more to CSR. It is one of the largest commercial banks. HBL issues a separate report of CSR activities since 2013. The key areas for its CSR activities are Education, Health and community welfare. It started well-defined programs of CSR in 2009, and contributed 1% of its annual income to CSR. According to the bank report, 380 million PKR were invested in CSR in

2016, 144 million PKR donated to endowment funds of 14 hospitals across Pakistan, and 104 million PKR addressed to financial support for education.

Muslim Commercial Bank (MCB) claims as a market leader in Pakistan. According to the bank's statements, MCB cares about social responsibilities and its every strategy ensures the interest of all internal and external stakeholders. The core community programs of CSR focus on health, education, social awareness, sports, environmental development, and other charitable activities. Similarly, Allied Bank of Pakistan (ABL) is also one of the largest commercial banks which contributes actively to CSR activities. The CSR programs of the Bank focus on prime areas including Education, Health, Environment, Sports, Art, and Staff welfare activities. The banks received multiple national and international awards. Moreover, commercial banks like Sindh Bank, First Women Banks, JS bank, Faysal Bank, Sanba Bank, Summit Bank, and Soneri Bank exercise CSR activities in Pakistan. Similarly, foreign banks in Pakistan also practice CSR activities. Standard Chartered Bank Ltd (Pakistan), CITI Bank, Al Baraka Bank (Pakistan), Dubai Islamic Bank (Pakistan) Limited, Industrial and Commercial Bank of China Limited, and Deutsche Bank AG actively contribute CSR activities in miscellaneous areas.

CHAPTER 3

METHODOLOGY

The main theme of the chapter is to provide detail about the nature and specifications of the study and methods employed for sample selection, data collection, variables measurement and data, and data analysis.

3.1 Specifications of the Study

In very broad sense research is categorized into two groups that are Basic research and applied research. Basic research is conduct to improve the existing knowledge and may be beneficial in the future while Applied research is conduct for the solution to existing problems (Umma, 2006). In this perspective, the current study is Basic research to supplement the knowledge to literature about how CSR has an impact on financial performance in the banking sector of Pakistan.

Each study is based on some fundamental philosophy about the nature of developed knowledge. According to Saunders and Lewis (2009) there are four basic philosophies; Positivism, Interpretive, Realism and Pragmatism (p. 107). According to their explanations of philosophies, the current study comes under the umbrella of Positivism because consistent with their definition of positivism the study is testing hypothesis and has well defined & structured methodology.

Kothari (2004) describes two main approaches of research; one is Quantitative research where variables are quantitative by nature or quantified qualitative variables and the other is qualitative research where opinions of people are analyzed about qualitative variables. Some studies also use a mixed approach. In light of these definitions, the current study used a quantitative approach because some variables are quantitative by nature while qualitative variables are quantified by using their proxies.

On the basis of nature, research may be Inductive or Deductive (Leedy & Ormrod, 2010). According to Bryman&Bell (2010) Deductive approach tests the hypothesis of a theory for reconfirmation in the specific environment while the Inductive approach explores factors of the newly originated problem in a specific environment try to generalized for all homogeneous environment. The current study uses a deductive approach to check the impact of CSR on financial performance in the banking sector of Pakistan.

3.2 Sample

The banking sector of Pakistan is the targeted population of the study. To control the heterogeneity due to the change in the nature of the business, the study focuses only on a single sector. Further, keep in view the data availability and stability in operations the study selected banking sector of Pakistan. Currently, Pakistan banking sector can be classified as Public sector banks, specialized banks, Private banks, Islamic banks, Microfinance banks, Investment banks and foreign banks. In the study, data of commercial banks is used for empirical analysis.

- The bank must schedule with the State Bank of Pakistan (SBP) and listed in Pakistan Stock exchange (PSE).
- The bank has data of operation and annual reports from 2010 to 2018.
- The bank discloses CSR information.

Keep in view the above criteria 19 Banks are included in the study.

3.3 Data

The study uses secondary data to investigate the impact of CSR on the financial performance of banks in Pakistan. Secondary data is more reliable than primary because secondary data is free of subjective biases (Kothari, 2004). All the banks are listed in the Pakistan stock exchange where they have liability disclose the financial information, shareholding pattern, and company profile. The data in published reports of the banks are reliable than other databases and have a lower chance of missing values. Therefore, the data about CSR and financial performance is extracted from the annual reports of the banks. Some information about the CSR is also obtained from the websites of the banks.

The final dataset is panel data comprises of 19 banks over a period of 2010-2018. As the concept of CSR is growing since recent years in Pakistan, and most of the banks started formal CSR setup after 2010. Further, to avoid the shocks of financial crises 2008-2009, the study use data since 2010.

3.4 Dependent Variables

The dependent variable in the study is the financial performance of the banks. In literature there are many proxies are used for financial performance. The most commonly used proxies are Return on Assets (ROA), Return on Equity, and Tobin's Q to capture accounting and market performance.

Return on Asset (ROA)

Return on Asset (ROA) is calculated as the net income of common stock divided by the total assets of the banks. Return on assets is one of the best indicators of financial performance (Chen et al., 2008). ROA indicates the effectiveness of assets utilization to generate revenues.

$$ROA = \frac{(NI - PD) + Dep}{BVTA}$$

Where NI is the net income of the banks. PD represents preferred dividends. Dep is the annual total depreciation. BVTA shows the book value of total assets at the end of the year.

Return on Equity (ROE)

Return on Equity (ROE) is calculated as the ratio of net income of common equity and total equity of common shares. ROE is also a proxy for accounting performance. ROE is a suitable proxy for comparison of profitability of different firms in the same industry (Peng, 2004). The formula of ROE is given below:

$$ROE = \frac{NI - PD}{TE - PE}$$

Where NI is the net income of common equity. PD is dividend for preferred stock. TE represents total equity. PE shows the equity of preferred stock.

Tobin's q

Tobin's q is a proxy for the measurement of the market performance of the banks. The ratio introduced by James Tobin in 1968 to measure the market performance of firms. He provided measurement formula for Q ratio as:

$$Q\ ratio = \frac{MV\ of\ firm}{BV\ of\ total\ assets}$$

In the equation, MV means the market value of a firm and BV shows the book value of assets. The market value of firms is calculated as:

$$Tobin's\ q = \frac{MV\ of equity + long\ term\ debts}{TA}$$

Where

$$MV\ of\ equity\ = Shares\ outstanding\ \times Average\ price\ per\ share$$

3.5 Independent Variables

Corporate Social Responsibility

In the study corporate social responsibility (CSR) is the independent variable. CSR in the banking sector has no well-defined index. Therefore, the study uses different proxies for the measurement of CSR. Only a few studies in Pakistan like Iqbal, Ahmad, and Kanwal (2013) and Malik and Nadeem (2014) work on the relationship of CSR with financial performance. These studies used investments of the firms in education, health, donations, and the environment as a proxy for CSR. Only investment in health, education, donations, and environment may not cover CSR activities. Because the CSR activities of banks in Pakistan focus on multiple fields. Some banks maintain a formal and separate division for managing CSR activities. Therefore, to capture the CSR activities more efficiently, the studies following proxies:

CSR Spending (CSRSP)

CSR spending means the total rupees amount that banks spent in CSR activities in all the fields. It is obtained as the sum of funds spent in education, health, environment, and donations. All the banks do not use the same heading for CSR activities. However, we add the rupees amount spent in any field as CSR.

CSR Diversity (DIVT)

CSR diversity means how much banks focus on a different and diversified field for CSR activities. It is calculated as the number of fields in which a bank spent its CSR funds.

CSR Separate Division (DIVN)

Many of the banks operating in Pakistan are spending funds CSR. However, some banks established a separate division for managing CSR activities. Those banks are likely to achieve the desired objectives of CSR effectively and efficiently. CSR_Divn is a dummy variable that takes value 1 if a bank has a separate division for managing CSR activities, otherwise zero.

CSR Index (CSR)

CSR index is obtained from the sum of all the three proxies of CSR. The index attributes the combined variations of the three proxies of CSR.

$$CSR\ Index = CSRSP + DIVT + DIVN$$

3.6 Control Variables

The financial performance is dependent upon a number of bank's specific factors. Therefore, the study uses some control variables to make the model more efficient. The study uses bank size, leverage, percentage ownership of board members, and number of board of directors.

3.7 Econometric Model

The study is using panel data. To investigate the impact of CSR on financial performance, the study use a panel regression model. The general model can be represented as follow:

$$y_{it} = \alpha_0 + \alpha_1 CSR_{it} + \alpha_2 Z_{it} + \varepsilon_{it}$$

In the equation, y is the dependent variable represents financial performance (ROA, ROE, and Tobin's q). CSR is the independent variable that represents all the three proxies including CSR spending, CSR diversity, and CSR separate division. Z is a set of control variables and ε error term of the regression. The subscript 'it' shows the value for ith bank at time t.

Specifically, for each of the proxy of the dependent variable, the equation can be shown as:

For ROA

$$ROA_{it} = \alpha_i + \beta_1 CSRSP_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$ROA_{it} = \alpha_i + \beta_1 DIVT_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$ROA_{it} = \alpha_i + \beta_1 DIVN_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$

For ROE

$$ROE_{it} = \alpha_i + \beta_1 CSRSP_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$ROE_{it} = \alpha_i + \beta_1 DIVT_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$ROE_{it} = \alpha_i + \beta_1 DIVN_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$

For Tobin's Q

$$Tobin'sQ_{it} = \alpha_i + \beta_1 CSRSP_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$Tobin'sQ_{it} = \alpha_i + \beta_1 DIVT_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$Tobin'sQ_{it} = \alpha_i + \beta_1 DIVN_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$

For the index of CSR, the equations become as:

$$ROA_{it} = \alpha_i + \beta_1 CSR\_Index_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$ROE_{it} = \alpha_i + \beta_1 CSR\_Index_{it} + +\gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$Tobin'q_{it} = \alpha_i + \beta_1 CSR\_Index_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$

The Study also investigate the combined effect of all the three proxies on financial performance that will provide the information about relative significance of the three proxies. The algebraic representation for the three measures of financial performance is given below:

$$ROA_{it} = \alpha_i + \beta_1 CSRSP_{it} + \beta_1 DIVT_{it} + \beta_1 DIVN_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$

$$ROE_{it} = \alpha_i + \beta_1 CSRSP_{it} + \beta_1 DIVT_{it} + \beta_1 DIVN_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$
$$Tobin's\_Q_{it} = \alpha_i + \beta_1 CSRSP_{it} + \beta_1 DIVT_{it} + \beta_1 DIVN_{it} + \gamma_1 Size_{it} + \gamma_2 Lev_{it} + \gamma_3 Ownership_{it} + \gamma_4 BSIZE + \varepsilon_{it}$$

3.8 Specification of the model

The data is a panel and does not fulfill the assumptions of the simple linear regression model. The data have cross-sections and time variations. Therefore, it is more likely to exhibit the problem of heterogeneity and autocorrelation, and here the panel regression model (Fixed effect or Random effect) is appropriate to control the issues (Baltagi, 2008).

3.8.1 Fixed Effect Model

The fixed-effect model controls the cross-sectional variations in the data and allows a separate intercept for each cross-section (Gujarati, 2009). More specifically, the fixed-effect model uses N-1 dummy variables for cross-sections, where N is a number of panels in the data. The fixed-effect model assumes that there is no covariance between cross-sectional variations and independent variables.

3.8.2 Random Effect Model

The random effect model is also a panel regression model which in contrast to the fixed-effect model, does not allow separate intercepts of each panel (Gujarati, 2009). The random effect model uses a single intercept which is an average of all the intercepts, and it is appropriate when a random sample is selected out of a large population (Baltagi, 2008).

3.8.3 Hausman Test

It is not easy to decide about the fixed effect and random effect model. Therefore, to make easy this decision, Hausman (1978) provides a test to choose the appropriate model for data. The test is testing for the null hypothesis:

$$H_0 : E(u_{it} / X_{it}) = 0$$

The hypothesis means that the error term is uncorrelated with independent variables. In other words, the independent variables do not vary with respect to the cross-section, and therefore, the random effect is appropriate. Hence, the acceptance of the hypothesis means the random effect is appropriate whereas rejections of the hypothesis represent that a fixed effect model is best for the data.

CHAPTER 4

RESULTS AND DISCUSSION

This chapter of the study provides the results and discussion of all econometric models. The first part interprets the output of regression models which are developed in the methodology section. As the study uses three different proxies for financial performance, therefore, all the regression model is used separately for each proxy. The later part of the chapter provides a detail discussion on results and match the results with the literature.

4.1 Descriptive Statistics

Descriptive statistics provides the characteristics of all variables. Table 4.1 summarizes the descriptive statistics. The table shows that the average value of CSR spending (CSRSP) of the sample banks across the period 2010-18 is 1.4113 billion. The minimum value of the variable is 0.2010 that shows all the banks are investing their funds in CSR whereas the maximum value is 3.1537 billion. The standard deviation is 0.6941 which is lower value and shows that most of the observations are falls near the mean value. The mean value of a number of fields for CSR activities that is, diversity of CSR (DIVT) is 8.6023 which means that on average the banks spend in 8 or 9 different fields. The major targeted areas of CSR funds are health, education, sports, and the environment. The standard deviation for DIVT is 4.09 which is greater than one and shows comparatively higher fluctuations of observations around the mean value. DIVN is a dummy variable that takes value equals to 1 if the banks have a separate division of CSR otherwise zero. As the mean value of the variable is 0.4561 which means that nearly 45% of banks have separate CSR divisions.

The data of dependent variables is comparatively more dispersed. Therefore, the study uses multiple proxies for measurement of financial performance. The minimum values of ROA and ROE are negative that shows some banks are suffering losses during specific years. However, the average value of both the proxies is positive that means on average the banks are profitable. Tobin's shows the market performance of the banks. The average value of Tobin’s q is 1.8356 that shows on average the banks have higher market value than their book value. The mean value of Board size (Bsize) is 8.1 which means that mostly the board is comprised of 8 directors. The minimum number of directors in the board is 6 whereas the maximum number of directors on the board is 13 in the sample. Similarly, the percentage ownership of directors (Ownership) fluctuates between 1.08 and 70.19 with a mean value of 6.4. The figures show that in the majority of the banks, the board of directors holds 6.4% shares, however, there are few banks in which the board of directors holds up to 70% of shares.

Table 4.1: Descriptive statistics

Variables	Mean	Std.Div	Minimum	Maximum	N
CSRSP	1.4113	0.6941	0.2010	3.1537	171
Divt	8.6023	4.0995	3.0000	19.0000	171
Divn	0.4561	0.4995	0.0000	1.0000	171
ROA	1.1668	3.1050	-6.1527	34.6778	171
ROE	9.5217	29.1512	-26.9322	100.1581	171
TobinQ	1.8356	3.4403	0.1132	24.7408	171
BSIZE	8.7193	1.4843	6.0000	13.0000	171
OWNERSHIP	6.4254	13.0888	1.0874	70.1967	171
SIZE	12.5877	1.1310	8.0420	14.7259	171
LEV	11.5710	8.3663	0.0639	76.7509	171

This table shows the descriptive statistics of the variables including mean, standartd deviation, minimum and maximum values.

The above discussion can be summarized as, on average most of the banks investing their funds in CSR in nine different sectors. The most target sectors of CSR in Pakistan are health, education, environment, and sports.

4.2. Correlation Matrix

The correlation matrix provides the relationship between two variables. It only provides information about the direction and intensity of the relationship between two variables. The range of correlation coefficient is +1 and -1. The value of coefficient +1 shows a perfect positive relationship, -1 shows the perfect negative relationship, and zero shows no relationship between the two variables.

In the matrix, we include only independent and control variables to investigate the problem of multicollinearity. Multicollinearity is the means relationship between independent variables. If the independent variables are highly correlated with each other and the estimated results will bias (Gujarati, 2009). In management sciences, many authors set different criteria for multicollinearity. However, the most commonly accepted level is 0.9. If the correlation coefficient of any two independent variables is greater than or equal to 0.9 then the multicollinearity problem will occur.

The below table shows the correlation matrix of independent variables and control variables used in the study. The table shows that there is no correlation coefficient reach to 0.9. Therefore, we conclude that there will be no multicollinearity problem with empirical Models. CSR spending (CSRSP) has a negative correlation with leverage (lev) that shows that higher levered banks invest lower funds in CSR as compared to other banks. In contrast, the CSR spending volume is positively correlated with other independent variables and control variables. It can be described as larger firms, larger board size and higher board ownership is associated with larger CSR spending.

Table 4.2: Correlation Matrix

	Bsize	Ownership	size	lev	CSRSP	Divt	Divn
BSIZE	1						
OWNERSHIP	-0.0498	1					
SIZE	0.0937	0.1689	1				
LEV	0.3467	-0.0979	0.2377	1			
CSRSP	0.1603	0.2281	0.4307	-0.1232	1		
Divt	0.0202	0.2486	0.6412	-0.1528	0.6558	1	
Divn	-0.0008	0.1740	0.5336	-0.0586	0.5149	0.6521	1

4.3. Regression Analysis

In this section, the results of regression models are described that are developed for testing the hypothesis of the study. The study uses multiple proxies for financial performance. ROA and ROE measure the accounting performance whereas Tobin's q shows the market performance. The regression models are run separately for each proxy of financial performance. Further, the study uses multiple measurements of CSR including CSR spending (CSRSP), a number of diversified fields (Divt) and separate division for CSR management (Divn). The study uses each measure separately in the econometric model and also as an index.

4.3.1. Estimation Results for CSR Spending (CSRSP)

4.3.1.1. CSR Spending and ROA

The estimation results for CSR spending are summarized in table 4.3. ROA is a dependent variable whereas CSR spending is independent variables. Leverage (Lev), size of banks (SIZE), the percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are used as control variables in the model. In the study, CSR spending refers to annual CSR funds that a bank donates to different sectors. Following the results of Hausman test, fixed effect model in used for estimation of the coefficients. The probability of F-statistics is less than

0.05, therefore the overall model is good-fit. The adjusted R-square of the model is 0.3493 that means the independent variable explains the 34.93% of variations of ROA.

The results show that the coefficient of CSRSP is positive and significant at 1% level of significance as the probability value of t-statistics is less than 0.01. It shows that an increase in CSR funds improves the financial performance measured by ROA. The coefficient is 3.8028 that means with a one-unit increase in CSR funds, ROA increases 3.8 units. The size of the bank (SIZE) negatively impact the financial performance of banks measured by ROA. Similarly, leverage, and board size also negatively influence the ROA, however, the coefficients are not statistically significant.

The results are in line with the theory of stakeholders that suppose a business to take care of all stakeholders. The results also validate the argument of the literature of a positive relationship between CSR and financial performance. For example, Epstein & Buhovac (2014) argue the positive relationship between CSR and financial performance. Similarly, Wu and Shen (2013) also found positive significant relationship CSR and various measures of financial performance.

In Pakistan, most of the large institutions use the services of specific banks. They prefer those banks which provide maximum incentives to the institution. And the banks count these incentives as CSR funds. Therefore, if banks expand their CSR funds, they will have a chance to own the contracts with more institutions that will increase the financial performance. Further, CSR itself is a promotional activity. And it can develop a good image of any bank.

Table 4.3:

ROA	Coefficient	Std. Error	t-Statistic	Prob.
C	11.9291	6.5999	6.9590	0.0000
CSRSP	3.8028	0.5843	6.5087	0.0000
LEV	-0.0324	0.0471	-0.6876	0.4928
SIZE	-3.8275	0.5029	-7.6107	0.0000
OWNERSHIP	0.0381	0.0494	0.7714	0.4417
BSIZE	-0.2087	0.3368	-0.6195	0.5365
R-squared	0.4373			
Adjusted R-squared	0.3493			
F-statistic	4.9673			
Prob(F-statistic)	0.0000			
Hausman test	48.4553			
Prob(Chi-squar)	0.0000			

The table show the regression results in which ROA is dependent variable whereas CSR spending (CSRSP) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Co-efficient is beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the co-efficient.

4.3.1.2. CSR Spending and ROE

The estimation results of the model that investigate the impact of CSR spending on financial performance measured by ROE are summarized in table 4.4. The overall model goodness is ensuring through F-statistics. The probability of F-statistics is less than 0.05 that shows that the overall model is valid. The results of the Hausman test shows that the fixed effect model is appropriate for the data. Therefore, the fixed-effect model is employed. The value of adjusted R-square is 0.6544 which can be explained as the model explains 65.44% variations of the dependent variable.

The results show that CSR spending has a positive impact on ROE, however, the coefficient is not statistically significant. Similarly, the size of banks (SIZE) has also a positive impact on ROE, and the coefficient is statistically significant at 5% level of significance. In contrast, the coefficient of OWNERSHIP and BSIZE are negative and significant that shows the increase in percentage ownership and board size adversely affect the financial performance measured by ROE.

Table: 4.4

ROE	Coefficient	Std. Error	t-Statistic	Prob.
C	-9.7482	2.0241	-1.2859	0.2005
CSRSP	2.7590	1.7759	1.5536	0.1224
LEV	-0.0423	0.3209	-0.1317	0.8954
SIZE	4.5934	2.1149	2.1719	0.0315
OWNERSHIP	-0.4282	0.1063	-4.0281	0.0001
BSIZE	-2.6612	0.6285	-4.2344	0.0000
R-squared	0.7012			
Adjusted R-squared	0.6544			
F-statistic	14.9978			
Prob(F-statistic)	0.0000			
Hausman test	20.3434			
Prob(Chi-squar)	0.0011			

The table show the regression results in which ROE is dependent variable whereas CSR spendings (CSRSP) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Co-efficient are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the co-efficient.

4.3.1.3. CSR Spending and Tobin's Q

Table 4.5 shows the results of the model that investigate the impact of CSR spending on Tobin's q. Tobin's q measures the market performance of the banks. The overall goodness of fit of the model is examined through F-statistics. As the probability value of the F-statistics is less than 0.05, therefore, the model is considered as valid and appropriate. Further, the Hausman test shows that the fixed effect model is appropriate for the data because the probability of Chi-Square statistics is less than 0.05 which leads to reject the null hypothesis stated as 'Random effect is appropriate'. The adjusted R-square is 0.6999 which shows that all the independent variables and control variables jointly explain the 69.99% of the variation of ROE.

The findings show that the market performance of the banks is also reacting positively to increase CSR spending. The coefficient of CSRSP is positive and significant at 1% level of significance as the probability value is less than 0.01. The coefficient of CSRSP is 1.3774 that can be interpreted as a one-unit increase in CSRSP that causes 1.3774 units increase in Tobin's Q of the banks.

Table 4.5

Tobin's q	Coefficient	Std. Error	t-Statistic	Prob.
C	9.3137	1.9663	5.9025	0.0000
CSRSP	1.3774	0.4397	3.1330	0.0021
LEV	0.0061	0.0354	0.1732	0.8627
SIZE	-2.4733	0.3784	-6.5356	0.0000
OWNERSHIP	0.0466	0.0372	1.2541	0.2118
BSIZE	0.1537	0.2534	0.6066	0.5450
R-squared	0.7405			
Adjusted R-squared	0.6999			
F-statistic	18.2351			
Prob(F-statistic)	0.0000			
Hausman test	12.9373			
Prob(Chi-squar)	0.0240			

The table show the regression results in which Tobin;s Q is dependent variable whereas CSR spending (CSRSP) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Co-efficient are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the co-efficient.

The results are at par with the argument of literature that CSR spending enhances the performance of the firms. For example, Margolis, Elfenbein, and Walsh (2009) documented that CSR positively influences the investors' perception and improves the performance of firms. Similarly, Hasan et al. (2017) also validate the argument of positive consequences of CSR spending.

The above results about CSR spending and financial performance can be summarizing as, in the case of Pakistan, the CSR spending positively influences the financial performance of the Banks. It seems likely that CSR spending significantly increases the number of customers and hence increase the sales volume of the banks. The findings support the first hypothesis of the study that states that CSR spending positively impacts on financial performance.

4.3.2. Estimation Results for CSR spending in diverse fields (DIVT)

This section describes the results models that are developed to investigate the impact of CSR spending in diverse fields on the financial performance of the banks. Separate models are used for each proxy of financial performance including ROA, ROE, and Tobin's Q. The variables CSR spending in diverse fields (Divt) is measured as the number fields in which a bank spends CSR funds.

4.3.2.1. CSR Diversity (DIVT) and ROA

To investigate the impact of CSR diversity on ROA, a fixed effect panel regression model is used. Because the results of the Hausman test reject the null hypothesis that the Random effect model is appropriate for the data. The F-statistics is also statistically significant at 1% level of significance which ensure the overall goodness of fit of the model. The Adjusted R-square is 0.4616 that means all the independent and control variables explain 46.16% variations of the dependent variable ROA.

Table 4.6

ROA	Coefficient	Std. Error	t-Statistic	Prob.
C	5.1293	2.2594	2.2702	0.0246
DIVT	0.2251	0.0416	5.4141	0.0000
LEV	-0.0431	0.0144	-2.9991	0.0032
SIZE	-0.3105	0.2564	-1.2110	0.2278
OWNERSHIP	-0.0215	0.0127	-1.6987	0.0915
BSIZE	-0.1553	0.1226	-1.2662	0.2075
R-squared	0.5344			
Adjusted R-squared	0.4616			
F-statistic	7.3372			
Prob(F-statistic)	0.0000			
Hausman test	27.8515			
Prob(Chi-squar)	0.0000			

The table show the regression results in which ROA is dependent variable whereas CSR diversity (DIVT) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Co-efficient is beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the co-efficient.

The results show that CSR diversity has a positive impact on financial performance measured by ROA. As the banks spend the CSR funds in more fields, their financial performance moves up. The probability value of t-statistics for the variable shows that the coefficient is significant at 1% level of significance. To invest CSR funds in multiple fields, enhance the awareness of products of the banks. It also increases financial performance if more people know about the firm's social and environmental activities (Ioannou & Hawn, 2016). Further, to invests CSR funds in more fields gives an opportunity to banks to own the operations of more institutions that will ultimately increase the sales volume.

The coefficient of LEV is negative and significant at 1% level of significance. Similarly, the OWNERSHIP also has a negative and significant impact on financial performance measured on ROA. However, the SIZE of banks has no significant impact on ROA in the current model.

4.3.2.2. CSR Diversity (Divt) and ROE

The Hausman test shows that the fixed effect model is appropriate for the data (shown in table 4.7). The results of F-statistics validate the overall goodness of the model. The value of adjusted R-square is 0.6432, meaning that 64.32% of variations of the dependent variable is explained by all the independent and control variables.

Table 4.7

ROE	Coefficient	Std. Error	t-Statistic	Prob.
C	-11.2591	9.1337	-1.2327	0.2197
DIVT	1.1178	0.3106	3.5992	0.0004
LEV	-0.0002	0.3017	-0.0006	0.9996
SIZE	3.0847	1.1648	2.6482	0.0090
OWNERSHIP	-0.4448	0.1083	-4.1063	0.0001
BSIZE	-2.8447	0.6762	-4.2067	0.0000
R-squared	0.6914			
Adjusted R-squared	0.6432			
F-statistic	14.3214			
Prob(F-statistic)	0.0000			
Hausman test	26.8920			
Prob(Chi-squar)	0.0001			

The table show the regression results in which ROE is dependent variable whereas CSR diversity (DIVT) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

CSR diversity has a positive impact on ROE. ROE is a measure of accounting performance. The coefficient of Divt is 1.1178 and the probability of t-statistics for the coefficient is 0.0004 which shows that the coefficient is significant at 1% level of significance. The one-unit increase in Divt causes 1.1178 units to increase in ROE. In the model, SIZE positive and significant coefficient whereas the OWNERSHIP and BSIZE have a negative significant impact on ROE. The results are at par with the argument of literature that awareness CSR activities to more people positively influence financial performance.

4.3.2.3. CSR Diversity (Divt) and Tobin's Q

CSR diversity also has a significant impact on market performance measured by Tobin's Q. The results of the model are summarized in table 4.8. The model has a significant overall goodness of fit as the probability of F-statistics is less than 0.05. The results of the Hausman test shows that the fixed effect model is appropriate for the data. The value of adjusted R-square is 0.6928 which shows that the independent and control variables jointly explain the 69.28% variations of the dependent variable, that is, Tobin's Q.

The diversity of CSR funds (Divt) has a positive and significant impact on Tobin's Q. The probability of the t-statistics for the coefficient of the variables is 0.0137 which is less than 0.05 which shows that the coefficient is statistically significant at 5% level of significance. In other words, increase the number of the field for CSR funds improve the financial performance of the banks. The investment of CSR funds in more funds will increase the awareness of products of a bank and also increase the positive perceptions about the bank that will enhance the market value of the bank. In the model size of the bank negatively influence Tobin's Q. The OWNERSHIP and BSIZE have a positive impact on Tobin's Q, however, the relationships are not statistically significant.

Table 4.8

Tobinq	Coefficient	Std. Error	t-Statistic	Prob.
C	6.5228	1.7879	5.5396	0.0000
DIVT	0.2556	0.1024	2.4962	0.0137
LEV	0.0137	0.0357	0.3842	0.7014
SIZE	-2.2818	0.3722	-6.1305	0.0000
OWNERSHIP	0.0347	0.0377	0.9217	0.3582
BSIZE	0.1669	0.2563	0.6509	0.5161
R-squared	0.7344			
Adjusted R-squared	0.6928			
F-statistic	17.6721			
Prob(F-statistic)	0.0000			
Hausman test	14.7238			
Prob(Chi-squar)	0.0116			

The table show the regression results in which Tobin's Q is dependent variable whereas CSR diversity (DIVT) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Co-efficient is beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the co-efficient.

The results are in line with the argument of stakeholders' theory that explains that a company is supposed to work in the interest of all stakeholders. The higher awareness of CSR activities to people will positively influence financial performance. The results also validate the promotional power of CSR activities. Invest CSR funds in multiple funds enhance the positive image of the banks in society.

The above results can be summarizing as CSR funds diversity improve the financial performance of banks. If a bank increases the number of fields to invest its CSR funds, then the financial performance will increase accordingly. The findings support the second hypothesis of the study which states that investment of CSR funds in more fields will positively impact the financial performance of banks in Pakistan.

4.3.3. Estimation Results for CSR Separate Division (DIVN)

To manage the funds and activities of CSR efficiently, many banks established a separate division of CSR. The division maintains the whole record of CSR funds and activities and prepares the formal reports for the banks. This section provides the results for the impact of separate CSR division on the financial performance of the banks.

4.3.3.1. CSR Division and ROA

Table 4.9 shows the results for a model that investigate the impact of CSR division on ROA. The F-test validates the overall goodness of fit of the model. The results of the Hausman test show that fixed effect model is appropriate for the data as the probability of Chi-square statistics is less than 0.05 and we reject the null hypothesis that random effect is appropriate. The adjusted R-squared value is 0.5872 which means that the independent variable and control variables jointly explain the 58.72% variations of ROA.

The impact of CSR division (DIVN) is also a positive and significant impact on ROA. The coefficient of DIVN is significant at 1% level of significance. The positive coefficient of the variable means that if a bank has a separate division for CSR management then it has better performance than banks with no separate CSR division. The results of F-statistics show that the overall model is valid and good fit and the F-statistics is a significant 1% level of significance. Similarly, the Hausman test considers the fixed effect model appropriate for the data.

Table 4.9

ROA	Coefficient	Std. Error	t-Statistic	Prob.
C	6.1375	2.7055	2.2686	0.0248
DIVN	1.1519	0.2120	5.4326	0.0000
LEV	-0.0296	0.0215	-1.3783	0.1702
SIZE	-0.2640	0.2215	-1.1918	0.2353
OWNERSHIP	-0.0289	0.0154	-1.8762	0.0626
BSIZE	-0.1885	0.1310	-1.4389	0.1523
R-squared	0.6430			
Adjusted R-squared	0.5872			
F-statistic	11.5129			
Prob(F-statistic)	0.0000			
Hausman test	27.9994			
Prob(Chi-squar)	0.0000			

The table show the regression results in which ROA is dependent variable whereas CSR division (DIVN) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Co-efficient is beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the co-efficients.

The adjusted R-square shows that the independent variable and control variables jointly explain the 58.72% variations of ROA. The control variables LEV, SIZE, OWNERSHIP, and BSIZE have a negative impact on ROA, however, the coefficients are not statistically significant.

The results are at par with the argument of Aver, Aaver, and Cadez (2009) who documented that if CSR is managed properly, it improves the satisfaction of all the stakeholders and enhance the financial performance of the firm. A separate division for CSR can efficiently and effectively distribute the funds, maintain records of other CSR activities.

4.3.3.2. CSR Division and ROE

The impact of CSR division (DIVN) is also positive and significant on ROE (shown in table 4.10). The coefficient of the variable is positive and significant at 1% level of significance. The ROE of banks is higher who has a separate CSR division. In the model control variables LEV, SIZE, OWNERSHIP, and BSIZE have a negative and significant impact on ROE.

Table 4.10

ROE	Coefficient	Std. Error	t-Statistic	Prob.
C	6.9801	2.2241	1.2853	0.2007
DIVN	20.0287	4.6288	4.3270	0.0000
LEV	-2.2214	0.3766	-5.8988	0.0000
SIZE	6.0961	3.3909	1.7978	0.0743
OWNERSHIP	-1.2838	0.3996	-3.2128	0.0016
BSIZE	-11.9707	2.6904	-4.4494	0.0000
R-squared	0.5925			
Adjusted R-squared	0.5287			
F-statistic	9.2912			
Prob(F-statistic)	0.0000			
Hausman test	32.1358			
Prob(Chi-squar)	0.0000			

The table show the regression results in which ROE is dependent variable whereas CSR division (DIVN) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Co-efficient are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the co-efficient.

The F-test validates the overall goodness of fit of the model. Hausman test is used to decide about fixed effect and random effect model. The results of the test show that fixed effect model is appropriate for the data as the coefficient of Chi-square statistics is significant at 1% level of significance. Therefore, the null hypothesis cannot be accepted which states that the random effect model is appropriate for the data. The adjusted R-square is 0.5287 which shows that 52.87% variations of ROE are explained by independent variable and control variables.

4.3.3.3. CSR Division and Tobin's Q

CSR separate division is also positively related to the market performance of the banks. The coefficient of DIVN is positive and significant at 5% level of significance. Banks that have separate CSR divisions have better market performance (Tobin's Q). Separate division can effectively manage the CSR activities according to the market requirements. The coefficient of LEV is negative and significant in the model.

The Hausman test suggests the fixed effect model as appropriate for the data. The overall goodness of fit of the model ensures through the F-test. The result F-test shows that the model is valid and good-fit for the variables and data. The value of the Adjusted R-square is 0.6937 which means that 69.37% variations of the dependent variable (Tobin's Q) are explained through independent variable and control variables.

In light of the above discussion, it can be said that separate CSR division positively influences the financial performance of the banks. The separate division has the ability to manage CSR activities well in time according to the demand of the market which enables the banks to attract more customers and enhance the profitability of the sales. The findings support the third hypothesis of the study which states that separate divisions for CSR activities will enhance the financial performance of the banks.

Table 4.11

Tobin-q	Coefficient	Std. Error	t-Statistic	Prob.
C	5.4224	1.5879	5.5412	0.0000
DIVN	1.1376	0.4404	2.5832	0.0108
LEV	0.0233	0.0358	0.6491	0.5173
SIZE	-2.0661	0.3226	-6.4047	0.0000
OWNERSHIP	0.0257	0.0380	0.6760	0.5001
BSIZE	0.1684	0.2560	0.6578	0.5117
R-squared	0.7352			
Adjusted R-squared	0.6937			
F-statistic	17.7415			
Prob(F-statistic)	0.0000			
Hausman test	9.9181			
Prob(Chi-squar)	0.0076			

The table show the regression results in which Tobin's Q is dependent variable whereas CSR division (DIVN) is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Coefficients are beta values of each variable. The probability and t-

statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

4.3.4. CSR index and Financial performance

To investigate the aggregate impact of CSR on the financial performance of the banks in Pakistan, the three proxies (CSRSP, DIVT, DIVN) of CSR are added to make an index. The CSR spending is millions of rupees that banks spend in CSR, DIVT is number of fields in which a bank invests CSR funds, and DIVN is a dummy variable that takes value 1 if a bank has a separate division for CSR otherwise zero. The higher value of the index for banks shows that the banks invest more funds in CSR or invest CSR funds in a higher number of different fields of having a separate CSR division. The below section provide the estimation results for the CSR-index.

4.3.4.1. CSR-Index and ROA

The impact of CSR-index on ROA is positive and significant at 1% level of significance. With an increase in CSR index, the ROA also increases. The F-test shows that the model good fit and valid for the variables and data. The value of adjusted R-square is 0.3558 which means that independent variable and control variables jointly explain the 35.58% variations of the ROA.

Table 4.12

ROA	Coefficient	Std. Error	t-Statistic	Prob.
C	14.6067	3.4387	6.9279	0.0000
INDEX	0.6971	0.1047	6.6552	0.0000
LEV	-0.0109	0.0467	-0.2336	0.8156
SIZE	-3.8949	0.5034	-7.7378	0.0000
BSIZE	-0.1805	0.3350	-0.5387	0.5909
OWNERSHIP	-0.0017	0.0493	-0.0337	0.9732
R-squared	0.4430			
Adjusted R-squared	0.3558			
F-statistic	5.0830			
Prob(F-statistic)	0.0000			

The table show the regression results in which ROA is dependent variable whereas CSR Index is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. Coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

The coefficient of CSR-index is 0.6971 that can explain as one-unit increase in CSR-index causes 0.6971 units increase in ROA. The results are in line with the findings of Margolis, Elfenbein, and Walsh (2009), Dimson, Karakas, & Li (2012), and Galant and Cadez (2017) who documented that CSR activities enhance the financial performance.

4.3.4.2. CSR-Index and ROE

The results for the model that investigate the impact of CSR-index on ROE are shown in table 4.13. CSR-index has a positive and significant impact on ROE. The coefficient is statistically significant at 1% level of significance. The control variables in the model, LEV and BSIZE have a negative impact on the financial performance of the banks measured by ROE.

Table 4.13

ROE	Coefficient	Std. Error	t-Statistic	Prob.
C	12.6539	5.2731	1.2699	0.2061
INDEX	2.6174	0.8666	3.0201	0.0030
LEV	-2.3773	0.3865	-6.1508	0.0000
SIZE	4.2730	4.1647	1.0260	0.3066
BSIZE	-12.0122	2.7720	-4.3334	0.0000
OWNERSHIP	-1.1014	0.4076	-2.7025	0.0077
R-squared	0.5674			
Adjusted R-squared	0.4997			
F-statistic	8.3826			
Prob(F-statistic)	0.0000			

The table show the regression results in which ROE is dependent variable whereas CSR Index is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

The value of Adjusted R-square is 0.4997 which shows that CSR-index and all the control variables jointly explain the 49.97% variations of ROE. The probability value of F-statistics is less than 0,01 which shows that the model is a valid and good fit.

4.3.4.3. CSR-Index and Tobin's Q

The market value also positively responds to increase in CSR-index. The results are shown in table 4.14. The coefficient of CSR-index in positive and significant at 1% level of significance. SIZE has a negative and significant impact on Tobin's Q. The Adjusted R-square of the model is 0.6984 which means that 69.84% of variations are explained through CSR-index and control variables. The F-test result also validates the goodness of fit of the model.

Table 4.14

Tobin-q	Coefficient	Std. Error	t-Statistic	Prob.
C	8.4282	4.8817	5.8235	0.0000
INDEX	0.2388	0.0794	3.0075	0.0031
LEV	0.0140	0.0354	0.3948	0.6936
SIZE	-2.4545	0.3816	-6.4318	0.0000
BSIZE	0.1642	0.2540	0.6465	0.5190
OWNERSHIP	0.0327	0.0373	0.8761	0.3824
R-squared	0.7392			
Adjusted R-squared	0.6984			
F-statistic	18.1140			
Prob(F-statistic)	0.0000			

The table show the regression results in which Tobin's Q is dependent variable whereas CSR Index is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

4.3.5. Relative significance of CSR proxies

This section of the study provides the relative significance of the three proxies used for CSR that which measure is more significant for financial performance. For this purpose, we investigate the combined effect of all three proxies on financial performance.

4.3.5.1. Combined Effect of CSR on ROA

The results for the combined effect of CSR proxies on ROA are shown in 4.15. The results show that all three proxies have a positive impact on ROA, however, the only the coefficients CSRSP and DIVN are statistically significant which show that CSR spending and CSR separate divisions are more important for ROA. If a bank has a separate CSR division and spends more in CSR, then the bank has a higher profitability measure on ROA. In other words, only CSR spending and CSR separate division are sufficient to increase ROA significantly.

Table 4.15

ROA	Coefficient	Std. Error	t-Statistic	Prob.
C	9.3334	3.5176	3.2219	0.0016
CSRSP	0.6372	0.2671	2.3859	0.0183
DIVT	0.0604	0.0583	1.0360	0.3019
DIVN	0.8995	0.1959	4.5915	0.0000
LEV	-0.0368	0.0180	-2.0499	0.0422
SIZE	-0.8492	0.3155	-2.6919	0.0079
OWNERSHIP	-0.0205	0.0127	-1.6111	0.1093
BSIZE	-0.0858	0.1205	-0.7123	0.4774
R-squared	0.5825			
Adjusted R-squared	0.5105			
F-statistic	8.0913			
Prob(F-statistic)	0.0000			

The table show the regression results in which ROA is dependent variable whereas CSR spending (CSRSP), CSR diversity (DIVT), and CSR division (DIVN) are independent variables, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

The coefficients of SIZE and LEV are negative and significant in the model. Adjusted R-square is 51.05 which means that all the CSR measures with a combination of control variables, explain 51.05% variations of ROA. The value of F-statistics is also significant which shows that the model is valid and good fit for the data.

4.3.5.2. Combined Effect of CSR on ROE

The coefficients of all the three proxies of CSR are also positive for ROE. However, the only DIVN has a statically significant coefficient. The results are summarized in Table 4.16. The findings show that with the combination of CSRSP and DIVT, CSR separate divisions significantly enhance the ROE. The coefficients of OWNERSHIP, SIZE, and BSIZE are also significantly influencing the ROE of the banks.

Table 4.16

ROE	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.0949	6.6104	-0.3669	0.7142
CSRSP	0.8005	1.9386	0.4129	0.6803
DIVT	0.1151	0.3863	0.2980	0.7662
DIVN	7.2159	1.9754	3.6529	0.0004
LEV	-0.0039	0.3984	-0.0099	0.9921
SIZE	2.9158	1.6746	1.7412	0.0838
OWNERSHIP	-0.5105	0.1005	-5.0818	0.0000
BSIZE	-2.6576	0.6793	-3.9124	0.0001
R-squared	0.6482			

Adjusted R-squared	0.5876
F-statistic	10.6873
Prob(F-statistic)	0.0000

The table show the regression results in which ROE is dependent variable whereas CSR spending (CSRSP), CSR diversity (DIVT), and CSR division (DIVN) are independent variables, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

The value of adjusted R-squared is 0.5876 which show that the model explains the 58.76% of the variation of ROE. The model is good fit for the data as the probability value of F-statistics is less than 0.05.

4.3.5.3. Combined Effect of CSR on Tobin's Q

Table 4.17 shows the results for model that investigate the combined impact of CSR proxies on the market performance of the banks, measured by Tobin's Q. The results show that CSRSP and DIVN are significant CSR proxies to influence Tobin's Q. The coefficients of SIZE is negative and significant in the model. The value of adjusted R-square is 0.7007 which can be interpreted as the model is able to explain the 70.07% variation the dependent variable, that is, Tobin's Q. The results of the F-test shows that the model is valid and good fit for the data.

Table 4.17

Tobin-Q	Coefficient	Std. Error	t-Statistic	Prob.
C	3.4615	1.0253	6.0616	0.0000
CSRSP	0.9862	0.5513	2.3138	0.0197
DIVT	0.0525	0.1314	0.3991	0.6904
DIVN	0.6519	0.4968	3.0142	0.0019
LEV	0.0131	0.0357	0.3665	0.7145
SIZE	-2.5828	0.3925	-6.5802	0.0000
OWNERSHIP	0.0347	0.0379	0.9152	0.3616
BSIZE	0.1573	0.2531	0.6215	0.5353
R-squared	0.7447			
Adjusted R-squared	0.7007			
F-statistic	16.9225			
Prob(F-statistic)	0.0000			

The table show the regression results in which Tobin's Q is dependent variable whereas CSR spending (CSRSP), CSR diversity (DIVT), and CSR division (DIVN) are independent variables, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The panel regression model is used for estimation of the coefficients.

In reference to the above results, it can say that CSR spending and CSR separate divisions are the most significant CSR proxies that influence the financial performance of the banks. It does not mean that CSR diversity is not influenced financial performance but with a combination of other proxies, the most significant proxies are CSR spending and CSR separate division.

4.3.6. Robustness Check

There could be two-way relationships between CSR and financial performance of the banks that may cause an endogeneity problem in the model. Therefore, GMM model is used to overcome the endogeneity problem. The results are shown in tables 4.18, 4.19, and 4.20 that are consistent and same as findings of above section. In the case of all proxies of financial performance, CSR has a positive and significant impact on the financial performance of the banks.

Table 4.18

ROA	Coefficient	Std. Error	t-Statistic	Prob.
C	10.6438	3.2930	3.2323	0.0015
INDEX	0.2624	0.0463	5.6649	0.0000
LEV	-0.0442	0.0164	-2.6944	0.0079
SIZE	-0.8362	0.3021	-2.7678	0.0064
OWNERSHIP	-0.0205	0.0147	-1.3949	0.1652
BSIZE	-0.1210	0.1325	-0.9127	0.3629
R-squared	0.5789			
Adjusted R-squared	0.5130			
J-statistic	0.8350			
P-value	0.2302			

The table show the regression results in which ROA is dependent variable whereas CSR index is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The GMM model is used for estimation of the coefficients.

The j-statistics shows the validity of the instrument used in the model. The results show, in the case of all the three models, the instruments are valid. Because the p-value of j-statistics is greater than 0.05 therefore, accept the null hypothesis that instruments are valid. The value of adjusted R-square is 51.3% for ROA, 63.56% for ROE, and 72.66 for Tobin's Q that also shows the good fit of the models.

Table 4.19

ROE	Coefficient	Std. Error	t-Statistic	Prob.
C	2.3164	20.8813	0.1109	0.9118
INDEX	1.2264	0.3514	3.4903	0.0006
LEV	0.0296	0.3862	0.0766	0.9391
SIZE	1.6130	1.8685	0.8632	0.3894
OWNERSHIP	-0.4452	0.1732	-2.5697	0.0112
BSIZE	-2.6861	1.2535	-2.1429	0.0338
R-squared	0.6849			
Adjusted R-squared	0.6356			
J-statistic	0.7291			
P-value	0.1079			

The table show the regression results in which ROE is dependent variable whereas CSR index is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The GMM model is used for estimation of the coefficients.

Table 4.20

Tobin-Q	Coefficient	Std. Error	t-Statistic	Prob.
C	3.0778	1.2666	2.4300	0.0163
INDEX	0.0079	0.0130	0.6086	0.5437
LEV	0.0061	0.0061	1.0031	0.3174
SIZE	-0.1147	0.1155	-0.9934	0.3221
OWNERSHIP	0.0017	0.0014	1.1873	0.2370
BSIZE	0.0044	0.0168	0.2603	0.7950
R-squared	0.7636			
Adjusted R-squared	0.7266			
J-statistic	0.9038			
P-value	0.3716			

The table show the regression results in which Tobins's Q is dependent variable whereas CSR index is independent variable, and Leverage (LEV), size of bank (SIZE), percentage ownership of board members (OWNERSHIP), and board size (BSIZE) are control variables. coefficients are beta values of each variable. The probability and t-statistics are also shown for each variable. The GMM model is used for estimation of the coefficients.

CHAPTER 5

CONCLUSION AND RECOMMENDATION

The spotlight of the study is to investigate the impact of CSR practices on financial performance in Banks of Pakistan. There is no standard index for CSR for the financial sector of Pakistan. Therefore, the study uses three different measures for CSR to capture the variable effectively. The three measures are total spending in CSR (CSRSP), CSR diversity (DIVT), and separate division for CSR (DIVN). Similarly, three different measures are used for the financial performance of the banks including Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. ROA and ROE are measures for accounting performance whereas Tobin's Q indicate the market performance. The sample includes 19 commercial banks of Pakistan because they fulfill the criteria of the study. The data for the period 2010 to 2018 are extracted from the annual reports of the banks. Panel data regression models are used to estimate the coefficients of the variables.

The results find that all the three proxies of CSR have a positive and significant impact on each measure of financial performance. The findings show that banks have better performance if they spend a higher amount on CSR, invest the CSR funds in a higher number of fields, or establish a separate CSR division. The findings are in line with the stakeholders' theory that explains the interests of all the stakeholders of a company. The findings of relative significance tests show that CSR spending and separate CSR division are more significant factors of financial performance. The banks can own the financial operations of more institutions with higher investment in CSR that will positively impacts financial performance. Similarly, CSR effective and efficient management is very important to achieve the desired objectives. Therefore, a separate division can play a vital role in the better management of CSR. The findings are consistent and robust when the models controlled for endogeneity.

5.1. Contribution of the study

The main objective of the study is to highlight the importance of CSR for the financial performance of Banks. CSR can be considered as welfare but it has also promotional power. The study contributes in multiple ways to the literature. First, the provide evidence about the impact of CSR on financial performance in banks of Pakistan. The study argues that CSR improve the accountings as well as the market performance of the banks. The findings are helpful in managerial decision making about CSR.

Second, the study highlights the importance of new measures of CSR including CSR Diversity and separate division for CSR management that are overlooked literature. To consider CSR diversity is important because managers have different opinions and preferences. Some managers prefer to invest a higher amount of CSR in only a few sectors while others choose to invest the same amount in large numbers for fields. Therefore, to investigate which policy is better for financial performance is a worthy step. The study finds that investment of CSR in multiple fields is better for the financial performance of the banks. Similarly, separate divisions for CSR management add value to the banks. These findings are very helpful for managers to decide about CSR.

5.2. Association with Theories

The findings of the study support some theories. The Integrative social contract theory describes that there is an indirect social contract exists between business and society. The stakeholder's theory assumes each business to take care of the interest of each stakeholder that will enhance the good image and performance of the business. Some instrumental theories are concentrating on the achievement of economic objectives. Similarly, integrative theories that are focusing on the integration of social demands with the business. The findings of the study support the arguments of these theories. However, the study opposes the agency theory of CSR that argues that mangers may use the CSR funds for private political and social interests.

5.3. Practical Implication

The study provides the empirical evidence of the relationship between CSR and financial performance of banks in Pakistan. The findings are very helpful for managers in making decision about CSR. The study argues that spending more funds on CSR will enhance the financial performance of the banks. Further, the best choice is to invest the funds in multiple fields rather than to invest in a few specific fields. The study also highlighted the importance of CSR division for the banks. These findings will help managers in taking the desired benefits of CSR.

The findings are also helpful for regulatory authorities of the banking sector of Pakistan. As the CSR helps society and also beneficial for banks. Therefore, the State Bank of Pakistan and other regulatory authorities may formulate policies and regulations that support and motivate the CSR practices.

The findings of the study also provide guidelines to the shareholders. There are chances of conflict of interest between managers and shareholders about CSR activities. The positive impact of CSR on financial performance may reduce the misperception of shareholders that managers use CSR funds for their own social interests.

5.4. Recommendations

In light of the findings, the study makes some recommendations to managers, shareholders, and regulatory authorities.

Measurement and reporting system of CSR

To quantify the benefits of CSR and minimize the agency problem among the stakeholders, the fair and details measurement & reporting system of CSR is compulsory. All three major parties (managers, shareholders, and regulatory) should support and motivate the proper periodic CSR reporting system. The report should disclose all the relevant facts and figures of CSR. Few banks are publishing CSR reports but still, it needs improvement and it is mandatory for each bank to publish the detail CSR report.

5.4.1. CSR Separate Division

The study found that separate CSR division positively impacts the financial position of the banks. It means that effective and efficient CSR management of CSR is key factor CSR success. In Pakistan, only a few banks have separate CSR divisions. Keeping in view the importance of CSR division, the study recommends that there should a separate committee that deals with CSR activities and maintain the complete records. The committee should comprise the management representative and independent position.

5.4.2. CSR Motivation

Regarding the importance of CSR, the regulatory authorities should organize workshops and formulate packages for the banks to motivate them to actively participate in CSR. Integrate some government grants for society with CSR of the banks.

5.5. Limitation of the study

The study also has some limitations that are listed below:

- The first limitation of the study is the sample. As on the basis of considered variables only listed banks are included because listed banks are liable to publish the annual reports at a specific time.

- Due to the time constraint and availability of data, the most significant element of CSR is included which may not cover all the dimensions of CSR.
- The only most relevant control variable is used in the model.

5.6. Future Research

The study suggests some direction for future studies that are listed below:

- The same study can extend with a comparison between different sectors.
- The impact of the same CSR proxies can be check on stock market returns to see the investors' reaction to CSR.
- To investigate the relationship between corporate governance and the CSR proxies will also a worthy step.
- To analyze the investment of CSR funds in each field and field-wise performance impacts.

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