Corporate Social Responsibility has been a prime concern for corporations since last two decades. Different researchers and theorists have developed different findings in this regard. This collection presents new evidences of corporate social responsibility respective to Pakistan and develops understanding for Asian markets. Target sample of the study is banking sector of Pakistan and data is obtained from the annual reports issued by the banks during 2008-2012. Corporate Social Responsibility determinants included spending on donation, education, health and social welfare whereas return on equity, return on asset, earning per share and net profit are used as measures of financial health. This study will help the management in making decisions regarding CSR spending

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Corporate Social Responsibility Good or Bad

Evidences from Pakistan

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CORPORATE SOCIAL RESPONSIBILITY GOOD OR BAD

EVIDENCES FROM PAKISTAN

LIST OF ABBREVIATIONS

CSR	Corporate Social Responsibility
FP	Financial Performance
ROA	Return on Asset
ROE	Return on Equity
EPS	Earning Per Share
CFP	Corporate Financial Performance
BSR	Business for Social Responsibility
KSE	Karachi Stock Exchange
ROI	Return on Investment
IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board

TABLE OF CONTENT

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ABSTRACT

The main objective of this study is to investigate the impact of Corporate Social Responsibility on the Financial Performance of banks in service sector of Pakistan. The data is obtained from the annual reports issued by the banks during 2008-2012. Regression and ANOVA method is used to estimate the relationship between the Corporate Social Responsibility and Financial Performance. SPSS v.20 was incorporated to check the impact of Corporate Social Responsibility on the Financial Performance of banks in Pakistan. Corporate Social Responsibility determinants include donation, education, health and social welfare whereas return on equity, return on asset, earning per share and net profit are used as measures of financial performance. Results found that there is positive and insignificant impact of Corporate Social Responsibility on Financial Performance of the banks in Pakistan.

It is suggested from the findings of this research study that Companies now have to consider Corporate Social Responsibility in their strategic planning. There is positive impact of Corporate Social Responsibility on Financial Performance of the banks in Pakistan. The relation between CSR and financial performance is positive but insignificant because there are some other factors which are affecting financial performance of the banks in

Pakistan. The reason may be that the concept of Corporate Social Responsibility is new in the less developed countries as compared to developed countries. This study will help the management in making decisions regarding CSR spending. Future research can be considered by taking other sectors of Pakistan and expand this study internationally. The effect of CSR can be determined on the value of the companies.

1.0 INTRODUCTION

Corporate social responsibility has become much popular in the last few years. A large number of companies issue reports on the Corporate Social Responsibility (CSR) now a days. The demand of people who affect the organizations (stakeholders) is continuously increasing for corporations to measure reports and improve their social, environmental, and economic performance.

According to Tsoutsoura (2004), from the last few years, a large number of companies are trying their level best to get the proper definition of Corporate Social Responsibility and implementing Corporate Social Responsibility in all their business operations. A large number of stakeholders are assessing the efforts of the organizations about Corporate Social Responsibility issues.

Corporate Social Responsibility has been defined by different researchers in different ways. McWilliams and Siegel (2001) describe Corporate Social Responsibility as “Doing all those activities which are not forced by law of those countries in which they are running their business and which are not for the primary benefits of the business but for the benefits of the society.”

Another researcher like Lea (2002) has defined CSR as “Corporate Social Responsibility is about all types of businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment.”

Frooman (1997) has defined CSR as “An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder’s welfare.” However researcher like Khoury et al.(1999) has given this definition “Corporate Social Responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of Social Responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and Financial Performance.”

From the above definitions we can define Corporate Social Responsibility as the firms must do more than their duties for the welfare of the society, nations, economies and countries in which they operate and earn profits.

In today's global world, organization's have many challenges to operate and earn profits. People have more knowledge about the organizations, their products and services and the way organization's operate their businesses. People are more conscious about the organization's work for the prosperity of the society, the environment in which they operate and earn profits.

In the world companies are facing many problems with a new role, which is to fulfill the demands of the present generation in a socially responsible way. Organizations must take responsibility for the ways they operate in the societies and natural environment because their operations impact societies and the natural environment.

There is difference among companies so far implementation of Corporate Social Responsibility is concerned. This difference depends on factors such as the specific company's size, the particular sector involved, the firm's business culture, stakeholder demands, and prior performance of the company. Some companies focus on one field like education, health, social work or environment which is the most important for them or where they have the highest impact while others try to implement Corporate Social Responsibility in all activities and business operations. For business success, it is important that the Corporate Social Responsibility should be the part of corporate planning of corporations and stakeholders are motivated for that.

Corporate Social Responsibility has become an important part of planning to get and sustain the competitive advantage in the globally competitive companies. Kotler et al. (2005) describe that companies can gain great benefits from participating in CSR and that these benefits are the reasons for their engagement in Corporate Social Responsibility. Corporate Social Responsibility affects the financial performance of the firms. Financial performance means measuring and analyzing the financial objectives of the firms to see whether they are accomplished or not.

Major objective of this study is to explore the association of Corporate Social Responsibility and Financial Performance in service sector that is banks and to measure how Corporate Social Responsibility affects financial performance of banks.

1.1 MOTIVATION FOR STUDY:

The purpose of this study is to explore the impact of Corporate Social Responsibility on the Financial Performance of banks in Pakistan. Previously studies have focused mainly on the developed countries and there is less work done on measuring the impact of Corporate Social Responsibility on Financial Performance in less developed countries like Pakistan. In less developed countries, most of the firms are not yet quite familiar with the importance of Corporate Social Responsibility and thus don't pay much attention on the Corporate Social Responsibility. Now a day's people have more knowledge about the organizations and the work they are doing for the welfare of the society. So it's important to study Corporate Social Responsibility and its impacts on the profitability of firms in these economies.

1.2 RESEARCH QUESTIONS:

The following research questions have been crafted in this study.

- What is the impact of Corporate Social Responsibility on financial performance of banks in Pakistan?
- Is the relationship between Corporate Social Responsibility and financial performance positive and significant?

1.3 RESEARCH OBJECTIVES:

The objective of this study is to draw a conceptual framework for examining the direction of the linkage between Corporate Social Responsibility and Financial Performance and apply the framework on the banking sector in Pakistan in order to examine the impact of Corporate Social Responsibility on Financial Performance in this service sector. The broad objective of this research study is to examine the impact of Corporate Social Responsibility on the financial performance of banks however the Specific objectives include:

- To evaluate the relationship between Corporate Social Responsibility and financial performance
- To evaluate the impact of Corporate Social Responsibility on the financial performance of banks in Pakistan
- To evaluate the impact of Corporate Social Responsibility on Net Profit
- To evaluate the impact of Corporate Social Responsibility on ROE
- To evaluate the impact of Corporate Social Responsibility on ROA
- To evaluate the impact of Corporate Social Responsibility on EPS

- To Evaluate the effect of improvement in environmental, economic and social conditions leads to financial performance of the firm

1.4 PROBLEM STATEMENT:

In less developed countries like Pakistan, most of the firms are not familiar with the importance of Corporate Social Responsibility and thus don't bother to pay much attention on the corporate social responsibility and its consequences. So it's important to study Corporate Social Responsibility and its impacts on the profitability of firms in these economies. Past studies focused mainly on the developed countries and there is less work done on corporate social responsibility in less developed countries like Pakistan. It is evident from the extensive review of literature that Corporate Social Responsibility and financial performance still lack qualitative and quantitative explanations and require further comprehensive probing.

1.5 SIGNIFICANCE OF THE STUDY:

The world has become a global village and it is necessary for the firms to portray themselves as socially responsible firms. Firms grow and earn profits because of globalization. Corporate Social Responsibility (CSR) can increase both long term as well as the short term profitability of the firms specially those firms which are operating in multiple nations. Islam et al,

(2012) discussed that companies operating in multiple nations like multinational organizations must play a significant role in social issues, environmental issues for the welfare of the respective nations, otherwise their government regulations, environmental restrictions, labor exploitation issues and more can cost companies millions of dollars. Under these circumstances, Corporate Social Responsibility (CSR) can increase not only long term and short term profitability but also the sustainability of the company as well as enhance the reputation of the organization.

Companies are engaging in Corporate Social Responsibility because for the last three decades some companies are taking competitive advantage by engaging in Corporate Social Responsibility and use CSR methodologies as an important part of strategic planning to obtain public support for their presence in the global markets.

1.6 ORGANIZATION OF THE STUDY:

The study is organized as follows. Chapter 1is following Chapter 2 which is about literature review. It defines Corporate Social Responsibility and Financial Performance and a brief introduction of these two is given. It also includes an analysis of Corporate Social Responsibility and Financial Performance and views of different researchers. This chapter provides base line for this specific research. Conceptual framework is also discussed in this chapter.

Chapter 3 highlights methodology part of research, in this section information about data collection is given. Hypothesis development is also done in this chapter. Furthermore sample size and variables of the study are also specified in this chapter.

Chapter 4 explores results and analysis part of this study. In this chapter analysis of data is performed. Different techniques for analysis of data are incorporated. T test and regression test is used to infer results from data. Findings of the data are discussed.

Chapter 5 is about discussion, conclusion and recommendation that are drawn from this research study. This chapter also includes practical and managerial implication, limitation of research study. Moreover direction for future research is also a part of this chapter.

CHAPTER NO.2

2.0 LITERATURE REVIEW

2.1 CORPORATE SOCIAL RESPONSIBILITY:

Today the corporate world is facing the concept of corporate social responsibility (CSR) wherever we see. At large corporations are encouraged to behave as socially responsible firms. However, in both the corporate and the academic world there is uncertainty as to how CSR should be defined. The beginning studies on CSR started with Bowen who issued "Social Responsibility of Business man in 1953. Many other researchers during the 60s have tried to validate and to narrate the more accurate definition of CSR (Iqbal et al, 2013). Davis (1960) states CSR as "Actions and decision made by business persons partially beyond the Organization's direct economic and technical interest". Since the 1970s, different scholars have paid more attention toward the Corporate Social Performance (CSP) as well as CSR (Carroll, 1979).

Carroll (1979) was the famous writer who intended a four part definition of CSP including the Economic Responsibility, Discretionary Responsibility, Ethical Responsibility and Legal Responsibility. Carroll (1979) argued that the managers or administrators of organizations who have selected the Corporate Social Performance must follow the criteria, the criteria from the definition of CSR that take under consideration an accurate explanation of where, why, how and in what way the owners of organization are linked to social responsibility, and a list of essentials and rules that govern the CSR. Cochran and Wood (1984) studied the different methods in which the social performance and financial performance has been put in to use in past and made up mind to use a reputation index to evaluate the CSR, they also emphasized on the demand of morality.

Hopkins, (1999) describes that the stakeholders of the firms are treated ethically or in a socially responsible manner under the concept of CSR. Stakeholders exist both within a firm and outside. Consequently, human development of stakeholders both within and outside the corporation is increased by behaving as a socially responsible firm.

Another researcher Lea, (2002) states that CSR is about all types of businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment. Same kind of findings were drawn by Nadeem, M., & Malik, M. S. (2014) in their study for corporate social responsibility and its impact on corporate financial performance.

Corporate social responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. Elements of social responsibility include investment in community outreach, employee relations, creation and maintenance of employment, environmental stewardship and financial performance (Khoury et al., 1999).

McWilliams and Siegel (2001) describe CSR as “actions that appear to further some social good, beyond the interest of the firm and that which is required by law.” A point worth noticing is that CSR is more than just following the law.

According to Frooman (1997), the definition of what would exemplify CSR is the following: “An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholder’s welfare.”

Corporate social responsibility (CSR) is influenced by how businesses align their values and behavior with the expectations and needs of stakeholders – not just customers and investors, but also employees, suppliers, communities, regulators, special interest groups and society as a whole. CSR describes a company's commitment to be accountable to its stakeholders. CSR is a growing term that still does not have a standard definition or a fully recognized set of specific criteria. CSR is generally understood to be the way a company attains a balance or integration of economic, environmental, and social imperatives while at the same time addressing shareholder and stakeholder expectations, with the understanding that businesses play a key role on job and wealth creation in society. Corporate social responsibility (CSR) has become a prominent topic in the both business and academic press. Nevertheless, opinions differ as to whether a firm’s CSR activity provides any economic benefits (Islam, et al, 2012).

Based upon the above definitions, we can conclude that a socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders. CSR is viewed, then, as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply chains, and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace.

2.2 DETERMINANTS OF CORPORATE SOCIAL RESPONSIBILITY:

The following are the determinants of Corporate Social Responsibility.

2.2.1 EDUCATION: This determinant shows that how much the Islamic and Conventional banks are paying for their employees and for other people in community who can’t bear their education expenses. Education is a factor of CSR. The banks which take it under consideration, earn long term profit because such type of expenses for society build the Good-Will. Now a day’s supporting for education is a key to success of financial institutions (Iqbal et al, 2013).

Like technical companies, all the organizations need technically skilled and efficient human resources. In market the ecosystem of innovation in products and services is established which support the students success and effectiveness of teachers and diversity in commerce. This type of investment generates business leaders. Iqbal et al,(2013) states that the

CSR policy of De Brauw's pays attention on education. Educating their employees and people of community leads toward the betterment, progress, ability to solve issues and development. However the social businesses have practically worked in the field of education which is best step towards the poor community. The features of education for the betterment of the society also have great importance to attain long term benefit for banking sectors. In many countries higher education is provided with high amounts of public support.

2.2.2 HEALTH: This determinant shows that how much the Islamic and Conventional banks are paying for the health of their employees and for the health of other people living in the community. Different amount of money is offered to hospitals for health and care of needy people of society. Employees of financial institutions enjoy the medical facility. Network can create a healthy community. Hence the financial institutions must create a network between human beings and health care (Iqbal et al, 2013).

Such type of healthcare facilities reduces the cost of medical cost for employees and general public living in the society. Staff safety always remains an important decision for all type of business. Policies for the management of the risk and staff safety are made to attain a good position in the market. These policies and standards are implementing by the guidance by the management. Generally all the banks take care of their stakeholders who include employees, customers, unions, suppliers, distributors, government etc and meet a variety of challenges regarding international quality standard in global market that an average person can never understand. CSR indirectly help hospitals to meet the challenges regarding medical technology. CSR regarding healthcare have key benefits like reputation management, more efficient use of resources, enhancing the stakeholders & customer's loyalty and increase the power to attract and maintain the quality employees and potential customers. It helps in attaining the competitive advantage and attracts many investors. CSR regarding the healthcare means to maintain the substantial level of the energy and reduce the transport pollution that pollution in the environment.

2.2.3 DONATION: Donation determinant shows the interest of financial institution to pay a specific amount of money to rehabilitate the society. Financial institutions provide donations to people affected by natural disasters like flood, earthquake etc. Transferring the usufructs of someone to any other person or institution is called donation. Donation is a gift offered by a physical or a legal person, usually for the charitable purpose and for the benefit of the society. It may be in the form of cash offering, service, new or used goods like clothing, toys, food and vehicle. It also includes the emergency, relief & development support or medical needs like donation of blood and organ’s transplant. The goods and services that are offered as charity also called gift in kind. The institutions that provide gifts called the donor and individual or any institution who accepts the gift called the done (Iqbal et al, 2013).

Donations are gift without any return consideration. This lake of return consideration shows that the agreement of donation is a void contract because in valid contract consideration is necessary. But according to civil law donations are valid contract because it demands some extra formalities (writing a contract). The law of many countries prohibits politicians to accept gift or any donation of large amount of money. Donations to charitable institutions are ordinarily tax deductible and it reduces the taxable income but institutions must pay more attention towards the use of tax money in suitable ways. It is potential to donate by the name of any third party, offering gift in honor of any event. Such monument donations are offered to the peoples who cannot go for ceremonies. Micro donations are a type of charitable donation that gives small amount of money. In past this type of donation was used very effectively. Now it has become more famous because of online and mobile donation’s.

2.2.4 SOCIAL WELFARE: Social welfare determinant shows the interest of financial institution to pay a specific amount of money for healthy activities in the society. This determinant shows that how much the Islamic and Conventional banking are paying for their employees and for other people living in the society who can’t bear their needed expenses.

Iqbal et al, (2013) states that healthy activities are arranged within and outside the organizations like sports events are conducted. Different types of awareness programs are conducted like awareness programs regarding dengue, importance of education for women, information regarding polio and other diseases etc are given.

2.3 FINANCIAL PERFORMANCE:

The word ‘Performance’ refers the act of performing; execution, accomplishment, fulfillment, etc. In broader sense, performance refers to the accomplishment of a given task measured against preset standards of accuracy, completeness, cost, and speed. In other words, it refers to the degree to which an achievement is being or has been accomplished. The performance is a general term applied to a part or to all the conducts of activities of an organization over a period of time, often with reference to past or projected cost efficiency, management responsibility or accountability or the like. Thus, not just the presentation, but the quality of results achieved refers to the performance. Performance is used to indicate firm’s success, conditions, and compliance.

Financial performance refers to the act of performing financial activity. In broader sense, financial performance refers to the degree to which financial objectives being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms.

Financial performance is measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added etc. The level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms.

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Any of many different mathematical measures to evaluate how well a company is using its resources to make a profit. Common examples of financial performance include operating income, earnings before interest and taxes, and net asset value. It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's performance should take into account many different measures.

We can also define financial performance as it measures the financial position of a company over a specified time period to know how efficiently a company is using its resources to generate income. Return on asset, return on equity, net profit, earning per share etc are evaluated to measure firm’s financial health.

2.4 MEASURES OF FINANCIAL PERFORMANCE:

Following are some measures of profitability of the firms.

2.4.1 EARNING PER SHARE:

The impact of CSR on Earning-per-Share (EPS) is important. Earnings per Share show the earning of banks that how much profit is earned during the period of one year on behalf of each outstanding share of common stock. In US the Financial Accounting Standards Board (FASB) demands the institutions income statements for reporting the Earning per Share for each different class of income statements: continuing operations, discontinued operations and extraordinary items. The formula of Earning Per Share does not include preferred for class outside the continued operations and net income. Earning Per Share is a portion of profit which is distributed among all the equity holders. Earning Per Share is a useful measure of the profitability of financial institutions and all others organizations. The comparison of Earning Per Share of an institution with the other institutions in the market provides a comparative view of earning power of the organizations. When Earning Per Share is calculated over many years, then it shows whether the earning power of financial institutions has bettered or dropped. Steadily improved EPS attracts the investors. The formula for calculating EPS annually is:

$$\text{Earning-per-Share (EPS)} = \frac{\text{Earnings available for Common Stockholders}}{\text{Number of Shares of Common Stock Outstanding}}$$

2.4.2 RETURN ON ASSET:

The impact of CSR on Return on Assets (ROA) is important to measure. Return on Assets often called the Return on Investment (ROI). Return on Assets shows the profit generated by the assets of banks annually. Return on assets is an indicator that how much an organization is earning over its total assets. Return on Assets shows the efficiency of the management in utilizing its assets to generate earnings. It is calculated by dividing the total earnings by the total assets. It is measured in percentage. Return on Assets also called the return on investment. To measure the growth the return on assets is compared with the number of Return on Assets of the previous periods Return on Assets of similar organization. The assets of the companies include both debt and equity. Return-on-Assets gives an idea to investors that how efficiently the organization is converting its money that it has invested in to net income. Higher Return on Assets number shows the better management because the organization is earning more on small investment. Higher the return on assets shows the business is more profitable. This ratio is used to compare in the similar industry because some organizations are most assets intensive (lower Return on Assets) and some are fewer assets intensive (higher Return on Assets). The formula for calculating ROA annually is:

$$\text{Return-on-Assets (ROA)} = \frac{\text{Earnings available for Common Stockholders}}{\text{Total Assets}}$$

2.4.3 RETURN ON EQUITY:

The impact of CSR on Return on Equity (ROE) is also very important. Return on Equity measures the return earned on both preferred and common stockholders' investment in the financial institution annually. It shows the ability of generating profits from every unit of shareholders' equity. It is calculated as assets minus liabilities. It indicates that how considerably the organization is utilizing its investment funds in generating earning growth. Return on Equity is equal to net income for the fiscal year divided by the total equity. It is measured in percentage. Sometimes the retunes are reinvested at a high rate which moves organization towards high growth. Higher the Return on Equity generally gives favorable meanings but for investment point of view it not safe to rely only on Return on Equity. It is an important financial ratio. A business having its own financing earn more Return on Equity as compare to the businesses that get financing through debt and equity. The formula for calculating ROE annually is:

Return-on-Equity (ROE) = <u>Profit before Nonrecurring items - Dividend on redeemable preferred stock</u>

Average total Equity

2.5 REASONS FOR COMPANIES TO ENGAGE IN CSR:

Miles and Munilla (2005) describe the motives for participating in CSR by using Carroll's (1991) Pyramid of Corporate Social Responsibility, which can be observed in table 1. This table illustrates how different levels of commitment to CSR are related to motives and outcomes. The framework describes that a company's CSR philosophy can be, compliance driven, profit driven, driven by caring, synergetic or holistic. In the first stage of CSR category, which is called the legal stage, companies engage in CSR as it is their duty and obligation to follow laws and regulations. In the economic stage, companies use CSR as a strategy to create a competitive advantage and gain improved financial performance. The ethical and philanthropic stage has the aim to have a balance between the profit, people and the planet. In this stage the company does not only focus on profit but also on social welfare.

Table 1 – The interrelationship of CSR framework and Pyramid of Corporate Social Responsibility

CSR ambition level	Motives (Van Marrewijk, 2003)	CSR Category (Carroll, 1991)
Compliance driven	Duty to society, CSR as a social obligation – perception of CSR expenditures as a simply a cost. Economic responsibility is paramount.	Legal
Profit driven	CSR as a strategic initiative – using CSR to create competitive advantage and superior financial performance. CSR expenditure perceived as an investment in the creation and renewal of competitive advantage – resulting in an enhanced stream of future profit.	Economic
Caring	Economic responsibility is paramount. Using CSR to balance the triple bottom line of profits, people and planet. Explicitly stating that the corporation will manage for social welfare, not simply to create wealth for shareholders. Social and/or environmental trumps economic responsibility.	Ethical and philanthropic
Synergetic	Use of CSR to attempt to create a "sustainable corporation" – that will be able to be an ongoing concern over the long run. Social and/or environmental responsibility I strategically used to create competitive advantage and meet the corporation's economic responsibilities.	Economic, legal, ethical and philanthropic
Holistic	CSR as a corporate culture – similar to when firm adopts a marketing, entrepreneurial, or quality orientation. Social and/or environmental responsibility is strategically used to create competitive advantage and meet the corporation's economic responsibilities.	Economic, legal, ethical and philanthropic

Source: Miles and Munilla (2005)

Several authors argue that companies can gain enormous benefits by being socially responsible (Idowu & Papasolomou, 2007). There are a large number of different views of why companies engage in CSR and what benefits a company actually gets from participating in CSR. Companies participate in CSR in order to look better, feel better, do better and live longer. They explain that by participating in CSR the company will look good in the view of potential customers, business colleagues, investors and in the media etcetera. Furthermore, employees, customers, stockholders and board members will actually feel good. Many also argue that CSR improve the brand, and some claim that companies with a strong reputation for CSR will last longer.

Kotler et al. (2005) describe that companies can gain great benefits from participating in CSR and that these benefits are the reasons for their engagement in CSR. Kramer and Porter (2006) describe the reasons for participating in CSR by moral obligation, sustainability, license to operate and reputation. These two theories of why companies engage in CSR can be observed in table 2 below.

Table 2 - Reasons and benefits for participating in CSR

Kramer and Porter (2006)	**Kotler and Lee (2005)**
Moral obligation	Increased sales and market share
Sustainability	Improved brand positioning
License to operate	Improved image and clout
Reputation	Increased ability to attract, motivate and retain employees
	Decreased operation costs
	Increased interest for investors and financial analysts

Source: Kotler and Lee (2005)

As described in table 2 Kramer *et al* (2006, December) state that companies use CSR because of:

2.5.1 MORAL OBLIGATION – The companies engage in CSR since they believe it is their duty to be a good citizen and "do the right thing".

2.5.2 SUSTAINABILITY – The company focuses on environmental and community stewardship with the belief that it is best for the company in the long run. A good explanation for this comes from The World Business Council who explains sustainability as followed: "Meeting the needs of the present without compromising the ability of future generations to meet their own needs."

2.5.3 LICENSE TO OPERATE - Many companies only engage in CSR because they are forced to since they need to follow regulations and permissions from governments, communities and other stakeholders to be able to conduct business.

2.5.4 REPUTATION- Many companies explain that they use CSR to improve the reputation and company image, to strengthen the brand, in order to demonstrate moral and because it even could raise the company's stock value.

2.5.5 INCREASED SALES AND MARKET SHARE -There is strong evidence that when customers make decisions of which product to buy they consider factors such as the company's participation in CSR activities.

2.5.6 IMPROVED BRAND POSITIONING - When a company or a brand is associated with CSR it affects the brand image and customers are likely to have a positive feeling towards it.

2.5.7 IMPROVED IMAGE AND CLOUT- The company can gain positive publications about their CSR activities in different reports and business magazines.

2.5.8 INCREASED ABILITY TO ATTRACT, MOTIVATE AND RETAIN EMPLOYEES - Employees working for companies that participate in CSR-activities describe that they are proud of their company's values and that it motivates them.

2.5.9 DECREASED OPERATION COSTS- Many companies describe that their CSR activities result in decreased operating costs and increased revenue. A company can for example reduce costs for marketing campaigns, as it is common that the company gains increased free publicity as a result of their CSR engagement.

2.5.10 INCREASED INTEREST FOR INVESTORS AND FINANCIAL

ANALYSTS- Some argue that CSR activities can increase stock value and that it is easier for companies participating in CSR to get access to capital.

2.6 THE RELATION BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE:

McGuire *et al.* (1988) have in conformity with Sarbutts (2003) established that there are various arguments what the relationship between a company's CSR engagement and their financial performance is. Sarbutts (2003) argues that if CSR affect a company's reputation, it is also very likely that this will affect the company's financial performance. Balabanis *et al.* (1998) continues this by arguing that companies engage in CSR due to enlightened self-interest since CSR is believed to enhance corporate image and thereby improve financial performance. However, he also points out that all researchers do not share this point of view. This is mainly due to the fact that there are diverse results from previous research on how investing in CSR affect a company's performance.

McGuire *et al.* (1988) have on the basis of previous research been able to sort the relationship between CSR usage and financial performance into three main viewpoints. In the first viewpoint, it is argued that CSR investments put these companies into an economic disadvantage compared to less responsible companies. The second viewpoint is that explicit CSR investment costs are minimal and that companies investing in CSR actually gain benefits from this in terms of employee morale and productivity. In the third viewpoint, costs from CSR investments are significant; they are however offset by the reduction in other company costs. It is also suggested that companies should satisfy all stakeholders not just the shareholders of a company.

Most of the scholars investigating corporate social responsibility and financial performance have argued for a positive association. Several authors have cited improved employee and customer goodwill as an important outcome of social responsibility (Davis, (1973); Soloman & Hansen, (1985)). For example, a firm perceived as high in social responsibility may face relatively few labor problems, and customers may be favorably disposed to its products. Socially responsible activities may also improve a firm's standing with such important constituencies as bankers, investors, and government officials. Improved relationships with these constituencies may bring economic benefits. Indeed, banks and other institutional investors have reported social considerations to be a factor in their investment decisions (Spicer, 1978).

Hunter and Schmidt, (1990) found a positive correlation between corporate social performance and financial performance; that this relation tends to be bidirectional and simultaneous; that firms' reputation is an important moderator of this relation; and that the various measures of financial performance and social performance are behind this relation.

Pava and Krausz (1996) and Preston et al (1997) observed that CSR is positively associated with financial performance, while many authors found positive synergies between corporate performance and good stakeholder's relationships. Ruf et al. (2001) find that change in CSR is positively associated with growth in sales and that returns on sales are positively associated with CSR for three financial periods. Simpson and Kohers (2002) document a positive link between social and financial performance on a sample of banking firms.

Tsoutsoura (2004) describes that socially responsible companies also have less risk of negative rare events. Overlooking negative social and environmental externalities when valuing a company might be equal to ignoring significant tail risk. According to McGuire *et al.(*1988) an increase in perceived social responsibility may improve the image of the firm's management and permit it to exchange costly explicit claims for less costly implicit charges. In contrast, a decline in the level of stakeholders' view of a firm's social responsibility may reduce its reputation and result in an increase in costly explicit claims.

However some researchers have suggested negative relationship between CSR and financial performance of the companies such as McGuire *et al.* (1988) points out that the added costs that CSR investments bring might place a company in an economic disadvantage compared to companies that have not made these CSR investments. Theses added costs are mainly a result from extensive charitable contributions, promotion of community development plans, maintaining plants in economically depressed locations and establishing environmental protection procedures. Furthermore, a company’s CSR policy may also limit is strategic alternatives. For example, avoid trading with companies that do not apply good working conditions, since this does not correspond with the company's ethical guidelines or CSR policy. This can then be translated into a reduced financial performance since they might have to choose a less cost efficient alternative.

Aupperle and colleagues (1985) found a negative association between corporate social responsibility and accounting-based risk but found that the association between market-based risk and social responsibility was insignificant. Soloman and Hansen (1985) find that the costs of having a high level of CSR are more than compensated by benefits in employee morale and productivity.

There are large number of papers written to empirically examine the relationship between CSR and a firm’s financial performance. However the research that has been carried out is varied in its results, so it is difficult to establish whether there is a relationship between the two variables. Previous research has yielded mixed results regarding the relationships between corporate social responsibility and measures of firm performance. Some papers found a positive relationship, some found a negative relationship and some found no relationship between CSR and financial performance. Margolis and Walsh, (2001) provided an excellent overview of empirical studies on the relationship between social and financial performance. They argue that corporate social performance is treated as an independent variable in most studies. This variable is used to predict financial performance. One hundred twenty-two published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. Approximately five percent of studies found a negative relationship between the two, twenty five percent did not find any report, twenty percent had mixed results and fifty percent had a positive report.

Balabanis *et al.* (1998) states that those who distinguished a negative correlation, between CSR and financial performance, argue that this is due to the high investment costs of CSR. On the other hand, those who argue for a positive correlation between CSR and financial performance claims that a company that is perceived as “high” in CSR engagement, may have more motivated employees as well as the fact that customers might prefer their products prior to competitors. It is also notable that CSR activities might improve a company’s relationship with other stakeholders, for example with bankers, shareholders and government officials. It is likely that this facilitate doing business and thereby improve financial performance.

Sarbutts (2003) argues that the question of timing is of mayor importance when implementing CSR activities. This is due to the fact that the values of society and even politics are an ever changing process. Here, values refer to the managing of reputational risk, which is of mayor importance if CSR activities will pay off in terms of enhanced financial performance. Furthermore, the perceptions of risk are shaped by the social system, the world view and the ideological premises of a group or the society. He also points out that, CSR activities that address human issues such as employment or equal opportunities are more likely to increase financial performance compared to more abstract concerns, such as philanthropic activities.

Companies differ in how it implements corporate social responsibility. The differences depend on such factors as the specific company's size, the particular industry involved, the firm's business culture, stakeholder demands, and how historically progressive the company is in engaging CSR. Some companies focus on a single area, which is regarded as the most important for them or where they have the highest impact or vulnerability—human rights, for example, or the environment—while others aim to integrate CSR in all aspects of their operations. For successful implementation, it is crucial that the CSR principles are part of the corporations values and strategic planning, and that both management and employees are committed to them. Furthermore, it is important that the CSR strategy is aligned with the company's specific corporate objectives and core competencies.

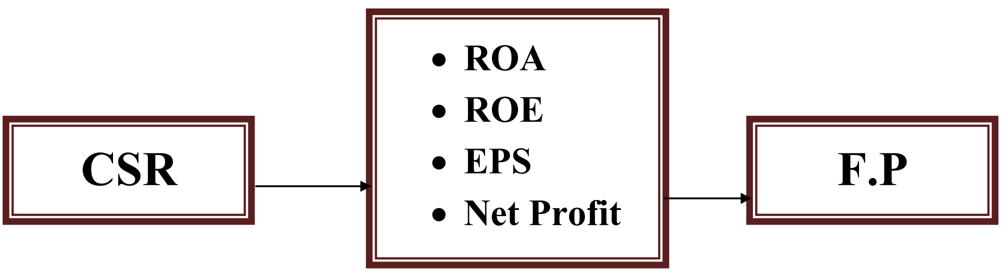
2.7 CONCLUSION FROM LITERATURE:

Based upon the above discussion we can conclude that Corporate Social Responsibility is the overall relationship of the corporation with all of its stakeholders. These include customers, employees, communities, owners/investors, government, suppliers and competitors. A socially responsible corporation should take a step forward and adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders.

Companies can gain great benefits from participating in Corporate Social Responsibility and that these benefits are the reasons for their engagement in Corporate Social Responsibility. Companies participate in Corporate Social Responsibility in order to look better, feel better, do better and live longer. Previous research regarding the correlation between Corporate Social Responsibility and Financial Performance has resulted in mixed views. The relationship between corporate social responsibility and financial performance is based on several theoretical arguments. Most of the researchers have found a positive link between CSR and financial performance of the organizations. Those who have suggested a negative relation between social responsibility and financial performance have argued that high responsibility results in additional costs that put a firm at an economic disadvantage compared to other, less socially responsible firms.

2.8 CONCEPTUAL FRAMEWORK:

Based on the above-mentioned literature review, the following theoretical model framework has been developed.



This model consists of two variables. The Independent Variable is Corporate Social Responsibility. The determinants of independent variable are education, health, donation and social welfare. Dependent variable is financial performance. The measures of financial performance are return on asset, return on equity, net profit and earnings per share. Different ratios can be used to measure the financial performance of the organizations like P/E ratio, net profit margin, operating profit margin, dividend pay out ratio etc.

When the spending of the organization on CSR increases, profitability of the organization will increase. With the increase in profitability, return on investment will increase. With the increase in return on investment, the financial performance of the company will become good. Good financial performance will increase the return on assets, earning per share and return on equity.

It is important to note that previous research studies explored the relationship between Corporate Social Responsibility and financial performance mostly in the developed countries. Various empirical studies around the world have reported a positive, negative, mixed and neutral impact of corporate social responsibility (CSR) on corporate financial performance (CFP). But most of the studies have shown a positive relationship between Corporate Social Responsibility and financial performance. Hence rather than having any preconceived idea on the direction of the relationship, there needs to be an open view on this: the linkage between CSR and CFP will depend on various factors, e.g., spending on donation, health of employees and people living in the society, education of employees, their families and general public and its effect on return on asset, return on equity, earning per share and net profit etc. Corporate Financial Performance (CFP) can be measured both by investors return and accounting return.

CHAPTER 3:

3.0 METHODOLOGY

Data, variables and research Methodology part of current study is organized as under.

3.1 DERIVATION OF HYPOTHESES:

The study focuses on the following literature to seek support for hypothesis derivation.

3.2 CORPORATE SOCIAL RESPONSIBILITY AND RETURN ON ASSET:

Hunter and Schmidt, (1990) discussed that there is a positive relation between corporate social responsibility and financial performance. When the financial performance of the organization will increase due to increase in the spending on corporate social responsibility, the return on asset will also increase because the financial performance is also measured through the return on asset. Return on asset means how much an organization earns through its investment on assets. Return on asset shows the efficiency with which the organization is using its assets. If banks are spending more on the better health of employees and people living in the community, giving donations to serve the community, providing education to employees and other people living in the society to improve their skills, the return on assets will increase because the efficiency of the employees will increase.

Employees are the most valuable assets of the organizations. Employees of the organizations need advance education and training with the passage of time. Organizations spend on the education of employees to increase their returns. If the spending on education will increase the return on assets will also increase. Assets are the economic resources of the organizations. If the organization is investing on its assets than it will expect more return from its assets. Social welfare is done by the organizations so that they can have good image of the organization in the minds of all the stakeholders and get maximum return. On the basis of this literature the proposed hypothesis is:

H1: There is positive and significant relationship between CSR and ROA.

3.3 CORPORATE SOCIAL RESPONSIBILITY AND RETURN ON EQUITY:

Kotler et al. (2005) describe that companies can gain great benefits from participating in CSR. By giving donations for the well being of the society, the organizations can improve their financial performance because people will have a good image of the organization in their minds and they will always talk good about the organization. It will improve the good will of the organization which will increase the profits of the organization. With the increase in profits the earnings available to shareholders will also increase which will increase the return on equity of the shareholders, ultimately the financial performance of the organization will also increase.

When the financial performance of the organization will increase due to increase in the spending on corporate social responsibility, the return on equity will also increase because the financial performance is also measured through the return on equity. Return on equity means how much an organization earns through its financing. Shareholders will enjoy more profit when the organization will spend more on the CSR**.** Equity is the financing from the shareholders of the organizations generally known as the owners of the organizations and they require more return on their financing. Wealth maximization is the objective of these shareholders and they demand maximum increase in the value of their financing. If return on equity increases due to spending on CSR than the value of the shareholders equity will also increase. If the organization will spend more on the education of employees, their families and people living in the community the shareholders will expect more return from the workers because they will expect more revenues. Shareholders always want to increase their earnings and capital gains by using their assets efficiently. Spending on the social welfare increases the expectations of the shareholders because they will think that they are spending for the welfare of the society and prosperity of the people where they are operating and earning profit. They will expect more return on their financing. The proposed hypothesis on the basis of this literature is:

H2: There is positive and significant relationship between CSR and ROE.

3.4 CORPORATE SOCIAL RESPONSIBILITY AND NET PROFIT:

Miles and Munilla (2005) describe that when the organization will engage in CSR the profitability of the organization will also increase. Net profit means revenues minus all expenses. Net profit of the organization is shown after deducting the interest expenses and taxes on the profit. Earnings available for shareholders or profit after taxation are also the names of net profit. Shareholders are more concerned with the net profit of the organization than other stakeholder because if the profit of the organization is high they will expect more profit on their investment and if the profit of the organization is low they will expect low return on their investment.

Management of the organization is also concerned with the profit of the organization because the efficiency of the management is measured by the profit and loss of the organization. If the organization is earning high profits it means management is efficient and using its resources efficiently and effectively and if the organization is earning low profits or suffering from losses it means management is not efficient or unable of using its resources efficiently and effectively. Management of the organizations try to earn maximum profit because they are working for the benefits of shareholders. Shareholders are more concerned with the net profit of the organization than other stakeholder because if the profit of the organization is high they will expect more profit on their investment and if the profit of the organization is low they will expect low return on their investment. On the basis of this literature the proposed hypothesis is:

H3: There is positive and significant relationship between CSR and net profit.

3.5 CORPORATE SOCIAL RESPONSIBILITY AND EARNING PER SHARE:

A large number of researchers have discussed that companies can get benefits by participating in CSR activities (Idowu & Papasolomou, 2007).When the profit after taxation increases the earnings per share also increases because earning per share is the earnings available for the common shareholders divided by the total number of common shares (total number of outstanding shares). If there is a positive relationship between the corporate social responsibility and financial performance of the organization than the net profit of the organization will also increase and with the increase in net profit the earning per share of the organization will also increase. Earnings per share shows the amount a shareholder receive for one share he or she holds. Earnings per share are also affected by the spending on health of employees, their families and people of the society. Shareholders expect more earnings when they give funds for health of workers and other people living in the community. Shareholders get the required return when they earn per share as expected from the management of the organizations. Wealth maximization is the objective of these shareholders and they demand maximum increase in the value of their financing. If return on equity increases due to spending on CSR than the value of the shareholders equity will also increase. The proposed hypothesis on the basis of this literature is:

H4: There is positive and significant relationship between CSR and EPS.

3.6 CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE:

Waddock and Graves,(1997); McGuire, et al., (1988,1990); Auperle, et al., (1985) studied that corporate social performance has impact on the financial performance. They have found positive impact of CSR on the financial performance. When organizations spend more for the betterment of the society the financial performance of the organization will also increase. Organizations fulfill their corporate social responsibility have positive image among people. Stakeholder's now a days are more concern with the corporate social performance of the firms. When organizations spend more for the welfare of the society the financial performance of the organization will also increase. Mostly the relationship between CSR and financial performance is measured in the developed countries not in the developing countries like Pakistan. On the basis of this literature the proposed hypothesis is:

H5: There is positive and significant relationship between CSR and financial performance.

3.7 DATA:

This study investigates the most significant measures that affect the financial performance of the firms using the data of banks listed on the Karachi Stock Exchange (KSE) of Pakistan during year 2008-2012. The data were taken from the annual reports of banks. Notably every listed company is required to prepare its financial statements in accordance with approved accounting standards as applicable in Pakistan. These accounting standards comprised of such international Financial Reporting Standards (IFRS) issued by International Accounting standards board (IASB) as are notified under the Companies' Ordinance 1984. The final sample after considering any missing data consists of a balanced panel of eight banks over a period of five years from 2008 to 2012.

Table 3 BUSINESS-WISE DISTRIBUTION OF BANKS

Banking Sector	Islamic Banks	Conventional Banks
Pakistani	2	2
Multinational	2	2
Total	4	4

3.7.1 List of Banks:

Table 4 LIST OF BANKS

Islamic Banks	Conventional Banks
1.Meezan	1.MCB
2.Bank Islamic Pakistan	2.Askari Bank
3.Dubai Islamic Bank Pak	3.UBL
4.Al Baraka Bank	4.Standard Chartered Bank

3.8 VARIABLES AND ITEMS:

On the basis of research objectives, variables used in this study and their definition is largely adopted from existing literature in order to make a meaningful comparison with prior empirical studies. Return on assets, earning per share, net profit and return on equity are the dependent variables that are measures of profitability. Alternatively, explanatory variables include donation, health, social welfare and education.

Table 5 DEFINITIONS OF VARIABLES

Variables	**Definition**
Dependent Variables	
Return on Equity (ROE)	Ratio of profit after taxation to total shareholder equity (annually)
Return on Asset (ROA)	Ratio of profit after taxation to total Assets (annually)
Earning Per Share (EPS)	How much profit is earned (annually) on behalf of each

	outstanding share of common stock.
Net Profit (N.P)	Profit available to the firms after paying taxes on the earnings (annually)

3.9 RESEARCH METHODOLOGY:

To test the hypothesis, the study is conducted. The services sector that is selected for testing the model is banking sector. This study explores the determinants of corporate performance in context of financial firms (banks) of Pakistan. Research methodology describes the specific techniques for conducting research step by step. The objectives of this chapter explain the tools; techniques for the collection and interpretation of the data and operate the key concept used in this study. It is based on secondary data that is collected form annual reports of banks. These banks are listed on Karachi Stock exchange. The sample size of the data is eight banks listed on Karachi stock exchange of Pakistan. The analysis is restricted to period of five years (2008-2012). Only those banks have been selected whose data was available for all these years. The appropriate sampling technique has been used as the data of as much banks were easily available that included in the sample.

Regression analysis has been done in this study. Using regression model, each variable is being added to the model in view of its estimation power over the dependent variable. Each time as the variable enters into the model, all the other variables are reexamined and some variables restricted out in analysis due to negative values. Data for this research was collected from the concerned bank's websites, from company offices and from the website of Karachi stock exchange. Corporate Social Responsibility is measured through indicators like donation, spending of firms on the health of employees and other people living in the community, spending of firms on the education of employees, their families and people of the society, spending for the well being of people in the societies etc and financial performance is measured through return on asset, return on equity, earning per share and net profit.

3.9.1 POPULATION AND SAMPLE:

The population for this study is Pakistani and multinational banks from banking sector operating in Pakistan. Sample size for this study is eight banks.

3.9.2 DATA COLLECTION:

The study is conducted on the basis of secondary data. For the purpose of data collection annual reports are used.

3.9.3 QUANTITATIVE RESEARCH:

The study is quantitative in nature as the results and final findings are based on data collection from annual reports. And these results are quantified using different statistical tools.

3.9.4 PANEL DATA STUDY:

This study is related to panel data in nature. Data from annual reports is collected and is used to generate information with the help of statistical tools and the analysis is done.

CHAPTER 4

4.0 RESULTS AND ANALYSIS

The section of results and analysis is organized as follows.

4.1 HANDLING MISSING VALUES:

Mainly, there were no missing values in the annual reports so at the time of inserting values in the SPSS we faced no problem. That's why it will not create an effect on the positive or negative side of hypothesis.

4.2 TEST PERFORMED IN ANALYSIS:

Different tests were performed in order to get the results of the study. Exploratory factor analysis for theory matching to results, Regression analysis and ANOVA was done for checking the effect in the conceptual frame work.

4.3 FINDINGS:

For checking the relationship between CSR and Financial Performance regression analysis is performed. In the regression analysis the results which are helpful for making decision are drawn from the Model summary table. In table, each variable will show its individual role in the drawn hypothesis. Un-standardized beta, T-value and Significance values are useful for making decision about the hypothesis. The results of regression analysis are given below and decided on the basis of their regression weight β, T-value and Significance value or p-value. The results are discussed as follows:

4.3.1 CORPORATE SOCIAL RESPONSIBILITY AND RETURN ON ASSET:

H1: There is positive and significant relationship between CSR and ROA.

The Results for the H1 are given below for regression analysis:

Table 6: Regression Analysis

Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	13.934	3.754		3.711	.034
	CSR	.003	.003	.471	.924	.424

a. Dependent Variable: ROA

The regression analysis performed for testing the effect of CSR on return on asset in the banking sector is shown in above table. The value of β is 0.471 (Which is positive), T-Value is .924 (which is less than standard 2.00) and P-value or significance level is .424 (Which is greater than 0.05). Results illustrate that there is positive relationship between CSR and ROA.

It means when the banks in Pakistan increases their spending on CSR the return on assets of the banks will also increase. Because of this positive relationship between CSR and ROA, companies will spend more on CSR specially in the developing countries. Companies in the developing countries like Pakistan facing different challenges to get return on asset and they need more returns to encourage them for spending on CSR. If the company increases its donations their profitability will also enhance.

4.3.2 CORPORATE SOCIAL RESPONSIBILITY AND RETURN ON EQUITY:

H2: There is positive and significant relationship between CSR and ROE.

The Results for the H2 are given below for regression analysis:

Table 7: Regression Analysis

Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	95.024	8.555		11.108	.002
	CSR	.010	.007	.665	1.543	.221

a. Dependent Variable: ROE

The regression analysis performed for testing the effect of CSR on ROE in the banking sector is shown in above table. The value of β is .665 (Which is positive), T-Value is 1.543 (which is less than standard 2.00) and P-value or significance level is .221 (Which is greater than 0.05). This table shows the regression results that reveal the fact that Corporate Social Responsibility has Positive relationship with return on equity. CSR includes donation, spending of banks on education of employees and people living in society, amounts given for the better health of employees and other people of community, social welfare. Preferred and Common shareholder's return will increase by spending on CSR which will decrease the difficulties of management. This positive relation between CSR and ROE will motivate other companies to invest on CSR.

4.3.3 CORPORATE SOCIAL RESPONSIBILITY AND NET PROFIT:

H3: There is positive and significant relationship between CSR and net profit.

The Results for the H3 are given below for regression analysis:

Table 8: Regression Analysis

Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23943.811	6130.964		3.905	.030
	CSR	.972	4.830	.115	.201	.853

a. Dependent Variable: Net profit

The regression analysis performed for testing the effect of CSR on net profit in the banking sector is shown in above table. The value of β is .115 (Which is positive), T-Value is .201 (which is less than standard 2.00) and P-value or significance level is .853 (Which is greater than 0.05). Results describe that there is positive relationship of CSR with net profit in the banking sector of Pakistan. It shows that stakeholders are getting benefits by giving funds for CSR because the profit of the banks is increasing with the increase in CSR. Performance of the management is measured through net profit. Management will increase donations because of positive relationship between donation and net profit. CSR relation with net profit is positive that explain its positive impact on the net profit.

4.3.4 CORPORATE SOCIAL RESPONSIBILITY AND EARNING PER SHARE:

H4: There is positive and significant relationship between CSR and EPS.

The Results for the H4 are given below for regression analysis:

Table 9: Regression Analysis

Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	38.099	2.310		16.497	.000
	CSR	.002	.002	.548	1.135	.339

a. Dependent Variable: EPS

The regression analysis performed for testing the effect of CSR on earning per share in the banking sector is shown in above table. The value of β is .548 (Which is positive), T-Value is 1.135 (which is less than standard 2.00) and P-value or significance level is .339 (Which is greater than 0.05). Results describe that there is positive relationship of CSR on earning per share. It shows that common shareholder's earnings are increasing with the increase in the amount of funds given by the banks for CSR. Common shareholders are the real owners of the companies and their earning per share is increasing with the funds given as CSR which will encourage them to give donations. CSR relation with Earning per Share is positive that explain its positive impact on the Earning per Share.

4.3.5 CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE:

H5: There is positive and significant relationship between CSR and FP.

The Results for the H5 are given below for regression analysis:

Table 10: Regression Analysis

Model Summary

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	24019.601	6128.843		3.919	.030
	CSR	.964	4.828	.115	.200	.854

a. Dependent Variable: FP

The regression analysis performed for testing the effect of CSR and FP in the banking sector is shown in above table. The value of β is .115 (Which is positive), T-Value is .200 (which is less than standard 2.00) and P-value or significance level is .854 (Which is greater than 0.05). Results describe that there is positive relationship of Corporate Social Responsibility and financial performance. Overall the financial performance of the banks is increasing by spending on corporate social responsibility in Pakistan. Return on asset, return on equity, net profit and earnings per share all have positive relation with CSR and all are increasing with the increase in the spending of CSR.

Corporate Social Responsibility and Financial Performance is measured and than the impact of Corporate Social Responsibility on the financial performance of the organizations is checked. Donation. education, health and social welfare as indicator of Corporate Social Responsibility are taken and return on asset, return on equity, earning per share, net profit are calculated for measuring the Financial Performance of the organizations.

Corporate Social Responsibility is independent where as the Financial Performance is dependent on CSR. Our results have shown positive and insignificant impact of Corporate Social Responsibility on Financial Performance of the banks in Pakistan. The positive relation between CSR and financial performance shows that if the banks in Pakistan increases their spending on CSR their financial performance will increase. The insignificant relation between CSR and financial performance describes that there are some other factors which are also affecting the financial performance of banks in Pakistan. It may be due to lack of information of CSR in less developed countries like Pakistan because the concept of CSR is new in the less developed countries. Companies are not much aware about the notion of CSR and the people of these countries don’t have much knowledge and information about the firms and its surroundings. Stakeholder’s in the less developed countries like Pakistan don’t put pressure on the companies to behave socially responsible firms.

CHAPTER 5

5.0 DISCUSSION AND CONCLUSION

The discussion and conclusion part of research study is discussed in this chapter. In first part of the chapter discussion about the study is described and second part consists of conclusion, limitations and direction for future research.

5.1 CSR AND FINANCIAL PERFORMANCE:

This research has tried to provide the answer of one basic question: Whether there is any relationship exists between Corporate Social Responsibility and financial performance and if so then what is the nature of this relationship. In order to evaluate the relationship between Corporate Social Responsibility and financial performance more precisely current research used CSR determinants and different measures of financial performance.

CSR is independent where as the Financial Performance is dependent on CSR. Donation, health, education and social welfare indicates CSR as independent variables and return on asset, return on equity, earning per share, net profit are the dependent variables which represents the Financial

Performance of the firms in banking sector of Pakistan. Our results have shown positive and insignificant results between CSR and Financial Performance of the banks in Pakistan. No variable has shown a significant impact of CSR on Financial Performance. The positive relation between CSR and financial performance shows that if the banks in Pakistan increases their spending on CSR their financial performance will increase. The insignificant relation between CSR and financial performance describes that there are some other factors which are also affecting the financial performance of banks in Pakistan. The reason may be the lack of information in developing countries like Pakistan. The people of these countries don't have much knowledge and information about the firms and its surroundings.

5.1.1 CORPORATE SOCIAL RESPONSIBILITY AND RETURN ON ASSET:

Results of the test illustrate that there is positive and insignificant relationship between CSR and ROA. This positive relation shows that if the Pakistani banks will increase their spending on CSR their return on asset will also increase. CSR includes amount of donations, spending on the education of employees, their families and people living in the society, funds given for the better health of employees, their families and people of the community, amounts given for the social welfare in the society. The relationship is positive but its not significant which means that there are also some other factors which are affecting the return on asset of the banks in Pakistan. Return on asset is increasing with the increase in the spending of CSR but this increase is not as much as it should be. In the developed countries organizations have increased their return on asset by spending on CSR. Stakeholders also put pressure on the organizations to behave as socially responsible firms in the developed countries. Because of positive relationship between CSR and ROA, companies will be willing to give more funds for CSR specially in the developing countries.

5.1.2 CORPORATE SOCIAL RESPONSIBILITY AND RETURN ON EQUITY:

In Pakistan ROE of banks are increasing by spending on CSR. Results describe that there is insignificant and positive relationship of CSR and ROE. This positive relation shows that if the banks in Pakistan will increase their spending on CSR their return on equity will also increase. CSR includes amount of donations, spending on the education of employees, their families and people living in the society, funds given for the better health of employees, their families and people of the community, amounts given for the social welfare in the society. When companies spend in social activities their expectations from the society and the people will also increase and they will expect more return on their equity. Shareholders wealth maximization goal should be achieved if the funds are given for the prosperity of the society. Return on Equity is the return for the shareholders against their financing in the companies. Preferred and common shareholders are the owners of the companies. This positive relation between CSR and ROE will motivate other companies to give funds for CSR.

5.1.3 CORPORATE SOCIAL RESPONSIBILITY AND EARNING PER SHARE:

Results of the test illustrate that there is positive and insignificant relationship between CSR and earnings per share. This positive relation shows that if the banks in Pakistan will increase their spending on CSR their earning per share will also increase. Earnings per share and capital gains are the major concern of shareholders. Shareholders demand high returns and capital gains from the management of the organizations. In Pakistan by spending on CSR the banks are increasing their earning per share and capital gains for the shareholders. Corporate Social Responsibility has Positive impact on earnings per share. Earnings per share are the return per share for the common shareholder. Common shareholders are the real owners of the companies. If they are not getting benefits by giving funds for CSR it will discourage them to spend on CSR. It shows that common shareholder's earnings are increasing with the increase in the amount of CSR given by the banks in Pakistan.

5.1.4 CORPORATE SOCIAL RESPONSIBILITY AND NET PROFIT:

In the banking sector of Pakistan net profits of banks are increasing by spending on CSR. Results describe that there is insignificant and positive relationship of CSR and net profit. This positive relation shows that if the Pakistani banks will increase their spending on CSR their net profit will also increase. Net profit is the major concern for the management of the organizations because management performance is measured through net profit. If the net profit of the organizations will increase the return of shareholders will also increase. Management spend on CSR with expectations of increasing net profit of the organization but in developing countries like Pakistan companies are unable to earn as much profit as they should earn profit by spending on CSR. This shows the insignificant impact of CSR on net profit in the banking sector of Pakistan. Increase in the net profit is always an attractive factor for the management and other stakeholders. Net profit shows the revenues earned by the companies after deducting their expenses. Net profit of banks is increasing by spending funds on CSR. It shows that stakeholders are getting benefits by giving funds because the profit of the banks is increasing.

5.2 CONCLUSION:

This study examines the impact of Corporate Social Responsibility on the Financial Performance of banks in Pakistan. Data from financial statements of banks listed on KSE is used for analysis for the period of 2008-2012. Regression analysis and ANOVA are used to estimate the relationship between Corporate Social Responsibility and the Financial Performance. Less work has been done on the CSR in developing countries and companies are not much aware about the concepts of CSR.

The positive and insignificant relationship of Corporate Social Responsibility and the Financial Performance demonstrates that there is positive impact of Corporate Social Responsibility on the Financial Performance of banks in Pakistan. This positive relationship between Corporate Social Responsibility and the Financial Performance reveals social behavior of Pakistani banks. Pakistani banks are contributing as much as they can contribute in the social well being of society, improving the living standards by promoting education and better health facilities, protecting environment from hazardous changes. They are taking good care of their employees and stakeholders in order to build their trust and confidence. On the other hand people of developing countries like Pakistan are not much aware about the concept of CSR. They don't have information about the firm's contribution for the well being of society and environment.

A positive and insignificant relationship is found between return on asset, return on equity, net profit, earning per share and Corporate Social Responsibility. This positive relationship suggests that the financial performance will increase with the increase in the spending of banks on CSR. The results of this study are consistent with most of the previous studies due to the positive relationship of Corporate Social Responsibility and financial performance.

5.2.1 PRACTICAL IMPLICATION:

The findings of this study leads towards many important practical implications. As CSR is a new concept and becoming popular rapidly, organizations must take it seriously and portray themselves as socially responsible firms. Although in Pakistan or in the developing countries people don't have much knowledge about CSR but after few years it will be the demand of stakeholders in developing countries also.

Managers can communicate the unique benefits of CSR and differentiate their firms and create a good and positive image. It is also important in Pakistan where companies are not using CSR as strategic planning they can use it and reduce promotion cost. Organizations in the developed nations portray themselves as socially responsible firms and enjoy its positive financial affects. These firms spend for the well being of the societies, for improving living standard of employees, for education and health care of employees, for the better environment etc. People of developed economies also have information about the firm's activities and stakeholders put pressure on the firms to act as socially responsible firms.

5.2.2 RECOMMENDATIONS:

It is suggested that managers of the firms should be motivated that corporations should fulfill their social responsibility. If corporation fulfill its social responsibilities then it will improve the society, environmental conditions and overall economy of Pakistan which leads to create positive image of firms and all other stakeholders' regarding the organizations.

Corporations may portray themselves as socially responsible firms it will lead to improve the overall financial performance of the Pakistan’s corporations. Government should play its role to motivate the corporations to spend for the welfare of the societies, nations, environment where they operate their businesses and earn profits.

5.2.3 LIMITATIONS:

The findings of this study are based on limited data for a limited period of time. We planned to take maximum number of banks but non availability of data restricted us to work with sample of eight banks for a period of five years. The limited number of banks are eligible to be caused by a sample of this study are still a few companies listed on the Stock Exchange which revealed consistent Corporate Social Responsibility activities throughout the study period and voluntary Corporate Social Responsibility disclosure. Disclosure of CSR is voluntary so there is no standard rule of the regulator which can be used as reference to measure Corporate Social Responsibility. Complete data relevant to the components of Corporate Social Responsibility was not available and most of the banks were having negative earnings. The focus of this study is only on service sector of Pakistan specifically banking sector. Further research can be done in other sectors like telecom, automobiles etc.

5.2.4 FUTURE RESEARCH DIRECTIONS:

This study explores the impact of Corporate Social Responsibility on the Financial Performance of banks listed on Karachi stock exchange of Pakistan. There exists less work on Corporate Social Responsibility in Pakistan and other developing countries so it should be further explored in developing countries and Pakistan as well. The following are some considerations that need to be considered in developing and expanding this research: (1) Further research is recommended to multiply the number of samples and use the data the most recent annual report to describe the condition of the most recent. (2) Future studies are expected to conduct research in all industry sectors, not just banks only for the results obtained to represent banking sector listed in Karachi Stock Exchange (KSE). (3) Future studies should use data with a longer period to obtain a more valid measurement results. (4) Future studies are expected to connect Corporate Social Responsibility to the value of the company.

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