

CSR Disclosure and Bank's Financial Performance Nexus: Evidence from Pakistan.

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Abstract

Present study is designed to evaluate the nexus between corporate social responsibility (CSR) disclosure and the financial performance of the banking sector in Pakistan. The study applied a quantitative research approach using panel data from a sample of Pakistan's commercial banks over a timeframe from 2009 to 2019. The outcomes of the mixed effect model visualize that there is an inversely significant association between CSR disclosure and ROE. Whereas there is no statistically significant link in the context of short-term financial performance by using a proxy of ROA. The results suggest that the focus on CSR events and initiatives may have a detrimental effect on financial performance. These findings indicate that the adoption of socially responsible investment has not gained significant cultural adhesion in Pakistan. The results emphasize the importance of banks, regulators, and stakeholders reassessing the balance between social responsibility and financial performance, considering the possible negative consequences of revealing CSR initiatives.

Keywords: *ESG Disclosure, Corporate Social Responsibility Disclosure, Financial Performance, Stakeholders Theory, Legitimacy Theory, Sustainability*

1. Introduction

Now a day, with the drawbacks of the industries and their selfishness regarding the social framework and the environment in which they are working, the CSR has become worthy of attention in most of the business operation (Vilanova et al., 2009). It portrays the linked among the corporation and neighborhood as the third force (Snider et al., 2003). A business commitment to implement its monetary assets in its operations to aid and devote to both participants within and outside the organization (Kok et al., 2001). These initiatives are an approach to precisely support sustainability of the society. According to Siueia and Wang (2017), the financial institutions (banks) are essential to a nation's economy, and bank management must act sustainably out of interest for environmental safety as opposed to shareholder's returns maximization concept. The main industries where sustainable initiatives are applicable are those that deal with chemicals, manufacturing, mining, and oil refining. Capitalist are pleased to invest more in sustainable operations, according to Santis et al., (2016), since the embrace CSR practices, have transparent management, stronger governance, and lower risk. CSR tactics are crucial for advancing plans for sustainable gain (Yoon et al., 2018). This suggest that business has another incentive to support sustainability and deliberately report more corporate social responsibility activities.

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A strong and firm CSR strategy improves the sustainable performance when taking into account the association among sustainability and financial efficacy in the banking industry (Goyal et al., 2013). They consider CSR and sustainability as complimentary strategies for improved financial performance (FP). In accord with the perception that sustainable company utilize voluntary CSR disclosure (CSRD) in order to improve the its financial performance. Most of the studies emphasize that there is a strong and positive relationship among the CSR and its disclosure with the financial performance and overall stability of the firms (Celik, 2023; El Khoury et al., 2023a; Laskar and Maji, 2016a; Nasrallah and El Khoury, 2022; Platonova et al., 2018; E. Saygili et al., 2022; Thuy et al., 2021). A study by Celik (2023) The study revealed a positive association among financial performance and sustainability practices. Large firms with better financial performance were more aware of the importance of their social performance. The study emphasis that there is an interconnected link among the sustainable practice and the firm's financial performance. Another current study by Lehenchuk et al. (2023) conducted on sustainability reporting in the Turkish FBT and TCL sectors revealed that there was no statistically significant effect of the overall quality of sustainability reporting on financial performance measures, with the exception of a positive correlation between the Corporate Governance Disclosure Quality Index and the Asset Turnover Ratio. In their study, Santis et al. (2016) employed the sustainability index within the framework of the Triple Bottom Line (TBL) to examine the correlation between financial performance (FP) and sustainability in Brazilian public companies from 2009 to 2013. It was found that the way the company categorizes its sector has a notable influence on the connection between financial performance (FP) and sustainability initiatives.

There are conflicting empirical findings from some researchers who have studied the connection among the CSR activity and the FP in banking sector. They discovered an association among the two determinants that was either negative, positive, or neutral. Greater number of the earlier research have tended to demonstrate positive correlation among the FP and CSR disclosure. There is no agreement on these results, which are inconclusive. Additionally, there was little focus on the sub-continent nations. The countries of the sub-continent (especially Pakistan) are the subject of this essay for the following reasons: there are not many studies that look hoe CSR influence the FP in the financial institutions for the communities with a recent history of these practices, rather than reality that the CSR research is increasingly becoming more common in industrialized or developed nations (Platonova et al., 2018). These earlier findings, as per Esteban-Sanchez et al., (2017), cannot extrapolated various circumstances. The linked among the CSR and the financial efficacy varies beyond the industries type, is not always the same, and is competitive across industries – all of which are crucially important factors that affect this relationship (Javed et al., 2016). As per Porter and Kramer (2007), understanding a company's CSR conduct depends on where it is located.

The current inquiry attempts to review the influence on the corporate effectiveness by the CSR activities limited to financial services institutions of Pakistan. According to research, various theories, i.e. stakeholder, legitimacy and agency theory, all seems to predominate as viable explanations of linked of the corporate social responsibility with financial efficacy (Manrique & Martí-Ballester, 2017). In the next session, which discusses pertinent linked material and speculations, all of these theories are briefly explained. Present inquiry tested the hypothesis using the stakeholder theory and clarifies the connection between these two factors. This idea supports the claim that

socially conscious behavior helps businesses remain competitive. According to Manrique and Martí-Ballester (2017), the competitiveness of firms draws investors who put fresh capital into the business to increase the operations and lower operating expenses, which leads to improve the performance.

The information utilized for the current investigation was obtained from financial records of the banks, their official websites, and the official web page of the central bank of Pakistan. The top 16 banks in Pakistan make up the sample, which spans the years 2009 to 2019. According to Santis et al. (2016), accounting data is believed to be less noisy than the market indicators and reflects what is actually happening within the organization. In this study, FP is measured using ROE and ROA (Esteban-Sanchez et al., 2017). Most of the authors and researchers have a variety of metrics to assess and report on a company's sustainability, but these are less likely to be applicable in emerging and developing markets, i.e. ESG Index, KLD social indicator, integrated reporting initiative (Yoon et al., 2018). In the present investigation, the aspects of CSRD activities were evaluated using content analysis (Branco & Rodrigues, 2006a), using data extracted from the financial statements, bank's CSR reports, their official websites (Platonova et al., 2018).

2. Literature Review

2.1. Financial Performance

Assessment of the financial performance is an extremely mature phenomenon in the finance investigations, but till there is charisma in pursuing further fields of the inquiry, as financial performance is an ever-blooming topic for the consideration for mostly researchers (Abbasi & Malik, 2015). The foremost and fundamental objective of the business activities is to get the maximum value for the stakeholders. There is always a need of overcoming the cost of business activities, also the maximization of the profit for the achievement of the mentioned target. For these businesses must utilize their resources effectively to improve the performance of the business. A financial well-being describes how effectively and efficiently a business can utilize its current and fixed assets to earn optimal profit and value. Mainly the performance is the outcome, achievements and accomplishments of the firm or the organization (K. Kim et al., 2017). Performance is defined as the accomplishment of measurable, substantial, material and the particular and specified goals or objectives. Performance of a firm has specific aspects: material and non-material, short, medium and long-term, aspects of relationship development, financial aspects (Deshpande et al., 1997).

Various material and non-material parameters can be employed to know about the effectiveness of the businesses. The financial and non-financial parameters include organizational growth, sales, and profit of the firm, liquidity, seasonality, leverages, and financial ratios. Corporate reputations, trust, customer and employee's relation, CSR and CSRD. Three categories are involved in order to examine the firm's financial well-being i.e., market, accounting and the survey category of measurement (Orlitzky et al., 2003). They further claim the category involving the market measurement associate with the level of loyalty and satisfaction of stakeholders. Whereas the accounting approach of measurement of financial effectiveness of the business focuses the internal effectiveness and last one linked to subjective measurement of the effectiveness of the businesses. FP of the firm is standardized to be accounting and market based performance (Jadoon & Hafiz Bajuri, 2015). For accounting-based assessment assets 'returns , equity's returns and sales' returns are considered mainly for the purpose

(Waddock & Graves, 1997). There are two mostly admitted accounting-based ratios are selected as the proxies for FP in financial institutions. ROA describes the generation of the profit by the asset of the banks, and most of the time this specific ratio is separated from the biasness. Whereas the ROE describes the amount of bank's profit bring about from the shareholders' investments. Other than these, the annual return on stocks or annualized return is used for non-accounting measurement of the bank financial effectiveness and indicate the evaluation of the market of the specific bank. In non-financial indicators the bank reputation, corporate governance practices, CSR and CSRD are the main concern of the researchers now-a-days. FP is appraised as critical indicator of strategic or long-term worth of the CSR (Orlitzky et al., 2003). Investigators initiated the pragmatic considerations of FP with the CSR and CSR reporting or disclosure, mainly three decades before in developed and industrialized countries. We cannot generalize that developed counties study in the countries like Pakistan, with emerging markets without the concern the differences of two different market types on various issues like corporate environment and governance. Businesses in the developing economies mostly recognized by the fragile governance. So, to realize that the above described positive and strong relation among corporate social responsibility and its disclosure via firm's financial well-being and value prevails in the emerging and fragile corporate governance setup.

2.2. Corporate Social responsibility (CSR) and its Reporting

As per Vilanova et al. (2009) CSR has considered as an essential phenomenon in corporation's activities. CSR describe the bond between the corporation and the stakeholders, i.e. society and the surrounding as third participant (Snider et al., 2003). It is also defined as organizations make public displays of quantifiable as well as qualitative data to inform or persuade different audiences. The numerical or mathematical disclosure may be in financial or non-financial term" (Mathews, 1997). A study by Mook et al. in (2007) defined, "an organized examination of how an organization impacts its stakeholders, including input from stakeholders as part of the data analyzed for financial statements". CSR definitions effectively describe main objective of the CSRD, which inform or report all corporation's particulars and detail, both the financial and non-financial, mainly to communities of interest, such as the stakeholders. As the CSR is mainly the important segment of discussion among firm and its communities of interest, with report employed as tactical device in the management of relation among the corporation and communities of interest. The purpose of CSRD is to increase the reputation of the corporation or business, overcome the corporate responsibility's, and informing the stakeholders (Gray et al. 1995; Zeghal and Ahmed, 1990).

According to Jenkins and Yakovleva (2006) there are various functions of CSRD which combine determine impact of CSR related tasks, examining influence of CSR plan of action or scheme, CSR reports, and subject to reporting and informing system (internal and external) which enable a complete estimation of maximum corporate resources and impact of sustainability. Mainly two basic aims encourage businesses to employ CSR venture and their disclosure. Companies could import the competitive advantages by employ the CSR and its disclosure. Also they realize that having better associations with the stakeholders increase the FP, employee satisfaction, loyalty, and the reputation (Branco & Rodrigues, 2008). These corporations assume that if they not involve in the CSR and CSRD, they will suffer their amount of profitability and the corporate reputation. Both CSR and its disclosure develop the authority device to describe their

environmental, social and governance obligation or responsibility to various stakeholders i.e. shareholders, investors, consumers, employee and the environment mainly, to enhance or control their FP, corporate reputation and their connection or bond with the communities of interest.

According to various researchers, the CSRD consist of the four classes of reporting and informing, i.e. environment, consumer and employee related, general and the community engagement related information and data (Deegan, 2002; El Khoury et al., 2023; Gray et al., 1995; Laskar and Maji, 2016; van der Laan Smith et al., 2005). Most of the corporations, now a day, communicated the CSR related information and data in their financial and special reports to stakeholders, and also available at their official websites too. Environmental reporting and communication are adopted to announce the info about effects of corporation on the material surroundings. A study of van der Laan Smith et al. (2005) encompass environmental reporting to various class of items: Scrap related management, emission stage and status and their prevention, environmental burden estimation, fish-stoking projects and plans, energy conversion projects and the ERMS. The previous mentioned study also includes some items in the environmental disclosure, such as, “environmental financially, environment audit, environment policy, environmental products and processes, sustainability, and energy”. Community engagement related information and disclosure describe the reporting of corporation with respect to the community involved, which incorporate, programs related to education, plant site visitation, assistance of community schools and institutions, culture supports and the game and sports, volunteers’ programs. Also, the charity and donation to education, sports, health and arts and culture counted in the community category (van der Laan Smith et al., 2005).

Clients and staff reporting consist of the information of organizational task and their impact on employee and the consumer, and its comprises of the working atmosphere and setting, no. of employee and their absent rate in work hours, ratio of the minorities and females, employee data and their pension criteria along with data, safety and health offered, gender equality, consumers complaint records and their suitable solutions, stakeholders related rights disclosure, after sales services offered (van der Laan Smith et al., 2005). Corporations always require encouraging the openness and pellucidity about the CSRD in order to uplift the organizational efficacy and performance. Most of the researchers Branco & Rodrigues (2006b), Husted et al. (2006), Husted and Allen (2007), Marom (2006), Mcwilliams and Siegel (2001), Moneva et al. (2007), Toms (2002), Orlitzky et al. (2003), and Wright and Ferris (1997) have initiated to figure out the connection of these activities and disclosure with the effectiveness of organization, and resulted that there is a link among the CSR and its disclosure with the organizational efficacy and performance.

2.3. Performance and the disclosure of CSR activities

As the boom of the organization, in the business world is associated with the actual approach of “Triple Bottom Line (TBL) that is, economic, environment and social issue” (Hussain et al., 2018). The companies should be drive in a sustainable fashion is the core area of the Triple Bottom Line, which will take them to more combative and aggressive with respect to others, for environmentally friendly corporations. By that idea of the triple bottom line, the United Nations rooted initiative of SSE along with the intention mainly to advocate worldwide the development associated with the sustainability. As the strategy of CSR merely associated with the sustainable

development, and organizations which are not linked with the practices related to suitability having minor financial performance as compared to the organizations employ these sort of practices (Ameer and Othman, 2012). Manrique and Martí-Ballester (2017) for the sake of explanation of connection among the corporation social well-being and organization's effectiveness, three main theories are helpful and gives us a broad view, i.e. "Stakeholder, Agency and Legitimacy Theory". As per, Manrique and Martí-Ballester (2017) the first one proposed the corporations which endorse CSR practices merely boost a "competitive advantage" within the market due to the attraction of capitalist and overcome the expenditures. Freeman & Velamuri (2008) who defend stakeholder theory admit that if the foal of the existence of a business firm is taken to mean 'creation of value for stakeholders' and if the stakeholders include employees, community and society, there is no need for any separate CSR effort. Janney and Gove (2011) suggest that businesses can derive benefits from CSR in terms of improved reputation, particularly during major crises or scandals. They contend that businesses with effective CSR are better equipped to safeguard businesses' reputation during crises, thereby minimizing negative impacts on financial performance. This implication extends to times of market-wide crises, where firms with better Corporate Social Performance (CSP) may be perceived less negatively by participants. As per Surroca et al. (2010) stakeholder theory is a vital contact among the CSR and the financial effectiveness, and CSR associated businesses utilize the resources of the organization better effective and this will also positively and efficiently effect the financial well-being. Javed et al. (2016) discusses the agency assumption which describe the presence of "information asymmetry" among various shareholders, and management which can adversely impacted the organization's financial efficacy.

Whereas as per the Esteban-Sanchez et al. (2017) legitimacy theory proposed presence of the "social contract" among businesses and the association of the social circle, and recommend the reporting of the corporate sustainability. Legitimacy approach as by Watson et al. (2002), grounded on assumption as the corporations cue their legitimacy with the reporting of particular info in various reports and statistics. Most of the studies, according to the Y. Kim et al. (2012) spectacle reporting of the CSR actions which create translucence of the information, as the firms are persuaded by the deliberated and volunteer information, enhancing the value of stakeholder and best instrument for the business tasks. Translucence of the information and its accountability both considered as core attributes of socially answerable corporation. As per the study of Bozzolan et al. (2015) the translucency of the company can assist them to overcome asymmetry of information among the stakeholders and the companies' managers. Now a day, Scholtens (2009) the financial institutions i.e. banks, mostly employ extra in the disclosure of CSR in order to boost goodwill and get additional investors. Mainly these reports which are disclosing non-financial matters of the organizations in terms of Economic, social and governance (ESG) (Loh et al., 2017). These sorts of corporations exercised beside the capability in order to convey additional value to concern shareholders and other participants by encouraging the reporting and disclosure of true information (Zang, 2012). Esteban-Sanchez et al. (2017) debate that firms with these sorts of activities produce additional profit and perk in the form of additional investors, competitive advantage in term of cost, increasing goodwill and improve monetary benefits in term of performance.

The question, why the organizations provide the CSR reports is answered by the Mathews, (1997) that there are three reasons for that sort of reporting and disclosure, i.e., to encourage the "Social Contract", boost the "Legitimacy" and build up "economic

or financial performance”. One reason of linked among these disclosure of CSR and the FP appear due to the aggressiveness of firm for providing the impact of going well with the disclosure of respected info that is appropriate and sometime overtakes the expectation of the participants (Brooks and Oikonomou, 2018). Most of the researches such as Bowman (1978), Laskar and Maji (2016), Platonova et al. (2018), Celik (2023), El Khoury et al. (2023), Saygili et al. (2022) describe that there are strong and positive effects of the disclosure of CSR on the effectiveness of the firm.

Kamal and Deegan (2013) examined reporting practices related to societal and environmental authorities. The data sample was drawn from textile and garment corporations operating in Bangladesh. The inquiry revealed findings indicating gaps in the reporting of governance information behind commonly disclosed Corporate Social Responsibility (CSR) practices. To meet public expectations and ensure credibility, Bangladeshi textile and garment businesses reports data regarding their governance. The outcomes underscored the insufficient accountability and transparency concerning community and environmentally related governance practices within the context of an emerging country.

Most of the studies find that there is a positive significant impact of CSRD on the financial performance (Celik, 2023; El Khoury et al., 2023b; Galant and Cadez, 2017; Jan et al., 2019; Laskar and Maji, 2016; Nasrallah and El Khoury, 2022; Nobanee and Ellili, 2016; Platonova et al., 2018; A. T. Saygili et al., 2021; E. Saygili et al., 2022; Thuy et al., 2021; Z. Wang and Sarkis, 2017). However, it is also stated that some of the evidence between the relation or impact among the disclosure of CSR and FP is conflicting, i.e., Ingram and Frazier (1980) reported a negative correlation and Freedman and Jaggi (1982) and Lehenchuk et al. (2023) find no correlation between the above stated two variables. Some of the investigations also show negative association among the CSR reporting and the financial performance, such as Gutiérrez-Ponce and Wibowo (2023), Paulin (2017), Al-Ajmi et al. (2023) and many more. As the mentioned researches belongs to the industrialized countries whose business as well as financial system varying with respect of the developing countries, i.e., Pakistan. We have limited researches on CSR and CSRD and their impact on various factors associated with the firms or corporations and their performance. With the help of current investigation, we want to spotlight on the association of the CSRD and the efficiency of the banks within the context of monetary performance, with the context of Pakistan. So, in lines with the data we have, we assume that, due to the majority of the literature bow towards the significant relationship among the two considered variable,

H1: The CSRD of the firm has significant effect on its FP.

3. Research Methodology

For the sake of finding the association among the CSRD and the FP of the firm, various studies have mostly applied “regression analysis” and used a model having size, market risk and the industry as control variables in the studies (i.e., McWilliams and Siegel (2000)). Another study performed regression analysis to determine effect of CSR on the well-beings of firm for gaming industry (Vong and Wong, 2013). The study of Mahoney and Roberts, (2007) examined the relation among the CSR and organization’s monetary performance measured with the proxy of ROA and ROE, with various control variables, i.e., size, the level of debt and industry (in Canadian perspective). Bank characteristics, organizational factors, and the macroeconomic level factors are also used in study as a control variable (Wu & Shen, 2013).

3.1. Sampling and collecting data

Our sample has 160 observations drawn from the financial reports annually presented by the banks (16 Banks of Pakistan), comprises of ten financial years (2009-2019). As the study focused on the secondary data, which is coming out of the bank's annual and special reports available at their official websites. CSR related information and statistics are mainly extracted from CG reports, director's report, chairman's declaration, and CSR reporting and explanatory notes. The index for the corporate social responsibility disclosure (CSRDI) developed after gathering the related items disclosed in the above mentions reports and statements.

3.2. Data Estimation Model

To examine our assumption, consider the equation (as given below), which relates the performance of the firm (FP) with the CSRD, while also including some control variables due to their effect on the firm financial effectiveness. As performance is dependent variable with respect to our study and the CSRD considered as independent variables, while the size, leverage, credit and liquidity risk. So, we actualize the model as

$$\begin{aligned} \text{Financial Performance}_t &= \beta_0 + \beta_1 \text{CSRDI}_{t-1} + \beta_2 \text{Size}_{t-1} + \beta_3 \text{Leverage}_{t-1} \\ &+ \beta_4 \text{Credit Risk}_{t-1} + \beta_5 \text{GDP}_{t-1} \end{aligned}$$

3.3. Dependent Variable: Financial Performance

According to the Laskar & Maji (2016), and Platonova et al. (2018) for measurement of firm performance most of investigations employed, Tobin's Q, Assets' returns and Equity's returns. Various proxies were employed by the researchers in past investigations, i.e., Oyewumi et al. (2018) used return on asset as a liaison to firm performance, whereas Iqbal et al. (2012), Torugsa et al. (2012), Marte Uadiale and Fagbemi (2012), Cavaco and Crifo (2014), and Nobanee & Ellili (2016) used Assets' returns, Equity's returns and earning per shares as the proxy to FP, whereas Net Present value by Flammer (2013).

Researchers use different proxies such as Assets' returns, Equity's returns and TOBIN Q to measure financial performance. Some of them listed below.

Table 1 Proxies used for Measurement of Financial Performance from Previous Literature

Authors	ROA	ROE	TOBIN Q
Brown and Caylor (2009)	Yes		Yes
Sami et al. (2011)	Yes		Yes
Bermig and Frick (2010)		Yes	Yes
Guest (2009)	Yes		Yes
Tian and Twite (2010)	Yes		Yes

Chan et al. (2017)	Yes	Yes	
Laskar and Maji (2016)	Yes	Yes	Yes
Platonova et al. (2018)	Yes	Yes	Yes
Cavaco and Crifo (2014)	Yes	Yes	
Iqbal et al. (2012)	Yes	Yes	
Marte Uadiale and Fagbemi (2012)	Yes	Yes	
Nobanee and Ellili (2016)	Yes	Yes	

3.4. Independent Variables: Explanatory and Control

Two types of the parameters in the category of regressors, i.e., explanatory variable and the control variable. Explanatory variable CSRD which equates the CSR activities. Some prior research employed various dimension of the ESG activities, but with the context of Pakistan or other developing countries, we will employ only four dimensions, i.e., “employee relations, community involvement, product and environmental”. We use size, leverages, and credit and liquidity risk as a controlled variable to our study. Size, the critical variable due to its impact on CSR and FP, as the large size companies employ more CSR with respect to the small ones (Tsoutsoura, 2004). As per the studies of El Ghoul et al. (2011), Goss and Roberts (2011), and Oyewumi et al. (2018) Size is quantified as, “log of the total assets” or accord to Klapper and Love (2004), Deng et al. (2013), and Wang and Choi (2013), size is measured as, “annual sales’ natural logarithm. Stulz (1990), and Jensen (n.d.) as the high debt can impact the behavior of the management and also the potential of CSR and its disclosure and the performance too, so considered as a control variable in the investigation. It can be quantified as “ratio of total debt to total assets” (Bhagat and Bolton, 2008; Brammer et al. 2006; Lanis and Richardson, 2012). “Credit risk is likelihood that a borrower or lender will not fulfil its liabilities as per the conditions. Credit risk management aims to optimize a bank's risk-adjusted rate of return by maintaining credit unveiling with reasonable boundaries (for International Settlements, n.d.)”.

There are several ways to gauge CSR disclosure; however, this study employs the result of a content analysis methodology (Dumitru et al., 2016). As per Branco and Rodrigues (2006a) the method is used because of its non-financial characteristics, content analysis provides a trustworthy proximate for the measurement of CSRD notwithstanding the subjectivity of CSR initiatives. Prior studies contend that the method (content analysis) is superior method for processing, analyzing, examining, interpreting, classifying, and dividing content data into frequently to determine the CSR disclosure activity score. The four subject of CSR activities are, “ecological responsibility, customer and product, volunteering, and employment conduct” considered with reference to this methodology Branco and Rodrigues (2006b). The entire number of statements for each bank were gathered and processed for this study in accordance with the particular category of CSR disclosure.

We can codify or symbolized our text or content with the help of content analysis (Weber, 1990). We developed a CSRDI Index (CSRDI) by gathering various items related to CSR from the categories, i.e., environment, employee, social, product and service – related disclosure as per the studies of Khan et al. (2019), JAHID et al. (2020)

in current study. Current index was created using the score of “1” for the companies or businesses that report CSR-related information and “0” for those who do not.

$$CSR\ Index = \sum_{i=0}^n xi \quad \text{where } n = 1,2,3,4,5,\dots\dots\dots$$

Where $x = 1$ if firm disclose the considered item.

And $x = 0$ if the firm not disclose the considered item.

4. Results of the Study

4.1. Summary of the data employed

Table 2 Descriptive Analysis of the Data

Parameter	Mean	Std. Dev	Min	Max
ROA	.7770833	1.238747	-5.41	3.06
ROE	2.153385	111.5302	-1474.27	234.71
CSR	.7107813	.1216032	.5	.94
CR.	11.60422	8.065231	.001	51.56
Size	2.074987	.2702395	1.52388	2.76001
Leverage	.082415	.0861469	.0023131	.9694819
GDP	3.485893	1.922014	-1.274087	6.151703

Table 2 displays a snapshot of the central of distribution, spread, and range of each of parameters in the dataset, giving us a sense of the distribution of each variable and how they compare to each other. Study used 192 observations of 16 schedule banks of Pakistan.

4.2. The variance inflation factor

Table 3 Variance Inflation Factor

Construct	VIF	1/VIF
CR	1.21	.763656
SIZE	1.10	.899023
Leverage	1.02	.947131
CSR	1.31	.748143
GDP	1.05	.945225
Mean VIF	1.13	

Table 3 displays the Variance Inflation Factor (VIF) values. The problem of multicollinearity is assessed by Variance Inflation Factor (VIF). VIF scores being less than 10 indicate that there is no problem of multicollinearity in the model.

Construct	ROA	ROE	CR	SIZE	Leverage	CSRD	GDP
ROA	1.000						
ROE	.4497	1.000					
CR	-.3840	-.2373	1.000				
SIZE	.2106	.1458	-.0755	1.000			
Leverage	-.1859	-.7134	.0960	-.1907	1.000		
CSRD	.0648	.0824	-.4471	-.1275	-.0867	1.000	
GDP	.0867	.0465	-.0874	-.1351	.0055	-.0753	1.000

4.3. The Correlation Coefficient Table

Table 4 Correlation Coefficient

Significant at the 0.05 level.

The table above represents the correlation coefficient values for each variable, which shows potential relationship among the parameters. Outcomes shows that CSRD, SIZE and GDP has significant direct linked with ROA and ROE, whereas there is a negative link among the CR and Leverage with ROA and ROE.

4.4. White test for Heteroscedasticity

Table 5 White test for Heteroscedasticity

	chi2	Df	p
Heteroscedasticity	26.83	29	0.6107

The study applied the White test to gauge the presence of Heteroscedasticity. The results indicated that significance value exceeded 0.05, indicating that Heteroscedasticity is not an issue in the framework.

4.5. Fixed effect model for ROA

Table 6 Fixed Effect Model for ROA

Parameters	Coefficient	Z-statistics	P> z
CSRD	-.8740171	-1.18	0.231
CR	.0125852	-2.81	0.005
SIZE	-.0103387	-0.03	0.976

Leverage	-2.936833	-3.27	0.001
GDP	.0395441	1.18	0.239
_cons	1.940529	1.83	0.067
“Dependent variable: ROA (Proxy of Short-term Financial Performance)”			

chi2 = 5.89 **Prob > chi2**
= 0.0004

Hausman test: $X^2= 41.43$ Prob = 0.0000

Table 6 displays the outcome of fixed effect model for ROA. Investigation used Hausman test to opt ideally suited framework for this research. In line with Hausman test output investigation consider fixed effect model. This table reports coefficients, z-statistics, and p-scales reported for each independent variable (CSR, SIZE, Leverage, and GDP), where the dependent variable is ROA (a proxy for short-term financial performance).

In this table, we can see that the independent variable CSR is negatively related to ROA (coefficient = -.8740171), meaning that boost in CSR is associated with decline in ROA. Still, the association is not statistically significant, as represented by boosted p-scale (0.231).

Similarly, the independent variables SIZE and Leverage are negatively related to ROA (coefficient = -.0103387 and -2.936833 respectively), meaning that an elevation in CR and Leverage is associated with a decline in ROE. But the connection of SIZE is not statistically significant, as represented by high p-value. Whereas relationship of Leverage is statistically significant as represented by the dropped p-scale (0.001). On the other hand, independent variable CR and macro variable GDP both are positively related to ROA (coefficient = .0125852 and .0395441 respectively), meaning that an increase in CR and GDP is associated with an increase in assets' returns. But relationship of GDP is not statistically significant, as indicated by the high p-scale. Whereas the relationship of CR is statistically significant as indicated by the lowered p-value (0.005).

4.6. Fixed effect model for ROE

Table 7 Fixed Effect Model for ROE

Parameters	Coefficient	t-statistics	P > t
CSR	-139.3209	-2.25	0.026
CR	-3.95649	-3.58	0.000
SIZE	33.98113	1.12	0.263
Leverage	-1169.701	-15.36	0.000
GDP	1.478815	0.53	0.595

_cons	170.6145	1.91	0.057
“Dependent variable: ROE (Proxy of Long-term Financial Performance)”			

chi2 = 3.02 **Prob > chi2**
= 0.0000

Hausman test: $X^2 = 49.02$ Prob = 0.0000

Table 7 displays the outcomes of fixed effect model for ROE. Investigation used Hausman test to opt appropriate framework. In the accordance with Hausman test outcomes we employed fixed effect framework for the current investigation. These are the outcomes of a multiple regression analysis, where the predicted parameter is ROE (proxy for long-term financial performance) and the regressors are CSR, CR, SIZE, Leverage, and GDP. Coefficients, t-statistics, and p-values are reported for each independent variable.

In this table, we can see that the independent variable CSR is negatively related to ROE (coefficient = -139.3209), meaning that an increase in CSR is linked with a decrease in ROE. The connection is statistically significant due to the low p-value of 0.026.

Similarly, these independent variables CR and Leverage are negatively related to ROE (coefficient = -3.95649 and -1169.701 respectively), meaning that boost in CR and Leverage is associated with a decline in ROE. The relationship is statistically significant, as represented by the lowered p-scale of 0.000. On the other hand, independent variable SIZE and macro variable GDP both are positively related to ROE (coefficient = 33.98113 and 1.478815 respectively), meaning that an elevate in SIZE and GDP is related with a boost in ROE. But, association is not statistically significant, as indicated by the elevated p-scale (.263 and .595).

5. Discussion

The results of the research are in the line with the previous literature as most of the studies claims that there is negative association of the CSR and its disclosure with the financial performance and effectiveness of the firms. The outcomes of the current research also show the negative association among the CSR and the FP. Most of the studies i.e. (Al-Ajmi et al., 2023; Gutiérrez-Ponce & Wibowo, 2023; Ingram & Frazier, 1980; A. Paulin, 2017) shows that there is an inverse relationship between the CSR and FP. Which describe that most of the time the CSR and its reporting inversely affect the financial performance due to various reasons. In developing countries like Pakistan, incorporating corporate social responsibility (CSR) decisions in financial services sector can have various effects on organizational performance. Financial investments in CSR initiatives and changes in strategic focus can significantly impact the operational functions of banking institutions. An analysis of connection among CSR involvement and financial outcomes in Pakistan's banking industry reveals detailed insights.

A possible rationale for perceived shortcoming of a clear positive connection among corporate social responsibility efforts and financial effectiveness indicators in Pakistani banking sector is the early stage of socially responsible investing practices. The lack of development of SRI frameworks in Pakistan may be a crucial factor influencing the current situation. The lack of a deeply rooted culture of responsible investment behavior

in the Pakistani financial environment may hinder the alignment of CSR efforts with financial results in the financial services sector. In the past, CSR has demonstrated outstanding prolonged benefits (Lin et al., 2009). It is overall acknowledged that CSR offers numerous non-financial benefits, such as enhancing internet community campaigns and luring ethical investors from both domestic and foreign markets. A regrettable epilogue is that there is little evidence of financial benefit from CSR engagement in Bangladesh's banking industry. When it comes to CSR activity, banks appear to be more affected by social indicators than by financial soundness. The objective should be situation-based CSR awareness rather than a "one size fits all" concept. Bangladeshi banks should achieve a balance without compromising their social responsibilities or their return on investment (JAHID et al., 2020). Many businesses have management that genuinely works to do business while promoting social and environmental wellbeing (Vogel, 2005). Managers can adjust rules to support a social and charitable work ethic on an individual basis (Hemingway and MacLagan, 2004).

Additionally, researches have shown that customer perceptions of CSR have a favorable effect on client civic conduct (Hur et al., 2018; Swaen et al., 2008). These perceptions can increase consumer trust and give banks a competitive edge as time goes on and CSR becomes more widely known.

6. Conclusion

The research aims to evaluate the nexus among the corporate social responsibility (CSR) disclosure and financial performance (FP) of banking industry in Pakistan. This investigation applies a quantitative research approach using panel data from a sample of Pakistan's commercial banking institutions over timeframe from 2009 to 2019 and used mixed effect model to analyze the collected data. CSRD index (CSRDI) is developed with the help of content analysis and then by PCA to develop it. Financial performance of the banks is measured by two proxies, ROA and ROE, for short run and long run perspective respectively. Some of the control variables are also used by the study, i.e. CR, Size, Leverage and the macroeconomic control variable GDP. The result of the mixed effect model shows that there is negative association among the CSRD and the financial performance, being measured by ROA and ROE, while there is no statistically significant relationship among the CSRD and ROA. While the impact of CR and Leverage is statistically significant and negative with both ROA and ROE. Size has no significant effect on both of proxies used in the study. GDP has positive but non-significant impact on ROA and ROE in the context of Pakistan's banking industry.

Additionally, several other studies have indicated that there is no statistically significant linked among the assets' returns, which serves as a liaison for short-term financial performance, and investments and disclosures related to corporate social responsibility (CSR). The inquiry taken by Lin et al. (2009) found no statistically significant linked among assets' returns and Corporate Social Responsibility (CSR) funding in major industrial corporations in Taiwan. Suggesting no discernible linked among CSR activities and financial effectiveness in the short-term. Their inquiry concluded that better corporate social responsibility (CSR) actions do not necessarily result in an immediate increase in profit of organization (Lin et al., 2009). Kang et al. (2010) discovered that there was no significant correlation among corporate social responsibility (CSR) and assets' returns (ROA) in three out of four industries within the hospitality sector. The airline industry experienced a detrimental impact on profitability

due to corporate social responsibility (Kang et al., 2010). Peloza and Papania (2008) suggested that the monetary impacts of different aspects of corporate social responsibility (CSR) may vary across industries. Murray and Vogel (1997) research findings indicate that corporate social responsibility (CSR) initiatives do not yield immediate financial benefits. The immediate, tangible effect of corporate social responsibility (CSR) on financial profits is mostly lacking, as stated by Murray and Vogel (1997).

In the context of long-terms payoffs, there is negative but statistically significant relationship among ROE and CSRD in current context. Prior studies also show various results for various industries in various context. The empirical results shown that the relationships of CSR, CSRI and CSRD with CFP can be direct, inverse or neutral (Bird et al., 2007; Griffin and Mahon, 1997; Igalens and Gond, 2005; Zhao and Murrell, 2016 and many more). A study by Bruna and Lahouel (2022) resulted that there is a significant but negative linked among the CSR and financial performance. Different studies resulted an inverse correlation among the CSR and CSRD with financial performance (i.e. Ingram and Frazier (1980) and) or no relationship (i.e. Freedman and Jaggi (1982) and (Lehenchuk et al., 2023)).

According to Stakeholder Theory (R. E. E. Freeman and McVea, 2001), corporate disclosure is used as a tool to bring up informational necessities of various influential stakeholder classes. Competing hypotheses in theoretical literature have been formulated regarding the impact of Corporate Social Responsibility (CSR) on the performance of businesses. The first one is “social impact hypothesis” and other is the “shifting of focus view”. Whereas first argument asserts that Corporate Social Responsibility (CSR) has a beneficial impact on the performance of companies, second argument proposes contrary viewpoint. The positive correlation among corporate social responsibility (CSR) and firm performance can be attributed to three channels as proposed by the social impact hypothesis. These factors contribute to the improvement of employee productivity: creating a more favorable working environment (TURBAN and GREENING, 1997), enhancing operational expertise to increase organizational effectiveness (Orlitzky et al., 2003), and boosting social reputation, trust (Bowman, 1978), brand image, and product competitiveness (Porter and Linde, 1995). Modern Stakeholder theory argues that the firm's value is evaluated by both explicit and implicit claims' costs. From this perspective, the group of individuals or entities that have legitimate rights to the firm's assets extends surpassing owners and debtors. It includes stakeholders with clear claims on the firm, like wage contracts, and those with whom the firm has implied agreements, such as commitments to provide quality service and fulfill social responsibilities (Mitchell et al., 1997).

7. Implications

This paper is making a significant contribution to the existing body of literature. Initially the significance of CSR and its disclosure in the context of Pakistan's banking sector is demonstrated by this study. This study exhibits the association of CSRD and FP, which leads to the proper decision making in both social and financial context. Results of the study shows that there is need of focusing the promotion of the CSR activities and ethical investment standards.

Understanding the connection among CSR engagement and financial performance requires a detailed understanding of contextual factors. Lack of proactive efforts to promote socially responsible investment strategies in Pakistan highlights the need for

specific interventions to encourage a culture of sustainable finance. Efforts focused on increasing awareness, promoting ethical investment standards, and establishing responsible investment practices show potential in adjusting the direction of CSR initiatives compared to financial performance standards in Pakistan's banking sector.

The research suggests that there exists an inverse relationship between CSR disclosure and financial performance, particularly in terms of return on equity (ROE). This implies that banking institutions in Pakistan need to carefully consider the trade-offs between CSR activities and financial outcomes when making strategic decisions. Given the lack of a significant correlation between CSR disclosure and short-term financial performance, banks may need to reassess their priorities and strategies regarding CSR initiatives. This entails a deeper understanding of how CSR efforts align with long-term sustainability goals while balancing immediate financial objectives. Also, the limited cultural traction for socially responsible investment in Pakistan suggests a need for a broader cultural shift towards embracing CSR practices. This could involve educational initiatives, awareness campaigns, and advocacy efforts to promote the importance of CSR among stakeholders. The study underscores the importance of involving various stakeholders, including banks, regulators, and community representatives, in discussions about the balance between social responsibility and financial performance. Collaborative efforts can lead to more informed decision-making and better outcomes for all parties involved.

8. Limitations

As the study aims to investigate the impact of the CSR Disclosure on the banks financial performance in the context of Pakistan. The study successfully gets the results within the limit of the research. But there are some limitations within the study due to various factors, i.e. lack of the data available for the study, the time frame, the data dispersion due to the Covid-19 era and many more.

Despite extensive efforts, there is always room for further research. The study has some limitations. Initially, we conducted the study solely within the context of Pakistan. The study exclusively considers the financial sector. There is a limitation in the model specification in terms of not including all possible elements regarding sustainability practices disclosure. We have only measured the financial performance using ROA and ROE, leaving out other proxies such as Tobin Q, EPS and NPV etc. Due to time and data limitations, this study does not consider non-schedule banks or microfinance institutions. There are also a number of variables and elements that affect the banks' financial performance and risk-taking. This study conducts its analysis within a limited timeframe.

9. Future Recommendations

Future research can delve deeper into the dynamics of this relationship by conducting longitudinal studies that track the impact of CSR initiatives and their reporting on financial performance over an extended period. This would help validate the findings of the current study and uncover any evolving trends or patterns. Also, the researchers can use various proxies of financial performance other than those already used in the

current study. Supplementing quantitative analysis with qualitative research methods, such as interviews and focus groups, can offer a more nuanced understanding of the cultural factors influencing CSR adoption in Pakistan. Qualitative insights can enrich the interpretation of quantitative findings and provide context-specific recommendations. In addition, one can use the non-financial sector to describe the relationship in a context other than the financial sector or banks. Encouraging collaboration between academia and industry stakeholders can facilitate knowledge sharing and the co-creation of best practices in CSR implementation. Joint research projects, workshops, and industry forums can serve as platforms for exchanging ideas and experience. Policymakers should consider the findings of this study when designing regulations and incentives related to CSR disclosure and performance measurement. Policies that strike a balance between encouraging social responsibility and safeguarding financial viability can foster sustainable development in the banking sector.

Author Contribution: I managed every facet of the study, from conception to data analysis, to guarantee a thorough investigation of the relationship between CSR and Pakistani banks' financial performance.

Data Availability Statement: The dataset utilized in this study is available upon request under special circumstances, ensuring confidentiality and compliance with ethical standards. Please contact the author for further information.

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