CSR AS AN INVESTMENT OR AN EXPENSE: EVIDENCE FROM BANKING SECTOR OF PAKISTAN

Fayaz Ali Shah, Islamia College, Peshawar. Email: akhoon47@yahoo.com

Shahid Jan, Islamia College, Peshawar. Email: shahidjan@icp.edu.pk

Fazal Haleem, PhD Scholar, Department of Management Sciences, Abdul Wali Khan University, Mardan. Email: haleemfazal@gmail.com

Abstract. *If engaging in Corporate Social Responsibility (CSR) activities costs at least in short run and it is beyond a firm's legal obligation then why do firms especially financial services firms engage in CSR activities. This question urges us to investigate the role of CSR in Corporate Financial Performance (CFP) in the banking sector of Pakistan. Therefore, data of 15 banks, listed on Pakistan Stock Exchange, have been collected from annual reports of respective banks' websites and the State Bank of Pakistan for 6 years from 2009 to 2014. Correlation and regression analysis have been conducted through SPSS software. Strong correlation between CSR and ROA, Firm Size as well as Firm Age was found out. On the hand, it was revealed that CSR did not have a significant impact on ROA as well as on ROE. The study contributes to the banking sector of Pakistan and gives insights to stakeholders including managers, leaders, investors and general public.*

Keywords: Corporate social responsibility, corporate social performance, financial performance, CSR investment, CSR Expense, banking.

Introduction

There has been an ever-increasing growth in the domain of corporate social responsibility (CSR) (Lemon, et al., 2011; Tsoutsoura, 2004) over time. Majority of the stakeholder including analyst, regulators, activists, labor unions, employee and news media, are interested to respond to the ever-changing set of CSR issues. The companies are, now, even held responsible for the social consequences of their business. Besides the economic performance, the stakeholders demand for improving transparency, social and environmental performance as well (Porter and Kramer, 2006; Tsoutsoura, 2004).

The World Business Council for Sustainable Development (WBCSD) defines CSR as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large". Whereas, according to Business for Social Responsibility (BSR), CSR is about "achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment" (Holme & Watts, 2000, p. 6). In the words of McWilliam and Siegel (2001), CSR comprises of those actions which are beyond the interest of firms. Even though it not mandated by law but it is aimed to improve the social well being of people.

Preston (1990) highlights the importance of CSR and asserts that a firm long term success equally impinges upon addressing CSR issues as other market factors. Therefore, most of the companies are now taking CSR initiatives to enhance their social, environmental, and financial performance (Awan, 2015). Thus, integrating CSR as strategy with the overall business strategy helps business survive in difficult times such as upheavals, economic downturn, and adverse internal and external circumstance (Lemon, et al., 2011).

Certainly it costs to adopt the CSR principles. These costs are either in the form of short term or on ongoing basis, for instance, expenditure on such projects or assets such as purchase of new environment friendly equipment, change of management structure and stringent quality controls. Similarly, a corporation cannot continue on projects that results in continuous outflow, therefore, to be a sustainable business it needs such projects that generate benefits as well. Stockholders invest their money in corporations to increase their wealth and which is only possible if the corporation generate benefits from its operations. To continue being socially responsible, these activities should result in some benefits for the organization (Tsoutsoura, 2004; Porter & Kramer, 2006).

A large number of studies have tested the relationship between CSR and CFP but these are mostly carried out in the US and UK context (Chetty, Naidoo, & Seetharam, 2015; Dober & Halme, 2009; Nadeem & Kakakhel, 2012; Shaheer, Nadeem, & Chaudhary, 2015). Similarly, the results of these researches cannot be generalized for the lack of homogeneity in the measurement of CSR and CFP (Soana, 2011).

Most of the researches on CSR have been conducted in manufacturing sectors as it attracts public attention (polluting environment and poor working conditions) and a few on financial services especially banking sector of Pakistan. On the contrary Porter and Kramer (2006) argue that CSR is about value creation and not just philanthropic donations, that is, any business can employ CSR and create share value. Therefore, this study aims to empirically test the role of CSR in CFP in the banking sector of Pakistan.

Literature Review

According to Awan (2015), workforce, society, market and environment constitute the domain of CSR. The usual metrics of CSR employed are donations and care for employees (Chih, Shen & Kang, 2008). Companies being aware of CSR importance still do not know what to do about it as most companies responses to CSR are "neither strategic nor operational but cosmetic" (Porter & Kramer, 2006, p. 3). Porter and Kramer (2006) identify three types of CSR issues; generic social issues, value chain social impact, and social dimension of competitive context. They further suggest that firm should categorize the CSR issues into these groups and order them as per their social impact. A social issue categorized by a firm changes from one business to another, industry to industry, and place to place. For example, carbon emission may be placed by a financial service as a generic issue. The same may be placed as a negative value chain for transport-based business. For a car manufacturer, it may be both a value chain impact and competitive context issue.

Interestingly, the value and legitimacy of CSR responses to CSR concerns are widely criticized (Tsoutsoura, 2004). For example, According to Freidman (1970) and Porter and Kramer (2006), the primary purpose of business is not to engage in social activities for the reason it does not have the necessary skills and knowledge in the domain rather it should focus on producing quality products for customers ensuring compliance with legal rules and regulation, making profits and thus contributing to the economic development of the country. Similarly, Freidman (1970) suggests that corporation executives should not spend from the corporation income because they neither have the skills nor this is under their jurisdiction which is akin to an extra tax on shareholder income by contributing to the eradication of social evils.

On the other hand, Khanifar, (2012), cited in Awan, (2015), Beyer (1972), and Drucker (1974), cited in Ali, et al. (2010), advocate the idea of corporate social responsible behavior. They argue that companies should give back to society a part of its earnings in return for the profits made from the society and sometimes for causing harm to environment and natural resources. Similarly, the shifting balance of power between corporation and government, corporations now enjoy more economic power which implies they should have increasing role and responsibilities in addressing social problems. For instance, companies should further improve the work environment and quality of living of its employees beyond the minimum standards and regulations set by governments (Tsoutsoura, 2004).

According to Porter and Kramer (2006), CSR is no longer an entirely voluntary as customers responses to issues make companies react e.g.

consumer boycott from Nike for abusive labor practices in some Indonesian suppliers after being reported in New York Times in 1990. In 1995 Greenpeace protested against Shell Oils' decision to dump its oil rig in North Sea. Similarly, for obesity and poor nutrition, fast food companies are now held responsible. They postulate that businesses and society are interdependent and are not against each other because healthy society is prerequisite for successful corporations as healthy society increases demands for a business.

Similarly, the interdependence of business and society implies that business decision and social policies should create shared value, that is, both must benefit from the choices. In other words, CSR activities should be carried out by firms which are most appropriate and aligned with the firms' strategies as well as goals rather to be performed on generic ways (Porter and Kramer, 2006). Porter and Kramer (2006) calls those CSR activities "hodgepodge of uncoordinated CSR and philanthropic activities" which are isolated from firms strategies and operations and does not create shared value for business and society.

Tsoutsoura (2004) and Porter and Kramer (2006) suggest that a firm that ignores the society in which it operates and pursues its goals at the expense of society will not gain long term success rather there might be temporary and illusory success. Society needs good firms for its prosperity as corporations help improve the standard of living of the society by creating jobs, wealth and innovation.

Porter and Kramer (2006) believe that investment in CSR is mainly triggered due to "governments' regulation increasingly mandates social responsibility reporting". Whereas Awan (2015) postulates that it is the firm management who decides whether to take CSR initiatives or not. This decision depends on factors including its size, current profitability, product or market strategy, trust level of stockholders, previous record of its own and competitors of CSR activities and the overall market conditions.

Interestingly, a firm should know which CSR activities to get engaged in and what to leave. This choice hinges upon striking a balance between the different and sometimes conflicting stakes of different stakeholders both in short term and long term. For example, we may add to the satisfaction of employee, internal stakeholders, by increasing their health benefits but simultaneously it would affect profitability. Similarly, by unethical forms of outsourcing a firm may succeed in reducing product cost and more penetration in the market but at the expense of harming local communities, that is, external stakeholders (Lemon, et al., 2011).

According to Lemon, et al. (2011), there can be intended, unintended, short term, and long term ramifications of CSR initiatives. Intended outcomes are those specific goals which have been achieved e.g. reduction in child labor. The unintended outcomes could both be desirable and undesirable such as result of reduced child labor may lead to increased percentage of school attending children (desirable) and higher crime rates and reduced income level (undesirable).

Most of the companies are now taking CSR initiatives to enhance their social, environmental, and financial performance (Awan, 2015). One reason for engaging in CSR activities could be extra financial values and life goals that motives internal stakeholder such as employees, management, and board members to pay back to society a part of the corporation earning that has been generated from the society (Lemon, et al., 2011). However, Porter and Kramer (2006, p.6) asserts that "vehemence of a stakeholder group does not necessarily signify the importance of an issue; either to the company or to the world". Involvement in CSR increases goodwill of companies which ultimately contributes to the company bottom line (Awan, 2015).

According to Porter and Kramer (2006) safety products and working condition retain and attract employee. They reduce costs associated with internal accidents also. Furthermore, a strong regulatory standard safeguards a firm from exploitation of competitive companies. According to Votaw, (1972) cited in Dabbas and Al-rawashdeh (2012):

> "*Corporate social responsibility is more than an expedient response to momentary social pressures. It is, instead, a manifestation of deep, far-reaching social changes in our society. If it is indeed akin to the Industrial Revolution, then the implications for business of the new social responsibility may be very different from those usually forecast*" (p.3).

Kotler (2005), cited in Awan (2015) CSR initiatives contributes to the financial performance, reduces employee turnover, and earns good word of mouth from customers. Firms which engage in CSR activities earn good reputation which arms a firm with a competitive advantage (Ali, et al., 2010; Chetty, Naidoo, & Seetharam, 2015; Soana, 2011;). According to Klein and Davar (2003), cited in Soana (2011), involving in CSR actives acts like insurance as it helps safeguard firms' reputation in harmful events and protect the firm from loss.

Further adding to benefits, Porter and Kramer (2006) argue that in stigmatized industries such as chemical or energy, CSR works as a form of insurance as in the event of crisis, reputation for social consciousness reduces the public criticism. Similarly, CSR improves employee productivity, human relations, to avoid law suits, consumer boycotts, and environmental scandals (Raza, et al., 2012). Moreover, Spicer (1978) cited in Chetty, Naidoo and Seetharam (2015) found that firm relationship improves with banks and investors provided that it adheres to a high level of CSP. This means easy access to capital on easy terms.

Corporation should see the resources spent on CSR initiatives as an investment rather than an expense because investment in CSR brings in some multifaceted benefits. Research conducted by Parket and Eibert (1975), and Soloman and Hansen (1985), cited in Tsoutsoura (2004), have found that good working conditions and labor practices increase productivity and decreases error rates. Apparently CSR practices are an expense by ensuring regular controls in the production facilities and fair wages but in the long term the increased productivity and improved quality of products pays off in terms of positive cash flows.

Another benefit of being socially responsible is running less risk of negative rare events (Tsoutsoura, 2004). Adapting to CSR principles culminates in transparency, less risk of bribery and corruption. Though adopting CSR principles costs by implementing costly quality and environmental controls but in reality it cuts on costs and saves in terms of saving the firm from heavy penalties for excessive polluting and recalling defective product lines. Similarly, it saves the firm in terms of running less risk of negative social events which damage reputation and cost millions of dollars in advertising campaign (Chetty, et al., 2015; Tsoutsoura, 2004). Child-labor and sweatshop are two examples for penalty (Tsoutsoura, 2004).

According to Lemon, et al., (2011) companies that do not actually put efforts in CSR activities but pretends to do so indulge in “green washing” practices. There are number of instances where CSR violations have been committed, for example, Chih, Shen, and Knag (2008) report that allegations made against insiders of corporations that they have misled stakeholders through financial reporting in corporations such as Enron, Tyco, BMY, WorldCom, Xerox, and Merck and so on. Awan (2015) believes that in case of limited companies scandals and negative signals would have dramatic adverse impact on the company’s financial and non-financial performance. It is because of sales and share price would decline, employee turnover will be spurred and the company becomes notorious. Therefore, there is a need for true CSR firms to differentiate themselves from those who claim to act so on the basis of superficial and sporadic efforts (Lemon, et al., 2011).

Firms with CSR commitment can reduce employee turnover, recruitment and training cost by attracting and retaining employees. Employees often compare their personal vales with that of firm CSR in which they work. If employees are asked to do things which deviates from written or moral laws to increase profit would help create a culture of fear and have adverse impact on the employees trust, loyalty and commitment to the company (Chetty, et al., 2015; Turban & Greening, 1997).

CSR initiatives are not necessary an expense to a firm rather it sometimes converges with doing the best for a firm for example some CSR initiatives might reduce operating cost by minimizing package material and opting the optimum route for truck delivery. This means that management needs to rethink their current practices to obtain efficiency and be CSR (Tsoutsoura, 2004). By the same token, CSR as a strategy if employed effectively help business in minimizing the conflicts and maximizing cooperation and benefits from different stakeholders in the business environment by strengthening its relationship with these stakeholders (Ali, et al., 2010).

Therefore, CSR strategy should be employed and integrated with the overall business strategy stakeholders. Porter and Kramer (2006) report that due to prevailing approaches to CSR which are not aligned with business that makes businesses discover CSR as a cost, constraint, or charitable deed but in fact CSR should be seen as 'a source of opportunity, innovation and competitive advantage'. These can be realized by creating shared value through addressing social problems which will make a firm able to sustain not needing any government subsidy.

Though there are number of advocates of the CSR and its benefits but there are still some critics such Ullman (1985), who view CSR as expense and inefficient use of firm resources which place the firms at a competitive disadvantage. There might be other reasons such as when the level of ownership concentration exceed a specific limit, insider avoid investing in CSR as this would be the insider to bear the expense of CSR if it failed to generate enough benefits (Bertrand & Mullainathan, 2003) cited in Chih, Shen, and Knag (2008). Similarly, Barnea and Rubin (2010), cited in Chih, et al. (2008) calls those CSR activities 'a waste of valuable resources and source of firm's value destruction' if they do not contribute in maximizing firm's value.

Khanifar (2012), cited in Awan (2015), argues that it is imperative for firms in today competitive market to give back to society to enhance its value and image in minds of stakeholders. Though apparently spending in CSR initiatives for example, donating to charities, commencing business in backward areas and adopting environment friendly production, seems as an expense but in fact, it is an investment whose benefits are realized in long term in terms of no labor problems and customer preference of the firm and its products.

Investment in CSR does not necessarily culminate in benefits immediately as benefits of being corporate socially responsible may result in benefits in the long run. Similarly, it is difficult to quantify and measure these benefits because CSR is integrated in all operations of the corporation. However, there are some benefits that are identifiable e.g. it enhances brand image and reputation. Good reputation turns in large number of customer and improves their loyalty. Similarly, it is comparatively in a better position to attract capital and business partners. Good reputation increases corporation value but it is difficult to quantify the extent. However, in case of reputation, similar methods should be employed as are used to measure impact of advertisement campaign on the sales (Tsoutsoura, 2004).

There are some two main theories about CSR and firm, which is Slack Resource Theory and Good Management Theory. The former theory states that financially strong firms are in better position to invest in social domain such as community uplifting, employee relations and environmental concerns. The investment of these slack resources culminates in better public image, better relationships with community, attraction and retention of skilled employees. On the other hand, firms with financial difficulty are not able to reap these benefits in long term as they cannot afford CSR investment that supports slake resource theory (Awan, 2015; Soana, 2011; Waddock & Graves, 1997). On the contrary, the later theory postulates that good management practices are highly correlated to CSP as the firm strengthens its relations with its key stakeholders by adopting CSR principles, that is, by carrying out employee and community welfare policies will enhance its relationship with its key stakeholder. This ultimately leads to reducing the cost and contributing to the bottom line of the firm (Freeman, 1984; Waddock & Graves, 1997).

Corporate Social Performance Model developed by Carroll (1979) is an integration of economic aspect in a social performance framework. The model combines together the social responsibility (economic, legal, ethical and discretionary responsibilities), social issues (environment, discrimination and consumerism etc), and social responsiveness (reaction, defense, accommodation, pro-action).

AGREE model has been developed for measuring the effects of CSR activities on different stakeholders. AGREE is the acronym of Audience of CSR activity, Goals of stakeholders, Resources used to achieve stakeholders' goals, Effectiveness with which stakeholders' goals are realized and Efficiency of the use of the resources deployed to realize such goals (Lemon, et al., 2011).

To comprehend competition and help direct business strategy, Porter and Kramer (2006) emphasize the integration of social perspective in the existing business frameworks. They believe that both businesses and society affect each other both in good and bad way, that is, the impingement of business activities on the society and the affects of society on business operations. Porter and Kramer (2006) call the former "inside linkage" and the later “outside linkage". Porter uses "value Chain analysis", all activities performed by a firm in doing business, and for assessing the "inside linkage" and "Diamond Framework", how market conditions affects a firm location in its ability to meet competition, for the "outside Linkage".

Porter and Kramer (2006) define two approaches to CSR which are responsive CSR and Strategic CSR. The former one refers to adhering to principles of good citizenship and mitigating harm from value chain activities whereas the later refers to transforming value chain activities to benefit society whilst pursuing strategy and being strategically philanthropic that help the firm achieve competitive advantages. Strategic CSR integrates both inside linkage and outside linkages and creates true shared value. The shared value is created by a firm investing in social aspects that gives a firm competitive advantage, that is, there occurs a mutual reinforcement of the success of both the firm and society.

According to Carroll (1979) what motivates an organization to become socially responsible can be classified as one or another of these kinds - economic, legal, ethical and discretionary responsibilities. According to Porter and Kramer (2006), the proponents of CSR present these four justifications for CSR; moral obligation, sustainability, license to operate, and reputation. Whereas Chih, et al. (2008) believe that investing in CSR is mainly motivated by employees' personal satisfaction, interest and earning good reputation among stakeholders and market. According to Awan (2015), the drivers of CSR behavior are creating positive branding, earning good reputation, capturing broad base of customers, creating good working environment, having good relations with government and general public. Behaving in CSR way shows its commitment to the stakeholders.

Engaging in CSR initiatives is primary motivated by building and strengthening relationship with multiple stakeholders. Engaging in CSR activities send positive signals to different stakeholders which ultimately contribute to the bottom line of business. This has been seen in examples of divestment in apartheid South Africa and inclusion of pollution disclosure in annual financial statements. Similarly, firms can increase its value by engaging in CSR initiatives such as innovative product designing, labor attraction, customer attraction as well as retention, and manufacturing cost reduction etc. (Lemon, et al., 2011).

With the passage of time, due to the emphasis on social issues, the businesses need to address changes. It means the social issues cannot be fixed as they evolve over time. For example, product safety, occupational safety and consumerism among others were not as important in the past as they are now. Similarly, all social issues do not appeal the same degree to every organization because the industry and other factors determine the relevance and importance of the social issue to the organization. For example, manufacturing firm is more concerned about environmental (e.g. recycling) issues than a financial service provider (Carroll, 1979). CSR is continuous in nature as asbestos once thought harmful but now as serious health risk (Porter and Kramer, 2006).

According to Awan and Iqbal (2014) with the emergence of MNCs, globalization and fierce competition investment in CSR has been increasing and taking different courses, for example, setting up pilgrim rest houses, giving away relief packages to natural disaster stricken, offering quality products at affordable prices, producing goods and services in environmentally friendly and safe working environment.

For Tsoutsoura (2004) company size, industry engaged in, organizational culture, stakeholders demands, historical progression in CSR engagements are the key factors that determines how a company implements its SCR. Some companies focus on single area e.g. human rights, environment etc. It is because these companies have either greater impact or vulnerability in these areas whilst others on integration of CSR in all its operations. Making CSR principles as part of the corporation values, strategic planning, commitment of management and employees are the determinants of successful implementation of CSR. It is important to align the CSR strategy with companies overall objectives, structure, system and core competencies. According to Freidman (1970) owner interest in implementing CSR is greatly affected by reason that owner try to evade taxes and show their expenses in their admissible expenses.

There has been a lot of research on the relationship between CSR and CFP, both in developed and developing countries, and came with positive, negative and neutral results. For example, positive relationship has been found by Posnikoff (1997), Dabbas and Al-rawashdeh (2012), Samina (2012), Raza, et al. (2012), Malik and Nadim (2014), and Awan (2015). On the contrary, research conducted by Wright and Ferris (1997) testifies a negative relationship between CSR and CFP. However, researchers such as Chetty, Naidoo, and Seetharam (2015), McWilliam and Siegel (2000), and Fauzi (2009) revealed no significant association between CSR and CFP.

Hypotheses

The following hypotheses have been developed on the basis of literature review.

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

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

Research Methodology

This section consists of sample, sources of data, and variables employed.

Sample Data

For finding out role of CSR in CFP, a sample of 15 banks listed on Pakistan Stock Exchange has been taken for the period of 2009 to 2014. Only secondary data has been employed and collected from the annual reports of concerned banks and State Bank of Pakistan.

Variables and Models

CSR, Firm Size, Firm Risk, and Firm Age are taken as independent variables whereas ROA and ROE are taken as dependent variables. In developed countries, there exist CSR indices from which data could be collected. On the contrary, in developing countries like Pakistan no such index exists for CSR. Therefore, CSR is measured as sum of Salaries and Allowances, Benefit Plans, Donations, Contribution to CSR, Provident Fund, Worker Welfare Fund etc expensed by a bank which have already been used by researchers such as Malik and Nadim (2014), Iqbal, Ahmad, and Kanwal (2013), and Ehsan, Kalim and Anwar (2013).

Corporate financial performance is measured in term of Return-on-Assets and Return on Equity as have been employed by other researchers such as Soana (2011) and Shaheer, Nadeem, and Chaudhary (2015). Return on Assets is calculated by Earning after Tax divided by Total Assets. Similarly, Return on Equity is calculated by Earning after Tax divided Equity.

On the basis of literature, the following models are developed.

ROA = CSR + FIRM-SIZE + FIRM-RISK + FIRM-AGE and

ROE = CSR + FIRM-SIZE + FIRM-RISK + FIRM-AGE

Control Variables

Firm Size, Firm Risk and Firm Age have been used as control variables. Total Assets is used as a proxy of Firm Size of a bank. To control for the size, natural logarithm of Total Assets has been taken (Chetty, et al., 2015). Similarly, years since year of incorporation of the bank until 2016, and the

Total Debt to Total Capital is taken as a proxy of Firm Age and Firm Risk respectively.

Tools and Types of Analysis

SPSS is used to do the analysis of the data gathered. In this connection Correlation and Regression Analysis has been conducted. In this connection, 1% and 5% significance levels have been used.

Analysis and Findings

Correlation Analysis

Correlation analysis has been carried out in table 1 to uncover the degree of relationship among the variables employed. Significant positive association between CSR and ROA, Firm Size and Firm Age has been witnessed. However, a weak link is found out between CSR and ROE and Firm Risk. This implies that in this particular study, CSR tend to increase with ROA, Firm Size and Firm Age.

Table 1 *Correlation Matrix*

		CSR	ROA	ROE	F. SIZE	F.RISK	F.AGE
CSR	P. Correlation	1	.34**	0.13	.74**	0.01	.756**
	Sig. (2-tailed)		0.00	0.22	0	0.96	0
ROA	P. Correlation	.34**	1	.55**	.51**	0.1	.54**
	Sig. (2-tailed)	0.00		0	0	0.37	0
ROE	P. Correlation	0.13	.55**	1	.23*	0.06	0.18
	Sig. (2-tailed)	0.22	0		0.03	0.6	0.09
F.SIZE	P. Correlation	.74**	.51**	.23*	1	.29**	.65**
	Sig. (2-tailed)	0	0	0.03		0.01	0
F.RISK	P. Correlation	0.01	0.1	0.06	.29**	1	-0.17
	Sig. (2-tailed)	0.96	0.38	0.6	0.01		0.12
F.AGE	Pearson Correlation	.76**	.54**	0.18	.65**	-0.17	1
	Sig. (2-tailed)	0	0	0.09	0	0.12	

** & *. Correlation is significant at 0.01 and 0.05 level (2-tailed).

CSR Expense and ROA

The regression analysis has been carried out for testing the effect of CSR on ROA in the banking sector as shown in the table 2.

Table 2a *Model Summary*

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**
1	.631[a]	0.398	0.37	0.94078

a. Predictors: (Constant), FIRMAGE, FIRMRISK, FIRMSIZE, CSR

Table 2b *ANOVA Statistics*

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	49.79	4	12.448	14.064	.000[b]
	Residual	75.231	85	0.885		
	Total	125.021	89			

a. Dependent Variable: ROA
b. Predictors: (Constant), FIRMAGE, FIRMRISK, FIRMSIZE, CSR

Table 2c *Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-6.33	1.87		-3.38	0.001
	CSR	0.00	0	-0.41	-2.78	0.007
	F.SIZE	0.4	0.15	0.4	2.69	0.009
	F.RISK	1.77	2.14	0.08	0.83	0.410

From the table it is clear that the value of F is significant at 0.000 which means the variation caused by independent variable is significant. The values of Correlation Coefficient (R) and Coefficient of Determination (R Square) are 0.631 and 0.398 respectively which indicate the degree of association of independent variables with ROA. However, CSR in particular with $p = 0.007$ does not have significant association with ROA. Therefore, Hypothesis 1 is rejected.

CSR Expense and ROE

The regression analysis has been carried out for testing the effect of CSR on ROE in the banking sector as shown in the table 3.

Table 3a *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.250[a]	0.062	0.018	35.08507

a. Predictors: (Constant), FIRMAGE, FIRMRISK, FIRMSIZE, CSR

Table 3b *ANOVA Statistics*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6970	4	1743	1.42	.236[b]
	Residual	104632	85	1231		
	Total	111602	89			

Table 3c *Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-89.513	69.823		-1.282	0.203
	CSR	-0.001	0.001	-0.162	-0.875	0.384
	F.SIZE	7.792	5.492	0.262	1.419	0.16
	F.RISK	2.139	79.629	0.003	0.027	0.979
	F.AGE	0.209	0.284	0.131	0.736	0.464

From the table it is clear that the value of F is not significant at 0.236 which means the variation caused by independent variable is not significant. The values of Correlation Coefficient (R) and Coefficient of Determination (R Square) are 0.250 and 0.062 respectively which indicate a low degree of association of independent variables with ROA. Similarly, CSR in particular with p = 0.384 does not have significant association with ROA. Therefore, Hypothesis 2 is rejected.

The results of the current study match with that of Toeoh, Welch and Wazzan (1999), Fauzi (2009) and Tuhin (2015). As against our study, most researchers have found a positive relationship between CSR and CFP. According to McWilliams and Siegel (2000) and Lin, Yang and Liou (2009), employment of inappropriate econometric model and failing to measure CSR appropriately leads to lack of homogeneity in results.

Conclusion

On the basis of results of the study, it is concluded that there is a significant correlation between CSR and ROA, Firm Size as well as Firm Age. On the hand, insignificant association was found out in between CSR and ROE. By the same token, CSR has no significant impact on ROA as well as on ROE. On the contrary, Firm Age has significant positive impact on ROA.

This implies that banks behaving in more CSR ways tend to have no effect on ROA and ROE. This suggests that banks should employ their scarce resources in a more prudent way that optimize their ROA and ROE, that is, to make CSR as an investment rather than an expense.

References

Afridi, F. K., Kakakhel, S. J., & Qamer, B. F. (2012). How does corporate social responsibility (CSR) impact employee turnover in universities of Khyber Pukhtunkhwa? *Abasyn University Journal of Social Sciences, 5*(1), 88-98.

Ali, I., Rehman, K. U., Ali, S. I., Yousaf, J., & Zia, M. (2010). Corporate social responsibility influences, employee commitment and organizational performance. *African Journal of Business Management, 4*(12), 2796-2801.

Awan, A. G. (2015). Impact of CSR on firms' financial performance: A case study of ghee and fertilizer industry in Southern Punjab, Pakistan. *European Journal of Business and Management, 7*(7), 375-384.

Awan, A. G., & Iqbal, J. (2014). The role of relationship marketing in building customers' loyalty: A case study of the mobile telecommunication industry in Southern Punjab, Pakistan. *British Journal of Marketing Studies*, *2*(14), 213-221.

Barnea, A., & Rubin, A. (2010). Corporate social responsibility as a conflict between shareholders. *Journal of Business Ethics*, *97*(1), 71-86.

Bolton, B. J. (2013). Corporate social responsibility and bank performance. Available at SSRN 2277912.

Carroll, A. B. (1979). A three-dimensional conceptual model of corporate performance. *Academy Of Management Review, 4*(4), 497-505.

Chetty, S., Naidoo, R., & Seetharam, Y. (2015). The impact of corporate social responsibility on firms' financial performance in South Africa. *Contemporary Economics*, *9*(2), 193-214

Chih, H.L, Shen, C.H., & Kang, F.C (2008). Corporate social responsibility, investor protection, and earnings management: Some international evidence. *Journal of Business Ethics. 79*, 179-198.

Classon, J., & Dahlström, J. (2006). How can CSR affect company performance? A qualitative study of CSR and its effects. http://www.diva-portal.org/smash/get/diva2:6476/fulltext01 (Sep 18, 2015).

Dabbas, M., & Al-rawashdeh, S. T. (2012). The effect of corporate social responsibility on the profitability of the industrial companies in Jordan. *Canadian Social Science, 8*(3), 32-43.

Dobers, P., & Halme, M. (2009). Corporate social responsibility and developing countries. *Corporate Social Responsibility and Environmental Management, 16*, 237-249.

Fauzi, H. (2009). Corporate social and financial performance: Empirical evidence from American companies. *Globsyn Management Journal, Forthcoming*, 1-19.

Freeman, R. E. (1984). *Strategic Management: A Stakeholder Approach*. Boston, MA: Pitman.

Holme, R., & Watta, P. (2000). Making good business sense. *World Business Council for Sustainable Development*. http://www.wbcsd.org/web/publications/csr2000.pdf

Emilsson, L. M., Classon, M., & Bredmar, K. (2012). CSR and the quest for profitability: Using economic value added to trace profitability. *International Journal of Economics and Management Sciences, 2*(3), 43-54.

Ioannou, I., & Serafeim, G. (2010). The Impact of Corporate Social Responsibility on Investment Recommendations. In Academy of Management Proceedings (Vol. 2010, 1, 1-6). *Academy of Management*.

Irwin, T, G,. (2015). Millennials More attuned to corporate social responsibilitiy. Online at: http://www.mediapost.com/publications/article/259367/millennials-more-attuned-to-corporate-social-respo.html Oct 3, 2015

Jiao, Y., & Xie, W. (2013). How does CSR influence a firm's profitability?: A case study of Sandvik. http://hig.diva-portal.org/smash/get/diva2:630572/FULLTEXT01.pdf (Sep 18, 2015).

John, H. (1998). Do corporations have social responsibilities? Free enterprise creates unique problem-solving opportunities. http://fee.org/freeman/do-corporations-have-social-responsibilities/ Sep 26, 2015.

Lemon, K. N., Roberts, J. H., Raghubir, P., & Winer, R. S. (2011). A stakeholder based approach. Measuring the effects of corporate social responsibility. In The Conference Board, Trusted Insights for Business Worldwide (Vol. 3, No. 7).

Lin, C-H., Yang, H-L., & Liou, D-Y. (2009). The impact of corporate social responsibility on financial performance: Evidence from business in Taiwan. *Technology in Society*, *31*(1), 56-63.

Malik, M. S., & Nadeem, M. (2014). Impact of corporate social responsibility on the financial performance of banks in Pakistan. *International Letters of Social and Humanistic Sciences*, *21*, 9-19.

McWilliams, A., & D. Siegel (2000). Corporate social responsibility and financial performance: Correlation or misspecification? *Strategic Management Journal*, *21*(5), 603-609.

Meehan, J., Meehan, K., & Richards, A. (2006). Corporate social responsibility: The 3C-SR model. *International Journal of Social Economics*, *33*(5/6), 386-398.

Miller, M. (2004). Businesses don't have social responsibilities: People do. Online at: https://cei.org/op-eds-and-articles/businesses-dont-have-social-responsibilities-people-do [24/9/15]

Nadeem, A., & Kakakhel, S. J. (2012). An investigation into corporate social responsibility (csr) of public sector universities in KPK. *Abasyn University Journal of Social Sciences*, *5*(2), 14-27.

Porter, M. E., & Kramer, M. R. (2006). Strategy and society: The link between competitive advantage and corporate social responsibility. *Harvard Business Review*, *85*(12), 1-14.

Posnikoff, J. F. (1997). Disinvestment from South Africa: They did well by doing good. *Contemporary Economic Policy*, *15*(1), 76-86.

Preston, L. E., & O'Bannon, D. P. (1997). The Corporate Social-Financial Performance Relationship: A Typology and Analysis. Business and Society, 36 (4), 419-429.

Raza, A., Ilyas, M. I., Rauf, R., & Qamar, R. (2012). Relationship between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP): Literature review approach. *Elixir Financ. Manag*, *46*, 8404-8409.

Redman, E. (2005). Three models of corporate social responsibility: implications for public policy. Roosevelt Review, 1(1).

Samina, Q. S. (2012). Practice of corporate social responsibility in Islamic Banks of Bangladesh. *World Journal of Social Sciences*, *2*(6), 1-13.

Shaheer, H., Nadeem, M. E., & Chaudhary, A. A. (2015). Does corporate social responsibility affect corporate financial performance?. *Studies*, *4*(2), 81-87.

Soana, M. G. (2011). The relationship between corporate social performance and corporate financial performance in the banking sector. *Journal of Business Ethics*, 1-24.

Tsoutsoura, M. (2004). Corporate social responsibility and financial performance. *Center for Responsible Business*. UC Berkeley Working Paper Series. https://escholarship.org/uc/item/111799p2.

Turban, D. B., & Greening, D. W. (1997). Corporate social performance and organizational attractiveness to prospective employees. *Academy of Management Journal*, *40*(3), 658-672.

Ullman, A. (1985). Data in search of a theory: A critical examination of the relationship among social performance, social disclosure, and economic performance. *Academy of Management Review*, *10*(3), 540–577.

Von-Arx, U., & Ziegler, A. (2008). The effect of CSR on stock performance: New evidence for the USA and Europe. CER-ETH-Center of Economic Research at ETH Zurich, Working Paper, (08/85).

Watts, P., & Holme, L. (2000). Corporate social responsibility: making good business sense. *World Business Council for Sustainable Development (WBCSD)*.

Waddock, S. A., & Graves, S. B. (1997). The corporate social performance-financial performance link. *Strategic Management Journal*, *18*(4), 303-319.