IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF THE BANKING INDUSTRY OF PAKISTAN

By:

(KIRAN IMTAIZ) ***(01-221211-005)***

(MBA)

Supervisor:

(Mrs. Hina Samdani)

Department of Business Studies

Bahria University Islamabad

Spring-2022

Majors: FIN

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Names of Student(s): Enroll # 01-221211-005

- KIRAN IMTAIZ

Class: MBA

Approved by:

____

(Mrs. Hina Samdani)

Supervisor

____

(Dr. Shahab Aziz)

Internal Examiner

____

(Iqra Ibrahim)

External Examiner

____

Dr.Syed Haider Ali Shah

Research Coordinator

____

Dr.Khalil Ullah Mohammad

Head of Department

Business Studies

Abstract:

Purpose of the study

The purpose of this research is to investigate the banking industry's corporate social responsibility (CSR), CSR disclosure procedures, and their effects on financial performance. The findings show that overall CSR has increased. The findings and disclosure by every bank in the sample point to the involvement of commercial banks. Their accounting-based financial performance by participating in CSR initiatives and properly disclosing this information. The study's findings help to better understand CSR activities in the financial sector of a growing nation, which actively works to build its financial culture and can promote relations with the financial industry in Pakistan.

Design:

The literature can be explained by a wide variety of factors. Additionally, each factor's significance for this study is defined. Information was gathered for this study using a questionnaire design and a quantitative research methodology. There are 6 sections in the questionnaire. 170 respondents in all were contacted. Through the use of the statistical techniques and SPSS software, analysis has been performed. To make it simple to test the hypothesis, descriptive analysis employed tables and their analysis, while inferential analysis used the regression approach. These techniques were chosen in order to learn more about the subject thoroughly and in accordance with its nature.

Findings:

Examining the impact of Corporate Social Responsibility on financial performance is one of the general conclusions from this study (A study of banking industry).

Practical Implications:

The banking industry can benefit from this journal's findings. It describes in detail the elements that enhance financial performance.

Keywords:

Corporate Social Responsibility (CSR), Financial Performance (FP)

Acknowledgment:

I would want to sincerely thank Almighty Allah for His unfailing kindness. He has taught me strength and showed it to me throughout my life. He has empowered me to overcome any challenges that may come up. I'd want to convey my appreciation to my Supervisor, Mrs. Hina Samdani, who has shown a. strong commitment to finishing this dissertation. I was able to finish my dissertation in the allocated time because to her professional guidance, comforting manner, and continuous support. I want to express my gratitude to my family and friends for being there for me through the good times and bad. The motivation behind my master's degree achievement and completion has come from my family. I am grateful to my parents for being my lifelong inspiration and for their unfailing support. I'd want to convey my appreciation for the aid I've received from my graduate friends, who have helped me during my graduate studies.

Contents

Introduction

1.1 Background

People create businesses in order to allocate their resources for the achievement of a profit-making common goal. They engage with society in order to accomplish this goal. Organizations can be categorized into three categories based on their goals: profit, government, and non-profit organization for profit. Profit-oriented businesses want to increase owners' wealth, and the government organizations specify the laws and social structures through which a corporation may operate and non-profit organizations carry out good activities when needed by society. In the society, there are such organizations do exist. They undoubtedly carry out many tasks, however they are interconnected in a society with good organization. As time moved on, so grew the number of stakeholders, and so did the effect of business on society.

Many companies, including banks, increasingly embrace corporate social responsibility (CSR). (Ehsan et al., 2018). CSR originally developed in the banking industry as a safeguard against financial scandals and the worsening reputation of institutions. In recent decades, firms have enhanced their CSR procedures. piqued the attention of stakeholders, including international regulatory agencies, shareholders, employees, and customers. Due to its growing importance and trend, several financial Institutions have incorporated CSR into their daily operations and business practices, including the banking industry business tactics (Platonova et al., 2016). The function of banks today extends beyond maintaining financial and economic stability. focusing on essential customer services and removing financial constraints.

According to Levine (2005), the banking sector is an essential part of a country's economic stability and progress, and dependability and security result in the public's total external wellbeing. However, average person assessing its effectiveness can clearly see what its job is. Numerous stakeholders, including owners, managers, creditors, there are participants—debtors and regulatory agencies (Yamak and Süer, 2005).

This industry embraced the idea of CSR and its similar difficulties emerged rather late in the business world. It initially ran into environmental followed by social issues (Viganò, 2013)

According to (Lentner, 2015), during the 2008 financial crisis, central banks were put in charge of preserving financial stability and advancing their CSR programs. Concept of CSR has grown significantly during the last few decades in various industries, including the global banking sector (Omur, 2012).

Investors expect banks to maximize profits, but they also want them to be transparent about their tactics and aware of social and environmental risks. An organization's operations model may incorporate CSR as a kind of self-regulation (Sheehy, 2012). It holds a business accountable on a social level to its customers, employees, and stakeholders.

An ethically businesses that are ethical and actively work to reduce their environmental impact are considered to be responsible minimizing the negative effects of corporate operations and maximizing the positive effects of being socially responsible services and products (Sheehy, 2014). Participating in cause marketing, philanthropy, social welfare, disaster assistance, pollution control, and transparency are just a few examples of CSR-related activities that benefit the company and raise the firm's long-term viability in the market.

Corporate social responsibility has gained significance as a means of achieving and maintaining a competitive edge in the fiercely competitive business climate of today. Participation in CSR can have significant advantages for businesses, and these advantages are what motivate them to do so corporate. Social responsibility has an effect on a company's financial performance. Financial results imply assessing the financial goals of the companies to determine whether they are successful or not.

Organizations have several difficulties in today's globalized environment in order to function and generate profits. People are more knowledgeable about businesses, their goods and services, and how they run their operations. More individuals are aware of an organization's efforts to enhance both the prosperity of society and the environment in which they operate.

Companies all across the world are tasked with a new task: meeting the generation's needs for social responsibility. Due to the fact that business activities have an effect on both society and the environment, companies must assume responsibility for their actions.

Less study has been done to evaluate how corporate social responsibility impacts financial performance in less developed countries like Pakistan. Prior studies have tended to focus on wealthier countries. The majority of companies in less developed countries do not pay taxes but are aware of the need of corporate social responsibility. Corporate Social Responsibility is a topic that is often discussed. People today have more resources understanding of the organizations and the work they perform to improve society. Researching the implications of corporate social responsibility on profitability is essential.

Pakistan is a rising South Asian market with the fifth-highest population in the world (World Bank, 2020). One of the forthcoming 11 countries most anticipated to have significant economic growth in the twenty-first century is this one (Goldman Sachs, 2007). However, it is dealing with a wide range of social and economic problems, such as political and economic instability, a lack of healthcare and educational facilities, corruption, and human rights violations, child labor, low living standards, and water pollution due to improper management of industrial waste deforestation as well. As a result, there is an urgent need to support CSR research in Pakistan in order to raise awareness of CSR among the general public and regulatory bodies and to emphasize its necessity and importance.

Many Pakistani companies have included CSR regulations into their operating practices as a consequence of realizing the long-term advantages of CSR activities and their transparency (Khan, 2018). Businesses, though, Due to a lack of the necessary resources, Pakistan has many difficulties while implementing and engaging in CSR necessary understanding of CSR concepts, proper disclosure of those concepts, and insufficient motivation (Majeed, 2015).

A few studies on the relationships between CSR disclosure and firms' financial performance (FP) have been carried out in Pakistan, with the bulk of them focusing on industrial concerns (Khurshid, 2016). CSR, which is assessed in terms of aid and investment in, and the financial industry are given less attention philanthropy, health, education, and communal welfare (Bagh et al, 2017). There hasn't been much focus on consideration given to the importance of additional stakeholders as outlined by stakeholder theory. Similar to that, CSR-related studies and disclosures in Pakistan are insufficient. Since it has not been a common practice to disclose CSR initiatives (Lund-Thomsen, 2004).

CSR practices were developed and better understood in Pakistan after 2008, when the Security and Exchange Commission of Pakistan (SECP) first established the Companies General Order. CSR and corporate transparency policies (Ehsan et al., 2018) While CSR standards have improved over the previous ten years Due to the voluntary character of its disclosure, they are still in the development stage after years (Khan, 2018).

As opposed to developing nations, developed nations like the UK and the USA place a greater emphasis on social responsibility. In developed countries, several research have been done on this topic, and they have produced diverse results about the effect of CSR on business financial success. But there's a demand to carry out this kind of study in developing nations. we made the decision to research this subject in the within the framework of developing nations like Pakistan.

1.2 Research objectives

The purpose of the study is to ascertain the relationship between CSR and financial performance. The study's independent factors are the community, the environment, the community, and the consumers, whereas the dependent variable is financial performance. The study's goals have been created as follows.

- To determine how community affect financial performance.
- To determine how the environment affects financial performance.
- To determine how employee financial performance.
- To determine how customer affects financial performance.

1.2 Purpose of the study

Understanding the relationship between banking and CSR in Pakistan is the goal of this study. It adds to the body of knowledge on CSR disclosure, practices, and methodological measures by developing a CSR index to assess and clarify the relationship between CSR and the financial success of Pakistan's listed banks.

This research also looks at CSR transparency and practice as well as its impact on the financial performance of Pakistani listed banks. The fundamental argument for this study nations is that the majority of research on CSR disclosure concerns has been done in developed nations (Gray, 1995). Studies on CSR activities in poor countries are also insufficient (Hossain et al., 2006). Research on the connection between financial success and CSR disclosure in Pakistan is insufficient, particularly in the banking industry. In order to promote corporate transparency in CSR programs in Pakistan, the participating regulatory authorities will gain from this study's creation of a standard framework for CSR practices and disclosure and will oversee its implementation.

Since making CSR projects public has not been a typical practice, stakeholder theory-based research on Pakistani CSR and disclosure practices is limited (Khan and Nomani, 2002). Dynamic efforts are being made to ensure that the market force, banking financial culture, and established banking CSR processes may all be improved while still presenting a nation's customs that are, however somewhat, different from Western culture and a capitalist economy. CSR may encourage reconciliation with Pakistan's banking industry by imparting knowledge.

The following is the study's primary goal:

- Research elements that support financial performance in CSR activities and the link between CSR factors and business profitability.
-

1.3 Research Questions

- Does CSR have a materially beneficial effect on the financial performance of the companies?
- Is there a connection between a company's financial performance and its commitment to social responsibility? How substantial is that link if it exists?

1.4 Problem statement

The concept of CSR has been well researched, is widely accepted, and includes key components that have contributed to the success of businesses and their continued existence. he majority of prior research on the connection between CSR and FP, nevertheless, is still underway. open the doors, unexplored, unsettled, and confusing to carry out more analysis on this specific topic. (2011) Wijesinghe and Senaratne. In less developed countries like Pakistan, the issue of CSR has not yet been identified and researched. The Developing countries prioritize maximizing profit. Pakistan is the CSR crusade is only a few years old and not well known. Moreover, there aren't many businesses in Pakistan that practice CSR policies in these businesses most businesses are multinational.

The position of CSR in underdeveloped countries is now in its infancy (Mujahid and Abdullah, 2014). The past several years have seen a significant rise in interest in CSR as a result of the implementation of globalization, industrialization, and trade regulations. Consequently, business complexity has grown increased requirements for greater transparency and higher accountability generally; Corporate accountability is necessary (Jamali and Mirshak, 2007). As stated by (Malik and Nadeem, 2014). In recent years, CSR has become a well-known and well-like

d issue. In addition, claimed that today, the vast majority of businesses in the commercial CSR reports from throughout the world and their corresponding statements.

The stakeholders in corporate affairs pushed for increased social, economic, and environmental advantages. Modernization, awareness of new technologies, and commercialization, integration of economies, and a volatile economy. The corporation is under pressure from the economy and globalization. Given this fact, emerging nations must have some means of surviving in international trade, especially when they are doing so. With these factors, a difficulty with attention, and a knowledge gap, CSR and FP principles are essential for the long-term performance and goodwill of the organization. We consider it crucial to study the impact of CRS on financial performance.

1.6 Significance of the study

This research empirically investigates how CSR affects the financial performance of the selected institutions, and it will be significant in the reasons listed below. We found that fewer impoverished countries than rich ones have completed the bulk of CSR research, such as Pakistan, where CSR practices and its significance are not widespread widely known. Consequently, this study will be helpful in this respect. Additionally, the findings and suggestions from the study will be enormous significance to interested parties when performing this type of study Additionally, the current study will offer literature that, in turn, will improve understanding of them. The study has ramifications for society as well as in-depth comprehension regarding the significance of CSR initiatives and acceptable social behavior. It will aid in the development of solutions for policymakers by sustainable growth is a result of both the economic and social factors will advance, particularly for banks being researched by demonstrating how CSR has affected FP.

1.7 Delimitations

The scope of the study is limited take banks of Pakistan and multinational banks which operate in Pakistan to collect data.

Literature Review

2.1 Corporate social responsibility

Everywhere we turn, the business world is presently discussing corporate social responsibility (CSR). It is encouraged that large corporations behave in a socially responsible way. (Davis, 1960) "Actions and choices done by business executives that go at least in part beyond the immediate economic and technological interests of the firm," according to the definition of corporate social responsibility (CSR). Corporate Social Performance (CSP) and CSR have received increased attention from academics since the 1970s (Carrol, 1979).

A well-known author intended for CSP to be defined as having four components: economic responsibility, discretionary responsibility, ethical responsibility, and legal responsibility (Carroll, 1979). According to (Carroll, 1979), directors or officers of businesses that have chosen the Corporate Social Performance must abide by the standards, the components from the CSR definition that take into account a precise description of where, why, how, and how the organization's owners are connected to social responsibility, as well as a rundown of the CSR's fundamentals and regulations. (Cochran and Wood, 1984) looked into the many methods used to combine the social and financial performance in order to evaluate the CSR using a reputational measure that they had previously utilized. They also highlighted the importance of morals.

(Hopkins, 1999) asserts that the stakeholders of the companies are treated ethically or in accordance with CSR, in a socially responsible way. A firm has stakeholders on both the inside and the outside. As a result, conducting business in a socially responsible manner fosters the growth of stakeholders both inside and beyond the company.

CSR, according to (McWilliams and Siegel, 2001), is a compilation of all of these activities that are not mandated by regional law. Despite their nature, businesses should operate in a way that is consistent with moral ideals, foster economic progress, and make it a basic component of governance, according to (Mughal, 2014). Generally speaking, some academics consider the primary goal of businesses being to maximize profits. It is the company's job to use its resources to boost profits. The advocate for this viewpoint added external CSR initiatives are interference, disregard for rules and laws, morally repugnant censure, assault, violation of shareholders' rights, and unfounded the taking of an owner's assets and property (Lantos and Henderson, 2005).

The proponents of this concept believe that organizations are struggling with the concepts of CSR and sustainability everywhere we go in the commercial sector. CSR is increasingly crucial to their strategy, goals, and culture and the mission statement. Corporations are, for the most part, motivated and inspired to behave in a way that furthers social responsibility and must contribute to societal growth (Iqbal et al., 2013)

(Carroll, 1979) provides statistics to support this idea, showing that since the 1970s, many research researchers have studied CSR and given it more attention than CSR CSP and when combined. Businesses are involved, investing resources in CSR initiatives with the hope of enhancing FP and corporate image. On the other hand, he asserted that there is not analogous, and no study comes to the same conclusions (Balabanis et al., 1998)

A stakeholder is "any group or individual that may impact or is influenced by the success of the organization's objectives," according to the wide definition (Freeman, 1984). Regarding their influence on an organization, (Clarkson ,1995) divided stakeholders into two categories:

principal and auxiliary parties. The main stakeholder of an organization determines its future and level of support. This group includes workers who are strong, legitimate, and urgent (Mitchell et al., 1997). Their commitment is crucial to the survival and growth of an organization since they are involved in its core operations (Clarkson, 1995; Mitchell et al., 1997). The effectiveness of the CSR strategy will also depend on how the company's CSR activities affect employees' opinions of and behavioral intentions toward their employer.

Different professions have different definitions of CSR, ranging from the obligation of a corporation to maximize shareholder value in the early economic arena to the obligation of enterprises to take their effects on society into consideration. used the stakeholder perspective of CSR in this study. It asserts that CSR serves to meet stakeholder expectations rather than enhancing social welfare on a whole (Mitchell et al., 1997). Since different CSR activities may have diverse effects on particular stakeholder groups Some CSR initiatives may be well received by primary stakeholders, such employees, but not by secondary stakeholders. It could be challenging to please all stakeholders given the frequently limited resources that a firm can devote to CSR. Therefore, the company should decide what is best for them which CSR efforts can encourage employee engagement if employees are seen of as the main stakeholder group that the organizations need to please, (Clarkson ,1995).

Corporate charity decisions are frequently made by management teams at their discretion. According to some academics, corporate philanthropy helps to improve a company's brand and image while also easing the load on the government, (Clarkson ,1995). Others, nonetheless, claimed that corporate charity may be entirely a company cost that directs a company's valuable resources to unrelated operations. Corporate philanthropy stands in the way of both business citizenship and maximizing shareholder wealthy.

Management teams frequently decide on corporate charity at their discretion. Some academics assert that corporate philanthropy lessens the burden on the government while enhancing a company's brand and image. Others, however, argued that corporate giving may be a fully corporate expense that diverts a company's important resources to unrelated endeavors (Friedman, 1970). Corporate generosity, in the opinion interferes with both good corporate citizenship and maximizing shareholder value.

2.1.1 Philanthropic obligation

To become a reputable tradeable citizen is the goal of philanthropic duty. The most significant duty is this one. Its main focus is on providing comfortable amenities, such as raising the standard of living for employees and local societies, and eventually for all people, (Clarkson ,1995). Particular aspects of the sectors' charitable duties might be contentious thus it requires special trainings. For clarification, we use the example of people who concur on where to get the money from, how much of it there should be, and the basis upon which these judgments should be based.

2.1.2 Ethics-Related Duties

Moral responsibility entails acting in a just and morally righteous manner while abstaining from immoral behavior. The key concept of moral obligations that Carroll clarifies and defines is that moral obligations go above and beyond what is demanded by society in terms of law and money (Friedman, 1970). Corporations have a wide range of moral obligations that encompass many different values. The government and the people truly expect moral behavior from one another, not from the law, the Shell case, when the government's decision to permit the installation of an oil platform in response to a movement and difference by humanity and the people was reversed.

2.1.3 Duties in law

As stated in the phrase, this refers to abiding by the law and upholding legal principles. The organization's legitimate responsibility places a strong emphasis on the fact that transactions must follow the regulations and obey the law (Mitchell et al., 1997). The cost to businesses might be far higher if they choose to turn away from their legal obligations. Among them is the enormous U.S. software industry. Due to the way it managed its anti-competitive position improperly to harm its competitors, which led to harsh clearings against the companies, Microsoft has been dealing with a lengthy consecutive antimonopoly issue in Europe.

2.1.4 Responsibility for finances

It denotes being successful. The responsibility of corporations to provide goods and facilities that people want and sell them for a profit intrigues me. Businesses have owners who seek a fair return on their investments, workers who want to be treated well and properly rewarded for their work, and customers who want better products at fair costs (Clarkson, 1995; Mitchell et al., 1997). The outcome is the company's main responsibility is to operate financially and professionally. Additionally, this serves as the pyramid's base upon which the additional levels are supported.

2.2 Financial performance

A company's financial performance is measured over a specified time period to ascertain how well it is utilizing its resources to generate income.

In his study, (Weber, 2009) stated that "FP" is a combination of the financial situation and a firm's capacity to adhere to its commitments and policy requirements. Additionally, Weber said that lengthy commitment of a concern indicated by its terms or policy commitments, it owes the expected financial outcomes of carrying out a specific course of action and set of rules at a specific time. These tactics and methods must be constant, and their normally lasts for two to three years. (Marshall's,1920), FP expressed as an act of undertaking in the usual sense FP refers to the financial activities, but in a more general sense the extent to which financial or monetary goals have been attained an object.

Additionally, by implementing certain policies and plans at a specific time, FP is the process of assessing the financial performance of business activities.

Some of the assumptions and constraints that must be taken into account were used by (McGuire et al., 1986) to gauge the financial performance of a company; (1) Invoicing indicators are historical and only record historical data information; (2) unbiased accounting proxies; and manipulation and the impact of various accounting practices there are steps and procedures. (Moore and Spence, 2006) suggested that despite their shortcomings, accounting-based proxies are generally superior option compared to other methods, including market-based ones. Thus, it broadens the use of accounting measurements to the evaluation of financial outcomes.

CFP is a multidimensional construct, just like CSP. Previous investigations into the relationship between the CSP and CFP have included a variety of financial performance metrics for businesses (Preston and O'bannon, 1997. Most empirical studies now in existence have either used an accounting-based measure of profitability like return on assets (ROA) and return on equity to analyze CFP or a market-based measure of return from the stock market (ROE). Although academics often consider accounting-based and market-based measurements to be markers of CFP, a disagreement over which one is a better indication of CFP when investigating the CSP-CFP link occurs since these two CFP measures have different conceptualizations (Margolis and Walsh, 2003).

Theoretically, scholars see accounting-based financial performance measurements as representations of a company's recent or near-term financial performance. Accounting-based CFP measurements can, in certain cases, accurately reflect an organization's internal operational efficiency (Kang et al., 2010). Furthermore, it is asserted that accounting returns depend on managers' discretionary allocations of capital to various initiatives and policies; as a result, they might reflect an organization's managerial effectiveness and internal decision-making ability. Critics of accounting-based CFP assessment continue despite empirical data suggesting that CSP appears to be more closely connected with those metrics than with market-based ones (Margolis and Walsh, 2003). First off, accounting performance may lack impartiality and informative value since it represents managers' discretionary decisions.

Strategic and the board and upper management of the company are primarily accountable for the financial success of the company. A firm's performance is mainly efficiency and effectiveness of its internal and external operations (Kang et al., 2010), financial performance of the firms can be only enhanced when corporate governance rules are incorporated in the company policies and standard of procedures for the company's financial expansion. precise examination of the financial statements would be a measure of the financial performance as comparison of past and current performance is necessary. Dispersed ownership may lead to agency conflict, proper supervision of the corporate governance rules may help to enhance the overall performance ones (Margolis and Walsh, 2003). As Stewardship theory states that managers working with the responsible decision-making power would help the management and the shareholders to work with enthusiasm and with would help to reduce the agency problem between the two major stakeholders and the financial performance of the organization would improve day by day. Providing incentives and rewards for the motivation of the employees and management would compel them to work in the benefit of the company.

2.3 Corporate social responsibility and financial performance

As was already indicated this research's objective is to ascertain how corporate social responsibility affects Pakistan's banking industry's financial performance. Consequently, it is essential to review the completed investigations with this topic in Pakistan.

The regression model was used for analysis. Consider that findings show that the effectiveness of corporate social responsibility practices is positively correlated with financial considerations. evaluation in Pakistan's banking industry. Additional research examined the Ten listed banks were used as a sample to examine the link between corporate social responsibility and financial performance.

In the recent literature, there has been extensive research and development on the connection between FP and CSR. Researchers cannot agree on anything, despite the possibility of a neutral, positive, or negative association between CSR and FP (Ullmann, 1985). There in the CSR literature, there are three schools of thinking.

First a school of thought discovered Positive findings have been found regarding the relationship between CSR and FP (Preston and O'bannon, 1997; Mutasim and Salah, 2002; Toutsoura, 2004; Choi et al., 2010; Weshah et al., 2012; Torugsa, 2012; Iqbal et al., 2013; Govindarajan and Amilan, 2013; Murtaza et al., 2014).and advised spending money on CSR initiatives because CSR improves the value of the firm.

According to the second group, FP and adopting the notion of maximizing the firm's profit by utilizing its resources have a bad connection. They reject the notion that investing in CSR financially (Margolis and Walsh, 2003; Makni et al., 2009; Cellier and Chollet, 2011; Wati et al., 2011; Iqbal et al., 2012).

The third school of thinking looked at the CSR and FP neutral link, revealed variety of relationships, recommended taking into account numerous additional dynamics that may obstruct scientists who reached a sound conclusion (Kang et al., 2010; Iqbal et al., 2012; Chek et al., 2013; Allen, 2014; Adeneye and Ahamad, 2015).

Stakeholder and agency theory make the assertion that CSR has a positive effect on financial performance. CSR improves a company's competitive edge from an innovation standpoint by cutting costs, generating value for stakeholders, and building internal capabilities like becoming an industry pioneer. The three main ways that CSR influences a company's ability to compete are through collaboration with various stakeholders, the creation of new business opportunities through the resolution of pressing societal issues, and the improvement of working conditions, which boosts employee morale and demonstrates greater regard for employees. Thus, by making investments in excellent social responsibility, a company increases its reputational capital and, as a result, improves its financial success.

Additionally, CSR aids in fostering positive relationships with clients, luring in motivated staff, reducing business risk, and generating great word-of-mouth that could otherwise come at a cost. Comparatively to non-CSR enterprises, CSR can improve company reputation and reduce financial risk, resulting in organizations having a decreased likelihood of going bankrupt.

CSR has a negative impact since it serves as a cover for management's imitative fraud. Despite their covert immoral tactics, critics have charged CSR with projecting a positive image. Similar to this, the motivation behind CSR is almost always some sort of self-intrigue, regardless of whether the movement is primarily motivated by corporate concerns or also includes elements of what, at least on the surface, looks to be an altruistic concern. The unstated presumption is that CSR's motivations go beyond the commercial imperative.

One of the primary topics of inquiry and investigation on the subject of social responsibility today is the connection between social welfare and business profitability. Making money is a business's core obligation, and shareholders' interests are the only ones that should be taken into consideration while making managerial choices. He contends that moral and discretionary criteria are unimportant and that making decisions with these criteria in mind could be detrimental to a company's financial performance. Social issues can be just as crucial in determining long-term performance as market ones, and as a result, they should be given the same consideration and in-depth study as the market environment.

Some studies contend that socially conscious actions incur extra costs that could put a company at a competitive disadvantage with less socially conscious businesses. These increased expenses may result from initiatives like employee welfare programs, charitable giving, community improvement, plant upkeep in underdeveloped areas, and the adoption of environmentally friendly policies.

The performance of an organization's stock market should be positively correlated with its sense of responsibility. These authors speculate that their findings may be explained by better ties with key banks, investors, and governmental entities are some of the participants. Since making environmentally conscious decisions typically results in less waste and hence fewer expenditures, a firm may benefit from CSR. For instance, to reduce waste-water discharge, a Ford factory in Texas completed improvements. In addition to lowering municipal expenses due to pollution, this is thought to have also saved the firm millions in fines. Increased shareholder investment in these companies can boost employee morale, consumer goodwill, and connections with government authorities, which may result in a decrease in regulatory costs.

In addition to the evident link between CSR and increased profitability, businesses also realize the market's demands that they manage product liability risks, environmental consequences of their facilities, and the health, safety, and well-being of their staff. Therefore, a link between social initiatives and improved financial success has been suggested by several studies on CSR, business ethics, and social sponsorship. Additionally, they have demonstrated a link between social endeavors and customers' positive affective, cognitive, and behavioral responses.

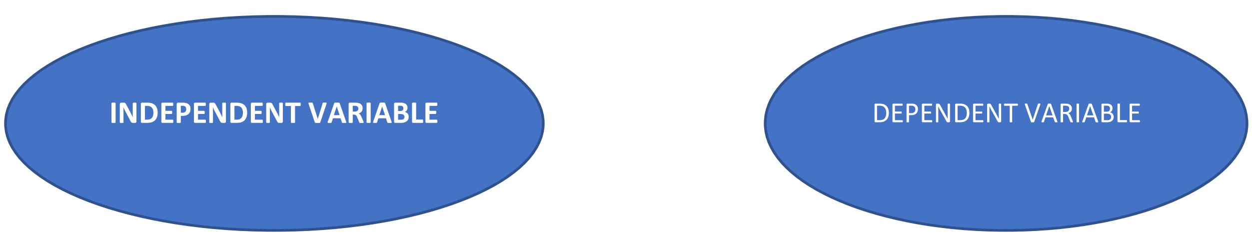
Literature makes it clear that many businesses understand the connection between raising stakeholder expectations through social responsibility and profitability. Our analysis revealed several problems This included the notion of a CSR-business strategy. It became evident that making CSR a crucial element of corporate strategy is very advantageous for evaluating and measuring CSR and identifying how it affects earnings.

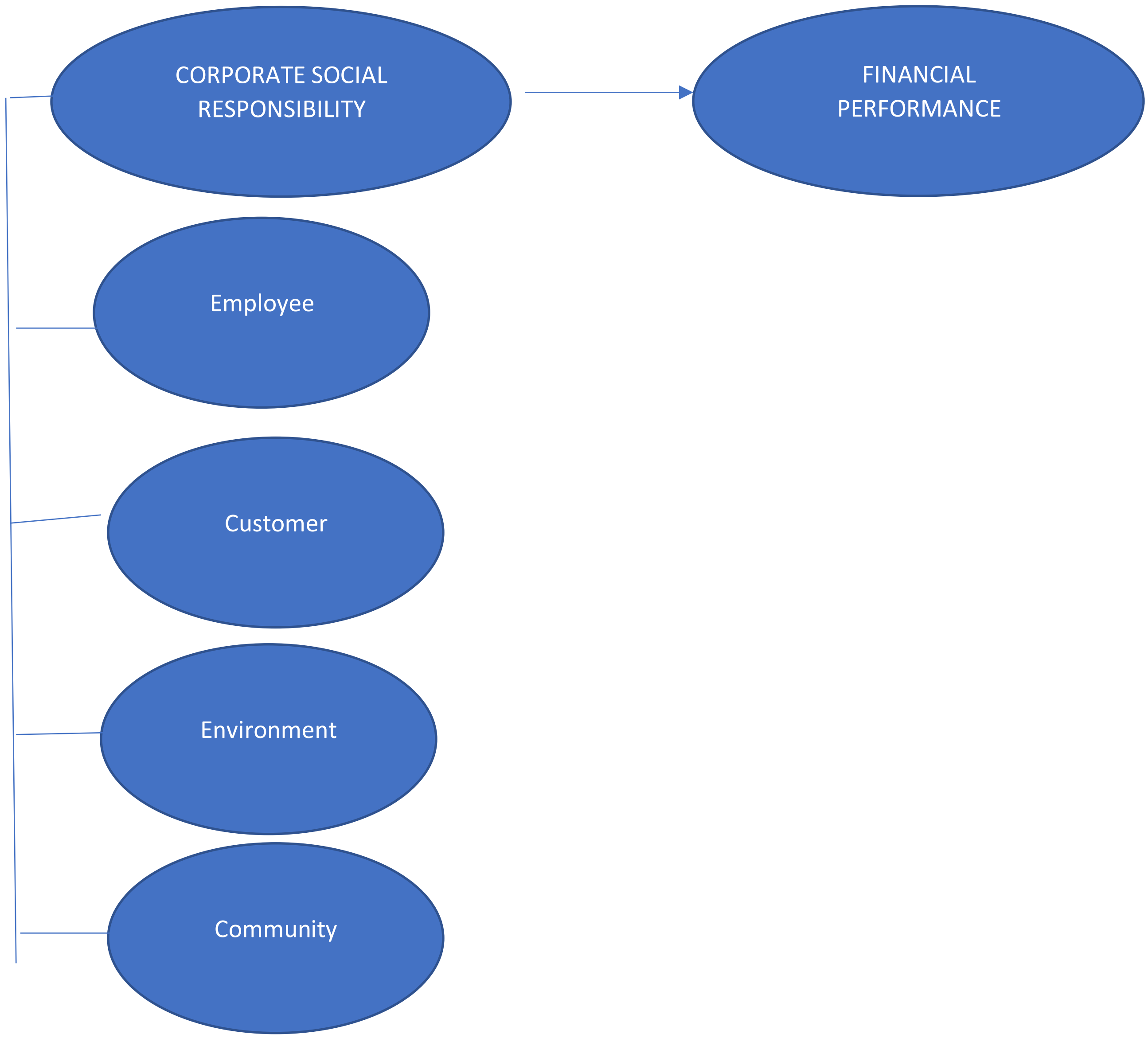
A CSR-focused approach may result in greater financial flexibility in the form of higher social investment. Business strategies are essential to CSR. Business strategies are essential, as evidenced by their knowledge of the link between socially responsible investment and reputation and their desire to positively affect the society in which they operate.

2.4 Theoretical framework

In excellent contribution to the body of the analysis of empirical and theoretical literature revealed information on the connection between CSR and businesses' financial success, and the majority of the research have taken taking developed countries into consideration, yet there is very little evidence from the least developed countries, such a Pakistan. In additionally, the current literature is insufficient and analogical and agreement, and it requires evidence from less developed countries. Thus, the objective of the study is to examine the research on CSR and FP in order to address the knowledge gap identified in the literature and to make insightful recommendations to professionals in the banking industry and decision-makers.

<u>Conceptual framework:</u>





2.5 Development of hypothesis

In order to document the data from developing countries, we suggested the following hypothesis based on the extensive literature study that was done on how CSR affects businesses' financial performance Pakistan and to add to the body of writing already in existence:

The following hypothesis are constructed on the foundation of the conceptual model mentioned above.

H1: There is a considerable connection between personnel and CSR.

H2: There is a tight connection between communities and CSR.

H3: The relationship between CSR and consumers is important.

H4: CSR and the environment have a major connection.

H5: There is a favorable relationship between CSR activities and an organization's financial performance.

Methodology

3.1 Introduction

The study's sample is discussed in this section, data gathering methods, and variables in detail. The key objectives of this study are to evaluate and investigate how CSR factors including employee, environment, community, consumer, and charitable efforts affect financial success. This section also discusses the statistical methods utilized to establish the cause-and-effect relationship between the variables being studied. It entails looking for current and pertinent information on a topic you have chosen. The objective of the study process is to bolster the previously mentioned facts. A range of sources, including websites, journals, books, research papers, personal experiences, surveys, and questionnaires, can be used to collect the data. The research is done using a variety of techniques, including study, observation, experimentation, comparison, reasoning, and analysis. This research has been done to investigate the relationship between corporate social responsibility and the Pakistani banking sector's financial performance.

3.2 Methodology

Procedures for acquiring data and identifying the sort of study being conducted are referred to as "research methodologies" in this context. The mono method, the multi method, and the mixed approach are three different types of data collecting approaches. Since the results are trustworthy and dependable, the mono approach was utilized as the research methodology for this study, which is quantitative in character. Statistical data analysis techniques are utilized to quantify the results of this inquiry. The questionnaire will be used to assess and quantify the data. The data for this source was compiled using sources, both primary and secondary.

3.3 Data Collection Methods

The main strategy for collecting data is utilized to examine the effect of corporate social responsibility on financial performance. Through the use of a structured questionnaire, data is gathered. A five-point Likert scale is used in the survey. On a Likert scale of 1 to 5, the study participants were asked to rate the questions and items.

From earlier investigations, significantly altered version of the questionnaire was created. Target respondents were given questionnaires to complete to research how corporate social responsibility affects financial success. Additionally, past studies, books, articles of study, experiments, etc. were employed to collect secondary data. Secondary data was gathered to support the literature. However, it was not viable to rely solely on secondary data.

3.4 Sampling Procedure

Choosing the appropriate sample method is crucial while conducting a study. Conducting reliable and genuine research analysis requires using an accurate sample size and reference scale. Probability sampling and non-probability sampling are the two different categories of sampling procedures. We have utilized non-probability sampling since it is the most reliable sampling strategy for our inquiry.

3.5 Arbitrary sampling

This study uses a practical sampling approach. Convenience sampling is focused on the ease of the researcher or the item, as the name suggests. In convenient sampling, a sample is chosen from a group of people who are simple to get in touch with or reach. This tactic relies on collecting information from participants in the public who are ideally accessible to participate in the study. You may gather replies using this sample technique anywhere and at any time. The study demands that this methodology be applied.

3.6 Population

The population contains every element from the data collection. A country's community may be referred to as its total population or only a section of it. However, the sample represents a very small portion of the population. The sample is used to carry out research (Flick, 2015). Since the current study is being done in Pakistan, Pakistani institutions are represented among its participants. Participants from the institutes listed below were taken into consideration since they had the requisite expertise for this study and were linked to them.

Banks

3.7 Sample Size

Selecting an appropriate sample size and number of observations is crucial in research. Without the proper sample size, conclusions may not be generalizable and data may not be reliable. The sample for the study consisted of 169 respondents from banks who works for CSR. The sample size and degree of confidence were determined using Taro Yamen's method.

3.8 Time Frame

The data obtained by organizations employing surveys will be examined all at once in this cross-sectional research.

3.9 Analysis of Data

After the data collecting procedure, a number of tests were employed for the data analysis. The relationship between CSR and financial success has been investigated. using statistical techniques for statistical analysis, such as regression and correlation analysis, with the use of the SPSS system.

3.10 Scale/Measurement Used

Three independent variables—employee, community, environment, and customer—as well as one dependent variable—financial performance— are used in this research. The study's ability to clearly assess the data through comparisons and by stating whether a responder had a positive or unfavorable view about each questionnaire item since the study employed a five-point Likert scale. A five-point Likert scale was used to measure each variable in the study.

Result and discussion

4.1 Introduction

The results of the data gathered through the structure questionnaire have been described in this section. The reader will have a thorough understanding of the whole body of information, including how it was organized, where it came from, and the histories and credentials of those who contributed to it, by the time this part is finished. We choose industry Customers, the community, employees, and the environment serve as the independent variable, with financial performance serving as the dependent variable. for this particular study. The questionnaire was created to gather information. The Liker scale with five rankings was employed. All comments were gathered based on demographics.

4.2 Reliability Test (Cronbach Alpha)

The reliability of the survey items has been assessed for each variable in this study using the reliability test. According to Cronbach's alpha values, there are four levels of dependability (Hinton et al., 2004). Between 0.50 and 0.70 on the Cronbach alpha scale, dependability is moderate, between 0.9 and above, it is high, and between 0.50 and 0.70, it is poor. High dependability is indicated by values between 0.70 and 0.9. All three of the variables used in this study display reasonable reliability, as seen by the results of the SPSS reliability test, which are presented in the numbers below in the table.

Table 1 (Cronbach Alpha)

Variables	Accepted Range	Cronbach Alpha	No. of items
Employee	0.70-1.00	0.821	3
Customer	0.70-1.00	0.643	3
Employee	0.70-1.00	0.599	3
Community	0.70-1.00	0.744	3
Financial Performance	0.70-1.00	0.849	5

4.3 Correlation

Correlation both measures and explains the degree of the relationship between the dependent and independent variables. Correlation, which can be positive or negative, shows whether the variables are positively or negatively related. Two variables are seen to move in the same direction when they have a positive correlation, meaning that when one increases, the other must likewise increase. A correlation coefficient has a range of -1 to +1. Positive correlation is the sign of correlation that denotes a direct link, according to definition. The sign of a correlation that denotes an inverse relationship between the variables is referred to as "negative correlation." Pearson r is the correlation coefficient that is most often utilized.

Table 2 Correlations

		customer	**Environ-ment**	**community**	**employee**	**Financial perform-ance**
Customer	Pearson correlat-on	1	.235**	.487**	.577**	.261**
	Sig. (2-tailed)		.002	.000	.000	.001
	N	169	169	169	169	169
Environment	Pearson correlat-on	.235**	1	.696**	.512**	.757**
	Sig. (2-tailed)	.002		.000	.000	.000
	N	169	169	169	169	169

Community	Pearson correlat-on	.487**	.696**	1	.520**	.889**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	169	169	169	169	169
Employee	Pearson correlat-ion	.577**	.512**	.520**	1	.575**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	169	169	169	169	169
Financial performance	Pearson correlat-on	.261**	.757**	.889**	.575**	1
	Sig. (2-tailed)	.001	.000	.000	.000	
	N	169	169	169	169	169

**. Correlation is significant at the 0.01 level (2-tailed)

4.4 Regression Analysis

Regression analysis is a different phrase that is utilized while analyzing the data. This is also a crucial factor for determining whether the variables are dependent or independent, and if their relationships are direct or indirect proportional. For the research's variable analysis, we employed linear regression. When these outcomes are obtained from the whole process, they can provide the most pertinent and trustworthy data.

Table 3 Model summary

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate
1	.946[a]	.895	.892	.12862

a. Predictors: (constant), Customer, Environment, Employee, Community

R value indicates a straightforward correlation. R^2 indicates the degree to which "financial performance" can be explained by community, employee, customer, and environment. however, the value of r is 0.946 (94.6%) which gives a strong indication of a high degree correlation between community, employee, customer, and environment (independent variable), and financial performance (dependent variable). R^2, which is 0.895 (89.5%) very high with respect to this study. however, adjusted R^2 demonstrates how the theoretical model has been fitted. consequently, adjusted R^2 is 0.892 (89.2%) good fit in this study, which is a good sign.

4.5 ANNOVA

This Annova test explains the derivations in the dependent variable. In this instance, the model is significant. since the p-value is less than 5%. because the value is less than 0.05 at a 95% confidence level, the last column of table "sig" shows the value 0.000, clearly showing that our regression model fits the data. As a result, at the 95 percent confidence level, the model was strongly fit.

Table 4 Annova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.140	4	5.785	349.693	.000[b]
	Residual	2.713	164	.017		
	Total	25.853	168			

a. Dependent Variable: Financial Performance

b. Predictors: (constant), Customer, Environment, Employee, Community

4.6 Coefficient

Table 5 coefficient

Model		**Unstandardized Coefficients**		**standardized Coefficients**	**t.**	**Sig.**
		B	**Std. Error**	**Beta**		
1	**(Constant)**	.691	.158		4.365	.000
	Customer	-.366	.038	-3.26	-9.626	.000
	Environment	.142	.045	.122	3.190	.002
	Employee	.245	.031	.275	7.810	.000
	Community	.826	.040	.820	20.632	.000

a. Dependent Variable: Financial Performance

4.7 Data Finding

this table indicates the magnitude and significance of the relationship between variables of the study based on the concept.

Table 6

Variables	Significance level	Results	Accept/Reject
Employee	0.000	positive impact on financial performance	hypothesis accepted
Customer	0.000	positive impact on financial performance	hypothesis accepted
Environment	0.002	positive impact on financial performance	hypothesis accepted
Community	0.000	positive impact on financial performance	hypothesis accepted

Conclusion and recommendation

Conclusion

This study contributes to the body of knowledge on CSR, its disclosure, and its application in the context of Pakistan, a poor country, in a number of ways: The first part of this study looks at how CSR practices and their disclosure affect the financial performance indicators of Pakistani banks. Prior studies have not given adequate consideration to the relationship between CSR disclosure and financial business success, and those that have been done so far have yielded contradictory results. This research intends to fill the vacuum in the literature that currently exists as a result. The second area this report discusses is CSR disclosure actions in Pakistan.

When disclosing CSR data about environment, commercial banks suggests that the Pakistani government needs to revise its CSR policies.

Furthermore, giving incentives to the banks could improve their CSR disclosure and procedures. Last but not least, in accordance with stakeholder theory, this study has developed a CSR index that will help banks and other stakeholders comprehend the breadth and depth of CSR and its disclosure in Pakistan. There are just 20 registered commercial banks in Pakistan that are covered by this study; however, future researchers could widen their scope of inquiry. The results of CSR disclosure practices employed by Islamic banks operating in the South Asian Association for Regional Cooperation (SAARC) region and those used by conventional banks may be compared in order to further analyze this attempt.

This study's research indicates a strong and positive correlation between corporate social responsibility and financial performance. The analysis's result that there is a connection between corporate social responsibility and financial performance is consistent with this theoretical theory.

Recommendation

We offer some ideas that any type of company, not only banks, may adopt after observing the results of displaying CSR policies and their impact on Financial Performance. The company should have a CSR policy in place so that it is ready to help the community when needed by offering a number of benefits. It is important to develop the CSR strategy in a way that benefits the company as well. The Board of Directors or other higher corporate authorities must approve the CSR policy. The CSR policy should not simply exist in written form. The CSR policy should be in place for a predetermined amount of time before being reinstated.

Based on what has been demonstrated and discussed above, it can be claimed that banks should fulfil their social obligations since doing so will enhance Pakistan's society, environment, and overall economy and foster a favorable perception of banks among all stakeholders. Banks may present themselves as ethical businesses, which will enhance their total financial success. The government should take responsibility for encouraging banks to invest in the wellbeing of the communities, countries, and environments in which they conduct business and generate profits.

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Questionnaire

Name: ______________________

Gender: _______________________

Maximum education level: ________________________

Working organization: __________________________

Designation: _____________________________

Work experience ______________________

1	2	3	4	5
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

Employee (E)

			SA	A	N	DA	SDA
			1	**2**	**3**	**4**	**5**
E1	CSR use an affective environmental strategy						

E2	CSR Improved retention and organizational commitment						
E3	CSR reduce the gap between the employee and the firm						

Customer (CS)

		SA	**A**	**N**	**DA**	**SDA**
		1	**2**	**3**	**4**	**5**
CS1	CSR give value to the customer					
CS2	CSR creates business opportunities for consumer					
CS3	CSR guide toward the future					

Environment (EN)

		SA	**A**	**N**	**DA**	**SDA**
		1	**2**	**3**	**4**	**5**
EN1	CSR help to protect the environment					

EN2	CSR help to control pollution					
EN3	CSR reduce the energy					

Community (CM)

		SA	**A**	**N**	**DA**	**SDA**
		1	**2**	**3**	**4**	**5**
CM1	CSR help in development and community					
CM2	CSR make business globalize					
CM3	CSR help is profitability for the firm					

Financial performance (FP)

		SA	**A**	**N**	**DA**	**SDA**
		1	**2**	**3**	**4**	**5**
FP1	CSR help in boosting sales					
FP2	CSR promotes a positive image for business					
FP3	CSR help in generating investments					

FP4	CSR Help in economic growth					
FP5	CSR help in organizational growth					