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Effect of Corporate Social Responsibility on Profitability of Banking Sector: A Case Study of Pakistan.

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Abstract:
The expenditures of a corporation to promote the welfare activities in the society are not the responsibility of any company according to law. To promote the social welfare in the society is not the legal requirement for a company neither corporation is legally bound by any regulation or Govt. So, that is why this study investigates the impact of corporate social responsibility on the profitability of banking sector of Pakistan. Current Study collects the data of 10 banks listed in stock exchange (i.e., national and multinational banks). The current study's independent variable is corporate social responsibility, and we take ROA, and ROE as dependent variables and Debt ratio, growth and age of the bank as control variables to measure the profitability of banks. Regression and Correlation techniques are used to check the relationship and effect of CSR on monetary benefits of banking industry in Pakistan. There is no effect of CSR on ROE and ROA in an uncontrolled environment but there is positive and significant impact on ROA controlling for debt ratio.

Key Words: CSR, Banks, ROA, ROE, Debt Ratio, Growth, Age

Introduction

Currently corporate social responsibility becomes very important issue as large number of company's issue reports on it. The notion of resource-based claims that everlasting boutique methodologies represent the company's prospective assets and enable the firm to compete in the coming times (Absar, 2021). CSR is comparatively costly in the shorter run. However, in the longer - term, it provides businesses with some really significant advantages (Wang S. &., 2021). Different stakeholders of the firms demand their organizations to measure and prepare reports on CSR and improve their dealings on environmental and social aspects. Different researchers define CSR from their own point of view (McWilliams and Siegel, 2001). CSR can be achieved with the help of tight cooperation between the top management and worker as this cooperation is essential for the achievement of CSR (Gal, & Akisik, 2020). Lea (2002) explained CSR as the practice of all kinds of companies and other organizations going above and beyond the requirements of the law to control their effects on the environment and society. In order to gain and maintain a competitive edge in today's highly competitive business environment, CSR has become a crucial planning component. If customers are rational and decide to purchase only from those business concerns who are socially responsible then CSR have the ability to positively affect the buying behavior of customers and increase company's performance (Auger et al. 2003; Creyer and Ross, 1997). Kotler et al. (2005) argue that firms can get different advantages if they do things for the benefit of the society. The firms that are in financial trouble, if engage in CSR initiatives have the chance to avoid bankruptcy and sooner survival (Rajeev Singhal, 2013; Kartick Guptaa, 2018). The majority of research studies have been conducted in wealthy nations, and less study has been done on the impact of corporate social responsibility on financial performance in less developed economies like Pakistan. In developing economies, the majority of businesses do not priorities corporate social responsibility, which prevents them from investing in social welfare. In the absence of a string of rentier expenses or drained resources brought on by fraud, CSR appears to give businesses a better degree of capabilities and advantages (Huang, 2022) . People nowadays are increasingly aware of the groups that work to improve society as a result of the expansion of communication channels. Therefore, it is important for businesses to research CSR practices and their impact on how well organizations in these countries are doing financially.

State Bank is also called bank of bankers or bank of the government (Ahmad et al., 2019). With the passage of time number of banks and their branches has increased all over the Pakistan and categories in the form of private, Islamic, specialized, and public banks (Malik & Nadeem, 2014). To provide interest free transaction to their stakeholder's Islamic banks established (Samina, 2012). Private sectors have owned almost 80% of all assets moreover before 1990s public sector banks had 90% assets of entire system. The banking structure of Pakistan has changed in the era of 1990 due to the privatization of different public-sector banks.

Problem Statement

The industry of any country normally using natural resources for their own benefit and ignoring the effect of their activities on earth, creating pollution that threat layer of ozone (Stanley, 2011). These development of business concerns creates, need to govern and control activities of organizations and also attracted the interest of public that how organizations behave socially (Idemudia, 2011). Many firms develop CSR policies in response to the problems posed by all stakeholders in order to enhance their perception of the company and boost stakeholder confidence in business matters. (Servaes & Tamayo, 2013). The increasing trend of CSR all over the world in last few years is a major cause in the development of different policies and framework and majority of this work has done in developed economies like western countries. But the present study is established on developing economies specifically Pakistan (Uadiale & Fagbemi, 2012). The social image of business corporations now a day becoming a vital issue in business administration (Fiori *et al.* 2007). There is already a lot of research work done by different scholars in developed countries like USA, UK and other western countries to examine the effect and relationship of CSR and profitability of firms.

1.4 Research objectives

The purpose of the current study is to examine the relationship and impact of CSR on Pakistani financial institutions' profitability. The study's goals may be divided into the following categories:

i. To determine the connection and impact of CSR on ROE of banks in Pakistan.
ii. To investigate the connection and influence of CSR on ROA of banks in Pakistan.
iii. To predict the relationship and influence of CSR on ROE introducing control variables Debt Ratio, Growth and Age of banks in Pakistan.
iv. To predict the relationship and influence of CSR on ROA introducing control variables Debt Ratio, Growth and Age of banks in Pakistan.

There is very less research in Pakistan on CSR, the reason is that people and organizations pay less interest in CSR policies and its implication. So, there is need to explore this part of study to highlight importance of CSR.

Literature Review

Nowadays, it is crucial for a company to implement CSR (MACHMUDDAH, 2020). CSR proponents suggest developing or executing CSR initiatives as a chance for firms. (Tahniyath Fatima, 2022). CSR history was identified in 1950's era in United States. In this era new legalization was made in USA regarding the corporation's responsibility towards society in terms of environment protection, equal employment opportunities and safety of employees (Mishra & Suar, 2010). However, there is currently a lot of pressure on businesses to adopt moral and social responsibility, which is why many corporate concerns accept their duty to society (Sun, 2012). Now it is considering very important for a firm for a long-term survival that it must be socially responsible.

Cho, Chung, & Young, (2019) suggest that the CSR is very important and paly very crucial rules for the surviving of developing community and the economic and as well for the health of civilians so based on this specific reason both points are important the economic and social values. And secondly when firm besides their profits activities focus on the social responsibilities it will make a strong relationship between the firm and stakeholders and if the firm wants to receive complete and fulfill the satisfaction of every individual so further needs to focus on their long terms objectives besides the shorts terms objectives even sometimes firm needs to sacrificing of the short terms objective to achieve the firm long term's goal and objectives.

The health of people for firm and financial institution are very important, because the firm services and products selling are done only on these people. Banking sector in Pakistan who provide health facility to their employees that create a good relation of banks and society (Iqbal et al, 2013). Different financial institutions pay certain amount of money as a donation for the welfare of society. Different businesses participate in many CSR initiatives. A charitable contribution is most likely the simplest and most typical (Joy Mukhopadhyay, 2021). The amount of donation is spent on the people who affected due to natural climate i.e. earth quake, flood etc. Many researchers discussed that CSR positively influence the economic outcomes of organizations by increasing employee motivation, firm's reputation and satisfaction of customers (Brammer & Millington, 2005; Luo & Bhattacharya, 2006 & Sun, 2012). Floods are the biggest disaster in any country and it destroys the economy so it is the responsibility of government and corporations and different units to participate in flood relief campaigns together in order to decrease the loss (Rulinawaty, 2022).

The first factor affecting the firm's financial performance (FP) is return on assets (ROA). Profitability ratios demonstrate a company's capacity for making money. Investors utilize the ROA as one of the primary profitability metrics when making investment decisions based on future returns (Akoto, Awunyo-Vitor, Angmor, 2013). According to certain research, ROA has a beneficial influence on goodwill. Higher returns and rates of return drive investors to invest, raising share prices and goodwill (Rajani & Jawaid, 2015). A financial performance statistic called return on equity (ROE) is created by dividing net income by total shareholders' equity. A company's capacity to convert capital expenditures into profits is shown by its ROE.

In other words, it calculates the returns on each unit of money invested in equities. It is the all-time favorite and most popular general measure of business financial performance Energies. Because it integrates the balance sheet and income statement (net profit/loss), ROE is well-liked by investors (equity). The popularity of ROE among analysts, financial managers, and shareholders is further influenced by the fact that it is the outcome of a structured financial ratio study known as the Du Pont analysis Chung et al., (2019).

Some researchers argue that CSR policy of companies create positive impact on the brand of business while some argue that for the company to survive in the long run, it is essential. (Malik & Nadeem, 2014). Those companies who engage in CSR activities can gain many benefits and that is why firms involves in CSR activities (Kotler et al; 2005). The companies formulate CSR policies as a moral obligation and in order to earn a good reputation in the society (Kramer & Porter, 2006). There are various arguments on the connection of CSR and profitability (McGuire et al; 1998). According to Sarbutts (2003) CSR policies of any company not only affect reputation of business but it also affects its financial performance positively. Whereas Balabanis et al; (1998) discuss that companies participate in CSR activities for their own benefit since it is thought that CSR would improve the company's reputation in society and, as a consequence, will have a favorable impact on their financial success.

According to Khalid et al, (2012), Positive correlations between a company's success and CSR exist. Additionally, they demonstrate how consumer happiness acts as a mediator between CSR efforts and business performance. In Bangladesh those banks who spend under CSR activities earn more return on assets then those who do not participate in CSR activities, so there is positive association between CSR engagement of banks and their financial performance (Sarwar et al; 2012). Furthermore, by spending on CSR activities the tax liability of banks reduces as CSR expenditures are tax deductible (Bolanle, 2012). In Bangladesh expenditures under CSR positively impact the market price of shares of commercial Banks. It is considered very important for long term survival and sustainable growth of commercial banks. So, that's why majority banks in Bangladesh spent heavy amount for the welfare of society under CSR policy (Iqbal et al, 2013). Islamic banking system changes the concept of conventional banking as Islamic banking rules and regulations provide benefits to all people of society so, Islamic banks in Bangladesh spent huge amount under CSR policy as her findings reveals that only the six Islamic banks spent 24.29% of total CSR expenditures of all commercial banks in the economy. So, it reveals that CSR and profitability of banks is positively associated with each other (Samina, 2012). The European Union economy becomes knowledge oriented and there is positive association between CSR activities and banking sector profitability (Stastna et al; 2012). Some researchers argue that no association exists between CSR and development strength etc. (Mcwilliams & Siegel, 2001). So, there is no agreement and financial performance of firms because there is lot of many other variables between CSR and financial performance (Waddock & Graves, 1997). The effect of CSR on financial performance can be eliminated by introducing the other variables like research between the results of previous research work as some researchers find positive connection between corporate social responsibility and financial performance, some researchers find negative association between corporate social responsibility and financial performance and some researchers argue that there is no correlation between corporate social responsibility and financial performance of the firms as discussed the above. So, present study will solve the problem by applying the model on the banking sector of Pakistan and predict that what kind of relationship exist between corporate social responsibility and profitability of financial institution of Pakistan."

Ahmed et al., (2019) reported that control variables of debt ratio, growth and origin of the banks had a significant impact on the return on assets of the bank. Indicating that banks increased their return on assets. Moreover, these variables had a substantial effect on the return on equity of the banks. Moreover, Santos et al., (2007) finds a significant and positive relationship of age and CSR. The banks operating in the industry has more interest in the social welfare of the society. Murcia & Santos, (2009) develops their arguments based on agency theory arguing that businesses tend to do CSR activities for lower taxes from the government and also keeping in mind what creditors and shareholders want. Profitable companies disclose more information pertaining to social development of the society. Being more profitable companies have higher capacity to invest in social activities compared to those facing losses (Murcia & Santos, 2009). The disclosure of information related to environmental and social concerns is directly related to the growth in profits of the firms (Lopes and Alencar, 2010). Carvalho & Madaleno, (2022) studied Portuguese firms and found a positive relationship between debt ratio, growth of the firm and age of the firm on financial performance of the firm involved in corporate social responsibility activities.

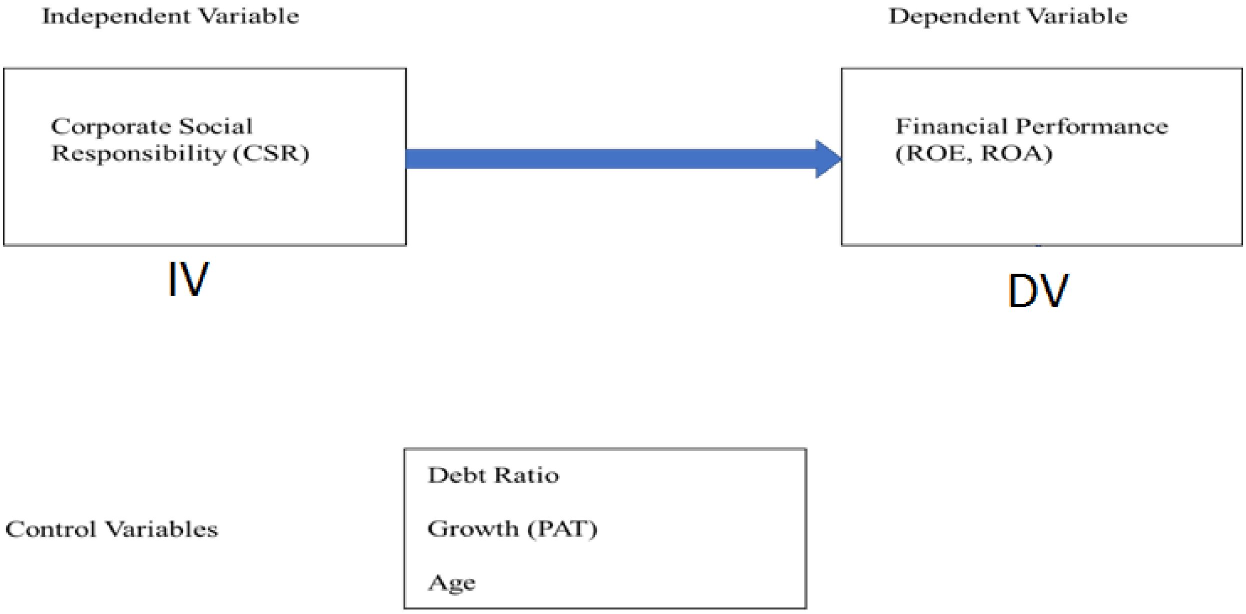
Research Methodology

The approach taken is deductive method using descriptive strategy collecting data from the annual reports of the banks. The sample of this study is ten banks on listed on the stock exchange and the secondary data is collected for five years from 2017-2021. For the purpose of measurement, of CSR we take the total amount and activities that a bank spends under CSR head and in order to measure the profitability using ROA, ROE, and using control variables Debt ratio, Growth and Age of the banks. The data is analyzed using SPSS software employing descriptive statistics, correlation and regression analysis.

Theoretical framework

For Measurement purposes in the study CSR is the total amount that a bank spends for the welfare of the society under different heads i.e., education, health, donation and welfare of society etc. and profitability is measure by using return on assets and return on equity. Introducing control variables to the study such as growth, debt ratio and age of the banks.

Figure 3.1 Theoretical Framework



Source: adapted from (Malik & Nadeem, 2014; Ahmad et al., 2019)

Mathematical notations of Models

Model 1:

$ROE = \alpha + \beta1\ CSR + \beta2\ Debt\ Ratio + \beta3\ Growth + \beta4\ Age + \varepsilon$ (1)

$ROA = \alpha + \beta1\ CSR + \beta2\ Debt\ Ratio + \beta3\ Growth + \beta4\ Age + \varepsilon$ (2)

Here in the equations, (1) and (2) it is showed that CSR affect the profitability of the banks.

Where,

α = Intercept

$\beta1$ = Slope of Corporate Social Responsibility (CSR) of the banks

$\beta2$ = Slope of Debt Ratio of the banks

$\beta3$ = Slope of Growth of the banks

$\beta4$ = Slope of Age of the banks

ε = is the error term in the equation

CSR= "Corporate Social Responsibility is a set of values through which a company subscribes in order to make its impact on society" (Uadiale &Fagbemi, 2012).

ROA= Return on Assets measure the profit that banks earned during a particular period by utilizing their assets (Malik & Nadeem, 2014).

ROE= Return on Equity shows the ability of a business to generate return on each unit of shareholder equity (Malik & Nadeem, 2014).

Debt Ratio = Debt Ratio shows the proportion of debt financing the total assets of the banks (Ahmad, Naeem, Hasan, Arif, Rehman, 2019).

Growth = Growth shows the increase and decrease after tax of banks per year (Ahmad et al., 2019).

Age = Age of financial institutions means that in how many years the company is performing operations in Pakistan. The age of the firm is measure through the official web site of the financial institutions (Ahmad et al., 2019)

Operationalization of Variables

In order to remain consistent with the previous studies, present study takes the operationalization of independent and dependent variables from the different sources. Based upon the operationalization of measurement of items the data is collected from different banks of Pakistan. The Table 1 and 2 operationalizes the variables for their items. Corporate Social Responsibility is measured using 19 items and 4 constructs such as environmental CSR, Community CSR, Customer/Product CSR and Employee questions. Environmental CSR is measured using 7 items, Community CSR using 3 items, Customer/Product CSR using 3 items and Employee questions using 6 items. Return on Equity and Return on Assets is measured using the standard approach of using Net income divided by shareholders equity and average total assets. Debt ratio is calculated using total liabilities divided by total assets. Growth is measured using the increase and decrease in profit after tax of the banks comparatively to preceding years. The age of bank is determined from the date of the establishment or operating in Pakistan.

Table 1 Operationalization of Corporate Social Responsibility

Constructs	Operationalization of items			Resources
Corporate Social Responsibility (CSR)	Environmental CSR	En1	Any Environmental award is given to the bank?	Opendoors.com.pk
		En2	Did the Bank spend any Amount on Equipment's for Pollution Control?	
		En3	Is the Bank certified for ISO1400:2006	
		En4	The Bank has Environmental Policies or has a Concern for the Environment	
		En5	The Bank discusses Conservation of Energy / Reduction in Energy Consumption	
		En6	Is there any Anti-litter and Conservation Campaign or Support provided to such a campaign?	
		En7	Is there any Land Reclamation and Forestation / Tree Plantation program?	
	Community CSR	Cm1	Does the Bank care for the Locals or has good Relations with the local population	
		Cm2	Were there any Seminars / Conferences / Training for community education or awareness	
		Cm3	Scholarships / Internships / Donations to the Charity, Arts, Sports, or Education, etc	
	Customer/Product CSR	Cp1	Are there any Consumer Protection Measures / Consumer Complaint Handling Mechanism?	
		Cp2	Did the Bank receive any Prizes/Awards for its Products or Consumer Protection?	
		Cp3	Verifiable information that the quality of the firms' product has increased (e.g. ISO 9,000, 9001, …).	
	Employee Questions	Ep1	Does the Bank have a Human Resource Development / Training Programs/Scheme for its Employees?	
		Ep2	Does the Bank provide Educational Facilities / Schools to employees / Employee Children?	
		Ep3	There are Health and Safety Arrangements for the Employees at the Bank	
		Ep4	Compensation of workers according to Market or at least legal Minimum Wages	
		Ep5	There is a discussion on Equal Opportunity / Anti-discrimination policies	
		Ep6	Discussion on the Banks relationship with trade unions and/or works	

Table 2 Operationalization of ROE, ROA, Debt Ratio, Growth and Age

Constructs	Operationalization	Resources
Return on Assets (ROE)	Net Income divided by Total ordinary shareholders taken from financial statements	Malik & Nadeem, (2014)
Return on Equity (ROA)	Net Income divided by total assets taken from financial statements	Malik & Nadeem, (2014)
Debt Ratio	Total liabilities divided by total assets taken from financial assets	Ahmad et al., (2019)
Growth	Growth of profit after tax compared to preceding years taken from financial statements	Ahmad et al., (2019)
Age	Establishment date of the bank or how long it is operating in the industry taken from website of the bank	Ahmad et al., (2019)

Research Hypothesis

On the basis of the literature review and the findings of previous studies following testable hypothesis are designed to check the effect of CSR on the profitability of the banking sector of Pakistan. The hypotheses that will be check with the help of Linear Regression is explained below.

H1: There is Positive and significant association between CSR and ROE

Based on an assessment of the literature, the first hypothesis is that there is a positive and substantial relationship between corporate social responsibility and return on equity. It means that if the banks working in Pakistan increase the amount of money and other initiatives under the head of CSR for the welfare of the society then customer of banks react positively towards the products of the banks and as a result the return on equity will also increase and those banks who spent amount under the head of CSR earn better ROE than those who are not doing any contributions to the welfare of the society.

H2: There is Positive and significant association between CSR and ROA

The second hypothesis that is developed on the basis of literature review is that there is positive and significant association between corporate social responsibility and return on assets. It means that if the banks working in Pakistan increases their initiatives for the welfare of the society then customer of banks react positively towards the products of the banks and as a result the return on assets will also increase and those banks who spent amount under the head of CSR earn better ROA than those who are not spending amount for the welfare of the society.

H3a: There is Positive and significant relation between CSR and ROE using Debt Ratio, Growth and Age of banks as control variable

The hypothesis developed for control variables on the basis of literature review is that there is positive and significant association between corporate social responsibility and ROE while controlling for Debt Ratio, Growth and Age of the bank. Many of the previous studies confirmed that firms show increase in profitability after controlling for variables such as the time the firm is performing in the industry. Young firms pay low attention to the firms CSR compared to the older firms. The same is in case of growth and debt ratio. Firms with high debt ratio invests little in the CSR activities compared to the firms with low debt ratio. And firms with high growth rate reported in their profit after tax spends more on their CSR activities.

H3b: There is Positive and significant relation between CSR and ROA using Debt Ratio, Growth and Age of banks as control variable

Another subsequent hypothesis developed for control variables on the basis of literature review is that there is positive and significant association between corporate social responsibility and ROA while controlling for Debt Ratio, Growth and Age of the bank. Based on the findings of the previous studies it is confirmed that firms demonstrate high profitability after controlling for variables such as the time the firm is performing in the industry. Young firms pay low attention to the firms CSR compared to the older firms. The same is in case of growth and debt ratio. Firms with high debt ratio invests little in the CSR activities compared to the firms with low debt ratio. And firms with high growth rate reported in their profit after tax spends more on their CSR activities.

Data collection and Sampling

The sample size in this study is calculated on the basis of Stratified random sampling from 20 listed banks whereby, selecting only 10 banks out of 20. The data was collected for five years of all the banks ranging from 2017-2021 using secondary data available on annual reports of the banks. The data for Corporate Social Responsibility is collected using 19 items with the nominal two scale “Yes” and “No”.

Descriptive Statistics

Total useable observations are 50 because the selected sample size is 10 banks study duration is for 5 years from 2017 till 2021. The Table 3 presents the descriptive statistics of the study. The minimum value for Return on Equity is 0.01 and maximum is 0.35, the mean of the data for ROE is 0.14 whereas, Standard Deviation is 0.07. This describes that ROE is between 1% and 35% and the average bank in Pakistan earns 14% for its shareholders with 7% deviation. The Return on Assets has a minimum value of 0 and maximum value of 0.02 with mean and standard deviation values of 0.01 and 0. Describing that Pakistani banks on minimum has a 0% ROA and 2% of maximum. The average bank in Pakistan has a ROA of 1% with 0 deviation. The debt

Table 3 Descriptive Statistics

Measures	Observations	Minimum	Maximum	Mean	Std. Deviation
ROE	50	0.01	0.35	0.14	0.07
ROA	50	0	0.02	0.01	0.00
Debt Ratio	50	0.02	0.91	0.24	0.24
Growth	50	-0.86	0.99	0.10	0.31
Age	50	0.17	1.09	0.55	0.30
CSR	50	0.64	0.88	0.77	0.06

Ratio is described with a 0.02 of minimum value and 0.91 maximum value. This means that the banks in Pakistan on average has a debt ratio between 2% and 91%. The average debt ratio of Pakistani banks is 24% with 24% deviation. The growth of Pakistani bank has a minimum value of -0.86 and a maximum value of 0.99 with a mean value of 0.10 and standard deviation of 0.31. It can be induced that the growth of Pakistani bank on average is negatively affected by 86% in the past five years but have seen also a growth of 99% and on average the banks has recorded a growth of 10%. The minimum value for age is 0.17 and maximum value is 1.09 indicating that some banks have been established before the independence, with average age of 55 in the data. The minimum value for Corporate Social Responsibility for the banks in Pakistan 0.64 and maximum value is 0.88 with average value of 0.77 with 0.06 standard deviation. Indicating that on average 77% of the banks carry out CSR activities in the society.

Pearson Bivariate Correlation Analysis

By applying the correlation analysis on the data, it is evident from the Table 4 that all the variables have a positive and significant correlation with CSR. It is revealed that the strongest relationship is between CSR and debt ratio at 95% confidence interval. The weakest relationship is between CSR and growth. The second strongest relationship is between CSR and age of the bank indicating that banks with historical presence focus on CSR activities more. The relationship between CSR and ROA is positive and significant. However, the relationship between CSR and ROE is significant but weaker than the relationship with ROA.

The results of Correlation analysis shows that there is significant relationship between corporate social responsibility and the profitability of the banks in Pakistan but is only limited to ROA. And the banks that are spending amount for the welfare of the society earns less to their shareholders. However, the control variables like debt ratio and age of banks effect the financial performance of the financial institutions. So, the conclusion is that CSR do not increase the financial performance of the financial institutions working in Pakistan. There is no considerable correlation between CSR and prosperity in financial sector in Pakistan.

Table 4 Correlations

Variables	CSR	ROE	ROA	Debt Ratio	Growth	Age
CSR	1					
ROE	.060	1				
ROA	.230	.029	1			
Debt Ratio	.619**	.044	-.111	1		
Growth	.058	.281*	-.045	-.066	1	
Age	.384**	-.373**	.157	.169	-.030	1

The relationship between control variable debt ratio and ROA is negative indicating that firms with high debt ratio earns less compared to those having lower debt ratio. The relationship for age and ROE is also negative but positive for the other variables.

Regression Analysis

Regression analysis is run on data in SPSS to check the effect of CSR on profitability of banking sector of Pakistan. Regression analysis identifies the effect of independent variable on dependent variable and how much dependent variables are explained by independent variable. How much explained by other variables that are not used in the model. In this section we discuss the empirical relationship between corporate social responsibility and financial performance of the banking sector of Pakistan. In this study we used the data of 10 different banks working in Pakistan for the last five years.

The regression test was run four times each with different dependent, independent and control variables. First the test was conducting by taking Return on Equity as dependent and CSR as independent, then ROA is taken as dependent with CSR as independent variable. Then the test is conducting using ROE as dependent variable then ROA as dependent variable with

CSR as independent and Debt Ratio, growth and age as control variables in each model. Table 5, 6 and 7 explains the relationship between CSR and ROE.

Table 5 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.060[a]	.004	-.017	.06899

From table 5, R square value indicates that the variance in relationship between CSR and ROE using control variables explains 4% variance of the model. The value is below 19% showing the model poorly explains the relationship between the variables.

Table 6 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.001	1	.001	.172	.680[b]
Residual	.228	48	.005		
Total	.229	49			

The table of Analysis of Variance is presented in Table 6. The table indicates an insignificant p-value greater than 0.05. Indicating the regression model does not explain the relationship between the variables.
Table 7 depicts the coefficients of variables in the regression model. There is no significant relationship between corporate social responsibility and return on equity as indicates by the p-value >0.05. In Pakistan generally banking of Pakistan don't spend money for the welfare of the society. And due to less awareness in General Public customers don't differentiate with firms who spend amount for the welfare of the society with those who don't spend any penny while taking services of firms. So, the result of present study reveals that there is no significant positive association between corporate social responsibility and return on equity of the banks. The coefficient of CSR is 0.070.

Table 7 Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.090	.129		.695	.490
CSR	.070	.168	.060	.415	.680

In the next step the model is tested for Return on Assets by taking ROA as dependent variable and CSR as independent variable. Table 8, 9 and 10 explains the relationships. In table 8, the resultant model summary is depicted with R square value of 5.3% indicating the model is poorly explaining the relationship between CSR and ROA.

Table 8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.230[a]	.053	.033	.00472

The table of Analysis of Variance is presented in Table 9. The table indicates an insignificant p-value greater than 0.05. Indicating the regression model does not explain the relationship between CSR and ROA.

Table 9 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.000	1	.000	2.689	.108[b]
Residual	.001	48	.000		
Total	.001	49			

Table 10 depicts the coefficients of variables in the regression model. There is no significant relationship between corporate social responsibility and return on assets as indicated with a p-value greater than 0.05. Indicating that in Pakistan the banks with expenditure on CSR has no effect on their return on assets. The coefficient of CSR in this case is 0.19, and this value is insignificant.

Table 10 Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.001	.009		-.164	.871
CSR	.019	.012	.230	1.640	.108

In the next step the models are tested with introduction of control variables Debt ratio, growth and age of the bank. First the test is run by taking ROE as dependent variable then ROA as dependent variable with CSR as independent variable and using control variables. Table 11, 12 and 13 explains the relationship of ROE and CSR using control variables.

Table 11 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.502[a]	.252	.186	.06173

From table 11, it is evident that the R square value indicates variance in relationship between CSR and ROE using control variables which explains 25.2% variance of the model. The value is above 19% and below 33% showing the model moderately explains the relationship between the CSR and ROE.

Table 12 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.058	4	.014	3.795	.010[b]
Residual	.171	45	.004		
Total	.229	49			

The table of Analysis of Variance is presented in Table 12. The table indicates a significant p-value at <0.05. Indicating the regression model is significantly explained by the variables. Indicating the relationship is significantly explained by the regression model.

Table 13 depicts the coefficients of variables in the regression model. There is no significant relationship between corporate social responsibility and return on equity as indicates by the insignificant p-value >0.05. In Pakistan generally banking of Pakistan don't spend money for the welfare of the society. And due to less awareness in General Public customers don't differentiate with firms who spend amount for the welfare of the society with those who don't spend any penny while taking services of firms. So, the result of present study reveals that there is no significant positive association between corporate social responsibility and return on equity of the banks. The coefficient of CSR is 0.251. However, the relationship between the control variable age of banks is significant but it has a negative effect on return on equity. This means that normally the firm who are involved in operations for a longer period of time earns more return on equity than those who have started their operations later. Growth of banks has positive and a significant effect on.

Table 13 Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.001	.147		.006	.995
CSR	.251	.208	.215	1.207	.234
Debt Ratio	.001	.048	.004	.026	.980
Growth	.057	.029	.255	1.955	.057
Age	-.101	.032	-.449	-3.193	.003

return on equity at p-value <0.10. Indicating that banks earn more return on equity with the subsequent years. But the effect is very small with a coefficient of 0.057, indicating that with each one unit increase in growth the return on equity increases with 0.057.

In the next step the model is tested for Return on Assets by taking ROA as dependent variable and CSR as independent variable. Keeping debt ratio, growth and age as control variables. Table 14, 15 and 16 explains the relationships. In table 14, the resultant model summary is depicted with R square value of 16.8% indicating the model is poorly explaining the relationship between CSR and ROA.

Table 14 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.410[a]	.168	.095	.00456

The table of Analysis of Variance is presented in Table 15. The table indicates a significant p-value at <0.1 or 90% confidence interval. Indicating the regression model is significantly explained by the variables.

Table 15 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.000	4	.000	2.279	.075b
Residual	.001	45	.000		
Total	.001	49			

Table 16 depicts the coefficients of variables in the regression model. There is positive and significant relationship between corporate social responsibility and return on assets as indicates by the p-value <0.05. Indicating that banks with expenditure on CSR earns more on their assets compared those banks who do not. The coefficient of CSR is 0.40, showing that with each one unit of increase in CSR spending there is 0.40 increase in return on assets of the banks. Moreover, the relationship between the control variable Debt ratio is significant but it has a negative effect on return on assets. This means that normally the banks which has a high debt ratio negatively effects their return on assets if they are involved in CSR related activities. return on equity at p-value <0.10. Indicating that banks earn more return on equity with the subsequent years. But the effect is very small with a coefficient of 0.057, indicating that with each one unit increase in growth the return on equity increases with 0.057.

Table 16 Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.015	.011		-1.422	.162
CSR	.040	.015	.482	2.572	.013
Debt Ratio	-.008	.004	-.422	-2.407	.020
Growth	-.002	.002	-.099	-.720	.475
Age	.001	.002	.040	.271	.787

Hypotheses testing

The resultant values of the regression model are used to test the hypotheses presented in this study. The basis on which hypothesis is accepted or rejected is p-value indicating the significance or insignificance of the model. H1 there is positive and significant association between CSR and ROE developed based on previous studies is rejected due to p-value higher than the threshold value of 0.05. H2 of the study, that there is positive and significant association between CSR and ROA is

Table 17 Hypotheses testing

Hypotheses	B	S.E	P-value	Decision
CSR Positively effects ROE	0.070	0.129	0.680	Reject
CSR positively effects ROA	0.019	0.012	0.108	Reject
CSR effects ROE using DR, G and Age Control Variables	0.251	0.208	0.234	Reject
CSR effects ROA using DR, G and Age Control Variables	0.040	0.015	0.013	Accept

also rejected based on insignificant p-value. H3a of the study that there is positive relationship between CSR and ROE using Debt Ratio, Growth and Age of the bank as control variable is also rejected based on insignificant p-value. However, H3b that there is positive and significant relationship between CSR and ROA controlling for growth, debt ratio and age of banks is accepted having a significant p-value. Indicating that Return on Assets is positively related with CSR during a control environment especially debt ratio having a significant effect.

Discussion

In this research work we explained that CSR has no optimistic effect on the financial performance of the banks in Pakistan. Rather it will decrease the overall profitability of the banking sector. The relationship of corporate social responsibility and profitability of banking sector is not significant in Pakistan as people don't prefer those firms who are doing welfare activities in society while buying the services of financial sector. The reason is that there is less awareness in general public regarding these activities and people don't bother to know either firm participating in the welfare activities or not. The results of this research study are similar to the findings of previous researchers that argue that there is no relationship between corporate social responsibility and development strength (Mcwilliams & Siegel, 2000). Financial performance of firms affected due to many other factors as there is lot of many other variables between corporate social responsibility and financial performance (Waddock & Graves, 1997).

The effect of CSR on financial performance can be eliminated by introducing the other variables like research between the results of previous research work as in present study age of firm and firm size has positive impact on the financial performance of the financial sector of Pakistan as evident that debt ratio has a significant effect on ROA of the firm. So, all the hypothesis are rejected except hypothesis 3b that CSR has a positive effect on ROA of the banks in Pakistan. Corroborating the results presented by Ahmed et al., (2019) who reported that control variables of debt ratio, growth and origin of the banks had a significant impact on the return on assets of the bank. In the light of previous studies and results of present study as there is no significant and positive relationship between corporate social responsibility and profitability of financial sector of Pakistan. According to one point of view of researchers CSR and profitability is negatively associated (Friedman, 1970; Jensen, 2002).

Due to spending amount on CSR activities the cost of a firm increases and it is the economic disadvantage to the firm to spent amount for the welfare of the society because the organizations resources are deemed to be spent for the benefit of the shareholders.

Conclusion

Conclusion of the study is that the banks with a high debt ratio spending money under CSR initiatives will earn less return on assets than those with a low debt ratio in the banking sector of Pakistan. There is no effect of corporate social responsibility on return on equity controlled or uncontrolled environment. There is no effect of corporate social responsibility on return on assets in an uncontrolled environment. There is less awareness among people in developing countries like Pakistan due to less literacy rate people do not give due importance to the act of those firms who are involved in the welfare activities. Negative results of the study shows that those banks which are involved in welfare activities don't have better financial position than those which are not involved in CSR activities. The banking sector of Pakistan should work on awareness campaigns among the population to highlight the importance of corporate social responsibility and due resources should be used in the process. The banks in Pakistan must focus on green finance as it is the new way forward for every institution. As a developing country Pakistan can learn from the mistakes of other developed nations and vigilant not to repeat it. The banks in Pakistan should develop long term plans and focus on the future to earn more and develop the economy in the process as well.

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