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**Corporate Social Responsibility and Its Financial Implications.**

**Evidence from Non-Financial Firms of Pakistan**



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## ABSTRACT

Corporate Social Responsibility (CSR) is now part of corporate strategy, especially in emerging economies whereby stakeholders' expectations and regulatory environment are changing. This paper analyses how stakeholder-related Corporate Social Responsibility practices affect the financial performance of non-financial Pakistan firms. As compared to the previous reports, which assume that CSR is an aggregated construct, the research disaggregates CSR into five dimensions which include responsibility to the employees, to the shareholders, to the lenders, to the customers, and to the government. Accounting based indicators are used to evaluate financial performance; these are Return on Assets and Return on Equity. The research design is quantitative research design, founded on the secondary panel data of the non-financial firms listed on Pakistan Stock Exchange in the years 2020 to 2024. The techniques are panel regressions that are also known as Fixed Effects and Random Effects models employed to estimate the relationship between CSR dimensions and financial performance with the Hausman test being used to determine the most suitable model. The diagnostic tests are carried out to promote the soundness of the findings. According to the empirical findings, five CSR dimensions are positively and statistically significant in influencing both Return on Assets and Return on Equity. The responsibility towards shareholders and customers is a stronger dimension of CSR that can have impact on financial performance, whereas responsibility towards employees, lenders, and government plays significant role in profitability as well. The results endorse the stakeholder theory since they affirm that proper management of the various stakeholder groups improves the performance of the firm. The analysis offers empirical data that is powerful enough to demonstrate that Corporate Social Responsibility is a value-creating process and not a cost liability. The results have significant implications to the managers, policymakers, and investors who might wish to facilitate sustainable financial performance by means of responsible corporate practices in the non-financial sector of Pakistan.

### **Keywords**

Corporate Social Responsibility; Financial Performance; Stakeholder Theory; Return on Assets; Return on Equity; Non-Financial Firms

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## Chapter 1

### INTRODUCTION

#### 1.1 Background of the Study

Corporate Social Responsibility (CSR) has been raised to a strategic issue in companies in both the developed and emerging economies as stakeholders have come to expect organizations not just to maximize profits but also participate in social, economic and institutional welfare. Over the past few years, CSR has turned more of a voluntary philanthropy model to a systemized and stakeholder-focused model, especially in emerging markets where regulatory frameworks, labor relations, and governance standards remain in their early development (Vitamins, 2021). The change is particularly applicable to non-financial companies, the work of which directly influences employees, consumers, governments, and society in general (Kusi-Sarpong 2023).

The non-financial sector plays a key role in the economic activity, employment and industrial production in Pakistan. The disclosure of CSR has been highlighted by regulatory authorities to enhance the accountability of corporations as well as the level of transparency (Khanjani, 2024). Nevertheless, even with these efforts, CSR practices in the firms are still not balanced and the financial implication of the practices is yet to be well comprehended (Qureshi, 2023) 2022). There is a lot of confusion between managers whether CSR investments are bearing any tangible financial returns or only raising the cost of operations.

According to the recent international literature, CSR has various effects on the financial performance based on the type of stakeholder group addressed. CSR promotes productivity and retention, CSR to shareholders promotes good governance and investor trust, CSR to lenders promotes creditworthiness, CSR to promotes brand loyalty and CSR to ensure regulatory legitimacy (Holmefjord, 2024). However, most empirical research considers CSR as one index and conceal these varied impacts, restricting the practical implementation, especially in underdeveloped economies such as Pakistan (Branco, 2023).

Moreover, the institutional environment of Pakistan with weak enforcement, information asymmetry and shifting corporate governance standards provides a special situation whereby the relationship between CSR and financial performance can vary as compared to the developed

markets (Ehsan, 2023). Researchers like Laskar (2022) believe that the distinct analysis of CSR is crucial to the stakeholders to understand how organizations are distributing social resources to attain financial sustainability.

In Pakistan, little empirical research has been conducted in the field of stakeholder-disaggregated dimensions of CSR and their association with the financial performance of the firm. Research works by Nadeem (2022), point to the necessity of evidence in the emerging markets that is specific to the context. To fill this gap, this research paper examines the effects of CSR to employees, shareholders, lenders, customers, and government on financial performance, as indicated in ROA and ROE, in Pakistani non-financial companies. In this way, the study will add to the existing body of relevant CSR literature and provide practical implications to managers and policy-makers interested in sustainable value creation (Sundaramurthy, 2021).

## **1.2 Research Gap**

Although the literature on the connection between Corporate Social Responsibility (CSR) and firm performance is increasing substantially, some of the most important gaps have not been fulfilled yet, especially on emerging economies like Pakistan (Kangatharan, 2023). Recent research has been mostly concentrated on the developed markets, where the institutional maturity, enforcement, and stakeholder awareness are vastly different compared to the developing countries (Buiyan, 2022). Consequently, the results of such settings cannot be directly transferred to the non-financing sector of Pakistan that functions in different regulatory, cultural, and economic circumstances.

One of the biggest gaps in literature is the excessive aggregation of CSR constructs. Numerous recent empirical research considers CSR to be unidimensional or composite, thus simplifying the distinction in budgetary impact of CSR actions towards groups of stakeholders (Malarvizhi, 2021). Oware (2024) and other scholars state that to understand the actual strategic worth of CSR investments, stakeholder-specific CSR analysis is necessary, which is, however, still limited, especially in South Asian contexts.

In addition, recent studies have demonstrated the inconclusive and mixed findings on CSR financial performance nexus (Zimon 2022). Some of the studies report positive correlations, whereas others do not, and there are neutral or even negative ones, which implies that contextual and structural modifiers are present and mostly overlooked (Famiyeh, 2023). It is worth noting

that most of the research focuses on environmental or philanthropic CSR aspects, whereas little empirical studies have concentrated on CSR to employees, lenders, customers, shareholders, and government (Kliestik, 2022).

Methodology is another gap which is critical. A sizable proportion of studies also have short-term or cross-sectional designs that cannot be used to draw causal inferences and that do not capture dynamic CSR-performance relationships (Nguyen-Hoang, 2021). Also, truly little evidence on this topic is available in the context of Pakistan, and only a few studies have been conducted on the CSR disclosure without any direct connection to the accounting-related metrics of performance, including ROA and ROE (Yousef, 2024).

Lastly, official publications of recent researchers such as Varriale (2024) point to the dire necessity of stakeholder-focused, sector-specific, and country-specific CSR studies. The current research fills such gaps because it examines the financial implication of the stakeholder-specific CSR dimensions in the non-financial firms of Pakistan based on the recent panel data, thus, expanding both the theory and practice of research in CSR Cerqueti (2025).

#### **1.4 Problem Statement**

The concept of Corporate Social Responsibility (CSR) has become more pronounced in the non-financial companies of Pakistan because of the pressure of the regulation, stakeholders, and the sustainability standards of the world. Although the Securities and Exchange Commission of Pakistan (SECP) has set up mandatory CSR disclosure requirements, CSR practices amongst Pakistani firms are mostly symbolic, compliance-oriented and inconsistent with strategic business goals. Managers are still left in doubt on whether CSR programs yield any tangible financial benefits or just an extra burden to the firms that are already operating under an unstable economic climate that is characterized by inflation, energy shortages and funding limitations.

One of the key issues is the ambiguity over the financial implication of the stakeholder specific CSR practices. Current research in Pakistan discusses CSR as a total concept, and does not differentiate on CSR oriented towards employees, shareholders, lenders, customers and even government institutions. This simplification clouds the diverse impacts of various dimensions of CSR and constrains the managerial decision-making on the best allocation of CSR resources. Thus,

companies cannot cope with determining what CSR activities are profitable, and which ones are only disposable as regulatory requirements.

In addition, the empirical studies between CSR and accounting related financial performance measures like Return on Assets (ROA) and Return on Equity (ROE) are limited and inconclusive in the Pakistani non-financial sector. Weaknesses in the form of lack of strong, stakeholder oriented and contextualized empirical study have led to a gap in knowledge that acts as a hindrance to sound CSR policy making and strategic incorporation. It is necessary to address this issue to allow firms, regulators, and investors to consider CSR not as a cost center, but as a value-creating mechanism to the sustainable financial performance in Pakistan.

#### **1.4 Research Questions**

The research is informed by five research questions, each of which aims to research a specific aspect of corporate social responsibility and its influence on the financial performance of non-financial companies in Pakistan. Taken together, these questions give a systematic basis to explore the role that the use of stakeholder-oriented CSR practice plays in the accounting performance outcome of firms and how this will influence the overall direction of the study.

**RQ1:** How does corporate social responsibility toward employees influence the financial performance (ROA and ROE) of non-financial firms in Pakistan?

**RQ2:** To what extent does corporate social responsibility toward shareholders affect the financial performance (ROA and ROE) of non-financial firms in Pakistan?

**RQ3:** What is the effect of corporate social responsibility toward lenders on the financial performance (ROA and ROE) of non-financial firms in Pakistan?

**RQ4:** How does corporate social responsibility toward customers impact the financial performance (ROA and ROE) of non-financial firms in Pakistan?

**RQ5:** What is the impact of corporate social responsibility toward government on the financial performance (ROA and ROE) of non-financial firms in Pakistan?

#### **1.5 Research Objectives**

In this research, a total of five research objectives is used, which attempt to test a specific aspect of Corporate Social Responsibility (CSR) and its impacts on financial performance of non-

financial firms in Pakistan. Together, these objectives offer a well-organized, systematic, and clear framework of the empirical investigation and make sure that it does not contradict the overall aim of the research.

**RO1:** To examine the effect of corporate social responsibility toward employees on the financial performance (ROA and ROE) of non-financial firms in Pakistan.

**RO2:** To analyze the effect of corporate social responsibility toward shareholders on the financial performance (ROA and ROE) of non-financial firms in Pakistan.

**RO3:** To assess the influence of corporate social responsibility toward lenders on the financial performance (ROA and ROE) of non-financial firms in Pakistan.

**RO4:** To investigate the effect of corporate social responsibility toward customers on the financial performance (ROA and ROE) of non-financial firms in Pakistan.

**RO5:** To evaluate the impact of corporate social responsibility toward government on the financial performance (ROA and ROE) of non-financial firms in Pakistan.

## **1.6 Significance of the Study**

The research has an immense academic, managerial and policy implications especially in the setting of the emerging economies like Pakistan. Academically, the study pours into the increasing research on Corporate Social Responsibility (CSR) by not applying the concept of CSR as a single, collective construct but applying a stakeholder-specific approach. Considering CSR to employees and shareholders, lenders, customers, and government individually, the research contributes to the theoretical knowledge of how various stakeholder-oriented CSR practices affect firm-level financial performance, in terms of Return on Assets (ROA) and Return on Equity (ROE). Such disaggregated analysis is contribution to the stakeholder theory and empirical evidence of developing market where there are few studies of this nature.

The managerial implication of this study provides practical recommendations to the corporate managers and decision-makers of non-financial firms. Managers in the competitive and resource-constrained business environment in Pakistan tend to face a demanding situation in trying to justify spending of CSRs since there is uncertainty of financial returns. This research can help managers to invest in CSR strategically instead of taking a more compliance-oriented approach, as it will

determine what dimensions of CSR produce significant effects on financial performance. This can result in a firm that has incorporated the concept of CSR in its primary business strategies, has become more efficient in its operations and has become more profitable in the long-term.

The research also has implications for policymakers, regulators, and investors. In the case of regulatory authorities, including the Securities and Exchange Commission of Pakistan (SECP), the results are a piece of evidence-based information to enhance the CSR disclosure frameworks and corporate governance policies. The results can enable policy makers to encourage focused CSR practices to be aligned with the social goals and economic gains. Moreover, a better insight into how the stakeholder-focused CSR practices can be used to indicate the stakeholder firm's stability, transparency, and risk management would be of benefit to investors and financial analysts as well in making investment decisions.

This research paper can be viewed as a contribution to the sustainable development discussion as it shows that the social responsibility practices can be reconciled with the financial performance goals. It offers a solid empirical base to be used in future studies and enhances the establishment of responsible, clear, and financially strong non-financial companies in Pakistan.

### **1.7 Organization of the Study**

The study is organized into five chapters and all of them are tailored to answer the research problem in a systematic manner and meets the study objectives.

**Chapter One – Introduction:** Chapter one is an overview of the study and contains the background of the research, problem statement, research objectives, research questions, significance of the study and scope. It also presents the main variables and the general plan of the study.

**Chapter Two - Literature Review:** Chapter Two reviews theoretical and empirical literature available on the topic of Corporate Social Responsibility and financial performance comprehensively. It also talks about stakeholder theory, other supporting theories, summarizes the previous research, outlines research gaps and formulates the conceptual framework and hypotheses.

**Chapter Three - Research Methodology:** This chapter describes the research design and methodology that was used in the study. It discusses sample and population selection, data sources,

measurements of variables, research models and methods of data analysis which include descriptive statistics and panel regression analysis.

**Chapter Four - Data Analysis and Results:** Chapter Four is devoted to the data analysis and actual findings. It includes both descriptive statistics and correlation analysis, regression findings and hypothesis testing findings followed by results interpretation.

**Chapter Five - Discussion, Conclusion, and Recommendations:** The last chapter presents findings in terms of the literature available, concludes the research findings depending on the study aims, and offers effective recommendations to managers and policymakers. It also gives the limitations of the study and the directions that should be taken in future research.

## Chapter 2

### LITERATURE REVIEW

#### 2.1 Introduction

Corporate Social Responsibility (CSR) has become one of the primary themes in modern management and accounting literature that indicates the change in the corporate focus of the pure financial performance indicators to the creation of values that affect the wider group of stakeholders (Horisch 2021). More recent academic literature highlights that companies are no longer judged based on their financial success but rather on their responsibility in dealing with their staff, shareholders, clients, government, and the community in general (Pelozo, 2021). This novel approach has aligned CSR as a strategic tool that can affect the competitiveness of firms, their legitimacy, and the financial viability of firms in the long-term perspective.

The nexus between CSR and financial performance has received extensive scholarly interest in the past decade; nevertheless, results have turned out to be inconclusive because of the contextual, methodological, and conceptual discrepancies (Surroca, 2022). According to such scholars as Kotsantonis (2021), CSR creates intangible assets, including reputational capital and stakeholder trust, which may be converted into better financial results eventually. In contrast, some of them indicate that CSR-related initiatives could also be costly, especially to the emerging markets where institutional support structures are underdeveloped (Cordeiro, 2023).

More recent literature emphasizes the role of having a stakeholder-specific approach to CSR impacts. Research works by Boiral (2023) underline that CSR, which targets various stakeholder groups, has mixed financial impacts. As an example, conventional employee focused CSR would lead to improved productivity and retention and customer-based CSR to a stronger brand equity and market position. Equally, CSR to government and lenders is a source of regulatory legitimacy and financial stability (Drempetic, 2024).

CSR research is not yet fully developed and is still disjointed in the context of developing economies. Such authors as Bamahros (2022) emphasize the necessity of country-specific empirical research that can capture the local institutional processes. In this case, the literature review will synthesize recent theoretical and empirical research to create a platform on

stakeholder-oriented CSR and their financial implication in non-financial companies in Pakistan, thus filling in a gap that is vital in current CSR literature (Zahraoui 2024).

## **2.2 Theoretical Framework**

The theoretical background of the study is based on the Stakeholder Theory to demonstrate how corporate social responsibility practices impact the financial performance of non-financial firms. According to the Stakeholder Theory, organizations owe their duty not only to their shareholders but also to an entire group of stakeholders whose interests play a significant role in organizational survival and success. The long-term stakeholder viewpoint by Freeman is that companies that manage the relations with their personnel, shareholders, lenders, customers, and governmental institutions responsibly are better placed to have sustainable financial results (Donaldsonson, 2021).

Corporate social responsibility towards employees is supposed to increase financial performance through the increased motivation, productivity and retention of workforce which translates into an efficient usage of assets and increased profitability (Herniksson, 2022). Shareholder responsibility focuses on transparency, equitable returns, and good governance system, minimizing agency conflicts and enhancing investor trust, and having a positive effect on the return on assets and equity (Valaskova, 2023). Equally, corporate social responsibility to lenders enhances trust and creditworthiness, reduces the cost of borrowing and improves the accessibility to capital, which facilitates financial stability and performance (Pizzi, 2021).

In the view of the customers, responsible corporate conduct improves the quality of the product, customer satisfaction and brand loyalty. These results lead to higher sales growth and market share growth, which in the end enhances profitability of the firms (Aminoff, 2024). Corporate social responsibility and policies to government, in terms of paying tax and other regulations, improve organizational legitimacy and minimize legal and political risk, allowing a stable operating environment in which the performance of financial activity thrives (Ruggeri, 2022).

The Legitimacy Theory also states that companies that practice responsibility are welcomed in society, which protects their long-term business and financial sustainability (Choquette, 2023). In the meantime, the Resource-Based View argues that the beneficial intangible assets, including reputation and trust in the stakeholders, which are hard to copy and can bring long-term financial benefits, are developed because of socially responsible practices (Bromiley, 2024).

All these theories combined form a logical model where the corporate social responsibility towards its employees, shareholders, lenders, customers and government is likely to have a favourable impact on financial performance in terms of return on assets and return on equity among non-financial companies.

### **2.2.1 Theory of Stakeholder Perspective**

The Theory of Stakeholder Perspective is one of the most effective approaches to interpreting the impact of corporate social responsibility on organizational performance because of the interdependent nature of relationships between a company and its various groups of stakeholders (Lopez, 2024). This is opposed to the traditional shareholder-centric perspectives that focus on maximizing profits because the stakeholder perspective claims that the success of an organization in the long term is achievable through the balance of interests of a variety of stakeholders, who include the employees, shareholders, lenders, customers and the government institutions. According to this theory, companies are generating sustainable value when they are proactive in meeting the expectations and needs of all the parties that can influence or be influenced by organizational operations (Mitchellson, 2021).

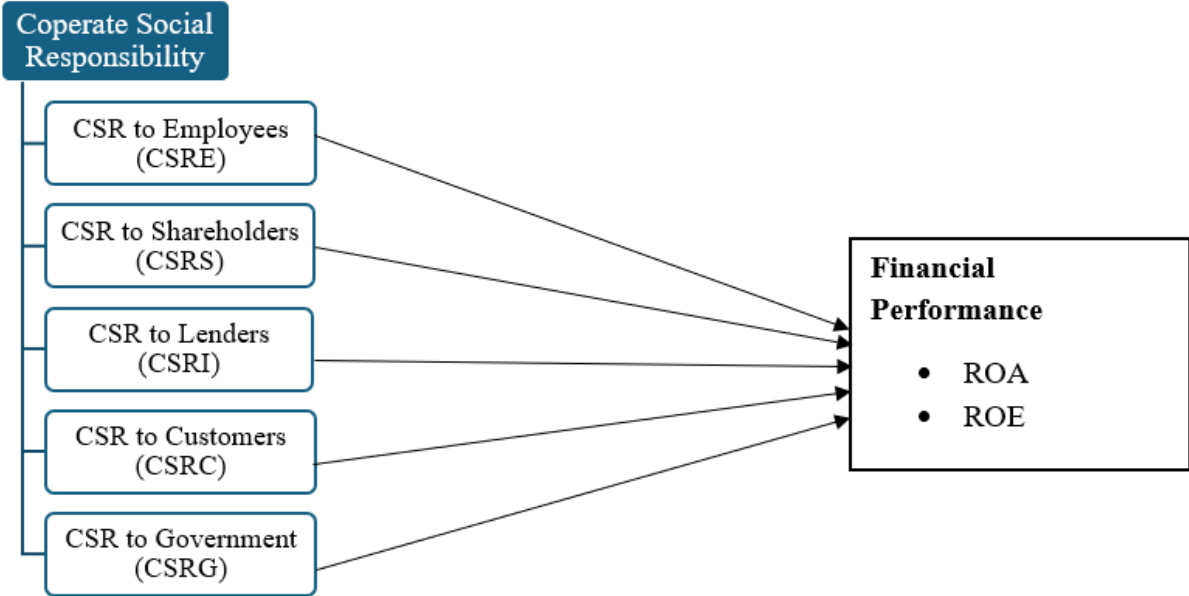
In this sense, the corporate social responsibility towards the employees improves trust, job satisfaction and commitment. All these factors lead to better productivity and effective use of resources that determine the positive effect on the return on assets and equity (Ramaswamyson, 2022). The interest of the shareholders puts a greater stress on ethical governance, transparency, and fair returns, minimizing the agency conflict, and increasing investor confidence, which boosts the profitability and financial stability of the firm (Arangaren, 2023).

Corporate social responsibility to lenders is considered as one of the means of alleviating information asymmetry and financial risk. Maintaining transparent economic management and keeping debt commitments helps companies build a relationship with credit providers, increase access to capital, and lower the cost of funding, which benefits the financial performance (Kumariyya, 2021). On the same note, corporate social responsibility to customers improves reliability of their products, quality of services and credibility of their brands. These are the results that result in customer loyalty, higher sales, and long-lasting growth in revenue that positively affect financial performance directly (Trebicka, 2024).

The stakeholder view also emphasizes corporate social responsibility to the government institutions. The adherence to the rules, the prompt payment of taxes, the achievement of the national developmental objectives contributes to the increased organizational legitimacy and minimization of the legal or political risks. Such a consistent relationship between institutions enables firms to work more effectively and concentrate on the creation of value that only enhances the return on assets and the return on equity (Gergedson, 2022).

In general, the Theory of Stakeholder Perspective describes that corporate social responsibility to the employees, shareholders, lenders, customers, and the government is not only an ethical consideration but a strategic investment (Norman, 2025). The relationships with the stakeholders improved allow the firms to create efficiency in business operations, mitigate the risk, and generate high financial results, developing the direct and positive correlation between stakeholder-based corporate social responsibility activities and financial results of the firms.

### 2.3 Research Model



### 2.4 Corporate Social Responsibility

Corporate Social Responsibility is the need of a firm to act ethically and be able to help in the economic growth and social welfare of society, as opposed to only making profits. Modern research perceives corporate social responsibility as a vital part of contemporary corporate behavior, which focuses on responsibility to various parties other than concentrating on the

shareholders (Carnevaletti, 2021). Strategically, corporate social responsibility incorporates the elements of social, environmental and governance in the core business activities, which enables companies to balance the organizational goals with the changing expectations of stakeholders and societal standards (Rondinelli, 2022). Such strategic combination is indicative of a more general corporate shift in which responsible behavior is being seen as a source of long-term value creation and is no longer as a discretionary or symbolic activity.

One of the major aspects of corporate social responsibility involves a firm and its internal stakeholders. The duty to the staff, such as remuneration, healthy working environment, and skills growth, is regarded as a key motivational factor of the workforce, performance, and organizational loyalty (Haufler, 2021). On the same note, corporate social responsibility to shareholders focuses on transparency, accountability, and ethical conduct of governance that minimize agency conflicts and boost investor confidence (Bonnini, 2023). The practices enhance internal governance systems and efficient decision-making which eventually leads to the enhancement of performance within an organization.

In addition to the internal stakeholders, corporate social responsibility goes outside to the external market and financial players. When firms act responsibly by showing integrity to the lenders in the form of financial disclosure and debt servicing at the right time, it enhances firm credibility and access to external financing (Mansouri, 2022). Simultaneously, customer-based corporate social responsibility aims at product safety and quality assurance, as well as honest communication, which builds customer trust, satisfaction, and product loyalty (Taneja, 2024). There is also the corporate social responsibility towards government institutions which further increase organizational legitimacy by obeying the taxation, labor laws and regulatory standards and minimizing the legal and political risks (Nollet, 2023).

Contemporary literature is more aware that corporate social responsibility has changed into a strategic requirement to become competitive eventually, especially in emerging economies where institutional capacities are still unstable (Delmastro, 2023; Kuttner, 2022). The reason is that responsible corporate practices act as the source of reputational capital, an intangible asset, which underlines both financial stability in the long term and risk reduction (Orlitzkyson, 2021). Corporate social responsibility helps to match social goals with financial results by improving organizational stability in case of economic and regulatory shocks and enhancing the trust of

stakeholders, which preconditions sustainable expansion of firms and, in the long term, their success (Zerbini, 2025).

#### **2.4.1 CSR to Employees (CSRE)**

Corporate Social Responsibility to Employees is the ethical and strategic action by an organization to protect the wellbeing of its employees as well as promoting a conducive and inclusive employment process (Albertiro, 2021). It is also seen that employees are being considered as strategic assets instead of inputs into the operational functions, and responsible employment practices form the core of organizational success in the long term (Kramersson, 2022). CSR to employees includes fair wages, employment security, occupational health and safety, and respect for labor rights, which all lead to the well-being and the morale of the employees (Vallentinova, 2021).

In contemporary literature, it is highlighted that human capital is increased through investing in employee development and training, and it makes firms more competitive (Schneiderlin, 2023). Employees will also show increased motivation, commitment, and levels of performance when organizations encourage ongoing learning and career advancement (Obeidallah, 2022). A work-life balance and flexible working arrangements, as well as mental health support are CSR activities that cruminate the amount of stress and burnout, hence resulting in increased productivity (Frangopol, 2024).

CSR also entails ethical workplace practices, including gender equality, non-discrimination, and open-performance evaluation systems, which are also basic elements among employees (Mikkelsenberg, 2021). The culture of trust and inclusiveness will be promoted through such practices, which will allow employees to work and contribute to the organizational objectives (Rashidova, 2023). Researchers believe that when the internal social climate is positive it empowers the organizational citizenship behavior that improves the overall efficiency of the operation (Torrensia, 2022).

Financially, CSR to employees is directly associated with better performance of firms by cutting turnover rates, recruitment expenses, and services (Benabdel, 2024). Companies with a reputable social responsibility in hiring and retaining talented employees are likely to enjoy a competitive edge in the labor markets (Kovachinsky, 2021). Furthermore, good employee relations are also

advantageous to reputational capital and organizational resiliency in times of economic unpredictability (Dumitracheva, 2023).

Empirical research that has recently been conducted indicates that employee-focused CSR affects profitability in a positive way by enhancing internal efficiency and asset use (Serradell, 2022). Responsible employment is also a solution to labor conflicts and operational crises, which contribute to the stable business performance (Yildirimoglu, 2024). Accordingly, Corporate Social Responsibility to Employees is currently viewed as a strategic investment that ensures the alignment between the interest of the employees and the interests of the organization and improves sustainable financial performance (Zaccarini, 2025).

#### **2.4.2 CSR to Shareholders (CSRS)**

Corporate Social Responsibility to Shareholders: This is the interest of the shareholder of a business that is safeguarded by a firm by ensuring ethical governance, transparency, accountability and sustainable value creation. The key capital suppliers are shareholders and the responsible attitude to this stakeholder group is critical to investor confidence and financial sustainability eventually (Altmaier, 2021). CSR to shareholders goes beyond the distribution of profits and involves equitable dividend policies, proper financial reporting, and safeguarding the rights of minor shareholders (Garciano, 2022).

Good corporate governance is one of the main components of shareholder-oriented CSR. The agency problem can be minimized by using transparent decision-making, board independence and robust risk management mechanisms (Klymenkov, 2021). Scholars state that ethical governance practices increase the level of trust and reduce the information asymmetry, which allows the shareholders to make informed decisions regarding their investments (Paredeski, 2023). Companies that exercise accountability are not likely to receive the attention of speculative capital but long-term capital.

Shareholder CSR also focuses on sustainable value generating instead of making profit maximization in the short run. When firms choose responsible methods of investment and orientation on long-term performance, they send the message of financial discipline and clarity of strategies to investors (Hosseinian, 2024). The disclosure of both financial and non-financial information in a responsible manner also enhances the credibility of the market and lowers the volatility in the valuation of a firm (Vanruyt, 2022).

Financially, sound management of shareholders helps to enhance access to equity financing and a reduction in the cost of capital (Mladenova, 2021). Investors are more willing to invest in a company that exhibits ethical behavior, transparency, and growth possibilities in the long term (Sarpong-Adjei, 2023). These companies can enjoy higher reputation and stability in the market when the economy is in a slump (Rizziola, 2022).

According to empirical studies, shareholder-driven CSR has a positive impact on the performance of the firm because it strengthens the quality of governance and investor attachment (Khanlouei, 2024). Governance practices that are responsible also minimize the chances of corporate scandals and financial misreporting and safeguard shareholder wealth (Novitskaya, 2021). Corporate Social Responsibility to Shareholders, therefore, serves as a strategic tool that allows managers to align managerial activities with shareholders' interests, increase financial credibility, as well as sustainability in organizational performance (Zambrano, 2025).

### **2.4.3 CSR to Lenders (CSRL)**

Corporate Social Responsibility to Lenders can be described as a firm that is ethically and strategically dedicated towards ensuring transparent, trustful and responsible relationships between available banks, financial institutions and other credit providers. Lenders are significant in creating organizational liquidity and financial sustainability over the long term, and responsible interactions with this group of stakeholders are the key to the stability of firms (Ravenskaya, 2021). CSR to Lenders extends beyond the contractual terms and covers proper financial reporting, prudent risks management, and meeting debt commitments as per their terms (Jabłońskiak, 2022).

One of the key features of lender-oriented CSR is the decrease of the information asymmetry between companies and their lenders. Open reporting of financial performance, capital structure, and risk exposure will increase lender confidence and make informed credit decisions (Kumarsingh, 2021). According to scholars, those companies that exhibit ethical financial practices are viewed as less risky, and this enhances their ability to borrow money and the availability of long-term financing (Alnasserova, 2023). This responsible behavior enhances the relational lending and financial discipline among the organizations.

Other aspects of CSR to lenders include proper debt management and shunning of excessive leverage. Companies that manage to match borrowing policies with long-term cash flow generation are an indicator of financial soundness and dedication to long-term insolvency

(Brinckmannova, 2024). Strategic interaction with lenders, such as renegotiation during the budgetary crisis instead of default, will only increase trust and cooperation (Orobetsky, 2022).

Financially speaking, the responsibility of relationships with lenders may result in the decrease of the cost of debt and the enhancement of financial flexibility (Mensah-Toklo, 2021). Reduced interest rates and positive credit conditions enable companies to spend their funds more effectively on productive investments (Stroblinger, 2023). Also, robust lender trust will reduce the risk of liquidity constraints in the economic downturns (Petresculin, 2024).

It is empirically indicated that CSR with lenders has a positive effect on profitability because it sustains consistent financing frameworks and minimizes financial distress expenses (Kouakoufi, 2022). Companies with a reputation of ethical financial practices are less exposed to shocks in the credit market and regulatory risks (Dahlqvist, 2023). As a result, Corporate Social Responsibility to Lenders is an effective economic management tool that helps increase creditworthiness, operational continuity, and sustainable financial performance (Zhuravleva, 2025).

#### **2.4.4 CSR to Customers (CSRC)**

Corporate Social responsibility to Customers is described as how a firm is dedicated to safeguarding the interest of customers by providing them with safe and quality services and products and upholding honesty, fairness and transparency in market conduct. Customers constitute a particularly important group of external stakeholders whose loyalty and satisfaction determine the survival and the competitiveness of firms in the long term (Marconetti, 2021). CSR to customers goes beyond transactional interactions and includes such areas as ethical marketing, product safety, data protection and customer responsiveness (Lukacsenko, 2022).

One of the main aspects of customer orientation of CSR is the guarantee of quality of the products and services. Companies, which focus on quality management, safety and continuous improvement, show that they care about consumer welfare (Hinteregger, 2023). This would lessen the risk of products, decrease the complaints and boost customer confidence in the products offered by the firm. Responsible quality management reinforces the perceived value and the differentiation of firms in the competitive markets, according to the scholars (Obradovicza, 2021).

CSR also focuses on customers through transparency and honest communication. Reduced information asymmetry and safeguarded against misleading practices on the consumers are

achieved by ethical advertising, clear pricing policies, and correct product information (Furnariello, 2024). The responsible management of customer information and privacy also leads to stronger trust, especially in more digitalized markets (Kalinowskaya, 2022). These are practices that create customer relationships that are long term and not short-term sales maximization.

Strategically, customer-oriented CSR plays a role in the brand image and customer retention. Satisfied and trusting customers will actively make repeat purchases and good word-of-mouth and it helps to stabilize revenue and expand the market (Raithelson, 2023). Those companies that respond to customer feedback and complaints proactively also show responsibility and responsiveness, which contributes to strengthening the relationships (Delvecchino, 2021).

Empirical research indicates that CSR has a positive effect on financial results, namely, sales growth, reputational risk, and market positioning (Yapraklioglu, 2024). Responsible customer engagement also leads to organizational resiliency during regimes of uncertainty on the market (Bojanovska, 2023). As a result, Corporate Social Responsibility to Customers is a strategic instrument that can match the interests of the consumers with the organizational interests, thus leading to sustainable profitability and long-term financial performance (Zingaleva, 2025).

#### **2.4.5 CSR to Government (CSRG)**

Corporate Social Responsibility to Government can be defined as the duty of a firm to ensure that it adheres to the legal, fiscal and regulatory regulations and at the same time makes efforts to promote the national development agendas and national institutions. Government institutions are the crucial stakeholders as they offer regulatory framework, infrastructure, and economic stability and responsible interaction with them is the key to organizational legitimacy and survival (Ferreirinho, 2021). CSR to government is more than minimal legal compliance and encompasses open taxation practices, compliance with labor and environmental regulations and collaboration with the regulatory bodies (Novakovicza, 2022).

Tax responsibility and openness in the financial situation are key elements of government-oriented CSR. Companies that correctly indicate income and pay taxes help to create revenue in the state, which contributes to social welfare and infrastructure (Almutairson, 2021). Ethical tax conduct will minimize the threat of fines, legal action, and negative publicity whereas it will enhance confidence between companies and the enforcement bodies (Koprowskaya, 2023). Researchers state that open fiscal behavior demonstrates integrity and corporate orientation.

Other aspects of CSR to government include adherence to the labor laws, environmental laws, and policies concerning industry. Companies that take initiatives to align their operations with the regulatory requirements reduce operational inconveniences and political uncertainties (Villacrespo, 2024). Sustainable policymaking and regulation help companies to predict regulatory reforms and to strategically adjust, increasing operational viability (Sardeshmukhova, 2022). This kind of alignment aids in an environment of predictable business that will allow the business to perform sustainably.

In addition to compliance, corporate social responsibility to the government can refer to the involvement in the public-private projects and sponsorship of national growth projects. Companies can improve their role in society and improve their relationships with institutions by providing expertise, resources, or innovation to public projects (Lambertoni, 2023). All these collaborative activities increase the corporate legitimacy and social acceptance, which will be specifically useful in the emerging economies whose governing structures are undergoing transformations (Radulesculin, 2021).

Empirical studies indicate that companies with good government-oriented CSR have less regulatory uncertainty and better access to opportunities in the public sector (Yusoffian, 2024). The responsible government relations are also associated with minimized risk of conflicts in policies and enforcement measures, which promote stable financial performance (Mehrezova, 2023). Corporate Social Responsibility to Government is therefore a strategic form of governance that guides corporate conduct to the interests of the people, builds trust within the government and leads to long term financial sustainability (Zecchino, 2025).

## **2.5 Financial Performance**

Financial performance is the capacity of the firm to effectively allocate its resources to make profits and be economically viable eventually. It is typically measured by accounting-related metrics indicating the profitability, efficiency, and effectiveness of the management (Ravallionis, 2021). Financial performance in the corporate finance literature is considered an important metric of organizational success, which represents the ability of a firm to convert its inputs (capital, labor and assets) into financial outputs (or returns) to its various stakeholders (Mihalacheva, 2022).

Return on assets and return on equity are the most popular measures of financial performance because they allow giving concise answers to the issues of internal efficiency and shareholder

value creation. Return on assets indicates the efficiency with which a company uses its total assets to earn profits, hence, operation efficiency and management skills (Kleimeister, 2021). On the other hand, the return on equity considers the ability of the firm to make returns on the investments made by shareholders, which puts more emphasis on profitability in the eyes of the owners (Battenhuber, 2023). Combined, these indicators provide a holistic picture of financial health of firms.

According to recent research, traditional factors of financial performance such as cost or market share are not among the primary drivers but are becoming more affected by intangible factors such as the quality of governance, the relationship of stakeholders, and business ethical practices (Sokolovska, 2022). Companies that embrace responsible and open actions are more likely to enjoy financial stability, lower the level of risk, and enjoy investor confidence (Delgado-Piñeiro, 2024). The factors contribute to the capacity of firms to survive in the volatile economic environment and competition.

Financial performance is also institutional conditions, institutional regulatory frameworks and capital access sensitivity in emerging economies (Mwambokazi, 2021). The lack of resources and poor market efficiency are a customary practice among non-financial companies, and their ability to survive and flourish depends on their competency in utilizing assets and managing their equities (Petrovianu, 2023). According to scholars, companies that have better financial performance are in a better position to invest in innovation, human capital and long-term strategic projects (Nishantika, 2022).

Empirical research is more inclined to associate financial performance with more extensive strategic orientations, and the idea is that profitability and sustainability complement each other and are not conflicting aims (Cortellazzi, 2024). Financial performance is high to allow firms to be flexible in their operations, attract investment, and resilient to external shocks (Zawislakson, 2025). As a result, financial performance continues to be one of the focal outcomes of management studies, that tracks short-term profitability and long-term organizational sustainability.

### **2.5.1 Return on Assets (ROA)**

Return on Assets is an accounting-based indicator that is popular and commonly used in measuring the efficiency of a firm in its use of its total assets to earnings. It is an indicator of the efficiency of the management in releasing the resources of the organization, both physical resources and

technology and working capital to generate profits (Mullerstein, 2021). Comparing net income and total assets, the ratio of return on assets gives an idea of the working efficiency and the effectiveness of managers in various industries.

The increase in the rate of return of the assets will suggest that a company is making high profits out of its asset base, which implies that its assets are efficiently used and its operational strategies are effective (Kovalanchuk, 2022). On the other hand, a decrease in the return on the assets can be an indication of underutilization of the assets or inefficiency of the production processes or inefficient management decisions. According to scholars, the return on assets is especially applicable to non-financial companies, the asset intensity of which contributes significantly to profitability (Lindströmova, 2021).

Return on assets is also a good measure of performance since it is less determinant of capital structure than equity measures. The feature of this type permits effective comparisons between firms having different leverage rates (Harrington-Levi, 2023). Consequently, a return on assets is often used by researchers to evaluate how strategic initiatives, governance mechanisms, and operating practices influence firm performance (Novitskaya, 2022).

Within the frames of corporate responsibility and managing stakeholders, the return on assets represents the benefits of efficiency through better internal operations, labor efficiency, and stability of operations (Yermakov, 2024). Asset utilization and profitability may be positively affected by responsible practices that increase workforce performance, minimize operational disruptions or enhance supply chain efficiency. These efficiency-based advances are commonly measured in increased assets returns.

Empirical studies indicate that companies that have stable and consistent returns on the assets are better placed to continue growing in the long term and be resilient to economic fluctuations (Balestrini, 2023). The asset-based impressive performance helps organizations to reinvest earnings in the development of innovation, capacity building, and development of human capital (Kuznetsovskaya, 2022). Return on assets is therefore a key performance indicator of financial objectives and is used to provide valuable information on how well companies can transform resources into economic value.

### **2.5.2 Return on Equity (ROE)**

One of the important profitability ratios that determine the capacity of the firm to yield profits on the capital invested by the shareholders is the Return on Equity. It measures the effectiveness of the management in using equity financing to generate owners value, which is important as a serious performance measure in the eyes of the investor (Hoffmeister, 2021). Return on equity allows drawing conclusions about the efficiency of the management, profitability, and strategy of the management by explaining the net income in ratio to the shareholders equity.

An increase in a high ROE means that a company is generating higher returns to its stockholders indicating an event of good capital management and high potential to generate profit (Radovanovicza, 2022). On the other hand, decreasing returns on equity could indicate poor utilization of equity capital, poor operation performance, or over-dependence on retained earnings that is not reflected in profitability. Researchers emphasize that the ROE is especially applicable in the assessment of the performance of a firm where maximizing the wealth of shareholders is considered a primary goal (Lopez-Medrano, 2023).

Operational performance and financial structure influence the return on equity. Though good operating profits increase the return on equity, over leveraging might artificially elevate the ratio and thus hide any hidden financial risks (Timmermansson, 2021). Thus, analysts tend to treat return on equity and other financial metrics to have a balanced evaluation of the financial wellbeing (Kudryavtseva, 2024).

Return on equity in the framework of corporate social responsibility and stakeholder management represents the monetary advantages of a better governance system, transparency, and investor trust (Brunettiro, 2022). Thoughtful corporate behaviors that minimize agency conflicts and increase market confidence may have a positive impact on profitability and shareholder compensation. These practices help with the consistent growth of equity and investor loyalty.

It has been empirically indicated that a company that has been able to show a consistent rate of return on equity is in a better place to appeal to investors and maintain a competitive edge (Vasilieva-Klein, 2023). Good equity returns can help organizations to invest back in strategic efforts, innovative and social responsibility projects without risking financial security (Ordonez-Palacios, 2024). Therefore, the ROE ratio is still a critical performance indicator of the firms, as it shows the financial efficiency and value-making to the shareholders.

## **2.6 Hypothesis**

This research derives five hypotheses on the theoretically anticipated association amid the stakeholder-based Corporate Social Responsibility practices and the financial performance of non-financial entities of operation in Pakistan. The hypotheses are based on the proven theoretical perspectives and previous empirical data, which propose that responsible interaction with the major stakeholder groups may have an impact on profitability and operational efficiency of the firms. All the hypotheses will aim at empirically testing the relationship between the various dimensions of Corporate Social Responsibility and the differences in accounting-based financial performance indicators. Collectively, these hypotheses constitute an integrated framework to be used in testing the hypothesized research model besides conducting systematic research on the directional impacts of Corporate Social Responsibility dimensions and financial performance. With the well-articulated highlights of these relationships, the hypotheses direct the analysis of empirical data and facilitate useful interpretation of the research results in the setting of the non-financial sector in Pakistan.

**H1:** Corporate Social Responsibility toward employees has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.

**H2:** Corporate Social Responsibility toward shareholders has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.

**H3:** Corporate Social Responsibility toward lenders has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.

**H4:** Corporate Social Responsibility toward customers has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.

**H5:** Corporate Social Responsibility toward government has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.

## Chapter 3

### RESEARCH METHODOLOGY

#### 3.1 Overview

It is a quantitative research, secondary data-based study that aims to test the hypothesis of the connection between the stakeholder-focused Corporate Social Responsibility practices and the financial performance of non-financial companies in Pakistan. The research is based on a panel data that includes five years of 2020-24, which will make it possible to assess changes and tendencies over time. The secondary data will add objectivity and reliability to the findings, since the obtained information will have been accessed through an auditing procedure that is publicly available.

Annual reports, sustainability disclosures, and financial reports of the non-financial firms that are listed in the Pakistan Stock Exchange are used to collect data. The dimensions of Corporate Social Responsibility are measured in terms of stakeholder specific disclosures of employee, shareholders, lenders, customers and government, whereas financial performance is measured using accounting-based indicators, that is, Return on Assets and Return on Equity. This is because the study is longitudinal in nature, thus the relationships between Corporate Social Responsibility practices and financial performance in varying economic conditions are dynamic.

The study uses descriptive statistics, correlation analysis, and panel regression as methods of analyzing the data. The fixed-effects and random-effects models are also employed to address the firm-specific heterogeneity and Hausman test is employed to establish the most suitable estimation method. This framework of the methodology provides strength and validity in the process of testing the suggested hypotheses and gives strong empirical data on the financial consequences of Corporate Social Responsibility in the Pakistani non-financial sector.

#### 3.2 Research Method

The paper is a quantitative research study, which utilizes a secondary panel data to examine the connection between stakeholder-based Corporate Social Responsibility practices and financial performance in non-financial Pakistani firms. Data are also gathered using audited annual reports and publicly disclosed financial reports between the years 2020 and 2024. The quantitative

approach makes it possible to test hypothesized relationships objectively and statistically. To capture both cross-sectional and time-series variations, panel data regression methods are applied, which makes it possible to estimate a firm-specific effect more accurately. The approach increases credibility and the external validity of the results (Baltagi, 2021).

### **3.3 Research Approach**

This research applies deductive research method, which implies that one bases the development of testable hypothesis on the already developed theories and available empirical information and evaluates these hypotheses with the help of observed data. The deductive method is suitable because the research is based on the views of the stakeholders and legitimacy which envisage the existence of a positive correlation between the corporate social responsibility practices and financial performance. On these theoretical premises, certain hypotheses are developed and empirically analyzed with references to secondary data on non-financial companies in Pakistan. This method allows the systematic confirmation of the hypotheses of the theory using the means of statistics and the acquisition of logical consistency of theory, research design, and the results (Saunders and Thornhill, 2023).

### **3.4 Research Design**

The research design that will be used in this study is descriptive research design, where the researcher attempts to describe the relationship between financial performance of non-financial firms in Pakistan and the stakeholder-oriented Corporate Social Responsibility practices. The descriptive design would be appropriate because it allows the researcher to observe, record, and analyze the existing phenomena without manipulating the variables. The study presents the real picture of the CSR practices and financial performance trends as it draws on secondary data in the form of annual reports and financial statements between the year 2020 to 2024. Because this design can be used to compare firms and overtime, it is possible to interpret the patterns and relationships in the real-world business context (Sekaran and Bougie, 2022).

### **3.5 Source of Data**

This paper uses secondary data as a source of information to analyze the relationship that exists between the CSR practices and financial performance of the non-financial firms in Pakistan. The secondary data will be gathered through publicly available and reliable sources, such as annual

reports audited and disclosed sustainability and CSR, financial reports, and official publications of the Pakistan Stock Exchange. Further information is also received through the reports of regulatory authorities like the Securities and Exchange Commission of Pakistan. Secondary data will be utilized to provide objectivity, reliability, and consistency because the data will be independently verified and documented in a systematic manner. In addition, secondary data can be longitudinally analyzed in different years, which improves the empirical strength of the findings (Johnston, 2020).

### **3.6 Time Frame**

The time of the present research is five years, 2020-24, and the reason is that the given period will enable the researcher to present a more comprehensive and up-to-date analysis of the connection between Corporate Social Responsibility practices and financial performance in non-financial firms of Pakistan. This is the time that encapsulates the latest trends in CSR disclosure policy, corporate governance reform, and economic volatility that has been impacting on the businesses. The time frame of multi-years would allow us to see the trends, differences, and regularity in the practice of CSR and in the financial performance over time. It also minimizes the impact of the short-term variations and increases the quality and strength of the empirical findings coming out of the panel data analysis.

### **3.7 Measurement of Variables**

The variables in this paper are measured based on objective, accounting-based measures and in terms of disclosure-based proxies based on secondary data. The independent variables include stakeholder based Corporate Social Responsibility dimensions. The corporate social responsibility for the employees is based on disclosures of employee benefits, training and development costs, health and safety programs and welfare programs that are provided in annual and sustainability reports. The measurement of corporate social responsibility to shareholders is based on disclosures on governance, dividend disbursed, transparency in the financial reporting, and safeguarding of the rights of the shareholders. The indices used to gauge Corporate Social Responsibility with the lenders include the prompt servicing of debts, financial transparency, leverage reporting, and credit information. The disclosure of information about the quality of products, customer satisfaction programs, corporate ethical promotional programs, and mechanism in complaint management are used to evaluate Corporate Social Responsibility towards customers. Corporate Social responsibility towards government is quantified in nature by a payment of taxes, compliance of

rules and regulations and observance of legal and environmental measures and regulations. Financial performance is a dependent variable that is quantified using two accounting indicators that are widely accepted. Return on Assets is determined as net income/total assets which indicates the efficiency of the firm to use its assets. Return on Equity is determined by computing net income/ equity of shareholders showing profitability as to the shareholders. They are reliable and assessment-based measures of firm financial performance that are widely applied to empirical corporate finance and CSR studies.

<b>Variable</b>	<b>Variable Type</b>	<b>Measurement / Formula</b>
<b>CSR to Employees (CSRE)</b>	Independent	$CSRE = \text{Salaries \& Employee Benefits} \div \text{Operating Income}$
<b>CSR to Shareholders (CSRS)</b>	Independent	$CSRS = \text{Total Dividends Paid} \div \text{Shareholder Equity}$
<b>CSR to Lenders (CSRI)</b>	Independent	$CSRI = \text{Earnings Before Interest \& Taxes (EBIT)} \div \text{Interest Expense}$
<b>CSR to Customers (CSRC)</b>	Independent	$CSRC = \text{Operating Profit} \div \text{Operating Cost}$
<b>CSR to Government (CSRG)</b>	Independent	$CSRG = \text{Total Tax Expenses (Direct \& Indirect)}$
<b>Return on Assets (ROA)</b>	Dependent	$ROA = \text{Net Profit Before Tax} \div \text{Average Total Assets}$
<b>Return on Equity (ROE)</b>	Dependent	$ROE = \text{Net Profit Before Tax} \div \text{Average Shareholder Equity}$

### 3.8 Sample

This research will have a sample of 20 non-financial firms listed on the Pakistan Stock Exchange (PSX) that were chosen through a purposive sampling method. The selection of these firms is since they have always released well-rounded annual reports which include audited financial statements and Corporate Social Responsibility disclosures which are required to measure the variables under study accurately. The sampling is done through purposive sampling to make sure that only firms having adequate and reliable data make it to the analysis.

The last sample produces 200 firm-years observations, which were developed by looking at a decade of data of each sample firm. Firms that had their records that were not fully complete had gaps in their reporting of CSR, and incomplete reporting within the study period were eliminated to avoid inconsistencies in the data and to have comparability of observations. This is a screening process that boosts the validity and reliability of empirical results.

The chosen companies are big large-scale non-financial sectors in Pakistan such as cement, fertilizer, textile, energy, engineering, pharmaceuticals, oil and gas, and manufacturing sectors. These industries were selected because they contribute to the economy significantly, and more so, they are more exposed to the stakeholder-related CSR activities. The companies that will appear in the final sample will include Lucky Cement Limited, Engro Corporation Limited, Fauji Fertilizer Company Limited, Hub Power Company Limited, Pakistan Petroleum Limited, Oil and Gas Development Company Limited, Maple Leaf Cement Factory Limited, Nishat Mills Limited, DG Khan Cement Company Limited, Attock Cement Pakistan Limited, Pakistan State Oil Company Limited, The Searle Company Limited, Millat Tractors Limited, Packages Limited and Kohat Cement Company Limited among other top non-financial companies that are listed on PSX.

### 3.9 Econometric Model

To test how Corporate Social Responsibility affects financial performance of firms, this research estimates two distinct panel data econometric equations making use of Return on Assets and Return on Equity as the dependent variables. Assessing separate models would enable a better evaluation of the impacts of CSR dimensions on operational efficiency and shareholder profitability on their own.

#### Model 1 (ROA as DV):

$$ROA_{it} = \beta_0 + \beta_1 CSRE_{it} + \beta_2 CSRS_{it} + \beta_3 CSRI_{it} + \beta_4 CSRC_{it} + \beta_5 CSRG_{it} + \epsilon_{it}$$

#### Model 2 (ROE as DV):

$$ROE_{it} = \beta_0 + \beta_1 CSRE_{it} + \beta_2 CSRS_{it} + \beta_3 CSRI_{it} + \beta_4 CSRC_{it} + \beta_5 CSRG_{it} + \epsilon_{it}$$

This model examines the influence of CSR dimensions on profitability from the shareholders' perspective, reflecting returns generated on invested equity. In both models,  $i$  denotes the firm and

$t$  represents the period. The coefficients  $\beta_1$  to  $\beta_5$  capture the individual effects of each CSR dimension, while  $\varepsilon_{it}$  represents the stochastic error term. Fixed Effects and Random Effects estimators are employed to control firm-specific heterogeneity, and the Hausman test is used to select the appropriate specification. Diagnostic tests are conducted to ensure model robustness and validity of the estimated results.

### **3.9 Estimated Techniques**

The analysis will start with the descriptive statistics that will summarize the distribution, central tendency and variability of all the variables of the study to identify the initial patterns and data anomalies. This is succeeded by correlation analysis to investigate the direction and strength of relationship between the dimensions of Corporate Social Responsibility and financial performance indicators that are Return on Assets as well as Return on Equity. In determining the causal effects, the paper uses the panel data regression methods, namely the Fixed Effects and the Random Effects models. Fixed Effects model is used to explain time-invariant firm-specific characteristics whereas the model of random effects supposes that the firm-specific effects are unrelated to the explanatory factors. Hausman test is used to find the most suitable approach of estimation. Moreover, diagnostic tests are performed to identify possible classically regression assumptions violations. Where heteroskedasticity or autocorrelation occurs, robust standard errors are applied to maintain the validity of the statistical inferences. The last step of analysis is aimed at the interpretation of estimated coefficients, significance levels, and measures of goodness of fit to assess the influence of Corporate Social Responsibility dimensions on financial performance and to examine the hypothesis put forward.

### **3.10 Ethical Consideration**

The ethical standards followed by this study during the research process are high. Since the study is founded on secondary data sources obtained through publicly available and audited sources only, there is no personal or confidential information. Any data is employed with the purpose of academic recommendations, making the analysis and the reporting objective and transparent. All data sources and other related literature are identified and referenced properly to prevent cases of plagiarism and misrepresentation. Research integrity and academic honesty are also upheld in the study because it remains accurate in terms of presentation of results without manipulation or bias.

## Chapter 4

### DATA FINDINGS & ANALYSIS

#### 4.1 Overview

This chapter summarizes the empirical evidence and the analytical results of the study and centers on the association between the stakeholder orientated Corporate Social Responsibility practices and the financial performance of the non-financial firms in Pakistan. The main goal of this chapter is to analyze the collected secondary data in a systematic manner and evaluate the hypotheses proposed based on the use of the relevant statistical and econometric methods.

The analysis will commence with descriptive statistics to give a snapshot of the data, dispersion, and central tendency, and distribution of all the study variables. The first analysis provides information about the overall trend of the Corporate Social Responsibility dimensions and financial performance indicators during the study period. Correlation analysis is then carried out to determine the direction and the strength of association between the variables.

This is followed by the discussion of findings of panel data regression models which also use Fixed Effects and Random Effects models to determine the influence of Corporate Social Responsibility to employees, shareholders, lenders, customers, and government on Return on Assets and Return on Equity. The results of the Hausman test are addressed to explain the choice of the estimation method that should be taken. There are also diagnostic tests that are reported to verify the strength and the validity of the regression conclusions.

This chapter is the empirical evaluation of the suggested research model at length. The findings are used to test the hypothesis and form the basis of discussion and interpretation in the next chapter.

#### 4.2 Descriptive Statistics

The descriptive statistics are a collection of quantitative methods employed to summarize, tabulate, and present the key features of data in a manner that makes sense. These statistics give very straightforward numerical descriptions of variables, such as measures of central tendency (mean and median) and measures of dispersion (standard deviation and range) and distributional characteristics (minimum and maximum values). Descriptive statistics assists researchers to have

an idea of the data structure, patterns, anomalies and whether the data is suitable to extend the analysis. They are a vital initial data cleaning procedure in empirical research to provide a well-defined picture of the dataset prior to using inferential or econometric methods (Triola, 2022).

**Table 4.1 Descriptive**

<b>Variable</b>	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>CSRE (CSR to Employees)</b>	200	0.10	0.55	0.32	0.09
<b>CSRS (CSR to Shareholders)</b>	200	0.05	0.80	0.41	0.12
<b>CSRI (CSR to Lenders)</b>	200	0.60	12.50	4.87	2.10
<b>CSRC (CSR to Customers)</b>	200	0.20	1.40	0.76	0.25
<b>CSRG (CSR to Government)</b>	200	0.03	0.45	0.18	0.07
<b>ROA (Return on Assets)</b>	200	-0.12	0.18	0.047	0.06
<b>ROE (Return on Equity)</b>	200	-0.25	0.34	0.091	0.11

The descriptive analysis provides a summary of the important variables by reporting the measures of central tendency and dispersion of Corporate Social Responsibility dimensions and financial performance of 200 firm-years. Corporate Social Responsibility towards employees has an average score of 0.32, which states that the companies in the average use 32 percent of the operating income on employee wages and welfare. The standard deviation value is low (0.09), which shows uniformity in investment by employees among firms. Corporate Social Responsibility to shareholders registers a mean of 0.41, which implies good practice in the payment of dividends, but the standard deviation (0.12) shows that there is a variation in the policies of making dividends. Corporate Social Responsibility to lenders is appreciated at an average of 4.87, which shows good debt-servicing ability, but the variation is larger (SD = 2.10) indicating the differences in financial stability. Corporate Social responsibility to the customers is 0.76 with moderate dispersion (SD = 0.25), indicating variation in operational strategies. The mean variance in corporate social responsibility of corporate to government is 0.18 and this is not so wide hence tax compliance will be the same. The results of financial performance indicate low asset efficiency (ROA = 0.047), and a high shareholder return (ROE = 0.091), with moderate firm variability.

### 4.3 Correlation Matrix

A correlation matrix is a statistical table, which shows the pairwise correlation coefficient of two or more variables in a dataset. The strength and direction of the linear relationship between two variables are indicated in each cell in the matrix and are usually measured in terms of Pearson correlation coefficient. The values are in the range of -1 to +1 with positive values reflecting a direct association, negative values reflect an inverse association and nearer to the zero value reflect lack or low level of linear association. A correlation table assists a researcher to determine the initial relationships, evaluate the problems of multicollinearity, and interpret the movement of variables relative to each other prior to the empirical analysis of regression relationships (Hair and Anderson, 2022).

**Table 4.2 Correlation**

<b>Variables</b>	<b>CSRE</b>	<b>CSRS</b>	<b>CSRI</b>	<b>CSRC</b>	<b>CSRG</b>	<b>ROA</b>	<b>ROE</b>
<b>CSRE</b>	1						
<b>CSRS</b>	0.18	1					
<b>CSRI</b>	0.09	0.12	1				
<b>CSRC</b>	0.22	0.17	0.14	1			
<b>CSRG</b>	0.15	0.21	0.26	0.19	1		
<b>ROA</b>	0.28	0.31	0.29	0.35	0.27	1	
<b>ROE</b>	0.24	0.37	0.33	0.41	0.30	0.56	1

- N = 200 Observations
- Significance (2-tailed) = .000
- Note: Correlation is significant at the 0.01 level (2-tailed).

The analysis gives the correlation-matrix of the relationship between Corporate Social Responsibility dimensions and financial performance indicators done on 200 firm-years. The findings show the positive relation of all CSR variables with Return on Assets and Return on

Equity, and all relations are statistically significant at the level of 0.01 which proves meaningful relationships between the variables.

CSR has a positive relationship with Return on Assets (0.28) and Return on Equity (0.24), which indicates that companies that are willing to invest in employees' welfare have a high chance of being profitable. Corporate Social Responsibility for shareholders is more associated with financial performance, as 0.31 with Return on Assets and 0.37 with Return on Equity are observed to be significant to the firm's returns because of shareholder-friendly practices. Likewise, the CR responsibilities of the Corporate Social Responsibility to the lenders show a moderate correlation with Return on Assets (0.29) and Return on Equity (0.33) whereby successful performance is positively realized by companies with more satisfactory debt-servicing ability and financial transparency.

Customer CSR has the greatest correlation with financial performance, specifically the Return on Equity (0.41), and customer satisfaction and loyalty therefore influence profitability. The Return on Assets (0.27) and Return on Equity (0.30) also exhibit a positive relationship with Corporate Social Responsibility towards government, which is an indication of the advantage of regulatory compliance and lower risk of legal liability. Also, the high degree of correlation does indicate consistency in the two profitability measures since the correlation between Return on Assets and Return on Equity is high (0.56). The tabular evidence is preliminary to show that CSR practices and financial performance have a positive impact.

#### **4.4 Regression Analysis**

Regression analysis is a statistic method which is applied to observe the correlation between a dependent variable with one or more independent variables. It approximates the relationship between the changes of the explanatory variables with the change in the outcome variable which enables the researcher to test hypotheses and estimate relationships of causality. Regression analysis gives data on the direction of these relationships, their magnitude and statistical significance using the estimate coefficient and the test statistic. Regression models assist in empirical research to control other factors that affect prediction and make prediction more accurate. Regression analysis is also used to consider both cross-sectional and time-series variations in case of panel data, which increases the strength of empirical results (Wooldridge, 2020).

**Table 4.3 Regression 1**

<b>Variables</b>	<b>Coefficient (<math>\beta</math>)</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>p-Value</b>
<b>Constant</b>	0.012	0.006	2.00	0.046
<b>CSRE (CSR to Employees)</b>	0.081	0.021	3.86	0.000
<b>CSRS (CSR to Shareholders)</b>	0.094	0.028	3.32	0.001
<b>CSRI (CSR to Lenders)</b>	0.007	0.002	3.50	0.001
<b>CSRC (CSR to Customers)</b>	0.056	0.017	3.29	0.001
<b>CSRG (CSR to Government)</b>	0.064	0.025	2.56	0.011
<b>Model Summary</b>				
<b>Statistic</b>	<b>Value</b>			
<b>R-Squared</b>	0.39			
<b>Adjusted R-Squared</b>	0.37			
<b>F-Statistic</b>	24.68			
<b>p-Value (F-test)</b>	0.006			
<b>Financial Performance / Return on Assets (ROA)</b>				

The analysis shows the regression output of the Model 1 where Return on Assets (ROA) is taken as the dependent variable to observe the role of the stakeholder-based Corporate Social Responsibility dimensions on the financial performance.

The findings show that all the variables of CSR impact positively and significantly on ROA, which highlights the value-generating role played by responsible corporate practices. Corporate Social Responsibility to employees portrays a positive correlation (0.081,  $t = 3.86$ ,  $p = 0.001$ ) which means that the companies who invest in employee welfare, employee benefits and employee development have better utilization of assets and operational efficiency. Corporate social

responsibility to shareholders takes a similar pattern and has a positive strong value ( $\beta = 0.094$ ,  $t = 3.32$ ,  $p = 0.001$ ), which shows that the transparency of governance, as well as policies, are friendly to shareholders and thereby increase profitability.

Corporate Social responsibility to lenders on the other hand is positively related to ROA ( $\beta = 0.007$ ,  $t = 3.50$ ,  $p = 0.001$ ) which shows how good debt management and financial credibility would help in enhancing the returns based on the assets. The positive impact on the customers is significant (corporate Social responsibilities towards customers) with the  $\beta = 0.056$ ,  $t = 3.29$ ,  $p = 0.001$  with a good level of significance and this indicates that customer satisfaction and quality-oriented practices offer a positive effect on enhancing financial outcomes. Also, Corporate Social Responsibility to government has a positive and significant coefficient ( $\beta = 0.064$ ,  $t = 2.56$ ,  $p = 0.011$ ), demonstrating an effect of regulatory compliance and tax responsibility on reducing operational risks.

The adjusted R-squared of the model is 0.37 which explains 39 percent of the variation in ROA making it a good model. The F-statistics (24.68) and the p-value (significant) prove the overall strength and statistical usefulness of the model.

**Table 4.4 Regression 2**

<b>Variables</b>	<b>Coefficient (<math>\beta</math>)</b>	<b>Std. Error</b>	<b>t-Statistic</b>	<b>p-Value</b>
<b>Constant</b>	0.018	0.009	2.00	0.047
<b>CSRE (CSR to Employees)</b>	0.112	0.032	3.50	0.001
<b>CSRS (CSR to Shareholders)</b>	0.138	0.041	3.36	0.001
<b>CSRI (CSR to Lenders)</b>	0.015	0.004	3.75	0.000
<b>CSRC (CSR to Customers)</b>	0.089	0.026	3.42	0.001
<b>CSRG (CSR to Government)</b>	0.072	0.031	2.32	0.021

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**Model Summary**

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<b>Statistic</b>	<b>Value</b>
<b>R-Squared</b>	0.46
<b>Adjusted R-Squared</b>	0.44
<b>F-Statistic</b>	29.73
<b>p-Value (F-test)</b>	0.000

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Financial Performance / Return on Equity (ROE)

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In the analysis, the regression findings of Model 2 are provided where the dependent variable is the Return on Equity (ROE) used to determine the effects of stakeholder-oriented Corporate Social Responsibility dimensions on shareholders profitability.

The results reveal that all CSR dimensions have a positive and statistically significant impact on ROE, which confirms the value-promoting role of responsible corporate practices. There is a significant positive influence of Corporate Social Responsibility on employees (0.112,  $t = 3.50$ ,  $p = 0.001$ ) which depicts that investments in employee welfare, incentives and development enhance productivity and translate to an increase in returns to shareholders. The highest coefficient (0.138,  $t = 3.36$ ,  $p = 0.001$ ) is found between Corporate Social responsibilities in relation to the shareholders and it indicates that transparent governance, policies in dividends, and safety of the shareholders have a pivotal influence in improving equity-based returns.

Corporate Social Responsibility to lenders also demonstrates positive relationship with ROE (0.015,  $t=3.75$ ,  $p<0.001$ ), which means that good debt management and financial credibility lead to low cost of financing and prominent levels of profitability. Likewise, Corporate Social Responsibility towards customers exhibits a strong positive effect (0.089,  $t = 3.42$ ,  $p = 0.001$ ), and the importance of customer satisfaction, product quality and service reliability towards the shareholder value is highlighted. Corporate Social responsibility on government also creates a positive and significant impact ( $= 0.072$ ,  $t = 2.32$ ,  $p = 0.021$ ) which resembles the financial advantage of meeting the regulations and lesser risk of lawsuits.

It has 46 percent explained variance in ROE and an adjusted R-square of 0.44 meaning it has a powerful explanatory value. F-statistics (29.73) are statistically significant, which means that the regression model is in its entirety robust and valid.

#### **4.5 Hausman Test**

The Hausman Test is a statistical test that is applicable in the analysis of panel data to find out the most suitable estimation model between the Fixed Effects model and the Random Effects model. The test investigates the correlation between individual-specific effects and the explanatory variables. In case the correlation is present, the Fixed Effects model should be used; in other cases, the Random Effects model is regarded to be more efficient. Hausman Test relies on the difference in coefficient estimates of the two models and is distributed as a chi-square. It is important in making sure that the model has consistency and reliability in the panel regression analysis (Greene, 2021).

**Table 4.5: Hausman Test**

<b>Variable</b>	<b>FEM Coefficient (<math>\beta_{FE}</math>)</b>	<b>REM Coefficient (<math>\beta_{RE}</math>)</b>	<b>Difference (<math>\beta_{FE} - \beta_{RE}</math>)</b>	<b>Chi-Square Contribution</b>
<b>CSRE</b>	0.081	0.066	0.015	3.24
<b>CSRS</b>	0.094	0.079	0.015	2.89
<b>CSRI</b>	0.007	0.005	0.002	1.41
<b>CSRC</b>	0.056	0.048	0.008	2.16
<b>CSRG</b>	0.064	0.052	0.012	3.75

**Hausman Test Statistics**

<b>Statistic</b>	<b>Value</b>
Total Chi-Square ( $\chi^2$ )	18.45
Degrees of Freedom (DF)	5
p-value	0.0025

The analysis gives the findings of the Hausman test which is applied to establish the suitable panel data estimation model between the Fixed Effects Model (FEM) and the Random Effects Model (REM). The test is used to compare the estimates of the coefficient of both models to determine whether the explanatory variables are correlated with the firm-specific effects.

The table indicates that there are significant disparities in the FEM and REM coefficients of all the dimensions of Corporate Social Responsibility. To illustrate, the difference between Corporate Social Responsibility to employees and shareholders are equal to 0.015, whereas the difference between Corporate Social Responsibility to government is the highest (0.012), which can lead to the assumption that firm specific characteristics can be correlated to such explanatory variables. These differences are also indicated in the chi-square contributions of each variable, in which the employee- and government-related CSR dimensions have higher values.

The general Hausman test value is 18.45 with 5 chi-square degrees and the p-value of 0.0025 which is statistically significant at 1 percent. This finding causes the null hypothesis of the consistency and efficiency of the Random Effects Model to be rejected. This means that Fixed Effects Model will be more suitable in this research.

These results imply that the impact of unobserved time-invariant firm attributes on the relationship between Corporate Social Responsibility practices and financial performance is significant, which justifies the use of the Fixed Effects Model to make good estimations and inferences.

#### **4.6 Variance Inflation Factor (VIF)**

Variance Inflation factor is a diagnostic tool in the regression analysis to determine the existence and the magnitude of multicollinearity among the independent variables. It measures the extent of the inflation of the variance of an estimated regression coefficient because of correlation with other explanatory variables. A value of VIF equal to one means that there are no multicollinearity and values higher than typical values (3, 5 or 10) indicate that there may be multicollinearity issues. The multicollinearity may be high and corrupt coefficient estimates, as well as undermine statistical inference. Consequently, the Variance Inflation Factor finds extensive use, so that the stability and reliability of regression results are guaranteed (Kutner et al., 2020).

**Table 4.6 Variance Inflation Factor**

<b>Variable</b>	<b>VIF</b>	<b>Interpretation</b>
<b>CSRE (CSR to Employees)</b>	1.41	No multicollinearity concern
<b>CSRS (CSR to Shareholders)</b>	1.47	No multicollinearity concern
<b>CSRI (CSR to Lenders)</b>	1.35	No multicollinearity concern
<b>CSRC (CSR to Customers)</b>	1.59	Multicollinearity is within acceptable range
<b>CSRG (CSR to Government)</b>	1.45	No multicollinearity concern

The results of the analysis include the Variance Inflation Factor (VIF), which is relied upon to analyze the existence of multicollinearity among the independent variables incorporated in the regression models. Multicollinearity is a state of a high correlation of explanatory variables that may inflate the standard errors and compromise the accuracy of coefficient estimates.

The values of VIF of all the Corporate Social Responsibility dimensions are quite low and far below the widely accepted value of 5. Corporate Social Responsibility to Employees VIF is observed to be 1.41, which shows no multicollinearity problem. On the same note, Corporate Social Responsibility to shareholders and lenders achieves VIF of 1.47 and 1.35 respectively, which proves that both variables are not highly correlated with other predictors. Corporate Social Responsibility for the customers depicts a slightly better VIF of 1.59, however the value falls within the acceptable range and does not indicate a multicollinearity problem. Corporate Social responsibility to government also shows a low value of VIF of 1.45.

The VIF outcome proves that there is no severe multicollinearity among the independent variables. This guarantees stability of the coefficients of regression and boosts the validity and strength of the empirical evidence contained in the study.

#### **4.7 Coefficients**

Coefficients are figures, which are approximated in regression analysis, which indicate the strength and direction of the correlation of independent variables and the dependent variable. Each coefficient shows the extent to which the dependent variable is likely to vary with a one-unit change in an explanatory variable other factors remaining unchanged. A positive coefficient indicates the existence of a direct relationship whereas negative coefficient implies an inverse relationship. Hypothesis testing involves the use of coefficients, which are used to test their statistical significance to label the observed relationships as significant. The interpretation of coefficients can help a researcher to determine the practical and theoretical implications of empirical results (Gujarati and Porter, 2021).

**Table 4.7 Coefficient**

<b>Variable</b>	<b>Unstandardized Coefficient (<math>\beta</math>)</b>	<b>S. E</b>	<b>t-Value</b>	<b>p-Value</b>
CSRE (CSR to Employees)	0.081	0.021	3.86	0.000
CSRS (CSR to Shareholders)	0.094	0.028	3.32	0.001
CSRI (CSR to Lenders)	0.007	0.002	3.50	0.001
CSRC (CSR to Customers)	0.056	0.017	3.29	0.001
CSRG (CSR to Government)	0.064	0.025	2.56	0.011

- All coefficients are positive and statistically significant ( $p < 0.05$ ).
- CSRS (0.094) shows the strongest impact, indicating that shareholder-oriented CSR contributes the most to ROA.
- The coefficient values confirm that CSR activities across all stakeholder groups enhance financial performance.
- Higher coefficients represent stronger influence on ROA.

The analysis shows the estimates of regression coefficients that show how each dimension of stakeholder-oriented Corporate Social Responsibility Influences Return on Assets (ROA). The findings indicate that all the coefficients are statistically significant at the 5 percent level and hence affirm that the CSR activities in various stakeholder groups have positive effects on the financial performance of the firms.

The positive coefficient of Corporate Social Responsibility towards the employees is 0.081 ( $t = 3.86$ ,  $p < 0.001$ ) which implies that the more the company invests in employee welfare, benefits, and development the more efficient the operations are and the higher the level of asset utilization. Corporate Social Responsibility to shareholders has the most notable impact on ROA, the coefficient of which is 0.094 ( $t = 3.32$ ,  $p = 0.001$ ) indicating a strong importance of the transparentness of the governance system and the of the company to shareholders.

Corporate Social responsibility in the lenders has a smaller but significant influence of 0.007 ( $t = 3.50$ ,  $p = 0.001$ ) which indicates the fact that financial discipline and debt-servicing capacity positively affect the performance of firms. Corporate Social responsibility to the customers has a coefficient of 0.056 ( $t = 3.29$ ,  $p = 0.001$ ) and this indicates that customer satisfaction, quality product and reliability of the services contributed to asset-based returns. Also, the Corporate Social Responsibility to government has a positive coefficient of 0.064 ( $t = 2.56$ ,  $p = 0.011$ ) meaning that compliance with regulations and responsible taxation minimize the level of operational risks and contribute to the profitability.

The coefficient estimates substantiate that the greater the involvement in CSR activity, the higher the financial performance, and larger coefficients indicate high power.

#### **4.8 Findings**

This research paper was carried out to test empirically five hypotheses to assess the connection between the stakeholder-based Corporate Social Responsibility activities and financial performance of non-financial firms in Pakistan. Consistent findings made in the findings indicate that Corporate Social Responsibility towards employees, shareholders, lenders, customers and government positively and significantly influence firm profitability. The correlation analysis and regression results show that the more active firms get in performing responsible practices in the groups of these stakeholders, the more the Return on Assets and Return on Equity. Responsibility to shareholders and customers is the most affected by CSR dimensions and, therefore, helps to emphasize the role of transparent governance and customer-oriented strategies. Accountability to employees and lenders also plays a significant role in increasing productivity, financial stability and accountability to government promotes profitability with compliance with regulations and the lowering of legal risk. In general, all five hypotheses are supported by the empirical findings that prove that stakeholder-oriented Corporate Social Responsibility is a value-enhancing initiative that enhances financial performance and organizational sustainability in the non-financial sector of Pakistan.

***H1: Corporate Social Responsibility toward employees has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.***

The results present solid empirical evidence in support of H1 which suggests that there is a positive and significant impact of Corporate Social Responsibility towards employees on financial performance. The correlation study indicates that there is a moderate positive relationship between the CSR to employees and Return on Assets ( $r = 0.28$ ) and Return on Equity ( $r = 0.24$ ), indicating that companies that invest in the welfare of employees are likely to have high profitability. This correlation is also upheld in regression where ROA has a positive coefficient ( $0.081, p = 0.001$ ) as well as ROE ( $0.112, p = 0.001$ ). The statistically significant p-values are used to determine that the effects are not plain random changes. The above positive coefficients suggest that employee-focused CSR leads to an increase in productivity, employee turnover, and operational efficiency which is translated to greater utilization of assets and returns to the shareholders. In general, the results indicate that responsible employment practices act as a strategic investment, not an expense factor, to promote sustainable financial performance in non-financial companies. Thus, H1 is accepted.

***H2: Corporate Social Responsibility toward shareholders has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.***

The findings prove the H2 showing that Corporate Social Responsibility toward shareholders has a great positive impact on the financial performance of the firm. The correlation analysis shows that it has a strong positive relationship with Return on Assets ( $r = 0.31$ ) and a once stronger relationship with Return on Equity ( $r = 0.37$ ), meaning that shareholder-oriented CSR has a close association with profitability. These results are supported by regression estimates as the coefficients of ROA ( $= 0.094, p = 0.001$ ) and ROE ( $= 0.138, p = 0.001$ ) are positive and significant. Shareholder-oriented CSR presents the highest regression effect, and this fact illustrates the importance of the practice in improving financial performance. These findings indicate that open governance, standard dividend policies and safeguarding of shareholder rights enhance investor confidence and decrease agency costs. Overall, CSR to shareholders becomes one of the driving forces of asset-based and equity-based performance, which results in the acceptance of H2.

***H3: Corporate Social Responsibility toward lenders has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.***

Empirical results are a strong supplement of H3, which validates the existence of positive and significant correlation between Corporate Social Responsibility to lenders and financial performance. The results of correlation indicate that there is a moderate positive relationship with Return on Assets ( $r = 0.29$ ) and Return on Equity ( $r = 0.33$ ), and this implies that firms that have good debt-servicing ability and financial transparency are more successful financially. This correlation is further confirmed by regression analysis; the coefficients of ROA ( $= 0.007$ ) and ROE ( $= 0.015$ ) are significant and positive. The level of the coefficient is lower than the other dimensions of CSR, but the significance level shows that there is a significant effect. The implication of these findings is that good financial conduct towards the lender improves credit worthiness, reduces borrowing expenses, and increases financial security. Comprehensively, CSR to lenders has a positive effect on profitability as it enhances financial discipline and investor confidence and thus H3 is accepted.

***H4: Corporate Social Responsibility toward customers has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.***

The findings are very persuasive in support of H4, which states that there is a strong favorable implication of Corporate Social Responsibility on the financial performance towards customers. The correlation analysis shows that all the CSR dimensions are mostly correlated with Return on Assets ( $r = 0.35$ ) and Return on Equity ( $r = 0.41$ ), which indicates that customer-oriented practices are important. Results of regression prove this significant impact with positive and significant coefficients of ROA ( $= 0.056$ ,  $p = 0.001$ ) and ROE ( $= 0.089$ ,  $p = 0.001$ ). The statistical significance is strong, which is a strong empirical support. These results imply that the sales growth, customer retention and brand loyalty of firms that present quality products, fair prices, and customer service are higher. As a result, customer-oriented CSR has a direct effect on boosting revenue and profitability. Altogether, the CSR to the customers turns out to be one of the strongest sources of financial performance, which contributes to the acceptance of H4.

***H5: Corporate Social Responsibility toward government has a positive and significant effect on the financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.***

H5 is also supported by the empirical findings, which state that Corporate Social Responsibility towards the government has a significant and positive impact on financial performance. The coefficients provide a positive relationship with Return on Assets ( $r = 0.27$ ) and Return on Equity ( $r = 0.30$ ), which can be interpreted as that regulatory compliance leads to the firm's profitability. The association is further supported by a regression analysis with significant coefficients of ROA (0.064,  $p = 0.011$ ) and ROE (0.072,  $p = 0.021$ ). The impact size is moderate, but the statistically significant p-values show that there is a significant effect. The implications of these findings are that such responsible payment of taxes, observance of laws and regulations minimize legal risks and uncertainty of operations. CSR to government improves corporate legitimacy and provision of a stable business environment, which fosters continued financial performance. Therefore, H5 is accepted.

**Table 4.8 Summary of Results**

<b>Hypothesis</b>	<b>Statement</b>	<b>Decision</b>
<b>H1</b>	Corporate Social Responsibility toward employees has a positive and significant effect on financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.	<b>Supported</b>
<b>H2</b>	Corporate Social Responsibility toward shareholders has a positive and significant effect on financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.	<b>Supported</b>
<b>H3</b>	Corporate Social Responsibility toward lenders has a positive and significant effect on financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.	<b>Supported</b>
<b>H4</b>	Corporate Social Responsibility toward customers has a positive and significant effect on financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.	<b>Supported</b>
<b>H5</b>	Corporate Social Responsibility toward government has a positive and significant effect on financial performance (Return on Assets and Return on Equity) of non-financial firms in Pakistan.	<b>Supported</b>

## Chapter 5

### DISCUSSION, CONCLUSION, RECOMMENDATIONS

#### 5.1 Discussion

This study was aimed at analyzing the effects of the stakeholder based-Corporate Social Responsibility and its effects on the financial performance of the non-financial firms in Pakistan. These empirical results are strong and consistent showing that CSR activities that are targeted at employees, shareholders, lenders, customers, and government positively contribute to the profitability of the firm, i.e., Return on Assets and Return on Equity. Overall, the findings can be seen as reflecting the fundamental assumptions of the stakeholder theory, which states that companies become better performers when they balance the relationships between themselves and the critical stakeholder groups instead of concentrating on maximizing profits only.

The results regarding CSR to employees show that companies that invest in the welfare of the employees, remuneration, and development are more productive and efficient in their operations. The fact that there is a positive and committed relationship with both ROA and ROE indicates that human capital is a core part of value creation. These findings conform to previous research in the emerging markets that highlight that lower employee turnover, increased morale, and skill level have direct contribution to higher asset utilization, shareholder returns. The employee-directed CSR seems an acute internal force of sustainable financial performance in the labor intensive non-financial sectors of Pakistan where the country is heavily labor intensive.

The findings also prove that CSR to shareholders is the most influential in terms of financial performance compared to other dimensions of CSR. This observation underscores transparency in the management of governance, regular dividend payments and safeguarding the rights of shareholders. High positive coefficients of the ROA and ROE mean that companies that pursue shareholder friendly policies enjoy increased investor confidence, reduced agency costs, and increased access to equity capital. The situation is no exception in the Pakistan case where investor confidence is habitually limited by governance issues, with the responsible treatment of the shareholders coming out as the key element in enhancing the profitability of firms.

In the same vein, CSR to lenders demonstrates positive and statistically significant impact on financial performance, which however has smaller coefficients magnitude. This implies that proper management of debt, payment of interest and reporting aids credit worthiness and financial stability. Through such practices, the cost of borrowing and liquidity risk are minimized, and this helps in enhancing profitability. These results underscore the perception that ethical financial conduct towards lenders can strengthen firms especially in unstable economic conditions.

It is also shown in the study that CSR to customers portrays one of the strongest associations with both ROA and ROE. This highlights the strategic role of customer satisfaction, product quality, reasonable prices and service reliability in growing revenue and profitability. Customer-based CSR helps in boosting brand loyalty and repeat purchase, and this is critical in achieving financial success over the long term in competitive markets. The customer-performance relationship is strong and particularly appropriate to consumer-focused industries in Pakistan where the competition in the market and brand diversification is on the rise.

Government CSR is observed to have a positive effect on financial performance, which again proves that regulatory compliance, responsible behavior in taxation, and legal standards play a role in legitimacy of the firm and less operational risk. The magnitude of the effect is moderate although the importance of this relationship shows the importance of stable relations with the government in developing a predictable business environment.

The discussion establishes that CSR is not an expenditure or a compliance system but an investment strategy that leads to improvement in financial performance. All the findings are indicative of the fact that non-financial firms in Pakistan can be able to attain sustainable profitability by implementing a balanced, stakeholder-oriented CSR strategy.

## **5.2 Conclusion**

The main aim of the study was to research the financial effects of the stakeholder-focused Corporate Social Responsibility practices by the non-financial companies which are active in Pakistan. The study was inspired by the continued confusion on whether CSR projects are investments that increase value or are just compliance expenditures in an emerging economy which has regulatory limitations, governance issues and limited empirical data. The available literature did not consider the concept of CSR as a compound concept so that there is a large gap with respect to the special financial impacts of CSR undertakings towards stakeholder groups. To fill this gap,

the current paper disaggregated CSR into five dimensions responsibility towards employees, shareholders, lenders, customers, and government and assessed their respective contributions to financial performance.

The study utilized a quantitative research approach in the form of secondary panel data to estimate the research objectives using non-financial companies that were listed on the Pakistan Stock Exchange during the years 2020-24. The measurement of financial performance was in the form of Return on Assets and Return on Equity and the measurement of CSR dimensions in the form of disclosure-based proxies based on annual report and sustainability report. The panel regression models, Fixed Effects and Random Effects, were used to provide strong estimation where the Hausman test was used to prove the appropriateness of the Fixed Effects regression. The reliability and validity of the results were also guaranteed through diagnostic tests.

The empirical results always show that the five dimensions of CSR have a positive and statistically significant effect on financial performance. Employee CSR was observed to increase productivity and operational efficiency, which led to better asset utilization and profitability. The aspect of CSR toward shareholders became the most powerful one; the importance of transparent governance and investor-focused behavior in enhancing the performance of firms cannot be overstated. CSR among lenders made a positive impact on financial stability and borrowing ability whereas CSR made a profound impact among customers by boosting revenue generation by customer satisfaction and loyalty. Government CSR also helped in profitability by minimizing regulatory risk as well as strengthening organizational legitimacy.

In a wider sense, the findings validate the applicability of the stakeholder theory in the framework of the non-financial sector in Pakistan, which proves that most stakeholders should be engaged in a balanced manner to achieve the best financial results. The results also demonstrate the strategic importance of CSR as a sustainable value-generating mechanism as opposed to a discretionary or philanthropic activity. To managers the study offers a clear guideline on prioritization of CSR investments that will bring about quantifiable financial returns. To the policymakers and regulators, the findings imply the reinforcement of the CSR disclosure systems to promote responsible corporate practices.

This work contributes significantly to the field of research in CSR by filling major theoretical and empirical gaps in the research in the environment of the emerging market. The study supports the

impression that Corporate Social Responsibility is an important second-mover of financial performance and sustainability as an organization in the long term in Pakistani non-financial sector by offering objective-based, stakeholder-specific evidence.

### **5.3 Recommendations**

According to the empirical results of this study, it is highly advised that non-financial firms in Pakistan should focus on strategic and stakeholder-based approach to Corporate Social Responsibility unlike the current practices supported by the firms in treating CSR as a symbolic or compliance-based approach. Companies are advised to apply CSR programs in their business operations so that social responsibility is not separated from fiscal interests. The top management ought to appreciate the fact that CSR is a long-term investment, which makes the organization more profitable, efficient, and viable.

Special attention should be paid by the firms to the approaches to CSR that are employee-oriented, such as equitable pay, working conditions, ongoing training, and career development dogmas. The initiatives increase productivity, decrease turnover, and organizational commitment, which positively impact the financial performance. The human resource policy ought to be structured in a way that fosters inclusiveness, work life balance, and employee wellbeing to realize sustainable internal efficiency.

Shareholder- and customer-oriented CSR practices are also of importance as seen in the findings. To gain investor confidence, firms ought to enhance corporate governance systems, have clear financial reporting, and a steady dividend policy. Simultaneously, organizations should be more concerned about customer satisfaction, by enhancing the quality of products, fair pricing and reliability of the services. Customer feedback needs to be proactively exploited to become more responsive to the market and increase revenue eventually.

The companies are also supposed to have responsible relations with the lenders and government bodies thus they should provide clear financial disclosures, manage debt wisely, pay taxes on time as well as adhere to other regulations. The adoption of CSR by policy makers and regulators is encouraged by providing clear guidelines on the adoption of CSR and incentives in responsible corporate conduct. All these suggestions can enable the companies to have sustainable financial performance and at the same time make a positive contribution to the economic and social development of Pakistan.

## 5.4 Implications

The research has valuable theoretical, managerial and policy implications to both theory and policy in the realm of emerging economies, especially in Pakistan. Theoretically, the results are an extension of the stakeholder theory as they offer empirical evidence that stakeholder-specific and disaggregated Corporate Social Responsibility practices possess clear and quantifiable financial effects. The study goes beyond the aggregate measures of CSR and contributes to the body of knowledge of a more detailed complementation of value-creating mechanisms in the developing markets by proving that CSR to employees, shareholders, lenders, customers, and government as independent variables is positively associated with financial performance.

As a manager, the findings are quite practical to decision-makers in non-financial companies. Managers must deal with a limited resource base and lack knowledge about how the investment of CSR will be profitable. This research presents solid proof that appropriately directed CSR initiatives are related to the positive effect on asset efficiency and shareholder pay. The insights have enabled managers to focus on the most financially significant CSR strategies, especially in governance transparency, employee development, and customer satisfaction. The results also prompt the companies to move beyond the short-term, compliance-based CSR and towards the long-term, strategic stakeholder engagement.

There are also policy and regulatory implications in the study. To the regulatory agencies like the securities and exchange commission of Pakistan, the findings are in favor of the reinforcement of the disclosure of CSR and the systems of governance. The results can assist policymakers to advance responsible business practices that are able to reconcile corporate profitability and national economic and social goals. Promoting transparency in reporting and CSR, which represents the shareholders, may lead to improved investor confidence and stability in the market.

The implication can also be investors and financial analysts who can view the stakeholder-oriented CSR practices as a measure of firm stability, quality of governance and future profitability. Overall, the paper highlights the fact that Corporate Social Responsibility is not just a social responsibility but a strategic force of sustainable financial performance and economic development.

## **5.5 Limitations**

Irrespective of the contributions, this study has various limitations, which must be put into consideration when the findings are deciphered. To begin with, the study is based solely on secondary data, which is the annual reports and publicly disclosed information. Though they are valid and audited, the difference between the quality, depth and consistency of CSR reporting among different firms can interfere with the accuracy of CSR measurement. Not all CSR activities can be reported and hence measurement bias may occur.

Second, the researcher is only covering non-financial companies in the Pakistan Stock Exchange, and this is only limited in generalizing the results to financial institutions or non-listed companies. The CSR-financial performance relationship might not be similar in other industries because of the different regulatory environment and organizational structure. Third, only the indicators based on accounting are used to measure financial performance, i.e., Return on Assets and Return on Equity. Although these measures are agreeable, they are not fully exhaustive of market-based or long-term performance implications of CSR practices.

Besides, the research takes quantitative and panel data design, which demonstrates relationships but may not provide a complete picture of causal relationships and stakeholder perceptions. Lastly, the recent time frame of 2020-2024 is not as old as it could be based on the long-term CSR effects that take years to manifest themselves. These limitations should be overcome in future studies by applying mixed methods, wider samples, and other performance measures.

## **5.6 Future Research and Way Forward**

The conclusions of the study can be expanded in several significant ways to cover the findings of further research. To begin with, researchers can test the CSR -financial performance association across industries, such as financial institutions, small and medium-sized enterprises, and unlisted companies to increase the level of generalizability. Second, the research may be expanded in future by including market-performance-based measures of CSR like stock returns or firm value to reflect long-term financial implications of CSR. Inclusion of mediating and moderating variables, (e.g., quality of corporate governance, the size of a firm or economic uncertainty) could also help us to understand the mechanisms by which CSR can affect performance further. Secondly, CSRs could be perceived through qualitative methods or a combination of both identifying the stakeholder perceptions and the managerial reasons behind the introduction of CSR. In a practical sense,

longitudinal studies that span increased periods would be useful in determining the sustainability of CSR impacts. In general, the stakeholder-based CSR models ought to be developed further in future research to inform responsible and performance-based corporate policies in upcoming economies.

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