



Corporate Social Responsibility Disclosure and Firm's Operational, Financial and Market Performance: A Study of Content Analysis of Firms Listed at Pakistan Stock Exchange

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ABSTRACT

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Developing economies like Pakistan, still struggling to promote the emerging concept of Corporate Social Responsibility (CSR), so this research aims to investigate the impact of CSR Disclosure (CSR) on a Firm's Performance (FP). This study is based on conceptual aspects of CSR and is different because FP is measured with three different types of proxies, i.e., operational, financial and market performance. The empirical results of this research show the positive and significant impact of CSR on a firm's operational and financial performance but insignificant in the case of market performance. It is further concluded that firms disclosing CSR have better operational and financial performance. This study is a pioneer to uplift the importance of CSR in Pakistan and therefore an addition to existing literature, this paper also provides different new ways to assess the link between CSR and FP.



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1. Introduction

In the literature of finance, there is only one purpose of any business, i.e. maximization of shareholders' wealth (Arnold & Valentin, 2013; Friedman, 1970) however at the start of this century multi-billion dollar corporate scams e.g. Enron and WorldCom raised the questions of ethical and social responsibilities of the firm. These scandals changed the business environment, resultantly, discussions about Corporate Social Responsibility (CSR) gained momentum leading to more disclosure requirements related to different aspects of CSR in numerous countries (KPMG, 2017).

Several authors discussed the sole objective of the business and propagated that shareholders are not the only stakeholder who have interests in the business (Lopatta, Jaeschke, & Chen, 2017), there are other groups as well, for instance, customers, employees, community and environment etc. (Rasheed, Arshed, Malik, & Mahmood, 2018). These groups create an obligation on the firms to fulfil the needs of all stakeholders, they are not only interested in profits, but they also expect non-financial rewards from the firm i.e. betterment of society, employees, community and environment etc. (Cordeiro & Tewari, 2015).

As a result, when making crucial investment decisions, stakeholders began to inquire about various CSR initiatives (Jyoti & Khanna, 2021). By listening to all stakeholders, firms are considering more CSR initiatives in their practices, which leads to enhancing customer trust, goodwill and investor confidence (Ferrero-Ferrero, Fernández-Izquierdo, & Muñoz-Torres, 2016). Those firms which engaged in CSR initiatives commit to ethical and moral principles, are involved in socially responsible action and also provide transparent disclosure (Bacha & Ajina, 2020). The performance of CSR strives to boost a company's long-term competitive advantage by building a good corporate image in the public, and strong moral and ethical standards, which decreases firm and legal risk and builds shareholders' trust (Barauskaite & Streimikiene, 2021).

The notion of CSR is growing quickly, which has led to the creation of sustainability indices (Camilleri, 2017). Numerous research has been conducted all around the world on CSR disclosure. Existing research has assessed the purpose of CSR Disclosure (CSR D), stakeholders' claims for disclosures, and how companies differ in their disclosure (Einwiller & Carroll, 2020; Said, Hj Zainuddin, & Haron, 2009; Ullmann, 1985).

Several studies tried to build the relationship between CSR D and Firm Performance (FP) (Buallay, Kukreja, Aldhaen, Al Mubarak, & Hamdan, 2020; Chen, Hung, & Wang, 2018; P & Busru, 2021; Pham & Tran, 2020; Ting, 2021). Most of the studies related to CSR disclosures are conducted in developed nations, but only a few studies are conducted in developing nations like Pakistan (Rasheed & Ahmad, 2022). In Pakistan, there are few firms which are spending for the cause of CSR and also providing its disclosures. Several firms are spending and donating on account of CSR however these firms are not properly disclosing the same in their annual reports. Therefore, there is a need for a study to motivate the firm to provide specific disclosures of CSR activities.

The purpose of this research is to investigate the influence of CSR D on FP, to investigate this causal link, CSR D is measured with content analysis while FP is measured with three different types of performances. This study would be a substantial contribution to prior existing research. The firms' managers in Pakistan only consider the stake of shareholders and they believed that CSR activities do not provide any financial benefit and should be handled by the government and NGOs. This research propagates the concerns of regulatory bodies further it may also guide the managers to engage the firms in CSR matters as it enhances goodwill which leads to better the FP with the betterment of society.

2. Theoretical Background and Literature Review

Until the 1950s, CSR activities were initiated by the government and NGOs because it was considered a social concern, (Lindgreen & Swaen, 2010) however, this concept has been changed to business strategy and it also became the debating point in business ethics at the moment (Kiessling, Isaksson, & Yasar, 2016). Therefore, the firms of developed nations have accepted CSR as a business strategy and also implemented CSR activities and designed different strategies to fulfil their responsibility towards society (Rasheed et al., 2018). Several authors advocated CSR stating that CSR expenditures have long-term benefits and also increase the firms' market opportunities, therefore it should be considered as an investment (Naseem, Shahzad, Asim, Rehman, & Nawaz, 2020). On the contrary, CSR policies are the extra expense

function of the businesses which results in lower profit making, it can only be accounted for if it affects the long-run profitability of the business (Friedman, 2007).

Numerous studies have been conducted on CSR in the last thirty years, it has been an important issue in business ethics (Fernández-Gago, Cabeza-García, & Godos-Díez, 2020). However, the concept of CSR got more attention at the start of the present century (Dahlsrud, 2008), when all stakeholders besides shareholders demanded from firms to take care of the environment, society etc (Waheed & Zhang, 2022). Nevertheless, it is decided by all the firms to answer society's expectations while designing strategies and policies (Carroll, 2021).

CSR includes the following factors; economic, legal, ethical, and philanthropic expectations of a society from a business, all these factors have value for the firm as well as for the society (Carroll & Shabana, 2010). Therefore, every firm must try to fulfil all the aspects of CSR to increase its financial performance (Nirino, Miglietta, & Salvi, 2020). Since the crucial objective of CSR is to create value for all stakeholders besides generating profits, several authors have tried to establish a link between CSR and FP, and these studies reported mixed findings, some of which are discussed below.

2.1 Positive Relationship (CSR-FP)

The link between CSR-FP has a positive relationship as argued in stakeholder theory, this theory states that firms must have to fulfil the stakes of all stakeholders to ensure maximum output from them (Freeman, 2010). This theory also focuses on that firm's management has to address the concerns of investors, employees, customers etc. Consequently, this would help to maximize the profits of the firm and it also manages the stock price crash risk (Bacha & Ajina, 2020; Hu, Li, Duncan, & Xu, 2020).

Investors usually prefer to invest their funds in socially responsible firms (Pedersen, Fitzgibbons, & Pomorski, 2021), and customers also feel proud and comfortable while buying the products of these firms even at a higher price (Brammer & Millington, 2008). Additionally, employees also prefer to work in these firms, and employees also work hard and sincerely for the firm financial objectives (Cheema, Afsar, & Javed, 2020).

Many other authors also relate the stakeholder theory with the resource-based view (Freeman, Dmytriyev, & Phillips, 2021). According to this view, researchers claimed that a firm can build different resources such as a good reputation (Galbreath & Shum, 2012), customer satisfaction (Ali, Danish, & Asrar-ul-Haq, 2020) and skilled human resources (Russo & Harrison, 2005) through establishing a good relationship with stakeholders. These resources also help the firms to get a competitive edge through increased financial performance (Rasheed & Ahmad, 2022).

The literature on CSR-FP is dominant with positive findings (Busch & Friede, 2018; Fourati & Dammak, 2021; Long, Li, Wu, & Song, 2020), these findings are also consistent in the short and long run (Peloza & Shang, 2011) and SME sectors (Ikram et al., 2020). A meta-analysis of 52 studies also demonstrates that firms involved in CSR activities have more profits than those firms which have less/no CSR activities (Orlitzky, Schmidt, & Rynes, 2003). Henceforth, these discussions propose a positive link between CSR-FP.

2.2 Negative Relationship (CSR-FP)

The second group of researchers propagate that CSR has a negative impact on FP. Friedman (1970) is one of the pioneers who started this claim and he dictates that a firm has only one objective i.e. maximization of shareholder's wealth. He further argued that managers are the agents of shareholders, so, it is their primary duty to work and to take those decisions,

which increase shareholders' wealth. As shareholders of the firm take risks so the firm has a responsibility to earn more profits for its shareholders (Barney, 2018). The spending for CSR activities is treated as an expense of the business which reduces the profits (Nie, Wang, & Meng, 2019). Several other studies also showed the findings of a negative association between CSR-FP (Jung, Lee, & Dalbor, 2016; Miller, Eden, & Li, 2020).

2.3 No Relationship (CSR-FP)

The third group of researchers contended that there is no significant relationship between CSR-FP. This group argues that there is no relationship between these two variables CSR-FP (Patten, 1990) and to support this claim literature has very limited evidence (McWilliams & Siegel, 2001; Patten, 1990; Teoh, Welch, & Wazzan, 1999). McGuire, Sundgren, and Schneeweis (1988) reported that businesses which are not enough profitable do not participate in CSR initiatives. CSR is only more prominent in small-scale organizations, but these results vary as per the types of industry (Hull & Rothenberg, 2008). McWilliams and Siegel (2001) demonstrated that the CSR-FP relationship is affected by a company's characteristics such as firm age, size, business market condition and R&D. Hence, by the inclusion of these control variables, the results showed that CSR has an insignificant impact on FP. Lin, Yang, and Liou (2009) findings showed that CSR activities do not provide any financial benefit and Singh (2014) revealed that CSR and FP do not have any relationship.

2.4 Hypotheses Development

To gain social benefits, businesses report on social issues. According to the resource-based view, firms engage in CSR initiatives to develop and increase their resources to gain bigger benefits. According to institutional theory, firms engage in CSR initiatives to respond to the pressure raised by the stakeholders (Porter, 1991). Businesses provide information on social concerns to lessen the negative social effects of their operations and to address relevant social issues through better labour practices and staff development. Businesses also focus on gender equality, skill development, lower rates of workplace accidents and illnesses, the abolition of child labour, and the prevention of workplace discrimination (Buallay et al., 2017).

According to Bresciani et al. (2016), social resources should be used as input into the development of firms. Martos-Pedrero, Cortés-García, and Jiménez-Castillo (2019) found that businesses' FP is improved when they provide information about their social responsibilities, while the findings of Miller et al. (2020) reported a negative relationship between these variables. The inconsistent findings from the literature showed an unclear relationship between CSR-FP, but most of them reported positive findings (Ikram et al., 2020; Long et al., 2020; Rasheed & Ahmad, 2022). The CSR-FP literature consists of many studies which are conducted on the data from developed nations (Al-Hadi, Chatterjee, Yaftian, Taylor, & Monzur Hasan, 2019; Fourati & Dammak, 2021; García-Sánchez, Aibar-Guzmán, Aibar-Guzmán, & Azevedo, 2020).

In the last 2 decades, this phenomenon has started in developing nations, and few researchers have investigated the same relationship to cover the contextual gap (Kapoor & Dhamija, 2017; Uddin, Siddiqui, & Islam, 2018; Yumei et al., 2021). In Pakistan, only a few studies have been conducted to examine this relationship but those efforts are not sufficient as firms are still reluctant to disclose their CSR matters despite the guidelines from SECP. Therefore, the following hypotheses are developed based on above mentioned discussions:

H1: CSR has a positive influence on operational performance (ROA)

H2: CSR has a positive influence on financial performance (ROE)

H3: CSR has a positive influence on market performance (TBQ)

3. Methodology

3.1 Sample and Data Collection

The research aims to investigate the relationship between CSR-FP. For that purpose, this study targeted the 100 index firms listed on Pakistan Stock Exchange (PSX), as these firms cover 85 per cent of market capitalization (Shear & Ashraf, 2022). The data were collected from 85 non-financial firms of the PSX 100 index. The study covers the period 2013-2020 and the data were gathered from firms' annual reports and the reports issued by the State Bank of Pakistan (SBP).

3.2 Econometric Models

FP is treated as a dependent variable while the independent variable of this study is CSR. FP is computed with three different types of performance indicators including operational, financial and market, having the proxies of ROA, ROE and TBQ respectively. For every proxy of the outcome variable, one model is constructed and firm size, firm leverage, firm age and independent directors are treated as control variables.

$$\text{Operational Performance (ROA}_{it}) = \alpha_1 + \beta_2 \text{CSR}_{Dit} + \beta_3 \text{SIZE}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{AGE}_{it} + \beta_6 \text{IND}_{it} + \varepsilon_{7it} \quad (1)$$

$$\text{Financial Performance (ROE}_{it}) = \alpha_1 + \beta_2 \text{CSR}_{Dit} + \beta_3 \text{SIZE}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{AGE}_{it} + \beta_6 \text{IND}_{it} + \varepsilon_{7it} \quad (2)$$

$$\text{Market Performance (TBQ}_{it}) = \alpha_1 + \beta_2 \text{CSR}_{Dit} + \beta_3 \text{SIZE}_{it} + \beta_4 \text{LEV}_{it} + \beta_5 \text{AGE}_{it} + \beta_6 \text{IND}_{it} + \varepsilon_{7it} \quad (3)$$

α = Constant	β = Coefficient
ε = Error term	i = No. of firms
t = No. of years	ROA = Return on assets
ROE = Return on equity	TBQ = Tobin's q
CSR = CSR Disclosure	SIZE = Firm Size
LEV = Firm Leverage	AGE = Firm Age
IND = Independent Director	

3.3 Variables Calculations

Table 1

Measurement of Variables

Corporate Social Responsibility Disclosure (Independent Variables)

CSR	CSR words in an annual report / total words in an annual report (Goloshchapova, Poon, Pritchard, & Reed, 2019)
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Firm's Performance (Dependent Variables)

ROA	Profit before tax / total assets (Z. Wang & Sarkis, 2017)
ROE	Profit before tax / Shareholder's equity (Rasheed et al., 2018)
TBQ	Market value of the firm / Total assets (Buallay & Al-Ajmi, 2020)

Control Variables

SIZE	Natural log of total assets (Dias, Rodrigues, Craig, & Neves, 2019)
LEV	Ratio of total debts over total assets (Nekhili, Nagati, Chtioui, & Rebolledo, 2017)
AGE	Number of years since firms are registered in Pakistan (Habbash, 2016).
IND	Ratio of number of independent directors and total directors on the board (Cucari, Esposito De Falco, & Orlando, 2018)

To measure CSR, words are counted in annual reports by using Altus, the list of these words is provided in appendix Table-A along with the tag cloud which is provided in appendix Table-B. Then the ratio of these CSR words is calculated with the total words in an annual report.

To measure FP three different proxies are used, operational, financial and market performance, further these are measured with ROA, ROE and TBQ respectively. Table 1 shows the measurement of all the variables along with the support from the literature.

4. Results and Discussions

The descriptive statistics are shown in Table 2, including a list of variables, observations, mean value, standard deviation, minimum, and maximum values. Table 3 shows the correlation matrix, it clearly shows that there is no issue of multicollinearity further it is also confirmed by VIF statistics which remain less than 2.0. This study also checked for heteroskedasticity and normality assumptions which shows that these issues are not present in the data. Further, as per the central limit theorem, it is also assumed that data is asymptotically normal because it has a sample size of more than 30.

Table 2
Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	680	15.13	16.54	-8.85	22.01
ROE	680	39.69	61.65	-17.24	65.95
TBQ	680	1.57	0.88	0.62	4.39
CSRD	680	0.48	0.34	.23	.73
SIZE	680	22.09	2.09	10.893	20.574
LEV	680	.528	.284	-.788	4.183
IND	680	.177	.127	0	.727
AGE	680	40.754	18.918	0	73

Table 3
Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) ROA	1.000							
(2) ROE	0.071**	1.000						
(3) TBQ	0.712***	0.512***	1.000					
(4) CSRD	0.031	0.060***	0.049**	1.000				
(5) SIZE	0.21***	0.035	0.240***	0.240***	1.000			
(6) LEV	-0.417***	-0.022	-0.439***	-0.022	0.029	1.000		
(7) IND	-0.021	0.004	-0.018	0.327***	0.139***	0.110***	1.000	
(8) AGE	-0.005	-0.039	-0.017	0.240***	0.112***	-0.089***	0.147***	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

The purpose of this research is to investigate the impact of CSRD on FP. The FP, it is measured with three different types of performance (operational, financial and market). For each performance type, a proxy is used, including ROA, ROE and TBQ. These measures define the FP in three different perspectives, the first one is related to return on assets, the second measures the relationship with equity and last but not least is Tobin's q.

This study covers the panel data, so a panel regression is more suitable and it also provides the best estimation of panel data as this technique has two options one is fixed effects estimates and the other is random effect estimates (Wooldridge, 2010). Table 4 showed the results of the random effects model on all 3 equations, in diagnostics the Wald chi2 showed a significant result indicating that each model is significantly affecting the FP. Wald chi2 best explain the overall significance of the model and the Hausman test is used to select the more suitable results by comparing the fixed and random estimates, while the Breusch and Pagan LM provides the comparison of pooled regression and random effect estimates.

The Hausman tests of all the models showed insignificant results, implying that the random effects model is superior to the fixed effects model. Breusch and Pagan LM tests are significant which shows that the random effects model is still suitable instead of pooled

regression. Therefore, this study used the results of random effects estimates for interpretation and discussions.

In model-1, FP was measured as an operational performance by using ROA, which shows the profitability position generated from the internal operations of the business. The results of the first model (CSR-D-ROA) showed a positive and significant (coeff 16.11, $p < 0.01$) relationship. The findings showed that disclosure of CSR words in annual reports, enhances the operational performance of the firm, and these findings are also reported in the literature (Nguyen, Vu, Nguyen, & Le, 2021; Rasheed et al., 2018). The model-2 is based on financial performance which is measured with ROE. The results of this model (CSR-D-ROE) also revealed the positive and significant (coeff 38.04, $p < 0.05$) impact of CSR-D on ROE, and these results are also consistent with the (Nguyen et al., 2021; Rasheed et al., 2018).

The third model is based on TBQ which is the proxy of market performance, in this CSR-D has a positive but insignificant impact on FP (coeff 94.83, $p > 0.1$), when it is measured with TBQ. The results of this model showed that the amount of CSR-D does not have any significant impact on TBQ (Szegedi, Khan, & Lentner, 2020), i.e. the investors are not considering the CSR-D as a favourable sign of firm performance while other proxies showed the positive impact on FP. Consequently, the disclosure of CSR activities by the firm does have an overall positive impact on the FP.

These results are also consistent with the propagators of stakeholder theory (Cordeiro & Tewari, 2015; Ditlev-Simonsen & Wenstøp, 2013). This is an imperative reason behind the concept of CSR, where the application of this theory in multiple studies showed that CSR activities lead to better firm performance (Famiyeh, 2017). Thus this study is also an application of stakeholder theory.

Table 4
Random Effects Estimates

Variables	Model 1 ROA	Model 2 ROE	Model 3 TBQ
CSR-D	16.11 (0.00)***	38.04 (0.02)**	94.83 (0.37)
SIZE	-0.75 (0.64)	0.97 (0.86)	-51.39 (0.00)***
LEV	-10.88 (0.00)***	-7.76 (0.00)***	-16.40 (0.00)***
IND	-4.99 (0.00)***	-6.15 (0.00)***	-4.78 (0.00)***
AGE	0.91 (0.00)***	0.1920 (0.00)***	25.68 (0.00)***
Intercept	15.07 (0.67)	-21.72 (0.86)	107.77 (0.00)***
Wald chi2	10.74 (0.00)*	5.38 (0.06)*	8.97 (0.01)**
Hausman test	1.63 (0.44)	0.96 (0.62)	2.93 (0.23)
Breusch and Pagan LM test	74.26 (0.00)***	86.26 (0.00)***	1.00 (0.00)***

P-values in parentheses

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

5. Conclusion

This is one of the pioneer studies investigating CSR-D and firm performance in Pakistan. This research paper also contributes to the literature on emerging economies and gives new ways of research, by empowering the significance of CSR-D about FP. Further, this study used

three different proxies to cover three different dimensions of performance (operational, financial, and market). This investigation demonstrated that the majority of the firms were following CSR practices as well as disclosing the same.

This study aimed to examine the link between CSR-D-FP, for this purpose a quantitative approach is used. The findings of this study showed that CSR-D has a positive and significant impact on ROA and ROE but is insignificant for TBQ, consistent with prior studies (Nguyen et al., 2021; Szegedi et al., 2020). As the findings of the research demonstrated the positive relationship between CSR-D-FP, if business managers want to improve FP they may consider CSR activities as a strategy and do some investment for this cause along with the disclosure in annual reports.

5.1 Implications, Future Research Directions and Limitations

The results of this research paper presented several policy directions for firm managers in developing nations like Pakistan. The managers may go for more profits by involving in CSR activities. Traditional managers have to realize that the expenditure on CSR activities is not an expense but should be treated as an investment because it contributes toward the profitability of the business. This study also gives directions to government policymakers that they should motivate firms to invest in CSR because it not only increases the FP but it also leads to the welfare of society as well. As this study focuses only on the CSR-D, a future study may consider the amount of investment in CSR activities along with the reputational index to measure CSR.

This study included those non-financial firms which were listed on the PSX-100 index due to this sample of this study being reduced to 85 firms (680 observations). Further, this study only treated CSR-D as a proxy of CSR while FP is measured with three different types of proxies.

Authors Contribution

Burhan Rasheed: initial idea and manuscript preparation
Zohair Farooq Malik: manuscript preparation and proofreading
Syed Taha Fraz Haider: data collection and data analysis
Amer Shakeel: literature review

Conflict of Interests/Disclosures

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Appendix

Table A

CSR Words

Accountability	Environment	Integrity	Renewable
Carbon	Equality	Issue	Responsible
Care	Ethics	Life	Responsibility
Charity	Event	Local	Social
Community	Fair	Market	Society
Committee	Forest	Medical	Sponsor
Compliance	Food	Medicine	Standard
Conservation	Foundation	Nature	Stakeholder
Contamination	Fuel	Non-invasive	Support
Corporate	Fundraising	Non-toxic	Sustainability
Corporate citizen	Future	Nutrition	Transparent
Country	Generation	Park	Transparency
Council	Good	Public	Treatment
Customer	Global	Philanthropy	Trees
Donation	Global warming	Philanthropic	Trust
Earth	Gree	Power	Trusted
Eco	Harmful	Preservation	Utility
Education	Hazard	Process	Value
Efficiency	Health	Program	Waste water
Emission	Honest	Protection	Water
Employee	Impact	Recycle	Well-being
Energy	Improvement	Reduction	
Environmental	Innovation	People	

(Goloshchapova et al., 2019; Singh, 2014; Tate, Ellram, & Kirchoff, 2010; T. Wang & Bansal, 2012)

Table B

CSR Tag Cloud

