



Corporate Social Responsibility and Firm's Performance: Empirical Evidence from Pakistan

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Abstract

The objective of the study is to examine the impact of CSR activities by the organization on their financial performance. This study employs a quantitative and deductive approach. This research has been carried out with the secondary data which has been taken from the CSR reports of Overseas Investors Chamber of Commerce and Industry (OICCI) and the annual reports of the listed companies of Pakistan Stock Exchange. In addition to that the annual reports or sustainability reports of some companies have also been used to collect the information about their CSR performance. The sample panel of this study consists of 55 companies having available data for at least the period of 3 years (2014-2016), hence consisting the data of 165 firm years. Random effect linear regression has been run for the two dependent variables for the measure of financial performance. The results indicated that the CSR activities in education, community development, health, and infrastructure have significant impact on the organizational performance. The implications and recommendation were also made from the results.

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INTRODUCTION

Analyzing the aspects of investments to boost the finance for the business and to improve the returns is one of the most important elements of the corporations. Since the corporations have direct association with the society where they operate therefore some social rules need to be applied for strengthening this association (Bowen, 2013). Such associations are visible in the form of environmental securities, employee related policies, satisfaction of minority shareholders and philanthropist activities.

The policies regarding such activities are named as Corporate Social responsibilities (CSR) (Schwartz, 2017) and in the ongoing matters of corporations, being considerate about CSR activities seems to be a frequently adopting practice but the type of relationship of such practices with the financial progress of the corporation has to be found out (Ioannou & Serafeim, 2015). The concept of CSR is based on the earlier developed term called Social Responsibility which was developed during the era of 1930 (Schwartz, 2017).

Generally the corporate sector in Pakistan is not concerned about the element of CSR in formal manner (Raza & Majid, 2016). There are number of companies in Pakistan which are spending little as well as big amounts over different social development or philanthropic activities but such activities are not given that importance which is being given in many other countries specially the developed ones (Majeed et al 2015). The concept of CSR in developed countries is being understood with the aim to create a strong bonding between economic and social aspects of the nations.

Since 1960 the relationship between CSR and financial performance has been a matter of debate among researchers (Carroll & Shabana, 2010). The shareholder value model presented by Milton exhibits that there is only one social responsibility over businesses and

that is maximization of the profits while obeying all the laws (Friedman, 1970). Friedman believes that unless the company satisfies the wishes and whims of the shareholders it should not ponder over CSR. Today the focus of CSR is on three models – the stakeholders, the shareholders' wealth and the business ethics. The models of stakeholders and business ethics refer the social obligations and moral duty that a business has to society (Forte, 2013).

Digitalization has created many avenues for the stakeholders to influence the companies' policies and actions. Such stakeholders include customers, institutions, society and media which need revisions in many aspects including CSR due to having access to lots of information (Grafström et al., 2008). The increasing debate about Social Responsibility with respect to corporations' role has motivated the researchers to work over the relationship of CSR and financial performance of the firms (Inoue & Lee, 2011). One of such researchers in the early days was conducted by (McGuire et al., 1988). The result of this research showed that lower the CSR performance lower is the financial performance of the companies. Moreover, it was also noted that companies with low CSR activities are on higher risk in the market than those with high CSR performing activities (McGuire et al., 1988). But the researches which were performed in the later days showed mixed results. Many researchers concluded that there is a positive relationship between CSP and CFP (Russo & Fouts, 1997; Simpson & Kohers, 2002; Lai et al., 2010; Saeidi et al., 2015). In contrast to them many other researchers could not conclude a positive relationship between CSP and CFP (Alexander & Buchholz, 1978; Stanwick & Stanwick, 1998; Peng & Yang, 2014). This variance in the results of the researchers is due to the difference in the selection of patterns and procedures related to application of variables of their researches (Simpson & Kohers, 2002; Girerd-Potin et al., 2013). One limitation of this research is that most of the researchers focused upon US Stock



Exchange that is why the results cannot be generalized over the corporations of the economies of the world. In order to obtain the widely acceptable results such researches should be carried upon the corporations of other countries as well (Peng & Yang, 2014).

(Heal, 2005) believes that there must be a balance between private cost and the social cost of the business and the debates over CSR can play a role in bringing these two costs in line. According to William Sun and Lawrence Bellamy when there is interconnectedness between society members of different sectors then this may guarantee the future success of CSR which will result in the subsequent satisfaction of all. They are of the view that business should not be disunited from society, rather there must be an integration between both of them. They state that the objective of business is serving the common wellbeing. (Sun and Bellamy, 2010) believe that the scope of the shareholder value model is quite narrow.

Such motivation can be developed if they are provided proofs about the positivity of relationship between CSR and CFP. Since the aspects of CSR surround many areas of the corporation like employees, customers, stakeholders and the society as a whole that is why its relationship with the progress of the company is considered as strong one.

The objective of the study is to analyze the relationship between the social and business aspects of the companies running in Pakistan so that the corporate social responsibility activities can be encouraged and the association between the business and the society can be streamlined. Such objectives can be explained as:

- To find out the relationship of the return on assets of the company with the various aspects of CSR.
- To find out the relationship of the market value of the company with the various aspects of CSR.

LITERATURE REVIEW

ATTRIBUTES OF CSR

When there is the matter of understanding CSR activities the practice of Triple Bottom Line (TBL) framework is referred. TBL denotes three terms, people, planet and profit which is then called as 3P's. People of the 3Ps refers to the impact of corporations' policies over the human resource especially labour force of the business. Planet features towards the responsibilities that companies entail upon them for the safety and security of the environment and profit is associated with economic benefits that the society deserves receiving from the companies' operations (Shnayder et al., 2015). (Slaper and Hall, 2011) have referred the 3P's as social, financial and environmental scopes of the companies' responsibilities towards society. When the responsibility against these 3Ps are sincerely exercised the sustainability and capital growth of the business is boosted and causes the satisfaction of all stakeholders whether have a direct stake or indirect stake in the company (Dyllick & Hockerts, 2002). The idea of The TBL was devised during the era of 1990 by John Elkington who was an economist and since then this term is being used for the sustainability concept of the corporations and the practices of CSR. This practice is referred back in 1990 when Shell, a petroleum company, exercised drilling in Nigeria and was harshly condemned due to being against the considerations of CSR. In order to nullify this negative impression the company appointed the advisors. Such advisors then adopted the TBL approach and strived to alter the adverse impression to the favourable one (Tullberg, 2012). There have been many studies over the topic of CSR in relation to the performance and size of the corporation. Initially the concept of CSR emerged from the responsibilities of the company with regard to the impact of their operations on environment. Many countries devised laws so that companies can be bound to design and implement policies against the hazardous emissions of their production related operations. As (Fitch, 1976) studied the environmental aspect of CSR where he focused over the hazardous impacts of pollution on human life and stressed that such increase in pollutions should be eliminated from all corporate processes. Gradually this concept of CSR widened its scope and

(Abbott and Monsen, 1979) discussed other issues like making charitable contributions and promoting community development plans. This practice of being socially responsible is found at different patterns in different countries (Forte, 2013). According to (Williams and Aguilera, 2006) the difference in the pattern of its practices is due to the absence of a uniform idea of CSR. In USA firms have themselves acknowledged that the idea of CSR must be any businesses' ethical, economic and discretionary responsibility (Forte, 2013). The European Green Paper was issued in July 2001 which was the key stone for the foundation of CSR in Europe. This Green Paper named as "Promoting a European Framework for CSR" issued by Commission of the European Communities, defines CSR as "it's a concept which integrates the social and environmental concerns of the companies with their business operations and their dealings with their stakeholders on a voluntary basis" (Tencati, 2006). In India Companies Act has made it mandatory for the companies to spend 2 percent of their profit over the social development of the masses. According to India's CSR reporting survey of 2015 conducted by KPMG India, most of the companies out of top 100 companies have come up with an annual report in compliance with the Companies Act of CSR activities performed by the companies.

CSR standards are not so adoptable for many of the firms in developing countries (Wilson, 2007). Same has been stated by (Jamali and Mirshak, 2007) referring the economies of African countries. Most of the studies over the relationship of CSR and CFP have been carried out in developed countries but some work has also been done in developing countries. (Chetty, Naidoo & Seetharam, 2015). With the passage of time the accountability of the firms in relation to their social, economic and environmental performance is being expected by shareholders, activists, analysts, labor unions, employees, regulators, and news media. (Tsoutsoura, 2004). The same study further says that the scope of CSR is so wide that it represents a complete set of policies and strategies that integrate not only the internal operations of supply chains and decision making process but also include ethics, environmental concerns, human rights, governance, work place and market place as well (Tsoutsoura, 2004).

STAKEHOLDER THEORY

As defined by business dictionary stakeholder theory is an agenda which is based on the concept of ethics and management morals in an organization to address the social values of a business and organization (Business dictionary).

(Murray and Vogal, 1997) defined stakeholder as an entity which is outside the organization. Business focuses to influence the stakeholders and thus in return this entity impacts on the organization. The list of these stakeholders include competitors, customers, government and political groups which have been observed as the significantly influential on the capability of an organization (Dill, 1958; Murray & Vogel, 1997).

The stakeholder theory also supports the association of CSR and business operations. (Cornell and Shapiro, 1987), (McGuire et al., 1988), (Freeman, 1984) proposed in their work of study that the worth of the company depends upon the cost of two claims on firm's resources. These are explicit claims and implicit claims. Such claims are not only made by those who have legal rights over the resources but also by those who have other associations like in the capacity of creditors, customers, employees and government. They have explicit claims on the companies but their implicit claims include the reliability, quality of service and social and welfare responsibilities. Those corporations which ignore the implicit claims may bear downward progress in long run because of the high cost of explicit claims due to suppression of implicit claims (McGuire et al., 1988). Based on Maslow's hierarchy of needs theory another theory of motivation for organizational response towards society was presented by (Tuzzolino and Armandi, 1981). They espoused that corporations who have fulfilled their internal and external self-actualization needs are good at adopting CSR practices because once they succeed in satisfying their



physiological, safety and affiliation needs then they are inclined to perform their social roles for the welfare of the society.

In old decades the companies' destinations were to generate profits and satisfy the demands of the shareholders only (Friedman, 1970). But gradually this perception was replaced and considerations of companies extended from the profits and shareholders to other stakeholder relationships. This happened due to the varied range of benefits that are associated with the impacts of organization over environment and society (Russo & Perini, 2010). The theory of stakeholder emphasized the fact that the satisfaction of shareholders is dependent upon the satisfaction of other stakeholders. And thus the organizations extended their elements of concerns from profit maximization to CSR (Jamali, 2008).

STAKEHOLDER PRESSURE

(Murray and Vogel, 1997) are of the view that stakeholder are likely to have impacts over the operations of an organization. This impact may be formal or informal, exerted individually or collectively and it may be negative or positive. Where the management takes the concerns of stakeholders as interference in the private affairs of the organization, the results are in the form of slow progress and formation of ineffective policies. In contrast, the progress is remarkable in such organizations which are intended to execute the well-managed CSR plans so that the expectations of public can be met before the development of bigger issues. The benefit of this approach is the identification of crucial issues that may be either favourable or unfavourable for both the organization and stakeholders. This way the forthcoming discontent may be avoided (Murray & Vogel, 1997). An example of such discontent was seen when Greenpeace objected over the use of palm oil by Nestle in its products. The increasing use of palm oil in many products is resulting in the increased deforestation of rainforests for the extraction of palm oil. In this connection, Greenpeace in 2009 aired an infomercial on YouTube and appealed the boycott for one of the Nestle product, Kitkat chocolate so that the company can be forced to take measures to maintain the presence of rainforests even if the palm oil is used in the product. Likewise, in case of the issue of child labour Apple, and Nike were also pressurized (Wolf, 2014).

CSR AND ORGANIZATIONAL PERFORMANCE

In their research (Bragdon & Marlin, 1972) came up with a negative relation between CSR and CFP and pronounced that this negativity arises because of the burden of CSR expenditure over the cost of the operations which is not borne by the companies which are not engaged in CSR activities. Whereas, there are some researches which emphasized that the expenditure on CSR activities results in strengthening the relationships with customers and employees and thus not only compensates the burden of CSR expenditures but also increases the value of the corporations (Soloman & Hansen, 1985). Despite of the many supporting studies about the relationship between CSR and CFP some researchers have declared CSR as irrelevant factor. Most of the studies have proved the positive relationship while some have stated it as a burden over the budget of the business wealth. The prime responsibility of a business is to generate money and only shareholders should be kept in consideration while take strategic decisions (Friedman, 1970). The initiatives that are taken to perform social responsibilities incur marginal costs and may result in economic difficulty in comparison to those companies which are little or not involved in CSR activities (Ullman 1985, Vance, 1975). They asserted that the expenditures over employees' welfare programs, environmental protection, production plant maintenance in less developed areas and other charity donations cause unnecessary costs and thus result in negative impact over the financial performance of the business. Besides these researchers some found no association between CSR and CFP (Alexander & Buchhloz 1978), (Guerard, 1988)

Among many others (Preston, 1990) advocates the advantageous relationship of CSR with the financial performance by referring its

effect in the form of long run achievements. He argues that the concept of CSR should also be given due attention while formulating the policies of business operations. Even though significant studies have been done about the relationship of CSR and CFP but the results presented in them are quite varying. (Belkaoui, 1976) found a positive relationship between these two elements of corporations. Other results pronounced that corporate social responsibility accelerates the financial markets (Anderson and Frankle, 1980; Shane and Spicer, 1983; Spicer, 1978a, b). While many other found contrasting opinions (Frankle and Anderson, 1978; Ingram, 1978; Chen and Metcalf, 1980). And apart from the results of positive and negative relationships few studies showed that there is no relationship between CSR & CFP (Bulcholz, 1978; Abbott and Mosen, 1979).

HYPOTHESIS DEVELOPMENT

Traditionally the measures used in the research of CSR and CFP relationship are ROA and profits margins. (Chin & Yang, 2009) have used ROA as short term variable for financial performance. Other financial indicators used by Chin & Yang are the Treynor measure, the Jensen measure, the Sharpe measure, the amended Jensen measure, and the MCV measure.

Researchers who analysed the financial performance in the form of stock market status are, (Parket and Eilbirt, 1975), Moskowitz, 1972) and (Sturdivant & Ginter, 1977). They all found the positive relationship between corporate social responsibility performance and stock market performance of the firms. Besides this a substantial work of researchers has appeared without any positive and negative relationship between CSR and CFP. In addition to this in some researches it is still not cleared that whether there is any relationship between these two factors of the corporation or not. (Lee et al., 2009; Peng & Yang, 2014).

To find out the relationship and mode of relationship between CSR and CFP two main hypothesis have been generated in this research:

H1: There is a linear relationship between the firm's CSR performance and its accounting returns based financial performance that is ROA.

H2: There is a linear relationship between the firm's CSR performance and its market based financial performance that is Tobin's Q.

The above two hypothesis have been further classified by splitting the CSR in individual sectors in which companies have performed their social activities. These sectors have been devised in the form of following sub-hypothesis:

H1-a: There is a significant relationship between CSR in Education and ROA.

H1-b: There is a significant relationship between CSR in Health and ROA.

H1-c: There is a significant relationship between CSR in Environment and ROA.

H1-d: There is a significant relationship between CSR in Community Development and ROA.

H1-e: There is a significant relationship between CSR in Infrastructure Development and ROA.

H1-f: There is a significant relationship between CSR in Disaster Relief and ROA.

H1-g: There is a significant relationship between CSR through Donation and ROA.

H1-h: There is a significant relationship between CSR in other sectors and ROA.

H2-a: There is a significant relationship between CSR in Education and Tobin's Q.

H2-b: There is a significant relationship between CSR in Health and Tobin's Q.

H2-c: There is a significant relationship between CSR in Environment and Tobin's Q.

H2-d: There is a significant relationship between CSR in Community Development and Tobin's Q.



H2-e: There is a significant relationship between CSR in Infrastructure Development and Tobin's Q.

H2-f: There is a significant relationship between CSR in Disaster Relief and Tobin's Q.

H2-g: There is a significant relationship between CSR through Donation and Tobin's Q.

H2-h: There is a significant relationship between CSR in other sectors and Tobin's Q.

METHODOLOGY

MEASURING CSR

Prior many international researches over this topic have utilized various indices according to their area of operation. In the previous studies most of the researchers chose the methods of measuring CSR through indices. One of the commonly used index used in this purpose is MSC 400 KLD index. It is a social index which is a capitalization weighted index of the securities of United States of America and contains a number of 400 securities. It is a sort of exposure for those companies which are actively involved in the social responsibility activities and which have got extraordinary Environmental, Social and Governance (ESG) rating. This index disregards those companies which have any negative social or environmental effects. (Waddock and Graves, 1997), (McWilliams and Siegel, 2000), (Tang et al., 2012) have mentioned that this index appraises the CSR performance of the companies on the bases of eight different characteristics. Even though many researchers who worked for CSR performance have adopted the method of index but there are still some critics who are not satisfied with this source of data being weak to some extent or does not cover a comprehensive number of samples (Simpson and Kohers, 2002). (Peng & Young, 2014) objected over KLD index as being limited to only those companies which are listed in US Stock Exchange and provides opinion about only one type of system related to CSR.

Referring the data sources of the current study it is crucial to mention that no such environmental and social index has been developed by Pakistan Stock Exchange therefore the format of international studies based on index provided by stock exchange could not be followed.

Most of the companies provide the disclosures of CSR activities in their financial statements only in the form of their policies and their CSR performance is found in the form of amount of donation. Some of the companies prepare their sustainability reports and the diversification of their social responsibility activities are presented in that sustainability reports. Such reports but not all are uploaded on the website of Corporate Social Responsibility Center Pakistan.

The only detailed and adoptable source found in this regard for the CSR performance of the listed companies of Pakistan was the CSR reports of OICCI. It provided patterns that were utilized while accessing the sustainability reports of the companies. The pattern which was followed from the reports of OICCI was comprised of identification of seven parameters of CSR performance of the companies. These seven parameters are education, environment, health, community development, infrastructure development, disaster relief and others. The performance of the companies in these sectors was marked as 1 and non-performance was marked as 0. In addition to this donation amount was also taken as a variable of CSR. For the annual figures of donation the financial reports of the companies were utilized.

MEASURING FINANCIAL PERFORMANCE

About measuring the financial performance of the companies there is no such uniformity or similarity among researchers while the parameters are selected (Cochran & Wood, 1984). For the evaluation of corporate financial performance the selectors created the bases to decide about their indicators of financial performance. These basis can be divided into three categories. One is based on the measurement of profitability and returns and the indicators in this categories include

Return on Assets (ROA) (Russo & Fouts, 1997; Moon et al., 2014) or more than one accounting or profitability measures (Preston & O'Brannon, 1997; Cochran & Wood, 1984; Cavaco & Crifo, 2014;). The second category is based on those measures which represent the market stability of the company while analyzing the firm's financial performance. (Alexander & Buchholz, 1978; Brammer et al., 2006) have used stock market performance for this purpose. (Martinez-Ferrero & Valeriano, 2015) have used market value as a financial performance indicator. While in case of third category profitability measures and market based measures both have been used when the parameters of financial performance were selected (Akisik & Gal, 2014; McGuire et al., 1988)

For this study the financial performance has been analysed by taking both accounting based and market based parameters. Return on Assets (ROA) as accounting based measure and Tobin's Q as a market based measure. The researchers those used ROA include (Russo & Fouts, 1997; Moon et al., 2014) while those who used Tobin's Q include (Guenster et al., 2011; Nishitani & Kobuku, 2012)

SAMPLE

In this study the sample consists of 55 listed companies of Pakistan Stock Exchange which have been regarded as the active performer of CSR being the member of OICCI, publishing their sustainability reports or providing the detail disclosure of CSR activities in their annual reports. While taking data from the work of OICCI out of about 70 companies listed in the reports of three years from 2014 to 2016 more than 30 companies were excluded from the sample because of the two main reasons:

- Being private limited company
- CSR report of any of the three years was not available

DATA ANALYSIS AND RESULTS

DESCRIPTIVE STATISTICS

Table 1. Descriptive Statistics – Independent Variables

Measures of CSR	CD	DON	DR	EDU	ENV	HLTH	OTH	ID
Mean	0.65	38427	0.31	0.88	0.67	0.83	0.45	0.21
Median	1.00	3936	0.00	1.00	1.00	1.00	0.00	0.00
Maximum	1.00	991340	1.00	1.00	1.00	1.00	1.00	1.00
Minimum	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
Observations	165	165	165	165	165	165	165	165

Table 2. Descriptive Statistics – Dependent Variables

Measures of Financial Performance	ROA	TOBIN's Q
Mean	0.37	2.36
Median	0.08	0.91
Maximum	17.89	37.74
Minimum	-0.08	0.00
Std. Dev.	1.981997	4.530966
Observations	165	165

Table 1 represents the descriptive measures of CSR. To measure CSR these activities of the companies have been divided into seven sectors other than the amount of charitable annual donation (Don). These sectors are listed as: Community Development (CD) Disaster Relief (DR) Education (EDU) Environment (ENV) Health (HLTH) Others (OTH) and Infrastructure Development (ID). The mean values of these elements are showing that education, health, environment and community development are those sectors of CSR where the average participation is higher than Infrastructure development, disaster relief and others. With the period of 3 years, an average of 65% to 83% companies of the sample are performing in these 4 sectors with respect to their CSR activities.

Table 2 represents the descriptive measures of financial performance. Two terms have been taken for this measures as dependent variables. One is Return on Assets (ROA) and the other is Tobin's Q. The mean value ROA is showing that average return of the firms of the sample is about 37% within these three years for which



their CSR activities have been noted down. Similarly the mean value of Tobin's Q is showing that within the period of 3 years, the average market values of the sample firms is overvalued by 2.36 ratio to the replacement cost of their total assets while these firms are performing their CSR activities as well.

REGRESSION RESULTS

Random effect linear regression has been run for the two dependent variables for the measure of financial performance. The relationship of ROA and Tobin's Q has been checked with the measures of CSR which include CD, EDU, ENV, HLTH, DR, ID, OTH and DON. ROA has been calculated by taking values of net profit and total assets from the annual reports of the companies. Tobin's Q has been calculated by taking average annual share price of the companies, number of shares outstanding at the end of financial year and the value of total assets. Average share price of the companies has been taken from the website of <http://noormaier.net> while number of outstanding shares and value of total assets have been taken from the annual financial reports of the companies.

Table 3: P-values

Measures of CSR	ROA (measure of CFP)	Tobin's Q (measure of CFP)
EDU	0.0581	2.571014
ENV	0.0682	-0.266427
HLTH	0.0131	0.1275
CD	0	0.1782
OTH	0.0111	0.4386
DR	0.6421	0.2316
ID	0	0.3029
DON	0.5427	0.0272
R squared	0.144319	0.215083
Prob (F-Statistic)	0.006129	0.000034

In Table 3 the P-values have been presented which are representing relationship between CSR and CFP. The table values show that when the impact of CSR was analysed over ROA it was revealed that five out of seven sectors of CSR have got significant relationship with the financial performance of the company. These five sectors are education, community development, health, infrastructure and others which were represented as dummy variables in the data. The value of R-squared being 14% shows that there is a moderate strength in the relationship of CSR and CFP. Probab (F-statistic) being 0.6% shows that the overall model is fit. Likewise when the impact of CSR was examined over Tobin's Q it was identified that one out of seven sectors of CSR and another variables named donation have got significant relationship with the financial performance of the company as the p-values are lower than 0.05. In case of Tobin's Q value of R-squared is better than the model value of ROA as it represents 21 percent strength of relationship between CSR and CFP. The value of prob (f-statistic) is 0.003% which is the sign of fitness of the model. Conclusively it can be seen in table 3 that the impact of education, health, community development, infrastructure, others and donation have got significant relationship with the financial performance of the company with variations in case of accounting returns based financial performance and market based financial performance.

The regression has been run on random effect since the p-value of Hausman test was insignificant that is greater than 0.05 and the null hypothesis of fixed effect model was rejected. In order to run the above regression analysis following assumptions were verified:

The unit root test was run which verified that the data is stationary. (See Appendix G & H)

- No value of calculated VIF was greater than 10 which is a sign of no multicollinearity among the independent variables. (See Appendix I)
- The value of Durbin Watson is between 1.5 and 2.
- To nullify the possibility of heteroscedasticity random effect regression was run with the selection of white cross section. (See Appendix C & D)

DISCUSSION AND CONCLUSION

HYPOTHESIS 1:

There is a linear relationship between the firm's CSR performance and its accounting returns based financial performance that is ROA.

The random effect model of linear regression in table 1 shows the relationship between ROA and CSR and between Tobin's Q and CSR. Here to test the hypothesis 1 it can be observed that 5 independent variables are showing p-values lower than 0.05 and declaring that the null hypothesis has been rejected. The p-value of only education, health, community development, infrastructure development, and others are 0.05, 0.0131, 0, 0 and 0.0111 respectively. With the majority of significant p-values in the model of CSR and accounting based measure of financial performance that is ROA, it needs to be said that there is a linear relationship between CSR and CFP. The R-squared value of this model has shown that a moderate relationship can be perceived between ROA and CSR but this relationship could be stronger if sample size is increased. F-statistics probability being 0.0061 is also showing the significance of overall model being quite high and can be helpful in giving a clear conclusion about the effectiveness of the model. Moreover, it should be mentioned here that there may be some other major factors of a business which have a larger effect over the ROA of the company than its performance in CSR activities. For example the economic crunch of 2007 was observed as an unavoidable factor that affected the profitability of the companies (Kstens et al; 2012).

Table 4. Beta values of CSR sectors

CSR Factors	Beta values
EDU	0.51332
ENV	-0.317958
HLTH	-0.553203
CD	0.078464
OTH	-0.125425
DR	-0.023163
ID	0.00341
DON	-6.17

Table 4 shows the beta values of this model which relate to the significance level of the relationship between CSR and ROA. It can be seen that the beta value is positive for education, community development and infrastructure which means that the increasing contribution of companies in the sector of education, community development and infrastructure development will bring positive growth in the returns of the company. While the beta values of health, others and donation are negative which mean that the increase in the contribution towards these sectors will decrease the returns of the company. This negative trend may be shifted towards positive relationship if the data sample is increased which has been for three years in this study. This limitation of this study is due to the fact that the data of CSR practices in Pakistan have not been maintained for earlier than last 3 years. Keeping this in view it can be said that CSR activities can provide a moderate boost to that financial performance of the company which is based upon the internal factors of the corporations.

Summing up the results for Hypothesis 1 it can be said that there is a significant positive linear relationship between accounting based financial performance and the CSR activities of the companies and thus this reveals that the null hypothesis is rejected.

HYPOTHESIS 2:

There is a linear relationship between the firm's CSR performance and its market based financial performance that is Tobin's Q.

The random effect model of linear regression in table 1 shows the relationship between ROA and CSR and Tobin's Q and CSR. Here to test the hypothesis 2 it can be observed that no independent variables are showing p-values lower than 0.05 except donation for which it can be said that the null hypothesis has been rejected showing the p-value



as 0.0272. With the presence of significant p-values of donation in the model of CSR and market based measure of financial performance that is Tobin's Q. In comparison to accounting based financial performance the market based financial performance is less affected by CSR activities as ROA has got the impact of 5 elements of CSR while Tobin's Q has taken the impact of only one element of CSR activities. The R-squared value of this model has shown a moderate relationship like it has been perceived between ROA and CSR but this relationship can be regarded as impact creating relationship. Apart from the insignificant relationship of individual sectors of CSR and the market based measure of CFP the overall model is seen as significant since F-statistics probability is 0.0004.

Table 5. Beta values of CSR sectors

CSR Factors	Beta values
EDU	0.563828
ENV	-0.037126
HLTH	-2.731365
CD	-0.404199
OTH	-0.280201
DR	1.308564
ID	-0.702706
DON	-3.28

Table 5 shows the beta values of this model which relate to the significance level of the relationship between CSR and Tobin's Q. It can be seen that the beta value of donation is negative and reveals that the increase in the amount of donation by the business may decrease the market based financial performance of the companies. The contribution in donation by the corporation seems to be decreasing the market based financial performance of the company and it can be perceived that the increase in the data sample may change the inference in this case too as it is expected for some sectors of CSR in case of ROA.

Here it can be concluded that there is some linear relationship between CSR and market based financial performance (Tobin's Q) of the company therefore Hypothesis 2 is accepted for the sub-hypothesis 2-g that is "there is a linear relationship between CSR through donation and Tobin's Q.

The results of this research have produced mixed result being positive in some cases and negative in some cases which is a different conclusion than those who revealed positive linear relationship between CSR and Tobin's Q (Dowell et al., 2000; Guenster et al., 2011). Since there are differences in methodologies, data sources and approaches therefore the results are varying from researcher to researcher (Girerd-Potin et al., 2013).

LIMITATIONS AND FUTURE RESEARCH

Many studies have been done over this topic and covered several elements of corporate social responsibility like environmental controls, charitable expenditures, employees' compensations and rewards and shareholders' wellbeing. Since these researches covered the companies from those countries where the CSR policies and regulations are well developed and the involvement of government also present therefore all the above mentioned elements could be analyzed with the availability of relevant data in the form of CSR indices and/or CSR disclosures of the companies. But in case of Pakistan the absence of government defined regulations and the unavailability of any CSR indices the limitations include small number of companies for which the information related to CSR activities for such elements could be collected. However future researches can be conducted to develop a CSR index in Pakistan and more companies can be included in data collection. Moreover there are also other aspects of CSR which have not been covered in this study these aspect can be covered in the future research. Furthermore the study can be concluded from the different perspectives such as from the perspectives of different stakeholders which will be helpful in drawing the recommendations.

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