TO BE RESPONSIBLE SOCIALLY IS VIABLE FINANCIALLY

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Abstract

This paper aims to evaluate the impact of Corporate Social Responsibility (CSR) on Company's Financial Performance (CFP) operating or based in Pakistan. Emerging CSR practices in the developed world have raised question about the inclination of the developing world towards CSR. Pakistan being a developing country, its corporate sector is more concerned about profit maximization than CSR. Various studies around the globe have established that CSR has a positive impact on the financial performance of a company. In this study, secondary data has been used from audited annual reports of 26 companies listed in KSE of similar size from different sectors, which are striving towards better CSR. The data ranges from 2008 to 2012 (5 years). The researchers have used Stakeholder theory to measure CSR; stakeholders include Government, Employees, Suppliers, Creditors, Shareholders and Customers. Return on Asset (ROA) was used as a surrogate for Company's financial performance (CFP). The result of Multiple Regression Model showed a significant impact of CSR on CFP for only a few stakeholders. After adjusting the model according to Pakistan's scenario, customers, shareholders and creditors were identified as the key stakeholders for CSR to have an impact on CFP. Analyses also bifurcated the results for KSE 100 index companies and Non KSE 100 index companies in order to have an idea as to how firm size disparity affects CSR's impact on CFP. The outcomes of the research would be helpful for the corporate decision makers, government policy formulators and other related quarters to understand the impact of CSR on CFP with reference to Pakistan.

Keywords: CSR, CFP, stakeholder theory

1. *INTRODUCTION*

Davis and Frederick (1984) discussed that society including customers, employees, shareholders, community and environment comes under umbrella of CSR. The concept of Corporate Social Responsibility has evolved and developed from last three decades. Let's go through from various stages of CSR progression.

1.1. CSR – The Evolution of Concept

Industrialization turned the entire world towards mass production, which became catalyst for economic progress an economy. The phenomenon of Joint Stock Company emerged as a structural base for industrialization. Joint Stock Company was the instrument of distributed ownership of commercial entity. The success of this mode of commercial activity transformed businesses into companies and the need for capital market evolved. This is how the corporate sector evolved on the face of capitalist economy. Corporate Sector, due to its vary nature and structure, is attached and has impact on various segments of economy. Economies of scale, mass production, competition, division of labor, automation, continuous growth, efficiency and innovation are the main features of modern corporate world. Cut throat Competition and race for profit maximization in corporate world resulted in labor rights violation, unprecedented urbanization and environmental degradation. The consequences of these anomalies were very serious. Global warming and diseases erupted from environmental pollution, mass scale poverty from disparity of income distribution, and exploitation of human rights and corruption from the ignorance labor rights.

Socialism was the answer for such anomalous consequences of capitalist economy. Unfortunately, socialism was proving counterproductive and world became bipolar. Humanity suffered from cold war and a synthesis was reached in the form of Corporate Social Responsibility (CSR) within the ranks of corporate world. Companies utilize natural and human resources to generate profits. These profits bring depletion of environment and diseases for humans, which caused damages not only to a community but globally. It is, therefore, responsibility of these companies to cure this harm from their profits. The concept of CSR is based on aforementioned arguments; it refers to the ethical, environmental and philanthropic concerns for employees, customers, government and society in general. Since corporations work in society, for society and through society, therefore they should consider themselves as corporate citizens - an integral part of society and they should reinvest their profits for the betterment of society and solve the problems such as pollution, poverty, fraudulence and labor exploitation etc.

CSR can be called as 'self actualization' of corporate citizen. Initially, CSR was on volunteer basis and limited to philanthropic activities; as Andrew Carnegie built libraries, universities as a philanthropist because he polluted city by smoke and dealt workers harshly. A number of pharmaceutical companies reduced their drugs prices in under developed countries. Formation of World Business Council for Sustainable Development (WBCSD) in 1991 was also a volunteer initiative by United States. But, volunteer based initiatives lack accountability, therefore third party verification about compliance of social standards was introduced. In 1990s, different networks were initiated, e.g. Social Accountability Int., Forest Stewardship Council, and Fair-trade Labeling Organizations Int. etc. Later on, these programs joined hands and was identified as the International Social and Environmental Accreditation and Labeling (ISEAL) group with the vision to strengthen CSR compliance. During 1990s, human right activists and environment protection organization also played an important role for the implementation CSR practices by the corporate world; e.g. in Nigeria, Shell faced high criticism on environmental degradation; similarly Nike had to reject those supplier countries which were alleged for child labor.

In the beginning of this millennium, bankruptcies, business failures and financial scamps of some renowned corporations like Enron, WorldCom, Xerox and Merck reinforced the need for CSR and gave new dimension to it. CSR is now considered as tool for sustainability of corporation itself. Institute of Chartered Accountants (2004) described CSR as **sustainable development and growth by concerning environment, employees, customer and society at large**. This approach to define CSR gave stimulus to a debate in the scholarly circles **whether CSR has any impact on financial performance or "maximization of shareholder's wealth" or not**. Numerous studies have been conducted on CSR to evaluate its importance and influence at financial, commercial and social level including the aspects like safeguarding reputation, employees' perception, customers' trust, and licensing ease etc.

1.2. CSR – The Development of Concept

The World Business Council for Sustainable Development (WBCSD) (1999) defined that CSR has a perspective of continuous commitment for economic development, careful concerns of environment with the welfare of workforce and their family while behaving ethically to improve this perspective. CSR is not a regulatory framework; it is more of an approach of a company. As European Commission (2002) argued that it is beyond legal obligation because it is companies' behavior towards initiatives to safeguard all stakeholders by investing profits and adopting least harmful business operations. The whole process evaluation of CSR can be described in the following phases:

- Pressure building against businesses to adopt community concerns
- Increasing awareness in community and stakeholders.
- Realization of business CSR as responsibility
- Development of policies and standards to assure compliance
- Implementation of established policies to identify best practices.
- Formation of various evaluation programs for CSR performance.

As the scope of CSR broadened, it became a convention of corporate world. Specialized institutions were setup and CSR protocols were established. "Clean and green" companies are a new customer demand. Nowadays CSR can be defined with multi-dimensional indicators:

- Business Ethics
- Environment Friendliness
- Fair Trade
- Labor right protection
- Workplace safety
- Full Disclosure

From 1993, many multinational companies started to release CSR reports, and now international reporting system gave it more versatile and necessary status. "KPMG International Survey of Corporate Responsibility Reporting 2013" reported CSR activities in 100 largest companies across 41 countries. KPMG reporting system shows increasing trend of CSR activities in the entire world. There are various nomenclatures used for CSR report, the widely used name Sustainability Report, other names include CSR Report, Corporate Citizenship, and People, Planet & Profit etc.

1.3. CSR – Situation at Home

Conditions of human rights and environment are rather bleak in developing countries; environment and labor rights are always at stake to maximize profit, especially in small scale businesses. Legislative framework is also not so stringent. Businesses in developing countries compete on cost cutting instead of value addition or innovation. In such a scenario CSR become indispensable to protect the crux of civil society. The peculiarities of developing economies has made CSR a challenge to implement; NGOs and international agencies are working hard for awareness of CSR practices, compliance of international labor and environmental laws, and improvement of living standards. Though MNCs somewhat observe CSR and set standards for local industrialists and businessmen in developing countries but overall situation is far behind from satisfactory. Rais and Goedegebuure (2009) and

Chappel and Moon (2003) conducted studies on developing countries and highlighted the emphasis of international regulations on CSR is taking pivotal place in business system and automatically in national business structures.

Pakistan, being a developing country, is surrounded by numerous social problems. Political apathy, mismanagement, corruption, poverty, pollution and law and order situation often exacerbate the business practices in Pakistan. There are health and safety hazards, excessive working timings, environmental degradation, and violation of labor laws in the industrial sector of Pakistan. In such a scenario, CSR holds vital importance for the betterment of society. A researched titled “CSR in Pakistan: The Good, The Bad and The Ugly” by TBL (a specialized CSR platform of APR) reported that government of Pakistan and SECP are limited to list-ticking and form filling process to motivate companies for CSR rather than to initiate pragmatic steps. Fire breaking or other factory accidents on regular intervals show the carelessness of regulatory bodies and lack of concern of capitalists. Recently, Walt Disney has banned import from Pakistan because of poor governance and degrading working conditions of labor (Dawn, 3rd April, 2014).

Nevertheless CSR trends are getting momentum in Pakistan. Corporate sector of Pakistan is now feeling its responsibility to reshape its business strategies in line with CSR. Although concrete statistics are not available on the state of affairs of CSR in Pakistan but there are certain CSR indicators, which are showing positive signs. National Forum for Environment and Health (NFEH) at its 6th summit, 2014 Karachi deliberated on CSR role and its emergence and importance in Pakistan. This summit invited business sector, CSR activist, non-commercial organizations and Media.

2. *LITERATURE REVIEWS*

Ullmann (1985) analyzed 13 studies of social scale for American Companies to find relationship of CSR and CFP and found no clear relationship between CSR and CFP. He concluded that the inappropriate definitions of basic concept, lack of theory and improper availability of empirical database were causing hindrance in findings. McGurie, Sundgren and Schneeweis (1988) also evaluated different modes of relationship between CSR and CFP. Pava and Krausz (1996) came up with the perspective that there is clear tendency between CSR and CFP. Their disagreement to Ullemann bases upon revision of 21 studies, out of which 12 indicated positive, 1 gave negative and 8 represented no relationship between CSR and CFP. Waddok and Graves (2000) also found that clarification of goals and targets of a company serve company in a better financial way to satisfy not only its shareholder but also all stakeholders in community.

Classon and Dahlstrom (2006) has studied the impact of CSR on CFP through customer perception. They used qualitative method by employing Carroll (1991) pyramid to describe company's economic, social, ethical and philanthropic responsibilities. Their research encompasses company, customer and NGO study to find out linking chain of CSR and CFP. Their findings are in two scenarios: if company is below from baseline (economic, social and environmental) in practicing CSR then customers avoid to purchase its products and it has negative effect on financial performance and on the other hand, if CSR level is above the bottom line then customers perceive it as value adding feature and rush towards these products and ultimately financial performance.

Repti and Francesca (2009) studied CSR and CFP in the context of aviation industry focusing environmental issues. They used Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), Net Assets (NA) and Book Value (BV) as bases for analysis; and found that CFP increases with the significant increase in CSR. Karagiorgos (2010) researched Greek companies to explore significant relation between CSR and CFP. Research was based on stakeholder theory; data from 281 companies listed in Greek capital market were used. Study also incorporated control variables (market capitalization for controlling size, CAPM beta for controlling risk and stock return of previous year) in the model. A positive and significant relationship among stock returns and CSR is found.

Palmer (2012) studied association between CSR and CFP among 167 distinguished companies of S&P 500 companies covering a period from 2001 to 2005. His research incorporated ROA, sales and gross margin to study impact of CSR. Controlled variables were assets, no. of employees and long term debt to total assets ratio. Results indicated direct impact of CSR on bottom line profits and margins because customers are willing to pay premium for those products/services which contribute in CSP. He also found minor decrease in sales because there are customers who do not want to pay premium for CSR activities. Flammer (2013) has shown that the companies value CSR stood better in their financials vis-à-vis to other companies; with ROA difference of 0.7% to 0.8% and difference in net profit margin is 1.1% to 1.2%.

South Africa is also an important and attractive region to study CSR investment and its impact on CFP. Nkomani (2013) studied CSR practices in South Africa and found significant relationship between CSR and CFP in South African context. His sample size was 100 Johannesburg Stock Exchange (JSE) companies in Social Responsible Investment Index (SRII). China was under criticism in term of product safety and social responsibility beyond profit maximization. Yin (2012) conducted research and emphasized on the comparison of current CFP with previous CFP when firms did not initiate CSR as CFP indicator. He divided CSR into nine areas including education, disasters, infrastructure, poverty, charity, art, environment and employee. Zhou, et al. (2012) observed CSR trend in Chinese economic development. The research contains three case studies of Chinese companies including Tencent, ZK group, Shenyang Water Supply Company.

CSR in developing countries is usually perceived as slow moving phenomenon. Mishra and Suar (2010) studied Indian firms for CSR and its impact on financial and non financial performance. They collected primary data by filling questionnaire from senior managers and secondary data from financial statements of company. They set minimum criteria for sample selection of 150 companies, having minimum capital investment of INR250 million, at least 100 employees and completed 5 years of operations. They explored CFP association with CSR in relation to employees, customers, investors, community, environment and suppliers; and found positive a correlation between CFP and CSR. Further they observed that listed companies behave more responsibly in aggregate than non-listed companies. Among the 150 companies studied, 92% have got clarification from pollution control boards, 43% have adopted ISO 14000 and 15% have adopted OHSAS 18000 to ensure their CSR performance using Delphi methodology adopted by Davenport (2000). Tilakasiri (2012) conducted research in Sri Lanka to study CSR level in developing countries. He studied 50 listed companies and pound positive relationship between CSR and CFP.

There is not enough research in Pakistan on CSR. Ambreen Waheed (2005) used Knowledge, Attitude and Practice (KAP) format to analyze stakeholders' respondents on CSR. She found that the lack of interest, documentation, awareness, trust, leadership, coordination, commitment and stability are the reasons which hinder the way of proper practices of CSR in Pakistan. Measurement of study was based upon product integrity, environmental compliance, business ethics, corporate governance and disclosure of CSR. Development of CSR is remarkable all over the world but still ambiguity remains because of absence of agreed measurement criteria (Yang Qiu, 2012). This ambiguity sometimes causes to unclear relationship between CSR and CFP.

3. CSR THEORIES

CSR has great influence on business strategies and ultimate business success. Milton Freidmen (1970) was in favor of wealth maximization. He argued the sole responsibility of companies is "make as much money as possible while conforming to the basic rules of the society. Shareholder theory CSR also advocates the same view. But according to stakeholder theory, companies are responsible not only towards their shareholders but also to the society as whole. Specifically, those people who are affected through their business operations and profit making practices (Freeman, 1984). Stakeholders, such as **customers**, **employees**, **supplier**, **financiers** and **government** are directly or indirectly contributing to company's wealth and sustainability; therefore, companies should be responsible to safeguard their rights and interest at societal level.

Stakeholder theory has two aspects; first is that stakeholders are the source of capital, labor and environment to generate profit. It means that if company behaves irresponsibly towards environment, employees, customer and society then it is creating circumstances to lose these provisions. Secondly, stakeholders are beneficiaries of business as well as risk bearers. Metcalfe (1998) divided stakeholders in primary and secondary classes. Primary stakeholders are those who are directly involve in company's operations like employees, customers and financer while secondary stakeholders are those who indirectly engaged in company's operations like media, government and society at large. This theory is the push factor for CSR reporting.

Other CSR theories include Legitimacy theory and MSC Index. Legitimacy theory argued that companies are required to match their practices with social desires. These desires and expectations are usually set upon social norms and values. This means that companies require reporting CSR for the alignment in expectations of stakeholders and company's performance. Legitimacy gap is general viewed as lack of concern towards protection of environment and rectification of societal problems by a company. MSC Index rates companies on seven criteria i.e. environment, community, diversity, human rights, employee relationship, product and governance. Annual reports, CSR disclosure, press releases, and external surveys will be the source to assess MSCI attributes.

4. ***THE STUDY*** (CSR Impact on Company's Financial Performance)

4.1. Objective of the Study:

Globally, CSR is regarded as an indicator of firm reputation, goodwill, competitive advantage, sustainability, value addition, and concerns towards society and ecology; but developing countries are more focus on cost cutting and perceived CRS is as financial burden. This scenario motivates the researchers to study the

The impact of Corporate Social Responsibility (CSR) practices on Company's Financial Performance (CFP) operating in Pakistan

Through this study researchers have tried to identify a framework to study the CSR practices of companies operating in Pakistan; so that the relationship between CSR and CFP in Pakistan's corporate sector can be investigate. Following questions are addressed in this study:

- Does CSR has a positive impact on CFP in Pakistan?
- Which CSR indicators are significant for CFP in Pakistan?
- Is significance of indicators different for top and second line companies in Pakistan?

4.2. Research design

Stakeholder theory is used for measuring relationship between CSR and CFP. Stakeholder theory presents concern to government, creditors, suppliers, customers, employees and shareholders. Variable selection, however, is a subjective judgment of researchers but according to the stakeholder theory only those indicators will be used in this study which has direct impact on financial performance, so the influence of subjective selection can be reduced.

4.3. Research sample

Panel of 26 listed companies for five years from 2008 to 2012 will be used. Annual audited financial statements of companies listed in Karachi Stock Exchange are used as secondary data to determine CSR and its impact on CFP. Companies are divided into two groups i.e. 11 KSE 100 Index Companies and 15 other companies through dummy variable. Taking firm size as controlling variable limits the study to the following nine sectors.

S. No.	Sector	Total companies	Sample
1	Textile (personal goods)	179	8
2	Construction and materials (cement)	36	3
3	Fuel and energy	17	2
4	Food producer	53	4
5	Oil and gas	13	2
6	Pharmacy and Biotech	9	2
7	Tobacco	3	1
8	Telecom and I.T	7	1
9	Chemicals and Fertilizers	34	3
	Total	**351**	**26**

4.4. Research Variables (Measuring CSR & CFP)

Selection of accounting measures to quantify CSR and CFP is the most important aspect of this research. Literature review suggests that there are no standardized ratios as such to find relationship of CSR and CFP. As the indicator of CFP, ROA is most common measure chosen by researchers, whereas ROE, Net Profit Margin, EBITDA, Net Assets, Book Value, Market Capitalization, CAPM Beta, and Total Return Index are also used. Measures or indicators for CSR are more diversified and complex. Most of these indicators are even beyond accounting measures like business ethics index, corporate governance parameters, product integrity ratings, willingness of company to adopt CSR proposals, Corporate Share Value, and CEO attitudes etc. But the model based on Stakeholder Theory, was limited to accounting measures to gauge CSR.

Along with stakeholder theory, Pakistan's regulating authority, Security and Exchange Commission of Pakistan (SECP) framed a CSR guideline prospect which includes areas of CSR reporting system, grid to evaluate CSR practices of company. SEC's framework incorporated CSR in the vision of code of ethics; business strategies and board of directors are directed to report CSR activities by covering given areas. This prospect was used to analyze CSR practices and its level of implementation. Variables were selected on the basis of stakeholder theory and SECP guidelines. It shows that content based analysis was adopted in this study to quantify the data in respect of CSR. Measurement of CFP was done by ROA where as CSR measurements include seven criterions.

4.4.1. Dependent Variable

The impact of CSR on CFP was determined; ROA was considered as the most appropriate measure for CFP. Thus, Return on Asset (ROA) was the dependent variable for this study.

4.4.2. Independent variables

Stakeholder theory is a basic model which was applied to measure CSR. In this study 7 independent variables were used to measure CSR.

1. **TAX**:
   It refers to the proportion of income tax in operating income. It shows CSR to **government** and reflects needed funds to implement regulatory controls for the public benefit or in case of systematic failure.
2. **SAL**:
   It represents the proportion of salaries and other benefits that a corporation pays to its **employees** in operating income. It was used as proxy of labor rights.
3. **APT**:
   It means accounts payable turnover, calculated as a ratio of operating cost over average balance of account payable. This was a measure of CSR to **suppliers**.
4. **DPS**:
   Dividend per share reflects concerns to **shareholders** whose wealth maximization happened to be the objective of the company.
5. **ICR**:

It is interest coverage ratio, which was calculated through EBIT divided by interest expense. It shows CSR to **creditors** or **financers** or generally to **all investors**.

6. **ALR**:
   Asset to liability ratio also indicates CSR to **creditors**
7. **CR**:
   It refers to cost rate, representing the operation cost over operating income. This variable was taken as proxy for CSR to **customers.**

4.4.3. Controlling Variable

Large disparity in firm size can distort the results of this study because it is a general perception that smaller companies usually do not exhibit socially responsible behavior. To exclude this bias, firm size represented by total asset is taken as controlling variable.. Nevertheless, the impact of firm size is incorporated as test case by dividing the data into KSE 100 index companies and non KSE 100 index companies.

4.4.4. Regression Model

$$\boldsymbol{ROA} = \alpha + \beta 1\boldsymbol{TAX} + \beta 2\boldsymbol{SAL} + \beta 3\boldsymbol{APT} + \beta 4\boldsymbol{DPS} + \beta 5\boldsymbol{ICR} + \beta 6\boldsymbol{ALR} + \beta 7\boldsymbol{CR}$$

4.5. Development of Hypothesis:

Abundant work is available globally on CSR and CFP relationship, but there is hardly any study on CSR in Pakistan. Only one relevant research was found, which was conducted in 2010. According to this research, there is strong positive relation between CSR and CFP therefore the same relation has been used in this study.

Null Hypothesis: Ho

CSR to government, employees, suppliers, shareholders, creditors and consumers has no impact on CFP

$$Ho \rightarrow \beta 1 = \beta 2 = \beta 3 = \beta 4 = \beta 5 = \beta 6 = \beta 7 = 0$$

Alternative Hypotheses

Hypothesis 1: *CSR to government has significant impact on CFP*

($\beta 1 \neq 0$)

Hypothesis 2: *CSR to employees has significant impact on CFP*

($\beta 2 \neq 0$)

Hypothesis 3: *CSR to* suppliers *has significant impact on CFP*

($\beta 3 \neq 0$)

Hypothesis 4: *CSR to shareholder has significant impact on CFP*

($\beta 4 \neq 0$)

Hypothesis 5: *CSR to fund providers has significant impact on CFP*

($\beta 5 \neq 0$)

Hypothesis 6: *CSR to creditor has significant impact on CFP*
($\beta 6 \neq 0$)
Hypothesis 7*: CSR to consumer has significant impact on CFP*
($\beta 7 \neq 0$)

4.6. Results:

Following results were obtained by running panel least square through E-views:

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.032766	0.020211	-1.621182	0.1076
TAX	0.000285	0.000269	1.058403	0.292
SAL	1.37E-05	6.01E-05	0.227514	0.8204
APT	-0.000276	0.000712	-0.388355	0.6984
DPS	**0.003326**	**0.000511**	**6.510219**	**0.0000**
ICR	6.45E-05	0.000166	0.388175	0.6986
ALR	**0.03603**	**0.010412**	**3.460269**	**0.0007**
CR	-0.000493	0.000337	-1.462403	0.1462
R-squared	0.484297	Mean dependent var.		0.048358
Adjusted R-squared	0.454707	S.D. dependent var.		0.109567
S.E. of regression	0.080908	Akaike info criterion		-2.131434
Sum squared resid	0.798634	Schwarz criterion		-1.954970
Log likelihood	146.5432	Hannan-Quinn criterion		-2.059730
F-statistic	16.36715	Durbin-Watson stat.		1.661741
Prob(F-statistic)	0.000000			

4.7. Discussion:

Since this is a multiple regression model therefore Adjusted R square of the model needs to be considered, which is 0.454691, referring that listed variables explain 45.5% change in CFP. F-statistic of the model is 16.36617, which shows the overall significance of the model. Only two variables (DPS & ALR) show positive significant relationship with CFP i.e. if DPS changes by 1 unit, ROA increases by 0.003326 units. Similarly, if ALR changes by 1 unit, ROA increases by 0.03603 units. Shareholders are exposed to risk and they have residuary status. Their satisfaction is very important for further business operations so CSR to them results direct increase on financial performance. Asset liability ratio represents solvency position of company and indicates CSR to creditors.

Variable TAX neither has influential coefficient nor significance. Tax to government is the last obligation of corporation in triple bottom line. Corporations in Pakistan have perception that government is not responsive to public welfare. Second variable SAL is even more insignificant than TAX. This might be due to purely financial nature of data encompassing only salary, wages and benefits to employees; whereas CSR to employee also needs to include non financial benefits and environment provided to employees. Relationship between accounts payable turnover and financial performance is also not significant and negatively correlated. Yang Qui (2012) also found negative relationship between CSR to supplier and firm performance. Although ALR is significant but interest coverage ratio (ICR) is not yielding significance from our model. This may be due to the mandatory nature of interest payment.

It is normally observed that customers are the most important factor to increase sales therefore CSR to customers have direct impact on financial performance. It shows a negative relationship in this study but it does not mean that customers are not on the priority list of the firm as far as financial performance is concerned. Here operating cost over net income was used as a proxy for CSR to customers, which is, theoretically a weak link because operating cost includes various non value added, non regulatory and non customer related costs. In addition to that, operating cost (CSR) can not be positively correlated to ROE (CFP) as far as accounting mechanics is concerned. Due to the limitations of quantitative data, qualitative factors such as humble response to complaints, product quality & variations, health concerns in product and after sales services etc., were not incorporated in CSR to customers.

5. Model Adjustment:

Out of seven regressors, only two were found significant. This situation prompts the researchers to rethink stakeholder theory in the context of Pakistan and reevaluate the model by excluding non significant variables from the equation. Another point, which was reexamined, is size of firm as a controlling variable. Graham & Ken (1981), Pava & Krausz (1996), Stanwick & Stanwick (1998), and Perrini et al. (2007) studied that there is a significant relation between CSR and firm size and it should be given due importance for the efficiency of results. Let alone the CSR theory, major size disparity will definitely distort the results because of accounting dynamics, as accounting ratios are being used as variables. Nevertheless, the researchers were also checking the validity of firm size argument while keeping the impact of accounting as minimum as possible. For this purpose, researchers have introduced market capitalization rather than assets value as a proxy for firm size. Consequently researchers divided the data into KSE 100 index companies and non KSE 100 index companies. This bifurcation of data have incorporated market capitalization factor into the analysis. Following processes were performed through SPSS:

5.1. Variable Exclusion:

Coefficients[a]

KSE 100 Index Companies		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1.000	(Constant)	0.009	0.028		0.338	0.737
	tax	0.001	0.000	0.273	1.524	0.134
	sal	0.000	0.000	0.143	1.172	0.247
	apt	-0.001	0.001	-0.133	-1.225	0.227
	dps	0.003	0.001	0.448	4.297	0.000
	icr	0.001	0.000	0.176	1.471	0.148
	alr	0.014	0.013	0.133	1.062	0.294
	cr	-0.001	0.001	-0.527	-2.643	0.011
2.000	Constant)	0.032	0.018		1.780	0.081
	tax	0.001	0.000	0.316	1.809	0.077
	sal	0.000	0.000	0.161	1.328	0.191
	apt	-0.001	0.001	-0.154	-1.435	0.158
	dps	0.003	0.001	0.439	4.224	0.000
	icr	0.001	0.000	0.229	2.094	0.042
	cr	-0.002	0.000	-0.593	-3.118	0.003
3.000	(Constant)	0.039	0.017		2.265	0.028
	tax	0.001	0.000	0.288	1.647	0.106
	apt	-0.001	0.001	-0.166	-1.545	0.129
	dps	0.003	0.001	0.448	4.287	0.000
	icr	0.001	0.000	0.258	2.396	0.020
	cr	-0.001	0.000	-0.489	-2.800	0.007
4.000	(Constant)	0.030	0.017		1.823	0.074
	tax	0.001	0.000	0.216	1.265	0.212
	dps	0.003	0.001	0.445	4.201	0.000
	icr	0.001	0.000	0.275	2.528	0.015
	cr	-0.001	0.000	-0.431	-2.494	0.016
5.000	**(Constant)**	**0.037**	**0.016**		**2.357**	**0.022**
	dps	**0.003**	**0.001**	**0.446**	**4.180**	**0.000**
	icr	**0.001**	**0.000**	**0.305**	**2.864**	**0.006**
	cr	**-0.001**	**0.000**	**-0.259**	**-2.414**	**0.019**

Dependent Variable: roa

Coefficients[a]

Non KSE 100 Index Companies		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-0.080	0.044		-1.806	0.075
	tax	0.000	0.000	0.039	0.391	0.697
	sal	0.000	0.000	-0.083	-0.832	0.408
	apt	0.001	0.001	0.052	0.552	0.583
	dps	0.004	0.001	0.753	4.807	0.000
	icr	0.000	0.000	-0.104	-0.690	0.493
	alr	0.056	0.031	0.161	1.804	0.076
	cr	0.001	0.001	0.117	1.135	0.260
2	(Constant)	-0.082	0.044		-1.859	0.067
	sal	0.000	0.000	-0.074	-0.769	0.445
	apt	0.001	0.001	0.048	0.514	0.609
	dps	0.004	0.001	0.765	4.999	0.000
	icr	0.000	0.000	-0.108	-0.728	0.469
	alr	0.057	0.031	0.165	1.870	0.066
	cr	0.001	0.001	0.132	1.403	0.165
3	(Constant)	-0.072	0.039		-1.828	0.072
	sal	0.000	0.000	-0.061	-0.661	0.511
	dps	0.004	0.001	0.765	5.029	0.000
	icr	0.000	0.000	-0.114	-0.770	0.444
	alr	0.054	0.030	0.156	1.812	0.074
	cr	0.001	0.001	0.141	1.521	0.133
4	(Constant)	-0.074	0.039		-1.906	0.061
	dps	0.004	0.001	0.769	5.084	0.000
	icr	0.000	0.000	-0.116	-0.791	0.431
	alr	0.054	0.030	0.156	1.829	0.072
	cr	0.001	0.000	0.113	1.376	0.173
5	(Constant)	-0.077	0.039		-2.002	0.049
	dps	0.004	0.000	0.670	7.973	0.000
	alr	0.058	0.029	0.168	1.999	0.049
	cr	0.001	0.000	0.107	1.317	0.192
6	**(Constant)**	**-0.068**	**0.038**		**-1.778**	**0.080**
	dps	**0.004**	**0.000**	**0.664**	**7.870**	**0.000**
	alr	**0.056**	**0.029**	**0.162**	**1.922**	**0.059**

Dependent Variable: roa

5.2. Overall Significance of Models:

ANOVA

KSE 100 Index Companies		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.302	7.000	0.043	6.885	.000[h]
	Residual	0.295	47.000	0.006		
	Total	0.597	54.000			
2	Regression	0.295	6.000	0.049	7.823	.000[i]
	Residual	0.302	48.000	0.006		
	Total	0.597	54.000			
3	Regression	0.284	5.000	0.057	8.897	.000[j]
	Residual	0.313	49.000	0.006		
	Total	0.597	54.000			
4	Regression	0.269	4.000	0.067	10.240	.000[k]
	Residual	0.328	50.000	0.007		
	Total	0.597	54.000			
5	Regression	0.258	3.000	0.086	**12.968**	.000[l]
	Residual	0.339	51.000	0.007		
	Total	0.597	54.000			

ANOVA

Non KSE 100 Index Companies		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.498	7	0.071	11.34	.000[b]
	Residual	0.42	67	0.006		
	Total	0.918	74			
2	Regression	0.497	6	0.083	13.371	.000[c]
	Residual	0.421	68	0.006		
	Total	0.918	74			
3	Regression	0.495	5	0.099	16.165	.000[d]
	Residual	0.423	69	0.006		
	Total	0.918	74			
4	Regression	0.493	4	0.123	20.26	.000[e]
	Residual	0.426	70	0.006		
	Total	0.918	74			
5	Regression	0.489	3	0.163	26.947	.000[f]
	Residual	0.429	71	0.006		
	Total	0.918	74			
6	Regression	0.478	2	0.239	**39.153**	.000[g]
	Residual	0.44	72	0.006		
	Total	0.918	74			

5.3. Final Version of the Models:

Model Summary

ROA = α + β1CR + β2DPS + β3ICR

KSE 100 Index Companies	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.712a[a]	0.506	0.433	0.07918
2	.703[b]	0.494	0.431	0.07929
3	.690[c]	0.476	0.422	0.0799
4	.671[d]	0.45	0.406	0.08100
5	**.658[e]**	**0.433**	**0.399**	**0.08148**

a. Predictors: (Constant), cr, apt, dps, icr, sal, alr, tax
b. Predictors: (Constant), cr, apt, dps, icr, sal, tax
c. Predictors: (Constant), cr, apt, dps, icr, tax
d. Predictors: (Constant), cr, dps, icr, tax
e. Predictors: (Constant), cr, dps, icr

Model Summary

ROA = α + β1***ALR*** + β2***DPS***

Non KSE 100 Index Companies	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736[a]	0.542	0.494	0.07920
2	.736[b]	0.541	0.501	0.07870
3	.734[c]	0.539	0.506	0.07828
4	.732[d]	0.537	0.510	0.07797
5	.730[e]	0.532	0.513	0.07776
6	**.722[f]**	**0.521**	**0.508**	**0.07816**

a. Predictors: (Constant), cr, icr, alr, apt, tax, sal, dps
b. Predictors: (Constant), cr, icr, alr, apt, sal, dps
c. Predictors: (Constant), cr, icr, alr, sal, dps
d. Predictors: (Constant), cr, icr, alr, dps
e. Predictors: (Constant), cr, alr, dps
f. Predictors: (Constant), alr, dps

5.4. Summarizing Results:

After performing auto exclusion of non significant variables from the model, only three regressors i.e. CR, DPS and ICR were left for KSE 100 index companies and two regressors i.e. ALR and DPS for non KSE index companies. ROA is influenced by 0.446, 0.305 and -0.259 through CR, DPS and ICR respectively in case of KSE 100 index companies whereas ROA is influenced by 0.664 and 0.162 through ALR and DPS respectively in case of Non KSE 100 index companies. Both models have the highest overall significance (i.e. F value: 12.968 for KSE 100 index co & 39.153 for non KSE 100 index co) compared to their respective earlier versions. The data of both the models is fitted well as R squares remain relatively stable at 66%

and 72% respectively after the exclusion of variables. As multiple regression method was used, adjusted R squares should also be considered, which remain almost constant at 40% and 50% respectively in all versions of model. Researchers have also checked the multicollinearity among regressors through variance-inflating factor (VIF), which remain closer to 1 in all the cases, indicating no collinearity among regressors.

6. Conclusion:

Several important points can be drawn from these results. First, there is some impact of CSR on CFP in Pakistan's corporate sector but this impact is limited to few stakeholders rather than all the stakeholders as suggested by stakeholder theory. These stakeholders include shareholders, customers and creditors. Second, size of the firm, computed as market capitalization, tends to change the result but with minimal affect. Third, CSR to shareholders remains a constant factor to influence positively the company's performance both in KSE 100 index companies and non KSE 100 index companies. Forth, CSR to customers is the most influential factor on CFP in case of KSE 100 index companies whereas CSR to creditors is the most influential factor in case of non KSE 100 index companies. Fifth, there is negative impact on CFP of CSR to creditors in case of KSE 100 index companies. Sixth, CSR to government, employees and supplier is yet to contribute towards financial performance of companies as far as financial indicators used as proxies of CSR are concerned

Corporate social responsibility is an evolving phenomenon all over the world. Pakistan is a developing country but its corporate sector is gradually adopting CSR practices, the impact of which seems to have positive impact on company's financial performance. Although, this impact is visible only to few stakeholders but the situation may improve with alternative indicators and better CSR reporting.

6.1. Significance of Study:

Child labor issues, pollution and working conditions in Pakistan not only affect efficiency, quality and productivity but also cause reduced credibility of Pakistan in the world. International importers are nowadays more conscious about societal responsibility and their rejection to Pakistan's exporters is often reasoned on the social rights violation. In this study, empirical relationship between CSR and CFP have been investigated, so that it can be shown to Pakistan's corporate sector that CSR is significant even for achieving the core business objective. Besides that, this study will contribute to the general awareness about CSR. Thus, pave the way for the improvement of CSR practices in Pakistan.

6.2. Limitations of the study

CSR is qualitative perception which is challenging to be measured. There is no straightforward CSR reporting system to extract data from. There are several models like stakeholder theory, KDL indexes etc. have been developed to quantify CSR but these models are not quite rigorous in nature. Financial ratio as proxy for CSR is the vital limiting factor in such models.

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