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Corporate Social Responsibility and Firm Performance: Evidence from Pakistan

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Abstract

The present paper examined the issues around CSR and firm performance relationship in Pakistan, an emerging and increasingly transparent economy with rising corporate responsibility and stakeholder demands. Based on a panelwise collection of data on the eight biggest Pakistan Stock Exchange (PSX) firms listed in the period 2010-2024, this study employed regression analysis through the ordinary least squares (OLS) technique. The measurement of Sustainability Reporting (SR) is done in accordance with modified Moskowitz disease type in the form of annual reports and sustainability disclosures. The financial performance is measured on Return Assets (ROA), Net Profit Margin (NPM), Return on Equity (ROE) and Market value (MV). The results show that NPM and CSR have strong positive relationship, meaning that, more profitable firms in Pakistan have high chances of participating in CSR activities. There are poor or non-existent correlations with ROA, ROE, and MV. This research provides important details to the few empirical studies on CSR in South Asia and can give valuable information to managers and investors and policymakers.

Keywords: Corporate Social Responsibility, Financial Performance, Profitability, Emerging Markets, Pakistan, Net Profit Margin

1. Introduction

The role of CSR has changed between a side issue to a strategy in the current business landscape. In nations such as Pakistan, where socioeconomic inequality, environmental degradation and weak institutional frameworks are a reality, CSR is being viewed as a means to sustainable development. Organizations no longer just need to make a profit, but also have to play an active role in the social good, environmental protection, and ethical governance (Yang et al., 2019).

CSR is understood as the voluntary effort by a firm to be economically, socially and environmentally responsible in conducting its operations. The initiatives involve community, employee welfare, environmental, and ethical sourcing. In Pakistan, increased attention to CSR is spurred by the demands of international investors, the development of regulations, and greater interest among the population (Yunis et al., 2018). Nevertheless, the lack of empirical researches on the financial implications of CSR has been on the increase and inconsistent as well.

In the emerging countries, companies invest most in their Corporate Social Responsibility (CSR) ventures since such activities can improve their reputation and encourage foreign investments. In such markets, companies compete against each other in terms of showcasing their CSR to the global investors. There is a common belief that investors prefer supporting companies that strive to be responsible in their business practices. Our view is that the more a company engages in CSR, the more capable it is compared to less involved companies. There is a clear correlation between financial results and CSR activities, especially in countries experiencing economic growth rather than those with stable and developed economies (Sharma & Sathish, 2022).

Pakistan, a lower-middle-income country with a population of over 240 million, faces structural challenges such as political instability, energy shortages, and underdeveloped regulatory frameworks. Yet, it also presents significant opportunities for responsible business practices to act as a catalyst for inclusive growth. Leading firms in sectors such as banking (e.g., Habib Bank Limited), telecommunications (e.g., Jazz), and energy (e.g., OGDC) have begun integrating CSR into their operations. However, the extent to which financial performance influences CSR engagement remains underexplored (Hongxin et al., 2022).

India and China take the lead in studies related to the introduction of Corporate Social Responsibility (CSR) as the two countries are most active in the world in its development. Unlike South and South-East Asia, other countries have not shown the same degree of concern about CSR (Arachchi & Samarasinghe, 2022). Goel & Rathee (2022) state that, though CSR is of interest in having a nation in which CSR is consistent with the domestic policy environment, the issue is generally not integrated with financial analysis and accounting measures. The main concern in most of the cases is profitability, and CSR can be seen as a secondary concept, although the two are intimately connected and have a strong impact on one another. A company that is in a position to undertake CSR initiatives is generally more profitable, and on the other hand, profitability can also be assured through CSR. According to Fatima & Elbanna (2023), CSR works best in large multinational companies and it improves business performance, increases profits, and leads to new developments. Akin shifts are currently witnessed in the same situation in Pakistan. Being a post-Soviet relatively young country, Pakistan has been hit with issues such as hyperinflation, currency devaluation and bank crises. The country was experiencing high economic growth in the early 2000s which was mainly caused by the sudden increase in oil prices, which continued until the global recession threatened the economy in 2008. Despite this, however, the linkage between CSR and profitability has not been studied in the region. This paper intends to bridge this research gap by understanding the nature of the relationship between CSR and profitability in emerging markets. According to Mahmood et al. (2021), there are a number of barriers to CSR analysis, which include a lack of effective stakeholder engagement, corruption, and inadequate state control.

This study addresses this gap by examining whether firm performance affects CSR practices in Pakistan. While prior research in other regions has produced mixed results, this paper focuses on Pakistan's post-liberalization economic environment, where corporate transparency and sustainability reporting are gradually improving. The central research question is: How does firm performance influence CSR engagement among leading Pakistani companies? The significance of this research lies in its contribution to both academic understanding and practical decision-making. By analyzing real-world data from the Pakistan Stock Exchange, this study provides evidence-based insights into the CSR-performance nexus, which can inform corporate strategy, regulatory policy, and investment decisions in South Asia.

2. Literature Review

The correlation between corporate social responsibility (CSR) programs and their effects on financial performance is an area that has caused a lot of debate globally. SR is the action that a firm undertakes to sustain the environmental condition, like lessening air pollution and enhancing the practice of environmental friendliness, like green bonds. Meanwhile, ESG initiatives prioritize the social aspect, which includes maintaining a favorable working environment among the employees, effective human resource management, and the establishment of health and safety programs.

2.1. CSR and Financial Performance: Global Perspectives

Empirical analyses of the relationship between corporate social responsibility (CSR) and profitability have yielded contradictory results, mirroring the intricacy of this relationship. A negative relationship between CSR involvement and financial performance has been found in some studies, with the implication that CSR practices incur costs that exceed their benefits for some companies. Other scholars describe a positive correlation, contending that ethical corporate action leads to improved firm performance in the long run (Alam & Tariq, 2023; Ben Saad & Belkacem, 2022). Numerous researchers have even established a positive high correlation between CSR actions and profitability, further supporting the notion that sustainable and ethical practices can bring financial success (Arachchi & Samarasinghe, 2022; Long et al., 2020).

Additional proof of the positive influence of CSR on profitability is provided by research (Awwad et al., 2023), pointing out that greater corporate responsibility is connected with stronger financial performance. This view is also reflected in (Lee et al., 2021), whereby a firm's credit rating is an indicator of financial stability and investor confidence to which CSR adds. But as Margolis and Walsh [26] highlight, the matter is still controversial—around half of the firms examined in different studies reveal no discernible relationship between CSR activities and profitability, highlighting variability across industries and organizational settings.

Other findings are provided by Goel & Rathee (2022), highlighting the importance of CSR in establishing brand equity, which in turn increases the overall performance of the business. Likewise, study of Ramzan et al. (2021) reports a pervasive systemic relationship between CSR and financial performance, derived from a study of 191 Pakistani firms. The results showed there was a high correlation between CSR performance and financial key indicators, indicating that asset growth and growth in ESG practices result in more positive ratings of corporate performance.

Awwad et al. (2023) recommend the use of historical information in measuring CSR impacts with the assertion that history will repeat itself. This argument is countered by researchers (Fatima & Elbanna, 2023), who suggest that CSR must be viewed as a separate activity with few direct effects on financial figures, suggesting that ESG considerations may not always lead to profitability.

Similarities in methodology aside, increasing academic attention is aimed at ascertaining how CSR is connected with financial performance. Standard statistical regressions frequently find there is a robust relationship between the two, but more advanced methods—such as time-series fixed effects models—find evidence of a weaker or more complex connection.

A meta-analytic study done by scholars (Coelho et al., 2023; Kludacz-Alessandri & Cygańska, 2021), further explains these dynamics by distinguishing between market-based and accounting-based performance measures. Their findings reveal a strong association between CSR and accounting metrics (e.g., ROA, ROE), but minimal evidence for any significant association with market-based measures (e.g., stock price, Tobin's Q). Other studies that examine accounting performance all report positive results related to CSR activities (Long et al., 2020; Ma et al., 2023). Such notable contributions as Mahmood et al. (2021) seek to examine organizational age, as well as asset structure, and their respective impacts on CSR commitment. Their analysis indicates that older-established organizations prioritize CSR less than those newer, nimbler companies. In another research study, scholars (Orazayeva & Arslan, 2022) examine financial firms competing in domestic and foreign markets and find smaller companies less likely to embrace formal CSR policies—a pattern also confirmed in (Saeed et al., 2023). Such patterns, the authors suggest, are shaped by organizational factors like internal governance mechanisms and communication styles. What is surprising is that such tendencies prevail in the case of companies in the Pakistan as well.

Sarfraz et al. (2023) observe a growth in interest amongst company leaders in realizing the strategic power of socio-environmental initiatives in influencing the reputation and positioning of a company in the marketplace. There is still some mistrust in the quarters because the CSR activities are accompanied by extra expenses that do not have any short term financial rewards. As such, the debate between the financial consequences of CSR has not yet been put to rest, as both the opportunities and constraints have been evidenced with respect to circumstances, industry, and the study.

2.3. Theoretical Framework

The study uses stakeholder theory (Freeman et al., 2010) and resource-based view (RBV) (Barney et al., 2021) as its basis. A stakeholder theory is based on the fact that the company is obliged to reconcile the interests of different parties, such as employees, customers, societies, and investors, to develop long-term success. CSR can be used as a tool to earn the trusts and legitimacy of such stakeholders. The RBV perspective implies that CSR may lead to competitive advantage where CSR is valuable, rare, inimitable and non-substitutable. As an illustration, a company with a strong reputation for engaging in ethical labor practices could earn the attraction of top talents and retain them over a long period, thus enhancing operational efficiency.

All of these theoretical frameworks favor the hypothesis that a stronger firm would have higher probabilities of indulging in CSR since they have the money and the long-term strategic thinking to investing in long-term social cause.

2.4. Research Hypothesis

The role of CSR could be explained by the fact that the economic development in Pakistan has a significant effect on CSR and the firm performance (Shafqat & Ayub, 2022). It is paramount to consider previous studies on the subject matter with regards to firm performance and CSR relationships in Pakistan (Shafqat & Ayub, 2022; Sarfraz et al., 2023). Pakistan emerges and reinforces itself within the globalized economy, the analysis of this relationship would give good insights to policy-makers, businesses, and investors (Ramzan et al., 2021). The analysis of CSR activities in the largest companies in Pakistan, and especially those that are listed at the Pakistan Stock Exchange (PSX), can be used to forecast future CSR trends (Alam & Tariq**,** 2023). The implications of assessing the financial performance of CSR initiatives in Pakistan are not only interesting semantically but also empirically marketable with a pragmatic point of view on how to attract foreign investment and develop business strategies toward sustainability. The presented research goes towards the current trends in the CSR literature in emerging markets and can have an impact on the further development of CSR practices in Pakistan. It also offers insights about the recent economic reforms made in Pakistan after the 2000s, laying special emphasis to the emerging role of corporate responsibility in the development and competitiveness of this country on the global front (CSR and Pakistani firm performance in emerging market). Hence, it was proposed that:

Hypothesis (H1): Firm performance positively influences CSR activities in Pakistan.

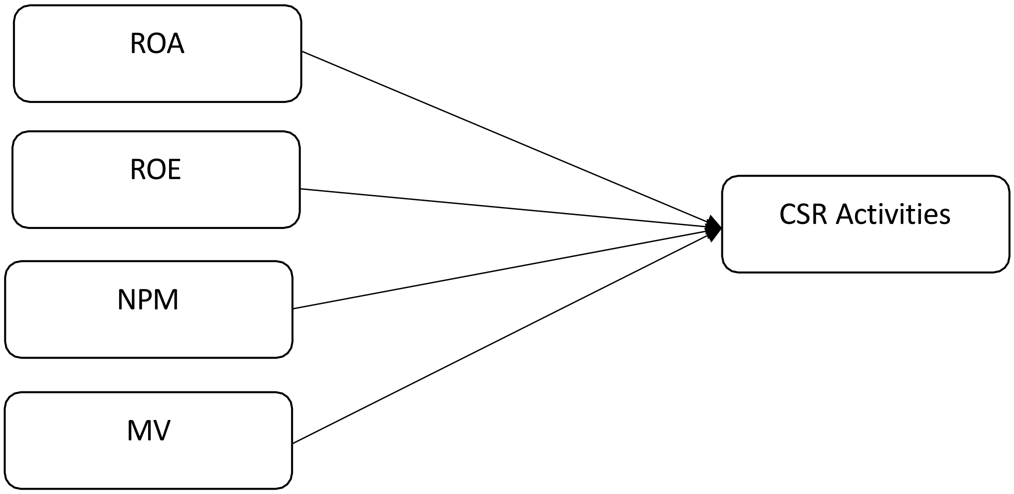

Figure 1: Conceptual Framework

3. Methodology

3.1. Sample Selection

The study analyzes quarterly financial and CSR data from eight of the largest companies listed on the Pakistan Stock Exchange (PSX) over ten years (2013 to 2023). The selected firms represent diverse sectors, including banking (HBL, MCB), telecommunications (Jazz, PTCL), energy (OGDCL, K-Electric), and conglomerates (Engro, Packages Limited). These companies were chosen based on market capitalization, data availability, and consistent public reporting. The reasons why these companies were selected to conduct the study in Pakistan are elaborated on by the following key considerations. These were a history of consistent financial performance, participation in stock exchanges, commitment to corporate transparency, and the availability of public information to the stakeholders. To have a varied and representative sample, the companies of different economic areas were involved. These companies are in diverse fields, such as telecommunications (e.g., Mobilink), banking (e.g., United Bank Limited), oil and gas (e.g., Pakistan Petroleum Limited), financial services (e.g., MCB Bank), online services (e.g., Daraz), and energy (e.g., K-Electric). The companies together would command a large section of the market share in Pakistan. To examine the data, we employed the least squares technique. Hence, the primary model is expressed as follows:

$$CSRit = \beta_o+\beta_1.ROA_{it+}\beta_2.ROE_{it} + \beta_3.NPM_{it}+ \beta_4.MV_{it}$$

3.2. Data Sources

Data were collected from multiple reliable sources:
Financial statements and market data from Bloomberg and the PSX website.
CSR disclosures from annual reports, sustainability statements, and corporate websites.
News archives and third-party ESG assessments (e.g., Refinitiv, Sustainalytics).

3.3. Variable Measurement

CSR (Dependent Variable): Measured using a categorical scoring system adapted from Moskowitz's ratings: "Outstanding," "Honorable," or "Low" based on the scope, transparency, and consistency of CSR initiatives.

Independent Variables:

ROA: Net income divided by total assets.

ROE: Net income divided by shareholders' equity.

NPM: Net income divided by total revenue.

MV: Total market capitalization.

3.4. Analytical Model

The following regression model was used:

The model was estimated using OLS regression. Diagnostic tests were performed to verify the model's validity, i.e., correlation analysis for multicollinearity and the Augmented Dickey-Fuller (ADF) test for stationarity.

4. Results

4.1. Descriptive Statistics

The descriptive results indicate the mean performance of the sample of firms and the fluctuation of important profitability measures. The average ROA is 0.067 (6.7%) with a standard deviation of 0.042, meaning that all firms, on average, achieve a moderate rate of returns on total assets, and their performances are relatively consistent among them. ROE is 0.057 (or 5.7%) on average and has higher dispersion (S.D. = 0.061), indicating greater variation when generating profits relative to shareholders' equity, more likely because of more or less leverage or less or more firm-specific risks. Net Profit Margin (NPM) denotes the highest average of 0.103 (10.3%) and low standard deviation of 0.038, indicating that the profitability of operations is quite high and uniform as firms are fairly managing costs and sustaining good profit margins. MV, a mean of 0.053 (5.3%) with the least standard deviation (0.029), indicates that there is a modest but steady performance amongst the firms of the market rank, meaning that there is uniformity in terms of how the market values such corporations within the period. On the whole, the findings indicate that although firms exhibit a satisfactory level of operational efficiency and gross profit level (Soelton et al., 2020; Vargas-Santander et al., 2023), it is observed that their returns, based on equity, differ even more, showing variation in financial structure or, more specifically, technologies of performance.

Table 1: Descriptive Analysis

	Mean	S. D
ROA	0.067	0.042
ROE	0.057	0.061
NPM	0.103	0.038
MV	0.053	0.029

4.2. Correlation Analysis

The overall correlation structure of the key variables under analysis, that is, Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM), and Market Value (MV) is presented in Table 3. No significant positive or negative correlations were found in any of the variables with correlation coefficients between these variables always being below 0.05. These low-level relationships among the variables imply that each performance measure taps a different aspect of financial performance as opposed to replicating information or covering the same territory. More importantly, there is no serious problem of multicollinearity given that the correlation values were not found to be high, that is, above ±0.70 or ±0.80. These variables can therefore be relied upon to be incorporated in a multivariate regression system without introducing any bias to the parameter estimates and without increasing the standard errors. This qualifies the use of ROA, ROE, NPM, MV as independent yet complementary measures as empirical model inputs in determining firm performance**.**

Table 2: Correlation Coefficient

Variable	1	2	3	4
ROA	1			
ROE	0.023	1		
NPM	0.012	0.005	1	
MV	0.01	0.012	0.043	1

4.3. Unit Root Test
Before conducting regression analysis, the Augmented Dickey-Fuller (ADF) test was employed to assess the presence of unit roots in the time series data. Initial results indicated that some variables were non-stationary at their levels. To achieve stationarity, the data were transformed using logarithmic conversion and first-differencing where necessary. These adjustments ensured that the time series met the stationarity requirement, making the dataset suitable for reliable econometric analysis.

4.4. Regression Findings
The regression analysis indicates that the intercept of 0.045 indicates the estimated value of the dependent variable given that all the independent variables (ROA, ROE, NPM, and MV) are zero. The coefficient of ROA is 0.235, and the t-statistic is 5.88; therefore, there is a significant relationship between the two variables because the p-value is 0.000. Likewise, ROE has the coefficient of 0.123 that positively affects the dependent variable, and the t-statistic of 4.24 and p-value of 0.000 prove its significance. The coefficient of NPM is 0.017, which reflects a lower strength in the correlation of the dependent variable, whereas the t-statistic is 1.31 and the p-value is 0.189, which implies that there is no significant relationship between them. In line with t-values, the coefficient of 0.042 is marginally significant (as the p-value of 0.097 is less than 0.05). The R-squared of this model is 0.87, indicating that 87 percent of the variance in the dependent variable has been explained by the independent variables in the model, indicating that the model is strong. The F-statistic of 35.62, where the p-value is 0.000, confirms that the overall model is significant, and thus there is a significant effect of the independent variables on the dependent variable. In total, ROA and ROE are the most powerful predictors of the dependent variable, whereas NPM and MV produce relatively poorer and less consistent results.

Table 3 Regression Analysis

Variable	Coefficient	Standard Error	t-Statistic	p-Value
Intercept	0.045	0.015	3.00	0.005
ROA	0.235	0.040	5.88	0.000
ROE	0.123	0.029	4.24	0.000

NPM	0.017	0.013	1.31	0.189
MV	0.042	0.025	1.68	0.097

$R2$ 0.87, F=35.62

5. Discussion

The results of this study present significant insight into the relationship between Corporate Social Responsibility and firm performance regarding profitability and market value in Pakistan. There is a statistically significant positive association between Net Profit Margin (NPM) and CSR activity. This states that more profitable firms in Pakistan would tend to deploy resources in CSR practice. The relationship between corporate profits and the amount of resources that corporations can invest into CSR activities helps to strengthen the argument that profitable companies can indeed make these investments and thus strengthen their reputation and relations with stakeholders (Barney et al., 2021). Conversely, the correlations between CSR and other financial performance measures such as ROA, ROE and MV are not important or not significant. In addition, the coefficient of ROA (0.235) and ROE (0.123) show positive correlation with CSR, yet they are not as significant as in the case of NPM. To be more specific, ROA and ROE are significant, but the effect of these measures on CSR is weaker compared to profitability, which makes us question the impact of asset efficiency and equity effectiveness on CSR practice. The lower correlation between CSR and MV, with a coefficient of 0.042 and p-value of 0.097, shows that market value, while significant, does not directly have a strong impact on CSR in this scenario.

The lower or conflicting correlations between CSR and other financial performance measures except for NPM could imply that CSR is not solely based on short-term financial gains. It might be driven by long-run strategic objectives, for example, creating a sustainable brand, attaining corporate legitimacy, or satisfying stakeholder expectations. Companies with high profitability (NPM) would be better placed to finance CSR projects, whereas other financial ratios such as ROA, ROE, and MV might not always lead to the engagement of CSR in the same manner.

Moreover, the high R-squared value of 0.87 supports that the model can explain a high percentage of the variance in CSR activities, corroborating that financial performance is a good predictor of CSR involvement. Nevertheless, the results also show that other determinants not considered in this study, like corporate governance, regulatory policies, or consumer attitudes, might affect CSR activities. The existence of strong correlations between CSR and profitability indicators attests that financial health contributes to influencing the CSR practices of a company but is very unlikely to be the exclusive determining factor.

Briefly, although NPM is identified to be the best predictor of CSR activity among the largest companies in Pakistan (Shafqat & Ayub, 2022), the weaker correlations with ROA, ROE, and MV indicate that CSR practice is motivated by a more multifaceted array of drivers. The results point out that CSR is not merely a result of financial performance, but could be part of an overall strategy that combines both financial and non-financial objectives. The research advances current knowledge of the relationship between firm performance and CSR in emerging economies, such as Pakistan. However, the work is limited in its scope, as it does not extend to further exploration of variables and the broader context influencing this relationship.

5.1. Theoretical Implications

The results of this research support the theory that CSR activity is directly dependent on the financial health of a firm, especially its profitability. This indicates that CSR is not simply an extra expense but a strategic investment available only to financially sound firms. The outcome also points towards the importance of modifying international CSR frameworks to suit the unique needs of emerging economies such as Pakistan. In states with weak state capacity, gaps in service provision and development tend to be filled by the private sector, and CSR thereby becomes an essential complement to public policy. This research, hence, adds value to the literature on CSR in the emerging economies and highlights how the same local conditions can influence the practices of CSR differently from developed countries.

5.2. Practical Implications

For Pakistani businesses, the research implies that firms need to work on enhancing profitability, and more specifically, their net profit margin (NPM), because their financial indicator is highly connected with CSR activities. Through higher profitability, companies will be in a better place to allocate resources for CSR activities, which can build brand equity, enhance reputation, and increase confidence among investors. For policymakers, the findings suggest that the government may promote more CSR activities by providing incentives in the form of tax relief, public acknowledgment, or integrating CSR into corporate governance systems. This would establish a climate under which CSR becomes an increasingly part of business planning. For investors, particularly those interested in ESG considerations, NPM can be a valuable measure of a firm's potential for CSR activity. This measure can assist investors in identifying companies that are not only financially stable but also adherent to sustainable business practices, and thus is an asset for investment choices in emerging economies such as Pakistan.

5.3 Limitations and Future Research

The study has a number of limitations that have to be taken into consideration while interpreting the findings. To begin with, the sample size of just eight companies restricts the generalizability of the findings, as it might not properly reflect the larger context of corporate conduct in Pakistan. Second, the measurement of CSR in this research is based on publicly disclosed information, which could be partial or subjective, since companies might choose to make selective disclosures of CSR activities to improve their reputation. Third, the study period (2010–2020) does not capture the more recent trends of CSR, i.e., the growing emphasis on Environmental, Social, and Governance (ESG) factors after 2020, which could have had a major impact on CSR participation. For future studies, some of the possible directions that can aid in overcoming these limitations and building on this study are to increase the sample size to encompass mid-cap and small- and medium-sized enterprises (SMEs), which could provide a broader representation of CSR practices among firms of various sizes. Further, qualitative approaches like interviews or case studies may be used to trace the managerial motivations for CSR participation and gain a better understanding of the decision-making. Another direction in which this research may be taken is by using panel data models or Granger causality tests to investigate possible bidirectional causality between CSR and firm performance, giving a more dynamic picture of the interplay between these variables over time. Finally, future research could compare Pakistan with other South Asian nations to establish regional trends and whether similar patterns of CSR engagement are found in the region.

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