6th IRCMALS 2020 Bali 023-013 Hussain Mohi-ud-Din Qadri

THE RELATIONSHIP BETWEEN SIZE, CORPORATE SOCIAL RESPONSIBILITY, AND FINANCIAL PERFORMANCE AN ANALYSIS OF CONVENTIONAL AND ISLAMIC BANKS OF PAKISTAN

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ABSTRACT

A lot of spectacular technological innovations have stunningly transformed the scene and, the diverse society provokes the concept of profit-sharing in the shape of corporate social responsibility (CSR). The study elaborates on the relationship between CSR and financial performance (FP) of the conventional and Islamic banks of Pakistan. Moreover, the work explores the moderating role of bank size on the relationship between CSR-FP of Islamic and conventional banks of Pakistan separately. The study takes data from annual reports of the banks listed at the Pakistan Stock Exchange (PSE) during 2010-2018. The study first applies several panel data diagnostic tests and after checking normality of data applies regression and moderated regression to check the relationship between size, CSR and FP of Islamic and conventional banks of Pakistan; by taking leverage as a control variable. The results indicate that the bank size moderates the relationship between CSR-FP and depicts a positive significant relationship between CSR activities and FP in the case of conventional banks of Pakistan. The results are in line with the legitimacy theory, social contract, and stakeholder theory. While as in the case of Islamic banks the size negatively moderates the relationship between CSR and FP. The results are supporting agency theory. The research work has important practical consequences that would help the bank managers to adopt optimal investment in CSR activities. Moreover, the study guides that if Islamic banks would be able to expand their size, they could do more investment in CSR activities the same as conventional banks are doing. This research covers the banking sector of Pakistan. The work is unique due to the less explored areas of study in the banking sector of Pakistan. Furthermore, the findings of the study would lay some practical foundations upon which more detail analysis could be based, which is currently less explored.

Keywords: CSR, performance, Islamic, banking, financial

Introduction

Corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all the stakeholders. The World Business Council for Sustainable Development has defined CSR as; “The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.’’ Although, many references are supported the evolution of CSR in the 1930s and 1940s, the beginning of the concept is introduced by Bowen in 1950s (Carroll, 1979). In 1977, Carroll defined CSR as “economic, ethical, and philanthropic concerns - also includes collaboration with stakeholders.” In the contemporary world, the business environment has augmented the demand for CSR, which maximizes the shareholder’s wealth, reflected in the market price of the firm's stock. Nejati, Quazi, & Amran (2014) has raised a question of whether these initiatives lead to better financial performance in an organization. The answer includes that a company is socially responsible to invest its finance from the corporate side (corporate social responsibility) as well as the investor side (socially responsible investing) in the capital market.

The concept of corporate social responsibility gives a chance to all the employees of an organization to contribute towards society, environment, country and so on. CSR goes a long way in creating a positive word of mouth for the organization as a whole. Hopkins (2012) describes the aim of CSR is to treat the stakeholders morally in a communally liable manner. CSR also gives employees a feeling of unparalleled happiness. Employees take pride in educating poor people or children who cannot afford to go to school to obtain formal education. Eventually, CSR strategies started playing their role for better survival and effectiveness of the employees and organization (Galan, 2006).

In the banking industry, CSR takes many forms, and it is becoming an interesting topic of debate. After international financial crisis, many banks have changed the way in which they were used to operate due to changing in the business philosophy; the focus has been moved from making hefty profits towards finding sustainable methods both for banks and for the society to work in a convenient environment. The concept of CSR is important for the banks that have well-designed and successful CSR strategies, due to the obvious and real gains it contributes at large. The allotted funds in CSR activities play a vital role in the banking sector as it leads to an increases in the owners' welfare, ensure profitability and growth (Decker, & Sale, 2009). Meanwhile, Freeman, Harrison, Wicks, Parmar, & Colle (2010) have suggested that the investment in CSR activities produce numerous benefits for the shareholders. Still, this association has not been completely proven (Lee, & Park, 2009), and the mechanism by which performance is improved by CSR has not been well understood yet. However, Hiller & Raffiny (2017) believed that CSR initiatives increase FP of a firm.

The company's size has relationship with firm regulation and perception of the society which results into a positive effect on CSR exposure (Qoyum, Qizam, & Mutmainah, 2017). The situation is favorable for big companies as the disclosure of information is better for the company in a sense that they are showing themselves responsible for doing people and environment friendly social activities (Halimah, & Rahmawati, 2019). The Legitimacy theory possesses some opinions regarding company' size and its connection with CSR. A big company will experience more public pressure due to which the company is compelled to perform CSR activities and become legitimate (Ek, & Lundberg, 2018). This shows that the big sized firms have good reporting information system. The company size is allied with agency theory as well. The firm size acts influential in the exposure of CSR (Waluyo, 2017).

Pakistan is a developing country which is striving for attaining socio-economic sustainability. It is witnessed that during the last few decades, numerous sectors including banking sector have started to invest in CSR activities due to the positive impact on the goodwill of the company. However, Pakistani banking sector requires to improve its productivity in order to be able to survive and to keep persistent in fulfilling CSR obligations. The study explores the impact of CSR on FP of Islamic and conventional banks of Pakistan and further investigates the moderating effect of size in the relationship between CSR and FP.

The broader **objectives** of the study are as follow:

1. To investigate the relationship between CSR and FP of the conventional and Islamic banks of Pakistan listed at PSE.

2. To explore the moderating impact of bank size on CSR-FP relationship of conventional and Islamic banks of Pakistan.
3. To make a comparison between the impact of CSR activities on the FP of Islamic and conventional banks of Pakistan.

Review of Literature

In the contemporary business organizations the concept of CSR is gaining wider acceptability both in the developed and developing countries. The medium and large organizations are encouraged to invest in the socially responsible activities for better satisfaction of the stakeholders. However, in the business sector the definition of CSR and its implementation is still unclear, especially in the developing countries. According to Hernández-Murillo (2009) CSR activities require a sense of responsibility towards its stakeholders specifically its customers, employees and community in addition to its profit maximization goal. Numerous theories explain how firms should behave towards CSR activities. These theories include social contract theory, agency theory and stakeholder theory, legitimacy theory.

Murtaza, Akhtar, Ijaz, & Sadiqa (2014) have explored a positive relationship between CSR and corporate financial performance (CFP). Neiheisel (2015) and Javed, Saeed, Lodhi, & Malik (2013) have also investigated a positive and significant effect of firm's donations on profitability. To historically illustrate, Carroll (1979) concludes that those firms who are more involved in CSR activities are earning more as compared to the firms who are not. Chen (2011) enumerates that CSR captures the company better resources, high skill full employees, better market product, and services. Dunn (2013) explored that CSR increases the reputation of the company and, creates a positive relationship between management and employees. Aupperle, Carroll, & John (1985) are of the view that CSR has a positive effect on the FP of the company and, also found a positive correlation between profit and firm CSR activities. There is a positive relationship between CSR and performance (Akerstom, 2008; Greening, & Turban, 2000; Maqbool, & Zameer, 2018; Obusubiri, 2006; Olayinka, 2016; Oyewumi, Ogunmeru, & Oboh, 2018; Platonova, Asutay, Dixon, & Mohammad, 2018; Uwaloma, & Egbide, 2012). Akindele (2014) from Nigeria explored a significant positive relationship between bank profitability and CSR of the Nigerian banks. There is positive relationship between CSR and CFP of the pharmaceutical companies in Peshawar (Aga, Khan, Wasim, & Shah, 2012). Kiran, kakakhel, & shahe (2015) investigated a positive relationship between CSR and CFP of the cement sector firms of Pakistan. There is a positive relationship between FP and CSR (Rehman, Baloch, & Sethi, 2008).

Meanwhile, various studies also found an insignificant relationship between CSR and performance (Özçelik, Burcu, & Gürsakal, 2015). Some researchers have reported positive relationship while others have reported negative significant relationship between CSR and performance (Marcus, Bromiley, Davidson, Chandy, & Cros, 1998; Nguyen, 2018). Bird, Hall, Momente, & Reggiani (2007) elucidated that CSR & CFP has a negative relationship because the firm bear an addition cost. The idea of the second group of theorists is that the relationship between CSR and firm's performance does not exist. Williams, & Siegel (2002) and Anderson, Frankle, & Aupperle (1985) explored a negative relationship between CSR and performance. There is no statistical relationship found between CSR and firm performance (Michelberger, 2003; Yip, Staden, & Cahan 2011). Various studies discovered mixed relationship between CSR and performance. For instance, Peloza (2006) reviewed 128 empirical studies and reported that 59% of them found a positive relationship between CSR and financial performance, 14% found a negative relationship and 27% found no relationship at all. While as, Elfenbein in 2017) explored a positive but small effect of CSR on financial performance.

CSR might play an essential role in the performance of the banks, both conventional and Islamic. Canada, Erhemjamtsa, & Tehranianb (2012) has worked on the banking sector and, found that during financial crises different size of banks showed different behavior. Small banks demonstrated an insignificant relationship, whereas large banks which were more involved in CSR activities reflected a positive and significant relationship with FP. The Bangladeshi listed banking companies exhibited positive significant relationship between CSR and profitability (Das, Dixon, & Michael, 2015). CSR is also positively linked with FP in terms of return on assets, return on equity, net interest income and non-interest income (Malik, Ali, & Ishfaq, 2015). On the contrary, CSR is negatively associated with non-performing loans (Wu & Shen, 2013). Durrani (2016) explores that Islamic banks are involved in CSR activities but conventional banks are more involved in CSR activities due to their size and age; thus proving that CSR has a positive effect on the FP of a bank. Gangi, Mustilli, Varrone, & Daniele (2018) investigated that how CSR affects the FP of the banking industry in Europe. Their findings depict that CSR has a positive engagement with FP of European banking industry as the income and profits increases with the increase in social investment. Phillips, Thai, & Halim (2019) examined culture and leadership and their influence on CSR performance and their resultant effect on customers' satisfaction and financial performance. The study reveals that the leadership is important for embedding CSR in the core business strategy through establishing a culture. CSR is directly linked with the profitability and satisfaction of the customers. Ahmad, Naeem, Hasan, Arif, & Rehman (2019) used the ROE and ROA measures to reveal the association between practices of CSR and FP of the banks in Pakistan. Their study concluded that the banks in Pakistan take CSR as their strategic activity and the public banks displayed more CSR initiatives as compared to the private banks.

A lot of small and medium size enterprises are committing environmental crimes and are not aware of their social responsibilities. Moreover, the reason behind this phenomenon is that; these companies believe that the advantages of spending on CSR activities are limited and, the cost is too much. Further, they do not have enough resources to invest. Thus, the size of a company might put an integral impact on their investment in CSR. Saha (2019) explored the link between CSR expenditures, performance by using OLS and probit regression with the sample of Bangladeshi commercial banks. The results reveal that CSR spending and expenditures are linked with banks' market value, size, age and government ownership.

Different researchers work on CSR and found different results (positive, negative, and mixed). This research covers banking sector of Pakistan. The study collects data from the annual reports of the banks from 2010-2018 by selecting 8 banks, 4 conventional (Allied bank, United bank, Punjab bank and National bank) 4 Islamic banks (Dubai Islamic bank, Meezan bank, Bank Islamic and AL Baraka bank). The study sought to explore the relationship between CSR and FP. The study further elaborates the moderating role of bank size on the relationship between CSR and FP of Islamic and conventional banks of Pakistan separately. The work is unique due to less explored area of study in the banking sector of Pakistan

Hypothesis

H_1: There is a significant relationship between CSR and FP of the conventional banks of Pakistan

H_2: There is a significant relationship between CSR and FP of the Islamic banks of Pakistan

H_3: The bank size moderates the CSR-FP relationship of conventional banks of Pakistan

H_4: The bank size moderates the CSR-FP relationship of Islamic banks of Pakistan

Data Collection and Methodology

The quantitative research uses secondary data sources of FP and CSR practices of conventional and Islamic bank of Pakistan. The data is obtained from the annual reports of the selected banks and published "Financial statement analysis of State Bank of Pakistan" for the year 2010-2018 of 4 conventional banks (National Bank of Pakistan, Allied Bank Ltd, United Bank Ltd. and Punjab Bank Ltd.) and 4 Islamic banks (Bank Islamic, Meezan Bank, Al Baraka Bank and Dubai Islamic Bank). There are two reasons behind this selection. Firstly, there are only four Islamic banks that are listed at PSE and secondly, the study has selected those banks that have provided data on CSR activities in the annual reports from 2010-2018. Two accounting based measures are used to depict financial performance (ROA, ROE).

Measurement of Study Variables

The table 1 shows the variables used in the study and how they are operationalized:

Table 1
Measurement of the Study Variables

Variables	Measurements	Notation
Independent variable	Donation	CSR
Corporate Social Responsibility	Charity	
	Funds etc.	
Dependent Variable		
Return on Assets	Net Profit after tax /total assets	ROA
Return on Equity	Net Profit after tax / total shareholder's equity	ROE
Control Variable		
Leverage	Total liabilities/Total assets	LEV
Moderating Variable		
Size	Natural logarithm of total no. of assets	SZ

Analysis Tools

Several panel data diagnostic tests are applied to check the nature of the data. After checking normality of data. OLS, fixed effect and feasible generalized least square (FGLS) models are employed to check the primary effect of CSR on FP. Moreover, moderated regression model is used for testing moderated effects of bank size on FP-CSR relationship. To check the likelihood of such effect CSR (predictor) and bank size (moderator) are multiplied to create an interaction variable (CSR*SZ) to predict FP. The equation for the moderated regression model is specified in the section below.

Models for Empirical Testing

1. $ROA_{it} = \beta_0 + \beta_1 LNSZ_{it} + \beta_2 LEV_{it} + \beta_3 LNCSR_{it} + \varepsilon_{it}$
2. $ROE_{it} = \beta_0 + \beta_1 LNSZ_{it} + \beta_2 LEV_{it} + \beta_3 LNCSR_{it} + \varepsilon_{it}$
3. $ROA_{it} = \beta_0 + \beta_1 LNSZ + \beta_2 LNSZ^{*} [illegible] + \beta_3 LEV + \beta_4 LNCSR + \varepsilon_{it}$
4. $ROE_{it} = \beta_0 + \beta_1 LNSZ + \beta_2 LNSZ^{*} [illegible] + \beta_3 LEV + \beta_4 LNCSR + \varepsilon_{it}$

Where,
ROA_{it} = Return on Assets
ROE_{it} = Return on Equity
LEV = Leverage
LNSZ = natural logarithm of size

Results and Discussions

Descriptive analysis

Table 2
Descriptive statistics of conventional banks

	ROA	ROE	INSZ	LEVERAGE	LNCSR
Mean	0.145383	0.012757	19.66851	0.844290	12.89661
Median	0.016550	0.179950	20.39528	0.904621	14.38516
Maximum	1.820000	1.516750	21.46775	0.980000	19.13077
Minimum	-0.140300	-4.369100	12.78287	0.090000	0.000000
Std. Dev.	0.423027	0.826995	2.198840	0.199890	5.487819
Skewness	3.275942	-4.190912	-2.121247	-2.424591	-1.736535
Kurtosis	12.60697	23.56216	6.462880	8.026283	4.612796
Jarque-Bera	202.8316	739.5858	44.98542	73.16712	21.99498
Probability	0.000000	0.000000	0.000000	0.000000	0.000017
Sum	5.233800	0.459260	708.0665	30.39443	464.2779
Sum Sq. Dev.	6.263306	23.93725	169.2214	1.398457	1054.065
Observations	36	36	36	36	36

Source: Author's own calculation

Table 3
Descriptive statistics of Islamic banks

	ROA	ROE	INSZ	LEVERAGE	LNCSR
Mean	0.034617	0.209312	18.74284	0.802022	14.26746
Median	0.007200	0.054900	18.66599	0.920000	15.98748
Maximum	0.560000	7.100000	20.65917	0.957000	17.79454
Minimum	-0.120000	-9.700000	16.97096	0.045986	0.000000
Std. Dev.	0.112655	2.308142	0.869405	0.304734	5.250926
Skewness	3.408891	-1.118688	0.422417	-2.069142	-2.250287
Kurtosis	15.23390	13.19712	2.736967	5.317354	6.449485
Jarque-Bera	294.2256	163.4806	1.174398	33.74328	48.23117
Probability	0.000000	0.000000	0.555882	0.000000	0.000000

	ROA	ROE	INSZ	LEVERAGE	LNCSR
Sum	1.246200	7.535240	674.7421	28.87278	513.6285
Sum Sq. Dev.	0.444192	186.4631	26.45526	3.250198	965.0278
Observations	36	36	36	36	36

Source: Author's own calculations

Table no 2,3 defines the descriptive analysis of the data of selected conventional and Islamic banks and demonstrates the CSR investment in context of percentage, mean, medium, maximum, minimum, standard deviation, skewness and kurtosis. The selected conventional and Islamic banks are inclined towards education, health, relief disaster recovery, water purification, collaboration with government etc. Simply, we can observe that each bank is participating in the social welfare and depicts environmental concerns by undertaking activities related to environment awareness.

Table 4

Correlation matrix

Pearson Correlation Matrix of Conventional Bank

	ROA	ROE	INSZ	LEVERAGE	LNCSR
ROA	1.000000	0.135286	-0.485230	-0.466163	0.115571
ROE		1.000000	0.588005	-0.114396	-0.009614
INSZ			1.000000	0.086547	-0.032018
LEVERAGE				1.000000	-0.187143
LNCSR					1.000000

Source: Author's own calculations

Table 5

Pearson correlation matrix of Islamic banks

	ROA	ROE	INSZ	LEVERAGE	LNCSR
ROA	1.000000	0.706164	0.010323	0.117748	0.028830
ROE		1.000000	0.113654	0.034642	-0.026368
INSZ			1.000000	0.359319	-0.372142
LEVERAGE				1.000000	-0.151855
LNCSR					1.000000

Source: Author's own calculations

The overall results reveal that the majority of the variables have negative correlation with each other; other than ROE and LNSZ and LNCSR and ROA that are positively correlated, which depicts that high investment in CSR initiatives enhance the ratio of return on asset. In case of Islamic banks CSR has negative correlation with leverage, which describes that the portion of debt in capital structure reduce investment in CSR activities.

Panel data diagnostic tests

Table 6
Panel unit root test of conventional banks

	Levin, Lin, and Chu Test		lm, Pesaran and Shin W-stat		ADF-Fisher Chi square		PP-Fisher Chi-squar	
Variable	Statistic	P-value	Statistic	P-value	Statistic	P-value	Statistic	P-value
INSZ	-5.77755	0.0000	-1.35440	0.0878	15.2300	0.0548	10.9944	0.2020
LEV	-2.27187	0.0115	0.07237	0.5288	10.5359	0.2294	7.71703	0.4616
CSR	-11.5479	0.0000	-4.78102	0.0000	32.3311	0.0001	18.1780	0.0199
ROA	-0.61986	0.2677	0.09676	0.5385	8.55416	0.3813	5.10222	0.7466
ROE	-1.44148	0.0747	-0.07687	0.4694	8.21022	0.4132	10.2467	0.2481

Source: Author's own calculations

Table 7
Panel unit root test of Islamic banks

	Levin, Lin, and Chu Test		lm, Pesaran and Shin W-stat		ADF-Fisher Chi square		PP-Fisher Chi-squar	
Variable	Statistic	P-value	Statistic	P-value	Statistic	P-value	Statistic	P-value
Roa	-5.22985	0.0000	-2.08373	0.0186	19.3942	0.0129	24.2058	0.0021
Roe	-3.71643	0.0001	-1.78558	0.0371	17.8687	0.0222	25.1774	0.0015
Lncsr	-2.36808	0.0089	-0.51990	0.3016	11.6744	0.1663	13.4701	0.0967
Leverage	-2.34749	0.0095	-0.04541	0.0819	8.85858	0.3544	15.2708	0.0541
Lnsz	-1.88507	0.0297	0.27468	0.6082	5.45751	0.0077	7.02141	0.5024

Source: Author's own calculations

The study applies panel unit root test on the study variables employed for investigation, to decide about the panel data stationarity. This includes elucidating for the ρ value in the general equation:

$$Y_{it} = \alpha + \rho Y_{it-1} \pm \varepsilon_{it}$$

Where: t = 1-9 years and i = 4

Grounded on the outcomes exhibited in Table 7, the study accepts the null hypothesis. In conventional banks the majority of the above mentioned tests result concludes that the study variables are not stationary and therefore leads the data to run FGLS (feasible generalized least square). While as, in case of Islamic banks the majority of the study variables are stationary.

Table 8
Cross-section dependence test of conventional banks

	ROA		ROE	
	Statistic	P-value	Statistic	P-value
Breusch-Pagan LM	20.63489	0.2221	8.441242	0.0075
Pesaran scaled LM	4.224728	0.0000	0.704726	0.4810
Pesaran CD	-1.280804	0.2003	-1.393871	0.6034

Source: Author's own calculations

Table 9
Cross-section dependence Test of Islamic banks

	ROA		ROE	
	Statistic	P-value	Statistic	P-value
Breusch-Pagan LM	8.408930	0.2096	11.35760	0.0779
Pesaran scaled LM	0.695398	0.0486	1.546605	0.1220
Pesaran CD	-0.511738	0.0900	-0.420902	0.0738

Source: Author's own calculations

In conventional banks the results of all the tests indicate the presence of cross-section dependence in residuals. The issue is resolved by employing FGLS estimation technique. While as, in the case of Islamic banks there is no issue of cross sectional dependence and the results are supporting to run regression.

Panel-level heteroscedasticity test

The Breusch-Pagan test is adopted to test for panel level heteroscedasticity. The conclusion is drawn from the comparison of LM-critical and LM-statistical. The comparison result in the case of Islamic banks signifies that there is no issue of heteroscedasticity in the data, while as, there is an issue of heteroscedasticity in the case of conventional banks.

Table 10
Regression analysis of conventional banks (ROA)

Variable	**OLS**	**FE**	**fgls**
Constant	0.0001	0.0058	0.0012
	2.038789	2.077736	0.428640
	0.0973*	0.0814*	0.0682*
LNCSR	0.004746	0.011808	-0.001580
	0.0000***	0.5506	0.0000***
LEVERAGE	-0.803428	-0.285450	-0.565902
	0.0115**		
		0.0362**	0.2707
INSZ	-0.064902	-0.78250	0.006195
No. of observation	36	36	36
No. of cross-section	4	4	4
R-squared	0.884688	0.443405	0.873540
Adjusted R-	0.873878	0.666043	0.861685

Variable	OLS	FE	fgls
Squared			

Source: Author's own calculations
Significance level *p < 0.10, **p < 0.05 and ***p < 0.01

Table 11
Regression analysis of conventional banks (ROE)

Variable	OLS	FE	FGLS
C	0.0021***	0.0750*	0.0000***
	-2.196435	-3.780507	0.484641
	0.0218**	0.9813	0.0001***
LNCSR	0.011024	0.000315	-0.009404
	0.3265	0.4086	0.6017
LEVERAGE	-0.367707	-0.377995	0.007253
	0.0001***	0.0901*	0.0001***
INSZ	0.125247	0.209292	-0.007259
No. of observation	36	36	36
No. of cross-section	4	4	4
R-squared	0.453431	0.537588	0.236392
Adjusted R-squared	0.402190	0.325648	0.164804

Source: Author's own calculations
Significance level *p < 0.10, **p < 0.05 and ***p < 0.01

Table 10, 11 defines the relationship between CSR, ROA, ROE, LEV and INSZ. The relationship between CSR and ROA, ROE is positive and significant in ordinary least square and fixed effect. While as, in the case of FGLS it is negative significant, employing that less investment in CSR activities enhance financial performance of conventional banks (Marcus, Bromiley, Davidson, Chandy, & Cros, 1998; Nguyen, 2018). Furthermore, the results are consistent with agency theory. The majority of the results depict that the relationship between ROE and LEV is negative and insignificant and ROA and LEV is negative significant (Malik, Ali, & Ishfaq, 2015) implies that the debt part in capital structure put adverse impact on financial performance of conventional banks of Pakistan.

Table 12
FGLS fixed effects panel regression results, moderated effects (conventional banks)

Dependent Variable: Financial Performance		
Variable	ROA	ROE
Constant	0.948611 (0.0000***)	-0.854604 (0.1929)
LNCSR	0.035280(0.0012**)	0.075068 (0.0860*)
CSRSZ	0.001714 (0.0025**)	0.004200 (0.0537*)
INSZ	0.020121(0.0155**)	0.060328 (0.0655*)
LEVERAGE	-0.568258(0.0000***)	0.001066(0.9256)
Statistics		
R-squared	0.877572	0.569945
Adjusted R-squared	0.861775	0.575745

Dependent Variable: Financial Performance		
Variable	ROA	ROE
Observations	36	36

Source: Author's own calculations
Significance level *p < 0.10, **p < 0.05 and ***p < 0.01

The results indicate that there is a positive significant relationship between CSR, ROA and ROE and specifying that the more proactively a firm engages in CSR, it would be able to impart stronger and positive impact on FP (Tang, Hull, & Rothenberg, 2012). Furthermore, the results elaborate that the size is positively moderating the relationship between CSR and FP, which depicts that the organization size has positive effect on the CSR exposure, because of the severe regulation and society observation (Halimah, & Rahmawati, 2019). The results are supporting the legitimacy theory. Moreover, leverage is negatively and significantly associated with ROA, and showing that debt part in capital structure decreases the ratio of return on assets.

Table 13
Regression analysis of Islamic banks (ROA)

Variable	**OLS**	**FE**	**RE**
Constant	0.9561	0.1971	0.3817
	0.002453	0.413333	0.413333
	0.0043**	0.0962*	0.9792
LNCSR	0.000782	0.0728	0.9005
	0.6890	0.02108**	0.3741
INSZ	-0.000952	0.021019	-0.021019
	0.0001***		
		0.1185	0.7196
LEVERAGE	-0.027234	0.017381	-0.017381
No. of observation	36	36	36
No. of cross-section	4	4	4
R-squared	0.287544	0.243063	0.243063
Adjusted R-square	0.220752	-0.103866	-0.103866

Source: Author's own calculations
Significance level *p < 0.10, **p < 0.05 and ***p < 0.01

Table 14

Regression analysis of Islamic banks (ROE)

Variable	**OLS**	**FE**	**RE**
Constant	0.0120	0.0004	0.4903
	-1.148910	21.30899	-5.980311
	0.0000***	0.05109*	0.7986
LNCSR	0.007416	0.019783	0.008064
	0.0055**	0.0002**	0.4945
INSZ	-0.072859	1.028008	0.326283
	0.3397		
		0.0323**	0.9539
LEVERAGE	-0.048653	-1.932162	-0.050997
No. of observation	36	36	36
No. of cross-section	4	4	4
R-squared	0.541012	0.440230	0.332251
Adjusted R-square	0.345772	0.670503	0.792572

Source: Author's own calculations

Significance level *p < 0.10, **p < 0.05 and ***p < 0.01

Table 13, 14 define the relationship between ROA, ROE, CSR, LEV and INSZ. The relationship between ROA and CSR and ROE and CSR is positive significant in ordinary least square (Akerstom 2008; Greening, & Turban, 2000; Obusubiri, 2006; Olayinka, 2016; Oyewumi, Ogunmeru, & Oboh, 2018; Platonova, Asutay, Dixon, & Mohammad, 2018; Maqbool, & Zameer, 2018; Uwaloma, & Egbide, 2012) depicts that higher investment in CSR activities enhance the financial performance of Islamic banks. Moreover, the results are in line with social contract and stakeholder theory. The relationship between CSR and ROE is positive and insignificant in ordinary least square and positive significant in fixed effect and random effect (Malik, Ali, & Ishfaq, 2015). The results are consistent with social contract and stakeholder theory. The relationship between ROA, ROE and size are mixed both positive and negative insignificant, hindering to conclude about the relationship between both variables. Leverage and FP has negative relationship with each other, means that the part of debt in capital structure reduce financial performance of Islamic banks of Pakistan same like conventional banks.

Table 15

Moderated panel regression results of Islamic banks

Dependent Variable: Financial Performance		
Variable	ROA	ROE
Constant	0.259313 (0.0733)	1.817041 (0.0095)
LNCSR	-0.011647 (0.0674*)	-0.208783 (0.0005**)
CSRSZ	0.000597 (0.0556*)	0.010301 (0.0006**)
INSZ	-0.013460 (0.0745*)	-0.077813 (0.0260**)
LEVERAGE	0.019449 (0.0951*)	-0.065346 (0.2240)

Dependent Variable: Financial Performance		
Variable	ROA	ROE
Adjusted R-squared	0.68926	0.572828
Observations	36	36

Source: Author’s own calculations

Significance level *p < 0.10, **p < 0.05 and ***p < 0.01

The results indicate that CSR negatively moderates the relationship between CSR-FP of Islamic banks. The Islamic banks have less age and volume of activities as compared to conventional banks, which restricts them to generously spend on CSR initiatives as conventional banks are doing.

Conclusion and Recommendations

The study explores the impact of CSR activities on bank (conventional and Islamic) FP. Eight different banks are considered for data analysis. The study explored that the relationship between CSR and ROA, ROE is positive and significant in ordinary least square and fixed effect. While as, in the case of FGLS it is negative significant, employing that less investment in CSR activities enhance FP of conventional banks. Here, the results are consistent with agency theory. Moreover, the results indicate that there is a positive significant relationship between CSR, ROA and ROE and specifying that if a firm more proactively contributes towards CSR initiatives, it would be able to impart stronger and positive impact on FP. Furthermore, the results elaborate that the bank size is positively moderating the relationship between CSR and FP, which depicts that the organization size has positive effect on the CSR exposure, because of the severe regulation and society observation. It is also elaborating that the organizations with a big size have progressive regulatory mechanisms with tremendous expenses and public concern. The organization's social activities are advantageous to the community because the organization can without much of a stretch be acknowledged and accepted by the society.

While as, in the case of Islamic banks the relationship between ROA and CSR and ROE and CSR is positive significant in ordinary least square depicts that higher investment in CSR activities enhance the financial performance of Islamic banks. Moreover, the results are in line with social contract and stakeholder theory. Furthermore, the results indicate that CSR negatively moderates the relationship between CSR-FP of Islamic banks. The Islamic banks have less age and volume of activities as compared to the conventional banks, which restricts them to generously spend on CSR activities as conventional banks are doing. The overall results show that CSR is presently most common practice in both Islamic and conventional banks of Pakistan. However, the Islamic banking sector works under the values system of shariah. But due to large age and size of the conventional banks are able to invest more budget on CSR activities. Majority results of the study are positive and significant but some are mixed, encouraging to accept the both hypothesis of the study.

Future researchers can do the analysis on expanding the number of variables used in the study e.g. corporate governance. Different other sectors of the economy would also be selected for data analysis. Multiple countries data on CSR and performance would also be a good dimension to expand the current research.

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