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Impact of Corporate Social Responsibility on Firm Profitability: Evidence from Automobile Industries of Pakistan

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Abstract

Since, the 20th century, corporate social responsibility(CSR), an essential idea, has grown in the global economy. Its quick development, spread in various nations. CSR is also important in emerging nations like Pakistan. Numerous studies linked CSR to both financial and non-financial corporate profitability. The present study also checks the link, if any, between CSR aspects and profitability. CSR characteristics are independent and profitability-dependent variables. Profitability, annual turnover sales, and earnings per share were employed. The data was processed using panel data analysis and cross-sectional data. Factor Analysis(FA),Confirmatory Factor Analysis(CFA),and Simple Linear Regression Model(SLRM)check the dependent-independent relationship. Based on the Housman test, FEM and SEM were used to analyze panel data. The results show that CSR boosts EPS and annual turnover sales. It appears that Companies with more CSR commitment have better EPS and ATS. Evidence also implies that size improves EPS and ATS and age reduces the influence of CSR.

Keywords: Corporate Social Responsibility (CSR), Profitability, Automobile Sector, Pakistan

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Abstract

Since, the 20th century, corporate social responsibility(CSR), an essential idea, has grown in the global economy. Its quick development, spread in various nations. CSR is also important in emerging nations like Pakistan. Numerous studies linked CSR to both financial and non-financial corporate profitability. The present study also checks the link, if any, between CSR aspects and profitability. CSR characteristics are independent and profitability-dependent variables. Profitability, annual turnover sales, and earnings per share were employed. The data was processed using panel data analysis and cross-sectional data. Factor Analysis(FA),Confirmatory Factor Analysis(CFA),and Simple Linear Regression Model(SLRM)check the dependent-independent relationship. Based on the Housman test, FEM and SEM were used to analyze panel data. The results show that CSR boosts EPS and annual turnover sales. It appears that Companies with more CSR commitment have better EPS and ATS. Evidence also implies that size improves EPS and ATS and age reduces the influence of CSR.

Keywords: [Corporate Social Responsibility \(CSR\)](#), [Profitability](#), [Automobile Sector](#), [Pakistan](#)

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Introduction

Corporate Social Responsibility (CSR) is a popular and contentious topic in trade research, particularly in developing and underdeveloped countries, particularly in the last decade. CSR in Pakistan is also relatively new and underdeveloped compared to developed countries, despite the fact that it is viewed as a critical component for long-term success. In Pakistan, CSR is synonymous with corporate philanthropy and labor rights. CSR is the potential

made by businesses to donate a particular amount of money to the community in exchange for using the resources that exist naturally. Although the majority of businesses eventually aim to maximize investor profit, it becomes necessary for them to engage in activities that promote community and social well-being, for all stakeholders, employees, and others, numerous empirical researches indicated that CSR efforts by businesses have a significant effect on their profitability (Patel, [2019](#))



Carroll claimed in 1979 that CSR includes four main elements, which became a common description: economic, legal, ethical, and philanthropic responsibility. Even though CSR has been around since the middle of the 1970s, a clear definition remains elusive (Wille, 1969). On the other hand, large company operations have a significant impact on the environment and business stakeholders, forcing them to answer to stakeholders who are influenced by the business activities. The regulatory agencies routinely update laws and regulations to safeguard and preserve stakeholders' rights (Serafeim, 2011) The Security and Exchange Commission of Pakistan (SECP) required publicly traded firms in Pakistan to disclose their corporate social responsibility-related activities in their annual report under the corporate social responsibility disclosure (CSR) Guidelines 2012-2013.

Numerous Scholars have tried to look at the connection between corporate social responsibility efforts and firm profitability. Some of the research looked at the connection between the financial success of Pakistani manufacturing companies and corporate social responsibility (Tabassum et al., 2015) Furthermore CSR and firm performance by considering firms from Pakistan's textile sector has also been investigated by (Enahoro et al., 2013) (Shoukat Malik & Nadeem, 2014).

One of the industries in Pakistan with the fastest growth rate is the automobile industry, which is taken into account in this study. By taking into account the post-CSR effect level of a corporation from the Pakistani automobile sector, this study aimed to add the frame of literature already in existence. Additionally, a study has a methodology contribution to measure CSR. In this setting, the importance of business to society is coming under more and more scrutiny, and forward-thinking industries are attempting to set themselves apart by participating in CSR (Ahmed, Ahmed & Buriro, 2023). The scrutiny of this study is crucial, particularly for developing and underdeveloped nations. The importance of CSR in the various organizational structures of businesses and company operations in developing nations has been debatably established (Siddiqui, 2022) The primary premise of this study is that the majority of studies on CSR are focused on issues in developed nations.

Problem Statement.

This research focused on the connection between Pakistan's car industry's profitability and corporate social responsibility. Another driving force behind this study is how crucial the automobile sector is to Pakistan's economy at a time when local demand for

cars is rising, due to some factors like the law-and-order situation a lot of taxes imposed by the government that is why international automobile sector is not investing their business in Pakistan. It is also worthwhile to mention here that the automobile sector has a serious impact on the environment not fully following the international standard of CSR indicators to protect the environment and society (Shoukat Malik & Nadeem, 2014). Therefore, this study focuses on the automobile sector of Pakistan. The reason for choosing that time frame is because of COVID-19, economic crises, and Oil price fluctuation that the sector faced.

Research Questions.

1. Does Corporate Social Responsibility affect earnings per share?
2. Does Corporate Social Responsibility Affect Annual Turnover Sales?

Research Objectives.

1. To assess the impact of Corporate Social Responsibility Earnings Per Share
2. To analyze the impact of Corporate Social Responsibility on Annual turnover sales

Literature Review of Prior Studies

According to (Mishra & Suar, 2010) The history of CSR dates back to the late 1950s and 1960s a time when the United States passed new laws about consumer rights, occupational safety, equal opportunity, and environmental protection. During this time organizations with social responsibilities were encouraged to engage in CSR. Organizations are under more pressure today to behave morally and socially responsibly and many organizations are under more pressure to recognize their social duty (Enahoro et al., 2013). Being socially responsible is increasingly recognized as crucial to a company's long-term sustainability. The CSR idea stresses and suggests that a company has obligations to society beyond just making a profit (Wan Ahamed et al., 2014).

This idea overview states that a company must remain committed to upholding moral behavior, promoting economic growth, and enhancing employee and neighborhood quality of life. The decision-makers at the company have a responsibility to consider the interrelationship between business and society when making choices (Ramzan et al., 2020). The first component of CSR is the level of corporate social responsibility, which is dependent on social acceptance in society, organizational transparency, and individual management judgment within the firm. CSR is made up of three main

components. The second and third components are included after that. These pertain to the outcomes of corporate behavior and cover social effects, social programs, and social policy. The third component is the corporate social responsiveness process, which comprises problem management, stakeholder management, and environmental evaluation.

Corporate Social Responsibility and Profitability.

As was already indicated, the goal of this study is to determine how corporate social responsibility affects Pakistan's automobile industry's Profitability. Reviewing the research done on the subject time period was different in Pakistan is therefore required. In the context of Pakistan, the literature review's findings are mixed, showing either a favorable, negative, or no relationship.

(Shoukat Malik & Nadeem, 2014) Investigates the effects of CSR on the financial performance of Pakistani banks during the years 2008 and 2012. The earnings per share, return on assets, and return on equity variables were used in the secondary data that was gathered from the annual reports of banks. Regression modeling was used for the analysis, and the results show a favorable correlation between CSR practices and Profitability measuring variables in Pakistan's banking industry.

The same element was also looked at by (Javaid & Al-Malkawi, 2018), who looked at the effect of CSR on the Profitability of ten listed Pakistani companies in the oil and gas industry from 2006 to 2013. Corporate social responsibility spending, net profit margin, net profit, and total assets of the companies are study variables. These data were gathered from the companies' annual reports, (Galdeano et al., 2019) used a sample of 1222 firm-years between 2002 and 2008 to examine the connection between CSR and company Profitability in Korea. The study used both a stakeholder-weighted index and an equally-weighted CSR index to measure corporate social responsibility. Return on assets, return on equity, and Tobin's Q was used to gauge corporate Profitability. The study found that CSR and stakeholder-weighted indexes have a positive and substantial link, but are not equal to weighted CSR indexes.

Supporting Theories.

The study is supported by two theories which are legitimacy theory and stakeholder theory.

Stakeholder Theory.

Businesses and organizations from all around the world have been working hard to improve and

demonstrate their performances in terms of corporate social responsibility. The different usual types of CSR performance range from becoming a sponsor or participating in nonprofits that promote community empowerment or environmental care to paying greater attention to health and education improvement of the surroundings and more. (Hogan et al., 2014) highlighted the claim made by Freeman (1984) that stakeholder theory is the foundation of CSR. According to theory, businesses have a responsibility to safeguard the well-being of their stakeholders, and evidence has shown that CSR initiatives boost both reputation and profitability.

Legitimacy Theory

The legitimacy theory explains a variety of motivators for corporations to disclose CSR-related data. This hypothesis primarily relies on community subjectivity regarding how corporations operate. Companies engage in CSR activities in reaction to social criticism in an effort to justify their actions and win the public's compassion.

(Kaium et al., 2012) to look into the Australian food industry's application of the applied legitimacy theory at the CSR level. According to the study, in order to change their public image and attract attention, more well-known firms typically publish more CSR-related activities in their annual reports. After the events of the strike in South Africa (Dube & Maroun, 2017) investigated the CSR disclosure level to explain legitimacy theory. They concluded that companies that experience more strikes tend to provide more CSR-related information.

Corporate Social Responsibility

Corporate social responsibility (CSR) is the result of organizational ethics and human responsibility for environmental and social functions ((McWilliams et al., 2006). Companies worry that CSR will increase the perception of their firm's high level of ethics and integrity, which will lead to social and economic value (Rim et al., 2016); declared that there are important connections between CSR and an organization's performance through a firm's goodwill. As a result, businesses are putting more of an emphasis on CSR to grow their customer base and establish a high value because increased participation can boost societal well-being. The automotive business has a greater environmental impact than other industries like manufacturing or agriculture (Branco, 2006).

Reputation indexes and databases are among the most popular tools for assessing corporate social responsibility in industrialized nations. The Fortune Index, the Kinder, Lydenberg & Domini (KLD)

Database, and the Canadian Social Investment Database (CSID) are three well-known examples of these techniques. Community relations, employee relations, the environment, the product, how minorities and women are treated, military contracts, nuclear power, and South Africa are the bases for KLD-rated businesses that are listed on the US stock exchange. Fortune's reputation index is viewed as a systematic instrument for the evaluation of socially responsible behaviors from a managerial perspective (Turker, 2008). Although these indexes include a variety of CSR-related topics, (Maignan I. &, 2000) assert that they have a serious flaw in that none of the items they contain have any theoretical support.

According to Mahoney (2005), CSID is a well-known database as well. By adding the mean values of the firm's net strengths and weaknesses across its seven different aspects (society, diversity, employee relations, environment, international operations, product and business practices, and corporate governance), CSR is measured. Although this database includes a variety of stakeholders and dimensions from the firms listed on the Canadian Stock Exchange, it does have certain limitations. The main problem with this database is that it is useful for evaluating businesses that are confined to a certain small area. Utilizing single-issue and multiple-issue indicators is a different alternative to measuring CSR. Control of Pollution is an illustration of a single-issue performance indicator that is utilized in studies by several researchers, such as Bragdon and Marlin (1972) and Fauzi (2009). The single-issue indicator was also applied by Lenort, Wicher, and Zapletal (2023), who used corporate crime as a proxy for socially responsible behavior. The single-dimensionality of this approach is a disadvantage (Adamkaite, Streimikiene, et al (2023). Multiple-issue indicator, which measures CSR, is the remaining indication right now. Despite being used by researchers to gauge CSR, it is not without flaws, much like other methods. The first misuse of this metric is that, although covering several CSR aspects, it falls short of doing so. Its primary misuse is the fact that it is not commonly used.

Another practical technique to learn about CSR operations is by content analysis of company-issued reports, which has grown in popularity in recent years Diaye et al. (2023). Using this method, new variables and dimensions for reporting CSR may be developed (Gray, Kouhy, & Lavers, 1995). However, to project a positive image, these businesses exaggerate their CSR activities and claims in order to mislead the public (McGuire et al., 1988; Lyon, T. P., & Montgomery, A. W. (2015). Another option is to use a scale to gauge

how each person feels about CSR. Aupperle created the first scale of its sort to gauge various dimensions in 1984. By looking at the socially responsible actions of certain managers, it is used to gather information on CSR (Sarwar et al., 2023). Although this scale's forced-choice format is one of its main limitations, it is still a suitable tool for examining management behavior and assessing social responsibility (Turker, 2008).

Quazi and O'Brien (2000) have developed a two-dimension scale (spectrum of corporate responsibility and the variety of consequences of corporate social commitments) for evaluating managers' socially responsible business behavior in light of the earlier research by Farooq, M., and Noor, A. (2021). This scale, according to Quazi and O'Brien (2000), may be used to evaluate how CSR is perceived across a range of cultures and economies. Singhapakdi et al. (1996) discovered that the well-known measure Perceived Role of Ethics and Social Responsibility (PRESOR) is helpful in assessing the importance of CSR and ethics for organizations to function well.

Profitability

Profitability can be defined as the results of a firm's operation at a particular moment to generate profits with effectiveness and efficiency. Effectiveness, in general, is a metric used to determine how well an objective has been attained (Auliyah & Basuki, 2021). Financial ratios, which ratios are used by businesses to analyze their financial statements and which can quickly give stakeholders an overview of the positive and negative circumstances or situations of businesses from one time period to another, are another measuring tool. Financial ratios can be used to gauge a company's financial success by assessing its capacity to turn capital into profits (M. A. Islam, 2014)

According to a review of the research, annual turnover sales (ATS) and earnings per share (EPS) are key metrics for the analysis of profitability (Javeed & Lefen, 2019). The importance of the automotive industry to a nation's economic growth cannot be understated. In doing so, they made use of their skills to select hazardous scenarios, deal with investment projects, and decide how and when to fund these enterprises, thus increasing their profitability (Beck, DemirgüçKunt, & Levinem, 2010). Researchers began examining the relationship between CSR and organizational success in the 1970s after the notion of CSR had completed its assessment phase in the 1960s (Walsh, 2003; Pava & Krausz, 1996). According to Usman & Amran (2015), company profitability is

directly impacted by corporate social responsibility. Ağan, Kuzey, Acar, & Açıkgöz (2016); Beck, Frost, & Jone, (2018); Rasheed, Arshed, Malik, & Mahmood (2018); and others have proclaimed CSR to be a crucial component of both profitability and overall organizational performance. With the aid of CSR, social action is not the only thing that can be monitored; rather, it helps the organization satisfy its obligations to its vision, purpose, and all other practices required for a company to deal with social issues responsibly (Shahin, & Zairi, 2007; Madsen & Rodgers, 2014).

Dimensions of Corporate Social Responsibility

In their research, several academics and researchers have emphasized different aspects of CSR. They cover the dimensions of employees, customers, suppliers, products, ethics, communities, and the environment (Usman, & Amran, 2015). In this research, only two dimensions included the Health and Education welfare dimensions.

Health & safety dimension of CSR

There is a wealth of studies illustrating the connection between consumer behavior and company performance as measured by the share price. However, relatively few researchers have concentrated on revealing the relationship between CSR and health and safety (Song et al., 2013). Having a competitive advantage in the market is critical, but it is impossible to achieve without a policy for retaining competent employees (Guthridge, Komm, & Lawson, 2008). The only way to ensure that a company outperforms its competition is to retain excellent individuals (Barney, 2001). Lopez-Cabarcos, Machado-Lopes-Sampaio-de Pinho, and Vázquez-Rodríguez (2015) investigated the relationship between organizational justice and employees' commitment; Rahman, Naveed, Mustafa, Muhammad, and Qurashi (2016) examined the financial outcomes of studies into the relationship between employees' health perception of CSR and their attitude and subsequent behavior. Park, Song, and Lee (2014) looked at the financial outcomes of CSR investments in the restaurant industry's workforce. All corporate enterprises should be interested in participating in research that examines CSR and its effects, but those that directly engage with society may have a distinct position (Song et al., 2013).

CSR is described as "the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways

that are good for business, the sustainable development agenda, and society at large" by Kitzmueller & Shimshack (2012). According to Youn, Lee, and Lee's (2018) stakeholder theory, businesses utilize CSR practices as a tool to influence the behavior of its dimensions (workers, shareholders, consumers, and communities). Previous CSR-related research mostly examined shareholder and consumer behavior. The success of the company depends on the services provided by its employees (Bhattacharya, Sen, & Korschun, 2008), hence research scholars studying the concept of CSR have recently turned their focus away from the customer's aspects and towards the health dimension (Song, Lee, Lee, & Song, 2015). Since the majority of the company's workers deal directly with consumers, they are key players in the growth of customer loyalty (Tepeci, 1999). According to the research conducted by Bohdanowicz, Zientara, and Novotna (2011), companies with good CSR practices tend to attract more employees, both current and potential, and this is why the majority of businesses have turned to CSR initiatives as a means of attracting and hiring qualified workers. However, relatively few studies have been done to determine the precise aspects of a company's CSR initiatives that are necessary to attract a skilled staff (Raj, Kuznetsov, & Arun, 2020).

The employee component of CSR is represented by the company's adherence to standards like its interaction with labor unions, its inclusion of employees in decision-making, it is the supply of good working conditions, its award distribution criteria, and its stance on child and forced labor policy (Helslin & Roach, 2008). Employee happiness is a product of organizational rules that support respect for employees' rights and equity in the allocation of rewards. Reduced attrition and hiring costs as a result of happier employees (Rahman et al., 2016) lead to higher production (Huselid, 1995) and improved financial results (Berman, wicks, khota & jones, 1999).

Employees who assist companies with CSR initiatives continue to support the performance of the company and receive respect as stakeholders (Voegtlin & Greenwood, 2016). For the company to achieve a competitive advantage over rivals, choosing and maintaining skilled and capable personnel is a crucial component (Barney, 2001; Hu, Liu, & Qu, 2019). Recent studies have demonstrated the impact that a company's CSR initiatives have on a variety of organization-related characteristics, including employee commitment, performance at work, and desire to leave the company (J. Kim, Song, & Lee,

2016; Kim., Rhou, Uysal, & Kwon, [2016](#); Youn, Lee, & Lee, 2018; Shah & Khan, 2020)

Education Welfare Dimension of CSR and Profitability.

Several research have looked at the relationship between CSR and organizational success (Wang, & Pan, 2014). Numerous empirical research come to the conclusion that companies that practice CSR are directly linked to profitability and employee happiness (Yu, & Choi, 2014). When businesses fulfill employee expectations, they are taking on internal CSR duties, which is reflected in a growth in FP (Jamali, Safieddine, & Rabbath, 2008; Estiasih et al., 2019; Adiputra & Hermawan, 2020). Mishra et al. ([2010](#)) observed a clear correlation between CSR and corporate profitability, which supports earlier findings (Mishra et al. [2010](#)). Krishnan (2012) found a favorable association between the profitability of the company and its employees in another research. The rise in shareholders is not the sole metric for a company's success, according to the stakeholder theory; stakeholders including workers, governments, clients, suppliers, and society may also be used to gauge a company's profitability. Businesses that practice social responsibility are focused on advancing the interests of all stakeholders, which increases profits (Feng, Chen, & Tang, 2018).

According to the stakeholder hypothesis, if a company's CSR initiatives benefit all stakeholders, including its employees, it will have a beneficial impact on its traditional revenue and increase its profitability (Wahba, & Elsayed, 2014; Ahamed et al., [2014](#); Estiasih et al., 2019; Adiputra & Hermawan, 2020).

Voegtlin & Greenwood's (2016) study found that workers who participate in CSR initiatives are viewed as significant stakeholders whose support is required for great profitability. Usman & Amran ([2015](#)) claim that the employee part of CSR has been overlooked by several studies concentrating on other aspects of CSR, even though their study and others like it found that employee-related CSR improved business profitability.

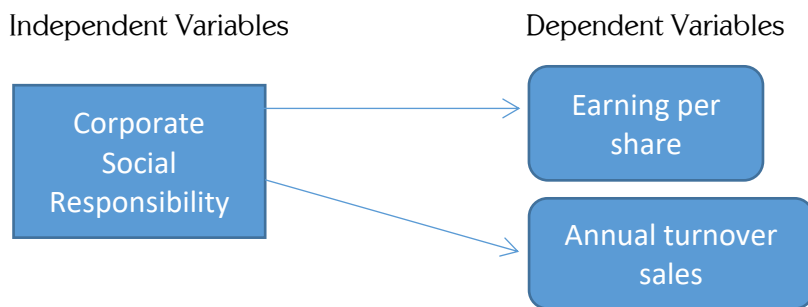
Hypotheses

In addition, the following research hypotheses have been developed to offer empirical proof of a connection between the study's variables:

H1: There is a significant effect of CSR on earnings per share in Pakistan's Automobile Manufacturing sector.

H2: There is a significant effect of CSR on annual turnover sales in Pakistan's Automobile Manufacturing sector.

Conceptual Framework



Source:(Wan Ahamed et al., [2014](#))

Research Methodology

Population & Sample of the Study

The population of this is the automobile assembler sector listed companies on the Pakistan Stock Exchange; the time of this study is 2017 to 2021, like some previous studies the time period and sector were changed. The population of this study is all automobile assemblers listed on the Pakistan Stock Exchange. The study is based on a quantitative

method applying a secondary source will be obtained for the period 2017 to 2022.

Data Collection and Variable of the Study

Profitability was used as the dependent variable in this study to quantify corporate social responsibility; however, firm age and firm size were also included as control factors. The data was taken from yearly reports and related websites of Pakistan's potential automobile assembly sector.

Corporate Social Responsibility was employed as an independent variable, and a gift in the form of health and welfare money was used as a proxy for it. Using a proxy by (Ramzan et al., 2020)

Dependent Variable. This study examined the impact of corporate social responsibility on the Profitability of firms' proxy used for Profitability Earning per share and Annual turnover sales used by (Enahoro et al., 2013).

In this study control variables were the age of the firm and the size of the firm were used as a control

variable of the study these variables used by (Series, 2004). The size of the firm is measured by the natural log of total assets was also used by (Nasional & Chan, 2014)

Data Collection Procedure.

All the statistics were collected from the financial yearly reports of the automobile assembler sector of Pakistan for the period 2017 to 2022.

Table 1

Variable Measurement.

S.No	Variables	Nature	Proxy	Source
1.	FP EPS ATS	Dependent Variable	EPS= Net income – Preferred dividend / weighted average shares outstanding ATS= Sales / Total assets	(Enahoro et al., 2013)
2.	CSR	Independent Variable	Dummy variable (1,0)	(Ramzan et al., 2020)
3.	Firm size, and Firm age	Control Variables	Firm Size: natural log total assets Firm age: number of years	(Series, 2004) (Nasional & Chan, 2014)

Econometric Model

The model below was used to test the study's hypotheses.

$$EPS = \beta_0 + \beta_1 CSR + \beta_2 Controls + \epsilon \quad (1)$$

$$ATS = \beta_0 + \beta_1 CSR + \beta_2 Controls + \epsilon \quad (2)$$

Whereas EPS and ATS (Earnings per share and Annual turnover sales) refer to the firm, CSR refers to the firm's spending. The vectors of the parameters to be estimated are control variables for firms of size and age 0, 1, and 2. Firm-specific mistake term ϵ

Data Analysis Technique.

The analysis was used of the following tools using the STATA software. Additionally, many software programs are employed in the social and management sciences to produce proposed hypothesized constructs for data analysis. Both SPSS and STATA were frequently used. As a result, such software was employed in this study to process and evaluate the data. STATA will be used to examine the items'

internal consistency for the initial reliability test. The links between all of the variables were investigated using the Pearson Correlation. Additionally, STATA/SPSS will be used to evaluate the relationships between observed variables using multiple regressions because it can and is useful for confirming that the proposed model is in line with actual data.

Results and Discussion

The purpose of this chapter that how Corporate Social Responsibility and Profitability impact on automobile sector, through descriptive statistics, correlation, and regression analysis, this chapter demonstrates the connections between research variables. The variables that were employed in the study's descriptive statistics are described in the first section. In order to determine whether there is multicollinearity between the various variables, a correlation matrix was also conducted. The regression analysis's findings, which looked at how CSR affected profitability, are presented in the third section.

Table 2

Descriptive Statistics

Var	Obs	Mean	Std	Min	Max
EPS	120	12.15288	10.54893	-58.42	74.19
ATS	120	16.12568	15.18763	-52.33	79.16

Var	Obs	Mean	Std	Min	Max
CSR	120	1.388333	1.069004	0	3
Firm Size	120	1.00119	.0410126	.7272569	1.239096
Firm Age	120	66.44333	9.837416	8.924789	75

The descriptive statistics for the dependent, independent, and control variables are shown in Table No. 4.1. Earnings per share and annual sales turnover are the dependent variables used to calculate profitability. Corporate social responsibility as a whole is the independent variable, while control variables like firm age and firm size are utilized as the controls. There were 120 observations made in total to measure the variables. When matched to Akben-Selcuk, 2019, who stated his average Mean values for the same variables were 4.502 and 5.63, the Mean values of EPS and ATS were 12.152 and 16.125, respectively. The independent variable for CSR has a

value of 1.388333, which is higher than the mean value for the same variable (Akben-Selcuk, 2019) of 0.443. The first control variable used in this study to determine the size of the companies is total assets. So, for the sake of this study, the natural logarithm of total assets was employed. The natural logarithm of the total assets' mean is 1.00119, which is lower than the mean score of 6.759 reported in the research by Szegedi et al. (2020). The second control variable employed in this study is firm age, which is the total number of years for the businesses. Its mean value is 66.44, which is greater than the study's mean value of 57.908 as reported by (Galdeano et al., 2019).

Table 3
Correlation

Variables	EPS	ATS	CSR	AGE	SIZE
EPS	1.0000				
ATS	0.1625	1.0000			
CSR	0.3462	0.3288	1.0000		
LESS	0.3301	0.1178	0.0356		
Firm Age	-0.1013	-0.1007	-0.1496	1.0000	
Firm Size	0.0461	0.6542	-0.0456	0.0098	1.0000

The association between CSR measures and corporate profitability is seen in table no. 4.2 above. The findings indicate that there is little relationship between corporate social responsibility (CSR) and profitability (EPS & ATS). A low positive correlation exists between EPS ATS and CSR. The age of the company shows a negative association with profitability. The business size has a very weak and

insignificant link with earnings per share, annual turnover sales, and corporate social responsibility. Additionally, CSR business size has a weak correlation with one another, and firm age has a weak negative correlation with EPS and ATS. These findings are in line with those of research by Y.-H. Lee and Yang (2021).

Table 4
Regression Results.

FP	Coff	Std Error	t	P> t	[95% Conf.Int]
CSR	3.518031	.4045565	8.70	0.000	2.723499 4.312564
F.age	.0250585	.0439118	0.57	0.068	.0611824 .1112995
F.Size	16.14178	9.880543	1.63	0.063	3.263202 35.54676
Constant	-12.00631	10.88375	-1.10	0.270	-33.38156 9.368938

$R^2 = 0.5545$ Adj $R^2 = 0.3587$ Prob > F = 0.0000 F-Statistics = 42.16

The relationship between CSR measures and corporate profitability is shown in table no. 4.3 above. To assess the profitability of the companies, EPS and ATS are utilized as dependent variables, and CSR is employed as an independent variable. The age and

size of the company are evaluated as control factors. The CSR Coefficient is positive and statistically significant, indicating that industries that use CSR have higher profitability than those that do not. The findings are consistent with those (Shabbir &

Wisdom, 2020), who claim that only a linearly positive meaningful relationship exists between corporate social responsibility and the profitability of Pakistan's car industry. The model appears to be statistically fit,

as shown by the R square value of 0.5545. The F-statistics value is 42.16, and the p-value, which is less than 0.05, is very significant. It shows that the model is important overall.

Table 5

Diagnostic Test

Var	VIF	1/VIF
CSR	1.14	0.875991
F.Age	1.14	0.877732
F. Size	1.00	0.997877

Mean VIF = 1.09

$\chi^2(3) = 4.22$ Prob > $\chi^2 = 0.2391$

The Breusch-Pagan test was employed in Table 4.4 to assess the model's heteroskedasticity. The χ^2 p-value is 0.2391, which indicates that the null hypothesis was rejected and heteroskedasticity was discovered in the model. This value is not less than the significant threshold of 0.05%. The results are

satisfactory, and the variance analysis performed to estimate the degree of multicollinearity in the independent variables is presented in the table above. The mean value of VIF, 1.09, shows that there are no issues with multicollinearity between the variables.

Table 6

Fixed Effect Model

FP	Coefficient	Std. Err	t	P> t	(95% Conf. Interval)
CSR	1.373002	.7592823	1.81	0.071	-1.184642 2.864468
F.Age	-.2055968	.1001255	-2.05	0.041	-.4022743 .0089193
F.Size	16.07492	8.609345	1.87	0.062	-.8364999 32.98635
Constant	7.813189	11.68236	0.67	0.504	-15.1346 30.76097

$R^2 = 0.5558$ rho = .53741068 Prob > F = 0.0282

Table 4.5 shows the results of the fixed effect on EPS and ATS as dependent variables and CSR indicators as independent factors. The governing criteria are based on firm age and size. With a one percent rise in CSR, the profitability will improve by (1.373002, P-0.071), according to the coefficient values of CSR, which show a positive and substantial effect on business profitability. The firm age has a noticeable but detrimental impact on the firm's performance, showing that if the firm age increases by 1%, the firm performance would decline by (-.2055968).

Additionally, a strong and substantial relationship exists between business size and profitability, with a one percent increase in firm size resulting in a 16.07492 percent rise in profitability (P-0.062). The F-value (0.0282) in the table above is less than 0.05 and indicates how well the model fits the provided data. The rho value (.53741068) shows that differences between panels account for 53.7% of the variance. The R square number is the percentage of Profitability that independent variables can account for (0.5558).

Table 7

Random Effect Model

FP	Coefficient	Std. Err	t	P> t	(95% Conf. Interval)
CSR	2.322707	.5803143	4.00	0.195	1.185312 3.460102
Firm Age	-.0902861	.068218	-1.32	0.186	-.223991 .0434187
Firm Size	17.87385	8.559842	2.09	0.037	1.096867 34.65083
Constant	-2.968007	10.24188	-0.29	0.772	-23.04173 17.10572

$R^2 = 0.4593$ rho = .49526147 Prob > $\chi^2 = 0.0010$

The findings of the random impact on the dependent variables, EPS and ATS, and the independent

variables, CSR indicators, are displayed in Table No. 4.6. the regulating factors based on firm age and firm

size. According to the CSR coefficient values, a one percent improvement in CSR will result in a 2.322707, P-0.0195 increase in financial performance for the company. The firm age has a strong but adverse relationship with firm performance, demonstrating that if the company age increases by 1%, the performance would fall by (-.0902861, P-0.186). A positive and substantial relationship exists between business size and profitability, with a one percent

increase in firm size resulting in a 17.87385% rise in profitability (P-0.037). The F-value (0.0010) in the preceding table, which is less than 0.05, indicates how well the model fits the provided data. The rho values (.49526147) show that variations between panels account for 49.5% of the variance. According to the R square value, (0.4593), the variance in profitability is explained by independent factors.

Table 8

Hausman Test

Variables	Coff Fixed	Coff Random	Diff
CSR	1.373002	2.322707	-.9497053
F. Age	-.2055963	-.0902861	-.1153107
F. SizE	16.07492	17.87385	-1.798294

Prob>chi² = 0.2391

The results of the Hausman test, which is used to distinguish between fixed and random effects, are shown in the above table, row no. 4.7. The difference in CSR value is (-9497053), while the age and size differences of the business are (-.1153107, -1153107). Since the value of Chi² is more than 0.05 and is equal to or greater than 0.2391, the fixed effect model was chosen as the best model to test the proposed hypothesis.

Conclusion and Recommendations:

Discussion

In the last decades, CSR has gotten too much attention in the corporate sector. Firms engage in CSR activities and a lot of investment sources have been utilized for these activities but the Profitability of the companies is still in progress. There have been different results found regarding corporate social responsibility and Profitability. Some found positive and neutral effects while some results found negative effects of CSR on Profitability. There are different indicators that reflect CSR activities but the contribution of this study is to investigate variables to measure the effect of corporate social responsibility on firm Profitability of automobile sectors. The main research questions of my research were formulated (a) Does Corporate Social Responsibility affect earnings per share? (b) Does Corporate Social Responsibility Affect Annual Turnover Sales?

According to the literature, the stakeholder theory and legitimacy theory suggested the positive and negative impact of CSR activities on the Profitability of the Automobile sectors in Pakistan, and several kinds of literature regarding CSR found a positive impact on Profitability in different sectors. But in this thesis, the scholar expected the positive impact of CSR on the

Profitability of the Automobile sectors of Pakistan firm size and firm ages also expected a positive contribution in the CSR and Profitability relationship.

The hypothesis developed for this study was tested by OLS regression with the help of STATA software. The data were collected from the annual reports by using content analysis with the help of 0, 1 coding. To measure the Profitability EPS and ATS were used. The indicators selected to measure CSR were health and education welfare funds.

OLS regressions were used in the initial stage to gauge the effect of CSR on profitability. The fixed-random-Hausman test is in its second step. The overall findings were in line with the legitimacy and expectation of stakeholders theories. The CSR regression findings showed considerable beneficial effects on the profitability of the automotive industries. The findings corroborated (Shabbir & Wisdom, 2020) that only a linearly positive significant relationship exists between corporate social responsibility and the profitability of Pakistan's automobile industry. Despite the fact that the control variable of firm age was discovered to have a negative link between CSR and Profitability in the Automobile sectors, the overall coefficient values of CSR activities indicated a positive and significant impact on Profitability, which is consistent with (Okafor et.,2021).

Conclusion

The overall contribution of this research's findings supports the notion that CSR has a favorable influence on the profitability of Pakistan's automobile sector and suggests that significant CSR expenditures are associated with increased and better profitability as measured by EPS and ATS. The findings indicate that

control factors had a beneficial influence on company size but a negative impact on the profitability of the business's age. By participating in CSR initiatives, this research study assists Pakistan's automotive industry in increasing its profitability.

Recommendations

The study was restricted to the Automobile Industries of Pakistan, had a small sample size, and employed a small number of observations; other studies (Nollet et al., 2016; Wang & Sarkis, 2017) used a larger variety of observations. EPS and ATS are utilized as market-based profitability proxies, while other metrics should also be taken into account. This study should be expanded to cover more financial industries, such as manufacturing and Pakistani banks. In order to ascertain the relationship between CSR and financial sector profitability, only a regression model was used in this study; further tests utilizing different research approaches should have been carried out.

Limitations of the Study

In order to advance the current study, studies were conducted from two perspectives: the CSR aspects (health and education wellbeing) and the influence of CSR expenditure on the profitability of listed firms at PSX. It is acknowledged that there are a number of additional factors, such as stakeholders, suppliers, and civil society organizations that were left out of the research, as well as a variety of "Market-Based Measures" in addition to Accounting Based Measures and financial outlay, that may be used to assess the impact of CSR. The impact of CSR may be measured using non-financial metrics, such as the number of hours donated to planting trees and other charitable endeavors, environmental cleanup campaigns, management adoption of fair hiring practices, and good governance. However, these factors have not been included in the current investigation due to time limitations. The study's results could have revealed different outcomes if such measurements had been employed. Similar to this, there are a number of other financial statistics that may be used to assess profitability, including Tobin Q, market share, and many more.

Time and financial constraints have proven to be another significant obstacle for the current study because the researchers must complete it in a short amount of time and with their restricted financial resources. Only two CSR dimensions and CSR spending were considered in this analysis due to time and financial constraints. The current study has

attempted to cover listed businesses at PSX due to time and financial constraints, but it may also be expanded to non-listed companies operating in Pakistan.

The current study was intended to be a longitudinal one and only covered the five years between 2017 and 2022, inclusive of both years. Due to time and financial constraints, we have only included 5 years to complete the study. The current study would have yielded more accurate and trustworthy results if it had been given a few more years to run.

The study's measuring of performance is its other drawback. Although there are other performance indicators, such as market share, the research only utilized earnings per share and yearly turnover sales. The outcomes may have been different if any other metric had been employed. The length of time during which the data was gathered also placed restrictions on the study. Due to time and resource limitations, the study's five-year time frame, from 2017 to 2022, inclusive, was only able to be completed. It's likely that the findings might alter if the study had been conducted over a larger period of time.

Finally, the majority of the information is gleaned from the financial reports provided by the businesses' representatives. Since they have no alternative option for gathering data in impoverished nations like Pakistan, the researchers must depend on the information they have, accept its correctness, and use it for the study.

Recommendations for Future Studies

As a follow-up to the current study, additional financial performance metrics such as Tobin Q and the market share of PSX-listed enterprises may be investigated. Future research should include more variables to examine the impact of CSR more fully. Along with the financial success of the firms listed on the PSX, it is also advised to include non-financial performance as a dependent variable. The study's time frame can be extended by another 5 years in order to obtain more trustworthy and authentic results, and data spanning 10 or more years should then be examined.

Similar variables might be utilized when collecting data over a lengthy period of time or while carrying out the same study using various approaches in order to verify the validity of the results of the present investigation. Researchers may conduct industry-specific studies or comparative analyses of other industries in the future using the same factors.

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