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The Impact of Corporate Social Responsibilities on Firm Value and Profitability in Pakistan

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Abstract: *The research area of corporate social responsibility (CSRR) has seen rapid growth in the past decade. However, the real impact of CSRR on firm value has been inconclusive, often due to its qualitative data. Therefore, this study aims to investigate the relationship between corporate social responsibility (CSRR) and firm value. For this purpose, the data of listed firms in the Pakistan Stock Exchange 100 index were collected from 2010 to 2021. Regression Analysis was conducted on panel data to accomplish the main objective of the research. The study finds that Corporate social responsibility in the case of Pakistan is adopted by 67%, consisting of all the listed firms. The results of regression reflect an important positive association between the behaviour of CSRR and firm value. This result is also associated with other researchers, who suggest that investors pay a premium in the capital market in a socially responsible manner to achieve long-term profitability. The study also found that CSRR had a value-enhancing power to adopt charitable behaviour via legitimacy, Stakeholders, and signalling theory.*

Key Words: Corporate Social Responsibility, Firm Performance, Women on Board

Introduction

The question of whether businesses should take on their social responsibilities was hotly debated in the late 1880s during the early stages of industrialization. To encourage businesses to assume social responsibility, proponents of socially responsible business practices sought to develop some kind of social business ethics. The detractors contended that businesses shouldn't be coerced by the law or moral principles. They contended that social responsibility might result in decreasing competition and slower economic progress. Since the late 1880s, there has been an ongoing discussion on social responsibility, and during the past ten years, businesses have begun to assume an increasing amount of social duty.

Customers, workers, suppliers, community organizations, governments, and some shareholders have all expressed a desire for firms to participate in CSRR in recent years. Demand for CSRR has increased further as a result of the recent sharp rise in global warming awareness (Robertson, 2009). In response, several businesses have increased their CSRR investments (McWilliams & Siegel, 2000). This has led to an increase in the number of businesses dealing with ongoing CSRR-related concerns. For instance, businesses are beginning to pay more attention to environmental and social issues (Fatima & Elbanna, 2023). Other businesses have refrained from investing in CSRR nonetheless, as they feel that doing so goes against their desire to maximize profits (McWilliams & Siegel, 2000).

CSRR is characterized as a business commitment to sustainable development. Corporate behaviour must ensure shareholders' return, employee wages, and consumer goods and services and respond to social and environmental issues and values (Hermawan, Sari, Biduri, Rahayu, & Rahayu, 2023).

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From that idea, it follows that the business must guarantee shareholders' returns. They should be concerned about additional parties. The Corporate Social Responsibility (CSRR) problem is related to a wide variety of corporate and multiple stakeholder relationships and the community. The CSRR scope involves firm relationships with various stakeholders, consumers, society in general, and shareholders. Some significant aspects of CSRR, such as its conceptualization, disclosure, and the possible relation between CSRR, results, and firm value, have been the subject of study. It is possible to view CSRR disclosure as a form of corporate responsibility for social and environmental issues around the organization. Companies that efficiently and sustainably report CSRR can cause an increase in the worth of the firm (Wahidahwati & ARDINI, 2023).

This study will primarily focus on the evaluative and supportive Corporate Social Responsibility and charitable behaviour in Pakistan. Corporate Social Responsibility (CSRR) is defined as a need for future generations to help meet their need without compromising future generations' abilities. Therefore, this research aims to establish and validate an under-researched cultural setting a detailed model of individuals' behavioural intentions towards their main charitable organization. Individual characteristics (perceived importance of charitable giving or donor value), organizational elements (reputation/dynamism, unity, and barriers to donation), cultural factors (collectivism and individualism), and religious aspects (religiosity) are combined in order to comprehend the philanthropic actions of Pakistani Muslims.

The main purpose of this study will be to analyze the relationship between Corporate Social Responsibilities under the role of Charity/donations and firm value.

I. What is the relation of CSRR and firm value with charitable behaviour in Pakistani listed firms?
II. What is the role of CSRR altruism and firm profitability in Pakistani-listed firms?

Literature Review

Corporate Social Responsibility is the actions that seem to encourage any social work beyond its interests and what is required by regulation. According to this definition, not only contributing, but stakeholders also such as shareholders and debtholders are impacted by CSRR practices and non-investing stakeholders such as clients, government, social organizations, and others. Given the wide variety of stakeholders involved, the socially involved is a company. The CSRR practices are mostly voluntary; several scholars have been interested in exploring company motives and the relationship between CSRR activities and firm values. Reports were mixed, but several demonstrated a positive impact on financial performance from performing and revealing corporate social responsibility activities.

The Relation between Corporate Social Responsibility and Firm Value

Several studies have found a link between corporate social responsibility and financial performance. Firms that engage in CSRR have a considerable positive influence on firm value, according to (Jo & Harjoto, 2011). CSRR is also linked to a company's financial performance in a good and meaningful way (Choi, Kwak, & Choe, 2010). The same conclusion is reached by (Lindgreen, Swaen, & Johnston, 2009). They conclude that by engaging its stakeholders through CSRR, the firm can enhance revenues and earnings, increasing its chances of long-term survival. According to Tewari's research, Indian domestic IT firms filed fewer corporate social responsibility declarations than global firms. The size, age, place of origin and board composition of the organization all influenced CSRR contact.

The relation between CSRR and Firm value is inconclusive because of the different regions and research design. Most of the firms in Asia are strongly motivated toward CSRR because of the social norm and values. According to a previous study, CSRR disclosures in Thailand grew from 1997 to 2001, with the majority of them being informative and hopeful about environmental actions (Ratanajongkol, Davey, & Low, 2006). Cui, Jo, and Na (2018) present empirical proof that CSRR operations help reduce knowledge asymmetry among companies. Thus, CSRR activities will enhance firm value by decreasing interest conflicts between managers and non-investing stakeholders. Prior research Stats database concludes that many governments' features positively influence the option of CSRR commitment. Furthermore, they discover that CSRR boosts the firm's value. A security analyst's external monitoring of a corporation's CSRR operations is also more important than any other monitoring mechanism (Krüger, 2009). However, the impact of CSRR on firm value has received relatively less research. Fewer studies have examined the effect of corporate governance and CSRR on company value. According to the theory of excessive investment, Barnea and Rubin (2010) argue that Insiders, such as the CEO and the board of directors, have a natural reason to over-invest in CSRR initiatives if doing so benefits their image-building operation.

Thus, based on the above discussion, CSRR and firm value have a strong relation. In some studies, they are positive, negative, and neutral. Our research will focus on charity/donation to find the relation either there is a relation in Pakistan between CSRR and firm value.

Theoretical Approach

Signalling Theory

The signalling theory addresses the issue of information asymmetry in a setting of competition (Boateng, 2019; Lehdonvirta, Kässi, Hjorth, Barnard, & Graham, 2019; Saxton, Gómez, Ngoh, Lin, & Dietrich, 2019). The approach primarily focuses on management's purpose to communicate with stakeholders, the market, and society, as well as to take cues from these sources. Conflicts between management and agents may arise from knowledge asymmetry in an organization, but this gap may be closed by sending the right signal to the right people (Brown, Goll, Rasheed, & Crawford, 2020; Jiang, Cheng, Park, & Zhu, 2022). According to a fundamental communication channel, the signalling theory consists of four components: a signaler, signals, receiver, and feedback (W. Yu, Zhou, He, & Si, 2022). Firm signals (stock price news, dividends, environmental finance, CSRR investment, etc.) are relayed by management personnel such as executives, directors, and managers. The receivers, on the other hand, are individuals, investors, and employees who are not insiders and are not aware of the knowledge. The interactions between signalers and receivers are reflected in the feedback (Zhong, Chen, & Ren, 2022). The essential actors in the signalling process are the sender and the receiver, and the signals transmit either positive or negative information to reduce information imbalance.

Agency Theory

The relationship between the agent and the principle is often of interest to the agency theory (Rim & Tao, 2022). The separation issue between a firm's ownership and control is defined by the theory. Typically, the principal (owner) delegated management (the agent) with the authority to act on behalf of the owner (Zhang, Zhang, & Yang, 2022). However, because of the nature of business policy and the short- and long-term strategies of the company, there is a conflict between the two parties. The short-term prospects and benefits for management are very motivating (Le & Morschett, 2022). According to the agency theory, the board is in charge of overseeing management's sustainable policy and strategy (including environmental and social policy, strategic CSRR, investment in the environment, and information accessibility). Additionally, it is clear that environmental and social investments typically have a lengthy lifespan. It is also clear that investing in social and environmental causes typically has a long-term purpose, and management may be hesitant to do so because there are no immediate rewards (Carrasco & Vílchez, 2022; C. Li, Zhang, Zhang, & Huang, 2022). According to earlier studies, management frequently engages in short-term investments and is hesitant to spend money on long-term projects like research and development (Le & Morschett, 2022). Therefore, these disagreements result in an agency issue, which boosts management's motivation to lower agency costs. Furthermore, despite having limited authority and scope, board members are accountable to stakeholders for monitoring, decision-making, and reporting, whereas the organization's management is made up of individuals with diverse and opposing viewpoints.

Hypothesis Development

The correlation between CSRR performance and corporate value has been studied using a variety of methodologies. McWilliams and Siegel (2000) point to several CSRR performance testing issues; contradictions in CSRR description, sample collection, and different research designs. As a result, a lot of CSRR efficiency research is not similar. Their results showed that high governance scores had higher firm value, higher earnings, and greater revenue growth. According to McWilliams and Siegel (2000), the impact of CSRR on corporate valuation has been measured in terms of value, which can be expressed as market values like stock returns or accounting measurements like return on equity or return on assets. The findings also show that firms with strong governance scores have higher firm value, earnings, and revenue growth. According to (Orlitzky, Schmidt, & Rynes, 2003) the impact of CSRR on corporate valuation has been estimated using value, which may be measured using market pricing like stock returns or accounting measurements like return on equity or return on assets Harmadji, Subroto, Saraswati, and Prihatiningtias (2018). Research conducted in the US shows that CSRR influences firm value in the long run. By collecting relevant information beyond the approved entity's data, information asymmetry can be minimized between management and outside parties. CSRR is a data source that reduces knowledge inconsistency to improve a firm reputation.

In developing countries such as Japan and South Korea, CSRR is growing because capital availability helps it affect firm value in such a way. Overall, both industrialized and emerging markets in Europe show a rise in firm value because of CSRR. Based on the above explanations, numerous studies conclude that CSRR has a value-enhancing effect on firm value and profitability. Focus on Charitable behaviour and follow the above literature, the research hypothesis is:

H_1: The CSRR altruism had a positive effect on firm value.

H_2: CSRR led a firm to profitability.

Data and Methodology

Data

In this section, we will introduce the research design related to the thesis purpose. It also offers and inspires the process of data collection and analyzes the data after being scientifically collected. The study will be based on secondary data. It will be collected from the available sources. The primary source will be used on the PSX 100 index. The time will be set from 2012 to 2021. All the variable details and their definition are presented in Table 01.

Table 1

List of Variables

Variables	Acronym	Measurement
Dependent Variables		
Firm Value		
Tobin's Q	*TOQ*	A natural log of the market-to-book ratio and annual stock price return of the company.
Profitability		
Return on Asset	*RTOA*	The return on assets is calculated by dividing the net income by total assets.
Return on Equity	*RTOE*	Financial performance is calculated by dividing net income by shareholders' equity
Profit Margin	*PM*	The profit margin ratio can be calculated by dividing net income by net sales.
Independent Variable		
CSRR	*CSRRC*	Using content analysis, the dummy variable takes a value of one of the Firm reports Charity/Donation information one and zero otherwise.
Control Variable		
Firm Size	*Size*	The natural logarithm of total assets.
Leverage	*Lev*	Total debts divided by total assets
Profit Margin	*PM*	Gross profit divided by total revenue
Women on board	*WOB*	Number of Women on a board of Directors
Asset turnover	*ATO*	measuring the total ratio of sales to total Asset

Estimation Models

This section illustrates the methodology for analyzing the connection between CSRR and firm value. The hypothesis test is conducted using four empirical models. First, we investigate whether CSRR has a positive relationship with firm profitability through charitable behaviour. Second, we use the regression model of Bargeron, Lehn, and Zutter (2010) and the method of M. Harjoto and Laksmana (2018) to test our second hypothesis, which is whether CSRR is linked to firm value when charitable behaviour is taken into account.

Model 1

$$TOQ_{it} = Œ =_0 + Œ =_1 Size_{it} + Œ =_2 PM_{it} + Œ =_3 ATO_{it} + +Œ =_4 LEV_{it} + Œ =_5 WOB_{it} + Œ =_6 CSR_{ij} + Œ\mu_{it}$$

Model 2

$$RTOA_{it} = Œ =_0 + Œ =_1 Size_{it} + Œ =_2 PM_{it} + Œ =_3 ATO_{it} + +Œ =_4 LEV_{it} + Œ =_5 WOB_{it} + Œ =_6 CSR_{ij} + Œ\mu_{it}$$

Model 3

$$RTOE_{it} = Œ =_0 + Œ =_1 Size_{it} + Œ =_2 PM_{it} + Œ =_3 ATO_{it} + +Œ =_4 LEV_{it} + Œ =_5 WOB_{it} + Œ =_6 CSR_{ij} + Œ\mu_{it}$$

TOQ represents Tobin's Q, a natural log of the market-to-book ratio, and its annual stock price return. RTOA means the Return on Asset, which can return on assets, is calculated by dividing the net income by total assets. RTOE is another proxy to measure the financial performance calculated by dividing net income by shareholders' equity.

CSRR is the main variable in all three models and represents Corporate Social Responsibility, which is primarily driven by the motivation of Charity and donation. The content analysis technique and binary numbering were adopted to measure CSRRC i represents firm, t for time.

Other variables in the models are over-control variables including firm size *(Size),* profit margin (PM), asset turnover ratio (ATO), Debt to asset ratio *(Lev),* and Women on board *(WOB).*

Result and Analysis

Descriptive Statistics

Table 2

Descriptive Statistics

Variables	Mean	Max	Min	SD
RTOA	0.096	0.487	-0.079	0.092
RTOE	0.050	0.840	-0.018	0.127
TOQ	0.049	0.254	0.003	0.055
Size	9.444	11.685	7.573	0.06
PM	0.441	1.861	0.002	0.605
ATO	1.046	4.391	0.043	1.362
LEV	0.455	9.407	0.001	0.909
WOB	1.312	4.000	0.000	0.996
CSRR	0.670	1.000	0.000	0.470

Table 02 shows the descriptive statistic of the variables that are illustrated in the above model. The firms in the listed stock exchange and their CSRR ratio are 67%, which indicates our sampled listed firms, for the period under observation, performed a high CSRR performance moderately, as measured based on guidelines for disclosing CSRR information. Therefore, most of the companies in Pakistan disclosed CSRR might be due to the adoption of government policy incorporated in the firm bill, which clearly stated that a company must do philanthropic work. Similarly, the mean value of Firm size, profit margin (PM) Leverage, asset turnover (ATO), and women on board (WOB) are 9.444, 0.441, 0.455, 1.046, and 1.312, respectively.

Correlation Matrix

Table 3

Matrix of Correlations

Variables	RTOA	Size	PM	ATO	LEV	WOB	CSRR
RTOA	1						
Size	0.301***	1					
PM	0.552***	0.542***	1				
ATO	-0.160***	-0.585***	-0.460***	1			
LEV	-0.0395*	-0.044**	-0.070***	-0.0215	1		
WOB	0.039*	0.0196	0.041**	-0.0169	0.050**	1	
CSRR	0.035*	0.087***	0.054**	-0.075**	0.024	-0.107**	1

Table 4

Matric of Correlation

Variables	RTOE	Size	PM	ATO	LEV	WOB	CSRR
RTOE	1						
Size	0.380***	1					
PM	0.370***	0.542**	1				
ATO	-0.207***	-0.585***	-0.460***	1			
LEV	0.121***	-0.044**	-0.070**	-0.0215	1		
WOB	0.107**	0.0196	0.041**	-0.0169	0.050**	1	
CSRR	0.0247	0.087***	0.054**	-0.075**	0.024	-0.107*	1

Table 5

Matrix of Correlation

Variables	TOQ	Size	PM	ATO	LEV	WOB	CSRR
TOQ	1						
Size	-0.026	1					
PM	-0.067**	0.542***	1				
ATO	-0.018	-0.5854*	-0.4606*	1			
LEV	0.057**	-0.044**	-0.070**	-0.0215	1		
WOB	-0.036*	0.0196	0.041**	-0.0169	0.050**	1	
CSRR	0.043**	0.087***	0.054**	-0.075*	0.024	-0.107***	1

Tables three, four and five report the multicollinearity between our various dependent variables (RTOA, RTOE, TOQ) and other explanatory variables. As hypothesized, CSRR has a significant relationship with firm value. The Pearson correlation result confirmed that there is a significant positive relation between CSRR and RTOA, which shows that the firm that is engaged in CSRR is highly motivated toward society. The listed firm in the Pakistan stock exchange also suggests in this thesis, that a firm that acts in socially responsible ways is more likely to have a premium value in the future. The correlation between the RTOA, and RTOE with firm size and profit margin is significantly positive. This result was supported by the research on Indonesian real estate firms registered with the Indonesian stock exchange suggesting that there is a direct effect of firm size on the firm value.

Women on board have a significant positive relation with RTOE and RTOA however, this relation becomes significantly negative with Tobin's Q (TOQ). Growth in total sales is another factor that influences firm value. The above tables also show that women on board have a positive effect on RTOA and RTOE. Whereas a negative and significant effect on TOQs.

Regression Results

This study includes both cross-sectional and time-series components. Therefore, we used the panel data technique because of the data's nature and to allow time series and cross-sectional data observations. To investigate the effect of CSRR and WOB on firm performance we have used OLS estimation techniques the results are reported in Table 06.

Table 6

The Effect of CSRR on Firm Performance

Variables	RTOA	RTOE	TOQ
Size	0.005**	0.032***	-0.005
	(2.700)	(12.100)	(-0.410)
PM	0.088***	0.054***	-0.007**
	(21.740)	(7.700)	(-3.190)
ATO	0.010***	0.008***	-0.002**
	(8.540)	(6.900)	(-2.870)
LEV	0.007	0.021***	0.003
	(0.540)	(5.070)	(1.700)
WOB	0.001	0.010***	0.002*
	(0.870)	(3.940)	(2.530)
CSRR	0.002*	-0.008	0.005*
	(2.590)	(-0.17)	(2.270)
Constant	-0.013	-0.311***	0.0658***
	(-0.690)	(-12.230)	(-4.650)
F-STAT	110.900**	49.680***	5.477***
R-Square	0.321	0.218	0.0237
ADJ-R-Square	0.319	0.216	0.0211
RMSE	0.076	0.112	0.0551

The result in Table 06 shows that the hypothesis of no relation between CSRR is rejected only in models 1 and 3, where our dependent variables are RTOA and Tobin's Q. This is represented that the CSRR coefficient is .005 and has a significant and positive effect on Tobin's Q of the firm. With respect to RTOE, the result indicated a positive but not significant effect of CSRR. Even so, the correlation matrix in Table 4.2 shows a positive relation between CSRR and our dependent variables RTOA and Tobin's Q. Overall, CSRR can lead a firm to progress. Some previous researchers also supported this result that charity had value-enhancing power to boost its reputation in public (Dzingai & Fakoya, 2017; Machmuddah et al., 2020; Mukhtaruddin, Ubaidillah, Dewi, Hakiki, & Nopriyanto, 2019)

Table 5 also shows that the effect of women on the board has a positive and significant effect on RTOA and Tobin's Q. Among other explanatory variables, the effect of size, asset turnover, and profit margin on RTOA and RTOE is positive and significant. However, among these variables PM and ATO effects become negative and significant when Tobin's Q is considered our dependent variable. The effect of leverage on RTOE is also negative and significant.

Conclusion

In Pakistan, CSRR is generally a positive approach to society. Many people believe CSRR is an important and necessary component of corporate operations. The concept of CSRR is seen as a way for companies to give back to the community and contribute to the betterment of society. However, there are also some concerns about the implementation of CSRR in Pakistan. Critics say CSRR initiatives are often ad hoc and don't address social and environmental concerns. Some corporations may use CSRR as a marketing tool to boost their public image rather than actually engaging in social and environmental problems. Despite these concerns, CSRR is being recognized in Pakistan. More companies are adopting comprehensive CSRR strategies and working with NGOs and other stakeholders to address social and environmental issues. Pakistan's CSRR reputation is improving as more firms acknowledge its value.

The research area of corporate social responsibility (CSRR) has seen rapid growth in the past decade. However, the real impact of CSRR on firm value has been inconclusive, often due to its qualitative data. Therefore, this study aims to investigate the relationship between corporate social responsibility (CSRR) and firm value. For this purpose, the data of listed firms in the Pakistan Stock Exchange 100 index were collected from 2010 to 2021. The result of our study shows that the hypothesis of no relation between CSRR is rejected only in models 1 and 3, where our dependent variables are RTOA and Tobin's Q. This is represented that the CSRR coefficient is .005 and has a significant and positive effect on Tobin's Q of the firm. With respect to RTOE, the result indicated a positive but not significant effect of CSRR. Even so, the correlation matrix in Table 4.2 shows a positive relation between CSRR and our dependent variables RTOA and Tobin's Q. Overall, CSRR can lead a firm to progress. Some previous researchers also supported this result that charity had value-enhancing power to boost its reputation in public (Dzingai & Fakoya, 2017; Machmuddah et al., 2020; Mukhtaruddin, Ubaidillah, Dewi, Hakiki, & Nopriyanto, 2019)

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Charity and gifts greatly impact company performance. Donations may improve a company's reputation. This can attract consumers, investors, and workers who are attracted to socially responsible and community-focused firms. Second, employee engagement and morale for companies that share their values and are committed to social causes. By supporting charity and donation initiatives, a firm can help to increase employee engagement and morale, which can lead to higher productivity and lower turnover rates. Third, tax benefits in many countries, firms can receive tax benefits for charitable donations, which can help to reduce their tax liability and increase profitability. Finally, networking and partnerships on charitable giving and donations can provide opportunities for networking and partnerships with other firms and organizations. This can help to increase a firm's visibility and access to new markets and opportunities.

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