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Impact of Corporate Social Responsibility on the Financial Performance of Islamic Banks: Evidence from Pakistan

Abstract: This study investigate the corporate social responsibilities and their effect on the financial performance of Pakistani and Malaysian Islamic banks, as well as to compare the CSR practices of both of these countries. The research was conducted using quantitative methods, and the sample consisted of four banks from Pakistan's neighboring countries as well as eight full-fledged Islamic financial institutions. In the Pakistani study, a representative sample was drawn from the entire population of banks, whereas in the Malaysian study, a random sampling approach was used for both the selection of banks and the data collection. The findings indicate that the bank, through its participation in corporate social activities, plays an essential position in the community. **Keywords:** Corporate Social Responsibility, Return on Asset, Return on Equity, Earning per share, Net Income Financial performance, Islamic banks, Pakistan and Malaysia.

Key Words: Corporate Social Responsibility, Financial Performance, Islamic Banks, Pakistan

Introduction

The idea of corporate social responsibility (CSR) refers to the social obligations and responsibilities that businesses have toward their surrounding communities. According to what the researchers have stated, it is the responsibility of organizations to make the most profit possible from the resources that society provides for them. (Friedman, 1970; Lantos, 2001; Henderson, 2005). Organizations have a duty to society to improve people's ethical conduct by implementing the policies and regulations of business practices, and doing so in accordance with the requirements of the law is part of their societal responsibility.

The concept of corporate social responsibility (CSR) has been the subject of heated debate among academics over the past three decades. It is requested that scholars discuss and report their CSR activities in the yearly financial reports and also categorized by them as; McWilliams and Siegel (2001) the practices and exercises of business activities should not constrain the essential law by earning

profit but also have the duty to work for the welfare of the general public. The purpose of the company should not only be to make a profit, but also to devise means of compensating the general public by making them better off on a social level, safeguarding their surroundings, and providing them with the ability to generate revenue for the purpose of boosting the economy of the country.

Lea (2002) defined Corporate Social Responsibility as the legal obligation of an organization by running all types of their business which have impacts on the environment and society, but it is beyond of their obligations to manage their business activities and work for society as welfare and protection of the environment. It was necessary for the organization to take action in order to safeguard the environment, as well as the society, the employees, the stakeholders, and the customers in the areas in which they conduct business.

According to Dusuki and Dar (2005), the concept of "Corporate social responsibility" refers to the actions of a company that aim to have a positive effect while also being productive and, at

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the same time, seeking to maximize its profits. In addition, it is a management that knows how to have a positive effect on society by means of the business's operations and practices, or "operating in a manner that meets and even exceeds the legal, ethical, commercial, and public expectations that society has of business." (BSR, 2001).

It is necessary and important plan to have CSR activities with the company's economic and financial activities in order to sustain the business and get the advantageous benefits that the company can get from having these activities. According to Kotler et al. (2005), companies can easily maximize their profits by taking part in activities that are considered to be socially responsible for corporations. This is a wonderful reason why it is beneficial for companies to take part in activities that are considered to be publically accountable for corporations.

Since the concept of CSR was first introduced to the general public, the financial performance of businesses and financial institutions has been known to be significantly impacted by the activities associated with the concept. Measurement and analysis of the financial goals of a bank in order to determine whether or not those goals have been met constitute what is known as its "financial performance."

In today's interconnected world, financial institutions have to contend with a significantly greater number of obstacles than in the past in order to successfully conduct their business and amass a significant amount of benefits or profit even though the general public is aware of their actions, procedures, products, and services. For this reason, financial institutions should participate in corporate social responsibility (CSR) activities, and keep a watch on how their actions will affect the amount of money they make as a result of those impacts.

Both the traditional economy and the Islamic economy play an important part in the functioning of the community. So, the banks are responsible to fulfill the different obligations of the stakeholders, customers, and society, and it is

expected from the Islamic banks to be more responsive towards the society due to their religious identification while the counterparty and their functions and actions are based on profit maximization.

In general, the Islamic banking system is predicated on a profit-and-loss sharing mechanism as opposed to the interest-bearing deposit-and-lending model utilized by conventional banking. Islamic scholars contend that in order for Islamic banks to compete with the conventional banking system, for the purpose of adopting the conventional product, Islamic banks should modify the product in order to ensure shariah compliance. The academics who advocate for the reintroduction of conventional products also advocate for the idea that these products should not violate the principles of the Shariah, but rather should adhere to the Shariah's principles, rulings, and socially responsive contracts in a stringent manner. (El-Gamal, 2006).

It is anticipated that, in accordance with the mechanism of Islamic banking systems for the redistribution of wealth and the sharing of profits and losses, it will disseminate funds and participate in CSR activities for the purpose of enhancing the general welfare of the community. (Farook, 2008). To put it another way, the Islamic banking system is founded on ethical and moral values, and it works for a religious and secular reason with the goal of social and environmentally supportive investing policies. (Belal et. Al., 2014).

According to the recommendations made by the previously mentioned academics, Islamic banks are required to provide sufficient returns to their pledgers and stakeholders while at the same time ensuring that they maintain their societal responsiveness and dedications to their pledgers. (Ahmad, 2000). Recent research suggests that Islamic institutions have not been successful in adhering to the fundamentals of shariah when using the profit-loss sharing mechanism. (Chong & Liu, 2009).

According to the international regulatory authorities, the Accounting and Auditing Organization for Islamic Financial Institution

(AAOIFI) has published standard No. 7 for the governance of financial institutions with regard to their involvement in corporate social responsibilities. In their annual financial accounts, the banks make public their participation in CSR activities and contributions to the improvement of social and environmental conditions as well as overall well-being. CSR has been described as "all activities carried out by an IFI to fulfill its religious, economic, legal, ethical, and discretionary responsibilities as financial intermediaries for individuals and institutions" in the standard of AAOIFI. This definition can be found in the AAOIFI. As a result, in order to conform to the standards of AAOIFI, Islamic banks report their commercial operations in a manner that is distinct from that of their conventional counterparts.

Historically, the research on Islamic finance that has been published can be divided into two distinct camps according to the literature. The first part of the research team used the disclosure technique in their investigation, which allowed them to investigate and analyze the CSR activities of Islamic banks as well as their disclosure in the annual reports. (Maaliet. Al., 2006; Haniffa and Hudaib, 2007; Abdur Rahmanet. Al., 2010; Hassan and Harahap, 2010; Aribi and Gao, 2012). The second group conducted research into the factors that determine CSR notification. (Giannarakis, G., 2014; Reverte, C., 2009; Gamerschlaget.Al., 2011). This study is the contribution that will be made to the first group of research, which will investigate the effect that CSR practices have on the financial performance of Islamic institutions. In addition to this, it is important to be aware of the regions and facets of the economy to which the country's financial intermediaries have contributed the most. These are the questions that we will be studying;

Research questions

1. Is there any connection of CSR and the financial performance (FP) of Pakistan and Malaysian Islamic banks financial performance?

2. Is there any connection of CSR with the FP, ROA of the Islamic banks?
3. Is there any connection of CSR with the FP, ROE of the Islamic banks?
4. Is there any connection of CSR with the FP, EPS of the Islamic banks?
5. Is there any connection of CSR with the FP, NI of the Islamic banks?

The Following are the General Objectives been Developed for the Research Study

1. To find the connection of CSR and the FP of Pakistan and Malaysian Islamic banks.
2. To compare both the countries contributions in CSR practices and its impact on the FP of the Islamic banks.

Sub Objectives

3. To find the connection of CSR and the FP, (ROA) of the bank.
4. To find the connection of CSR and the FP, (ROE) of the bank.
5. To find the connection of CSR and the FP, (EPS) of the bank.
6. To find the connection of CSR and the FP, (NI) of the bank.

Significance of the Study

The global Islamic economy is expanding at a breakneck pace across the board. For the purpose of this research, we focused on Pakistan and Malaysia, both of which have Islamic banking systems in place and make an attempt to operate in accordance with shariah law. This analysis of both countries' CSR practices is informative and provides a lot of useful information. The goal of this study is to determine whether or not activities related to corporate social responsibility have an effect on the financial performance of both countries. According to the perspective of CSR, the determination of the study is to examine the influence of CSR on the profitability of Islamic institutions located in Pakistan and Malaysia. This study investigates

the impact on banks by incorporating CSR and profitability measures for the purpose of the investigation. It was clarified that there is a substantial and positive relationship between CSR and the profitability of Islamic banks. The previous literature primarily focused on the conventional and Islamic banking sectors of developed nations, whereas developing nations, such as Pakistan, do not focus as much on the effect of profitability due to Corporate Social Responsibility (CSR). Because Islamic economic organizations, institutions, and banks are not very acquainted with CSR and do not pay much attention toward CSR activities, there is not a lot of work done in Pakistan, particularly in the Islamic banking sector. At this point in time, society is becoming more aware of the organizations and the activities they carry out, and it is keeping a watch on the activities that are geared toward the welfare of society. Then, it is the responsibility of and a very important study to check the effect of CSR on the profitability of Islamic banks in current economies in accordance with the recommendations made by the banking regulatory authority AAOIFI Standard no. 7.

Literature Review

CSR and the Financial Performance

1. Bowman (1978) used firm annual reports to measure CSR. He studied 46 microcomputer/peripheral companies' annual reports. Based on ROS, companies with CSR policies outperformed those without by 8:5.6. No statistically significant difference is made. Margolis et al. examined 95 empirical studies from 1972 to 2001. (2001).
2. When taken as a free factor, Corporate Social Responsibility showed a good or significant relationship with budgetary execution measures in 42 surveys, 53%. However, 19 respondents (24%) found no connection, 4 (5%), and 15 (29%) found a mixed relationship. Thus, observational studies on CSR practices and firm budgetary handling found mixed results. However, most studies have found a good and significant relationship between the factors. (Griffin & Mahon, 1997; Roman et al., 1999; Waddock & Graves, 1997).
3. Alemu K (2017) study on Ethiopian banks' financial success and CSR. Mix research approach used various econometrics models to explore the relationship between CSR and financial performance, which yielded a 1% significant level, indicating no relationship. Kam-ruj-jaman (2016) found that CSR reduces poverty in developing nations. Hossain and Khan studied CSR in Hong Kong and Shanghai finance corporations.
4. Alsahlawi (2016) studied CSR in the banking institutions of Saudi Arabia, he collected CSR data from the bank's annual reports over the four years period 2011-2014, in result he suggested expanding their efforts and improve CSR practices to make business activities socially responsive to meet stakeholders needs. Taskin (2015) examined CSR practices and bank financial performance in Turkey in 2013, using ROE, ROA, and NIM as financial performance indices. NIM and CSR have a bidirectional relationship, while ROA and ROE have no explanatory power.
5. Krasodomska (2015) conducted an empirical study of CSR disclosure in Poland. She found that 2011 was better quality than 2005 and that banks tend to report CSR in management commentary. Mallin (2014) examined bank CSR: Motivation and financial performance. China performance data from 22 nations and 162 banks. The study found that CSR improves financial success but hurts performing loans.
6. Chintaman (2014) studied GCC Islamic and traditional banking CSR. The study found that the finance system innovates in CSR and achieves similar results. ROA, ROE, EPS, profitability, and others assess financial performance. Cochran and Wood (1984) examined Moskowitz's top

and bottom firms' financial execution. Return on assets (ROA), return on sales (ROS), asset turnovers, asset age, and excess market values over 1970-1979 are the accounting measures. Corporate social responsibility was found to be unrelated to financial success variables. Frooman (1997) examined stock market reactions when companies were irresponsible to society.

7. The subjective method was used to study the relationship between CSR and financial success. Bowman and Haire (1975) studied CSR in 82 Moody's 1973 industrial manual food companies. Content analysis gathered data from company annual reports. The annual reports of medium, high, and low socially responsible firms included CSR lines.
8. Researchers applied Moskowitz's line tally method to 14 abnormal state CSR firms. The 14 randomly selected companies had more CSR space. For every classification, ROE was examined for a long time and showed that the classification where medium lines were committed to CSR had the highest ROE, indicating an upset U shape relationship between the two factors. However, Aupperle et al. (1985) noted that ROE can be a deceptive measure of financial performance because it includes both monetary use and partnership output.
9. Corporate financial execution (CFP) reflects the idea that financial execution drives choices, activities, practices, and effects. Overall, CSR encourages elements' personal social responsibilities. (Carroll, 1979). However, corporate budgetary execution examines a wider range of working practices and financial methods to build strong relationships with partners and the environment.
10. Even-handed CSR-financial success studies divide into two categories. The main uses occasion think about (McWilliams et al., 1997; Posnikoff, 1997; Wright et al., 1997) to determine the impact of unusual short-term returns in socially responsible or reckless behaviors. The second one uses financial or accounting methods for profitability (Aupperle et al., 1985; Cochran, 1984; Waddock et al., 1997) to assess CSP and long-term financial execution. Results are mixed.
11. In observational studies, discussion or connections have been taken into account, but the banking sector is rarely considered for CSR-financial performance research. Thus, this study examines how CSR practices impact bank financial performance in a developing nation like Pakistan. Financial success quantifies firm CSR outcomes.
12. CSR can empower, bid, and retain the desired workforce while improving substance financial success, according to Albinger and Freeman (2000). CSR contributes to firm prosperity. CSR improves the image and name of the elements, which lowers costs and increases profitability. Many recent studies have found a strong link between CSR reputations and financial success. Roberts/Dowling (2002). Different studies showed reputation to be an unsafe intangible resource, suggesting a basic connection between social duties and productivity. Reduced processing costs and increased interest in the item prompted this. (Gardberg and Fombrun, 2006; Peloza, 2006).
13. Hahn and Scheermesser (2006) found that CSR actions lead to positive and healthy financial outcomes, such as new income age or winning levels of benefits. Ofori and Hinson (2007) also found that CSR helps companies meet the adequacy and delivery goals. Islamic banks have promoted social activities to reduce poverty and improve society since their founding. Thus, morally responsible

- banking is becoming mainstream. (Scholtens, 2009, P. 159).
14. Islamic banks like The Farmers' Credit Union (founded in Pakistan in the late 1950s) and MitGhamer Savings Bank (founded in Egypt in 1963) were founded on social activities to meet social duties and goals. The founding acts of Dubai Islamic Bank in 1975, Faisal Islamic Banks in Egypt and Sudan in 1977, and Jordan Islamic Bank in 1978 require Islamic banks to engage in social activities. The 1977 Sudanese Faisal Bank Establishing Act stated that the bank 'works as per Islamic standards to aid the improvement of society'. Jordan Islamic Bank's 1978 Act stated that it would meet economic and social goals. Bank social services were also featured in the show. In 1993, the Iraqi Islamic Bank's articles of association included similar statements about the banks' social role. (Maali, et al, 2006).
 15. CSR is an organization's obligation to perform social and environmental duties. (Sharma, 2011). He adds that CSR is underutilized in emerging nations. Financial institutions lack CSR. Any company exercising is not reporting compliance.
 16. Islamic banks disclose religion-related issues and data, including Shari'a supervisory board reports, which Zakaria (2010) argued makes them more exposed than traditional banks.
 17. Banks around the world help people and organizations get funds to create. Natural debasement follows. (Sarokin and Schulkin, 1991). Banks' CSR obligations include natural disasters. To maximize asset utilization, banks should combine social and financial goals. Banks strive for their profit and manageability, not just magnanimity or lawfulness. (Wanless, 1995).
 18. Academics have studied corporate social responsibility, but few have studied CSR risk in banking management. (Branco and Rodrigues, 2008; Douglas et al., 2004; Tarna, 1999). Keeping the banking sector is crucial to financial development and national security, as is clear to open evaluation. It includes owners, clients, borrowers, managers, contributors, and controllers. (Yamak and Suer, 2005). Branco and Rodrigues (2008) examined Portuguese banks' 2004–2005 social responsibility reports (SRD). High-visibility Portuguese banks were more likely to use CSR exposures to improve company image than low-visibility banks. Douglas et al. (2004) also examined the SRD for six Irish banks and four global financial foundations from 1998 to 2001 and 2002 on Irish bank websites. The study found that Irish financial institutions lag behind global peers in SRD volume. All Irish banks ignored natural order. The results also suggested that Irish banks disclose social responsibility data on their websites rather than in annual reports. Thus, the banking business is using CSR to boost its reputation. However, this area needs further study to confirm the idea.
 19. CSR and financial outcomes have been studied extensively. Where results are contentious due to theoretical and methodological incompatibility (Preston and O' Bannon, 1997; Griffin and Mahon, 1997; and Waddock and Graves, 1997). CSR and financial performance have been studied extensively in the banking field. (Simpson and Kohers, 2002; Soana, 2011, Ahmad et al., 2012). However, Islamic banking CSR and financial performance reports are scarce. CSR-financial success research is widespread. The studies found positive, negative, and neutral relationships between socially responsible activities and financial success (Preston and O'Bannon, 1997; and Waddock and Graves, 1997).
 20. Neoclassical economists believed CSR hurts financial success. (Simpson and

Kohers, 2002). Their argument is that organizations engaged in social activities make less profit and should avoid or bear the costs of social activities. (as the govt.). The Islamic view is that social responsibility has the opposite effect on income.

21. Islamic banking suggests being more accountable to the community and participating in activities that will make the bank more reputable and profitable. The composite relationship between socially responsible activities and financial success may not be achieved due to neutral studies. Islamic banks offer profit, loss sharing to stakeholders, pay Zakah on their behalf, and give benevolent loans (Qard Hassan) to society to satisfy divine law in economic activities. Such efforts must improve financial performance.

Determinants of Corporate Social Responsibility

22. This determinant shows how much Islamic banks pay their staff and community members to cover their educational costs. CSR includes schooling. The banks that meet society's educational needs for a good cause increase their profits and build the banking sector. (Iqbal et al, 2013).
23. This indicator shows how much Islamic and conventional banks pay for their workers' and the public's well-being. Specialist offices for society and the poor receive significant funding. Budgetary associations embrace the therapeutic office. The system creates a healthy culture. Thus, budgetary principles must establish a framework between people and social human services. (Iqbal et al, 2013).
24. The gift determinant shows financial institutions' willingness to pay a certain amount to defend society. Financial

institutions donate to natural disaster victims. Donation is giving someone else's usufructs. Donations are gifts given by people to benefit society. It could be money, services, new or used apparel, toys, food, or cars. It also includes emergency, assistance, and healing needs like blood and organ donations. Gifts in kind are charity donations. Suppliers and donors are termed suppliers and donors, respectively. (Iqbal et al, 2013).

25. Banks help to the public's welfare by cleaning water and society, which affects their financial performance. (Ashraf, Khan, and Tariq, 2017). Banks also contribute to social welfare, which is a determinant of corporate social responsibility and favorably impacts their financial performance. Social welfare includes game routines and CSR projects, Malik and Nadeem. (2014)

Control Variable

1. According to recent research, bank size impacts corporate social practices, so we chose bank age, size, and growth as our control variables. We believe that bigger banks, being more visible to the public, will screen their activities for a wider audience. Most CSR literature links size to CSR activities. (see for further, Mallin and Michelon, 2011, Al-Tuwaijri et al., 2004, Brammer et al., 2006, McWilliams and Siegel, 2001, and Roberts, 1992). Roberts (1992) suggests that as a company ages, it becomes more socially responsible and engages in CSR, which boosts its reputation. We also use the proportion of aggregate accounts/add up benefits to control IBs working business efficiency. (Andres and Vallelado, 2008).
2. Social contract theory focuses on company-society relations. According to the theory, it's in the business's best interest to perform consistently and reliably, but the public also demands it.

The social contract worldview views business as a social foundation that should work with other social structures like education, family, and religion to improve life and handle public issues. (Lessnoff, et. al., 1992).

3. Legitimacy theory links CSR activities or disclosures to the firm's values, norms, mindsets, and traditions. (Hibbitt, 2004). Legitimacy theory analyzes CSR disclosure in detail. Legitimacy theory recognizes that social contract completely binds companies to perform in a specific way to receive financial advantage and continued with presence. (Brown and Deegan 1998; Guthrie and Parker, 1989). Thus, organizations seem to perform socially responsible activities and should convey this to society. (Buhr, 1998). In situations where CSR exposure will close the legitimacy hole, legitimacy theory seems especially useful as a clarification. (Branco and Rodrigues, 2008).
4. Legitimacy theory holds that organizations should use corporate activities within the community's norms and limits, according to Brown and Deegan (1998). However, standards and limits change, allowing companies to adapt. Lindblom (1994) defined legitimacy as the status or circumstance when an element's esteem arrangement matches the more extensive esteem framework that relies on a more fantastic social framework. Thus, Lindblom (1994) hypothesizes four procedures of legitimization for an organization which are; (a) the exertion of the partnerships to illuminate and instruct the relevant publics about the real changes held in the exercises or execution of the company, (b) the exertion of companies with the adjustment of the familiarity with networks related with the business without trading off the genuine conduct, (c) the exertion of the enterprises to control

the publics' discernment by guiding their thoughtfulness regarding different issues as opposed to issues of concern, and (d) the exertion of the enterprises to change the outer prospects of their execution

Agency Theory

Agency theory suggests a principle-driven structure. Under-blemished data and indeterminate results must build faith in the specialist. Friedman (1970) supported CSR critique with agency theory. He said directors are agents hired to optimize profits. However, Carroll (1979) noted that a company's social and economic goals are often intertwined, such as the product's safety. Buyer-oriented firms should focus more on their company image to increase turnover, according to Cowen et al. (1987). Yamak and Suer (2005) proposed that the rule principle-agent theory isn't sufficient to explain the financial industry social responsibility because the keeping banking division has more important partners and is subject to more controls. Cormier et al. (2005) also noted that agency theory tends to focus on firm wealth. CSRD data users may not be interested in these industries, such as weight meetings. (Reverte, 2008).

Stakeholder Theory

1. Stakeholders are any group or individual who can affect or be influenced by the company's goals (Freeman 1984). Business companies must broaden their public base, including representatives, clients, government, providers, and investors. Organizations have a moral duty to perform partner routines. Thus, stakeholders are divided into main economic and secondary public groups. (Clarkson, 1995). Investors, customers, employees, suppliers, and others are key players, while government and networks are secondary.
2. Local political power exerts strain on the organization. The foundation, logistics, and extraordinary tax break determine its

agreements with the group. Corporate social activities in the annual report justify company conduct. Data affects partners and the public's perception of the company. (Hooghiemstra, 2000).

The hypothesis of the Study

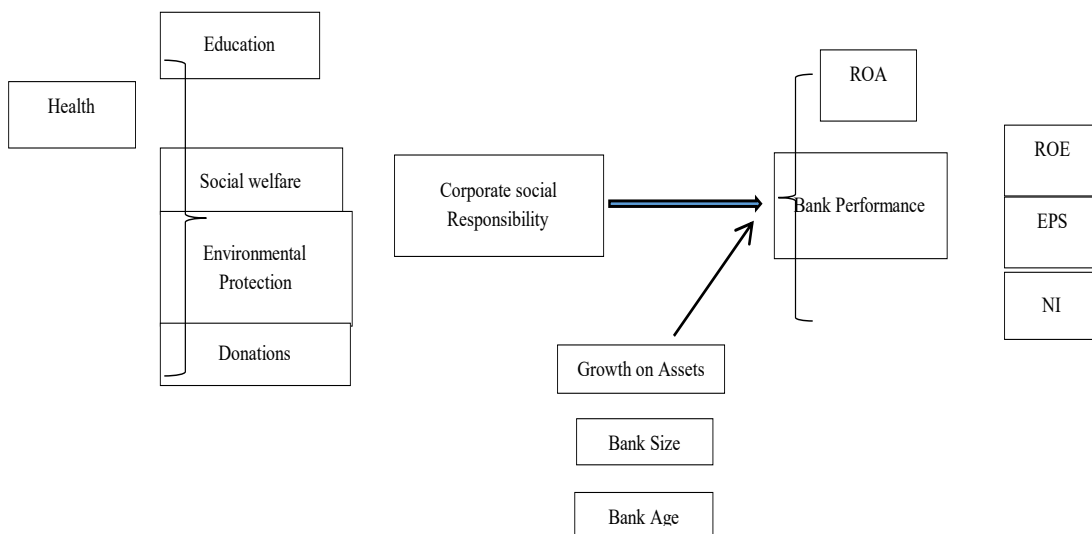
- H1: CSR has a substantial impact on the FP of the bank.
- Sub Hypothesis:
- H2: CSR has a substantial influence on the ROA of the bank.
- H3: CSR has a substantial influence on the ROE of the bank.
- H4: CSR has a substantial influence on the EPS of the bank.
- H5: CSR has a substantial influence on the NI of the bank.

Methodology of the Research Study

The methodology part follows the literature chapter. The study group is Pakistani and Malaysian banks. Our study samples full-fledged

Islamic banks licensed by the State Bank of Pakistan (SBP) regulatory authority of banking services in the respective nation. 4 Banks from each nation in Pakistan. Pakistan sampled the entire bank population, while Malaysia used random sampling for bank selection and data gathering. (Durrani, 2016). Data from yearly reports, websites, the state bank of Pakistan, and Bank Negara Malaysia. Bank names: Affin Islamic Bank, Hong Leong Islamic Bank, Bank Islam, and Bank Muamalat are Malaysian, while Bank Al-barka, Dubai Islamic Bank, Meezan Bank, and Bank Islami are Pakistani. The financial reports of Pakistani and Malaysian Islamic banks from 2008 to 2017 were used to analyze their financial success. As a dependent variable, financial success is measured by ROA, ROE, NI, and EPS. Education, Health, Donations, Social Welfare, and Environment Protection are independent factors that affect CSR. Bank Growth, Bank Age, and Bank Size govern the model. Panel data are measured using statistical tools. Panel data are easier to access and more reliable than cross-sectional or time series data. (Hsiao, 2013).

Theoretical Framework



Figure

The above theoretical framework shows that Corporate Social Responsibility is an Independent Variable its determinants are Education, Health, Social Welfare, Environmental Protection and Donations, the data of Independent variable have been collected from the financial reports of the respective banks.

The Financial performance is the Dependent Variable and to measure the profitability of the bank we taken the indicators which are; Net Income, Return in Assets, Return on Equity, and Earning per share for controlling the Model the control variable which are taken; Growth on assets, Bank Size and Age of the Bank.

Measurement of Variables

Dependent Variable

Financial Performance	Return On Assets (ROA)	Net profit after tax/ total asset
	Return on Equity (ROE)	Net Income/Total Equity
	Net Income (NI)	Profit after tax
	EPS	Net income/No. of Shares

Independent Variables

Corporate Social Responsibility	Education	Natural log of the CSR
	Health	
	Social welfare	
	Environmental protection	
	Donations	

Control Variables

Growth on Assets	Banks growth	Current assets/previous assets-previous assets
Bank Size	Total asset	Natural log of the total asset of banks
Bank Age	Age of the bank	Natural log of the bank age

Econometrics Model

The indicators of banks' financial execution are investigated from panel data. The framework of the panel data can be defined through multiple regression statistical equation as follow,

$$Y = \alpha + \beta X + \varepsilon \dots \dots \dots (1)$$

In the Model

Financial performance is the dependent variable is denoted by Y while the independent variable is Corporate Social Responsibility (CSR) can be denoted by X. The used indicators to measure the financial performance of the bank are; Net Income (NI) Return on Assets (ROA), Return on Equity (ROE), Earning Per Share (EPS). The control Variables are Growth in Assets, Bank Age, Bank Size. The regression models on the basis of the variable are as follow;

$$ROA = \beta_0 + \beta_1 (CSR) + \beta_2 (Grow) + \beta_3(BS) + \beta_4(BA) + \varepsilon \dots \dots \dots (2)$$

$$ROE = \beta_0 + \beta_1 (CSR) + \beta_2 (Grow) + \beta_3(BS) + \beta_4(BA) + \varepsilon \dots \dots \dots (3)$$

$$EPS = \beta_0 + \beta_1 (CSR) + \beta_2 (Grow) + \beta_3(BS) + \beta_4(BA) + \varepsilon \dots \dots \dots (4)$$

$$NI = \beta_0 + \beta_1 (CSR) + \beta_2 (Grow) + \beta_3(BS) + \beta_4(BA) + \varepsilon \dots \dots \dots (5)$$

Where;

ROA = Return on Assets

ROE = Return on Equity

EPS = Earnings per Share

NI = Net Income or Net Profit

CSR = Corporate Social Responsibility

BS = Size of the bank

Grow = Growth in the Asset yearly

BA = Total age of the bank

ε = The Error Term

β_0 = the average performance of the bank in the absence of the control factor

Results and Analysis

Pakistan

Descriptive Statistics

Table-I above is the descriptive statistics where the sample of four Islamic Banks of Pakistan is

used for the analysis over the yearly period of 2008-2017. The table discloses the mean and the standard deviation of the dependent, independent, and control variables. The Mean of the values shows the average of the values and the standard deviation demonstrates the deviation of the values from the mean value.

Table 1. Descriptive Statistics

	NI	ROA	ROE	EPS	CSR	G	BS	BA
Mean	13.07211	0.006069	0.086957	0.762827	11.86384	0.221373	18.42561	2.478207
Median	12.98642	0.005867	0.067296	0.577700	10.20724	0.195016	18.32631	2.524928
Maximum	15.65808	0.009545	0.246007	2.360000	18.74010	0.771639	20.47698	3.258097
Minimum	8.996404	0.004019	-0.003894	0.010000	7.670895	-0.182548	16.48603	1.098612
Std. Dev.	1.490965	0.001905	0.069285	0.660020	3.702265	0.230301	0.937485	0.536243
Skewness	-0.260125	0.413012	0.637426	1.058516	0.752103	0.655788	0.121822	-0.622292
Kurtosis	3.144762	1.826516	2.216160	3.153088	1.919520	2.860983	2.866979	2.714037
Jarque-Bera	0.486027	3.432300	3.732756	6.194733	5.716784	2.536851	0.128428	2.717938
Probability	0.784261	0.179757	0.154683	0.045168	0.057361	0.281274	0.937804	0.256926
Sum	522.8843	0.242749	3.478293	25.17330	474.5537	7.748043	737.0246	99.12828
Sum Sq. Dev.	86.69607	0.000142	0.187218	13.94006	534.5638	1.803312	34.27622	11.21470
Observations	40	40	40	33	40	35	40	40

The average value of Net Income (NI) lies in between 15.65808 to 8.996404 and the mean value is 13.07211 and the standard deviation is 1.490965. Whereas the Return on Asset (ROA) 0.009545 and 0.004019 while the mean value is 0.006069 and the standard deviation is 0.001905. The average Return on Equity (ROE) 0.246007 to -0.003894 while the Mean value is 0.086957 and the standard deviation is 0.069285. An average value of Earnings per Share is 2.36 to 0.01 while mean value is 0.762827 and the standard deviation is 0.660020. CSR average value is 18.74010 to 7.670895 while the mean value is 11.86384 and the standard deviation is 3.702265. The highest mean value 13.07211 which

is Net Income and the highest Standard deviation is CSR 3.702265.

Correlation

To check the relationship between the dependent and independent variable the correlation matrix been used. The correlation lies from -1 to +1, where the -1 value shows no correlation or negative correlation or inverse, when one variable changes the alternative variable will have no changes or will change negatively. +1 shows a positive correlation in the variables when one variable change positively the other will have a positive change as well.

Table 2. Correlation Analysis

	NI	ROA	ROE	EPS	CSR	G	BS	BA
NI	1							
ROA	0.195245	1						
ROE	0.788107	0.396895	1					
EPS	0.645756	0.092192	0.715785	1				

CSR	0.243495	0.198972	0.44267	0.350169	1			
G	0.291366	-0.13698	0.17414	0.465847	0.16735	1		
BS	0.548897	-0.49666	0.167612	0.426036	-0.0737	0.357955	1	
BA	0.279561	-0.2632	0.271141	0.144736	0.318224	-0.0117	0.39508	1

Table-II shows the correlation between the used dependent, independent and control variables. The financial performance which is the dependent variable measured by NI, ROA, ROE, and EPS are positively correlated with CSR. The

correlation analysis shows that the results of the independent variables which are less than 50% therefore we declare that there is the absence of multicollinearity (Mallin; et al., 2014).

Regression Analysis of NI

Table 3. Regression Analysis of NI

DV: NI
 Method: PLS
 Date: 10/26/18 Time: 07:07
 Sample: 2008 to 2017
 Periods included: 10 years
 Cross-sections included: 4
 Total panel (balanced) observations: 34

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-6.981879	3.562667	-1.959734	0.0597
CSR	0.148716	0.050758	2.929872	0.0065
G	0.166106	0.750980	0.221186	0.8265
BS	1.002962	0.214639	4.672789	0.0001
BA	-0.136576	0.353118	-0.386773	0.7017
R-squared	0.664977	Mean dependent var		13.06223
Adjusted R-squared	0.618767	S.D. dependent var		1.512451
S.E. of regression	0.933849	Akaike info criterion		2.836049
Sum squared resid	25.29015	Schwarz criterion		3.060514
Log likelihood	-43.21284	Hannan-Quinn criter.		2.912598
F-statistic	14.39030	Durbin-Watson stat		2.008338
Prob(F-statistic)	0.000001			

The probability value of CSR in table III explains that it has a highly significant impact on NI at a 1% significance level. Moreover its coefficient value explains that if there is a 1 unit change in CSR it will increase or decrease NI by 0.148716 units. The R-squared value is 0.664977 which explains that the model is a good fit. Prob(F-statistic) value is 0.000001 which explains that overall the model is significant at a 1% significance level. The results of the study shows a significant impact of CSR on the financial performance of the banks which explores that the

null hypothesis rejected. And the study support to the past related studies that founded a significant linkage between financial performance and CSR (Murtaza, et al., 2014; Waddock and Graves, 1997)

Conclusion and Recommendations

Based on the findings presented above, it has been hypothesized that CSR has an influence on the FP of institutions in Pakistan and Malaysia. Being a competitive and profitable organization

while also improving one's financial performance is a business strategy that is prevalent in today's modern business world. It is important for organizations to be involved in their communities and to participate in a variety of social activities in order to advance society and make a positive contribution. The Pakistani and Malaysian banks that were chosen to serve as the study's samples are actively contributing to and investing in the areas of education, health care, social assistance, environmental protection, and individual donations to those who are in need.

It is revealed that CSR has a positive relationship with the FP of the bank, which clarifies that CSR have a substantial impact on the FP of banks of Pakistan and Malaysia. [Clarification needed] The attitude that financial institutions have toward society can be characterized by the favorable relationship that exists between CSR and FP. Both nations have made significant contributions to the corporate social activities that have been undertaken for the purpose of advancing society and raising the general level of societal well-being. The Pakistani banks are mostly contributes in education, health and donations while the Malaysian Islamic banks have most of the parameters and dimensions for the contribution the society which are; education, health, social welfare, and environmental protection and also donations which been clearly expressed from the mentioned details of the respective banks' financial reports.

The accountability of corporate social responsibility should be accepted by the banks, and they should demonstrate this acceptance by meeting and acting on the obligations placed on them by society. When financial institutions engage in corporate social responsibility (CSR)

activities with the goals of enhancing society, safeguarding the environment, and promoting health and education, these institutions gain greater visibility in the public eye. To the extent that the bank is well-known, they serve a significantly larger number of customers than Malaysian Islamic banks, which results in a more profitable gain and an improvement in their financial performance.

Limitations And Future Direction

The Islamic financial institutions of both countries make significant contributions to CSR initiatives. However, when compared to other countries' Islamic financial institutions, Malaysian Islamic banks have a wider range of opportunities to invest for the social good, as was mentioned previously in the conclusion. According to their population as well as the number of banks as well as the data sources, Pakistani Islamic banks are extremely limited. Half of the banks do not have yearly reports, which has created difficulties in the data collection process.

This study could have been conducted, but it was not feasible due to the absence of sufficient CSR data. However, similar research could have been conducted if the CSR determinants had been treated as independent variables. It is necessary to investigate CSR from a variety of perspectives because there have been relatively few studies done on Pakistan in comparison to other countries. In this particular research, CSR is the independent variable, but it can also be taken as the dependent variable in order to investigate the relationship between CSR activities and financial performance.

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