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Impact of Corporate Social Responsibility Disclosure Reports on Sale Performance: Evidence from Pakistani Non Financial Firms

by

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This work is dedicated to my beloved parents, family who have encouraged me to achieve this milestone and to my respected supervisor Dr.Jaleel Ahmed Malik, who has been a constant source of inspiration.

CERTIFICATE OF APPROVAL

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Abstract

This study examines the impact of corporate social responsibility disclosure reports on firm sales performance. Sales performance is measured by return on sales and the corporate social responsibility disclosure index is used as a measure of corporate social responsibility (CSR). Data is collected of 166 non-financial firms listed on the Pakistan stock exchange (PSX) for the period of 11 years from 2009 to 2019. Study used panel data for statistical analysis. Shareholders theory and agency theory show that corporate social responsibility (CSR) activities are the financial burden for companies. According to shareholder theory, firms do not operate for society but also operate for the benefits of their stakeholders. Theory also states that companies need to focus on shareholders wealth maximization instead to invest in corporate social responsibility (CSR). The study concluded that the corporate social responsibility (CSR) disclosure index has a significant negative impact on return on sales. Leverage, gross domestic product, financial development of banks, and foreign direct investment have also a negative impact on return on sales. The financial development of the private sector has a significant positive impact on return on sales. Findings of the study help corporate managers and policy makers regarding decision making on implementing corporate social responsibility (CSR) activities.

Keywords: Corporate Social Responsibility, Foreign Direct Investment, Sale Performance, Liquidity.

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List of Abbreviations

CSRDI	Corporate Social Responsibilities Disclosure Index
LEV	Leverage
LFDB	Log of Financial Development of Banks
LFDI	Log of Foreign Direct Investment
LFDPS	Log of Financial Development of Private Sector
LGDP	Log of Gross Domestic Product
LIQ	Liquidity
ROS	Return on Sales

Chapter 1

Introduction

1.1 Background of the Study

The main objective of the study is to check the impact of corporate social responsibility disclosure on a firms sales performance. There are many definitions of corporate social responsibility (Abbreviated as CSR onward). According to Palmer (2012), CSR are the activities that appear to other some social good, beyond the interest of the company and follow those actions which are required by law. According to Kotler and lee (2005). CSR as an agreement to improve social well-being through flexible firm practices and the contribution of corporate resources. CSR program is the accountabilities of corporations to follow those strategies, to make those decisions and to follow those activities which are required in terms of the purposes and values of the humanity and which are desired by society (Howard, 2004).

CSR is the activity for the betterment of the organizations to attain ethical values, improve the overall performance of the company, and for the economic development of that country (Mujahid and Abdullah, 2014). According to the world business council for sustainable development, corporate social responsibility (CSR) is a promise of a business to take action morally, for economic well-being, workers, and society (Holme and Watts, 2000).

The corporate social responsibility (CSR) concept was introduced as corporate responsibility in the year 1950. The first time Howard Bowen published a book on corporate social responsibility was in 1953. Now corporate social responsibility is considered an important strategy of business for many organizations (Luo and Bhattacharya, 2006). Milton Friedman wrote in 1970 in New York Times about the significance of corporate social responsibilities in private corporations for the formation of value for shareholders. This concept is broadly appreciated all over the world (Harjoto, 2011). Nowadays the primary objective of this idea is usually adopted by corporations to fulfill the needs of stakeholders engaged in business activities (Ajala, 2005).

According to Edwards (2005), an organization needs to look at its environment and social impacts. An important role of business is must be careful about society, environment and their products as well. According to Friedman (1962) to earn profit by using the resources without fraud is called corporate social responsibility.

Do corporate social responsibility (CSR), influence the organization's profitability in a positive, negative, or natural way? It's interesting since these questions somehow puzzle firms which corporate social responsibility and want to balance between a firm's corporate social responsibility and financial performance. Some authors say that there is a positive relationship between a firm's profitability and corporate social responsibility (CSR), whereas some studies show the negative impact of corporate social responsibility (CSR), on firm profitability (Chen and Wang, 2011; Aras et al,.2010).

The study explores the connection between corporate social responsibility reports disclosure and company sales performance. Sales performance is measured by return on sales from the buyers perspective using the data of Pakistani-listed firms. Sales performance is the proxy of return on sales (Yu and Zheng, 2018). Return on sales is essential for growing and survival of the company. Companys Objective of corporate social responsibility (CSR) disclosure is not just for sales revenue maximization and short-term goals but also for long- term goals (Munoz et al., 2015).

1.2 Theoretical Background

1.2.1 Legitimacy Theory

Legitimacy theory explains that organizations are working within the boundaries and values of the society in which they operate. An agreement exists among the firm and society in which firms operates (Deegan, 2009). The agreement is that, whether firms operate within the boundaries and values of the society that firms mention in the contract. A contract may be of two types; one is explicit and the other is implicit, the explicit contract is a legal requirement, and implicit means public expectation (Deegan et al., 2000).

Legitimacy theory studies society as a whole rather than the individual, firm has a relationship with society because they achieve labor, human resources, and capital from society and also return their completed goods to the society (Methews, 1993). According to the theory a firm can operate in society if it operates according to the value system of society (Grey et al., 2010). If society's standards and beliefs change continuously then it will be difficult for the firm to operate in such a manner and arise a legitimacy gap. This gap becomes a threat to the organization's survival. Theory shows the existence of a social contract where firms must be responsible for the community (Demands and Agustina, 2013). To avoid legitimacy gap legitimacy is done, gab cause protests from stakeholders so that it can disturb operational stability (Lindawati and Puspita, 2015).

If a firm discloses corporate social responsibility (CSR) its means the firm is communicating with stakeholders and customers, their social legitimacy. Along the supply chain, customers focus on supplier's corporate social responsibility (CSR) activities, corporate social responsibility activities according to society's expectation or not? Because transaction costs will increase and customers have to shift to others suppliers and transaction costs will also increase if the company does not disclose corporate social responsibility (CSR) reports. Corporate social responsibility is an investment, and there are many advantages of corporate social responsibility. High sales increase operating net profit. Corporate social responsibility (CSR) is a company's promise to the public to provide a long-term contribution towards an issue and create a better environment. Corporate social responsibility aims to create public independence. Firms that consistently implementing corporate social responsibility will obtain good judgment in the eyes of the public and it will affect their business survival in the future (Lu and Yheng, 2018).

According to the legitimacy strategy, exposure to negative events can be reduced when a company follows corporate social responsibility (CSR) activities. Negative events mean unpredicted occurrences such as fiscal scandals, environmental destructions, and socially irresponsible events that may affect the company's reputation and risk for its continuous survival (Fernando and Lawrence, 2014). Legitimacy is important for the community in supporting firm success to increase profit growth. According to legitimacy theory, there is a contract between community and company (Karina, 2013). Every operational activity must be according to the values and a norm found in the community and in harmony with the expectations of the community itself so environmental and social disclosure is used as a form of corporate responsibility to the surrounding community.

Due to corporate social responsibility (CSR) disclosure, a company can communicate to investors including social legitimacy and clients. Theory confirms that companies guarantee that they work according to the norms that exist in the environment in which the company is operating. They also guarantee that the activities of corporations can be accepted by outsiders as legitimate (Kiswanto 2011).

The theory also clarifies that firms exist for the value of society; they disclose corporate social responsibility to show management attention to the value of society. Legitimacy theory explains entity is a unit of society itself, Referring to Gray et al., 1995. Firm's duty to act within the boundaries of what society recognizes as socially adequate behavior.

To meet social demands to pay attention to the issues of society. Firms also show the stakeholders sure and believe that the firm has operating activities under provisions and norms that exist.

1.2.2 Stakeholder Theory

Stakeholder's theory is a useful theory developed by (Freeman, 1984). Freeman states that a stakeholder is a group of people who can effect by the objective of the business. After the freeman definition, many researchers further work on this definition. According to Freeman (2010) grouped or individual stakeholders are influenced by firm purposes.

Researchers divide stakeholders into two categories, Internal and external stakeholders (Pearce, 1982). Stakeholders can divide into subgroups such as customers, suppliers, and employees. This theory focus on stakeholders, theory considers stakeholders as a key component of business that affects businesses (Freeman and Reed, 1983). Stakeholder theory says that a firm must make relations with stakeholders and report the information which attracts the stakeholders (Deegan and Blomquist, 2006). If stakeholders are attracted by information related to social performance then disclose that type of information.

There is only one social responsibility of a corporation, to use those resources and to follow those lines of actions that increase the profitability without dishonesty and fraud. Now a day's many businesses are aware of the social responsibilities of being a well corporate citizen. Many stakeholders demand or asking for mentioning the corporate social responsibility reports or changing set of corporate social responsibility issues.

According to Stakeholder theory, corporate social responsibility (CSR) has a significant role in communicate with different stakeholders in maintaining and creating a clear and open discussion that can foster a socially responsible course of action. Companies disclose corporate social responsibility (CSR) in reports to notify their investors about their social responsibility because it's a good image of the company in front of stakeholders (Roberts, 1992; Ullmann, 1985).

Now theory has rapidly become common when CSR is discussed. According to stakeholder theory firm must be aware of the demands of employees, customers, suppliers, investors, and the local community. Stakeholders are the important factor of the company by controlling economic resources; the Firm will try to meet the wishes of stakeholders (Ghozali and Chariri, 2014). The objective of stakeholder theory is to assist corporations in increasing their values, explained by (Febrianty and Divanto, 2017). The theory also supports stakeholders to achieve high-profit growth.

The Responsibility of the firm is to align their goals with social goals and values. According to stakeholder's theory, management must describe what actions to be taken in managing firm related to firm's plans which are going to do, it relates to stakeholders to meet the interest of the firm. The theory states that the purpose of the company is not only for its own sake but also for the benefits of the stakeholders because the company is supported by stakeholders of the company (Ghozali, 2006; Chariri, 2007). According to stakeholder theory, a firm can develop and long run in the community, it wants support from its stakeholders (Ardian, 2013). Stakeholders want more information regarding corporate activities and policies that will be used in decision making; this information's related to corporate social responsibilities activities. But investment in corporate social responsibility is the wastages of resources because firms infrequently rely on social outcomes. Companies consider corporate social responsibility is a financial burden. Companies need to focus on shareholders' wealth maximization instead to invest in corporate social responsibility (CSR).

Stakeholder theory stated that firms do not operate only for society but also operate for the benefit of their stakeholders. Hence, by the support of firm stakeholders company is strongly influenced (Ghozali, 2006; Chariri, 2007).

The theory also explains the relationship among shareholders and the information they receive (Sun et al., 2010). According to Gray et al., (1995), Information for the shareholders may be measured as an authentic social contribution made by the firm. Corporate social responsibility (CSR) reports are the criteria for determining the reliability and legitimacy of the stakeholders. The other theory is legitimacy theory stating to (Gray et al., 1995), the disclosure of social and environmental responsibility is one of the steps of legitimacy. When a company obtain legitimacy then it can continue its operations because it prevailing norms and the surrounding environment.

1.2.3 Agency Theory

Agency theory emphasis on conflicts among managers and stakeholders. Clashes or conflicts happen when managers (agents) who are being authorized by the shareholders of corporations (principle) make decisions causing conflicts of interest. When shareholders give the authority of decision making to managers and manager work for own interest, not for the purpose of business and interest of shareholders then conflict arises. Conflict among two parties, shareholders and managers called "agency conflicts". The reasons for conflicts are that managers prefer to do work for their own interest but shareholders do not like such interest of managers because managers make costly decisions and then these decisions lead to loss of profit. To reduce agency conflicts management should make those decisions that are desired by principle (Retno and Priantinah, 2012).

According to Friedman, (1970) corporate social responsibility is an indication of agency conflict among two parties' (shareholder and manager) interests. He states managers use shareholders' resources for corporate social responsibility (CSR). From the social viewpoint resources that spend on corporate social responsibility (CSR) would be more sensibly spent for the firm efficiency. This theory was tested by Wright and ferries, (1997) by testing stock prices' impact on the pronouncement of investment of assets in South Africa. They found a negative association among variables. According to Carroll, (1979), the viewpoint of social responsiveness, social issue, and social responsibilities are involved in this model.

Corporate social responsibility (CSR) is the organization's commitment to operating in an environmentally, economically, and socially sustainable way. Corporate social responsibility (CSR) is not just a charge but also an investment (Wibisono, 2007). Social responsibility is the relationships among firms, stakeholders, also among other parties such as customers, workers, investors, traders, government, and their challengers. CSR is a business role to maintain the growth that business behavior not only desired to certify return to internal shareholders but also other stakeholders interest. CSR is a new accounting notion, based on the idea that corporations not only have economic and social responsibilities, also have responsibilities for other concerned parties such as customers, workers, government, owners, and competitors. By following corporate social responsibility a company can develop and manage a relationship with shareholders and create value for shareholders (Garriga and mele, 2004).

According Friedmans "To increase the profits of a business is the social responsibility of a firm" was published in 1970 in the New York Times Magazine. The key statement of corporate social responsibility (CSR) is found in Freidmans book is that Responsibility of a business is to use the firm resources and participate in those activities which increase the firms profits by obeying the laws and without any fraud. From this statement, it seems that Friedman believes that corporate social responsibilities are the wastage of resources and outside the profit-making scope so businesses should not adopt such strategies.

If a company discloses corporate social responsibilities reports then the information gap among stakeholders and firm will reduce and it will minimize the cost of capital. Corporate social responsibilities are an important part of a business, that business act morally and reduce the negative events and maximize the advantages of corporate social responsibilities. Corporate social responsibilities are the actions to control pollution, donate the assets, do work for the welfare of society, and donate for charity for the benefit and long-run survival of a business. Branco and Rondrigues, (2006) states that a company can build its reputation by fulfilling its corporate social responsibilities, and by impressing its partners such as customers, providers, entrants, and shareholders. If a company discloses corporate social responsibility (CSR) reports in its annual reports then it can build its reputation (Carter et al., 2002).

Extend to the shareholder's wealth maximization view, the view where firms are responsible just to their investors, one of the two normal clarifications for why firms put resources into corporate social responsibility (CSR) whenever CSR is the consequence of agency problem inside the firm, which depends on agency hypothesis, For example: Jensen and (Meckling, 1976; Jensen, 1986). The shareholder's view that based on the traditional agency view managers makes decisions that are not in favor of shareholders' wealth maximization due to their self-interest. This suggests that investing in CSR activities negatively reflects the incentives of the managers in firms that are socially responsible. Furthermore, CSR activities are wastage of resources according to the agency theory view. A different number of studies discover that corporate social responsibility CSR is driven by agency problems (Cheng, Hong & Shue, 2014; Liang & Renneboog, 2016; Benabou & Tirole, 2010; Krger, 2015) revealed that corporate social responsibility CSR is likewise an important part of companies business practices because it gives advantages to managers at the expense of owners. Consequently, if the managers are likely to invest more in corporate social responsibility (CSR) to the agency hypothesis, it fallow that managers incentive and compensation are more and more attached to firm performance. Managers have more incentives if he or she less over-investment in CSR that contributes to the value of the firm.

Mostly CSR is conducted voluntarily so corporations disclose different items and different forms of disclosure. It is not easy to compare different social activities between firms. With the objective to develop globally applicable guidelines for environmental, social, and social performance reporting the global reporting initiative was established to solve this problem in 1997 (Bhimani and Soonawalla, 2005).

Corporate social responsibility reporting regulation is most important in encouraging firms to produce corporate social responsibilities reports. There are some debates whether corporations need to be restricted to announce corporate social responsibilities reports in developed countries (Tschopp, 2005).

In Previous studies, corporate social responsibility and profitability were much discussed but this research is mixed study. Chen and Wang, (2011) find that corporate social responsibility (CSR) and profitability have positive relation of the current year and have a significant effect on profitability next year. According to this fact, the positive impact of corporate social responsibility on future profitability is also found by (Vinous and Lee, 2011). So corporate social responsibility (CSR) disclosure is very compulsory for future profitability. Oeyono et al., (2011) in Indonesia corporate social responsibility is positively related to profitability. While the research results of Aras et al., (2010) find there is no significant relationship between profitability and corporate social responsibility (CSR) disclosure. Some results state that social responsibilities are not enough for profitability and lower shareholders value which in turn limit socially responsible investment. These probabilities arise because corporate social responsibility is not enough for profitability.

Profitability is the important factor in corporate social responsibility to create positive value for the stakeholders and in order to legitimate. Many researchers stated that the positive effect of profitability exists on corporate social responsibility (Muttakin and Khan, 2014). There is also an inconsistency in profitability research on corporate social responsibility (CSR) reports disclosure. Some other researchers also stated that profitability has not significantly affected the level of corporate social responsibility disclosure (Krisna and Suhardianto, 2016). Some researchers indicate that profit and higher returns on investment are due to CSR strategies. Hellsten and Mallin, (2006) indicate a negative effects, but Bauer et al., (2007) revealed a mixed effects.

For making business continuity profit growth is very important (Febrianty and Divanto, 2017). High growth attracts investors and a good measure of business success is earnings. Profit growth is related to financial performance (Ifada and Puspitasari, 2016).

Company performance increase when company earnings increase. Company earnings attract investors. Corporate social responsibility (CSR) high level enhances customer attitude and customer satisfaction towards the firm and increases the company's reputation with less costly for the firm to attract and retain customers (Luo and Bhattacharya, 2006; Kim and Mattila, 2016).

1.3 Research Gap

There is small number of studies that explore the relationship between CSR and sales performance in Pakistan. These studies do not focus on the influence of corporate social responsibilities on return on sales. Hellsten and Mallin, (2006) stated that corporate social responsibility (CSR) has a positive impact on sales performance. Inoue et al., (2011) shows the negative impact on sales performance and others show the mixed and neutral impact on sales performance (Mcwilliams and Siegel, 2000).

The difference between previous research results allows this study to add new variables in the study. Previous studies used inflation, interest rate, and unemployment rate as macroeconomic variables to check the impact on return on sales. This study use gross domestic product, foreign direct investment, and financial development of banks and private sector as macroeconomic variables to check the impact on return on sales (Klasing, 2015). Szegedi, Khan and Lentner examine the impact of CSR on ROE, ROA to measure the accounting base financial performance of the Pakistani listed banking sector. There exists a gap to study the non-financial sectors of Pakistan. This study explores the impact of CSR disclosure on sales performance on non-financial sector of Pakistan.

1.4 Problem Statement

The Impact of Corporate social responsibility (CSR) on sales performance is an important area of research in finance. Many studies have been done to explore the factor affecting sales performance.

After numerous studies on firm sales performance, it is still debated which factor affects firm sales performance. Still, there are some unanswered question is how corporate social responsibility (CSR) disclosure can create value for a company and cause an increase in return on sales. This study explores the role of corporate social responsibilities disclosure on a corporation's sales performance. This will help corporate managers regarding decision making that how corporations can use corporate social responsibility reports disclosure associated with sales.

1.5 Research Questions

Study has following research questions:

1. Is there any impact of corporate social responsibility (CSR) disclosure on sales performance?
2. What is the impact of firm-specific variables on sales?
3. Is any there impact of macroeconomic variables on sales performance?

1.6 Research Objectives

Following are the objectives of the study:

1. To examine the impact of corporate social responsibility (CSR) disclosure on sales performance.
2. To check the impact of firm-specific variables on sales performance.
3. To examine the impact of microeconomic variables on sales performance.

1.7 Significance of the Study

According to legitimacy theory, stakeholder theory, and agency theory, the objective of the study is to describe how corporations can use corporate social responsibility reports disclosure associated with return on sales. This study looks at the empirical evidence of the effect of corporate social responsibilities disclosure on the firm sales performance, measured by return on sales. Study contributions to the available body of literature in the area of corporate social responsibility and firm sales performance of the Non-financial sector of Pakistan in numerous ways, from a theoretical and empirical perspective. It provides additional information to researchers to make decisions in this regard. The study also gives benefits to shareholders regarding investment decisions as they equally get the returns on their investments. This study applies a quantitative approach to analyze secondary data of all Non-financial sectors listed on the Pakistan stock exchange and describe the association between CSR and sales performance.

1.8 Plan of the Study

This study is prepared into five chapters. Chapter 1 is the Introduction, theoretical background, Research gap, problem statement, Research questions, Research objectives, and significance of the study. Chapter 2 necessarily covers the literature regarding the study. Chapter 3 provides data description and methodology which contains the econometric model. Chapter 4 deals with results and discussion. Chapter 5 deals with the conclusion, recommendations, and future direction of the study.

Chapter 2

Literature Review

Literature in regards to corporate social responsibility (CSR) is rich with many studies, these studies investigating the relationship among corporations, financial performance, profitability of the firms and Corporate Social Responsibility exercises of the businesses e.g., (Griffin and Mahon, 1997; Waddock and Graves, 1997; Jackson and Parsa, 2009; Kempf and Osthoff, 2007). However, as per quantitative studies considers it is revealed that there is agitated proof of the relationship between CSR and corporations profitability.

Jiao and Xie, (2013) revealed that a firm can more invest in corporate social responsibility (CSR), activities not only for generating more profit for shareholders but also for the benefit of other stakeholders e.g. customers, employees general public, and society. They try to explore the relationship between corporate social responsibility (CSR) and profitability. The authors used a single case study method to handle both qualitative and quantitative analysis of data and found that there is no clear relationship between CSR and the profitability of firms in the last five years. They found that corporate social responsibility (CSR), activities are negatively related to profitability.

Corporate Social Responsibility (CSR) definition states that the main objective of the firms is not only profit maximization but also to contribute to wellbeing of the society voluntarily. The importance of CSR is growing day by day worldwide (Barauskaite and Streimikiene, 2020). The significance of CSR in the present global world is increasing. It is becoming obligatory for organizations to participate in CSR activities to support the development of their business. It is contended that firms that pursue CSR drives can acquire an advantage over other firms that do not follow CSR activities because of a good reputation in the eyes of the public and create higher profits and a profit from investment anyway a few researchers contradicting this. The main aim of the study is to investigate the advantages and downsides of CSR dependent on a precise literature review and to further the conceptual framework for connecting CSR with the financial performance of organizations.

There also exists a negative impact of CSR on return on sales, according to Freidman (1970) Firm should not waste their resources on corporate social responsibility (CSR), and he argues that the company should maximize profit for the shareholders because shareholders demand a return. A firm should maximize profits for good efficiency and the satisfaction of shareholders.

Friedman states agency theory, that firms do not waste resources on corporate social responsibility (CSR) because we can use these resources in another way to maximize profit and wealth. According to agency theory corporate social responsibility negatively effect on performance. Research conducted by Nelling and Webb, (2009), using time series data and apply a fixed-effect model, revealed that there is no relationship between CSR and financial performance.

There are some factors such as company size, profitability, and commissioner board size which can effect on the social responsibilities of companies. Research conducted by Anggraini, (2006), stated that factors supposed to affect corporate social responsibility (CSR) are leverage, political cost, and profitability. Other research stated that company size, profitability, company profile, and leverage influence corporate social responsibility (Sembiring, 2005).

CSR is a new thought for emerging economies like Pakistan. The concept CSR at its primary stage in Pakistan. A small number of companies have strategies of corporate social responsibility, there are only multinationals that have their limits regarding corporate social responsibility.

Ekatah, Roberta, Halabi, and Abdel, (2011), Explore whether CSR is linked with return on sales. They measure CSR from content analysis of annual reports of

Dutch Shell Plc. The study uses a case study approach and analyzed data from different key indicators of performance during the period of; 20012005. They found that the performances of socially responsible firms are related to profitability and CSR is positively related to the return on sales of the firm's and also the connection among CSR and financial performances of the organization is positive.

A study conducted by Anwar and Malik (2020) at CSR of all non-financial companies listed on the Pakistan stock exchange which report CSR reports either in their annual reports of issue a standalone report. They use cross-sectional regression model to test the CSR quality impact on profitability and investment efficient. Study revealed that CSR reporting activity is not beneficial for firms without a meaningful disclosure of sustainability information is made.

Hermawana and Mulyawanb, (2014), conducted a study to test whether the profitability of the firms contributes to CSR in the context of Indonesia. They take a sample of 543 firms that are listed Stock Exchange during the time period of 2007 to 2009. The study includes different variables like ROA, ROE, and profit margin and firm size are taken as a control variable. The result of the study shows that not all profitability ratios of the firms are positively related to CSR disclosure. Results also suggest that the enthusiasm of firms in Indonesia CSR disclosure is purely to maintain the repute of the shareholders as compare to the allocating surplus funds.

The relationship between business financial performance and CSR proxies was investigated by (Okafor, Adeleye, and Adusei, 2021). They used content analysis, fixed-effects, and pooled regression models to investigate the impact of CSR on tech businesses' financial performance in the United States. The empirical analysis is based on panel data from the top 100 technology companies on the S&P 500 between 2017 and 2019. The major findings show that tech companies who spend more on CSR see an increase in revenue and profitability as a result. In contrast to earlier research, study find little evidence to indicate a link between CSR and Tobin's.

Asiamah and Sughra, (2019), conducted a study to find out the relationship between sale growth and CSR of two retail firms in the UK. Explaining the current uncertain outcomes, they found donation, local area work, and environment responsible CSR exercises from the previous studies and delineated them onto sale to feature useful suggestions. They take data from Mark and Spencer and Tesco, financial statement analysis during the period of 2007 to 2015 and apply longitudinal data on with correlation coefficient. Result of the study shows positive relation among donation and sale growth of both companies, which clarify that these activities of these companies increase sale day by day. Moreover, results show that work of community and environment-friendly actions are related to either negative or positive impacts on the sale of these companies. This is an indication for corporate managers to follow these activities of corporate social responsibility that affect sale revenue and sale growth. The results support the surviving discoveries that donation can improvement in retail performance while local area work and the environment-friendly exercises don't improve sale revenue in the selected companies however propose that retailers can misuse a greater amount of the ones that advantage their business revenue levels.

Classon and Gonzlez, (2014), conducted a study to determine the impact of corporate social responsibility on firms' financial performance in Korea. They used different methods for statistical analysis. They apply the analytical modeling method and assumed that corporate social responsibility is positively related to perceptions of consumers which lead to a firm's performance. Moreover, they find out the moderating role of other factors with CSR and financial performance between them. Results of the study show that CSR is positively related to the financial performance of companies. Companies who follow CSR performance are better as compare to the financial performance of companies who cannot follow CSR.

Waddock and Graves, (1997; Hillman and Keim, (2001), found that an expansion in CSR could prompt an improved firm's financial performance. In a more detailed way, two potential estimations fall into two classes: shareholders' returns and bookkeeping returns. As per Cochran and Wood, (1984), a shareholder's returns are estimated according to the point of view of investors. A portion of the fundamental instruments considered changes in the price of the share and dividend.

The other estimation, which will be used in the study, is returns of accounting. A potential explanation is that this class is liberated from the impacts of predisposition that can result from contrasts in capital structure between companies in conjunction with, this estimation attempt to focus on how companies profit react to various administrative policies (Cochran and Wood, 1984). On the other hand, returns of accounting estimation can be not set in stone as the nearest greatness to portray the financial performance of the firms.

In the aftermath of the financial crisis, Cornett, Erhemjamts, and Tehranian, (2014), investigated the influence of CSR on bank financial performance. Throughout the sample period, the bigger banks consistently had higher CSR strengths and concerns. After 2009, however, this group shows a significant increase in CSR strengths and a significant decrease in CSR problems. Profitable banks, as well as those with stronger capital ratios, reduced deposit fees, and more female and minority directors, have much higher CSR strengths scores. They discovered that large banks tend to be rewarded for their social responsibilities since industry-adjusted ROA and ROE are both positively and significantly associated with CSR scores. When businesses collaborate to determine the profit-maximizing level of social concerns, a profit-maximizing CSR level exists, assuming network effects are strong enough (Fanti and Buccella, 2018). Furthermore, research has shown that CSR efforts can potentially boost a company's profitability through a variety of channels, such as lowering turnover and operating expenses, increasing efficiency, and attracting more competent, loyal, and motivated personnel, (Nun and Tan, 2010).

Some authors, such as Becchetti et al., (2016), argue that workers are the only business stakeholders and that CSR employment contracts prohibit companies from laying off workers even after a series of negative shocks to capital accumulation. Ali, Danish, and Asrar, (2019), analyzed that, business image and customer fulfillment partially moderates the connection among CSR and financial success. Using a basic random sample technique, data were collected from 228 firms listed on the PSX. The measurement model and hypothesis testing were both done using structural equation modeling.

Hu, Zhu, Lin, Chen, and Chin, (2021), conducted a study on the value appropriation of manufacturing companies that use internet technology. Though during the last two years due to Covid 19 export manufacturing companies have been put lay off employees and deal with value appropriation problems and also survival problems resulted in serious corporate social responsibility (CSR) challenges around the world especially in developing countries. While there are some studies that discuss the relevant problem in non-western countries context, authors adopt overall world perspective of transaction cost theory and business model to fill the gap by investing in different dimensions of CSR execution, firm performance. They take a sample of Chinese listed manufacturing companies, the result of the study shows that the CSR dimension is negatively related to the performance of the firms.

Rehan and Khan, (2018), analyze the impact of corporate social responsibility (CSR) size and income variability, and the growth of the firms on the profitability of the banking sector in China. They collected data from financial reports of the companies from 2006 to 2017. The authors used panel data analysis to find out the desire results. Result of the study finds out the significant positive relationship between return on equity and companys profitability and variability of income have negatively related to return on equity. All variables used in study have positively related to earnings per share while the variability of income hurts earnings per share. It is suggested that business associations should define financial approaches to dominate their monetary position for productivity as well as for executing corporate social responsibility systems with the goal that the targets all stakeholders might be secured.

Risk mitigation view contents that investment in corporate social responsibility (CSR) activities help to build a strong relationship with the community and the government and help to reduce the risk of government sanctions and litigations in case of negative events which could bring harm to the profitability of a firm (Ye and Zhang, 2011; Sharfman and Fernando, 2008). Researcher who support the risk mitigation view of corporate social responsibility state that the investment in corporate social responsibility helps create moral capital or goodwill which helps a firm to mitigate risk. Starks, 2009 and McGuire et al., 1998 used panel data in their studies to analyze the impact of CSR and credit risk. Gardberg and Fombrun, (2006), conduct a study where they come up with the results that CSR creates goodwill or moral capital which results in the reduction of risk. Godfrey et al., (2009); Godfrey, (2005) stated that corporate social responsibility (CSR) engagements serve to work as insurance-like protection in case of any misadventure hence dealing with negative events to reduce risk. This positive moral capital which has been generated only due to firms' adaptation of corporate social responsibility activities serves to negate any misperception about the firm in any circumstances which are not in favor of the company.

Ansong, A. et al., (2017), corporate social responsibility is turning out to be progressively complicated. CSR and cost, acquire, continued existence, and so on, are not directly related. Organizations should satisfy investor's guidelines and, advantage, regard, hazard, and devotion the executives, ethnic and lawful value, and irregularity practice. CSR activities should be completely considered to accomplish short and long-term objectives of the firms and goals and ideal effectiveness and efficiency. This shows that it is essential to perform numerous CSR studies in African nations. CSR is not directly related to productivity, costs, in the long term, and so on.

Oh, et al., (2017), conclude that CSR programs have a considerable impact on business performance when compared to strategic CSR initiatives, based on a 2016 survey response from 213 participant whose firms are participating in CSR. Furthermore, the paper presents empirical evidence on how technology-focused R&D, technology commercialization, and CSR affect financial success. Resmi et al., (2018), use a purposeful sampling technique to study a sample of four agriculture businesses between 2015 and 2017. The study examines the financial impact of CSR on agribusinesses and analyses the association among CSR and EPS in the agribusiness manufacturing. CSR has a considerable impact on net income of the firms and returns on equity, according to the research.

Studies can be found in the literature that has empirically attested the impact of CSR on the credit risk of the firm. Results of these studies scope the risk mitigation view (Dufresne and Savaria, 2004). Study completed from the above mention studies that more favorable credit ratings are assigned to the more socially responsible firms is advocating the risk mitigation view. Moreover, it happens that each negative event could lead to sanctions charged by stakeholders which may be lessened due to this moral capital.

Aupperle et al. (1985) revealed that profitability is negatively related to firms financial performance, and CSR. The cost of a firm increase by investing in CSR activities that are not socially responsive and also a financial burden for the company. Many researchers research on corporate social responsibilities which are different from each other from the year of 1950s. Research conducted in the UK on the topic of CSR, profitability, and productivity. Result shows that there is no significant association among corporate performance and CSR.

Bernea and Rubin, (2005) conduct a study to investigate whether corporate social responsibility creates conflict with shareholders or not. The over-investment view is based on the agency theory. This view considers investment in CSR activity in the divergence of the firm from its primary objective of maximization of shareholders' wealth. The reason is that the investment in CSR may be done by allocating resources to those projects that are irrelevant to the business. This reviews that CSR engagement is characterized by agency conflicts between managers and shareholders.

Corporate social responsibility (CSR) plays an important role in developing a firm's strategies. Study methodically a survey writing that tries to learn just which corporate social responsibility methodologies include in the writing and their methods for execution by organizations. They made the response to the ISI Web of Science information base for the inquiry and gathered 119 articles during 25 years. There results show the study empowers the identification and arrangement of corporate social responsibility procedures into four key classes: (a) measurements, (b) benefits, (c) esteem creation and shareholders, and (d) inspirations. They likewise recognize that major organizations throughout the world are guaranteed the execution of their CSR procedures all through their authorized designs with particular resources. This precise survey gives a way to future exploration, (Feeeira and Nave 2019).

Sameer, (2020) conducted a study to determine the corporate social responsibility disclosure and also find out the relationship between financial performances and CSR of Maldives firms. The author used mixed-method and longitudinal research choices. They take data from annual reports of the Maldives listed firm from 2014 to 2018. A judgmental sampling technique was used and the data were analyzed through STATA15 and using panel data analysis. Result of the study reveals that ROA diversity, ROE, and environment EPS and control variable of the firm size found a significant negative association among CSR and ROA; for this reason, there CSR is negatively related to firms financial performance. This result is a clear implication for the corporate sector ad academician to understand CSR and financial performance in under developing courtiers like the Maldives. One of the principal consequences of this research is the CSR structure embraced in this study which is certainly not a specially customized instrument specific to the Maldives rather looked over another study. Moreover, the size of sample is likewise extremely restricted because that speculation may not be conceivable in a large population.

Brammer, Jackson, and Matten, (2012), study entitled CSR and institutional hypothesis: new viewpoint on private as well as governance in social financial survey portrayed that CSR isn't just a deliberate activity yet. Their study categorized corporate social responsibility as been characterized under institutional theories. This theory expressed that social activities are not only deliberate activities as well as are a division of the border among firms and culture. Guideline and governances are essential for improving performance of corporation throughout CSR activities.

Application of corporate social responsibility's implications is still waiting in developing countries, like Indonesia (Rahman, 2020). People are frequently not known about corporate social responsibility activities. This is the inverse finding of buyer discernment in developing nations where most buyers will uphold corporate social responsibility (CSR) launch by organizations. This is the inverse finding of buyer discernment in developing nations where most buyers will uphold corporate social responsibility (CSR) launched by organizations. Moreover, their findings, when purchasers need to purchase comparative items with a similar cost and quality, corporate social responsibility could be the deciding factor. They would purchase from the firm that fallow CSR.

Raynard and Forstater, (2011), concluded that CSR is a significant part of the firm's external environment. Previous 20 years have seen an extreme alteration in the connection among companies and societies. Trade globalization is the main reason of this change, the expanded size, and impact of organizations, the reposition of state, and the ascent in the essential significance of shareholders relation, information, and brand image. The relationship among organizations and common society firms has proceeded onward from paternalistic benevolence to a reconsideration of their role, rights, and duties of companies. Corporate social responsibility (CSR) characterized regarding the responsiveness of organizations to shareholders' legitimate, moral, social, and environmental assumptions, is one result of these growths.

A lot of studies on CSR have been undertaken during the previous few decades. It's been a hot topic in the management literature for a long time (Nejati & Ghasemi, 2012). The incorporation of CSR into corporate processes, on the other hand, began approximately a decade ago (Dahlsrud, 2008). Because of the disparity between expected and actual CSR in developing-country businesses, only a few scholars have looked into the link between CSR and FP in developing-country organizations (Salehi & Azary, 2009); academics believe that a similar link among CSR and financial performance will be originate in Pakistani firms.

Sumona and Ghosh, (2015), investigate the foundation of an example of support of CSR exercises between private firms as reflect in the particular organization reports in the public sector companies. Accepting total income as the boundary results shows that the most favored CSR exercises were schooling, health and environmental. Water and sterilization and metropolitan upliftment are the most un-favored exercises of CSR activities. Companies CSR activities and found to be correlated with respective to organizations related to manufacturing sector enhanced sector have shown the most noteworthy responsiveness towards such exercises. Organizations have connected the most noteworthy significance the accompanying CSR exercises. Moreover, the result of the study expresses that by investment in corporate social responsibility activities the expense of those organizations increment firms are not socially responsible and furthermore. CSR is a burden in terms of finance and negatively affects the position of the company. They found a negative association among firm profitability and CSR and reported these types of activities are the financial burden for companies (Aupperle et al., 1985).

Wild et al, (2005), well-performing firms have relied upon their return on assets (ROA). It shows the steady situation of the organization that attracts investment. The capability of the organization to meet up its liabilities of the shorter period is typically determined in the course of companies' liquidity ratio. On the other hand managers performance that effectively they utilize the resources throughout asset management ratio. Brigham and Houston, (2001) though the capacity of the organization to deal with its long-term liabilities is calculated based on the debt management ratio. Van de Ven and Graafland, (2007), expressed in their research that corporate social responsibility has positively related to the profitability of the firm. According to Peloza and Papani, (2008), the productivity part of various firms related to the different industries may distinctive in CSR impact and it likewise depends that how many levels of importance allocated to every primary stakeholder of the company (Wild et al., 2005).

Rahmawati, (2014), conducted a study on the Indonesian stock market to explore the relationship among firms investing activities and CSR and its impact on companies' profit maximization activities. They take data of 27 companies during the time of 2007 to 2009 and found a direct association between CSR and a firm's financial performance. Shruti, (2014), studied the relationship among CSR, investment, and companies profitability in the UK, three industries. They take data from 2009 to 2012 of different variables like Return on Assets and Return on Equity to find out the firm financial performance of these industries. Authors found that investing in CSR have a significant effect on a firm's financial presentation.

A study is conducted to explore the relationship among profitability and sale growth of SME construction firms in Korea during the period of 2000 to 2015, before the financial crisis of 2008. They take a sample of 265 construction firms for analysis. Their result shows that (1) A productivity-driven management system limits organization growth rate, subsequently dragging out the economic turndown; (2) When the microeconomic environmental is moderately steady; the high growth rate in the past period encourages firms profitability in the current time frame (Seungkyu and Kim, 2015). This suggests that the wonder of dynamic expanding returns is available in the Korean construction firms, and learning through improvement in growth efficiency and profitability of the firm. Significantly, a technique arranged short term profitability (well-known with SME of Korean constructions organizations) make the corporation management less tough, making them select less growth during the longer-term stagnation by diminishing their size of different operations.

Fatima, Bashir, and Ali, (2018), examines the impact of financial performance of the firm on corporate social responsibility .They conducted a study on banking sector of Pakistan. Furthermore, the also analyze the comparison between firms financial performance and CSR of Islamic banking of Pakistan. They take a data from financial report of the banks listed in PSX during the time period of 2010 t0 2016. Authors used different panel data tests and regression model to find out the desire result while leverage is used as a control variable in their study. There results suggests that return on equity is negatively correlated to CSR in case of Islamic banking these results are also consistent with agency theory this theory state that investing in CSR activities is financial burden for companies. On the other hand CSR is negatively and significantly related to return on assets (ROA) which depict that there is no effect of firms financial performance on CSR activities.

Tarek, Yasmeen, (2019) conducted a study to analyze the impact of the capital structure of the firm and its influence in corporate social responsibility activities on a company's value. They take a sample size of 17 firms that follow CSR activities listed in the Egyptian stock market from 2014 to 2017. They used panel data analysis for desire results. They found that there is a significant effect of CSR on the leverage capital structure of the firm while CSR does not affect corporate values.

The social effect of all types and all sizes of enterprises has become a significant issue in business organizations. A "lawful" social effect may raise the company's risk and lead to weak relationships with its numerous shareholders and affect its reputational unfavorably. Mecaj and Bravo, (2014), subsequently, corporate social responsibility (CSR) is turning into a significant undertaking value creation, but the issue is to comprehend if corporate social responsibility (CSR) is viable with value creation. Pletsch, Silva, and Hein, (2015), were of the view that CSR is a social commitment. Mcwilliams and Siegel, (2001), examine that CSR is the activity that outcomes in social welfare, in this way corporate social responsibility exercises are not led for the benefit of the business yet to assist the society.

Murtaza, Akhtar, Ijaz, and Sadiqa, (2014), find out the positive connection among CSR and firms monetary performance. Their results are also consistent with (Javed, Saeed, and Malik, (2013). To show history, Carroll (1979), shows that those organizations which are more engaged with CSR activities earn more when compared with the organizations which do not follow CSR activities. Chen, (2011) concluded that CSR catches the firms better resources, highly skilled workers, and better market services and products of the company. Dunnand and Sainty, (2009), revealed that the CSR exercise builds the image of the firm and creates a positive connection among the directors and workers.

There is an impact of corporate social responsibility (CSR) on social externalities, Study focus on environmental pollution. Pollution not just targets CSR but also provides a paradigm of economic externalities. The effect of mandatory CSR disclosure on pollution is not clear. CSR may monitor the firm environmental performance and provide incentives to the firm to decrease the pollution levels. Firm pollution cannot decrease if company focus on other dimensions such as staff protection and public relation. Another problem is the agency problem, managers are motivated for their benefits and spend resources on their projects under the guise of corporate social responsibility (CSR), Not focus on those projects that give benefits to society (Chen, Hung, and Wang, 2018). Creyer and Ross (1997), define social responsibilities, to purchase those brands from a firm that are non-profit and support charities. Likewise, clients estimate those firms most positively which CSR activities are most relevant to existing products.

Quazi and O'Brien, (2000) Shareholder theory defines CSR as "The responsibility of a firm to earn profit for stakeholders" (Friedman, 1962). Shareholders look for profit; Social responsibilities are not the just field of corporations but also a task of government and the key objectives of the business and it help for long-run value for the owner of the firm (Foley, 2000). Stakeholder theory says that a firm is not just responsible for the shareholders but also responsible for stakeholder's interests that are affecting and affected by an organization's objectives (Freeman, 1984).

In a study conducted in Nigerian industrialized firms for the period of 10 years 2002 to 2011, correlation and regression techniques are used to check the association of CSR and a firms financial performance. Results of the study reveal that there is a considerable connection exist among CSR and profit before tax. They said that for better financial performance investment in corporate social responsibility must be increased (John et al., 2013).

The association between liquidity and operating performance by taking the data of 17 years, Study explore that liquidity management would improve the firm value and operating performance. The study also found the association among return on assets and information systems, results reveal that information systems did not affect the performance of a company, (Zhang, 2011). Positive and negative effects of debt exist on profitability. According to this theory, a positive impact exists in the case of agency cost of equity among shareholders and managers. A negative impact exists in the case of the cost of debt among creditors and shareholders (Wang, 2002).

When firms are involved in corporate social responsibility (CSR) activities then the firm has a belief in its good reputation. The firm can improve its reputation by involving CSR activities. A meta-analysis of CSR relationship on a company outcome indicated that a firm goodwill and reputation increase when the firm is involved in corporate social responsibility activities (Rahman, Khan, and Rahman, 2020). Company reputation is a well and healthy as its unique product and services. CSR is a significant factor in building a company's reputation. Companies that fellow CSR can build an image in front of the community enhance their competitive position in their business (Nguyen, Nguyen, and Hoai, 2021). Corporate social responsibility (CSR) strategies gain much-needed recognition in 1990, organizations feel the need to add it in their baseness strategy for gaining market recognition, and it has become a positive connection among company performance and CSR (Kong, Adjei, and Bawuah, 2020). According to resource-based theory, a firm can develop a competitive advantage due to its resources (Barney, 1991 and Wernerfelt, 1984). Two types of resources one is tangible and the other is intangible. Tangible resources such as assets and intangible resources are firm reputation, company culture, innovation, and human capital, like skilled workers that can help good performance. A company's reputation can increase due to corporate CSR activities, so CSR activities have a positive impact on firm reputation and provide a competitive edge to the company (Surroca, Trib, and Waddock, 2010).

After research CEOs believe that social responsibilities improve the company's competitiveness and are essential for the firm future success. Corporate social responsibility (CSR) is an idea that has strategic importance for different firms. From the last two decades, corporate social responsibility has become a mainstream concern in the corporate world as well as in the academic domain. The CSR goals and theoretical perspective supporting a company strategy and provide the evidence on corporate social responsibility performance relationship should constantly support a positive relationship (Wei, Peng, Huang, and Yeh, 2020). Stakeholder theory explains that corporate social responsibility (CSR) activates positively affect sales performance. Stakeholder states that there are forces on firms from stakeholders so firms take action due to this force, (Jawahar and McLaughlin, 2001). When a company fellow corporate social responsibility (CSR) activities then its stakeholder will be satisfied and build a strong relationship with the company (Bhattacharya and Korschun, 2009). A shareholder will satisfy and build a strong affiliation with the firm then skillful workers and employees and customer satisfaction will increase, and providers will provide at a discount (Bhattacharya, Sen, and Korschun, 2008).

Some studies state that there is no relation among CSR and performance (Mcwilliams and Siegel, 2001). They said that corporate social responsibility (CSR) just a quality of a firm like other qualities and a firm uses this quality for the maximization of performance. Studies conducted by Aupperle, Hatfield, and Carroll, (1985) reveal that there is no relation among CSR and performance. According to Carrolls pyramid, (1979), If corporate social responsibility (CSR) is not beneficial for the company, it also not harmful for the company. Aras, Aybars, and Kutlu, (2010), revealed that a connection exists among size of firm and CSR but not among corporate social responsibility and firms financial performance. A study conducted by Nelling and Webb, (2009), reveals that when we use statistical techniques then there was a relationship among the variables but when we used the fixed-effect model then the relationship was weaker, they state the corporate social responsibilities do not affect the financial performance.

2.1 Corporate Social Responsibility and Stakeholder Theory

Stakeholder theory is firstly developed by Freeman, (1984) examined that shareholders are also one of the stakeholders of the firm. Stakeholders can be any person who is involved in a business and being affected by the operations of the business such as employees, customers, agencies, and suppliers. According to freeman's theory satisfaction of the stakeholders is very compulsory. Stakeholder theory is a building block for why CSR is important and whom it can influence.

Some studies have conduct to explore the impact of CSR but these studies are still not consistent, it needs further investigation. According to Lin et al., (2015), CSR is an expense for a firm. Investing resources in corporate social responsibility is the misuse of resources and this misuse can lead to lower profits of the company. (Sundararajan and Brown, 2016), purposed that increasing social responsibilities will improve firm reputation and brand equity, and it will increase firm value. Social responsibilities are the connection among governments, performers, and networks (Lee, 2009).

Authors say that a minimum corporate social responsibility (CSR) characteristic leads to unreliable results (Wang et al., 2016). Therefore many researchers choose the corporate social responsibility (CSR) score for analysis and to check the impact of CSR on firm performance (El Ghoul et al., 2017). Rhou et al., (2016), investigate the value of shareholders used negative and positive CSR measurements in the restaurant framework. According to earlier researches, the financial performance of a firm rises when a company fellow corporate social responsibility activities but according to Tobin's financial performance is reduced when ROA and ROE are used (Disegnu et al, 2015). ROE and ROA are the proxies of short-term profitability that are used in earlier studies (Kaul and Luo, 2018).

A study conducted in seven Maharatna firms of India, exposure the impact of corporate social responsibility on profitability. Secondary data has been taken from annual reports from the period of 2004 to 2013. CSR considers as an important factor of profitability because it can increase the profitability of the company. In this study correlation and regression analysis run to find out the relationship, results reveal that corporate social responsibility (CSR) affects positively the Gas sector and negatively affects others companies (Bhunia and Das, 2015).

Kanwal et al., (2013) conducted a study on the Karachi stock exchange. Studies founded by using correlation techniques that positive relationships exist among CSR and firm performance. There study also concluded that CSR can increase a firm reputation and profitability. One study conducted in Korean stock exchange to check the association of CSR and firms financial performance among each other, study reveal that a positive association exists among both variables, (Kim et al., 2013).

2.2 Legitimacy Theory and Corporate Social Responsibility

Several researchers use the legitimacy theory to explore the association between corporate social responsibilities and sales performance. Companies set some rules and regulation and ensure the society that company operates within the norms of society. Companies insure society that firms' operations are according to the ethics of society. Companies disclose CSR reports to demonstrate that attention of mangers to the value of society and it helps to redirect society negative consideration (Kiswanto, 2011).

2.3 Signaling Theory and Corporate Social Responsibilities

According to signaling theory firm should disclose all information related to financial and non-financial operations to outside parties. The firm should disclose corporate social responsibilities reports in its annual reports or separate reports because it increases the firm reputation and value. When a firm discloses corporate social responsibility reports its hopes that these activities will increase the firm reputation and value (Rustiarini, 2010).

2.4 Agency Theory and Corporate Social Responsibility

Agency theory is clarified by Jensen and Meckling, (1976), who identified that disclosing information in reports minimizes the agency cost. An agency relationship is a relation among agent and principle and agency cost arises when conflict exists between agents and principle interest. Agency theory help to reduce the agency conflicts among shareholders (principal) and managers (agents). According to agency theory firm should work for shareholders' interest and for-profit maximization, the firm should not waste resources for social purposes. Managers use shareholders' resources for corporate social responsibility (CSR). From the social viewpoint resources that spend on corporate social responsibility (CSR) would be more sensibly spent for the firm efficiency. Agency costs can be reduced by setting a contract among top management and shareholders (Solomon, 2007).

2.5 Corporate Social Responsibility and Sales Performance

Corporate social responsibilities (CSR) are an important part of a business, that business act morally and reduce the negative events and maximize the advantages of corporate social responsibilities. Corporate social responsibilities are the actions to control pollution, donate the assets, do work for the welfare of society, and donate for charity for the benefit and long-run survival of a business. Sales are a contract between two or more parties in which reviver revives tangible or intangible goods or assets in exchange for money.

A study conducted in UK retail markets for examined the connection between CSR and sales revenue, how CSR actions can persuade sales growth. Researcher use statistical analysis and found that donation and sales revenue can boost overtime and environmental-friendly actions relates positively or negatively to sales revenue for the firms (Asiamah and Ghulam, 2019).

Hypothesis 1: *There is a significant negative impact of CSR on sales performance.*

2.6 Leverage and Sales Performance

El-Sayed, 2009 states two theories for describing financial leverage; one is the Trade-off theory, which states that by balancing cost and benefits optimum leverage can be determined (Kraus and Rerger, 1973). Optimum level means where cost and benefits reach the same point, that point called equilibrium (Serrasqueiro, Armada and Nunes, 2011).

Another theory is the Pecking order theory, which states that there is no optimum level of debt (Myers and Majluf, 1984). According to this theory management and shareholders of the firm have symmetry information. Due to the same information value of the company achieved, if shareholders and management have the same information then the value of the company would high (El-Sayed Ebaid, 2009).

According to this theory, when external financing not avoidable then a corporation must prefer internal financing first then go for external financing, and the company uses debt financing in place of equity financing. Finding among CSR and performance are mixed. According to Trade-off theory, there is a positive connection among leverage and CSR and according to pecking order theory; negative relation exists among these two variables.

According to Modigliani and Miller, (1963), there are also some benefits of debt, such as low agency cost and tax shield. Reduction of agency cost means clashes among shareholders and, management decrease. Many researchers who follow this theory found a positive relation of leverage on performance, (Abor, 2005, Dessi and Robertson, 2003). According to El-Sayed Ebaid, (2009) debt may also a bad thing because there is minimal protection for the loan providers in case of insolvency.

Research conducted in Bangladesh for the time for ten years from 2007 to 2019, the study used the dynamic approaches GMM (generalized method of moments) and quintile approach. Relationship among leverage and sales performance examined by using quintile regression and dynamic regression. The study concludes that leverage is negatively related to sales performance in highly profitable firms then low profitable firms.

According to the Modigliani and Miller, (1958) approach "Value of a company do not change with the change of leverage when there is no tax and transaction cost". According to Modigliani and Miller, (1963) value of the firm effected when taxes exist, which shows that debt gives tax benefits and interest removed from the tax will result from tax shield. Debt increases the firm performance by reducing the cost of debt (Miller, 1977). According to pecking order theory corporations should prefer internal sources first then go for debt and another external financing, (Shyam and Myers, 1999).

Trade-off theory describes the part of debt and equity should corporations select. The theory says that debt not just gives benefits to the company but maybe a cost for corporations such as bankruptcy cost and financial distress cost. According to the signaling theory in the existence of asymmetric information profitability of a company should be increased with the increase of debt (Kebewar, 2013).

A study was conducted in a developing nation (Ukrainian) firm for the period of 10 years from 2001 to 2010. Research reveals that leverage impact positively on form performance due to tax shield. While other studies showed the negative impact of leverage, results do not support the trade-off theory (Lavorskyi, 2013). Ibrahim El Sayed Ebaid, (2009) revealed that capital structure decision has a weak to no impact on financial performance. Pouraghajan and Malekian, (2012) examine the impact of leverage on firms financial performance for Tehran based firms. They found that significant negative impact exist between debt and financial performance of firms. Quang and Xin, (2012) examine the impact of leverage and financial performance measured by ROA and ROE of Vietnamese companies, study found that there is significant negative impact among them.

If a firm has a higher leverage ratio will lead to minimum CSR because they reported their profit at a higher level. According to agency theory, Companies that have higher leverage will provide additional information due to the agency cost of a firm will high (Retno and Priantinah, (2012). Debt is tax-deductible so that may increase the value of the company, value and profit of the company are very important for the long survival of the business. Profitability of the firm and value influenced by effective leverage (Nawaiseh 2015). The study of Moghadam and Jafri, 2015) indicated that there is a significant and positive impact of leverage on sales performance. Their mean companies that are highly levered are more profitable than lowly levered firms.

Hypothesis 2: *There is a positive or negative impact of leverage on sales performance.*

2.7 Liquidity and Sales Performance

Liquidity means to pay the current obligation, obligation means short-term operating and financial expense but maturing installments below long-term debt. Liquidity is the capability of cash, cash equivalent and further current assets to react the current obligation of the organization. Strong liquidity helps a firm to produce funds inside and help the big organization to avoid bankruptcy (Pedachi, 2006). If a firm holds extreme cash the benefit of liquidity become less and disturb the operation a business (Uremadu, Egbide & Enyi, 2012). An optimal level of cash holding is good for business worth. Optimal level means the capability of an organization to use the extra current assets to produce profit lacking troubling to react potential needs (Ajao and Small, 2012).

There are some theories highlights the evaluation of the costs and benefits of different liquidity levels. Trade-off theory says that firm emphasis favorable liquidity level to balance the cost and benefits of cash holdings. The cash holdings gives the low yield due to liquidity premium and tax disadvantage (Ajao and Small, 2012).Ferreira and Vilela (2004) reported that Pecking-order and trade-off theories guides the cash holding decision of the corporations. (Abushammala & Sulaiman, 2014).

Liquidity can be measure by using the current and Acid test ratio that can put an effect on the profitability of the firms. The current ratio is used to work with cash and near-cash assets, it's meant for short-term obligations, Saleem and Rehman, (2011). A study conducted in Kenya power and lighting firms, using the primary and secondary data reveal that leverage has a positive impact on performance. It is important for organizations to obtain debt at an optimum level. The company can use debt as a cheaper source and get higher financial performance. According to Daufera, (2010) liquidity enables a company to avoid defaulting on financial decisions and avoid the crisis. Liquidity means a firm can mature its short-term debt. Firms with low liquidity can cause high costs and affect settling their financial obligations (Yahaya and Lamidi, 2015).

Cash flow also affects firm liquidity, if a company has less current assets then it creates a problem in the survival of operations but if current assets are more return on investment not perfect. It's compulsory for the company to maintain an optimal level of liquidity. Companies take thoughtful operational decisions that give profit opportunities to the company (Saleem and Rehman, 2011).

According to Bardia.(2007) liquidity and profitability are the two main parts of a business. If a firm has no liquidity it means it will die soon. By liquidity, investors can judge the company's performance. So it is essential for the company to maintain liquidity at an optimal level. Lower liquidity may be harmful to the company, such as can slow the operations of the company, disturbs the production, and restrain the earnings volume. Therefore for the smooth level of firm liquidity management is compulsory (Valrshney, 2001). One more study is conducted on the Stockholm exchange, Quantitative research was adopted and regression analysis of statistical techniques was used of charged score and profitability. The study found that liquidity does not put any significant effect on profitability, but when a company increases its liquidity on short-run financing during a financial disaster put an appositive impact on profitability.

A study conducted for the period of 10 years from 1998 to 2007 on ISE using the quantitative data with the sample of 5841 and use regression analysis to check who firms capital structure effects organization profitability. The authors concludes that capital structure has a negatively related to profitability (Samilogu and Dermirgunes, 2008). The researcher concludes one more study on fertilizer companies, disclosed that both positive and negative impacts can occur on profitability (Narware, 2004).

A study conducted using the quantitative data on KSE 100 index for the period of six years from 2006 to 2011 using the sample of 64 Non-financial companies listed in KSE. The researcher uses correlation analysis and multivariate regression analysis to find the association between liquidity and profitability. The study found that liquidity has a significant and positive impact on profitability (Ismail, 2016). Another study was conducted on the banking sector to examine the impact of liquidity on firm profitability. The researcher measures the relationship by using quick ratio, current ratio, and working capital. The study found a less positive association among liquidity and profitability (Ahmad, 2016).

Eljelly (2004) studied the association among profitability and liquidity, calculated by current ratio and cash conversion cycle. The study takes the data of 929 joint-stock corporations of Saudi Arabia. Result of the study shows the negative relationship among liquidity ad profitability.

Charitou, Elfani, and Lois, (2010) studied the impact of working on profitability; used data for the period of 10 years from 1998 to 2007 of Cyprus stock exchange.

Study results indicated that the cash conversion cycle and companys profitability are negatively related to each other.

Hypothesis 3: *There is a significant positive impact of liquidity on sales performance.*

2.8 Size and Sales Performance

Different measurements are used to check the firm profitability, which dimension affects company profitability. The theory provides strong indications that if a firm has a big size then it can meet economic of scale (Grover, 2013). Companies with large sizes are more competitive the small size. The larger firm has large chances to work in those areas where capital rates high and they can earn more profit will low competitors (AlGhusin, 2015). Large size firms can borrow more so decrease in bankruptcy costs, Small firms cannot borrow more because they face bankruptcy costs. Larger firms avail long-run debt whereas meeting economic of scale while small size firms can not avail this offer (Osborn, 2014). Research conducted to check the effects of firm size on firms profitability. Take the sample of PSX during the time period of 2012 to 2016 with the sample size of 10 listed textile companies. Profit ratio and ROA are used as a proxy of profitability and size is measured by total sales and total assets. By applying correlation and regression analysis returns discovered that there is not any connection exist among size and profitability (Azhar, and Ahmed, 2019).

A study was conducted on the food sector of the Karachi stock exchange for the period of four years from 2002 to 2006. The study used the multivariate regression analysis and concludes that their exist is a negative relationship of size on firms productivity (Bhutta, and Hasan, 2013). A study conducted in Malaysia from the time period of 2012 to 2014 with a sample size of 120 firms associates the impact of firm size on profitability (Alarussi and Alhaderi, 2018).

Niresh et al., (2014) have studied Sri Lanka manufacturing firms from the period of 2008 to 2012 to examine the impact of size on profitability. They found that an indicative relationship exists between size and profitability. One more study was conducted in Sri Lanka on commercial banks and the bank of Ceylon with a time period of ten years from 1997 to 2006. They found that in commercial banks there is positive relation is exist but in the bank of Ceylon, no relationship exists among firm size and profitability (Velnampy et al., 2010).

A study was conducted on the manufacturing sector of Nigerian to check the impact of firm size on profitability. The study used the panel data from 2005 to 2012 was found from financial statements. Researchers measure profitability from the proxy of return on assets and size measure from the proxy of the log of total assets and the log of total sales. Results revealed that Firm size is positively related to profitability. Both terms log of sales and log of assets are positively related to profitability (Akinyomi and Adebayo, 2013).

Obehioye and Osahon (2013) conduct research on 40 companies in Nigeria. They used panel data analysis during the time period of 2006 to 2010. Sales turn overused as a proxy of size and return on assets is used as a proxy of profitability. OLS technique is used to find the impact. Results state that firm size is positively related to profitability of the firm. Dogen, (2013) collect data of two hundred firms of 4 years from 2008 to 2011 and apply a multiple regression model to find the connection among firm size and profitability. They found that a positive association exists among size and profitability. But this relationship was negative when the researcher uses leverage and firm age used as a control variable. A study conducted by Akbas and Karaduman (2012) revealed that size has a positive and significant impact on profitability. The study used the panel data and the sample of Turkey firms for the period of 2005-2011.

Company size is an important factor in corporate social responsibilities that disclose in its annual reports. Larger firms reveal additional information than smaller firms as larger companies face more political risk. Larger firms cannot separate from social responsibilities disclosure because they have political pressure to disclose reports. If firms disclose more CSR information can reduce the political risk which can face by a firm (Sembriring, 2005).

One more study was conducted in Indonesian 100 manufacturing companies, data were collected for 6 year period from 2009 to 2014, by using panel data techniques researcher check the impact of size measured by total assets and total sales on the profitability of the firms. They found that total assets have a negatively related to profitability and total sales have not any impact on profitability (Kartikasari and Merianti, 2016). The size of the company is important for the company's good reputation, so size has a great influence on company stakeholders (Asif and Nisar). Firms play an important role inside the corporate financial environment.

Hypothesis 4: *There is a positive or negative impact of size on sales performance.*

2.9 Gross Domestic Product and Sales Performance

Economic growth is an important factor in the nation because it can affect firm performance; a change in economic condition can affect a firm's performance. So by adding this variable can control business life cycles such as boom and recession. The demand for goods and services increases through the period of economic growth because the firm can increase its sales and earn a high profit. Economic situations can affect positively or negatively. Economic situations will not be favorable when there is a recession; (Pervan, Pervan, and urak, 2019). A business cycle can put a great influence on profit margins. Research reveals that GDP has a positive impact on profitability. Qaisar, (2018). Khasif et.al. (2016) and Nidausallam (2014), shows the GDP has a negative impact on profitability. Another study shows no effect of GDP on profitability Alper et.al (2011).

An increase in GDP can attract investors for investment and then the business will grow and profitability will be increased. Bilal et.al. (2016) study on banks, states that GDP has a positive contact on a bank's productivity. Low GDP reduces the returns so profitability will be decreased. Research on bank profitability is done for the period of 5 years from 2007 to 2011. Study found that GDP has a significantly positively related to banks' profitability. Rashid and Jabeen (2016) have done a study to explore the impact of macro-economic factors on banks performance in Pakistan. Researchers collect the data of Islamic banks and conventional banks for the period of seven years from 2006 to 2012. The study used the GLS and found that GDP has negatively associated with bank performance. A study conducted by Hassan and Bashir (2003) on Islamic banks from 1994-2001. They conclude that GDP influences profitability. One more study is conducted to find the association between macroeconomic determinants and profitability. Correlation and regression analysis are used to examine the impact. Study found that GDP has a positive related to the banking region. A study explored the Syrian banking region cover the time period from 2004-2011 and apply GMM to investigate the impact of GDP on profitability. The study revealed that GDP significantly affects profitability Al-Jafari and Alchami (2014). One more study states the negative relationship between GDP and profitability Noman et al. (2015). A study conducted by Mehta and Bhavani, (2017) revealed that GDP has a positive impact on ROE and ROA, measures of profitability. A study conducted by Moussa, (2015) revealed that GDP growth, Liquidity, and inflation have a significant and positive impact on liquidity. Study conducted by Athanasoglou et al., (2006) states that GDP has no significant effect on profitability. Sahyouni and Wang (2018) explored a study on 11 developed nations from the period of 2011 and 2015, revealed that banks with high liquidity have low profitability. Furthermore, inflation and GDP have a significant effect in developing nations, whereas inflation has no significant impact on profitability in emerging nations. There are many types of research on profitability in the banking sector. A study conducted by Bashir, (2003) for the period of 1993 to 1998 in Islamic banking sectors in Middle Eastern nations.

Hypothesis 5: *There is positive impact of gross domestic product on sales performance.*

2.10 Financial Development of Bank and Sales Performance

Improved financial development can improve resources, and resources are helpful in the innovation of a business. Financial development is important for innovation. If a nation has a good financial system then it can maintain its GDP per capita.

Financial development is affected by technology, technology help in the delivery system which can improve the firm innovation.

Innovation is the competitive advantage for a business and it can improve profitability.

Technological innovation has a strong relationship with profitability (Hobe and Alas, 2015).

A study was conducted to check the impact of financial development on economic growth in Pakistan from 1980 to 2018.

Hypothesis 6: *Financial development of banks negatively impact on sales performance.*

2.11 Financial Development of Private Sector and Sales Performance

Yadavand Guru (2019) examine the connection among economic growth and financial development of private sector for major five emerging countries on banking sector.

They used different indicators of development of stock market during the time period of 1993 to 2015. To examine the connectionamong financial development of private sector and growth authors used GMM method.

Inflation, exports are taken as control variable in this study.Result of the study shows that there exists positive relationship between financial development of private sector and growth. Growth and poverty reduction are aided by a well-functioning financial system and a thriving private sector.

Finance is critical to private sector development and vice versa, as both sub-disciplines are heavily reliant on business behavior and performance.

Hypothesis 7: *There is positive impact of financial development of private sector on sales performance.*

2.12 Foreign Direct Investment and Sales Performance

Shah and Ahmad (2002) explored that to attract foreign direct investment in Pakistan returns on investment are very important. The study also determined that cost of capital has a strong impact on investment. The study planned to reduce the cost of FDI and increase the returns on Pakistan. A study on the banking foreign-owned-own countries founded that banks' assets rise during the 1996's period; credit to private sectors remained low. There is a major role of foreign owned banks in such countries' financial systems. Domestic banks have lower profitability than foreign-owned banks (Naaborg et al., 2004).

Akbar and Ahsan (2015) investigate foreign direct investment inflow in Pakistan and identify the factors of FDI for the period of 3 years from 2000 to 2013. The country practiced an increase in foreign direct investment in Pakistan from 2000 to 2008 and a decrease in foreign direct investment from 2009 to 2013. Diminish in foreign direct investment due to economic instability and poor law situations in Pakistan. Multiple regression analysis is applied to analyze the factors that explain the variation in FDI in Pakistan. Study discovered that selected variables are significant FDI. Study also found that GDP has a significant and positive impact on FDI, foreign debt and domestic capital are negatively impact the foreign direct investment in Pakistan.

Hypothesis 8: *Foreign direct investment negatively impact to sales performance.*

Chapter 3

Data and Methodology

3.1 Data Description and Methodology

The research methodology includes a description of variables, data sources, research model specification, and data analysis techniques that are used to examine the impact of CSR and other explanatory variables on firm sales performance in the context of Pakistan. In this study data of Non-financial firms listed on the Pakistan stock exchange (PSX) is collected during the time period of 2009 to 2019 to capture the impact of an independent variable, corporate social responsibility (CSR), and other explanatory variables (leverage, liquidity, gross domestic product, financial development of banks, foreign direct investment, financial development of private sector) on a dependent variable (sales performance).

3.1.1 Population

Non-financial firms which are listed on the Pakistan stock exchange all are taken as a population.

3.1.2 Sample

The size of the sample must be representative of the population. Sample size provides complete information related to this study is the part of this work. The sample size in this study is 166 Non-financial companies listed on PSX. The collection of data is based on the availability of data of non-financial firms listed on the Pakistan stock exchange. Data related to CSR disclosure is available only for some these specific companies. During the selection of data companies with missing observations were excluded from the sample and include those firms which provide complete information related to the study is part of this work.

3.1.3 Sources of Data

Secondary data is collected in this study, which is previously available and ready for use. The major source of data includes archival data from company financial statement analysis (FSA), published by the State Bank of Pakistan and the data of corporate social responsibility (CSR) is taken from companies CSR reports. While disclosing corporate social responsibility reports, managers need to make two decisions: 1) whether to issue an annual stand-alone CSR report. 2) If one is issued, how much information is to be disclosed. The disclosure level of issued CSR reports varies. In this study, the level of a company's CSR disclosure is measured by the CSR index. Some of the data is also collected from FSA published by The State Bank of Pakistan official website.

The data analytical results are found from the use of Eveiws 9 and it runs the descriptive statistics, correlation matrix and, panel data regression techniques.

3.1.4 Descriptive Statistics

Descriptive statistics are brief descriptive coefficients that prcis a data set, which can be also a symbol of a population or sample of a population. Descriptive statistics measure the central tendency and variability of the variables. By using descriptive statistics study can capture the statistical behavior of data. For an explanation of other characteristics of dependent and independent variables, descriptive statistics are used. Central tendency involves the mean, median and mode, while variability includes minimum and maximum value, standard deviation, kurtosis and skewness. Mean tell the average of the data and median provides the mid-value of data and divides the data into two segments equally. It is necessary to use Mean and Standard deviation together if both use separately then both will be meaningless. Standard deviation (S.D) tells that how much spread of data from its mean value. By using skewness study can capture the positive and negative spread of data and kurtosis tell about flatness about data spread.

3.1.5 Correlation Analysis

Correlation analysis tells about the relationship among the variables and also tells the strength between the variables. To capture the degree of strength between variables correlation analysis was used. Correlation tells the linkage between different variables. Correlation analysis captures positive and negative relations between the variables. The value of correlation must be in the range of -1 to +1. A perfect positive correlation means that the correlation coefficient is 1. High correlation means that variables have a strong relationship with each other, if one security moves either up or down, the other security will also move in the same direction. Perfect negative correlation means variables are weakly correlated and move in the opposite directions. Zero correlation means there is no linear relationship among variables. It shows the association and multi-collinearity of data.

3.2 Estimation Model

3.2.1 Panel Data Analysis

Panel data analysis is used to find the relationship between different variables. In this study panel data is used to find the relationship among sales performance and corporate social responsibility disclosure reports.

Time-series and cross-sectional data both are included in panel data. There are many benefits of panel data over the time series and cross-section. It handles econometric data more efficiently. The study uses both "n" cross-section; countries wise, corporations, individuals, and "t" time series; yearly, daily, monthly and quarterly. There is less collinearity between variables because there are maximum cross-sections available. In panel data, a large number of data observations are available with progress over time. Panel data use pooling assumption, pool individuals into one dataset. There exist more variability in panel data and data is more informative for analysis. Panel data study and analysis of those occurrences which are not measured by simple cross-sections and time series. There are two categories of panel data, one is balanced panel data and the other is unbalanced panel data. In a balanced panel, all data is used for the same time and in unbalanced data, observations are not the same for all time (Gujarati 2003). Three models are used in panel data and each model has different assumptions for the intercept. Apply fixed effect and random effect methods in panel data to check which method is appropriate.

3.2.2 Common Coefficient Model

The common coefficient model is the first statistical model which is used in panel data analysis. It tells about constant intercept across all-time series and cross-sections.

Equation of Common effect model is:

$$Yit = \alpha o + \beta(X)it + \mu it \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Where,

Yit is dependent variable and Xit is the list of independent variables and uit is the error term.

3.2.3 Fixed Effect Model

The fixed effect model is the statistical model in which model parameters are fixed. In panel data fixed, effect model is used as an estimator for the coefficient in regression. Fixed effect method that describes the intercept as different for all cross-sections. Fixed effects are variables that change at a constant rate over time. It's means these variables could change over time.

The key characteristic of the fixed effect model is that it allows controlling all time invariant omitted variables.

The disadvantage of this model is that study has to estimate of extra parameters.

Different two tests are used to know which of the three models should be used for the application of panel data analysis.

$$Yit = \alpha i + \beta 1(X)it + \mu it \quad \text{...} \quad (2)$$

3.2.4 Redundant Fixed Effect (Likelihood Ratio Test)

By using redundant test decision-maker decide between fixed effect and common effect model. If the P-value of chi-square and F-statistic is not significant (P-Value > 0.05) .

Then the common effect model will apply and if the P-value of Chi-square and F-statistic significant (P-Value < 0.05) then fixed effect model will be appropriate.

3.2.5 Random Effect Model

Random effect model is also known as variance components model. The Random effect model is the statistical model where the model factors are random variables. The random effect model explains the variation among the companies. It does nothing with cross-sections just considers intercept as an error term.

There are some characteristics of this model:

- It has fewer parameters to estimate with comparison to the fixed effect model.
- It allows for additional explanatory variables with the same observations.

$$Yit = \alpha i + \beta 1(X)it + (\mu it + Vit) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Where in above all equations:

Y is the dependent variable like sales performance which is measured by return on sales. X is the list of explanatory variables like corporate social responsibility disclosure index, leverage, liquidity. Foreign direct investment, financial development of banks, financial development of the private sector, and gross domestic product. i symbolize different firms at time t. u is the error term.

3.2.6 Huaseman Test

This model applies to know which model is appropriate between the random effect model and fixed-effect model. If P- value of the Chi-square of a cross-section is less than 0.05 then the fixed effect model is appropriate for the study and if P-Value is more than 0.05 then random effect model will be applied.

3.3 Econometric Model

Panel regression model has been used for testing our hypotheses. Return on sales is the dependent variable in regressions. The following econometric model has been used to check the impact of the CSR disclosure index and other explanatory variables on return on sales.

$$\gamma_{it} = \beta_0 + \sum_{i=1}^{n} \beta_i \ \chi_i + \varepsilon_{it}$$

$$ROS_{it} = \beta_0 + \beta_1 CSRDI_i + \beta_2 LEV_{it} + \beta_3 LIQ_{it} + \beta_4 SIZE_{it} + \beta_5 LGDP_t + \beta_6 LFDB_t + \beta_7 LFDT_t + \beta_8 LFDPS_t + \varepsilon_{it}$$

Return on sales is a dependent variable and the independent variables are CSR disclosure index (CSRDI), LIQ which represent liquidity, LEV which represents leverage, size, LFDPS represents Log of financial development of the private sector, LFDB represents the log of financial development of banks, LFDI represents Log of foreign direct investment, and LGDP which is a log of gross domestic product.

i Represent number of cross section used in this study.

t Represent the time period of study

b Represents the co-efficient for all variables used in this study

ε Represents the error term

3.4 Theoretical Framework

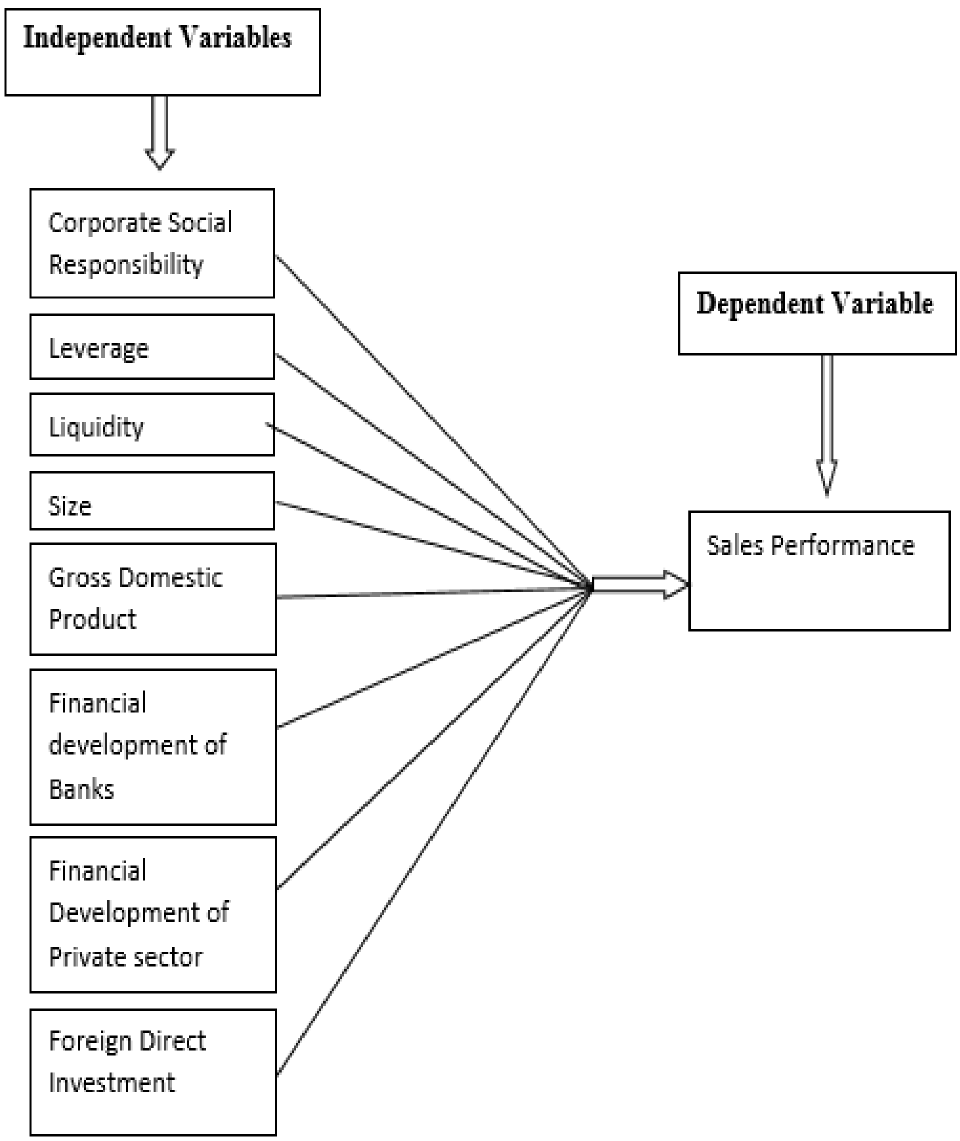

Figure 3.1: Theoretical Framework

3.5 Explanation of Variables

3.5.1 Dependent Variable

3.5.1.1 Sales Performance

Sales performance is measured by return on sales in this study. Yu and Yheng, (2018) also used return on sales as a proxy of sales performance. Return on sales is a ratio used to estimate a firm operational efficiency. It is a financial ratio that estimates how efficiently a firm is producing profit from its revenue. If the return on sales increasing indicates that the firm operating more efficiently, while decreasing return on sales indicates financial troubles. The return on sales of a company is the ability of a firm to earn (income) within a time period. The formula of return on sale (ROS) calculation is as follow:

$$\text{ROS} = \text{Operating Income} \ / \ \text{Total Sales}$$

Operating income is calculated as earnings before interest and taxes (EBIT)

3.5.2 Independent Variable

3.5.2.1 Corporate Social Responsibility (CSR) Disclosure

Corporate social responsibilities are defined as an agreement to improve social well-being through flexible firm practices and the contribution of corporate resources (Du et al., 2010; Kotler and Lee 2005). Disclosure index is the quantification of disclosure level in company annual reports. CSR disclosure index is a good proxy for the voluntary disclosure level provided by a company (Botosan, 1997). Annual reports are the main source of corporate information. To estimate the degree of CSR disclosure in yearly reports, a checklist containing 20 items was built (see Appendix). Study follows Haniffa (2002) and Cooke (2005) to modify the checklist and includes the items which are significant to Pakistani firms. A dichotomous approach is applied if every item in the research instrument-rated 1 if CSR disclosed and 0 if not disclosed. A score of each item was added to obtain the overall score of each firm. Such a judgment is made after evaluating the whole annual report (Cooke 1992).

CSRDI calculation formula is as follow: (Haniffa et al., 2005)

$$\text{CSRDIj}=\frac{\Sigma Xij}{nj}$$

In which:

CSRDIj= Corporate Social Responsibility Disclosure Index company j
n j : total item for company j, nj $\leq$ 166
X ij : dummy variable; 1= if item i was disclosed; 0 = if item i was not disclosed.

3.5.2.2 Liquidity (LIQ)

Liquidity is the ability of a firm to meet the short-term obligation of a company. It is an investment in short term and long term assets (Kesimli and Gunay, 2011). According to Fisher and Rudiger (1991), liquidity is the certainty with which an asset can be renewed into cash when the owner of the asset desires. Liquidity is the ability of current assets to meet the current liability. Liquidity is measured by a current ratio (CR) in this study. The formula of liquidity calculation is as fallow:

$$\text{Current Ratio} = \text{Current Asset} / \text{Current Liabilities}$$

3.5.2.3 Leverage (LEV)

Leverage is an investment technique of using different financial instruments or borrowed capital to maximize an investment potential return. Leverage is also a debt that a firm uses to finance assets. Leverage is used as a proxy of company debt issuing capabilities. Leverage magnifies both profits and losses. Total debt divided by total assets is used to find the company debt issuing capabilities. The study uses the ratio of total debt to total assets of a company to measure the leverage (Venugopalan, 2013).Higher ratio means, more debt using by a company and more risk assuming.

$$\text{Leverage} = \text{Total debt} / \text{Total assets}$$

3.5.2.4 Gross Domestic Product (GDP)

Gross domestic product (GDP) is the total market values of goods that are created and services are providing in a country at a given period. Gross domestic product is used measure of economic activity. Economic growth is a major part of rising sales. Rising economic growth means rising in income and when income rise then return on sales will increase. The factor of gross domestic product (GDP) includes consumption, government spending, and net export (Mankiw, Quah, and Wilson, 2012). It is measured by Log (GDP) per capita and abbreviated by LGDP (constant 2010 US).

$$\text{Gross Domestic Product} = \text{Log (GDP)}$$

3.5.2.5 Foreign Direct Investment (FDI)

It is the investment that controls the ownership of a business in the form of one country by an entity created by another country. It differentiates the foreign portfolio investment by a concept of direct control. Foreign direct investments are the inflow of investment to gain a management interest more (Chen, 2021). Foreign direct investment is measured by Log of Foreign Direct Investment.

$$\text{Foreign Direct Investment} = \text{Log (FDI)}$$

3.5.2.6 Financial Development of Private Sector: (FDPS)

Financial development means that the financial system is comparatively large and performs a significant role in a country because the financial system provides financing to companies so they can able to expand their operation and introduced latest technologies A well-developed financial system and a dynamic private sector helps the country in growth and reduce poverty. Data related to financial development was collected from world development indicators (WDI). Finance is an essential part of private sector development (Yongfu Huang's 2006). It is measured by Log (FDPS).

$$\text{FDPS} = \text{LOG (FDPS)}$$

3.5.2.7 Financial Development of Banks (FDB)

The stability effectiveness and strengths of financial institutions are measures by financial development. Financial sector development includes financial intermediaries and access to financial markets. The performance of the financial sector like the banks in Pakistan has been outstanding. The efficiency of financial institutions is increased due to financial sector liberalization in 1980. According to the report of the State Bank of Pakistan (2018) improvement in assets quality, solvency and increase in deposit of banks are some important factors to the financial development of the country. The financial development of banks is measured by Log (FDB).

3.5.2.8 Size

Size of the firm means the size of firms business unit. Firm size is the scale of operations turned out by a single organization. Firms size refers to the scale or volume of firm operation of business enterprises. Study used natural logarithm of total assets of a firm as a proxy for firm size.

$$\text{Firm Size} = \text{Natural Log of Total Assets}$$

Table 3.1: Variables List

Variable	Name and Measurements
Dependent Variable	Sales performance, (Operating income/Total sales)
Independent Variables	Corporate social responsibilities index (CSRDI)
	Leverage (LEV), (Total debt/Total assets)
	Liquidity (LIQ), (Current assets/Current liabilities)
	Size, (Natural log of total assets)
	Log of gross domestic product (LGDP)
	Log of financial development of the private sector (LFDPS)
	Log of financial development of banks (LFDB)
	Log of foreign direct investment (LFDI)

To measured the sale performance ROS used it is calculated by operating income / total sales. Corporate social responsibilities disclosure is measured by the Score obtained by the firm on the CSR disclosure index. Liquidity is measured by the current ratio: Current assets / Current liabilities. Leverage is calculated by total liabilities / total assets. Size is measured by the natural log of total assets.

Chapter 4

Results and Discussion

This chapter discovers the fundamental analysis taken out within the data which is shown in past chapters. The fundamental analysis and detail is depending on the investigation methodology examined in chapter three also. To examine the impact of corporate social responsibility, leverage, liquidity, size, gross domestic product, foreign direct investment, financial development of the private sector, and financial development of banks on return on sales, a sample was taken out from non-financial sector which are registered in Pakistan Stock Exchange. In the two segments determines the descriptive statistics and the correlation findings. In the third section explores and discusses the econometric educational models and also details how the models carried are expected and measured. In the fourth section shows findings of the experimental results of the investigations.

4.1 Descriptive Statistics

Descriptive statistics define data in a meaningful system. It tells about minimum value, maximum value, mean value, median value, and standard deviation of the data. It also describes skewness and kurtosis of data. Descriptive results for dependent variable return on sales and explanatory variables; corporate social responsibility disclosure index, size, financial development of banks, foreign direct investment, financial development of the private sector, and gross domestic product have been explained below through Table (4.1).

TABLE 4.1: Descriptive Statistics

Variables	**Mean**	**Median**	**Max**	**Min**	**Std. Dev**	**Skewness**	**Kurtosis**
ROS	0.085	0.051	0.953	1.00E-05	0.11	3.141	16.7
CSRDI	0.609	0.051	3.014	0.0000	0.607	1.288	4.117
LEV	0.517	0.531	0.903	0.031	0.195	-0.239	2.2
LIQ	0.046	0.013	0.580	0.0002	0.078	3.06	14.176
SIZE	15.762	15.579	20.256	12.575	1.475	0.343	2.737
LFDB	2.858	2.82	3.12	2.73	0.128	1.031	2.643
LFDI	-0.289	-0.26	0.33	-0.96	0.36	-0.062	2.479
LFDPS	2.863	2.83	3.12	2.73	0.126	0.987	2.595
LGDP	6.953	6.94	7.09	6.9	0.053	0.55	1.897

Note: The dependent variable is sales performance which is measured by ROS and the independent variable is corporate social responsibilities disclosure index (CSRDI), Liquidity (LIQ), leverage (LEV), size, LFDPS represent Log of financial development of the private sector, LFDB represents the log of financial development of banks, LFDI represents Log of foreign direct investment, and LGDP which is a log of gross domestic product, are other explanatory variables.

Table 4.1 describes the descriptive statistics of all variables that are used in this study, the mean value of return on sales is 0.085, the median value is 0.051 and the standard deviation is 0.110. Return on sales is used as a proxy of sales performance. The minimum and maximum values of return on sales are 0.000015 and 0.953. Skewness and kurtosis are 3.141 and 16.7.

The mean value of corporate social responsibility disclosure index is 0.609, the median value is 0.051 and the standard deviation is 0.607. The minimum and maximum values of corporate social responsibility disclosure index are 0.000 and 3.014. Skewness and kurtosis are 1.288 and 4.117.

The mean value of leverage is 0.517 which means the company uses 51% debt, the median value is 0.531 and the standard deviation is 0.195. Minimum and maximum value is 0.031 and 0.903. Skewness and kurtosis value is -0.239 and 2.200. Minimum and maximum value of liquidity is 0.0002and 0.580. The mean value is 0.046, median value is 0.013 and standard deviation is 0.078. Skewness and kurtosis value is 3.06 and 14.176. Mean value of size is 15.762, median value is 15.579 and standard deviation is 1.475. Minimum and maximum value is 12.575 and 20.256. Skewness and kurtosis value is 0.343 and 2.737.

The mean value of the log of financial development of banks is 2.858, median value is 2.82 and the standard deviation is 0.128. Minimum and maximum value is 2.73

and 3.12. Skewness and kurtosis value is 1.031 and 2.643. The mean value of the foreign direct investment is -0.289, median value is -0.26 and standard deviation is 0.360. Minimum and maximum value is -0.96 and 0.33. Skewness and kurtosis value is -0.062 and 2.479.

The mean value of financial development of private sectors is 2.863, median value is 2.83 and standard deviation is 0.126. Minimum and maximum value is 2.73 and 3.12. Skewness and kurtosis value is 0.987 and 2.595.The mean value of gross domestic product is 6.953, median value is 6.94 and standard deviation is 0.053. Minimum and maximum value is 6.9 and 7.09. Skewness and kurtosis value is 0.550 and 1.897.

4.2 Correlation-Matrix Analysis

To check the potency of the relationship among independent and dependent variables correlation analysis is done. In Table 4.2 correlation analysis is done and analysis tells about association among dependent and independent variables and also between independent variables.

TABLE 4.2: Correlation Analysis

Variables:	**ROS**	**CSRDI**	**LIQ**	**LEV**	**SIZE**	**LFDB**	**LFDI**	**LFDPS**	LGDP
ROS	1								
CSRDI	-0.022	1							
LIQ	-0.021	0.266	1						
LEV	-0.028	-0.089	-0.193	1					
SIZE	0.16	0.533	0.089	0.025	1				
LFDB	0.27	-0.162	0.005	0.127	-0.127	1			
LFDI	-0.024	-0.061	0.031	0.026	-0.049	0.674	1		
LFDPS	0.276	-0.163	0.033	0.129	-0.127	0.590	0.6601	1	
LGDP	0.418	0.181	0.024	-0.158	0.151	-0.555	0.03	-0.565	1

Note: The dependent variable is sales performance which is measured by ROS and the independent variable is corporate social responsibilities disclosure index (CSRDI), liquidity (LIQ), leverage (LEV), size, LFDPS represent Log of financial development of private sector, LFDB represent log of financial development of banks, LFDI represent Log of foreign direct investment and LGDP which is log of gross domestic product, are other explanatory variables.

Correlation tells about the relationship among two different variables. It tells about variables that are strongly or weekly correlated with each other. Return on sales is negatively correlated with CSRDI (-0.022). Which means when the corporate social responsibilities increase then return on sales will decrease?

Liquidity and return on sales are negatively correlated with each other.Liquidity is negatively correlated to return on sales (-0.021).This indicates that liquidity decreases return on sales will increase because firms having low liquidity earn more profit. Liquidity means firms can pay their short-term obligations. Firms with low liquidity earn a high profit because they meet their obligations timely. Leverage is negatively correlated to return on sales (-0.028). This means when leverage decreases return on sales will be increased. Because high performing firms use their internal resources first then go for external resources. Firms that finance low debt earn more profit. Size is positively correlated to return on sales (0.160) its means both are move in the same direction. When size of the firm increases return on sales will also increase. Large firms have more return on their sales so company profitability increases. The financial development of banks is positively correlated to return on sales (0.270). The financial development of the private sector is positively correlated to return on sales (0.277). Foreign direct investment is negatively correlated to return on sales (-0.025). Gross domestic product is positively correlated to return on sales (0.418).

Liquidity is positively correlated with corporate social responsibility disclosure index (0.266). When liquidity increase then corporate social responsibilities disclosure index will also increase. Leverage is negatively correlated to corporate social responsibility disclosure index (-0.089). Size is positively correlated with corporate social responsibility disclosure index (0.533). Larger firms disclose more social responsibilities than smaller firms. Corporate social responsibility disclosure index is negatively correlated with financial development of banks (-0.162). Foreign direct investment negatively correlated with corporate social responsibility disclosure index (-0.061). Financial development of private sector is negatively correlated with corporate social responsibility disclosure index (-0.163). Gross domestic product is positively correlated to corporate social responsibility disclosure index (0.181).

Leverage is negatively related to liquidity (-0.193). Size is positively correlated with liquidity (0.089). Financial development of banks positively correlated with liquidity (0.005). Financial development of private sector is positively correlated with liquidity (0.033). Foreign direct investment is positively correlated with liquidity (0.031). Gross domestic product is positively correlated with liquidity (0.024).

Size is positively correlated with leverage (0.025). Financial development of private sector is positively correlated with leverage (0.129). Financial development of banks is positively correlated with leverage (0.127). Leverage is positively correlated with foreign direct investment with (0.026). Leverage is negatively correlated with gross domestic product with (-0.158).

The financial development of private sector is negatively correlated with size (-0.127). Financial development of banks is negatively correlated with size (-0.127). Gross domestic product is positively correlated with size (0.151). Foreign direct investment is negatively correlated with size (-0.049).

Foreign direct investment is positively related with financial development of banks (0.674).Financial development of private sector is positively correlated with financial development of banks (0.590). Gross domestic product is negatively correlated with financial development of banks (-0.555).Foreign direct investment is positively correlated with financial development of private sector (0.660). Foreign direct investment is positively correlated with gross domestic product (0.030). Financial development of private sector is negatively correlated with gross domestic product (-0.565).

4.3 Regression Analysis

Regression analysis is formulated to understand the association among sales performance and explanatory variables. These results have been run to understand the impact of CSR and other explanatory variables on firm sales performance.

To examine the impact of corporate social responsibility (CSR) and other explanatory variables on sales performance of Pakistani firms regression equation was run.

In which sales performance is calculated by return on sales. In Table (4.3) regression analysis has been done.

4.3.1 Common Effect Model

TABLE 4.3: Impact of Corporate Social Responsibility Disclosure Index on Return on Sales (CCM)

Variable	Coefficient	Std. Error	T-Statistic	P-value	Sig.
C	3.938	0.641	6.143	0	(***)
CSRDI	-0.016	0.005	-3.096	0.002	(***)
LEV	-0.073	0.014	-5.339	0	(***)
LIQ	-0.049	0.035	-1.407	0.16	
SIZE	0.0213	0.002	10.299	0	(***)
LFDB	-0.933	0.662	-1.409	0.159	
LFDI	-0.039	0.014	-2.8	0.005	(***)
LFDPS	1.133	0.662	1.712	0.087	(*)
LGDP	0.680	0.077	-8.777	0	(***)
R-squared	0.259		Observations	1374	
F-statistic	59.674		Prob. (F-statistic)	0	

*** $P < 0.01$, ** $P < 0.05$, * $P < 0.1$

4.3.2 Redundant Effect Model

Likelihood Ratio test is used to check which model is appropriate between fixed effect and random effect for the analysis.

TABLE 4.4: Likelihood Ratio Test

Effects Test	**Statistics**	**d.f**	**Prob.**
Cross-section F	5.76	-1631202	0.000
Cross-section chi-square	793.14	163	0.000

A result of likelihood test is significant, P-Value < 0.05 it mean fixed effect model will be appropriate.

4.3.3 Hausman Test

Random effect test is used to check which method is best for study; probability is significant which shows that fixed effect model appropriate for the study.

TABLE 4.5: Hausman Test

Test Summary	**Chi-sq. Statistics**	**Chi-sq. d.f.**	**Prob.**
Cross -section random	18.686697	8	0.0166

Results of Hausman test is significant, P-Value < 0.05 it also indicate that fixed effect model will be appropriate.

4.4 Fixed Effect Model and Random Effect Model

TABLE 4.6: Effect of CSRDI on Return on Sales (FEM, REM)

	Fixed Effect			**Random Effect**		
Variables	**Coefficient**	**t-Statistic**	**Prob.**	**Coefficient**	**t-Statistic**	**Prob.**
C	3.723	7.069	0.000	3.931	7.6	0
CSRDI	-0.018 **	-1.952	0.05	-0.020 ***	-2.793	0.005
LEV	-0.047 *	-1.909	0.06	-0.065 ***	-3.489	0.001
LIQ	0.053	1.146	0.25	0.012	0.295	0.768
SIZE	-0.003	-0.314	0.75	0.020 ***	5.512	0.000
LGDP	0.593 ***	-8.233	0.000	0.918	-1.73	0.084
LFDB	-1.019 *	-1.915	0.06	-0.042 ***	-3.807	0.000
LFDI	-0.045 ***	-4.031	0.000	1.118 **	2.108	0.035
LFDPS	1.209 **	2.273	0.02	-0.676 ***	-10.658	0.000
R-Squared			0.58			0.299
Adj.R-Squ			0.52			0.295
F-Statistics			9.87			72.7
Prob-F-stat.			0.000			0.000

$***P < 0.01, **P < 0.05, *P < 0.1$

4.4.1 Discussion of Fixed Effect Model Results

The random effect test and redundant effect test shows that the fixed effect model is appropriate for the study. The main objective of result discussion is to ensure that study results are whether consistent with other previous studies.

CSR is negatively related to return on sale which indicates that when corporate social responsibility decrease firm return on sales will increase. Agency theory and shareholders theory describe that CSR is a financial burden for corporations and this type of activity is wastage of resources. It means the firm cannot waste their resources on corporate social responsibility but should focus on stockholders' interest within the framework of the society's demand. Investors demand high return and say that firm should focus on profit maximization, not on corporate social responsibilities. Result of the study also consistent with the results of (Friedman 1970).

There is a significant negative relationship between leverage and return on sales. This negative relationship means when leverage decrease return on sales will increase. This negative relationship was supported by pecking order theory, which state that firm should use their internal resources to finance their assets first, and when firms internal resources is insufficient and there is no other option than firms should use external resources to finance their assets. Based on this pecking order theory high performing firms use low debt levels in their capital structure as compared to other firms. There is a significant and positive impact exist among gross domestic product and return on sales. When gross domestic product of a country increase than return on sales will also move in same direction.

Return on sale is significantly and negatively related to size. This negative relationship means that when the size of the firm decreases then the return on sales will increase. This relationship indicates that increasing the size of company may not always earn a higher profit because of the diseconomical of scale. This result is also consistent with Grover (2013).Liquidity and size not significantly related to return on sales.

There is a significant negative relationship among return on sales and financial development of banks. This negative relationship means when financial development of banks decrease then return on sales will increase. Return on sale is significantly and negatively related to foreign direct investment. This negative relationship among return on sales and foreign direct investment indicates that when foreign direct investment decrease then return on sales will increase. Return on sale is significantly and positively related to private sectors financial development. This positive connection shows that when financial development of private sector increase then return on sales will also increase.

The R-squared value explains that 58.4% variation occurred in sales performance (dependent variable) is explained by independent variables corporate social responsibility (CSR).

Chapter 5

Conclusion and Future Recommendations

This study has been conducted to examine the relationship among sales performance and corporate social responsibility disclosure index of 166 Non-financial firms listed on the Pakistan stock exchange during the time period of 2009 to 2019. Firm sales performance is measured with return on sales. Firms with missing observations are excluded from the sample. The central purpose of the study is to inspect the impact of CSR disclosure on sales performance under empirical validity of theories in developing country Pakistan. These theories contain stakeholder theory, legitimacy theory, and agency theory, to check the effect among CSR and sales performance. Past studies have explained more about corporate social responsibility disclosure but no one uses corporate social responsibility disclosure impact on return on sales in Pakistani Non-financial firms. Research contains descriptive statistics which describe the data, it tells about mean, median, maximum value, and minimum value of data; also tell about the standard deviation of data. Correlation is used to reveal how strongly variables are related to each other. Panel data regression is applied in which the fixed-effect method is used as a final model for statistical analysis. Study use sales performance as a dependent variable which is measured by return on sales and CSR disclosure as an independent variable. Leverage, liquidity, size, financial development of banks and private sector, GDP, and FDI all are included in the study to find the impact on sales performance.

This study found a significant but negative association among corporate social responsibility and return on sales. It reveals that social responsibility is a cost for the firms and stakeholders' demand for high profit. So when corporate social responsibilities will increase that return on sales will move in the opposite direction. Study also revealed a significant negative relationship of leverage on return on sales. A firm that is high in leverage tends to be low in profits. Foreign direct investment has a significant negative impact on return on sales and Gross domestic product also has a significant and negative impact on return on sales. When gross domestic product and foreign direct investment will decrease the returns will be higher. Financial development of banks also has a significant negative effect on return on sales and financial development of the private sector is significantly positively correlated to return on sales. Size and liquidity are not significantly related to return on sales.

5.1 Limitations

Limitation of this study is regarding data collection, variables specification, and determinants used in this study. The study focuses only non-financial sector of the Pakistan stock exchange from the period 2009 to 2019. The analysis in this study is done by taking a limited time. There is a limitation regarding model specification in terms of not involved all possible elements regarding corporate social responsibility disclosure. This study only uses corporate annual reports disclosure while management may use mass communication method.

5.2 Recommendations and Future Directions

Based on the above results there are some recommendations for future work. Large sample size should be included instead of focusing on the Non-financial sector of the Pakistan stock exchange. Other financial sectors such as the banking sector can be included as a sample. Future studies use a longer period of data for more valid results. This study only use corporate social responsibilities disclosure for exploring the effect on sales performance, the future study can include some other variables also which can affect sales. . Researchers can use some other proxies of firm sales performance such as return on equity and check the impact of corporate social responsibilities disclosure. Future studies can use other sources such as the internet and newspapers rather than financial statements. This experimental research in the Pakistani non-financial sector will inspire future researchers in inventions in research in this area and can also apply to other areas.

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Appendix A

CSR disclosure items

1. Community involvement

- Charitable donations and subscriptions
- Sponsorships and advertisement
- Community related programs (Health and Education)

2. Environmental

- Environmental policies

3. Employee information

- Number of Employees/Human resource
- Employees Relations
- Employees Welfare programs
- Employee education
- Employee training and development programs
- Employee profit sharing
- Managerial remuneration
- Worker's occupational health and safety
- Child labor and related actions

4. Product and service information

- Types of products disclosed
- Product development and Research
- Product quality and safety measures
- Discussion of marketing network
- Focus on customer services and satisfaction
- Customer Award or Rating Received from Customer

5. Value added information

- Value added statement