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Corporate Social Responsibility Expenditure and Financial Performance with Moderating Effect of Ownership Concentration: Evidence from the Pakistani Banking Sector

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Abstract This research explores the interplay between Corporate Social Responsibility (CSR) expenditure and financial firm performance in the Pakistani banking sector, with a particular emphasis on the moderating effect of ownership concentration. Utilizing panel data from 10 major banks listed on the Pakistan Stock Exchange (PSX) over a period from 2014 to 2023, this study employs empirical modeling, including fixed and random effects regression, to determine the influence of CSR investment on financial metrics such as Return on Assets (ROA) and Return on Equity (ROE). The findings indicate a strong positive relationship between CSR spending and financial performance. However, the presence of ownership concentration modifies this relationship, amplifying its positive effects in some cases, while dampening them in others. The implications of this research are critical for bank managers, regulators, and investors aiming to maximize social good alongside financial returns.

Keywords: Corporate Social Responsibility (CSR), Financial Performance, Return on Assets (ROA), Return on Equity (ROE), Ownership Concentration, Banking Sector, Pakistan.

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Introduction

Corporate Social Responsibility (CSR) has transcended its philanthropic roots and evolved into a strategic component of business operations, particularly in sectors with significant public interaction, such as banking. Increasing scrutiny from regulators, customers, and investors has compelled firms to integrate CSR into their operational frameworks (Freeman, 1984; Carroll, 1991). This transformation is particularly relevant in emerging economies, such as Pakistan, where socioeconomic challenges necessitate a proactive corporate role in social development

In the banking industry, CSR is not merely a reputational tool; it impacts financial outcomes by influencing stakeholder relationships, brand loyalty, and regulatory favorability (Porter & Kramer, 2006). Financial institutions in Pakistan, including state-owned, privately-held, and foreign-owned banks, operate in a high-stakes environment that includes systemic risk, high regulatory scrutiny, and diverse ownership structures (La Porta et al., 1999). Ownership concentration, where a few entities hold significant shares, may impact CSR implementation due to the influence on corporate governance and decision-making priorities (Shleifer &Vishny, 1986)

The impact of CSR on financial performance has yielded mixed results globally. Some studies show a positive relationship (Orlitzky, Schmidt, &Rynes, 2003), while others highlight neutral or even negative effects (Friedman, 1970). In Pakistan, these dynamics are further complicated by ownership concentration, which can either support or suppress CSR's benefits depending on the alignment of major shareholders' interests with long-term corporate goals.

A recent multicountry analysis on sustainability-oriented consumer behavior (e.g., preferences for organic products via online platforms) offers additional insight into how corporate social initiatives shape stakeholder perceptions and consumer trust, which may translate into financial and reputational benefits for firms that align CSR with sustainable development goals (Sajid et al., 2025)

Recent studies further reinforce the importance of internal corporate governance and top management effectiveness in enhancing the link between CSR and organizational performance.

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Zeeshan et al., (2024) emphasized that in emerging markets such as Pakistan, ownership concentration significantly moderates this relationship. Their study found that concentrated ownership—often common in South Asian corporate structures—can either positively or negatively influence performance depending on how governance mechanisms are structured. Specifically, firms with effective boards and higher transparency experienced enhanced financial outcomes when CSR was strategically aligned with business goals.

The findings of this research fill a critical gap in CSR literature for emerging markets and offer empirical evidence that could inform regulatory policies, investment decisions, and strategic management in the banking sector.

Literature Review

A growing body of research in management and business studies has focused on corporate social responsibility (CSR), as interest in the connection between an organization's financial performance and its social and environmental initiatives has grown. This review of the literature attempts to give a broad overview of the research that has already been done on CSR, with a particular emphasis on the moderating effect of ownership concentration and its implications for firm performance.

Conceptualizing Corporate Social Responsibility:

Beyond their legal responsibilities and financial goals, companies that engage in CSR voluntarily address social and environmental issues (Carroll, 1979). These programs cover a wide range of pursuits, including community development, ethical labor practices, environmental preservation, and philanthropy. Due to pressure from stakeholders, ethical concerns, and the desire for long-term sustainability, companies all over the world are adopting CSR practices more frequently (Dahlsrud, 2008).Recent studies, such as Sajid et al. (2025), have emphasized the importance of integrating CSR with sustainability goals (e.g., consumer health, environmental impact) to align corporate behavior with long-term development agendas. Their work highlights that strategic CSR, when embedded in consumer-driven sectors, can reshape brand perceptions and foster

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consumer trust—an insight increasingly relevant to financial institutions seeking legitimacy and market differentiation in Pakistan's socioeconomically diverse landscape.

In the context of Corporate Social Responsibility (CSR), the role of ownership structure becomes even more nuanced. CSR initiatives in Pakistan's banking sector are often shaped by the strategic priorities of dominant shareholders, especially in institutions with high ownership concentration (Ghazali., 2023). This raises important questions about whether CSR in such firms is driven by genuine social commitment or strategic signaling to regulators and stakeholders. These concerns are echoed in recent findings from the SDGs Reviews (Sajid et al., 2025), which emphasize that in emerging economies, CSR must be viewed not only as a reputational asset but also as a mechanism to address broader developmental goals. Consequently, the intersection between ownership concentration and CSR performance merits closer examination, especially within highly regulated sectors like banking.

CSR and Firm Performance: Theoretical Perspectives:

Stakeholder theory, agency theory, and resource-based view (RBV) are just a few of the theoretical perspectives that have been used to study the connection between CSR and firm performance. Stakeholder theory holds that a wide range of stakeholders, such as customers, shareholders, communities, and employees, have an impact on and hold organizations accountable (Freeman, 1984). According to this viewpoint, CSR initiatives can improve organizational legitimacy and satisfy stakeholder demands, both of which have a positive effect on business performance (Aguilera et al., 2007).

Conversely, agency theory contends that by directing managers' and shareholders' interests in the direction of long-term value creation, CSR initiatives can reduce agency conflicts between them (Jensen and Meckling, 1976). Firms can lower agency costs and improve financial performance by demonstrating their commitment to ethical governance and stakeholder welfare through socially responsible behavior (Margolis and Walsh, 2003).

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According to Barney (1991), an RBV viewpoint sees CSR initiatives as strategic resources that support a company's sustainability and competitive advantage. Organizations can develop intangible assets like reputation, brand loyalty, and employee morale by funding social and environmental initiatives. These assets are important sources of competitive advantage and can boost financial performance (Porter and Kramer, 2006).

Empirical Evidence on CSR and Firm Performance:

The complexity and context-dependency of the relationship between corporate social responsibility (CSR) and firm performance have been the subject of mixed findings in empirical studies. According to some research (McWilliams and Siegel, 2001; Orlitzky et al., 2003), there is a positive correlation between CSR practices and financial performance. However, other studies find no correlation at all or even negative effects (Margolis et al., 2009; Flammer, 2013). Various factors, such as methodological variations, industry-specific effects, and variations in CSR measurement and implementation, can be attributed to the heterogeneity of findings (Waddock and Graves, 1997). Furthermore, there hasn't been much discussion in the literature about the moderating role of ownership concentration on the relationship between CSR and firm performance, especially when it comes to developing nations like Pakistan.

Ownership Structure as a Moderator:

The division of control and ownership rights among shareholders within an organization is referred to as ownership structure. It includes a number of dimensions, such as ownership dispersion, ownership type, and ownership concentration. The amount of ownership that is concentrated among a small number of significant shareholders or institutional investors is measured by ownership concentration. Different categories of owners, such as family-owned, state-owned, or publicly traded entities, are distinguished based on their ownership type. The dispersion of ownership among a varied set of shareholders is reflected in ownership.

According to earlier research, ownership structure may influence managerial discretion, decision-making procedures, and stakeholder engagement, which could moderate the relationship between CSR activities and firm performance (Cheng et al., 2014). Nonetheless,

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there is still a dearth of empirical data regarding this moderating influence, especially when it comes to non-financial businesses in Pakistan.

Conceptual Framework

CSR is broadly defined as the voluntary integration of social and environmental concerns into business operations and stakeholder interactions (Dahlsrud, 2008). According to stakeholder theory, firms that consider a broader spectrum of stakeholder interests perform better in the long term (Freeman, 1984).

Methodology

Research Design

This study uses a quantitative research design based on secondary data derived from the financial statements and CSR disclosures of 10 banks listed on the PSX from 2014 to 2023.

Variables

- **Dependent Variables:** ROA, ROE
- **Independent Variable:** CSR expenditure
- **Moderator:** Ownership concentration
- **Control Variables:** Liquidity, Leverage

Empirical Models

Model 1 (Without Ownership Concentration): $ROA = \beta0 + \beta1CSR + \beta2LEV + \beta3LIQ + \varepsilon$

Model 2 (With Ownership Concentration): $ROA = \beta0 + \beta1CSR + \beta2LEV + \beta3LIQ + \beta4OWCN + \varepsilon$

Similar models are used for ROE as the dependent variable.

Data Analysis

Panel regression techniques with fixed and random effects were used, including the Hausman test to determine the appropriate model specification.

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Results and Discussion

The following section highlights the key findings of the study and examines their significance in light of the research objectives. The results are interpreted in relation to existing literature, providing insights into patterns observed and their broader implications.

Descriptive Statistics

The descriptive statistics provide a comprehensive overview of the central tendency, variability, and distributional characteristics of each variable in dataset. They serve as a foundation for further analysis and understanding of how these variables relate to each other and contribute to the financial performance of banks in the Pakistani sector. Strong positive correlations were observed between CSR and both ROA (0.992) and ROE (0.980), suggesting a significant association's expenditure and ownership concentration showed significant variability across banks. ROA and ROE averages were 2.08% and 14.61%, respectively

Variable	Mean	Median	Max	Min	Std. Dev.
ROA	2.085	2.10	2.50	1.30	0.29
ROE	14.61	15.00	17.00	11.00	1.47
OWCN	40.68	41.00	45.00	33.00	2.86
LIQ	0.74	0.64	1.40	0.45	0.27
LEV	4.69	5.45	7.00	0.70	2.01
CSR	249.5	250.00	290.00	180.00	25.79

Correlation Analysis

	ROA	ROE	OWCN	LIQ	LEV	CSR
ROA	1	0.976	0.991	-0.36	0.37	0.992
ROE		1	0.986	-0.32	0.34	0.980

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	ROA	ROE	OWCN	LIQ	LEV	CSR
OWCN			1	-0.33	0.34	0.993
LIQ				1	-0.91	-0.36
LEV					1	0.36
CSR						1

The matrix confirms strong positive relationships among CSR, ROA, ROE, and OWCN, while liquidity shows a significant negative relationship with leverage. The correlation matrix provides insights into how each variable relates to others in your dataset. It suggests strong positive relationships between financial performance metrics (ROA and ROE) and ownership concentration (OWCN) and CSR expenditure. It also highlights a strong negative relationship between liquidity (LIQ) and leverage (LEV). These correlations can guide further analysis and understanding of the interdependencies among variables in the context of financial performance in the Pakistani banking sector.

Regression Analysis

The regression results indicate that CSR Expenditure, leverage (LEV), and liquidity (LIQ) significantly impact ROA in the Pakistani banking sector. Specifically, an increase in CSR Expenditure is associated with higher ROA, demonstrating its positive influence on financial performance. Ownership concentration, as hypothesized, was not explicitly tested in this model and should be considered in future analyses to understand its moderating effect on these relationships. These findings provide valuable insights into how CSR initiatives can contribute to financial performance in the banking sector.

Without Ownership Concentration CSR has a significant positive impact on both ROA and ROE. **With Ownership Concentration** the moderating variable OWCN enhances the effect of CSR on ROA but shows a negligible effect on ROE.

ROA without Ownership Concentration

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.034	0.159	-0.212	0.833
CSR	0.0034	0.0009	3.70	0.000
LEV	1.084	0.394	2.75	0.008
LIQ	2.745	0.214	12.80	0.000

CSR expenditure has a strong and statistically significant positive impact on ROA, consistent with stakeholder theory (Freeman, 1984) and empirical literature (Orlitzky et al., 2003). Leverage and liquidity also show significant positive relationships, aligning with results from Waddock and Graves (1997).

ROA with Ownership Concentration

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.303	0.163	-7.99	0.000
CSR	0.0032	0.0008	3.86	0.000
LEV	-0.084	0.042	-2.00	0.049
LIQ	0.198	0.099	2.00	0.049
OWCN	0.070	0.0075	9.25	0.000

Ownership concentration significantly moderates the CSR-ROA relationship, enhancing the impact of CSR. This supports previous findings by Cheng et al. (2014).

ROE without Ownership Concentration

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.833	0.033	86.66	0.000
CSR	0.0016	0.0003	5.95	0.000
LEV	0.395	0.206	1.91	0.060

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Variable	Coefficient	Std. Error	t-Statistic	Prob.
LIQ	0.520	0.088	5.93	0.000

CSR significantly increases ROE, supporting Porter and Kramer’s (2006) shared value theory. Leverage and liquidity are marginally and strongly significant, respectively.

ROE with Ownership Concentration

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.667	0.022	123.75	0.000
CSR	0.0028	0.0020	1.41	0.163
LEV	0.486	0.275	1.77	0.082
LIQ	-0.811	0.809	-1.00	0.320
OWCN	-0.0082	0.019	-0.43	0.666

CSR’s impact on ROE is not statistically significant when ownership concentration is included, indicating that ownership moderates ROA more effectively than ROE.

Conclusion and Discussion

This study investigated the impact of Corporate Social Responsibility (CSR) expenditures on financial performance—measured by Return on Assets (ROA) and Return on Equity (ROE)—in the context of the Pakistani banking sector, while also examining the moderating role of ownership concentration. The findings reveal that CSR has a statistically significant and positive effect on both ROA and ROE when ownership concentration is not included in the model. This supports the stakeholder theory, which posits that socially responsible actions enhance firm value by fostering stronger relationships with stakeholders (Freeman, 1984). The results also align with the meta-analytic evidence provided by Orlitzky et al. (2003), which found a positive association between CSR and financial performance across multiple industries. Liquidity and leverage further influenced financial outcomes, with liquidity consistently having a positive effect and leverage showing mixed results depending on the model.

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When ownership concentration was included as a moderating variable, its impact became particularly pronounced in the ROA model. The results show that ownership concentration significantly enhances the positive influence of CSR on ROA, suggesting that banks with more concentrated ownership structures are more effective in aligning CSR initiatives with strategic goals. This supports previous findings by Cheng et al. (2014), who highlighted the governance role of ownership in strengthening CSR outcomes. However, for ROE, ownership concentration did not moderate the CSR relationship effectively, indicating that equity-based performance may be influenced by broader capital structure dynamics rather than CSR alone.

These findings reinforce the idea that CSR and financial performance are positively linked, especially in the presence of strong governance mechanisms. They also support the shared value theory proposed by Porter and Kramer (2006), which argues that CSR can create both societal and economic benefits. In the context of the Pakistani banking sector, CSR appears to be more closely tied to asset-based performance metrics, and its effectiveness is further shaped by the nature of ownership structures within banks.

Future Research Directions

Future research should address the limitations of this study and explore additional dimensions of the CSR–performance relationship. First, as this study relies on cross-sectional regression analysis, future research could apply longitudinal or panel data techniques—such as fixed effects, difference-in-differences, or generalized method of moments (GMM)—to identify causal relationships (Wooldridge, 2010). Second, breaking CSR into environmental, social, and governance components may reveal which areas drive performance most significantly, particularly in regulated sectors like banking. Third, exploring the influence of various ownership types—such as institutional, foreign, or family ownership—may offer deeper insights into how governance mechanisms affect CSR effectiveness (Aguilera et al., 2007).

Future studies could also include firm-specific variables such as bank size, capital adequacy, or asset quality, which may act as confounding or mediating variables. Comparative studies across countries or sectors could provide a more generalized understanding of these relationships and test whether they hold in other developing or emerging markets. Finally, research focusing on the role of CSR during periods of systemic stress (e.g., economic downturns or regulatory transitions) could help determine whether CSR investments also serve as resilience strategies during crises.

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