

## CORPORATE SOCIAL RESPONSIBILITY, EARNINGS MANAGEMENT AND FINANCIAL PERFORMANCE: EVIDENCE FROM PAKISTANI'S REGISTERED FIRMS

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### ABSTRACT

#### Keywords:

Corporate Social Responsibility (CSR), Earning Management & Financial Performance.

*This study with the view to fill the gap by conducting a research to know that what impacts CSR has on earning management and financial performance. The meaning of corporate social responsibility (CSR) is to give anything of value other than the core product by the company which is in the favour of society, understanding the actual needs of the society, ensuring workplace safety of employees, employees' retention and maintaining a clear relationship between the employees and management results in enhanced financial performance in term of profits, committed employees, customer loyalty and increased sale to face a competitive environment. The main aim of this research is to find out the relationship between CSR, earning management and firm's financial performance in term of employees' retention, firm reputation and increased profits. The study is quantitative, data collected through questionnaire distributed among the employees and annual reports of different companies on Pakistan Stock exchange, OLS for earning management dummy of 0 and 1 were used to regress the result of DV and IDV of the companies performing business in Pakistan. The Firms' Financial Performance (FP) is dependent variable while Corporate Social Responsibility (CSR) and Earning Management (EM) are the independent variable of the study. Analysis of the study shows that there is a positive correlation between Earning Management and corporate social responsibility and performance. This means that there is a significant relationship between CSR, EM and Performance revealing impacts that CSR and EM have on performance. The purpose of this study is to observe the relationship between Corporate Social Responsibility (CSR), Earning Management (EM) in firms registered on Pakistan Stock Exchange. The resultant findings of the study expose that Corporate Social Responsibility and EM results in higher financial performance in Firms in PSX.*

## INTRODUCTION

This distinctive study shows the relationship among corporate social responsibility, earnings management and firm financial performance in the context of Pakistan. First this study exploits the direct influence of corporate social responsibility on firms' financial performance and then goes to find out the combine effect of corporate social responsibility on earnings management on firm financial performance.

The Firms' financial performance is a biased measurement of how effectively and efficiently a firm utilizes its crucial resources to produce revenues or profits. It can be defined as the measurement of a firm's operations and in term of monetary policies. These monetary terms can be measurement through different means and there is no such a consensus on the proper measurement method. Financial

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performance can be measured in the form of accounting returns and investor's returns. In investors return it has been seen that how much a business activity contribute to the shareholder's wealth or share prices. And in accounting returns the benefits of business activities has been measured in the form of price to earnings ratios (P/E) or earnings per share (EPS).

CSR is defined as a business strategy through which the businesses focus on the interests of the entire society while performing its business activities. The presence of CSR practice plays a vital role in employees' retention, their commitment and ultimately enhances the financial performance of the firm Stawiski et al. (2010). The findings of many researchers' show that CSR involvement of businesses increases employees, motivation, commitment and overall growth of the company (Markowitz (1972); Turban and Greening (1996); Al binger and Freeman (2000); Greening and Turban (2000); Backhaus et al. (2002); Peterson (2004); Dawkins (2004). Therefore it is important for the businesses to be engaged in CSR practice to make employees more satisfied and to enhance the company growth and financial performance. A generally accepted definition was offered by Denis Leonard and Rodney Mc Adams (2003).

Lawrence and weber (2000) conducted a research and defined CSR as "Communities, environment and people are affected by the activities of corporates thus it held liable for the effects of its actions/operation".

Juanita Oeyono, (2011) found a different results. He analysed the impacts of CSR upon financial performance and observed that spending on social practices increases the costs of the company/business which decrease the competitive advantages of the company. Paul Dunn, (2009) and Aupperle, (1985), found positive impacts of CSR on financial performance of company. However, no consensus result was found among the scholars in literature i.e. different scholars have different views regarding interrelationship of CSR & financial performance. Different opinions of scholars exist regarding what CSR responsibilities are and to whom they are concerned. Friedman (1970) is against CSR practice and argues that a business has no responsibility except maximizing stockholders profit by using legal ways. Many researchers view that corporations have a number of ethical and legal responsibilities towards their stakeholders (Carroll 1993, 1999; Donaldson and Preston 1995; Freeman, 1984). Frederick views are somewhat in between the two limits. According to his stated definition, it is "the reaction of business to the social prospects of the society / community". The current literature of CSR is more important in which Carroll (1979) defined the four main characteristics of the Corporate Social Responsibility.

Porter and Kramer (2006) argue that engagement in CSR activities brings opportunities, innovation and competitive edge to the businesses. They view that maximum social and financial benefits may be accomplished through better performance in the society. Several research oriented studies have been carried out in order to explore the association between CSR and performance. (Li Sun. Marty Stubebs 2012) conducted his research on chemical firms and found that chemical firms in United State engaged in CSR activities make them more productive. According to (Vilanova et al. 2009), CSR activities have positive impacts on financial performance of chemical industry.

There is difference between earning management and manipulating the financial information, and earning managements should not be confused with those illegal activities. Earnings managements were done in order to smoothly run the company. But most times it has been used by managers and accounting personnel for wrong purposes. The numbers of accounting scandals are increasing due to the results of inflated and wrong accounting information. Enron and WorldCom scandals are the obvious examples of these kinds of misstated financial information. These types of sandals are due to the misstated financial information.

Socially responsible corporations are considered to be less involved in such types of misstatement activities. These are thoughts to be more ethical than those companies that have no active role in corporate social responsibility. This study will explore whether socially responsible corporations are

doing earning management or not. It will also attempt to find out whether earnings management has influence on the financial performance or not. And it will also try to find out that investing in socially responsibilities activities have any effect on the fiscal performance of a firm or not.

## **2. Literature Review**

### **2.1 Corporate Social Responsibility**

This section talks about the previous work that has been done on the topic. In the first step of literature review earning management has been discussed, and in the second step CSR has been discussed. The third step talks about earning management and CSR, and then in the fourth step earning management and firm performance has been discussed. The fifth steps talks about earning management, CSR, and Firm performance. The topic of CSR is inexplicit which has got increasing attention of the researchers. Several studies have been conducted to explore the relationship of Corporate Social Responsibility (CSR) and financial performance in different sectors. Friedman (1962, 1970), indicates that social responsibility as a “donation” given from shareholders wealth to stakeholders that decrease a firm’s profits. Markowitz (1972); Turban and Greening (1996); Al binger and Freeman (2000); Greening and Turban (2000); Backhaus et al. (2002); Peterson (2004); Dawkins (2004) viewed that corporate social responsibility engagement play a vital role in appealing inspired potential employees and also develops commitment level of current employees which further increase the financial performance of the firm. Stawiski et al. (2010) proposed that maximum benefits of CSR are achieved when employees are involved in decision making concerning their activities in the environment and community. “Fleishman-Hilliard says that sale and reputation of a company is enhanced by engagement in social practices. Wright and Ferris (1997) found negative impacts of CSR on firm Financial performance.

All these studies have adopted various research methodologies but they presented quite different views regarding CSR results. None of the study has been conducted regarding CSR and financial performance association in the sector. Studying relevant views of CSR indicate an existing gap in the literature regarding impacts of CSR on financial performance of the firm. This study is to cover this research gap and to examine the impacts of CSR on financial performance in Pakistan.

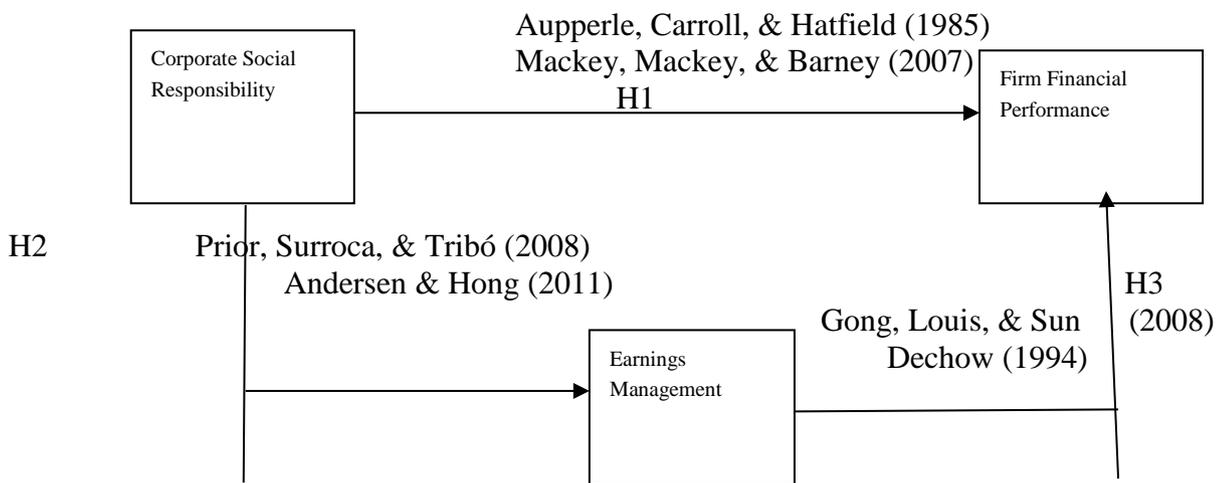
In Pakistan, corporate social actions are mostly undertaken by multinational companies because of their tough competition. Organizations like Pepsi, Nestle, Siemens, Lever Brothers, and Unilever have done much contribution regarding CSR in Pakistan. Later on banks have started sports marketing and led a trend in social talent. Survey conducted by Agha Khan Foundation and Resource Center NGO over senior officials in hundred majors companies which are working in Pakistan. According to this survey businesses and companies have numerous potential and trend towards area enhancement activities in the country. Business Corporations donate in various ways. Mainly they are contributing cash to different issues in education and health etc. Some firms donate their financial funds to schools, universities and colleges to promote education on regular basis. They also donate funds for keeping a clean environment and reduced pollution. Social marketing is way undertaken by the companies in order to link their products or services to the social cause. For example pharmaceuticals, food and beverage, and chemicals industries donate their products on usual basis to different beneficiaries and charitable organizations. These firms also take active part in situations of disasters caused by flood, earthquakes or natural calamities and war. Thus customers are likely to buy products of firms which are more socially more responsible. CSR activities related to Nestle Pakistan (2009) include long compassionate relief aid, food contributions, and education and rehabilitation programs to improve the lives of deprived Pakistanis. The generosity of this firm can be seen in its CSR areas. To improve the socio-economic life of the country it provides monetary and physical aid to hospitals and victims of natural disasters. General observation indicate that most of the businesses in developing countries do not pay full attention towards CSR practices or they do not do any extra ordinary thing to meet their true CSR obligations. Some of the institutes are continuously advocating these businesses about the importance of corporate social

responsibility. Much struggle has to be done to bring awareness about social activities like environmental protection, community welfare and public good. In Pakistan, Regular awards programs are continuously arranged to recognize and excite industries on the practice of social responsible behaviour (Arshad, 2006). A number of debates are under investigation to promote social behaviour of CSR.

## 2.2 Relationship between CSR, Earnings Management, and Firm Financial Performance

Aupperle, Carroll, & Hatfield (1985), studied the relationship between corporate social responsibility, and profitability and finds that there is no relationship between CSR and profitability. But another study by Gao & Zhang (2015), also tries to find the relationship between earning smoothing, CSR, and valuation and finds that smoothness has no affect on the firm value and earning-return relations are not improved by smoothness. However, when smoothness is combined with CSR it affects the earning return relation and has also positive effect on the value of firms. So, there is a contradiction of findings between the study of (Aupperle et al., 1985) and (Gao & Zhang, 2015). Another study by Hassan & Ahmed (2012), in Nigeria studies 25 non-financial firms during the period 2008 to 2010 listed on the Nigerian Stock Exchange using Univariate OLS multiple regression and finds that firm performance is inversely linked to board composition but there is positirnance and executive compensation.

### Theoretical Framework



### Hypotheses

Following are the hypotheses which have been developed based on the proposed theoretical framework.

**H1:** There is an impact of CSR on firm financial performance.

**H2:** There is an impact of CSR on Earning Management.

**H3:** There is an impact of Earning Management on firm financial performance.

## RESEARCH METHODOLOGY

Research methodology refers to the methods and techniques used by the researcher in order to find out solutions to a problem or issue.

In short, research methodology refers to the means or ways used to uncover a problem solution.

### 3.1 Research Design

This part of research tells about the research designs and explain the reason that why such design have been used here. It further explains the how questionnaire was distributed among the respondents representing the true population.

One should be very careful about setting research design as various issues are involved in the research design. It is important to note that a more sophisticated and rigorous the research design is more time consuming, more expensive in term of cost and expended resources. So it is important to ensure the accuracy, confidentiality and generalizing along with investment of resources and benefits of a research design. Six things should be keeping in mind while developing a research design of a study. These six aspects of research design includes; the purpose of study, unit of analysis, item analysis, factor analysis, reliability and validity. The purpose of the study should effective summarizing the goals of research which gives the reader a true understanding of the problem. Unit of analysis is the entity that the researcher wants to analyze in his or her study. Item analysis being statistical technique is used for selecting and discarding the items of the test on the basis of their troubled value and distinguished power. Item analysis is carried to check that the items in the instrument belong there or not. Each item is checked to discriminate between those subjects whose total scores are high, and those with low scores. The main determination of item analysis is to handpick suitable items for the concluding draft.

The current research used a large size of sample which is a true representative of the whole population. Here the research design used is a quantitative in nature based on the objective measurement and statistical analysis of data collected through questionnaire distributed across the employees.

### **3.2 Type of Research**

The current research used is quantitative in nature which is based on questionnaire. The questionnaires were distributed among the employees of the companies registered on Pakistan Stock exchange; the results obtained were generalized to the whole population.

### **3.3 Population and Sample of Research**

The True representation of population depends upon the size of the population. Saunders et al (2009) suggests that larger the size of the population the better the representation of the population. The population of this study consists of the total number of employees of the firms. A stratified sampling technique is used in this study. The whole population of employees is divided in three groups' managerial level, middle level and operational level employees. After this a random sampling of (a total of 324 employees) 150 employees and 174 employees were selected which was the population of the study. The instrument (Questionnaire) was distributed among the employees. Respondents were asked to the items of the Likert scale by indicating their level of agreement and disagreement. All the employees participated to respond to questionnaire; therefore the response rate was 100%. 20 female representing 13.33 % and 130 male representing 86.66% of the employees of both companies took part in the study. On the basis of above sample size Correlation and regression analysis was conducted.

### **3.4 Sources of Data and Data Collection**

Various methods of data collections are used in various studies. These methods include questionnaire, structured and unstructured interviews, observations, experiment and telephone calls etc. Questionnaire can be either sent by mail or it may be distributed physically among the respondents. The questionnaire is returned after being carefully fulfilled by the respondents. This research is quantitative in nature which is based on primary data. The tool used here for data collection is Questionnaire. The data collected here is primary in nature. Before collecting data permission was taken from Human Resource Department of proposed companies. The respondents who agreed were handed over questionnaires. The questionnaire was consist of five likert scale ranging from strongly agree to strongly disagree which was suitable to measure the intensity of respondents, feelings in the given scenario. Data collected through questionnaire was analyzed for the mentioned purpose of the study.

### **3.5 Statistical tools and models**

Descriptive statistics, Factor analysis (FA), Confirmative Factor Analysis, Independent T-test, correlation, regression & regression assumptions, reliability, validity and questionnaire were the techniques which are adopted in this research study to get the true intended results of the research. Factor analysis is used to define the inter correlation in the questions in a variable. Cronbach's alpha test is applied to test the internal consistency or reliability of measurements. KMO and Bartlett's tests have been applied in this research study to know the adequacy of sample size in this research study. Confirmatory Factor Analysis (CFA) is used to appraise the appropriateness of the measurement model for every concept separately. Correlation analysis is used to understand the nature of relationship in the variables. Regression analysis used here is to determine the impacts on dependent variable caused by independent or predictive variables.

## **RESEARCH ANALYSIS**

This chapter of the study provides detail of the tools and techniques used for data analysis of this study.

### **4.1. Research techniques & Tools**

**Reliability** and validity are the two important aspect of research process which is used by researchers to maintain the quality of research.

Reliability is a test which shows the consistency of the measuring instrument. Reliability shows the degree to which a measuring instrument shows the stable and consistent results.it shows whether the research is trusted or not. In this study the views of well -known researchers have been taken from relevant literature as evidence which insures the reliability of the research. Validity is a test which shows that how well an instrument measures the intended concept. A reliable test needs to be valid. Validity shows us whether we measure the right concept. It refers to the selection of correct and suitable method of research (Biggam, 2011). In short a research design launches a decision making process, conceptual structure of investigations and methods of analysis used to address the research problem. In this research a number statistical techniques have been used to assess the reliability and validity of the study.

### **4.2. Reliability Analysis**

<b>Variables</b>	<b>Cronbache's Alpha</b>	<b>No. Item</b>
Human Rights	0.788	9
Philanthropy	0.789	5
Employees & Labor Rights	0.709	9
Legal Responsibility	0.734	3
Ethical Responsibility	0.767	3
Environmental Responsibility	0.702	5
Economic Responsibility	0.781	3
Anti-Corruption	0.877	3
Supplier	0.711	3
Financial performance	0.762	8

The above table shows the reliability of the data collected for the variables mentioned. The results show that the data is reliable due to the Cronbach's value above the acceptable ranges. The researchers argued that alpha value of above 0.60 is acceptable; however the value of alpha of this variable is well above the desired and acceptable level. So the scale is highly reliable for further analysis of this study.

### **4.3. Explorative Factor Analyses**

Factor analysis is a algebraic technique carried out to depict variability among observed correlated variables in view of a potentially lower number of unobserved variable termed as factors.

### **4.4. Confirmative Factor Analysis (CFA)**

Due to abstract and theoretical nature of concepts in the field of social sciences, chances of errors in measurements are always expected which are unpredictable. Thus before testing of measurement modal, the researchers are required to minimize these errors by testing the hypothetical relationship among the construct/scale (Cheng, 2001). One of the techniques of measurements modals is Confirmative Factor Analysis (FAC).

### Measurement Modal for Human Rights

**Table 1: Confirmative Factor Analysis for Construct used for Human Rights**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Hr1	0.72	0.73	0.28
Hr2	0.83	0.87	0.22
Hr3	0.63	0.96	0.34
Hr4	0.86	0.75	0.23
Hr5	0.76	0.84	0.31
Hr6	0.88	0.81	0.28
Hr7	0.76	0.78	0.37
Hr8	0.86	0.67	0.24
Hr9	0.56	0.88	0.39

#### Fit Statistics

Chi-square = 17.68 (df= 9, p = 0.008)

Standardized RMR = 0.011

RMSEA = 0.081

GFI = 0.985, CFI =0.971

### 4.4.2. Confirmative Analysis for the construct used for Philanthropy

The dimension model for Philanthropy having a single factor with 05 indicators is presented in the following figure. The analysis measurement approximation of the concept as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 105.77 with 05 degrees of freedom is statistically acceptable at  $P < 0.007$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.119; Standardized RMR= 0.027; GFI= 0.987; CFI= 0.983). The following table provides the results of the confirmatory factor analysis for Philanthropy as follows.

### Measurement Modal for Philanthropy

**Table 2: Confirmative Factor Analysis for Construct used for Philanthropy**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Ph1	0.82	0.68	0.38
Ph2	0.73	0.72	0.22
Ph3	0.83	0.78	0.29
Ph4	0.88	0.75	0.31
Ph5	0.98	0.64	0.27

Chi-square = 105.77 (df= 5, p = 0.007)

Standardized RMR = 0.027

RMSEA = 0.119

GFI = 0.987

CFI = 0.983

#### 4.4.3. Confirmative Analysis for the construct used for Measurement of Employees & Labor Rights

The measurement model for Employees & Labor Rights having a single factor with 09 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 19.52 with 9 degrees of freedom is statistically at  $P < 0.005$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.117; Standardized RMR= 0.021; GFI= 0.94; CFI= 0.90). The following table provides the results of the confirmatory factor analysis for Employees & Labor Rights as follows:

#### Measurement Modal for Employees & Labor Rights

**Table 3: Confirmative Factor Analysis for Construct used for Employees & Labor Rights**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Elr1	0.82	0.83	0.20
Elr2	0.73	0.67	0.29
Elr3	0.86	0.86	0.39
Elr4	0.77	0.85	0.24
Elr5	0.83	0.74	0.22
Elr6	0.92	0.81	0.27
Elr7	0.71	0.78	0.29
Elr8	0.78	0.87	0.38
Elr9	0.89	0.85	0.30

#### Fit Statistics

Chi-square = 19.52 (df= 9, p = 0.005)

Standardized RMR = 0.021

RMSEA = 0.117

GFI = 0.94, CFI = 0.90

#### 4.4.4. Confirmative Analysis for the construct used for Measurement of Legal Responsibility

The measurement model for Legal Responsibility having a single factor with 03 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 154.20 with 3 degrees of freedom is statistically at  $P < 0.05$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.119; Standardized RMR= 0.023; GFI= 0.976; CFI= 0.958). The following table provides the results of the confirmatory factor analysis for Legal Responsibility as follows.

#### Measurement Modal for Legal Responsibility:

**Table 4: Confirmative Factor Analysis for Construct used for measurement of Legal Responsibility**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Lgr1	0.72	0.78	0.29
Lgr2	0.83	0.82	0.34
Lgr3	0.80	0.88	0.19

Chi-square = 154.20 (df= 3, p = 0.003)

Standardized RMR = 0.023

RMSEA = 0.119

GFI = 0.976

CFI = 0.958

#### 4.4.5. Confirmative Analysis for the construct used for Measurement of Ethical Responsibility

The measurement model for Legal Responsibility having a single factor with 03 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 108.30 with 3 degrees of freedom is statistically at  $P < 0.004$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.132; Standardized RMR= 0.021; GFI= 0.980; CFI= 0.991). The following table provides the results of the confirmatory factor analysis for Ethical Responsibility as follow

**Measurement Modal for Ethical Responsibility:**

**Table 5: Confirmative Factor Analysis for Construct used for measurement of Ethical Responsibility**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Etr1	0.72	0.88	0.24
Etr2	0.83	0.84	0.22
Etr3	0.87	0.77	0.45

Chi-square = 108.30 (df= 3, p = 0.004)

Standardized RMR = 0.021

RMSEA = 0.132

GFI = 0.980

CFI = 0.991

#### 4.4.6. Confirmative Analysis for the construct used for Environmental Responsibility

The measurement model for Environmental Responsibility having a single factor with 05 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 127.68 with 05 degrees of freedom is statistically at  $P < 0.001$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.127; Standardized RMR= 0.021; GFI= 0.908; CFI= 0.941). The following table provides the results of the confirmatory factor analysis for Environmental Responsibility as follows.

**Measurement Modal for Environmental Responsibility**

**Table 6: Confirmative Factor Analysis for Construct used for Environmental Responsibility**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Enr1	0.82	0.78	0.22
Enr2	0.73	0.82	0.29
Enr3	0.86	0.69	0.34
Enr4	0.76	0.75	0.38
Enr5	0.89	0.74	0.29

Chi-square = 127.68 (df= 5, p = 0.001)

Standardized RMR = 0.021

RMSEA = 0.127, GFI = 0.908, CFI = 0.941

#### 4.4.7. Confirmative Analysis for the construct used for Measurement of Economic Responsibility

The measurement model for Economic Responsibility having a single factor with 03 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values.

The chi-square value of 137.68 with 3 degrees of freedom is statistically at  $P < 0.05$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.102; Standardized RMR= 0.029; GFI= 0.976; CFI= 0.968). The following table provides the results of the confirmatory factor analysis for Economic Responsibility as follows.

**Measurement Modal for Economic Responsibility:**

**Table 7: Confirmative Factor Analysis for Construct used for measurement of Economic Responsibility**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Ecr1	0.84	0.86	0.22
Ecr2	0.76	0.79	0.38
Ecr3	0.87	0.88	0.29

Chi-square = 137.68 (df= 5, p = 0.05)  
 Standardized RMR = 0.029  
 RMSEA = 0.102  
 GFI = 0.976  
 CFI = 0.968

**4.4.8. Confirmative Analysis for the construct used for Measurement of Anti- Corruption**

The measurement model Anti- Corruption having a single factor with 03 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 115.71 with 3 degrees of freedom is statistically at  $P < 0.006$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.111; Standardized RMR= 0.128; GFI= 0.993; CFI= 0.906). The following table provides the results of the confirmatory factor analysis for Anti- Corruption as follows.

**Table 8: Confirmative Factor Analysis for Construct used for measurement of Anti- Corruption**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Anc1	0.72	0.78	0.22
Anc2	0.83	0.82	0.23
Anc3	0.75	0.88	0.34

Chi-square = 115.71 (df= 5, P = 0.006)  
 Standardized RMR = 0.128  
 RMSEA = 0.111  
 GFI = 0.993  
 CFI = 0.906

**4.4.9. Confirmative Analysis for the construct used for Measurement of Supplier**

The measurement model Supplies having a single factor with 03 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 110.18 with 3 degrees of freedom is statistically at  $P < 0.002$ . The associated fit statistics indicate that the model is acceptable (RMSEA=

0.121; Standardized RMR= 0.131; GFI= 0.98; CFI= 0.98). The following table provides the results of the confirmatory factor analysis for Suppliers as follows.

**Measurement Modal for Suppliers:**

**Table 9: Confirmative Factor Analysis for Construct used for measurement Suppliers**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Sup1	0.72	0.78	0.27
Sup2	0.83	0.82	0.35
Sup3	0.82	0.71	0.22

Chi-square = 110.18 (df= 5, P = 0.002)

Standardized RMR = 0.131

RMSEA = 0.121

GFI = 0.956, CFI = 0.988

**4.4.10. Confirmative Analysis for the construct used for Measurement of Financial performance**

The measurement model for financial performance having a single factor with 09 indicators is presented in the following figure. The analysis measurement estimation of the construct as demonstrated below confirms that this model fit well by considering the statistical values. The chi-square value of 112.68 with 9 degrees of freedom is statistically at  $P < 0.008$ . The associated fit statistics indicate that the model is acceptable (RMSEA= 0.114; Standardized RMR= 0.141; GFI= 0.899; CFI= 0.998). The following table provides the results of the confirmatory factor analysis for financial performance as follows:

**Fig: Measurement Modal for Financial performance**

**Table 11: Confirmative Factor Analysis for Construct used for financial performance**

Indicators	Completely Standardized Loadings	Indicator Reliability	Error Variance
Pr1	0.82	0.56	0.24
Pr2	0.71	0.87	0.25
Pr3	0.83	0.81	0.27
Pr4	0.67	0.65	0.22
Pr5	0.86	0.84	0.34
Pr6	0.82	0.75	0.21
Pr7	0.82	0.85	0.28
Pr8	0.72	0.67	0.31
Pr9	0.56	0.85	0.37

Fit Statistics

Chi-square = 112.68 (df= 9, p = 0.008)

Standardized RMR = 0.141

RMSEA = 0.112, GFI = 0.899, CFI = 0.998

#### 4.5. Correlation Matrix

Variable s	Hu man right	Philanthropy	Employ ees& labor right	Legal responsi bility	Ethical responsi bility	Environm ental responsib ility	Economi c responsi bility	Anticorru ption	suppl ier	financia l perform ance
Human right	1									
Philanthropy	-0.095	1								
Employee s &labor right	0.065	.163**	1							
Legal responsi bility	0.05	.233**	0.182**	1						
Ethical responsi bility	0.015	0.007	.297**	.115*	1					
Environm ental responsib ility	0.029	0.144**	.213**	0.301**	.173**	1				
Economi c responsi bility	0.177**	0.297**	.166**	0.028	.193**	.311**	1			
Anticorru ption	0.177**	0.297**	.166**	0.028	.193**	.311**	1.000**	1		
Supplier	0.113*	0.172**	0.088	0.035	.156**	.148**	0.03	0.03	1	
Financial perform ance	.143**	0.099	.275**	0.053	.168**	.172**	.263**	.263**	0.075	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

The results in the above table show that there is a strong correlation among the variables of interest. The results show that all variables of the CSR (Human rights, Philanthropy, Employees and Labour rights, Environmental, Ethical, Legal, Economic responsibilities, Anti-corruption and Supplier have positive correlation with the financial performance of these firms. **4.6.**

## Regression Analysis

Variables	Beta	St. error	T. values	P values
Human rights	.088	.053	1.667	0.096
Philanthropy	0.109	0.050	2.188	0.029
Employees & labor rights	0.163	0.053	3.064	0.001
Legal responsibility	0.025	0.043	0.594	0.553
Ethical responsibility	0.026	0.031	0.835	0.404
Environmental responsibility	0.066	0.053	1.253	0.091
Economic responsibility	0.157	0.041	3.782	.000
Anti-corruption	0.044	0.041	1.626	0.080
Supplier	0.044	0.027	0.626	0.105

**Dependent Variable: Financial performance, F Value= 12.752, R<sup>2</sup> = 0.364**

The table above shows that all facets of CSR have positive impact on the financial performance. R<sup>2</sup> shows the change in dependent variable (Financial performance) caused by Independent variable (CSR), value of Beta shows the in predictor (independent variable) that will carry a % age change in response variable ( dependent variable) and F- value indicates the overall significance of the modal . The R-square value indicates that almost 36 % changes are incurred due to the changes in independent variables of this study. The F-value is 12.75 which suggest that the model is significant. Table shows that Philanthropy, Employees and labor rights and economic responsibility have positive and significant impacts on Financial performance of these firms, as the t- value is above 2 and significant at 5% probability level. Similarly human rights, environmental, legal, ethical responsibilities, anti- corruption and suppliers have positive but insignificant impacts on the financial performance of these firms, as the T-value is less than 2 and is insignificant at 5% probability level.

### 4.7. Regression Assumptions/Multi-collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
1		
Human Rights	.944	1.059
Philanthropy	.706	1.416
Employees & Labor rights	.645	1.550
Legal responsibility	.614	1.629
Ethical Responsibility	.685	1.459
Environmental Responsibility	.792	1.263
Economic responsibility	.837	1.195
Suppliers	.786	1.272

**a. Dependent Variable: Financial performance, Durbin-Watson= 2.196,**

Regression assumption Results shown in the above table shows that VIF (Variance Inflation Factor) values for the variables of Human Rights, Philanthropy, employees and Labor rights, ethical, economic,

legal, environmental responsibilities, Ant-corruption and supplier are so small/below threshold value; therefore there is no auto correlation and multicollinearity.

#### 4.8. Independent T-test

Variable	Respondents Mean	Respondents Mean	Levant Test F value	P. Value
Human Rights	4.30	4.29	0.271	0.603
Philanthropy	4.27	4.30	0.123	0.736
Employees & Labor Rights	4.18	4.25	2.43	0.120
Legal Responsibility	4.40	4.49	0.375	0.541
Ethical Responsibility	4.06	4.18	2.38	0.123
Environmental Responsibility	4.19	4.26	0.471	0.493
Economic responsibility	4.12	4.12	0.126	0.723
Ant-Corruption	4.12	4.12	0.126	0.723
Supplier Responsibility	4.39	4.39	0.027	0.870
Financial performance	4.28	4.29	0.164	0.668

The test was conducted to compare the difference in the feelings of employees about CSR practices .The Levant test for variables of CSR is insignificant at 5% level for all the facets used to predict the CSR, thus there is no difference in the CSR practices.

## CONCLUSION

### 5.1. Discussion

The value of Cronbache’s alpha of all 10 variables i.e. Human rights, Philanthropy, employees & labor rights, legal, ethical, environmental and economic responsibilities, anti- corruption, suppliers and financial performance are (0.788, 0.789, 0.709, 0.734, 0.767, 0.702, 0.781, 0.877, 0.711, 0.762) respectively having value more than 0.60 which suggest that all 10 variables tested are reliable for more analysis of study.

Factor analysis of the stated variables conducted to check the rationality of queries of all variables. The results showed enough correlation among all questions of variables. All the variables have been loaded at values above 0.5 which shows that the questions of this variable are inter related and are valid.

The results of KMO,s of Human rights is 0.789 which is well above the critical value 0.5 and Bartlett’s is significant having  $p>0.05$  . Thus KMO and Bartlett’s tests are significant. KMO and Bartlett’s for Philanthropy is 0.521 and 0.000. KMO and Bartlett’s for employees and labor rights is 0.732 & 0.000. similarly KMO and Bartlett’s of legal, ethical, environmental, economic responsibilities, suppliers, anti-corruption and financial performance are 0.879, 0.723, 0.546, 0.631, 0.712, 0.623, and 0.765 respectively which are significant at  $p>0.05$ . So the results of all the KMO, s and Bartlett’s components indicate that sample is adequate to conduct the research.

Results of the descriptive statistics indicate all values within prescribed value of research. Values of correlation show positive correlation, which shows a positive correlation between dependent and independent variables, and an increase in financial performance when spending on CSR Practices is increased. Regression analysis of corporate social responsibility with financial performance results indicated that  $R^2=0.364$ , i.e. 36% changes in dependent variable (financial performance) may be carried out due to change/ spending on CSR activities by firms.

The complete outcomes show that there is an important positive correlation amid CSR activities and Financial performance in the firms having UN Global status. This reveals that CSR activities have positive impacts on the financial performance of these firms.

## **5.2. Conclusion**

The trend of CSR activities in Pakistan has been increasing nowadays which attracted the business firms to engage in these practices. It is very obvious that engagement in such kind of activities have impacts on the firms' value/Financial performance/financial performance. In this regard, different schools of thoughts have different opinions indicating positive, negative as well as no relationship at all. Thus the question of causality arises, that in which direction CSR impacts financial performance of the firm. The connection of CSR with financial performance can be found in both directions and there is no clear answer for this. However, there are evidences that CSR and Financial performance are directly related.

## **5.3. Recommendations/Future Research**

Following are the recommendations for conducting future research;

- The target population chosen in this research was all the employees of firms. Future research may be conducted in any other set up.
- The same study can also be tested in any other organization indulged in CSR practices; hence their impacts on financial performance can be assessed.

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