Kashmir Economic Review
ISSN(P): 1011-081X, ISSN(E): 2706-9516
http://www.ker.org.pk

The Impact of CSR on Firm Performance: Exploring the Moderating Effect of Earnings Management

ABSTRACT

This study checks the CSR impact on the financial performance of the financial sector in the moderator effect of earning management. The public and financial sector companies active in CSR have invested most of their capital in the financial industry. A sample of fifty financial firms from the banking, insurance, and mudaraba sectors that are listed on the Pakistan Stock Exchange from the period 2010 to 2023 was used in this study. Correlation and panel regression analysis were employed for the study. CSR has a positive but insignificant impact on the market's financial performance. Earning management has a negative association with accounting measures of financial performance, while earning management has a positive association with market-based measures of financial performance. Earning management is related to accounting measures, whereas market-basis measures depend on investors' perceptions. Hausman-test results of the model show a positive but insignificant impact of CSR on the financial performance of the financial sector in moderating the role of earning management. The findings of this study highlight the importance of CSR because CSR has a positive association with the long-term financial performance of firms. The bulk of cash in the financial industry has come from public and financial sector enterprises engaged in corporate social responsibility.

Keywords

CSR, Financial Sector, Earnings management, Tobin's q

JEL Classification
M14, E44, L25

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Please cite this article as:
Khan, C., Shah, S.Z.A., Ahmed, M., & Farooq, I. (2024). The impact of CRS on firm performance: Exploring the moderating effect of earnings management. *Kashmir Economic Review*, 33(1), 1-13.

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Author's contribution to the article: 1- Conceived and designed the analysis, 2- Reviewed and compiled the literature, 3- Collected the data, 4- Contributed data or analysis tools, 5- Performed the analysis, 6- Wrote the paper, 7- Financial support for the conduct of the study, 8-Other

1. INTRODUCTION

Before the evolution of CSR, the primary objective of a firm was profit maximization without being concerned about its harmful effect on operations on society and the environment. The interchangeable term for Corporate Social Responsibility was "Social Responsibility," which emerged in the early 1950s. CSR was familiar in the late 1960s as a significant component of firms. Later, the firms are legally and ethically bound to spend some of their revenue on social welfare. Carroll (1991) presented the following four CSR dimensions: economic, ethical, legal, and philanthropic responsibilities. CSR refers to the marketing tools and practices of corporations that consider the responsibility of a business to benefit a large public (Matten & Moon, 2008). CSR is "the firm's commitment to maximizing long-term benefits for society and environment by eliminating its harmful effects on people and planet" (Webb et al., 2001). CSR has constructed multidimensionality (Rowley & Berman, 2000). The researchers identify many related concepts and dimensions of CSR. Swaen & Chumpitaz (2008) identified four dimensions of CSR related to the company strategies: to support activities related to the environment, value their consumers, support their employees, and take philanthropic initiatives. CSR is a tool to protect the public interest and maximize profit by caring for the public. The firms engaged in social welfare, improving the environment, and providing health and education facilities. It helps to stay away from strikes, opposition, and lawsuits. According to the triple Iron constraint, a firm should be concerned for profit, people, and the planet.

According to the Supreme Court of Pakistan, General Order, 2009, about companies' CSR, under section 2, "it is required for each corporation to provide details of CSR expenditures in its annual report during the financial year." The Board of Directors' fundamental obligation is to include the disclosure of CSR expenditures in the audit annual report (Waris, 2014).

Naz et al. (2016) defined financial performance as an indicator to measure the effective and efficient usage of assets to generate profit for specific periods. In addition, the firm aims to maximize shareholder wealth and profitability. The various barometers are used to measure the firm's financial performance. According to Al-Matari et al. (2014), market-based and accounting-based measures are used to check financial performance. Furthermore, measuring organizational performance is mandatory because of how an organization uses its resources to maximize its profitability. It provides in-depth insight regarding the attainment of goals, including financial goals. Studies show that CSR positively impacts firms' financial performance (FP). The firm is involved in CSR activities in social contribution; therefore, CSR has a long-term effect on the firm's FP. At the same time, CSR has no significant impact on the FP. There is no relationship between CSR and FP. On the contrary, CSR hurts the FP of the firm because it causes dilution of the goal. The core motivation of the firm is to maximize shareholder wealth. CSR activities are cost-effective in minimizing the firm's profit.

In academic research, the idea of CSR and firms' performance has gained importance in the past few years in analyzing its effect on the wealth of shareholders and FP of the firms. CSR is essential for every successful firm in today's competitive environment. From Pakistan's perspective, a limited number of laws related to CSR are provided by the Security and Exchange Commission of Pakistan (SECP) and the State Bank of Pakistan (SBP). It includes corporate law, labor law, and consumer protection law. However, no specific law in Pakistan governs CSR (Yunis et al., 2017). Previous studies have examined how CSR affects non-financial corporate performance in Pakistan. The public and financial sector companies active in CSR have invested most of their capital in the financial industry. However, Sayed et al. (2018) researched to check the impact of CSR on the FP of financial firms in Pakistan. According to Sha and Butt (2016), earning management is a technique of using accounting knowledge to manipulate the accounting reported figures while being within the limits of accounting standards. The core motivation of management behind earning management is to reflect the results that shareholders expect. This intentional manipulation of a firm's performance results is known as earnings management.

The present global recession and the financial scams of Enron, WorldCom, Bank of Punjab, Etc. It is a question of how accounting professionals manage their expert accounting knowledge to achieve their goals. The economy runs more smoothly when financial institutions are operating smoothly. Financial crises result from disruptions in these institutions. Additionally, Javed and Ahmad (2020) evaluate the moderation effect of earning management on the relationship between CSR and FP on 80 listed firms in the Pakistan Stock Exchange using SPSS. Their study findings suggest that if there are CSR initiatives, the key motivation is to indulge in a higher level of earning management, which leads to lower FP. Therefore, shareholders should be concerned about this type of activity. Moreover, Malik and Kanwal (2016) examined the impact of CSR disclosure of FP of KSE-listed Pharmaceutical firms in Pakistan from 2005- 2014. CSR was used as an independent variable, FP as the dependent variable, and Brand Equity as the mediator. This revealed a significant impact of CSR disclosure on financial performance. Furthermore, Afza et al. (2015) investigated the impact of CSR on the FP of 76 manufacturing companies in Pakistan from 2009-2012. This research aims to investigate the impact of CSR on the firm's Financial Performance (PF) of financial sector companies in Pakistan through moderating variable effect of earning management in accounting and marketing measures of the firm's financial performances.

2. LITERATURE REVIEW

This literature review provides a comprehensive review of the empirical work conducted around the globe regarding the impact of CSR on a firm's performance. For example, Fu and Shen (2015) examined the relationship between CSR and PF of Chinese firms. A sample of 63 firms was taken using the prospect of stakeholder theory. The results showed a positive relationship between CSR and FP. Two schools of thought regarding CSR exist: classical theory and stakeholder theory. The classical theory says that CSR is a cost for the firms, which reduces the FP. Contradictory stakeholder theory says that CSR is one of the factors that can improve the corporate image, including improving FP. This empirical study validates the stakeholder approach that CSR significantly impacts the firm's FP. Hirigoyen and Rehm (2014) examined the relationship between CSR and FP of 329 listed companies in the US, Europe, and Pacific regions from the period 2009-2010 by using linear regression and the Granger causality test. The results showed that there is a negative relationship between CSR and FP. The government spends most of its budget on social sector development in developed countries. That might be the reason for the negative association of CSR with FP in developed countries. The other reason for the negative association might be that the research was conducted during financial crises in those countries.

Similarly, Mwangi and Jerotich (2013) examined the connection between CFP and CSR. Regression analysis was used on 14 listed businesses from the manufacturing, construction, and related sectors of the Nairobi Securities Exchange between 2007 and 2011. The findings indicated that corporate FP and CSR have a terrible relationship. In addition, Ahmad et al. (2014) examined the connection between FP and CSR. They used regression analysis and correlation with SPSS to examine Bursa Malaysia-listed firms between 2007 and 2011. The outcome demonstrated that company performance and CSR are positively correlated. To enhance and acquire long-term financial strength, business reputation, and image, these organizations must participate in CSR initiatives. To reap future benefits, they must encompass all CSR operations, including those that are morally, legally, and environmentally sound. Moreover, Ahmed and Adeneye (2015) examined the relationship between CSR and FP. They took 500 UK companies to find descriptive statistics, correlation, and regression. The financial performance indicators were used to determine market-to-book value, firm size, and return on capital employed. The results showed a positive relationship between CSR and market-to-book value and Return on capital employed and a negative relationship between CSR and the firm's size. Moreover, they recommended that companies get a more competitive advantage by doing more CSR practice activities in the UK. Murtaza et al. (2014) examined the relationship between CSR and FP in the food sector in Pakistan by collecting qualitative and quantitative methods and applying the NVIVO test. The results of their study showed a positive relationship between CSR and FP. Research on this topic has shown that, on average, companies increase their earnings around the time of listing events to raise the issue's price and increase the firm's value. On the contrary, Mahdi, Al-Absy, and Alastal's (2023) study aims to investigate the effect of corporate social responsibility on the firm's performance of listed firms in Bahrain Bourse for 2018 and 2019. From the regression, the study did not find a significant relationship between corporate social responsibility and the firm's performance, neither by using the measurement of return on assets nor by measurement of return on equity.

In addition to that, Awan and Nazis (2016) examined the relationship between CSR and FP of sixteen banks in Pakistan from the period of 2009-2013. They adopted a quantitative methodology by using SPSS software. The results of their study showed a positive relationship between CSR and FP. In developing countries like Pakistan, there is a lack of educational institutes and social welfare development. If companies pay a small amount of attention, the people's standard of living will improve. Furthermore, Malik and Kanwal (2016) also examined the relationship between CSR disclosure and FP of Pharmaceutical Firms in Pakistan from 2005 to 2014. They used quantitative tools, content analysis, and regression analysis. They used CSR as an independent variable (disclosure of environment, HR safety, customer, product, and community involvement), brand equity as a mediating variable, and FP as a dependent variable. The study showed a significant positive relationship between CSR and FP. Pakistan comes under the category of developing nations where minimum investment in the form of CSR speaks louder.

Similarly, Afza et al. (2015) studied the theoretical framework of agency theory and stakeholder theory to empirically analyze the impact of CSR on the FP of the firm in the short-run and long-run manufacturing firms in Pakistan. They took a sample of 76 firms from the Chemical, Construction and Material, Pharma and Biotech, Automobile, Oil and Gas, Industrial Metal, and Mining sectors from the period 2009 to 2012. A panel data model, random model, and generalized least square regression were used, and the F-test, LM-test, and Hausman-test were applied. The results of the model reveal that CSR has a positive impact on the FP of firms in both the short run and long run. The reason for the positive impact of CSR in developing countries is much higher as compared to the developed world due to the lack of public services (such as education, health, pure and clean water, etc.) if the CSR is utilized in an effective and better manner in these countries. Additionally, Arshad et al. (2015) examine the effect of CSR on FP for the company. From 2009 to 2013, they selected 125 listed businesses from 25 different KSE industries in Pakistan. The dependent variable is FP, measured by ROA and Tobin's Q. The controlling variables are firm size, leverage, sales growth, and age. The independent variable is CSR, quantified by donations and environmental costs. The findings showed that, at a 5 percent confidence level, the impact of CSR on FP is statistically insignificant. In contrast, at a 10 percent confidence level, the relationship between CSR and FP is favorable.

Several studies have found Earnings management to impact business performance (Chakroun & Ben Amar, 2022; Ching et al., 2015; Indrawati & Hanif, 2023). Businesses can improve the accuracy of their financial reporting through effective external and internal audit processes, which will impact stakeholders' confidence in the reports. These studies offer proof that the perplexing phenomena of underperforming post-issue earnings can be explained by earnings management (Chakroun & Ben Amar, 2022; Espahbodi et al., 2022; Lin et al., 2021; Mangala & Dhanda, 2019). Ogolla, G. A. (2013) examined the relationship between CSR and FP of forty-one commercial banks in Kenya from 2007-2011. For the study of analysis, multiple regression models were adopted. The results showed a strong relationship between CSR and FP. The author emphasized that commercial banks should invest more in CSR to enhance their financial performance. CSR activities are an essential part of any business in the modern era, where no one can ignore CSR activities. The banking sector, including all other sectors, should do CSR activities to enhance their financial performance.

Conclusively, the firm's work for public welfare, which includes customers, investors, suppliers, employees, etc., and firms engaging in social work will earn more profit. A company formulates its rules and regulations regarding the needs of the employees. It includes regulations about the environment and the health and safety of employees. Evidence shows that the firm is socially responsible. Furthermore, according to the window of opportunity concept, most companies decide to go public when their operating performance is at its best, which may be transitory and unsustainable. Therefore, previous manipulation may impact future earnings, resulting in declining earnings (Chakroun & Ben Amar, 2022; Mangala & Dhanda, 2019). Javed and Ahmad (2020) took a stratified sample of 80 firms listed on PSX from 2013 to 2017 to check the impact of CSR on FP as earnings management as a moderating variable. Conclusively, CSR has a positive impact on ROA and P/E ratio. In addition, the moderation effect of earning management decreases CSR and ROA, but there is no moderation effect between CSR and P/E. The study further reveals that commencing CSR activities is linked to higher earning management.

2.1 Theoretical Framework

Two schools of thought regarding CSR exist: classical theory and stakeholder theory. The classical theory says that CSR is a cost for firms, which reduces the FP. Contradictory stakeholder theory says that CSR is one of the factors that can improve corporate image, including improving FP. Stakeholder theory has been employed, described by Edward Freeman and others as the mirror image of CSR. Sayed et al. (2018) and Javed and Karimullah (2010) followed the stakeholder perspective in the theoretical framework.

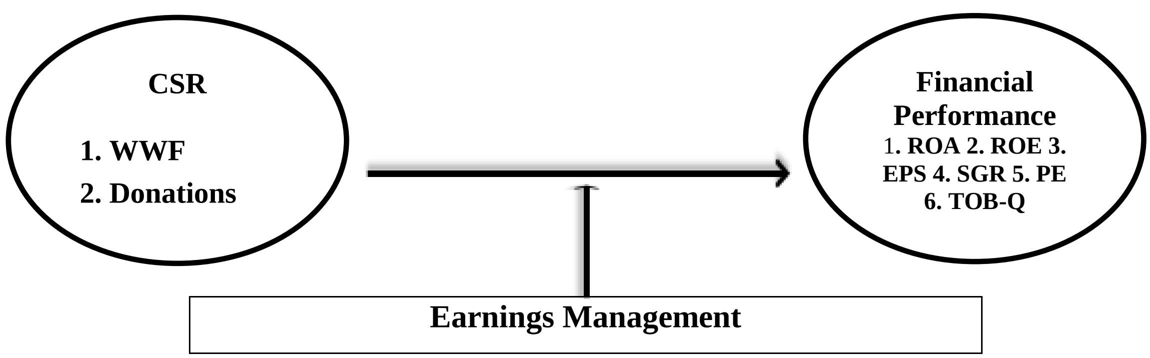

Figure 1: Linkage between CSR and Financial Performance

Dechow et al. (1995) used the Modified Jones model, which used the expected and discretionary variables to capture the effect of earnings management. We consider this model to grab the effect of earning management as a moderating variable between CSR and financial performance.

$$\mathrm{TA} = \mathrm{N.I} - \mathrm{CFO} \tag{1}$$

The modified Jones model is:

$$\frac{TA}{\mathrm{A}_{(t-1)}} = \beta_1\left(\frac{1}{\mathrm{A}_{(t-1)}}\right) + \beta_2\left(\Delta\mathrm{Rev} - \frac{\mathrm{A/R}}{\mathrm{A}_{(t-1)}}\right) + \beta_3\left(\frac{PPE}{\mathrm{A}_{(t-1)}}\right) \tag{2}$$

The left-hand side of the equation shows total accruals. The right-hand side equation provides non-discretionary accruals, which have three different accruals. Here, total accruals have been calculated as $\mathrm{DA} = \mathrm{TA} - \mathrm{NDA}$, where DA represents discretionary accruals, TA represents total accruals, and NDA represents non-discretionary accruals.

2.2 Empirical Models

The empirical model for evaluating CSR impact on financial performance in the moderating effect of the earning management.

$$ROA_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 EM_{it} + \beta_3 LVRG_{it} + \beta_4 SZFS_{it} + \beta_5 SZFA_{it} + \beta_6 RISK_{it} + \beta_7 AG_{it} + \beta_8 EM_{it} CSR_{it} + \varepsilon_{it} \quad (3)$$
$$ROE_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 EM_{it} + \beta_3 LVRG_{it} + \beta_4 SZFS_{it} + \beta_5 SZFA_{it} + \beta_6 RISK_{it} + \beta_7 AG_{it} + \beta_8 EM_{it} CSR_{it} + \varepsilon_{it} \quad (4)$$
$$EPS_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 EM_{it} + \beta_3 LVRG_{it} + \beta_4 SZFS_{it} + \beta_5 SZFA_{it} + \beta_6 RISK_{it} + \beta_7 AG_{it} + \beta_8 EM_{it} CSR_{it} + \varepsilon_{it} \quad (5)$$
$$SGR_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 EM_{it} + \beta_3 LVRG_{it} + \beta_4 SZFS_{it} + \beta_5 SZFA_{it} + \beta_6 RISK_{it} + \beta_7 AG_{it} + \beta_8 EM_{it} CSR_{it} + \varepsilon_{it} \quad (6)$$
$$PE_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 EM_{it} + \beta_3 LVRG_{it} + \beta_4 SZFS_{it} + \beta_5 SZFA_{it} + \beta_6 RISK_{it} + \beta_7 AG_{it} + \beta_8 EM_{it} CSR_{it} + \varepsilon_{it} \quad (7)$$
$$TOBQ_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 EM_{it} + \beta_3 LVRG_{it} + \beta_4 SZFS_{it} + \beta_5 SZFA_{it} + \beta_6 RISK_{it} + \beta_7 AG_{it} + \beta_8 EM_{it} CSR_{it} + \varepsilon_{it} \quad (8)$$

The above Acronyms show as CSR represent Corporate Social Responsibility, ROA represent Return on Assets, ROE represent Return on Equity, EPS represent Earnings per Share, SGR represent Sales Growth rate, PE represent Price to Earnings ratio, $TOBQ$ represent Tobin's Q ratio, LVG represent Leverage, $SZFS$ represent Size of the Firm in sales, $SZFA$ represent Size of the Firm in Assets, $RISK$ represent Risk and AG represent Age, EM represent Earning management, $EM_{it}CSR_{it}$ represent interaction term 'i' represent Company, t represent time , β_0 represent intercept, β represent slope parameters, and ε represent error term.

2.3 Summary of the Variables

Table 1 below describes the variables used to investigate the impact of CSR on the performance of the financial sector Firm by taking earning management as a moderating variable. A few studies in which we have adopted this model are e.g., Nguyen (2021), Zhang and Daly (2013), Zafar et al. (2012), Sayed et al (2018), Afza, Ehsan and Nazir (2015), Ibrahim and Bambale (2016); Ghafoor and Nazish (2016); Fu and Shen, (2015), Yasir et al. (2023), Arshad et al., (2015) and Javed and Ahmad (2020).

Table 1: Variables Description

Variable Name	Description
Independent Variable	
CSR (CSR)	Workers Welfare Fund (WWF) and Donations
Dependent Variables	
a. Earnings per Share (EPS)	EPS before Tax
b. Return on Asset (ROA)	Earnings before tax / Total Asset
c. Return on Equity (ROE)	Earnings before tax / Number of Common Shares Outstanding
d. Sales Growth Rate (SGR)	(Current year Sales - Previous year Sales/Previous year Sales) *100
e. Tobin's q (TOBQ)	Capitalization ratio / Total Asset
f. Price to Earnings ratio (PE)	The market value of each Share / EPS
Moderating	
Earnings Management (EM)	DA = TA − NDA
Controlling Variables	
a. Firm Size in Assets (SZFA)	Logarithm of Total Assets
b. Firm Size in Sales (SZFS)	The logarithm of Total Sales
c. Firm Age (AG)	Number of years after Incorporation to Date
d. Leverage (LVRG)	Long-term debt to total assets
e. Risk	$(\sigma^{i.m} * r^{i.m})/\sigma^{2m}$

3. DATA AND ITS SOURCES

The sample comprises 50 financial firms from the Banking, Insurance, and Modaraba sectors companies listed on the Pakistan Stock Exchange from 2010-2023 from annual reports, Yahoo Finance, and the Pakistan Stock Exchange. Correlation and panel regression were employed for the analysis of data.

The firms' financial data are reported in Pakistan in millions of rupees. The data is normalized to be in the form of tenth or unit-digit form. The firm's size is calculated by taking the total Assets and sales log. The firm's age is determined by the number of years from the incorporation date. The leverage of the firm normalizes by dividing Long-term debt by total assets. The risk is calculated through beta. The discretionary accruals are calculated using the Modified Jones model. CSR is measured by summing the Workers Welfare Fund (WWF) and denotations as a percentage of the total sales. Return on Asset (ROA) is calculated as the earnings before taxes divided by total assets. Moreover, Return on Equity (ROE) is computed as the earnings before taxes divided by the number of Common Shares Outstanding. EPS before tax is taken into account in this study for EPS. The sales Growth Rate is calculated as the previous year's sales subtracted from the current year's sales divided by the previous year's sales and multiplied by 100. Tobin's q (TOBQ) is computed as the capitalization ratio divided by total assets. The price-to-earnings ratio (PE) is calculated as the market value of each Share divided by the EPS.

4. RESULTS AND DISCUSSION

The CSR has a weak positive correlation with ROE, ROA, SGR, EPS, and Tobin Q investment. It has a negative relation with P/E and DA. Controlling variables like the firm's size, risk, age, and earnings management negatively correlate with CSR. Earnings management has a weak positive correlation with ROE, SGR, EPS, and Tobin Q investment and a negative relation with the firm's size. Positive correlations with earnings management, except for risk, are among the controlling variables. The DA-CSR has a weak positive correlation with ROE, SGR, EPS, and Tobin Q investment and has a negative relation with P/E, ROA, and SGR. DA_CSR is positively correlated with the size of the firm (assets and sales) and leverage but is negatively associated with risk and age of the firms.

4.1 Panel Regression

The results based on the equation are given in Table 3. In model 1, CSR has a positive but insignificant impact on ROE. If one unit increases in CSR on average, ROE increases by 5.4 units by keeping other variables constant. Earnings management has a negative but statistically insignificant impact on ROE. Leverage has a positive but significant impact on ROE. One unit’s Leverage on average ROE increases by 0.0005.4 units by keeping other variables constant. Assets have a negative but insignificant impact on ROE. Inversely, sales have a positive but insignificant impact on ROE. Risk has a negative but insignificant impact on ROE. The age of the firm has a statistically significant positive impact on ROE. The earnings management interaction with CSR has a negative but statistically insignificant impact on ROE. The R-squared value is 0. 2761, which means that the explanatory variables have explained 27.61% of the variation in ROE, and there is no autocorrelation, as can be seen from the Durbin Watson stat, which is 1.623. The Hausman Test statistic is significant at a 1% level. Therefore, the fixed effect model is used for the panel regression.

Table 2: Correlation Matrix

	ROE	ROA	SGR	EPS	PE	TOBIN'S Q	CSR	DA	LVG	SZFS	SZFA	RISK	AGF	DA_CSR
ROE	1													
ROA	-0.003	1												
SGR	0.034	0.014	1											
EPS	0.089	-0.014	0.060	1										
PE	-0.001	-0.005	-0.010	-0.024	1									
TOBIN'S Q	0.101	0.021	0.013	0.029	-0.020	1								
CSR	0.018	0.032	0.036	0.038	-0.001	0.041	1							
DA	0.017	-0.008	0.001	0.011	-0.003	-0.035	-0.020	1						
LVG	0.142	-0.043	-0.036	-0.002	0.001	-0.169	-0.026	0.013	1					
SZFS	0.006	-0.035	-0.050	0.371	0.066	-0.327	-0.031	0.047	0.227	1				
SZFA	-0.126	-0.085	-0.058	0.432	0.071	-0.357	-0.040	0.024	0.270	0.732	1			
RISK	-0.008	-0.013	0.004	0.112	-0.050	-0.017	0.021	-0.035	-0.070	0.061	0.046	1		
AGF	0.042	0.026	-0.028	0.487	0.075	0.183	-0.003	0.017	-0.094	0.148	0.167	-0.011	1	
DA_CSR	0.002	-0.002	-0.020	0.004	0.002	0.004	-0.216	-0.321	0.024	0.037	0.033	-0.010	-0.079	1

Table 3: CSR Moderating Effect on Earnings Management with ROE, ROA, EPS, SGR, P/E, and Tobin's Q

Variables	Accounting-based Financial Performance				Market-based Financial Performance	
	Model 1 (ROE)	**Model 2 (ROA)**	**Model 3 (EPS)**	**Model 4 (SGR)**	**Model 5 (P/E)**	**Model 6 (Tobin's Q)**
	2.444***	0.1196***	-9.202***	65.541	119.980	-0.160
C	(0.546)	(0.012)	(2.492)	(155.058)	(233.645)	(0.24)
CSR	5.430	0.0001***	0.000	-0.012	0.001	0.000
	(0000)	(0.000)	(0.001)	(0.116)	(0.175)	(0.000)
DA	-0.021	-0.0005	0.088	1.255	-2.128	-0.008
	(0.074)	(0.003)	(0.331)	(21.139)	(31.841)	(0.029)
LVG	0.005***	-0.0001**	-0.003	-0.185	-0.024	0.000
	(0.001)	(0.000)	(0.005)	(0.373)	(0.562)	(0.000)
SZFS	0.01	-0.0046***	0.414***	14.236**	0.501	0.005
	(0.025)	(0.001)	(0.001)	(7.130)	(10.739)	(0.013)
SZFA	-0.344***	-0.005***	0.150	-7.890	-1.243	0.008
	(0.04)	(0.001)	(0.208)	(13.285)	(20.011)	(0.018)
RISK	-0.042	0.004	0.019	-28.613	-0.732	-0.091**
	(0.1)	(0.005)	(0.448)	(28.621)	(43.170)	(0.045)
AGF	0.037***	0.000***	0.271***	-2.613	-2.993	0.01***
	(0.007)	(0.006)	(0.035)	(2.241)	(3.384)	(0.003)
DA_CSR	-0.0001	-0.0003	-0.003	-0.326	-0.033	-0.000
	(0.004)	(0.002)	(0.02)	(1.303)	(1.963)	(0.001)
			Diagnostic Tests			
R-squared	0.276	0.115	0.878	0.153	0.757	0.738
Adjusted R^2	0.181	0.0005	0.863	0.042	0.689	0.697
F-statistic	2.917	2.004935	55.596	1.387	5.849	18.049
Prob(F-statistic)	0.000	0.004	0.000	0.038	0.007	0.000
D-Watson stat	1.623	2.483	1.193	1.741	2.466	1.888
Hausman Test	26.051***	16.013***	23.584***	33.626***	32.854***	11.815***

*** and ** indicate a significance level of 1% and 5%. The standard error of each variable is shown in bracket

In model 2, CSR positively and significantly impacts the ROA mean. If one unit increases in CSR on average, ROA increases by 0.00118 units, keeping other variables constant. Earnings management has a negative but statistically insignificant impact on ROA. Leverage has a negative but significant impact on ROA. Assets have a positive but insignificant impact on ROA. Inversely, sales have a positive but insignificant impact on ROA. Risk has a positive but insignificant impact on ROA. The age of the firm has a statistically significant positive impact on ROA. The earnings management interaction with CSR has a negative but statistically insignificant impact on ROA. The squared R-value is 11.5, which means the explanatory variable has explained an 11.5% variation in ROA. There is no autocorrelation, as seen from the Durbin-Watson stat, which is 2.48. The Hausman Test statistic is significant at a 1% level. Therefore, the fixed effect model is used for the panel regression.

In model 3, CSR has a positive but insignificant impact on EPS, meaning that if one unit increases in CSR on average, EPS increases by 0.0005 units by keeping other variables constant. Earnings management has a Positive but statistically insignificant impact on EPS. Leverage has a negative but insignificant impact on EPS. The firm's size (sales has a positive and significant and Assets have a positive but insignificant impact on EPS. Risk has a positive but insignificant impact on EPS. The age of the firm has a statistically significant positive impact on EPS. The earnings management interaction with CSR has a negative but statistically insignificant impact on EPS. The R squared value is 87, which means the explanatory variable has explained 87% of the variation in EPS, and there is no autocorrelation, as can be seen from the Durbin-Watson stat, which is 1.193. The Hausman Test statistic is significant at a 1% level. Therefore, the fixed effect model is used for the panel regression.

In model 4, CSR has a negative and insignificant impact on the SGR mean. If one unit increases CSR on average, SGR decreases by 0.012 units by keeping other variables constant. Earnings management has a positive but statistically insignificant impact on SGR. Leverage has a negative but insignificant impact on SGR. Assets have a negative but insignificant impact on SGR. Sales have a positive and significant impact on SGR. Risk has a negative but insignificant impact on SGR. The age of the firm has an insignificant and negative impact on SGR. The earnings management interaction with CSR has a negative but statistically insignificant impact on SGR. The R-squared value is 15, which means the explanatory variable has explained 15% of the variation in SGR. There is no autocorrelation, as seen from the Durbin-Watson statistic, which is 1.74. The Hausman Test statistic is significant at a 1% level. Therefore, the fixed effect model is used for the panel regression.

In model 5, CSR has a positive but insignificant impact on the P/E mean. If one unit increases in CSR on average, P/E increases by 0.0019 units by keeping other variables constant. Earnings management has a negative but statistically insignificant impact on P/E. Leverage has a negative but insignificant impact on P/E. Assets have a negative but insignificant impact on P/E. Inversely, sales have a positive but insignificant impact on P/E. Risk has a negative but insignificant impact on ROA. The age of the firm has a statistically insignificant negative impact on P/E. The earnings management interaction with CSR has a negative but statistically insignificant impact on P/E. The R squared value is 0.75, which means the explanatory variable has explained 75% of the variation in P/E, and there is no autocorrelation, as can be seen from the Durbin Watson stat, which is 2.46. The Hausman Test statistic is significant at a 1% level. Therefore, the fixed effect model is used for the panel regression.

In model 6, CSR has a positive but insignificant impact on Tobin Q's mean. If one unit increases in CSR, on average, Tobins Q increases by 4.4 units by keeping other variables constant. Earnings management has a negative but statistically insignificant impact on Tobins Q. The Leverage has a positive but significant impact on Tobins Q. The size of the firm likely Assets and sales (size) of the firms have a positive but insignificant impact on Tobins Q. Risk has a negative but significant impact on Tobins Q. The age of the firm has a statistically significant positive impact on Tobins Q. The R squared value is 73, meaning the explanatory variable has explained 73% of the variation in Tobins Q. There is no autocorrelation, as seen from the Durbin Watson stat, which is 1.88. The Hausman Test statistic is significant at a 1% level. Therefore, the fixed effect model is used for the panel regression.

The firm's financial performance is measured through accounting-based measures and market-based performance. The finding regarding CSR has a positive but insignificant impact, as Sayed et al. (2018) confirmed. CSR has a negative impact on the market based on financial performance, as validated by Guatam et al. (2016). The core motivation of the firm is to maximize shareholder wealth, not to be engaged with social engagements. Earnings management is negatively associated with market-based performance because these indicators are based on investors' perceptions. Earnings management is an accounting-based activity that is directly linked to accounting-based performance. It is positively associated with the accounting-based measure of financial performance except for return on equity. CSR is the mechanism of malpractice in its name to achieve its desired financial objectives through earnings management. Gautam et al. (2016) confirmed that leverage harms financial performance. The size of the firms (sales and assets) impacts FP positively, as confirmed by Sayed et al. (2018). Risk has a negative but significant impact on

Tobins Q, which is also confirmed by Sayed et al. (2018). The firm's age has a statistically significant positive impact on Tobins Q, as confirmed by Sayed et al. (2018). Earning management has a negative association with accounting measures of financial performance while earning management has a positive association with market-based measures of financial performance (Javed & Karimullah, 2020). Earning management is related to accounting measures, whereas market-basis measures depend on investors' perceptions.

In banking companies, CSR disclosure is one key factor in maintaining the trust of stockholders and customers. Implementing CSR programs and earning management negatively influence companies' profitability because they require a lot of money.

5. CONCLUSION AND POLICY IMPLICATIONS

The study's conclusion is based on three points: CSR positively impacts accounting-based and market-based financial performance indicators, except for sales growth rate. The second conclusion is from earning management's impact on financial performance. Earning management is negatively associated with the accounting measure of FP except for two indicators of accounting-based financial performance, e.g., sales growth rate and EPS. CSR has a negative but insignificant impact on the FP of the financial sector in moderating the role of earning management. The study's findings emphasize the significance of CSR because corporate social responsibility has a favorable correlation with a company's long-term financial performance. Most funds in the financial sector come from public and private companies that participate in CSR. CSR's insignificant impact on the firm's financial performance is due to firms' unawareness of the exact segment where the problem exists. Malpractices in the name of CSR negatively impact the FP. Firms can boost their financial performance by engaging in societal needs-based CSR and averting malpractices, particularly in earning management.

These findings have important implications for CSR. They could help policymakers in Pakistan evaluate companies' roles in society. Further, regulators and companies need to issue guidelines that may increase the quality of CSR and enhance society and shareholder interest.

This study has some limitations. First, it is based on 50 financial firms from the Banking, Insurance, and Modaraba sectors listed on the Pakistan Stock Exchange; thus, it does not reflect the whole financial sector of Pakistan. Second, the study used only the Workers Welfare Fund and Donations inputs to measure CSR. Third, the data was taken from 2010 to 2023.

Acknowledgment
The authors acknowledge the comments made by the reviewers and members of the editorial board on the earlier version of this manuscript.

Funding Source:
The author(s) received no specific funding for this work.

Conflict of Interests:
The authors have declared that no competing interests exist.

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