Intervening Influence of Non-Economic Factors between Corporate Social Responsibility and Financial Performance: A Banking Perspective

Dr Muzammal Ilyas Sindhu[1], Dr Syeda Faiza Urooj[2], Mr Sana Ullah[3]

Abstract

Corporate social responsibility implies the obligations of the business to protect the interests of the society in which they operate. This study wants to examine the intervening influence of non-economic factor between corporate social responsibility and financial performance. Moreover, this study wants to investigate the moderating role of stakeholder pressure. This study based on positivism paradigm, deductive approach, and survey strategy. Adapted questionnaires were distributed among a focal person of commercial banks and collected data monitored, screened and analyzed through emerging statistical packages. Confirmatory factor analysis explained the model goodness, fitness, and validity. Structural equation modeling confirmed the significant and positive contribution of corporate social responsibility and non-economic factor toward financial performance. Moreover, the mediating role of noneconomic also intensifies the relationship between the explanatory variable and the dependent variable. Finally, stakeholder pressure did not shown any significant contribution. The findings indicated the relevance and the implications of CSR initiatives on the bank's performance in a developing country such as Pakistan. Explicitly, the results specify that when banks invest in CSR initiatives, they are likely to achieve a competitive edge and improved financial performance.

Keywords: Corporate social responsibility; financial performance; non-economic factor; stakeholder pressure; structural equation modeling

1. Introduction

Financial performance plays a significant role in determining the growth, development, and survival of any organization (Muyambiri & Odhiambo, 2018), consequently considered an essential part of research studies of management sciences. It is an indicator which reflects the better operating and financial position of a business (Adegbite et al., 2019; Robin, Salim & Bloch, 2018; Abusharbeh, 2017). Financial performance remains vital in guiding organizational planning and development. Accordingly, literature based on financial performance delineates a cohesive correlation between financial performance and economic development (Muyambiri & Odhiambo, 2018; Musamali et al., 2014). Financial performance is operationalized via accounting base measure of ROA, ROE, return on sales, sales growth, and increase in wealth maximization. Return on asset can provide better measurement regarding financial performance (Berman et al., 1999; Griffin & Mahon 1997). The rising shareholder activism has raised the concern about dynamic and innovative policies; which boost the financial performance (Khan et al., 2017).

In the modern era, there are numerous non-economic factors which influence the financial performance of financial and nonfinancial firms. Exchange rates, inflation, gross domestic product, and liquidity significantly contributed to improved financial performance (Heffernan & Fu, 2010). However, corporate reputation, innovation, customer satisfaction, employee's commitment, research, and development have a significant influence on establishing the performance of any organization (Padgett & Moura-Leite, 2012). The companies having updated and innovative policies, products and services have a competitive edge in today's dynamic market environment (Schumpeter, 2013; Abdulai Mahmoud & Hinson, 2012). The companies which adopt innovative policies are largely considered good and well- reputed companies. It improves the corporate reputation of the organization which is antecedent of financial performance (Anser et al., 2018; Sindhu & Arif2, 2017; Padgett & Moura-Leite, 2012; Padgett & Galan, 2010; Wagner, 2010). In developing economies, studies expounded different antecedents and outcomes of financial performance, but corporate social responsibility is integral factor which has been overlooked by past studies (Subair, 2018; Choongo, 2017; Crifo et al., 2016).

Corporate social responsibility (CSR) is integral and plays a vital role in the development of a corporate environment as well as the natural environment (Moon, 2004). CSR means to resolve the societal problems which include global warming, social injustice, recycling of waste materials, reduction in air and noise pollution, to the lower level of necessities, and reduction in water and energy resources. There are

[1] Assistant Professor, Department of Management Studies, Bahria University, Islamabad, Pakistan. muzammal496@gmail.com
[2] Assistant Professor, Department of Commerce, Federal Urdu University, Islamabad, Pakistan. urooj53@yahoo.com
[3] Lecturer, Government Institute of Commerce, Kot Sultan, Layyah, Pakistan. sanakhanhans@gmail.com

four basic elements of corporate social responsibility (Carroll & Buchholtz, 2014), which includes economic, ethical, legal and philanthropic (Carroll, 1979).

Companies can avail a better and competitive position by proposing quality outputs at a lower price through the effective, peaceful, and smooth environment (Kumar et al., 2001). As a result, companies must take initiatives in changing their perspective towards CSR by considering outside impassive philanthropy. Now the organizations are focusing on CSR to improve the image of their brand, and companies are strengthening their links with its stakeholders, like community, customers, and suppliers (Council, 2002). Vague policies, poor administration and monitoring, pathetic tax implementation systems are some of the more important factors that influence performance. So, there could be significant role of stakeholder pressure in designing the suitable policies which can contribute CSR as important determinant of financial performance.

Historical studies are limited in examining corporate social responsibility via self-reported questionnaires (Khan & Atkinson, 1987), features, policies, and practices on CSR (Arora & Puranik, 2004; Sood & Arora, 2006). There are few evidences on the relationship between CSR and performance in developing countries. This phenomenon is considered in the context of western economies having a strong financial outlook, measures and applications court. It has motivated and illuminated toward research studies focusing on corporate social responsibility and firm performance in the context of developing countries (Belal, 2001). These benchmarks and standards are lacking in Asian emerging economies which lead to demotivation and less implementation of corporate socially responsible activities in developing countries such as Pakistan (Sindhu & Arif, 2017; Mishra & Suar, 2010; Chapple & Moon, 2005). Therefore, previously identified gap motivated to examine the link between CSR and performance which is necessary for the development and growth of financial organizations.

This study has a significant theoretical and methodological contribution in banking sector of a developing economy. It is important for corporate level managers who are responsible to satisfy the stakeholders through justifying firm expenses that consist of CSR initiatives and innovative processes of improving the firm financial performance. Managers are responsible to sustain and implement CSR in maintaining the firm's advantage and community trust. This study provides evidence to support theory that there is a positive relationship between CSR and firm financial performance. It is also providing support to both stakeholders and ethical theory. Findings of this study will provide a new perspective to the management of the organization especially when they want to develop and improve their business practices (Epstein, 2018; Freeman & Hasnaoui 2011; Griffin, Bryant & Koerber, 2015; Jia & Zhang, 2014). This study is important for academicians who are interested in the literature regarding CSR.

2. Literature review

The last decade witnessed rapid growth and attention of the studies focusing on corporate social responsibility (Freeman, 1984). The economic environment has globally changed, and organizations are trying their best efforts on CSR. Corporate management is also demanding from the stakeholders to sacrifice their resources in improving CSR both in developed and developing countries. CSR includes economical, ethical, legal and philanthropic expectations of stakeholders (Carroll, 1979), and there is a need to involve in socially responsible activities for the betterment of society (Frederick, 1986). In an organization context, CSR combines the social and environmental interest in operating the business and mutual actions towards stakeholders which will not only fulfill the legal requirements but also increase to spend finance on workers and environment which will strengthen the relationships with stakeholders (Avetisyan & Ferrary, 2013).

CSR has four levels of responsibilities in business to achieve corporate objectives. Firstly, economic responsibility which supposed toward wealth maximization and earning profits by reducing cost. The successful business provides employment, produce goods and services according to customer needs. Secondly, legal responsibility includes the responsible behavior to obey the rules and regulations for achieving its goals. The business earns profit within the defined legal structure. Global stakeholders are required to meet the country's legal responsibilities (Iqbal et al., 2014). Ethical responsibilities which are expected by the society include the ethical values, fairness, and justice, equality and respect to achieve organizational goals (Sylor, 2013). Philanthropy is discretional in nature which is pure voluntarily, to engage in social activities that are not mandatory by law (Saylor, 2013).

Research studies have investigated different perceptions of understanding the relationship between CSR and firm financial performance. Friedman (1970) finds that the firms only focusing on investors earn maximum profit but there will an adverse effect with compare to its competitors as they spend money on philanthropy and facilitate employees which increase its cost and decrease profit (Aupperle et al., 1985). CSR in decision making is linked with ethical values, legal requirements, respect, community and environment around the world (Saylor, 2013; Khoury, Rostani & Turnbull, 1999). Studies showed the positive relationship between stakeholder management and financial performance (Godfrey, 2005).

Corporate social responsibility significantly influences firm financial performance. This dynamic relationship examined in three ways and most importantly, it is noticed that CSR significantly and positively contributing toward the financial performance of organizations (Attig & Cleary 2015; Sun & Stuebs, 2013; Rodgers, Choy, & Guiral 2013). Secondly, researchers expounded that there is no consistency in the relationship between CSR and performance (Mahoney & Roberts, 2007). Thirdly researchers proposed that CSR have a significant and negative impact on the financial performance of organizations (Oh & Park 2015; Becchetti et al. 2008).

H$_1$: *There is a significant impact of CSR on Financial performance*

Besides affecting organizational performance, corporate reputation is also robust to affect stakeholder's perception (Gatzert, 2015; Maden et al., 2012). It is the image of the organization in the mind of stakeholder to decide to interact with an entity. Most of the economic contracts are earned on the basis of corporate reputation. Therefore, the extending this notion, it will be thought-provoking to investigate that how and to what extent corporate reputation derive financial performance (Gatzert, 2015; Maden et al., 2012; Alniacik, Alniacik & Erdogmus, 2012). Moreover, it is also important to study that how corporate reputation is built over time by the organizations and what are the factors which composite a favorable reputation in the mind of stakeholder. Though literature revealed various antecedents of corporate reputation, however corporate social responsibility (CSR) is integral determinant (Choongo, 2017). So, the corporate reputation and innovation are important non-economic factors which can play mediating role in between CSR and performance.

H$_2$: *Non-economic Factors mediate between the relationship of CSR and Financial performance*

Many researchers included the customers, suppliers, employees, shareholders, the community, and government in the category of stakeholders (Buysse & Verbeke 2003; Donaldson & Preston 1995; Freeman 1983; Henriques & Sadorsky 1999). Business strategies toward CSR were improved from simply showing social responsibilities to internal and external organizational environments which are associated with stakeholders. These are the forces which influence the organizational performances in multiple ways. There is an idirect impact of losing the interest of these stakeholders on financial performance (Lee, 2008). So, hypothesis derived on the basis of above discussion;

H$_3$: *Stakeholder pressure moderates the relationship between CSR and Financial performance*

Theoretical aspects explain how managers maximize financial performance and stakeholder interest (Freeman & Hasnaoui, 2011). Corporate executives increase CSR due to stakeholder needs in ethics and moral values (Fatma, Rahman, & Khan, 2014). Ethical theory suggests that socially responsible organizations should deal with financial reporting virtuously (Yazdani & Murad, 2015). Legitimacy theory proposed that the business is bound by the social contract in which firms have an agreement to act according to the socially desired actions in return for approval for its objectives and other rewards continuously (Suchman, 1995; Mathews, 1993). Stakeholder theory proposed that each group have an interest in the manner in which the organization is operated. According to Akinsulire (2011), it is traditionally viewed that the organization working the best interest of shareholder's maximization wealth. However, there is another view that an organization is a coalition of various groups such as stakeholder.

2.1 Conceptual Framework

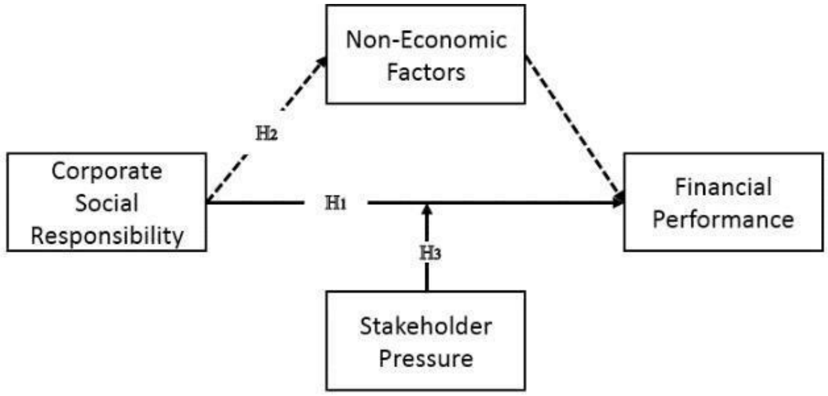

Figure I: Conceptual Framework

3. Methodology

This study aims to examine the intervening influence of non-economic factors between CSR and financial performance of the banking sector of Pakistan. Study based on known knowledge so falls in the positivism paradigm philosophy. It is going to examine the cause and effect relationship and will apply the hypothesis testing approach which considered as deductive research. Adapted questionnaires distributed among target respondents, so it is a survey-based strategy including mono-method and cross-sectional data analysis (Robson & McCartan, 2016; Saunders et al., 2011).

In Pakistan, there is a total of 34 schedules banks with 12,993 branches are working in Pakistan (SBP, 2016). The target population is employees working in the banking sector of central region because there is an important role of the banking sector in the Pakistani economy. One of major contribution in providing employment, dealing with financial issues, etc., so it is necessary to significant social responsibility on banking owners in the context of the welfare of stakeholders other than wealth maximization. Stratified sampling used in the selection of sample based on their number of branches working. Employees working in the banking industry are in million, so for a better result, a sample size of 245 considered suitable for reliable and accurate results. The instruments used in this study have adopted from research studies. Corporate social responsibility scale adopted from (Turker, 2009), Stakeholder pressure (Delmas & Toffel, 2008), Financial Performance (Govindarajan, 1984), Non- economic factors (Govindarajan, 1984). Furthermore, scale of financial performance and non-economic factors are validated by (Mishra & Suar, 2010).

This study is based on cause and effect relationship with the addition of moderated mediated mechanism, so firstly reliability and validity of collected response were checked. Normality tests were conducted using descriptive statistics and other suitable measurement methods. Correlation matrix explained the relationship among variables. Finally, structural equation modeling was used for analyzing the relationships (Jain et al., 2016; Valmohammadi, 2014; Urbach & Ahlemann, 2010). Confirmatory factor analysis applied for measurement and structural model fitness. The structural model was tested for examining the direct relationships between all dependent, independent, moderating and mediating variables. Preacher and Hayes (2004) macros were applied for testing moderating and mediating relationship.

4. Empirical Findings:

4.1 Descriptive Statistics and Correlation

The objective of this study is to examine the intervening influence of non-economic factors between CSR and financial performance. Firstly, the reliability analysis conducted and the values found within the defined ranges of 0.70 to 0.90. Secondly, descriptive statistics enlightened the normality of data via mean and standard deviation. Table 1 explained that the mean value of corporate social responsibility is 4.164 with a standard deviation of 0.639. The mean values of financial performance and non-economic factors are 4.223 and 4.195 with SD 0.717 and 0.759 respectively. Finally the mean value of stakeholder pressure founded as 4.102 with SD of 0.764. In the table 1, the correlation matrix suggests that the CSR has a positive and significant relationship with FP, NEF, and SP, and the degree of its magnitude is 0.760, 0.729 and 0.768 respectively. In addition, FP contributed significantly to NEF and SP with a magnitude of 0.726

and 0.677. Finally, there is a significant and positive relationship founded between NEF and SP. In general, all variables are associated significantly and positively.

Table 1: Descriptive Statistics and Correlation Matrix

	Mean	SD	1	2	3	4
CSR	4.164	0.639	1.000			
FP	4.223	0.717	.760**	1.000		
NEF	4.195	0.759	.729**	.726**	1.000	
SP	4.102	0.764	.768**	.677**	.711**	1.000

**Correlation is significant at the 0.01 level

4.2 Factor Loading and Validity

The confirmatory factor analysis was applied to examine the factor loadings of observed items on their latent factor. The standardized estimates were examined and found to be above the 0.50 limit that was considered better for loadings and validity of measurement model (Holmes, 2001). The values of the factor loadings are considered moderate and poor if their values are lower than 0.50 and 0.30 respectively (Holmes, 2001). First, the eight items of corporate social responsibility are represented in the CSR from CSR1 to CSR8 and squared factor loadings are 0.816, 0.742, 0.727, 0.756, 0.714, 0.643, 0.588 and 0.608, respectively while just one item was dropped. In the same way, financial performance has represented with four items as FP1 to FP4 and squared factor loadings are 0.863, 0.759, 0.721 and 0.639 respectively. The non-economic factors are indicated by four items as NEF1 to NEF4 and squared factor loading are 0.762, 0.801, 0.883 and 0.813 respectively.

The stakeholder pressure indicated by four elements such as SP1 to SP4 and squared factor loadings are 0.821, 0.755, 0.795 and 0.775 respectively. All the values are above standard benchmark which means the observed factors of corporate social responsibility, financial performance, non-economic factor, and stakeholder pressure are properly loading on its latent variables. The model is statistically significant with overall factor loadings more than 0.60 which is good and fit.

Table 2 Factor Loading of Standardized Estimates

Variable	Item	Loading	CR	AVE	α
Corporate Social Responsibility	CSR1	0.816	0.886	0.501	0.864
	CSR2	0.742			
	CSR3	0.727			
	CSR4	0.756			
	CSR5	0.714			
	CSR6	0.643			
	CSR7	0.588			
	CSR8	0.608			
Financial Performance	FP1	0.863	0.835	0.562	0.889
	FP2	0.759			
	FP3	0.721			
	FP4	0.639			
Non-Economic Factor	NEF1	0.762	0.888	0.666	0.843
	NEF2	0.801			
	NEF3	0.883			
	NEF4	0.813			
Stakeholder Pressure	SP1	0.821	0.867	0.619	0.888
	SP2	0.755			
	SP3	0.795			
	SP4	0.775			

AVE=Average Variance Extracted, CR=Composite Reliability, α=Cronbach Alpha

CR and AVE were calculated to analyze the validity of the measurement model and these values are computed using standardized estimates. If the AVE≥0.50 and CR≥0.50 then these are considered good and suitable for the model (Bagozzi & Yi, 1988). The CR values of CSR, FP, NEF, and SP are respectively 0.886, 0.835, 0.888, and 0.867 which are above the benchmark (Bagozzi & Yi, 1988). The AVE values of CSR, FP, NEF, and SP are respectively 0.501, 0.562, 0.666, and 0.619 that are above the benchmark (Bagozzi and Yi, 1988). The previous intended values confirmed the validity of the model, goodness, and fitness, and is appropriate for the structural model. The detailed factor analysis conducted and it is found that chi-square and normed chi-square are 573.2 and 3.379. RMR and RMSEA values are in between the defined ranges and are 0.044 and 0.099 respectively. Confirmatory fit index value is 0.891 which indicated that this measurement model is good and fit for further analysis.

4.3 Hypothesis Testing:

Structural Model explained the direct relationship between CSR and financial performance as main variables. Moreover, non-economic factors included a mediating variable and stakeholder pressure as a moderating factor in the structural model. The structural model explained the significant and positive direct relationship between CSR and financial performance with a coefficient of 0.670 that explained the degree of dependency. Secondly, it was examined that CSR contributed significantly and positively to a non-economic factor with a coefficient of 0.729. Finally, the non-economic factor had a significant and positive influence on financial performance.

Table 3 Standardized Regression Weight

	Stnd. Est	S.E	T-Value	P-Value
CSR → FP	0.760	0.047	18.268	0.000**
CSR → NEF	0.729	0.052	16.652	0.000**
NEF → FP	0.726	0.042	16.481	0.000**

Mediation Analysis

	Effect	SE	LLCI	ULCI	R^2	ΔR^2	P-Value
CSR→ NEF→FP	0.299	0.067	0.165	0.427	0.641	0.11	0.000

Moderation Analysis

	Effect	SE	LLCI	ULCI	R^2	ΔR^2	P-Value
CSR →FP	0.802	0.217	0.375	1.230			0.000
SP →FP	0.345	0.195	-0.039	0.729			0.078
Int_1	-0.035	0.049	-0.131	0.062	0.299	0.001	0.479

The method of Preacher and Hayes (2004) was applied to examine the mediation analysis that was considered most appropriate for moderating and mediating analysis. The empirical findings explained that non-economic factors contributed to a significant mediating role between CSR and financial performance. This relationship proposed significance in both the lower level confidence interval (LLCI) and the upper-level confidence interval (ULCI). The value of R-square proposed that 64.1% of variations in financial performance are due to CSR and NRF. The values are of these relationships are as follows $0.299 [p <$ .01, 95% CI (0. 165, 0.427)].

Moreover, Preacher and Hayes, (2004) method adapted to analyze the moderating role of stakeholder pressure on the relationship between CSR and FP. In the first row, CSR is contributing toward performance but the involvement of stakeholder pressure did not affect the financial performance. Finally, the interaction term of SP did not contribute as a moderating variable. There is a significant difference among LLCI and ULCI because the values are showing adverse directions which confirmed the insignificance of the hypothesis. The role of SP is defined in between CSR and FP because there is significant difference have shown at a lower, moderate and higher pressure level of stakeholder pressure.

5. Discussion and Conclusion

The main objective was to examine how financial performance is determined by non-financial factors. The rising shareholder activism and increased regulatory control forced the companies to comply and meet the expectations of stakeholder (Jo & Harjoto, 2012). The ongoing debate of socially responsible investment posits that organizations which remain concern about the environment are also subject to have a good financial track record (Schumpeter, 2013; Abdulai Mahmoud & Hinson, 2012; Moon, 2004; Kumar et al., 2001). The social outlook of the organization also affects the stakeholder perception and builds a positive image. Most of the studies relevant to CSR have been examined in the context of developed economies.

Therefore, there is limited evidence that how corporate reputation results into material benefits in the context of developing economies (Choongo, 2017; Crifo et al., 2016). By addressing this gap, the study by using primary data inspected the potential impact of CSR on financial performance (Adegbite et al., 2019). Non-economic factor and stakeholder pressure were incorporated as mediating and moderating variable. The structural equation modeling result delineates a positive significant impact of CSR on financial performance in the context of the banking sector of Pakistan. Beside the one-way relationship, the two-way relation always remains significant. The moderating role of stakeholder pressure remains insignificant and the magnitude of the relationship between the explanatory variable and the dependent variable.

The result asserts the view held by previous studies that the stakeholder pressure remains significant to affect the organizational policies and procedures. However, it is also evident that excessive pressure leads to an increase in the cost of philanthropic activities (Lim & Greenwood, 2017). Therefore, there should be an optimal limit for such activities to regulate while staying profitable. The excessive stakeholder pressure would lead to negatively affect the firm operating performance. Accordingly, the mediating role of non-economic factor remains pivotal and affects the bank's financial performance effectively. The cohesive dependency of financial performance on the socioeconomic variable is an insight which should be considered with caution. The stakeholder remains robust toward society at large and expects that their resources should be utilized in the best interests of society.

The noneconomic factor along with CSR initiatives remains conducive to affect the finical performance. Therefore, financial companies particularly banks should remain vigilant about their social and community obligations. The CSR initiatives not only result in improved financial performance but also build the organization image. The image of the organization or reputation remains a precursor to improved financial performance. Most of the economic contract is earned based on reputation because investor or believes that good investment opportunities are derived from highly repeated firms. Therefore, CSR initiatives not only improve material performance but also result in improved corporate reputation. Conclusively, findings indicated that CSR and non-economic factors are a potential determinant of financial performance (Sindhu & Arif, 2017).

The results of this study are best aligned with (Choongo, 2017; Crifo et al., 2016) who proclaim that CSR remains the potential determinant of financial performance in the context of the banking sector. Similarly, the findings of the (Choongo, 2017; Crifo et al., 2016) are also closely related with our viewpoint by positing that CSR and noneconomic factor have a potential impact on the market and firm performance. The findings of the study are also deviates from (Peloza & Shang 2011; McWilliams, Siegel & Teoh, 1999), adhere to the notion that stakeholder pressure and activism is a potential factor to enforce and regulate the socially responsible behavior of the organization.

In current scenario, the findings of stakeholder pressure are insignificant but historical studies recommended that it can play a central role in governing the organization behavior about their social obligation. However, future studies should consider how excessive stakeholder pressure effect firm financial performance and increase the cost of noneconomic activities. The role of noneconomic factor reflects the long-term going concern and indicates the organizational efforts to fulfill their community obligation in which they are operating. The banking sector in the context of Pakistan should pay attention to their noneconomic and social duties to meet the stakeholder expectation.

Accordingly, the stakeholder theory holds the notion that stakeholder insight should be incorporated to achieve financial goals effectively. The study has thoughtful policy implication for top-level management to incorporate the voice of stakeholder in their strategic planning. Management should pay close attention to CSR and philanthropic initiatives to gain a positive economic return. Moreover, improved social image results in the improved corporate image which in turn have various economic benefits. In this age of dynamic and fierce competition investors are largely attracted due to corporate reputation because most of the investor believes that good investment hail from good companies.

Limitations and Future Directions

The study is subject to certain limitation because the research process is considered persistent and continuous over a long period of time. First, the sample size involved in the analysis is limited and the data collection is based only on selected regions of the Pakistani banking sector. Second, there is a lack of generalization of findings for international economies because this study is based on a single economy. Third, there is another limitation that is based on corporate social responsibility, since it has only considered the confirmatory factorial analysis of the first order, while in future studies the second-order CFA can follow the economic, ethical, legal, economic, and philanthropic of CSR. Future studies may consider moderating the influence of non-economic factors to improve the generalizability of the findings. Finally, there is a need for longitudinal comparative studies in the context of developed, emerging and developing economies on corporate social responsibility and financial performance.

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