

# CORPORATE PHILANTHROPY AND CORPORATE FINANCIAL PERFORMANCE: EMPIRICAL EVIDENCES FROM NON-FINANCIAL SECTORS OF PAKISTAN

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The present study empirically examines the impact of corporate philanthropic – a corporate social responsibility (CSR) dimension on financial performance, being measured in terms of Tobin's Q, return on assets (ROA) and return on equity (ROE) of non-financial sector of Pakistan. This dimension of CSR plays a vital role in building reputation of non-financial sector companies for the stakeholders, which ultimately contributes into long-term performance of firms. The unit of analysis for the present study consists of 100 companies from non-financial sector, which are listed on Karachi Stock Exchange and making CSR practices. Time span for the selected sample is from 2010 to 2014. For empirical investigation, fixed effects method has been employed. The empirical results reveal that the donations have significant impact on ROA and ROE while this effect remains insignificant for Tobin's Q. On the whole, it concludes that CSR activities have positive impact on the performance of selected sample of firms. Moreover, the positive correlation between corporate social responsibility and financial performance indicates that donations can be considered as an imperative factor to enhance the financial performance of non-financial sector firms.

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**Key Words-** Financial Performance, Return on Asset, Return on Equity, Tobin's Q, Corporate Philanthropic, Corporate Social Responsibility.

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Philanthropic donation is normally associated with developed countries due to compact values, societies and demand systems, which are not very common in emerging economies. In a developing country, such as Pakistan, the significance of Philanthropic donations has been acknowledged after a series of catastrophic events, like earthquakes and floods. These events include the floods in July 1995, August 1996, March 1998, Kashmir quake in October 2005, July 2010 and Hunza Lake disaster in January 2010 and the drought lasted ten months during 2000. These disasters are not only challenging for government, but also reaction for corporate firms in which these are operating. The current study is emphasizing on the role of corporate social responsibility – a corporate philanthropic donation and suggests various measures to improve performance of concerned sector. The relevant policies are also integral part for operating firms in order to increase their efficiencies of firms.

Corporate donation is a reaction of firms towards groundbreaking changes in the environmental scenery. It symbolizes a reactive approach constructed to counter stresses such as participant demands, intimidations of government invasion into business's liberty, and accelerating public anticipations (Campbell et al., 1999; Gardberg and Fombrun, 2006; Patten, 2008). Recent flood in 2015 has prompted firms to develop more enthusiastic strategies for philanthropic donation and solidify the association among philanthropic donation and the goods and services these firms sell (Farrell, 2010). Corporate philanthropic donation can assist an organization to build reputation, devotion and recognition of brands. Support itself as a "socially responsible" organization; and attract and maintain a

strong work force (Sanchez, 2000). Philanthropic donations can give advantage to the companies by forming a strong bond with consumer and construct devotion (Dean, 2003). Philanthropic donations can be foreseen as a considerable element to help companies accomplish the major goal of corporations' growth and net income.

The relationship among financial performance of a firm and corporate philanthropic donations (CPD) might not be similar for the firms with diverse ownership forms. Zhang et al., (2010) explored that the magnitude of philanthropic donations for state-owned corporations is considerably less than that for non-state owned corporations. It was found that state-owned firms were less likely to respond as compared with non-state-owned firms. Strategic observations have revealed that organizations that participate in CPD to enhance reputation of their market image, attract and maintain customers, assist in political dealings enjoy increased revenue. Owners of private organizations have enhanced motivation to precise firm revenue hence they have a greater tendency to participate in CPD (Zhang et al., 2010). It is therefore anticipated that the association between CPD and financial performance would be tighter for private firms as corporate philanthropic donations in those firms are intentionally intensive.

Corporate social responsibility can be defined as "the economic, legal, moral, and philanthropic actions of firms that influence the quality of life of relevant stakeholders" (Hill et al., 2007). Corporate social responsibility has been defined by the World Bank Council for Sustainable Development (WBCSD) as "the continuing commitment by business to behave

ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”

An important dimension of corporate social responsibility is Philanthropic donation which is extensively practiced in developed countries as they have dominant cultural values and established principles, something rarely found in third world countries (Moon & Chapple, 2005). Due to weak principles developing countries pose significant challenge to firms for performing donations. However wide-range research has been carried out on CSR influencing financial performance in developed countries (Belal, 2001). In modern era, hopes of society from corporate firms have increased in third world countries as well (Turker, 2009). Being a developing country, Pakistan has also identified this awful necessity of Philanthropic donations as a result of recent disasters such as earthquakes, floods and corporate ruins. When firms focus on social, environmental and stakeholder responsibilities, they are more likely to achieve their business objectives (Edwards, 2005).

The current study has identified an important research problem that whether or not Philanthropic Donations (CPD) impact financial performance of firms in non-financial sector of Pakistan. The present study has been carried out in a developing country, like Pakistan has considerable economic and political background. The significance of considering religious perspective has also been acknowledged since finding of this research might contradict with findings of similar study carried out in different parts of the world following different religions. Also in Pakistan, there is an increasing attention towards CPD because of its recognition all over the world. In previous researches authors find that Philanthropic Donations and financial performance have positive relationship (Wu & Shen, 2013; Saleh et al., 2010). The present study is conducted “to evaluate and empirically determine the impact of Philanthropic donations; in terms of return on assets, return on equity, Tobin’s q, sales and market value of the companies listed in non-financial sector of Pakistan”.

Based on some various shortcomings, the study will empirically examine the relationship between corporate philanthropic donations and financial performance of listed non-financial sector in Pakistan. It concludes that non-financial sector can improve financial performance through doing social works for the betterment of people.

### **Review of Literature**

Although corporate responsibility is not a new concept and has been at the forefront of academic examination for over half a century, there is as yet no commonly agreed definition of it (Frederick, 1987; Brice and Wegner, 1989; Carroll, 1999). There has been a growing debate over how to define the socially

responsible behavior of a company. There is no one universally accepted definition of corporate social responsibility (Ahmad, 2006). The definitions of CSR have been evolving with time. The pool of literature focused on defining CSR can be categorized into two clusters. There is one group of academics including individuals like Milton Friedman who consider social responsibility of any firms as a way to maximize profits. On the other hand, there are academics like J.W McGuire who contend performing every social deed to be the responsibility of the company.

The most commonly practiced and used method of implementing CSR over the years have been through corporate philanthropy (Fry et al., 1982; Cowton, 1987) consisting of philanthropic donations to social activities for which no payment or guarantee of future payment is made (Moon and Sochcki, 1998) and usually consists of contributions from a business to a community that are considered as gifts (Seitanidi and Ryan, 2007). The primary objective of corporate philanthropy is to do social good or to cater to requests for donations made by community stakeholders (Fry et al., 1982). Empirical research on corporate philanthropy donations as a method of implementing CSR practices has found that social and collective interests together with firm-specific objectives, such as enhancement of corporate reputation amongst societal stakeholders (Brammer and Millington, 2005; Fry et al., 1982; Brammer and Millington, 2003) motivates organizations to engage in corporate philanthropic donations (Moon and Sochacki, 1998). However, very few companies tend to adopt a strategic approach to corporate philanthropic donations (Campbell and Slcak, 2008). Ultimate controllers of listed companies might not be willing to support corporate philanthropy using their owned or controlled assets or resources. Good corporate governance demands decisions that seek to maximize shareholder value. Because in emerging markets, ownership structures often are conglomerated (Claessens et al., 2000), controlling shareholders gain significant power over corporate operations and are motivated to supervise managers and solve type I agency problems between themselves and the managers (Jensen and Meckling 1976; Shleifer and Vishny 1986, 1997).

The literature suggests four popular motivations for Corporate Philanthropy Donations (CPD): managerial utility, altruistic, political, and strategic (Brammer and Millington, 2005; Brown et al., 2006; Campbel et al., 2002; Saiia et al., 2003). According to managerial utility motivation, corporate philanthropy is used by CEO’s to enhance their self-interests at the expense of company (Atkinson and Galaskiewicz, 1988; Galaskiewicz, 1997; Haley, 1991). Altruistic motivation refers to that corporate philanthropy is viewed as a firm’s obligation to maximize public welfare without any expected return (Campbell et al., 1999; Cowton, 1987). Political motivation posits that firm engages in charity activities in order to

maximize political return on investment, such as community reputation (Neiheisel, 1994; Sánchez, 2000). But one notable trend of CPD is that corporate philanthropy activity is becoming more strategic (Brown et al., 2006; Saiia, 2002; Sánchez, 2000). Saiia et al. (2003) define strategic philanthropy as the practice of “giving of corporate resources to address non-business community issues that also benefits the firm’s strategic position and, ultimately, its bottom line” (Saiia et al., 2003).

From the perspective of strategic CPD, firms “do good in order to do well,” and corporate philanthropy appears to be consistent with the concept of the profit-maximizing model of a business. A lot of empirical papers have showed that CSR is positively associated with firm’s future financial performance and stock value (Moskowitz, 1972; Waddock and Graves, 1997). According to Griffin and Mahon’s (1997) review, the majority of research papers from 1970s to 1990s concerning the relationship between CSR and financial performance are positive. Patten (2008) finds that CPD is valued by the stock market. Sánchez (2000) suggests that firms engage in philanthropy to maximize benefits. In recent years, increased global competition has required that firms establish their competitive advantage from various sources. Corporate philanthropy may help a firm establish brand recognition and loyalty, promote itself as a “socially responsible” firm, or attract and maintain a work force (Sánchez, 2000). As Brammer and Millington (2006) suggest, strategy plays a significant role in determining how firms manage their philanthropy.

A survey of 463 U.S. companies found that companies taking a more businesslike approach to charity reported a better image, increased employee loyalty, and improved customer ties (Schwartz and Smart, 1995). Another survey by Walker Information Inc., a research and consulting company that tracks customer satisfaction and business ethics, found that 47 percent of consumers would be more likely to buy from a “good” company that was socially responsible (Sato, 1998). There are at least several ways that contribution can affect future sales and income. First, philanthropy can improve the reputation of a company and enhance its customer loyalty, thereby reducing the price elasticity of demand. Second, philanthropy programs can also raise consumer demand directly. Furthermore, firms can use their community involvement and relationships with nonprofit organizations, sustained by contributions, to generate new sales leads. Finally, firms can improve economic conditions internationally with the long-term goal of enhancing the size and quality of their markets (Lev et al., 2010).

Previous research also indicates that firm ownership type is an important determinant of firm strategies and influences CPD. Economists usually view government ownership as being detrimental to corporate performance (Megginson and Netter, 2001;

Shleifer and Vishny, 1998). Thus, Estrin and Perotin (1991) argue that firms with the government as an owner will not concentrate on profit maximization because the state has both political and economic objectives and that corporate performance in such firms will be inferior because of weaker governance arrangements. This suggests that government ownership is detrimental to company performance. Megginson and Netter (2001) conclude that the weight of empirical research is now decisively in favor of the proposition that privately-owned firms are more efficient and more profitable than otherwise comparable state-owned firms.”

Zhang et al. (2010) find that state-ownership hinders CPD. First, according to the strategic view, firms engage in CPD to increase firm reputation, attract customers, build political relations, and further increase profit. Managers of non-state-owned firms have more incentives to prompt firm profit and accordingly are more likely to engage in CPD. Another possible reason that non-state-owned firms are more likely to be involved in CPD is that, as prior literature has documented, non-state-owned firms have better corporate governance structures than state-owned firms (Estrin and Perotin, 1991) and better corporate governance will enhance a firm’s corporate social performance (Coffey and Wang, 1998; Wang and Coffey, 1992).

Pakistan is a developing nation which is facing a lot of corporate problems to become compatible to foreign competitors. It is gradually moving toward CSR actions. Some sector has started taking CSR actions and few have started to disclose those initiatives. There is limited research on the topic under study. Fariduddin (2007), for example, studied the trends and types of CSR in Pakistan. These trends of CSR are competition, demand, and fund management while four types of CSR are mentioned by the researcher which is politically motivated, globally aligned, externally imposed, and philanthropic & responsive CSR. He incorporated corporate governance in CSR business practices. Another Pakistani research (Afridi et al. 2008) observed empirical evidences of numerous local and multinational organizations which are involved in CSR actions, namely Unilever, Lakson tobacco, Shell, carpet industry several NGOs, telecom industry, and so on. Researchers like Nazir et al., (2010) focused on corporate social responsibility to gain a competitive advantage. They did research on corporate issues of governance and responsibility in tobacco industry of Pakistan and said it is a newer concept and is at its initial stage in emerging economies.

Nazir (2010) was the first person to study disclosure of CSR activities in Pakistan; before it, no study was conducted on CSR. He studied the case of fertilizer industry in Pakistan and checked whether they have corporate social responsibility concept in their

function or not. He concluded that three firms namely Fauji Fertilizers, Engro Chemicals, and Dawood Hercules Chemicals are disclosing their information regarding corporate social responsibility. Another researcher (Nazish, 2014) found that regulatory authority has increased its working for the development of policies based on corporate social responsibility and direct companies to follow them. In Pakistan, SECP has taken few steps to provide guidelines related to CSR disclosure and reporting. The companies which are listed on Pakistan stock exchange have moved from old philanthropic concept to more advanced one and started CSR practice to attain sustainability and long-term objectives.

Previous researchers are usually carried out in the western context while this research paper will help the researchers to understand the response of Asian customers to corporate social responsibility, especially with respect to Pakistan. There is a significant difference in the, cultural, political and economic conditions of the countries across the world. Due to these difference consumers in the different countries respond differently to different types CSR activities (Chapple & Moon, 2005; Welford, 2005).

CSR has many diverse angles, it guarantees good and safe working environment for the employees, fairness among employees, harmless and high quality products and services for the customers, following of government rules and regulations, not involving in immoral business practices, not to put an end to environment for earnings and to effort for the improvement of the society (Razaq et al, 2013). Majority of the studies on CSR have focused on the developed economies of the world and a little work has been done in evolving markets like Pakistan (Nazir, 2010).

Along with the multidimensionality of CSR, the literature also suggested that CFP consists of multiple dimensions (Griffin & Mahon, 1997). In particular, extant studies have commonly used two types of financial performance measures (accounting-based measures and market-based measures) to reflect two dimensions of CFP: short-term profitability and market evaluation of future profitability (Cochran & Wood, 1984; Luo & Bhattacharya, 2006; McGuire, Sundgren, & Schneeweis, 1988). Accounting-based performance measures, such as return on assets (ROA), represent the firm's short-term profitability or management efficiency, and provide direct information on how certain resource allocations lead to the firm's current profits (Cochran & Wood, 1984; Hull & Rothenberg, 2008). In contrast, market-based measures, such as Tobin's q, reveal how investors evaluate the firm's capability to create future profits (Luo & Bhattacharya, 2006; McGuire et al., 1988).

The relations between CSR and FP are mostly inconclusive, but positive relations between the two have been reported in most of the studies (Margolis & Walsh, 2003) suggesting an instrumental orientation

of CSR initiatives. An instrumental orientation towards CSR suggests the alignment of the social goal with the business goal where CSR is considered as a strategic tool to promote the economic objective of the firm. Managers foresee significant value additions in firm performance due to strengthened stakeholder relations. Management theorists argue that by improving CSR towards stakeholders, firm performance is augmented (Waddock & Graves, 1997).

CSR towards investors examine firm policies and practices towards such issues including shareholders' participation in decision making, auditors' independence, and policies towards insider trading. Evidence suggests that adoption of better corporate governance standards increases firm performance. Investors show willingness to pay a premium for the stocks of well-governed companies compared to poor-governed companies (Coombes & Watson, 2000).

However, in the Pakistan context, studies suggest that properly designed mandatory corporate governance reforms increase share prices (Black & Khanna, 2007). Market value of Pakistan companies such as Infosys that follows stricter governance and disclosure standards increased as high as 2000 times while that of poor governed firms declined as low as 95% during 1995–2000 (Nemkumar, 2000).

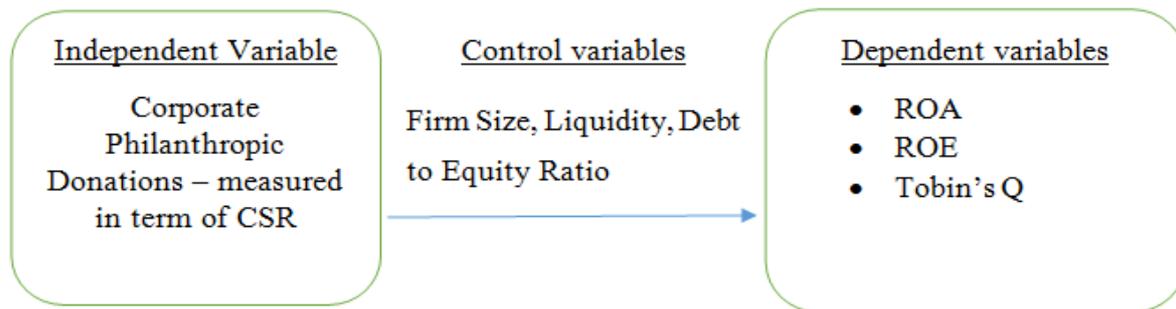
A meta-analysis by Orlitzky et al., (2003) reveals that corporate donations improve corporate financial performance more significantly than do other CSR behaviors. Similarly, Su and He (2010) indicate that corporate donations are positively and significantly associated with corporate performance, and a study of empirical evidence of A-share listed companies in China between 2001 and 2006 by Wang and Qian (2011) shows a positive relationship between corporate donations and financial performance. After the Wenchuan Earthquake in 2008, an investigation into the donation behaviors of Chinese A-share listed companies and the economic consequences of corporate donation behaviors revealed that corporate philanthropic behaviors improve corporate financial performances and market reactions (Shan et al., 2008).

### **Methodological Framework**

After reviewing the literature, the proposed framework of the study is developed that represent the impact of CPD on financial performance of business. It also represents the significant impact of donations on performance of non-financial sector of Pakistan. The independent variable of the study is CPD. The dependent variable of the study is financial performance whose three indicators, ROA, ROE, and Tobin's Q are used to measure it. The model of the study is presented as follows:

#### **Control variables**

Firm Size, Liquidity, Debt to Equity Ratio



There is one independent variable of the study that is CPD. It has been described in previous studies that practices of CPD can impact the financial performance of the firm. The analysis of literature review suggests that performance of business can be measured through donations. (Lee, Park and Lee, 2013; Newell and Frynas, 2007). There is one dependent variable used in this study. To measure this dependent variable, three dimension of variables are used. There are different indicators that can measure the performance of the firm like return on assets (ROA), (Dhar, 2011), return on equity (ROE) and Tobin's Q (Golob and Bartlett, 2007). First two variables are accounting based measure and third variable Tobin's Q is market based measure. In this study, three indicators are used to measure the performance of firm in result of all activities of CPD. This study is going to measure performance of firm in terms of their earnings as compared to their equity (ROE) and their earnings as compared with the company assets (ROA). It will help to identify individually that which CPD practices have greater significance on performance of the firm as compared to other. For this study, non-financial sector is selected which needs more CPD practices to ensure the performance in terms of their ROA, ROE and Tobin's Q. From the last ten years 2005 to 2015, earthquakes, terrorism and floods have opened the way for companies to engage in CPD and to promote it (Memon, 2008). Our purpose of the study is how the non-financial sector can participate in CPD activities to show its better performance and financial statements.

### Hypothesis Construction

There is positive association among corporate philanthropic donations and financial performance of the firm, average age of long term assets depends upon CPD activity of firm. So, it has direct correlation with social responsibility ranking (Cochran & Wood, 1984). From the mid of 1990, the performance of any business is measured through its spectrum of sustainable development. In this study it is highlighted that performance of any business must be measured through three bottom lines of performance including, environment, social and economic performance (O'Connor & Spangenberg, 2008). Most of the studies (Hi & Muller, 2013; Costa & Menichini, 2013; Lee, Kim, Lee, & Li, 2012;

Rodgers, Choy, & Guiral, 2013; Torugsa, Donohue, & Hecker, 2012), were suggesting that if corporate is proactively moving towards CSR, it is directly moving towards its performance. Different studies described that philanthropy donations is a CSR practice that can help to gain the commitment of employees towards the organization and their retention for the organization that ultimately will increase the performance of the firm (Lee, Kim, Lee, & Li, 2012; Lee, Park & Lee, 2013; Gjolberg, 2009; Simon & Maklan, 2004; Roneberg, 2006). Donations as a practice of CSR also contribute towards the performance of CSR was measured in many studies and a positive relationship was found (Lee, Park & Lee, 2013; Newell & Frynas, 2007; Kim, Kim, & Cameron, 2009; Oppewal, Alexander, & Sullivan, 2006; Newell & George, 2007).

All these studies were showing a positive relationship between CSR practices and their impact on financial performance. Some studies generated the results that there exists no correlation among CSR practices and their financial performance (McWilliams & Siegel, 2000). similarly, one study described that CSR practices can do nothing in the bad days of company then why to increase the cost to implement CSR (Lin, Yang, & Liou, 2009). But the further studies contradict the results as the methodology used for these studies was flawed and Econometric techniques used were not proper. Second, R & D is a practice of CSR that can be a long-term investment for the company in their bad days.

While highlighting the importance of CSR and their impact on financial performance the following hypothesis has been deduced:

H1: CPD activities have positive impact on financial performance of non-financial sector of Pakistan.

If a corporate will be engaged in volunteer activities for the betterment of community of all stakeholders it will increase the reputation of firm in the eyes of all stakeholders which ultimately will be beneficial for the organization. This study would be served as an innovative addition towards the literature of CSR as previous studies were conducted for developed economies, for a developing economy where, law, institutions and infrastructure is totally changes as compared to developed economies, it will contribute

for non-financial sector of Pakistan to increase their performance.

H1a: Donations have positive significant impact on ROA of non-financial sector of Pakistan.

H1b: Donations have positive significant impact on ROE of non-financial sector of Pakistan.

H1c: Donations have positive significant impact on Tobin's Q of non-financial sector of Pakistan.

**Data and Sampling**

Data used in this study is secondary data and gathered from balance sheet analysis of state bank of Pakistan. Other data collected from companies' annual financial statements and Pakistan center for philanthropy. Data gathering period would be from 2010 to 2014 and all data collected in thousand rupees. For the selection of sample of companies, Purposive sampling technique was used to collect data from those hundred companies which participate in philanthropic donation practices. Chosen sampling technique was non-probability sampling technique which selected companies on any purpose. In this study ten companies were selected from each sector of economic groups which are participating in donation activities. Data collected in this research would be panel data. Sample of the study is 100 companies of non-financial sector listed in Karachi Stock exchange of Pakistan.

**Data Analysis Technique**

Data maintained in excel sheet and transformed in Stata 13 version to run different econometric techniques. Econometric methods were used to analyze the data of 100 listed companies of non-financial sector of Pakistan. Descriptive, Correlation, Hausman's test and Regression analysis were used to estimate the relationship between independent and dependent variables. Descriptive investigation was analyzed to find the mean, median, skewness and standard deviation of the data. The strength of the outcomes will be statistically tested through Hausman specification test (Hausman,1978) that determines which model greater explains the relationship and impact of philanthropic donations on the financial performance of listed non-financial sector of Pakistan.

Generalized least square method will be used because the sample data are not normally distributed and the data have either heteroscedasticity problem. One study was conducted to see the significance of CPD for firm's performance. (Baden, Harwood & Woodward, 2009). Even when firm value represented by market value was substituted with other proxies such as return on assets, return on equity Tobin's Q (Yermack & David, 1996). The proposed study

encompasses more than single predictor for each observation, which leads to application of panel data model (Gujarati, 2004).

The substantive literature support provided by previous studies and the rationale of the cross-sectional panel data offer the main justification for employing panel data model through ordinary least square regression. Random affect and fixed affect model will be employed to determine the impact of CPD and control variables on financial performance of non-financial sector of Pakistan. The robustness of the results will be statistically checked through Hausman's specification test (Hausman,1978), that statistically determines which model better explains the relationship and impact of CPD practices on the financial performance of non-financial sector.

The present study uses the data of recent balance sheet analysis of listed non-financial sector of Pakistan. Panel data ranging from 2010-2014 (N=100) will be collected from the state bank balance sheet analysis and annual financial reports of listed non-financial sector. The annual reports of listed non-financial sector companies provide detailed information about key variables of the proposed study. Data maintained in excel sheet and transformed into Stata 13 to run the econometric techniques. There were one independent variable Philanthropic donations, three control variables firm size, Liquidity and Debt to Equity Ratio, and three dependent variables ROA, ROE and Tobin's Q. Regression analysis were run independently with all three different dependent variables, such as:

$$ROA_{it} = \beta_1 + \beta_2 PD_{it} + X_{it} + \mu_{it} \quad (1)$$

$$ROE_{it} = \beta_1 + \beta_2 PD_{it} + X_{it} + \mu_{it} \quad (2)$$

$$Tobin's Q_{it} = \beta_1 + \beta_2 PD_{it} + X_{it} + \mu_{it} \quad (3)$$

For  $i^{th}$  cross sectional units and  $t^{th}$  time period; here we have:

PD: Philanthropic Donation

ROA: Return on Assets

ROE: Return on Equity

X: Other control variables

$\mu_{it}$ : Combined time series and cross-sectional error components.

After testing this general equation through fixed affect and then random affect models, Hausman's specification test will be applied to check that which model better explains the relationship between CPD practices and their impact on financial performance of the firm.

**Results and Discussion**

Following table 1 describes descriptive statistics below:

**TABLE 1: (Descriptive Statistics)**

	Philanthropic Donations	ROA	ROE	Tobin's Q	Firm Size	Debt to Equity Ratio	Liquidity
Mean	10612.52	9.6937	23.47964	.4523485	2.59e+07	12.29336	1.57148
Maximum	445558	67.59	328.74	2.38489	4.96E+08	4394	8
Minimum	.3	-41.28	-163.06	-.7448426	202378	-31.49	.1

<b>Std. dev.</b>	32237.04	14.24803	43.96625	.2641812	5.96e+07	199.6007	1.290826
<b>Skewness</b>	7.260427	.7486266	1.741114	.9853857	4.107414	21.34274	2.29914
<b>Kurtosis</b>	80.08515	4.900428	14.87651	10.91359	22.48635	466.8073	9.177806
<b>Variance</b>	1.04E+09	203.0062	1933.031	.0697917	3.55E+15	39840.43	1.666232
<b>Observation</b>	471	500	500	500	500	500	500

Table 1 shows the descriptive analysis of all variables in which first row showing mean value of all variables. Mean value represents average of the data values. Philanthropic donation has highest mean value and Tobin's Q is the smallest in mean. Maximum value of independent variable philanthropic donation is 445558 and minimum value is 0.3 which shoe range of the data that highest donation and lowest donation given by selected companies. Distribution pattern of data set has been calculated with the help of measures of central tendency (mean, median, minimum, maximum) and measures of dispersion (standard deviation, skewness, kurtosis, sum of squared deviation). To check the skewness of data, the rule of thumb is that if it has positive values, data will be positively skewed, and

will be negatively skewed if it will pertain negative values. All variables taken in this research are positively skewed. It can be concluded from results presented in table 1 that none of the variable follows the normal distribution.

Another reason for transforming the data to ratios is that most of the companies in non-financial sector do not regularly allocate funds towards the components of CPD like donations and charities. More than 3 values of kurtosis show that most of the observations are following in the tails of normal curve. When data falls in tails of normal curve, it suggests that there are chances of confronting outlier effect. Furthermore, normal distribution is one of the major assumptions for OLSM, ordinary least square model.

**TABLE 2 (Regression Result of ROA)**  
Dependent Variable (ROA)

	Coefficient	Std. Error	T	P>T	95% CONF.	F- value
DN	.0001546	.0000446	3.47	0.001	.000066	3.8
LIQUIDUTY	4.079759	.870622	4.69	0.000	2.351356	
DQR	-.0053161	.0113693	-0.47	0.641	-.027887	
FRS	-2.47e-09	1.95e-08	-0.13	0.899	-4.11e-08	
_CONS	1.83489	1.762719	1.04	0.301	-1.664549	
Hausman's statistics	22.00(0.00)					

Table 2 shows results of Hausman's statistics between ROA and other independent variables are significant which select fixed affects model (FEM). The outcomes of the T-test are significant, the results indicate that ROA is explained by CPD and the set of control variables, and the overall estimation is 22 per cent. Results show that the fixed affect result about the statistical relationship between dependent and independent variables. Before going to employ the estimated generalized least square, author check for the pattern of data through descriptive analysis. The data was transformed appropriately due to the problem of non-normal distribution of data and also to lessen the outlier effect. Further to check the biasness and originality of data, equality tests of difference of mean, median, and variance were

employed to ensure that there is no autocorrelation in data. To fix out this problem, estimated generalized least square method is employed to statically determine the significance of relationship among dependent and independent variables. The fixed affect results show that Donation has positively significant relationship with return on assets as p value for ROA less than 5 percent. It means Donation will have significant impact on ROA of the non-financial sector. T-value is greater than 3 which is (3.47) it shows donations have positive significant impact on ROA. Coefficient value is (.0001546) which shows one percent change in donation will change the ROA as .154%. F-statistic value is highly significant as it is 3.8. This shows the overall significance of the model.

**TABLE 3 (Regression Result of ROE)**  
Dependent Variable (ROE)

	COEF.	Std. Error	T	P>T	95% CONF.	F-value
DN	.0004358	.0001332	3.27	0.001	.0001713	3.32
LIQUIDUTY	.6775827	2.600028	0.26	0.795	-4.484125	
DQR	.0353365	.0339533	1.04	0.301	-.0320692	
FRS	-1.12e-08	5.82e-08	-0.19	0.848	-1.27e-07	
_CONS	.0004358	.0001332	3.27	0.001	.0001713	
Hausman's statistics	17.62(0.00)					

Table 3 shows results of Hausman's statistics between ROE and other independent variables are significant then author select fixed affects model (FEM). The outcomes of the T-test are significant, the results indicate that ROE is explained by CPD and the set of control variables, and the overall estimation is 17.62 per cent. By assigning cross section weights in estimated generalized least square, author have minimized the heteroscedasticity issue. Present the fixed affect result about the statistical relationship between dependent and independent variables. Before going to employ the estimated generalized lease square, author check for the pattern of data through descriptive analysis.

The data was transformed appropriately due to the problem of non-normal distribution of data and also to lessen the outlier effect. Further to check the biasness and originality of data, equality tests of

difference of mean, median, and variance were employed to ensure that there is no autocorrelation in data. To fix out this problem, estimated generalized least square method is employed to statically determine the significance of relationship among dependent and independent variables. The fixed affect results show that Donation has positively significant relationship with return on equity as p value for ROE less than 5 percent. It means Donation will have significant impact on ROE of the non-financial sector. T-value is greater than 3 which is (3.27) it shows donations have positive significant impact on ROE. Coefficient value is (0.0004358) which shows one percent change in donation will change the ROE as .043%. F-statistic value is highly significant as it is 3.32. This shows the overall significance of the model.

**TABLE 4 (Regression Result of TBQ)**  
Dependent Variable (TBQ)

	COEF.	Std. Error	T	P>T	95% CONF.	F-value
DN	3.23e-07	8.13e-07	0.40	0.692	-1.29e-06	19.84
LIQUIDUTY	.1352156	.0158592	8.53	0.000	.1037312	
DQR	-.0002714	.0002071	-1.31	0.193	-.0006825	
FRS	-8.58e-10	3.55e-10	-2.42	0.017	-1.56e-09	
_CONS	.2615874	.0321095	8.15	0.000	.1978419	
Hausman's statistics	27.14(0.00)					

Table 4 shows results of Hausman's statistics between TBQ and other independent variables are significant then author select fixed affects model (FEM). The outcomes of the T-test are significant, the results indicate that TBQ is explained by CPD and the set of control variables, and the overall estimation is 27.14 per cent.

Donations have no significant relationship with Tobin's Q because p value is greater than (0.05). The T-value for donation with relationship of Tobin's Q is

(0.40) so, Donation has positive relationship with Tobin's Q but this relationship is not significant. So, if a company adds some value to donation, it will increase the market value of non-financial sector but not significantly. Therefore, on the basis of panel data analysis, it is advocated that TBQ is not significant factor to increase the financial performance of non-financial sector of Pakistan in terms of their donation. TBQ can increase performance of non-financial sector in Pakistan but not significantly.

**Table 5: Correlation Analysis**

	ID	Year	Liquidity	DQR	FRS	ROA	ROE	TBQ	DN
<b>ID</b>	1.0000								
<b>Year</b>	-0.0203	1.0000							
<b>Liquidity</b>	0.1961	-0.0239	1.0000						
<b>DQR</b>	-0.0899	-0.0385	-0.0349	1.0000					
<b>FRS</b>	0.0336	0.0674	0.0570	0.0197	1.0000				
<b>ROA</b>	0.0873	-0.0096	0.3664	-0.0245	0.1180	1.0000			
<b>ROE</b>	0.0092	-0.0473	0.0463	0.0158	0.0883	0.4828	1.0000		
<b>TBQ</b>	0.1716	0.0532	0.5773	-0.0713	-0.1367	0.2721	0.0049	1.0000	
<b>DN</b>	0.0955	0.0316	0.0238	-0.0180	0.2607	0.2006	0.1837	-0.0166	1.0000

Above table shows correlation among all the variables used in the study. The relationship of donation is negative with Tobin's Q which is (-0.0166), it shows very weak relationship of the two variables. Similarly, donations have negative relationship with debit to equity ratio which is (-0.0180), it shows very weak relationship of the two variables. The relationship of ROE, ROA, firm size, with donation is positive and its value is (0.1837),

(0.2006), (0.2607) which shows weak relationship. The relationship of donation with liquidity is positive and its value is (0.0238) which is very weak relationship. Dependent variables like ROA relationship with liquidity and firm size is positive and it shows weak relationship which is (0.3664) and (0.1180). ROA relationship with debt to equity ratio is negative and its value is (-0.0245) which is very weak relationship. ROA relationship with ROE is

positive which is (0.4828) which shows moderate relationship. The relationship of ROA and TBQ is positive which is (0.2721), it shows weak relationship. Other ROE has positive relationship with all control variables liquidity, debt to equity ratio and firm size which are (0.0463), (0.0158) and (0.0883) these values shows very weak relationship. Relationship of Tobin's Q with liquidity is positive which is (0.5773), it means it has moderate relationship. Tobin's Q relationship with debt to equity ratio and firm size is negative which is (-0.0713) and (-0.1367), these values shows negative very weak relationship.

### CONCLUSION AND RECOMMENDATIONS

The findings of the study suggest that practices of CPD of non-financial sector of Pakistan can increase their performance. The important and significant CPD practices are donations provided by the firms to poor people so that it can help the outside community to start their business. These donations will be positively helpful for the organization to lessen the impact of poverty from the economy. It will create the image of firms for their all stakeholders especially employees who will increase the performance of firm in terms of their retention, and also for customers who will contribute towards the performance of firm in terms of their sales (Newell & George, 2007; Wigley, 2008).

Second important factor of CPD practices is firm size that will increase the commitment of employees of non-financial sector as they will be happy and will be satisfied by their job (Froneberg, 2006). This will help to increase the performance as these employees will eventually be retained by the non-financial sector and the will never think to switch the organization (Gjolberg, 2009).

The third important factor for increasing the performance of non-financial sector of Pakistan is liquidity. the results of the study suggest that it has positive significant relationship with performance of firm in terms of their sales. While in terms of ROA, and ROE, it has no significant impact on financial performance of firm as it will increase their cost of production. The results of this study are similar with the study which suggests that liquidity can be used as an alternative for the performance of firms (McWilliams & Siegel, 2000). Similarly, author cannot increase the ROA, and ROE in short run by adopting liquidity but in the long run it is beneficial for the firm (Lin, Yang, & Liou, 2009), While one study was saying liquidity has nothing to do with performance of firm (Kim, Kim, & Cameron, 2009).

The overall results of study that CPD practices have significant positive impact on financial performance of firm are consistent with the studies: (Lee, Park & Lee, 2013; Newell & Frynas, 2007; McWilliam & Siegel, 2000; Wigley, 2008; Oppewal, Alexander, & Sullivan, 2006; Harwood, & Woodward, 2009; Weber, 2008; Gjolberg, 2009; Froneberg, 2006; Vlachos, Theotokis, & Panagopoulos, 2010; Kim,

Kim, & Cameron, 2009; Lee, Kim, Lee, & Li, 2012; Golob & Bartlett, 2007; Lin, Yang, & Liou, 2009).

So, the results of the study suggest that if non-financial sector regularly proportionate some amount for donations, and liquidity side they can easily increase the performance of firm significantly in term of their market value, return on assets and return on equity as non-financial sector has the main issue for exploiting the stakeholders of the non-financial sector, all these dimensions will increase their performance significantly.

The practical implication of the study is for non-financial sector that to improve their CPD practices by increasing donations, workers profit participation fund and more finances for research and development would increase their performance in terms of their increased sales, return on assets and return on equity. Practically, study suggested for non-financial sector, that if company practiced more CPD it would be less costly than other marketing strategies adopted to increase the performance of business.

It has been discussed that corporate social responsibility practices can help the corporate to increase their performance. Which CPD practices can enhance financial performance of non-financial sector of Pakistan are donation, workers profit participation fund, and research and development. This study also discusses the different perspectives to measure the performance of the non-financial sector; return on assets, return on equity, and sales as percentage of total assets, in the context of Pakistan that would be helpful for the researchers to pursue more determinants of CPD that can increase the performance of non-financial sector. By adding these determinants, it has contributed to the empirical knowledge of CPD practices and their impact on financial performance. It also highlights the need for inculcating CPD practices in organization culture as some practices of CPD can increase performance in long run.

This study employed advanced econometric techniques for testing and analyzing the theoretical framework of the study that would be a contribution towards the literature of CPD. Furthermore, this study is an empirical and theoretical distribution and an increase to knowledge as main stakeholders of non-financial sector; employees, customers, and investors are added as main perspectives for CPD practices and performance of the firms is analyzed through CPD practices of philanthropic donations.

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