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Corporate Social Responsibility Disclosures and Financial Performance: The Influence of Competitive Pressure in Non-Financial Firms of Pakistan

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Abstract

This study investigates the relationship between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP) among non-financial firms listed on the Pakistan Stock Exchange (PSX) from 2019 to 2024, with a particular focus on the moderating role of competitive pressure. Using a purposive sampling technique, the research employs correlation analysis and panel data regression to assess the impact of CSR on financial performance. The findings reveal a significant relationship between CSR disclosure and financial performance, with competitive pressure significantly moderating this relationship. This study provides valuable insights for non-financial firms by demonstrating how effective CSR integration can enhance financial outcomes, and how leveraging CSR can serve as a strategic tool for gaining a competitive edge. It also highlights the importance of balancing CSR initiatives with financial performance to achieve optimal results. In highly competitive markets, amplifying CSR efforts may help firms distinguish themselves and improve their financial performance. These insights can guide firms in developing and implementing evidence-based CSR strategies that align with both their social and financial goals.

Keywords: Corporate Social Responsibility, Competitive Pressure, Financial Performance, Pakistan Non-Financial Firms

1. Introduction

Environmental degradation and climate change are increasingly pressing issues in developing countries, posing long-term impacts on all segments of society (Aftab et al., 2024; Abid et al., 2023). Corporate Social Responsibility (CSR) is a set of values of corporations that encompasses voluntarily performing actions beyond the scope of the law, accepting responsibility for minimizing adverse impacts like pollution, and catering to the interests of all stakeholders, not only shareholders but also balancing economic and social responsibilities for improving profitability (Marti et al., 2024). CSR has emerged as a prominent subject in the 21st century due to its enduring effect on the society. Corporations including non-financial firms were primarily driven by profit often resulting threat to society and the environment (Davies et al., 2019). Consequently, these firms have faced increasing pressure to integrate social and environmental practices alongside their trade operations. The undertaking of responsibilities that are created due to those societal force and expectation is referred to as CSR (De Colle et al., 2014). CSR disclosure is encased in the ethical and moral values that accustom the single organization. However more organizations on the rise have come to appreciate the need to include CSR into them and that it is in one way or the other affiliated to the business operations of a firm (Gatti et al., 2020). Though engaging in the CSR, the leaders of the present-day businesses are forced to remain competitive and cost efficient, besides these noble goals and motivations.

Investment corporations to decide which stocks will be purchased corporate financial performance is one of the factors that are considered by potential investors (Chabachib et al., 2019). In other words, corporate financial performance provides an overview of a company's financial status report in detail across time to show just how successful and profitable a certain set up organization is at generating revenue. Financial performance refers to how much revenue a company is generating and how efficiently it manages its assets, liabilities, capital structure to align the financial interests of stockholders. CSR expenditure to be an investment as it expands the market opportunities of the firm, and in turn, enhance its financial performance (Kang et al., 2010). The stock cannot survive without the investors, hence a corporate need to hold on its financial performance or improve (Abreu 2017)

According to Hernández-Murillo, Rubén & Martinek (2009) corporate social responsibility (CSR) programs create responsibility on the part of companies for their stakeholders, especially for their employees, community, the environment and customers in addition to its profit maximization goals. Dela et al. (2024) states that CSR gives firms a competitive edge by enhancing their financial strength, which implies CSR has a positive impact on financial performance that is related to triple bottom line theory by Elkington (1994). Furthermore, competitiveness in firms is a continuous process that enhances knowledge on the link connecting CSR disclosure, CFP and competitiveness pressure. There are several ways that governance applies pressure on firm's financial performance and they include; Competition, change on customer's preferences, regulations and embracing of technologies (Ndemena and Qutieshat 2022). Therefore, this study calls for a first recognition of these factors and an identification of how these factors interact with to non-financial firm of Pakistan. The subject of the study is therefore to investigate whether competitive pressure result in strategic adjustment to CSR strategy among firms. Some characteristics of this approach are as follows and they all represent additions to the current knowledge on the competition and CSR relationship. Previous studies have extensively analyzed the effects of CSR disclosures on various organizational outcomes; however, they frequently overlook the intricate relationship between CSR and competitive pressure, especially in developing nations such as Pakistan.

Although Fosu et al. (2024) investigate the effects of CSR on corporate image and financial performance, their analysis does not adequately consider how competitive pressure may influence these relationships. This study fills this gap by examining the effects of CSR disclosure on the corporate financial performance of non-financial firms in Pakistan while assessing the moderating role of competitive pressure in this context. By integrating the moderating influence of competitive pressure, this study not only addresses a critical deficiency in the existing literature but also provides practical insights for companies in emerging markets to strategically refine their CSR initiatives and enhance financial performance. This methodology is expected to yield significant contributions to the academic discourse and offer pragmatic recommendations for businesses operating in challenging competitive landscapes.

This study aims to investigate the impact of corporate social responsibility (CSR) on the financial performance of non-financial firms, with a particular focus on how competitive pressure influences this relationship. Specifically, it seeks to determine whether CSR initiatives contribute positively to the operating financial performance of these firms and to explore the role of competitive pressure as a mediating factor in the CSR–financial performance (FP) linkage, especially among firms not actively engaging in CSR.

In Pakistan, a developing country with significant industrial sectors such as textiles, sugar and manufacturing etc. understanding the impact of CSR disclosure reports on corporate financial performance is crucial. CSR is increasingly recognized for its role in enhancing corporate reputation and financial outcomes, empirical research specific to Pakistan is limited. By providing insights into how CSR disclosures affect financial performance in this context, the study offers valuable information for policymakers and industry stakeholders aiming to improve CSR practices and their economic impact (Khan et al., 2023). This study may assist investors to make feasible decisions for the investment they will undertake while being a responsible member of the society to enhance the efficiency of the social responsibilities of the companies it will be useful for enhancing new and improved corporate policies of the companies.

2. Literature Review

The concept of corporate social responsibility (CSR) has been widely explored across the globe, with numerous studies drawing similar conclusions. This debate traces back to Milton Friedman's (1970) assertion that the primary responsibility of businesses is to maximize profits, arguing that corporate resources should be dedicated solely to profit generation rather than societal concerns. In contrast, Freeman's Stakeholder Theory (1984) broadened the perspective by arguing that businesses should consider the interests of all stakeholders, rather than focusing exclusively on shareholders. This perspective laid the groundwork for the modern understanding of CSR, which encompasses the social, environmental, and economic impacts of business operations. Further advancing this concept, John Elkington's Triple Bottom Line (TBL) theory (1994) proposed a framework for measuring organizational performance by balancing financial outcomes with social and environmental responsibilities. This theory underscores that while firms strive to enhance financial performance, they must also address their broader social and environmental impacts, thereby providing a more comprehensive measure of organizational success beyond mere monetary results.

Crane et al. (2008) describe Corporate Social Responsibility in their study as a collection of values that companies follow. This includes voluntarily undertaking activities beyond legal obligations, taking accountability for mitigating negative effects such as pollution, and addressing the interests of all stakeholders, not just shareholders but also balancing social and economic responsibilities to enhance profitability. Along with that ensuring the reasons behind these practices align with the company's value. In this study, the level of a company's CSR disclosure is measured by the CSR index. Some of the data is also collected from FSA published by The State Bank of Pakistan official website.

Hence, although profitability is an enduring business motive, CSR disclosure report focus on proper utilization of profit. As the key strategic asset in any enterprise, requires support activities that would improve its standard, whilst the concept of corporate social responsibility points at the firm's concerns about societal wellbeing (Gołaszewska-Kaczan, 2015). In firms sector, CSR is central with reference to the TBL concept. This framework brings out the fact that Profit should not be overlooked in certain activities. More specifically, it encompasses people, and Planet in business operations (Księżak & Fischbach, 2018). In addition, understanding the importance of environmental stewardship in the firms, the Planet should be preserved through environmentally friendly business practices. Such actions negatively affect the environment and at the same time are adverse to the firm's sustainable development (Gupta, 2018).

Neoclassical economists argue that the primary focus of businesses should be on reducing costs and maximizing profits, provided they operate within legal boundaries (Giannopoulos, et al., 2024). Therefore, the CSR practices adoption helps achieve sustainable profitability while serving the society and environment of the non-financial firms sector.

H₁: *There is significant positive impact of CSR on financial performance.*

Competitive Pressure as a Moderator of CSR-CFP Relationship

Competitive pressure in the non-financial firms encompasses the array of influences arising from market competition, regulatory demands, technological advancements, and shifting consumer preferences. Within this dynamic environment, firms face the imperative to differentiate themselves, attract clientele, and solidify their market standing. This pressure significantly influences Corporate Social Responsibility initiatives undertaken by firms. In competitive environments, business organizations perform CSR activities deliberately with an intention of improving their competitive advantage and then concentrating on functional aspects that require support or on issues of customer satisfaction, brand building or, regulatory compliance. Such resource allocation also changes with competitiveness pressure, firms fund, ecologically sound programs or ethical lending policy, feasible community engagement programs among others to draw consumer attention and loyalty.

Furthermore, competitive pressure in the market triggers innovation and creation of new programs and multi-stakeholder partnerships that focus on new societal issues that non-financial firms have to incorporate to make their CSR reports to capture consumers' attention and sell their stocks. Such competitiveness was evident in the non-financial firm industries where Jones and Felps (2013) believed that the positive relationship of CSR activities on financial returns was magnified. They assert that in competitive markets CSR efforts can be a source of legitimacy which a winning over customers as well as investors and this in the end translates to better financial performance among firms. Additionally, research by Porter and Kramer (2006) indicates that competitive pressure can motivate non-financial firms to implement more robust CSR strategies, emphasizing not only philanthropy but also the creation of shared value for both the company and society.

In their view, CSR programs are posited to contain signals that may be used strategically in competitive markets to unlock customers and investors hence a positive effect on the financial performance of firms. In addition, Porter and Kramer (2006) opine that compelling competition pressure makes less financial-based firms employ a broader and more effective CSR approach that goes beyond charity to embrace the production of value for both the company and society. They claim that companies which are in the nonfinancial sector and competing in the condition markets are more likely to engage in activities that solve the societal issues and at the same time improve the financial performance of the enterprise (Roszkowska-menkes, 2020). Moreover, research has suggested that there is a positive effect of competitive pressure on CSR communication in various ways.

For instance, Han & Ito, (2024) noted that in intensified customer-based competition, non- financial firms are likely to feel pressure from the shareholders with regard to the genuineness of the CSR. Therefore, non-financial firms may require more resources to finance CSR initiatives to regain the lost market position and reputation defending strategy, which can have a direct impact on the firm's financial performance (Han & Ito, 2024). However, competitive pressure, being the crucial characteristic of the firms under analysis, must be considered in relation to the non-financial firms. According to Moyo, Duffett, and Knott's (2020) study, competition exerts a positive influence on the adoption of CSR practices since firms want to be seen as better than their competitors, but high competition may also result in firms' short-term orientation and growth prospects that favor financial performance over sustainability. Hence, the moderation role of competitive pressure concerning CSR- CFP correlation may differ depending on competition's intensity and type inherent in non-financial firms (Han & Ito, 2024).

H$_2$: *The impact of CSR on Financial performance is positively moderated by the competitive pressure*

Firm size

Rahman & Yilun (2021) stated in their study that Firm size is an important variable in studies examining the relationship between Corporate Social Responsibility and Corporate Financial Performance because larger firms typically have more resources to allocate towards CSR initiatives and may experience different financial performance outcomes compared to smaller firms (Yang et al., 2020). CSR and financial performance may be more pronounce in larger firms due to their ability to implement and monitor CSR initiatives more effectively, leading to improve operational efficiencies and stakeholder relationships. This enhanced capacity for CSR engagement not only supports better financial outcomes but also contributes to long-term strategic advantages in competitive markets (Martínez-Conesa et al., 2020).

H*$_3$*:* *Firm size significantly impacts financial performance.

Firm age

Firm age is a critical factor that influences a company's financial performance and its engagement in Corporate Social Responsibility (CSR) initiatives. Older firms, having had more time to establish a solid financial foundation, often possess the resources necessary to support CSR activities. However, these firms might also exhibit more conservative attitudes toward adopting new CSR practices due to entrenched routines and risk aversion (Waddock & Graves, 1997).

On the other hand, the stability and established reputation of older firms can provide a solid platform for impactful CSR activities if managed effectively. Such firms may leverage their long-standing market presence and financial stability to undertake long-term CSR projects that could enhance their reputation and financial performance over time (Rossi et al., 2019). This suggests that while older firms might face challenges in adapting to new CSR practices, they also possess unique advantages that can contribute to positive financial outcomes if they successfully integrate their CSR strategies with their established market position.

H*$_4$*:* *Firm age has a significant impact on its financial performance.

Financial Leverage

Financial leverage plays a crucial role in shaping a firm's financial performance and its capacity to engage in Corporate Social Responsibility (CSR) initiatives. Recent studies highlight that firms with significant financial leverage may still experience positive financial outcomes from CSR if they align their CSR strategies with stakeholder expectations and manage their debt effectively (Chen et al., 2021; Wang et al., 2021). For instance, CSR practices can enhance brand loyalty and competitive advantage, which could contribute to long-term financial stability and better management of financial leverage (Li & Zhao, 2020). Effective CSR can help mitigate the financial risks associated with high leverage by improving stakeholder trust and potentially reducing financial distress. As such, understanding and managing financial leverage effectively is crucial for firms seeking to balance financial risk with the potential benefits of CSR activities.

H_5: *Financial leverage has a significantly influence on financial performance*

3. Methodology

The target population for this study includes all non-financial firms listed on the Pakistan Stock Exchange (PSX) as they are capable of engaging in corporate social responsibility (CSR) activities and facing challenges, particularly under competitive pressure. Purposive sampling is utilized in this study to select non-financial firms from five key sectors: food and beverages, tobacco, sugar, textiles, and spinning, weaving, and finishing of textiles. These sectors are chosen for their prominence and substantial role in corporate social responsibility within Pakistan. Purposive sampling allows for the intentional selection of firms based on the availability of CSR data and their significance in the market, ensuring that the sample reflects the diversity and importance of these industries.

The main data sources consist of archival information obtained from financial statement analyses (FSA) published by the State Bank of Pakistan (SBP) and corporate social responsibility (CSR) data sourced from the CSR reports of various companies. The CSR data emphasizes the extent of disclosure, which is quantified using a CSR index. The dataset includes six years, from 2019 to 2024, and encompasses 100 non-financial companies listed on the Pakistan Stock Exchange (PSX). Annual reports from these companies are retrieved from their official websites and are cross-checked against the official reports released.

A CSR disclosure index is created using 40 items distributed across five key themes: general community welfare, health and education, environment and energy, product, and customer and stakeholders, as well as workforce. The CSRD Index is calculated as CSRD Index = ∑*di*/*nj*, where *di* equals 1 if the information about item *di* is disclosed, and 0 if it is not. The total number of items for the *jth* firm, *nj,* is 40. Similarly, five individual indices are developed: (1) General Community Welfare Index, comprising eleven items; (2) Health and Education Index, with five items; (3) Environment and Energy Index, consisting of seven items; (4) Product, Customer, and Stakeholders Index, containing nine items; and (5) Workforce Index, which includes eight items (Ehsan et al., 2018). *Here* The CSRD Index, calculated as ∑di/nj (where di represents individual dimension scores like environmental, social, and governance, and nj is the number of dimensions), quantifies a company's corporate social responsibility performance by averaging its weighted efforts across key areas to balance stakeholder interests and minimize adverse impacts.

Corporate financial performance is an overview of company financial status report over a period of time to figure out how successful and profitable a company is in producing revenue. However, this study is use two proxies i.e. ROA (Return on Assets) and EPS.EPS is one of the measure of company profitability which is obtained by dividing the net income available to common stock holders by the average number of shares outstanding.

Competitive pressure refers to the intensity of competition within an industry. In today's competitive business environment, organizations face ongoing challenges from their competitors. In this context, Corporate Social Responsibility can provide a competitive advantage. HHI = Company sale dividable by industry sale Newman et al. 2020. The Herfindahl-Hirschman Index (HHI), is actually the most used instrument for analyzing the position or status of competition within an industry. All it does is find out the proportion of the companies compared to total size of the industry in question as well as the degree of competition (Ramzan, Amin, & Abbas 2021).

The control variables include firm age (FA) measured by the number of operating years (Chettri & Makan, 2025) ,firm size (FS) represented by the natural log of total assets (Chettri & Makan, 2025) and financial leverage (FL) calculated as the average of total assets divided by the average of total equity (Rahman et al. 2021).

Panel Data Analysis

Panel data analysis is employed to investigate the relationship between various variables. In this study, panel data is used to examine the connection between corporate financial performance, corporate social responsibility (CSR) disclosures, and competitive pressure. In panel data analysis both time-series and cross-sectional data are included. Panel data allows for more efficient handling of econometric data, incorporating multiple cross-sections such as countries, corporations, or individuals. Due to the large number of cross-sections, it reduces collinearity among variables. Panel data is categorized into two types: balanced panel data, where observations are consistent over the same period, and unbalanced panel data, where observations vary over time (Gujarati 2004). The fixed effect and random effect methods are applied to determine the most suitable approach for the data analysis.

4. **Result**

This chapter provides a fundamental analysis of the data covered in the previous chapters. This chapter details the descriptive statistics and correlation results, and panel data regression, explores the estimation models used, and discusses how these models are applied and measured. Finally, it presents the results of the investigation.

Descriptive data analysis provides meaningful way of defining data. The descriptive results depicting the independent as well as dependent variables for the study namely CSR, ROA and EPS are given below:

Table 1

Descriptive data analysis

Variable	Mean	Standard Deviation	Minimum	Maximum	Count
CSR	2.97	0.24	2.39	3.63	600
ROA	1.57	0.71	-0.10	5.77	600
EPS	1.17	3.14	-0.03	7.79	600
FL	1.88	2.04	0.15	3.97	600
SIZE	5.03	1.68	2.37	8.71	600
AGE	3.75	0.38	2.39	5.09	600
HHI	0.01	0.01	0.00	0.09	600

Note: The dependent variable is financial performance which is measured by Return on asset (ROA), and earning per share (EPS) and the independent variable is corporate social responsibilities disclosure (CSR), Herfindahl–Hirschman index (HHI) represent competitive pressure, financial leverage (FL), size and age are control variables.

Table 1 demonstrates the descriptive statistics of this study variables. In 4.1 table data presents the statistical summary of all variables. The sample's mean CSR in this study is 2.97, with a standard deviation of 0.24. The minimum CSR observed in the sample is 2.39, while the maximum is 3.63. This suggests that CSR values are relatively consistent across the sample, with little variation.

Out of all the models, the mean ROA is approximately equal to 1.57, and ranging from -0.10 to 5.77 because of high standardized deviation of 0.71, which revealed a great deal of fluctuation in the obtained sample. The minimum ROA is -0.10. The maximum ROA is 5.77. This implied that some firms operated at a low level of profitability, in fact some even made significant losses while others were visibly profitable. The value is EPS and it has an average value of 1.17 and SD levels respectively 3.14.

The mean of the Financial Leverage is 1.88 with the standard deviation of a 2.04. The FL values range revealing the fact that firms use this debt instrument at scaled different level. The average SIZE of firms is 5.03, with a standard deviation of 1.68 showing a moderate spread in the scale of the firms. The average mean of AGE is 3.75, with a standard deviation of 0.38. The HHI values range from 0.00 to 0.09, indicating varying degrees of market concentration among the firms.

Correlation Analysis

Correlation analysis describes the relationship between two variables, which can range from strong to weak, or show no significant connection at all. The strength and direction of this relationship are measured using correlation coefficients, which range from -1 to +1. A correlation close to +1 indicates a strong relationship where an increase in one variable is associated with an increase in the other. Conversely, a correlation close to -1 signifies a strong inverse relationship, where an increase in one variable corresponds to a decrease in the other. A correlation around 0 suggests a weak relationship, indicating that changes in one variable have little to no impact on changes in the other.

Table 2

Correlation test Analysis

	CSR	ROA	EPS	FL	SIZE	AGE	HHI
CSR	1						
ROA	0.085	1					
EPS	0.108	0.642**	1				
FL	0.185*	0.228*	0.186	1			
SIZE	0.035	0.292**	0.325**	0.314**	1		
AGE	0.023	0.053	0.102	0.038	0.119	1	
HHI	0.135	0.282**	0.328**	0.260**	0.548**	0.142	1

*Note: CSR=Corporate social responsibilities disclosure, ROA=Return on asset, EPS= Earnings per share HHI=Herfindahl–Hirschman index, financial leverage (FL), size and age are control variables. HHI*CSR indicates the interaction term. Support, *significance at 0.05 ** indicate significance 0.01.*

The table 2 reveals several significant correlations between CSR and other variables. Results indicate ROA shows a strong positive correlation with both EPS with values of 0.642. This suggests that firms with higher asset returns tend to achieve better earnings per share and profit margins. CSR shows a positive correlation with ROA=0.085 and EPS=0.108 but the correlations are not statistically significant.

In contrast, ROA exhibits strong significant correlations with EPS=0.642** and SIZE=0.292** indicating that higher financial performance is associated with better earnings and larger firm size. Financial Leverage is significantly correlated with ROA=0.228* and SIZE=0.314** suggesting that leveraged firms may have better performance and larger size. Competitive pressure indicated by HHI significantly correlates with multiple performance metrics (ROA, EPS, FL, SIZE) at the 0.01 level, highlighting its potential role as a moderator affecting corporate financial performance. These correlations suggest that while CSR is associated with better financial outcomes, its impact is less pronounced than that of the direct financial performance measures.

Panel Regression Analysis

For regression analysis, this study depends on the results of the Hausman test. Based on these results, the Random-effects GLS regression and Fixed-effects GLS regression test is used. When the P-value is greater than 0.05, the Random-effects GLS regression is apply. On the other hand, if the P-value is less than 0. 05, in Fixed-effects GLS regression is use. Here the results:

Table 3

Hausman test Analysis

Model	**Hausman Test**		**Test Selected**	
ROA	Prob =	0.003	Fixed	P Value < 0.05
EPS	Prob =	0.19	Random	P Value > 0.05

Note: ROA=Return on asset, EPS= Earnings per share.

The results from Table 3 indicate that for analyzing the impact of corporate social responsibility (CSR) on financial performance metrics. The Fixed-effects GLS regression is most appropriate for ROA as the P-value is less than 0.05, suggesting significant fixed differences between companies. In contrast, the Random-effects GLS regression is suitable for EPS given their P-values is greater than 0.05. This implies that variations in these financial performance metrics are better explained by random differences across companies rather than fixed, company-specific effects.

CSR and Corporate Financial Performance and Competitive Pressure

Table 4.4 shows Analysis of CSR and Corporate Financial Performance and competitive pressure. The results of the regression are discussed in table 4.4 below. This table consists of the Dependent Variable i.e. ROA. Independent Variable i.e., CSR, and Control Variable i.e., FL, Size, and Age and moderation CP i.e. HHI respectively.

Table 4

CSR and Corporate Financial Performance and competitive pressure test Analysis

Variables	ROA	EPS
	Coef.	Coef.
CSR	5.09**	2.47**
	(0.75)	(0.90)
FL	0.69*	0.44**
	(0.20)	(0.20)
SIZE	1.40**	1.27**
	(0.25)	(0.25)
AGE	1.04	1.05
	(0.95)	(1.01)
HHI*CSR	0.85*	0.61*
	(0.40)	(0.30)
Adj-R Square	0.47	0.68
Durbin-watson stat	1.70	1.91

*Note: CSR=Corporate social responsibilities disclosure, ROA=Return on asset, EPS= Earnings per share HHI=Herfindahl–Hirschman index, financial leverage (FL), size and age are control variables. HHI*CSR indicates the interaction term. Support, *significance at 0.05 ** indicate significance 0.01.*

Table 4 provides a detailed analysis of the impact of Corporate Social Responsibility, Financial Leverage, Size, Age, and the interaction between

Herfindahl-Hirschman Index and CSR on financial performance indicators, Return on Assets and Earnings per Share. The results reveal that CSR significantly enhances both ROA and EPS, with coefficients of 5.09 and 2.47 respectively, both significant at the 0.01 level. This suggests that increased CSR activities are strongly associated with improved financial performance, highlighting the substantial benefits of CSR investments.

Financial Leverage also shows a positive influence on financial performance, significantly affecting EPS at the 0.01 level and ROA at the 0.05 level. This indicates that higher financial leverage correlates with better financial outcomes, particularly impacting EPS more strongly. Additionally, company Size positively affect ROA and EPS. Larger companies tend to exhibit better financial performance, with Size having a significant positive effect at the 0.01 level while Age is not significant.

The interaction term between HHI and CSR is significant for both ROA and EPS, suggesting that the relationship between CSR and financial performance is moderated by market concentration. Specifically, CSR’s impact on financial performance is more pronounced in concentrated markets, indicating that the benefits of CSR are enhanced in such environments. This finding is consistent with the work of Zhang and Wang (2021), who contend that competitive settings enhance the advantages of CSR by improving a company's reputation and drawing in socially responsible investors. The observed interaction effects imply that companies in highly competitive markets may realize more significant financial benefits from their CSR initiatives, as competitive pressure motivates them to strategically utilize CSR to distinguish themselves and secure a competitive advantage.

The model evaluation, including R-squared values of 0.50 for ROA and 0.70 for EPS, and Adjusted R-squared values of 0.47 and 0.68 respectively, demonstrate that the models explain a substantial portion of the variance in financial performance. The Durbin-Watson statistics suggest no significant autocorrelation, and the Hausman test results indicate that the models are well-specified with no major identification issues.

In conclusion, the results from Table 4.4 support both hypotheses: CSR positively influences financial performance (H1) and this effect is strengthened in the presence of highly competitive pressure (H2). Firms that engage more in CSR not only enhance their financial performance but also gain more significant benefits in competitive environments. This reinforces the strategic value of CSR in both improving financial outcomes and navigating competitive pressures effectively.

Summary of Results

The analysis supports both hypotheses in the study. The first hypothesis, which posits that CSR has a positive relationship with financial performance, is accepted, especially for ROA where CSR demonstrates a significant positive impact. This means that increasing the level of CSR is positively linked to the improvement of the financial results of the enterprises within these fields. The second hypothesis, which postulated the net effect of CSR on financial performance as being positively moderated by competitive pressure, was also confirmed. The results reveal significant positive interaction effects of competitive pressure on EPS, indicating that competitive pressure amplifies the positive relationship between CSR and these financial performance indicators. Thus, both hypotheses are affirmed, showing that CSR not only benefits financial performance but also that competitive pressure enhances this positive effect.

1. Conclusion

The aim of this study is to investigate the fact that to what extent CSR disclosure affects the CFP of non-financial firms of the PSE focusing on competitive pressure as a moderating factor. The findings reveal a significant positive association between CSR and financial performance, particularly in metrics such as Return on Assets and Return on Equity. This is consistent with recent studies, which highlight the positive impact of CSR on financial performance. For instance, Martinez-Conesa et al., (2017) found similar positive relationships, demonstrating that CSR initiatives can enhance financial metrics by improving operational efficiency and firm profitability.

Additionally, this research indicates that competitive pressure serves as a positive moderator in the relationship between corporate social responsibility (CSR) and financial performance, particularly in terms of earnings per share (EPS). This finding is consistent with the work of Zhang (2021), who contend that competitive settings enhance the advantages of CSR by improving a company's reputation and drawing in socially responsible investors. The observed interaction effects imply that companies in highly competitive markets may realize more significant financial benefits from their CSR initiatives, as competitive pressure motivates them to strategically utilize CSR to distinguish themselves and secure a competitive advantage.

Therefore, the research supports the hypotheses that CSR positively impacts financial performance and that competitive pressure enhances this effect. These findings contribute to the literature by affirming that CSR is not merely a cost but a strategic investment with potential financial benefits, especially under competitive conditions. This insight is valuable for non-financial firms in Pakistan, suggesting that integrating CSR into their core strategies can lead to substantial financial gains and support sustainable development and long-term corporate success.

This research has been undertaken in order to analyze the correlation between CSR disclosure and corporate financial performance index of one hundred non-financial companies listed on Pakistan Stock Exchange for the period of 2019-2024. Financial performance is done using ROA as well as the EPS.

Missing observation for the variables used for analysis lead to the exclusion of some firms from the sample. The main objective of the research work is therefore to examine the relationship between CSR disclosure and financial performance, with reference to the empirical support of theory within the context of developing country Pakistan. The theory includes Triple Bottom line theory to find out the impact between CSR and financial performance with medial variable of competitive pressure.

Implications of the Study

The finding of the current research provides a utility to the regulators such as Securities and Exchange Commission of Pakistan (SECP) regarding how the CSR could enhance the CFP in non-financial firms. Thus, for regulators like the SECP this work underlines the importance of CSR encouragement and CSR initiatives' reinforcement in the various industries, particularly those of non-financial nature where the accent on CSR could be less significant. Competing pressures are found to either negatively or positively moderate the influence of CSR on financial performance. Hence the SECP should endeavor to formulate policies which make CSR mandatory in firms irrespective of the intensity of competition In other words, the SECP should ensure that firms integrate CSR as a strategic function rather than it being an activity that firms do arbitrarily or a mere formality.

In addition, it finds that companies with effective CSR measures have better financial returns, and especially so in competitive industries whereby implementation of CSR can act as a kind of signal. Furthermore, the consequences of the study are valuable for investors and policymakers. To enhance the comprehensiveness of the CSR-CFP model and for the benefits of investors, it is essential to understand how competitive pressure has influenced the model. For policymakers, the study highlights the importance of crafting policies that foster a competitive yet socially responsible business environment.

Moreover, the study has implications for educational institutions and future research. Educational institutions can use the findings to develop curricula that emphasize the strategic importance of CSR in business operations, particularly in competitive markets. Future research could build on this study by exploring the CSR-CFP relationship in different sectors or regions, or by examining other moderating factors that may influence this relationship.

Limitations of the Study

One of the research limitations of this kind of investigation is that it is based on the data collected over a certain period of time. The data was collected from the fiscal year of 2019 to the year 2024. The data used are total six recent years but more years of data can also be taken and to understand the relationship appropriately. It must be noted that the use of companies that are only 100 in number for the data analysis has been made here. Similarly, the data is collected from the Pakistan stock exchange (PSX) and the 5-sector used which include: catering and beverages, tobaccos, sugars, clothing, spinning, weaving and textiles finishing.

Furthermore, this study acknowledges several limitations. Firstly, the focus on non-financial firms in Pakistan may limit the generalizability of the findings to other sectors or geographical regions. Second, the study relies on secondary data sources, which may be subject to reporting biases and inaccuracies. Finally, it is a limitation of the study since it based on the content analysis of data collected on CSR practices and financial performance, the study could not capture all CSR practices and aspects of financial performance.

Directions for Future Research

There are some significant implications this study reveals of particular relevance to future studies, including the opportunity for unexplored sub-sectors of CSR and Corporate financial performance that should be tested by researchers in their areas. There are few study conducted related to non-financial sector in Pakistan which include the food and beverages, tobacco, sugar, textile- Spinning preferably and Weaving & Finishing of Textiles. Another future studies can use other sectors as well (Malec 2012). Possible future research could attempt to replicate the conducted study using other sectors, such as technology or healthcare and services to explore if there is any differences between findings for different industries. This would provide insights into the sector specific dynamics of the CSR and CFP relationship, enhancing understanding of how these factors interact within different industries. It could also be useful to expand the geographical scope beyond Pakistan, as regional differences in regulations and market maturity may have important implications for the CSR-CFP relationship due to cultural norms that would need further research. Expanding the research beyond the manufacturing industry to encompass service-oriented sectors or emerging industries such as renewable energy may offer valuable insights into the adoption and impact of CSR practices in diverse contexts. By delving into these different dimensions, future research could greatly advance the comprehension of CSR and its role in boosting corporate financial performance across various industries and regions.

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