IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON EARNINGS MANAGEMENT: EMPIRICAL EVIDENCE FROM PAKISTAN

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ABSTRACT

Earnings Management is known to be deliberate manipulation of firm's financial data by managers. This tends to not only mislead stakeholders but also undermines the integrity of financial reporting. Whilst CSR tend to be improving social, environmental and economic conditions. This also leads to improving reputation of the business and wins trust of stakeholders. The study aims to explore the relationship between CSR and earnings management in context of Pakistani manufacturing companies. The country has a unique economic, political and cultural context which makes this study unique. The stock market of Pakistan is prone to various challenges like information asymmetry, market volatility, regulatory complexities and financial transparency. Although there is democracy in the country, however, the culture of the country is strongly influenced by the Islamic principles which emphasize on ethics and justice. These characteristics make this investigation unique and relevant. A comprehensive data of 1694 observations is used in the study. Jones model is used as a proxy for earnings management which is based on discretionary accruals. The study used control variables including return on assets and growth. The findings of the study reveal that the relationship between CSR and EM is significant but negative.

Keywords: Corporate Social Responsibility; Earnings Management; Return on Assets

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1. INTRODUCTION

Earnings management (EM) is described simply as the manipulation of firm's financial data by the mangers or employees with the aim of deceiving stakeholders (Mardjono & Chen, 2020). Managers are often involved in such activities due to explicit and tacit agreements like political or regulatory reasons, need of external finance, capital market connections and other factors (Cormier et al. 2005). In the literature such actions are known as opportunistic managerial behaviour (Jian et al. 2024). Opportunistic EM involves managers manipulating financial data to achieve personal and/or organisational goals. This may involve changing revenues, expenses, or other financial measures to fulfil targets, impact stock prices, and/or to receive bonuses. This weakens financial reporting accuracy and may mislead investors and stakeholders. Such practices often deteriorate brand image, goodwill, legal standing and investors trust. Further, it also has negative impact on the market integrity, economic efficiency and resource allocation (Jian et al. 2024).

In contrast, Corporate Social Responsibility (CSR) is a business strategy in which firms prioritize social and environmental issues over economic gains in their operations and stakeholder relations. In simple words, CSR is taking into account morality in business decisions like protecting environment, guaranteeing workplace health and safety, managing human resources, building relationship with community and meeting the satisfaction of customers and suppliers (Vives & Peinado-Vara, 2003). Studies have revealed that CSR has the ability of improving stakeholder satisfaction, reputation of the firm and financial risk (Benlemlih & Girerd-Potin, 2017). Since year 2000, CSR has become essentially important in the modern business, since it shows commitment to ethics and sustainability beyond profit making.

1.1. RATIONALE

Kong et al. (2020) advocated that CSR has significant impact of FP of the firm. Whilst Santos-Jaén et al. (2021) postulated that literature is filled with discussion on CSR and EM and their interrelationship. However, most of these studies are conducted in context of developed economies whilst studies on developing economies like Pakistan is scarce. Therefore, studying the impact of EM on CSR in context of Pakistan is important due to various reasons. For instance, one of the most important aspects is the unique economic and regulatory environment in context of financial and capital markets with different political and social systems. The stock market of Pakistan is exposed to various challenges like market volatility, information asymmetry, and regulatory complexities, which makes financial transparency a critical concern. Further, there is poor law execution leading to corruption (Javeed et al. 2020). As per the corruption perception index[1] Pakistan ranks 133 out of 155 countries with only 27 points. CSR has been gaining significant importance in Pakistan since

[1] https://www.transparency.org/en/cpi/2023

it involves ethical and sustainable practices and companies are now recognizing the role of CSR in social welfare and ethical business conduct. Further, from the perspective of culture, the country is influenced by Islamic principles which propels justice and ethics (Ahmad et al. 2022; Coulson, 2021). This cultural backdrop makes it imperative to investigate whether CSR practices tend to lead the companies towards better transparent financial reporting and reduced EM or not (Shaukat et al., 2024). Thus, it can be argued that CSR-EM relationship might reveal whether CSR practices enhance regulatory compliance and financial transparency.

Investor confidence is an important element which drives the economic development and the economic stability of a country (Sarwar & Khan, 2022). If the investor is confident, he/she will invest in the country and the economy will boost (Nowzohour & Stracca, 2020). Positive impact of CSR on EM can increase the confidence of investor which will prove that the firms in Pakistan are following ethical and sustainable practices. More transparency and disclosure from CSR programmes improve market efficiency and lessen information asymmetry and resultantly will boost Pakistan's financial markets' resilience. By solving challenges and promoting long-term growth, CSR may help society (Sarwar et al., 2024). Despite the growing importance of CSR in Pakistan industry, empirical studies on its effects on Em is quite limited (Ehsan et al. 2022; Ehsan et al. 2020). Hence, it is highly relevant to study the relationship of CSR and EM in context of Pakistan.

1.2. SIGNIFICANCE OF THE STUDY

Understanding impact of CSR on EM in Pakistan is significant for several reasons. Firstly, it addresses concerns about financial transparency and ethical reporting in a market known for its regulatory challenges and volatility. By exploring whether CSR initiatives lead to reduced earnings manipulation, this study can provide insights into how ethical practices influence corporate behaviour. Culturally, Pakistan's alignment with Islamic principles of social justice and ethics makes this examination particularly relevant. It can reveal if CSR practices, rooted in the religious values are followed in Pakistan or not (Gulzar et al., 2024). In context of investors, the findings of this study will become a guide for investment; while for Policymakers, this study will bring insights for crafting regulations that encourage CSR. The findings of current study inform academic discourse, policy formulation, and business practices, opening the way for future research and policy interventions to promote responsible corporate behaviour and sustainable economic development in Pakistan. Given these factors, this study empirically examines CSR's impact on EM in Pakistan to fill the literature gap. This study uses robust methods and data from a wide sample of Pakistani enterprises to provide stakeholders with practical insights and increase CSR and financial reporting integrity expertise.

1.3. OBJECTIVES

- To determine influence of CSR on EM in Pakistan's industrial sector.

1.4. RESEARCH QUESTION

- This study aims to determine if there is a significant relationship between CSR and EM in the manufacturing industry of Pakistan.

2. LITERATURE REVIEW

The concept of CSR emerged in the early 20th century when firms realised their duties beyond profit (Phillips et al. 2020). In the late 1800, Cadbury and Lever Brothers were known to be generous since they used to help their employees and communities (Parker, 2014). Howard Bowen's 1953 book definition of "CSR" helped establish CSR frameworks and concepts (Bowen, 2013). Post-WWII globalization promoted CSR as a formal idea in the mid-20th century. In response to social, labour, and environmental concerns, businesses began considering social impacts in the 1950s and 1960s. In the 1970s, activism and legislation forced companies to adopt more responsible CSR practices (Sjöström, 2008). After the 1989 Exxon Valdez oil spill, business accountability and sustainability became an important point of concern (Satish, 2021). After these crises, many companies started to give attention to environmental and social issues in order to be sustainable and accountable. Over the years CSR practices have progressed a lot and now CSR programs include diversity, inclusion, ethical supply chain management, community development and environmental protection (Modak et al. 2020). Nowadays, all the stakeholders are active and focused on CSR practices. CSR and ethics are given priority by the management; hence, we can say that Moden CSR is driven by stakeholder activism (Hambrick & Wowak, 2021).

2.1. STAKEHOLDER THEORY

Stakeholder theory suggests that there are many entities which can impact the business or can be impacted by the businesses. This theory states that enterprises should not put shareholders' financial interests ahead of any other associated groups like public, creditors or customers. Stakeholder theory has evolved because of increased understanding of how businesses influence people (Kivits et al. 2021). If stakeholders are more focused on CSR then ethical practices will be followed and EM will be affected (Ahinful et al. 2022). Management scholars Edward Freeman developed stakeholder theory in the 1980s. Stakeholder theory, which challenges shareholder primacy, advocates inclusive corporate decision-making and governance (Freeman et al. 2010). Stakeholder engagement has become crucial in CSR stakeholder theory to improve business reputation, manage risk, and produce long-term value. Now, companies use CSR to balance economic, social, and environmental (ESG) goals. Stakeholder theory has also shown stakeholders' influence on enterprises' FP (Sun et al. 2010). Stakeholders, such as investors, creditors, regulators, and the general public, put pressure on companies to provide financial information honestly, ethically, and transparently. While the term EM is related to manipulating financial reporting to fulfil earnings targets or present a more favourable financial condition of the firm. Stakeholder theory emphasises the significance of balancing stakeholder interests and sustaining ethical financial management to build stakeholder confidence (Sun et al. 2010).

2.2. AGENCY THEORY

The dispute between shareholders (principals) and management (agents) is inevitable. Numerous studies examine this dynamic, which can give rising markets unique traits. Jensen and Meckling note that managers often prioritize their own interests over shareholder wealth. The main goal of any firm is to maximize shareholder wealth; hence such acts are counterproductive. This conflict et al. causes information asymmetry, where managers may hide self-serving knowledge. Agency problems develop when key decision-makers, managers, have little or no financial stake in the organization. According to agency theory, Boyd says the board of directors aligns shareholder and management interests (Meckling & Jensen, 1976). As agency theory is more focused on financial incentives, it is said that agency theory may overlook CSR's core goals and ethics (Abdelqader et al. 2024). Agency theory explains managers' motivations for influencing financial reporting to meet EM goals (Sarwar et al., 2023). We can say that Managers employ EM to show competence, gain performance-based pay, or minimise agency cost. According to agency theory, manager-shareholder conflicts can lead to opportunistic EM, distorted financial reporting, and corrupted financial statements (Saleh & Mansour, 2024).

2.3. RELATIONSHIP OF CSR AND EM

Scholtens and Kang (2013) used regression analysis to examine CSR and EM practices in Asian enterprises. It was revealed that CSR practices and EM were positively related. Further it was revealed that firms with strong CSR programs managed earnings more than those without such programs. This study shows that contextual variables and firm-specific qualities are important in assessing CSR and financial reporting in Asian economies. Almahrog et al. (2018) studied CSR and EM in context of UK. It is found that CSR hurts EM which posits that CSR practices are less likely to manipulate earnings. Thus, CSR programs may deter financial report falsification by conveying honesty and integrity. The study adds to knowledge by showing that CSR can reduce UK earning management. Jordaan et al. (2018) examined South African enterprises' CSR and EM practises. They analyzed the disclosures and governance of South African stock exchange-listed corporations using qualitative approaches. Results showed CSR and EM were not tightly connected. Some companies utilize CSR to make their financial reporting more transparent, while others use EM to hide poor CSR results. This shows how South Africa's CSR efforts affect financial report accuracy. CSR-EM analysis emphasizes contextual and firm-specific elements. More research is needed to understand how these acts affect stakeholder engagement and corporate governance in South Africa. The report suggests responsible business behavior and transparency to build stakeholder trust in South Africa.

Ehsan et al. (2022) examined whether CSR and EM are sustainable or opportunistic. The study examined the CSR and EM practices using quantitative methods. The data was collected from multiple industries. The study has provided us with unique insights where they found that many organisations use CSR genuinely as a commitment to sustainable business practices. They advocated that these organizations have low EM but some organizations use it to hide their concerns related to FP. This tell us that the CSR and EM relationship is dependent on the goals and intent of the organizations. Sustainable CSR practises promote openness and integrity, unlike opportunistic financial reporting manipulation. According to the research, corporations must practice ethical and transparent CSR to gain stakeholder trust.

Ehsan et al. (2020) advocated that CSR should be considered since companies' profit management decisions affect stakeholders and society. The study found that financial reporting has social and ethical consequences, therefore companies must manage earnings transparently and ethically. It emphasises the need to integrate CSR values into all company behaviour, especially in terms of financial reporting to promote accountability, openness, and trustworthiness. Prior et al. (2008) examined EM and CSR. Their study examined whether CSR managers' report financials ethically. Companies with stronger CSR contributions are less likely to distort earnings, suggesting that socially responsible managers' report financials legitimately.

CSR was also examined in Chinese firms' EM and tax avoidance by Liu and Lee (2019). After quantitatively analyzing CSR initiatives, financial reporting, and tax tactics of Chinese-listed businesses, they established a negative association between CSR and EM. As CSR initiatives expand, earnings manipulation decreases. A bibliometric review by Santos-Jaén et al. (2021) examined CSR's impact on EM. The literature was evaluated to identify themes, trends, and research gaps. They examined many scholarly publications to determine how corporate factors, industry disparities, and regulatory contexts affect CSR and EM. The review found this link complex and multidimensional with varied empirical evidence. Further research is needed because some studies reveal a negative association between CSR engagement and EM, while others discover a positive one.

3. METHODOLOGY

3.1. SAMPLE

The study used a sample manufacturing companies listed at Karachi Stock Exchange. Our research excludes financial enterprises whose CSR data was unavailable throughout the period. An adequate panel data of 1694 observations are taken as final sample of the study.

3.2. MODEL SPECIFICATION

This study empirically examines how CSR affects EM in Pakistan. EM is measured on the basis of absolute value of discretionary accruals [Abs(DACC)]. Regression analysis is applied to investigate Abs(DACC)] (Gabrielsen et al., 2002, Warfield et al., 1995) in relation to CSR and other control variables (Model 1) to determine how CSR affects them.

$$EM_{i,t} = \alpha_0 + \beta_1 CSR_{i,t} + B_2 Lev_{i,t} + B_3 ROA_{i,t} + B_4 Size_{i,t} + \varepsilon_{i,t}$$

3.3. EARNINGS MANAGEMENT MEASUREMENT

In previous studies, discretionary accruals were used to measure earnings manipulation. Abnormal accruals are computed by deducting estimated normal accruals (non-discretionary) from total accruals. Numerous models have been used to estimate normal accruals (Dechow et al., 1995, 2003). This study measures EM by measuring absolute discretionary accruals, which can be increased or decreased to fulfil targets. Absolute discretionary accruals increase EM, suggesting poorer accounting quality, and vice versa. Based on Dechow et al. (1995), we calculate accrual profits as:

$$Total\ Accruals_{i,t} = \left(\Delta CA_{i,t} - \Delta Cash_{i,t}\right) - \left(\Delta CL_{i,t} - \Delta STD_{i,t} - Dep_{i,t}\right)$$

$$\frac{TAC_{i,t}}{A_{i,t-1}} = \beta_0 + \beta_1 \frac{\Delta REV_{i,t}}{A_{i,t-1}} + \beta_2 \frac{PPE_{i,t}}{A_{i,t-1}} + \varepsilon_{i,t}$$

The variables in the equation are: ΔCAit (total current assets), ΔSTDit (long-term debt included in current liabilities), ΔCLit (total current liabilities), ΔCashit (cash and cash equivalents), and Depit (depreciation and amortisation charges). We calculate non-discretionary total accruals (TAC) using the cross-sectional modified Jones (1991) model. We use a regression approach to address heteroscedasticity by examining the link between total accruals (TAC), revenue change (ΔREV), and gross PPE scaled by delayed total assets (At−1). Yearly and industry-specific analyses are done (Park and Shin, 2004).

We calculate each sample firm's NDCA using regression parameters (B1, B2, B3). Adjusting sales for accounts receivable (ΔAR) can account for potential manipulation of sales due to credit terms (Dechow et al., 1995).

$$NDCA_{i,t} = \widehat{\beta_0} + \widehat{\beta_1} \frac{\Delta REV_{i,t} - \Delta AR_{i,t}}{A_{i,t-1}} + \widehat{\beta_2} \frac{PPE_{i,t}}{A_{i,t-1}}$$

$$DACC_{i,t} = \frac{TAC_{i,t}}{A_{i,t-1}} - NDCA_{i,t}$$

Our earnings manipulation metric is the [Abs(DACC)]. Projected discretionary accruals are described in Table 2. Except for 2010, the t-test to detect if mean DA deviate from zero did not show income manipulation in our sample.

3.4. INDEPENDENT VARIABLE

3.4.1. Corporate Social Responsibility

The variable corporate social responsibility is calculated as the total amount of expenditure spent on CSR related activities by the firm as used by Verma and Kumar (2014).

3.5. CONTROL VARIABLES

Previous study control variables are utilized to isolate confounding factors that may affect dependent variable. We use total assets' natural logarithm to estimate firm size. Politics cost theory says larger corporations use downward EM. External monitoring may limit significant corporate managers' accounting discretion. The expected connection between discretionary accruals and firm size is negative. ROA is another profitability metric. Companies with abnormally high (low) earnings have accrual-based positive (negative) earnings swings, according to Dechow et al. (1995). Companies with high (low) earnings have large (low) accruals. Profitable companies tend to correlate positively. Lang et al. (2006) found that cross-listed companies had more cautious accounting and less earnings manipulation. Market-to-book growth is another study control variable.

4. FINDINGS AND DISCUSSION

4.1. DESCRIPTIVE STATISTICS

The dataset, comprising 1,694 observations, offers valuable insights into CSR (CSR), firm size, return on assets (ROA), and growth, each measured through various descriptive statistics. The CSR log (csrlog) averages at 5.892, with a standard deviation of 3.897, indicating a moderate engagement in CSR activities across firms, albeit with substantial variability. The range of CSR values from 0 to 15.107, coupled with percentiles p1 and p99 at 0 and 12.699 respectively, highlights a significant spread in CSR engagement, with some firms displaying minimal involvement while others are highly active. The slight left skew (-0.394) and kurtosis of 1.903 suggest a flatter distribution, indicating that extreme CSR values are less common. Firm size, likely measured in log of total assets, shows an average of 15.79 and a standard deviation of 1.629, indicating relatively similar sizes among the firms. The values range from 10.769 to 20.638, with most firms falling between the 1st and 99th percentiles (11.872 and 19.75). The nearly symmetrical distribution (skewness of -0.028) and kurtosis of 3.096 suggest a normal-like distribution of firm sizes. This concentration around larger firms implies that the findings predominantly apply to large organizations, whose resources and market influence could impact their CSR activities, FP, and growth rates.

The ROA presents an average of 2.9% (mean 0.029) with high variability (standard deviation of 0.118). The wide range of ROA from -1.907 to 0.515, with percentiles p1 at -0.327 and p99 at 0.298, signifies diverse FP, including some firms experiencing significant losses. The pronounced left skew (-4.237) and extremely high kurtosis (59.166) reflect a distribution with heavy tails, indicating frequent occurrences of extreme ROA values. This substantial variability and skewness suggest that a notable portion of firms are in financial distress, affecting their capacity to invest in CSR and growth initiatives. Growth rates, averaging at 12.436% with a standard deviation of 20.163, reveal robust expansion yet considerable variability among firms. The range spans from -12.819 to 225.436, with the bulk of firms' growth rates lying between the 1st and 99th percentiles (-4.753 and 103.517). The positive skewness (3.756) and high kurtosis (23.001) indicate a distribution with many firms experiencing extreme growth rates. This diversity in growth trajectories reflects varying strategic positions and market conditions, where high-growth firms may leverage their performance to enhance CSR and financial stability, while those with lower or negative growth could face challenges in maintaining their CSR commitments.

These figures show significant heterogeneity in CSR engagement, firm size, FP and growth. This study emphasises the necessity to include firm-specific characteristics when analysing CSR's effects on financial outcomes and growth strategies so to promote sustainable corporate practices and equitable growth, policymakers and stakeholders should consider these distinctions.

Table 1: *Descriptive Statistics*

Variables	Obs	Mean	Std. Dev.	Min	Max	p1	p99	Skew.	Kurt.

csrlog	1694	5.892	3.897	0	15.107	0	12.699	-.394	1.903
size	1694	15.79	1.629	10.769	20.638	11.872	19.75	-.028	3.096
roa	1694	.029	.118	-1.907	.515	-.327	.298	-4.237	59.166
growth	1694	12.436	20.163	-12.819	225.436	-4.753	103.517	3.756	23.001

Source: Authors' own calculations

4.2. CORRELATIONS

The pairwise correlation analysis between CSR log (csrlog), firm size (size), return on assets (ROA), and growth tells us about the correlation between these variables. The correlation between csrlog and size is 0.453, significant at the 0.1% level, indicating a moderate positive relationship. Larger firms tend to have higher CSR engagement, likely due to greater resources and stakeholder pressure to adopt socially responsible practices. The correlation between csrlog and ROA is 0.227, also significant, suggesting that more profitable firms engage more in CSR activities, potentially leveraging their financial stability to enhance their social responsibility.

Similarly, the correlation between csrlog and growth is 0.208, significant at the 0.1% level, indicating a positive relationship where firms with higher growth rates are more engaged in CSR, possibly using CSR as a strategy for sustaining long-term growth. The positive correlations between size and ROA (0.216) and between size and growth (0.179), both significant, imply that larger firms not only perform better financially but also experience higher growth rates. Lastly, the correlation between ROA and growth (0.131) is significant, though weaker, suggesting that more profitable firms also tend to grow faster.

These findings underscore the interconnected nature of CSR engagement, firm size, FP, and growth, highlighting that larger, more profitable, and rapidly growing firms are more likely to engage in CSR activities.

Table 2: *Pairwise Correlations*

Variables	(1)	(2)	(3)	(4)
(1) csrlog	1.000			
(2) size	0.453*	1.000		
(3) roa	0.227*	0.216*	1.000	
(4) growth	0.208*	0.179*	0.131*	1.000

*** *p<0.01, ** p<0.05, * p<0.1*

Source: Authors' own calculations

4.3. REGRESSION

4.3.1. Variance inflation factor

The Variance Inflation Factor (VIF) analysis for csrlog, size, ROA, and growth shows values close to 1, with the highest VIF being 1.31 for csrlog and the lowest being 1.061 for growth. The mean VIF is 1.185. VIF values below 10 generally indicate low multicollinearity among the independent variables, meaning they do not exhibit significant correlation with each other (O'brien, 2007).

Table 3: *Variance Inflation Factor*

	VIF	1/VIF
csrlog	1.31	.763
size	1.29	.775
roa	1.079	.927
growth	1.061	.942
Mean VIF	1.185	.

Source: Authors' own calculations

4.3.2. Wooldridge Test for Autocorrelation in Panel Data

Table 4 shows first-order autocorrelation. F-statistic is 2.054 and p-value is 0.1531. P-value (0.1531) above 0.05, thus we cannot reject null hypothesis. This implies that the regression model lacks first-order autocorrelation (Wooldridge, 1990). Therefore, the model residuals do not show considerable autocorrelation, indicating that the error factors are likely independent and that the model assumptions are not violated.

Table 4: *Wooldridge Test*

H_0: no first-order autocorrelation	
F(1, 241) =	2.054
Prob > F =	0.1531

Source: Authors' own calculations

4.3.3. Modified Wald test

The Modified Wald test for groupwise heteroskedasticity checks if fixed effects regression model error variances are identical across groups (Laskar & King, 1997). The null hypothesis (H0) states equal variances. The test shows a chi-square ($\chi 2$) statistic of 7.8e+07, 242 degrees of freedom, and a 0.0000 p-value. We reject the null hypothesis since the p-value is substantially below 0.05. This strongly suggests heteroskedasticity, meaning error variances vary between groups. Violation of model assumptions may impair regression estimate reliability.

Table 5: *Modified Wald Test for Groupwise Heteroskedasticity*

H0: sigma(i)^2 = sigma^2 for all i	
chi2 (242) =	7.8e+07
Prob>chi2 =	0.0000

Source: Authors' own calculations

4.3.4. Hausman (1978) specification test

The Hausman (1978) specification test contrasts fixed and random effects models to find the best data model. H0 is that the random effects model is consistent and efficient. A chi-square statistic of 4.226 and p-value of 0.376 result from the test. We cannot reject the null hypothesis since the p-value (0.376) exceeds 0.05. This shows that the random effects model is consistent and efficient and may be utilized for this dataset because the fixed effects and random effects estimators are not significantly different.

Table 6: *Hausman (1978) specification test*

	Coef.

Chi-square test value	4.226
P-value	.376

Source: Authors' own calculations

4.4. REGRESSION ANALYSIS

It examines how CSR, business size, profitability (ROA), and growth affect a dependent variable. CSRlog has a coefficient of -0.001 and a standard error of 0.001. The regression result is 5% significant (p-value = 0.024). The coefficient is negative, indicating that increasing CSR decreases the dependent variable. The confidence interval ranges from -0.003 to 0.000, which comes in 5% significance level. This may seem counterintuitive given the idea that CSR programs should improve company success through reputation, customer loyalty, and operational efficiency. However, if we look at the regression result, the coefficient is negative which suggests that CSR programs may have more costs than benefits in the short term. So, the increase in CSR practices has decreased the dependent variable. The resource-based view has long suspected that large CSR expenditure strains corporate resources and results in lower short-term financial results.

Several theories explain why CSR may hurt performance. According to the resource-based view, extensive CSR efforts may strain a company's resources, divert attention from its strengths, and affect its FP. Moreover, according to agency theory, CSR programs can cause agency difficulties that lead to inefficiencies and stakeholder disputes, which can also hurt performance. Furthermore, Stakeholder theory emphasizes balancing the interests of shareholders, labour, consumers, and society. However, favoring some stakeholder groups may lead to concessions and suboptimal results. A corporation which invests heavily in CSR projects to meet society's expectations can on the other hand hurts the interests of shareholders and affect FP. According to legitimacy theory, firms do CSR to maintain their social status and impress society. However, shallow or fraudulent CSR initiatives can damage reputation, stakeholder trust, and performance.

Methodological issues like measurement errors, endogeneity, and omitted variable bias may explain the negative CSR-performance relationship. Future research may use longitudinal data and powerful methods to overcome these limits and provide more detailed insights into the complex relationship between CSR and performance. Finally, the negative association between CSR and the dependent variable challenges long-held ideas but also shows that there is an intricate relationship between CSR initiatives and firm FP. Academics should explore theoretical frameworks and empirical methodologies to evaluate when CSR initiatives improve or hurt company outcomes to inform management decision-making and public policy.

4.4.1. Firm Size (size)

The coefficient for firm size is -0.003 and the standard error for the test is 0.002. The test is statistically significant at the 5% level (p-value = 0.031). This suggests a negative relationship between firm size and financial performance (FP). The confidence interval, ranging from -0.006 to 0.000, indicates that larger firms might experience diminishing returns regarding the dependent variable under study. This finding can be understood through agency theory, which posits that as firms grow, agency problems and inefficiencies may increase, potentially reducing performance. Larger firms often face greater bureaucratic challenges and complexity, which can negatively impact specific performance metrics.

4.4.2. Return on Assets (ROA)

ROA is statistically significant at the 1% level and has a coefficient of -0.053. This outcome implies that an increase in profitability, as assessed by ROA, is linked to a decrease in the dependent variable. The trade-off theory could be used to interpret this discovery, which suggests that highly profitable firms may prioritize investments in high-return projects over other areas, potentially resulting in a decrease in the dependent variable under consideration. Furthermore, this outcome may indicate that short-term profit maximization strategies are being implemented at the expense of long-term sustainable practices.

4.4.3. Growth

Statistically significant at the 10% level (p-value = 0.099), the growth coefficient is 0.000 with a standard error of 0.000. The positive sign of the coefficient, despite its small size, implies that growth is positively correlated with the dependent variable, albeit in a feeble manner. The marginal effect is indicated by the confidence interval, which spans from 0.000 to 0.000. This discovery is consistent with the theoretical hypothesis that performance metrics are likely to improve for firms that are expanding. Growth can indicate market opportunities, successful business strategies, and efficient resource utilization, resulting in improved performance.

Table 7: *Linear Regression*

em	Coef.	St.Err.	t-value
csrlog	-.001	.001	-2.26**
size	-.003	.002	-2.16**
roa	-.053	.019	-2.70***
growth	0	0	1.65*
Constant	.148	.023	6.43***
Mean dependent var			0.087
R-squared			0.018
F-test			7.741***
Akaike crit. (AIC)			-3304.537

*** p<.01, ** p<.05, * p<.1

Source: Authors’ own calculations

5. CONCLUSIONS AND DISCUSSION

This study examined the relationship between EM and CSR in Pakistan's manufacturing sector. Data was examined from the year 2005 to year 2012 in order to investigate the relationship between CSR practices and EM in different organizations of Pakistan. Quantitative analysis was conducted using regression analysis. Total assets and ROA were taken a control variable. It was found that there is a complex relationship between CSR and EM. Our research shows that CSR policies do not automatically reduce EM procedures, despite the perception that they promote stakeholder satisfaction, corporate reputation, and financial risk management. This startling conclusion challenges long-held ideas and highlights the delicate relationship between CSR and honest financial reporting. Our study found that there is no significant association between CSR and EM in Pakistani organizations. However, the CSR promotes ethical and sustainable corporate practices so Pakistan needs CSR (CSR) programs to address current environmental and social issues. CSR might improve transparency in corporate governance and foster inclusive growth. Our data suggest that EM in the organizations may be influenced by variables other than CSR.

5.1. RECOMMENDATIONS

Based on the findings of the study's, there are several recommendations for policymakers, practitioners, and researchers:

Enhance Transparency and Disclosure: Companies should try their best to enhance transparency and disclosure around their CSR initiatives and financial reporting practices because clear and comprehensive reporting helps stakeholders understand better about the relationship between CSR and FP.

Strengthen Corporate Governance: Regulatory authorities and industry stakeholders should work together to strengthen the corporate governance framework which will ensure accountability, transparency, and ethical behaviour. Moreover, Effective corporate governance mechanisms can help mitigate the risk of EM and promote financial reporting integrity.

Invest in Research and Education: Further study is needed to understand the complicated interaction between CSR and EM, especially in emerging economies like Pakistan. Research and education constantly yield insights and inform evidence-based policy solutions.

Promote Collaboration: Collaboration between industry associations, academia, government agencies, and civil society can facilitate knowledge-sharing, capacity-building which will eventually result in the development of best practices in CSR and financial reporting.

Integrate CSR into Business Strategy: It is a good thing if the firms integrate CSR into their core business strategy. They should align CSR initiatives with organizational objectives and values. In this way, companies can create long-term value for all stakeholders while minimizing the temptation for EM practices.

By implementing these recommendations, stakeholders can foster a culture of responsible corporate behaviour, promote sustainable economic development, and enhance financial reporting integrity in the manufacturing sector of Pakistan.

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