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CRS and its impact on profitability

Developed and Developing Countries Comparative Study

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ABSTRACT

Corporate Social Responsibility (CSR) is the cost of doing business. The corporations are expected to contribute to society and behave responsibly towards the environment for the damage they have caused. CSR has gained significance over the last decade. It comprises Environmental, Social, and Governance goals that should align with the Sustainable Development Goals (SDGs). This thesis examines the correlation between two variables, i.e. CSR and profitability in banks, to analyse changes in CSR in CSR-oriented banks. It further investigates whether this relationship acts differently as on the economic status of different nations.

The study is carried out on the basis of six countries that were chosen to collect the data on the topic, i.e., the United States, United Kingdom, Japan, India, Pakistan, and Nigeria, to use the sample during 2010-2020 and utilises the mixed-method design that presupposes utilising the quantitative regression analysis and the qualitative institutional comparison. Return on Assets (ROA) and Return on Equity (ROE) are the performance indicators used to determine the profitability, and CSR spending and disclosure indices are the measures used to evaluate CSR engagement. The results indicate a strong positive correlation between CSR and profitability, which proves that socially responsible banking increases the efficiency of operations and the value of shareholders. In the developed economies, the relationship is stronger and is enabled by the presence of mature institutions, quality of regulation, and transparency, which enables the integration of strategic CSR. Conversely, CSR in emerging economies is inclined towards philanthropy or regulatory activities with poor or unequal financial outcomes. The fact that it brings together crisis variables is another indication that CSR can be used to strengthen the resilience of banks in the face of a financial crisis.

The paper upholds Stakeholder and Legitimacy Theories, indicating that CSR brings about trust, legitimacy and long-run performance. In a practical context, it suggests that bank managers should see CSR as a strategic investment and not as an expenditure and that policymakers should facilitate systems that would promote true and transparent CSR. The study goes beyond the current literature by employing the institutional context to the CSR profitability nexus, which demonstrates CSR as the cause of sustainable profitability and risk management in the banking system of the world.

KEYWORDS : CSR (Corporate Social Responsibility, Return on Assets (ROA), Return on Equity (ROE), Earnings per share (EPS)

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1. INTRODUCTION

Corporate Social Responsibility (CSR) has recently emerged as a significant concept influencing contemporary corporate behaviour. Over the last few decades, the expectations of the firms within society have undergone a massive change. Earlier, the main objective of businesses or firms was the maximisation of profit and shareholder value. This view was embraced by Milton Friedman, who believed that the sole social responsibility of any business is to increase its profit, provided it remains within the rules of the game, as he famously quoted. However, the changing dynamics, globalisation, social inequalities, climate change and increasing public scrutiny have forced businesses to carry responsibility beyond their narrow economic view.

Nowadays, the organisations are expected to contribute towards society by engaging with the community, protecting the environment and maintaining transparency as the cost of doing business and harm they cause. CSR include broader terms of responsibilities within the perspective. It includes activities related to environmental protection, human rights, fair labour practices, ethical governance, financial transparency and community welfare. The stakeholders involved, like consumers, investors, regulators, and governments, prioritise sustainability and ethical culture, leading to CSR transitioning from being a voluntary practice to a peripheral activity affecting long-term sustainable goals across industries.

The banking industry has a significant role in this change. The banking sector does not directly produce pollution or waste of natural resources as compared to the manufacturing and mining industries. However, they are the financial intermediaries since they finance all these economic activities. They harness savings, distribute credit and finance households and businesses. The crucial part played by the financial institutions is what makes them more ethical, transparent and responsible. The deficit of confidence to the financial system might have certain devastating effects, as it was observed in the crisis that happened in 2008-2009.

The crisis of 2008 re-modelled the vision regarding the banks and also provided enlightenment on the importance of an ethical and responsible code of conduct by corporates. The banks were implicated since they favoured excessive risk-taking, low transparency, poor governance and profit maximisation with inadequate protection that led to financial instability. The diminishment of trust in the financial institutions demonstrated the role of the regulatory systems and the normative changes regarding socially responsible banking. Henceforth, CSR has grown as an essential mechanism to strengthen the banking trust, enhance legitimacy and demonstrate commitment to sustainable and ethical operations. CSR can effectively reduce the information inequalities, and diminish exposure to both operational and financial risk by improving banks' reputation, improving stakeholders' interactions and maintaining financial transparency. These processes provide CSR with the authority to affect the financial outputs. Consequently, researchers, regulators, academia and practitioners have shown interest in understanding if CSR is an addition for improved financial growth.

However, the existing data is mixed, inconsistent and contradictory. While many studies show that CSR affect the profitability positively, others found no significant relationship or even detrimental effects, especially where CSR is implemented and not adopted. It suggests that CSR may depend on other factors such as institutional maturity, regulatory framework and cultural norms. This raises a crucial question: Does CSR affect the bank's profitability in a similar fashion across different countries? And more specifically: Do banks in Developed economies reap better financial gain from CSR adoption than those in emerging economies?

Provided the global importance and nature of banking with rapid expansion of CSR, these questions have substantial academic, managerial and policy relevance.

1.1 Motivation and Historical Background

The principle of CSR has changed significantly with time. The initial arguments, including Milton Friedman (1970) stated that the sole social responsibility of business is to maximise its profits, otherwise within the bounds of the law and ethical issues. This shareholder-centric approach prevailed in economic thought throughout the 20th century. Nevertheless, since the 1980s, researchers such as Freeman (1984) have disputed this unilateral perspective that has presented the concept of Stakeholder Theory, which states that companies should take into consideration the interests of all stakeholders, including employees, customers, investors, communities, and governments.

In the 1990s and early 2000s, CSR was institutionalised by models like the Pyramid of CSR of Carroll (1991), which divided the responsibilities of companies into the economic, legal, ethical, and philanthropic levels. Porter and Kramer (2006) also managed to expand on the argument with their theory of Creating Shared Value (CSV), which argues that social and economic objectives do not oppose but can support each other. Approximately at the same period, the United Nations Global Compact (2004) coined the acronym ESG (Environmental, Social, and Governance) and implemented the philosophy of sustainability in corporate accountability and investment-related choices (Kell, 2018).

Global financial crisis rekindled the interest in CSR in the banking industry because unethical behaviours and short-termism were observed as fundamental reasons behind the systemic instability (Lins, Servaes, and Tamayo, 2017). Reformations that followed the crisis, including the UN Principles of Responsible Banking (2019), highlighted the role of CSR as a tool of restoring trust and managing risks, as well as balancing financial operations with social purposes. The reason to include CSR has been heavily extrinsic in developing economies, either by international investors, regulation or global supply chain requirements (Djalilov, Vasylieva, and Lyeonov, 2015). Nevertheless, CSR activities within such areas are characterised by being more philanthropic and centred on community donation instead of sustainable approaches (Platonova, Asutay, Dixon, and Mohammad, 2018). On the contrary, developed economies have established CSR as a business strategy that is associated with the creation of long-term value. This gap is one of the main driving forces behind the current study to investigate whether the financial gains of CSR are systematically different in these two settings.

1.2 Purpose of the Thesis

This thesis will examine the impact of CSR on the profitability of banks in the developed and developing economies, with the study focused on six nations, namely, the United States, the United Kingdom, Japan, India, Pakistan, and Nigeria, for ten years (2010-20). The study intends to answer three key questions:

Does CSR have a positive effect on the profitability of banks (ROA and ROE)?

Does CSR have more financial gains in the developed than in the developing economies?

Does CSR make banks more resilient and profitable in financial crises?

The responses to these inquiries make this thesis relevant to the academic and practical comprehension of the concept of CSR as a financial and ethical tool in banking. The research will also seek to combine both the quantitative regression analysis and qualitative institutional knowledge of the research to provide an all-around picture of the operation of CSR in the diverse economic and regulatory environment.

1.3 Development of Hypotheses

Several studies have been conducted to examine the relationship between CSR and profitability in banks. Based on the literature review and the theoretical framework, the hypotheses developed are stated as follows:

H1: CSR involvement is positively related to bank profitability (ROA and ROE). These include (Simpson and Kohers, 2002; Soana, 2011; Cornett et al., 2016; Belasri et al., 2020).

H2: The relationship between CSR and profitability is positive in developed economies in comparison to developing ones. (Wu & Shen, 2013; Belasri et al., 2020).

H3: CSR activity does not produce its harmful effects on the profitability of banks during a financial crisis. Based on (Lins et al., 2017; Alhajjeah, Besim, and Al-Hajieh, 2025).

1.4 Contribution of the Study

The thesis is relevant to the literature of CSR and financial performance in various respectable ways. First, it expands the current body of evidence by performing a cross-country analysis of developed and developing economies on a shared analytical framework. Although in recent independent research, a single country analysis was common (Simpson and Kohers, 2002; Soana, 2011; Cornett et al., 2016), the present study examines how the institutional maturity mediates the CSR profitability relationship in various regulatory and cultural settings (Djalilov et al., 2015).

Second, it combines Stakeholder and Legitimacy Theories to describe the differences in CSR effectiveness. Unlike the majority of works that use the theories individually, this thesis demonstrates the intersection between them to determine the role of CSR as both a moral and a strategic activity in banking (Freeman and Dmytriyev, 2017). Third, the contribution of CSR to financial resilience, which is a less researched dimension of CSR, is examined by also considering a crisis interaction variable, especially in developing markets. Lastly, this thesis provides policy implications among regulators, with policies on flexible and incentive-driven CSR models that do not create a trade-off between profitability and social responsibility. The comparative approach offers a useful lesson to both banks and policymakers in emerging markets, aiming at changing the current philanthropic-based CSR to strategic and sustainable integration.

1.5 Structure of the Thesis

To offer some clarity and coherence, this thesis is divided into seven chapters. The chapters cover a particular element of the research process and progress logically in finding answers to the main research questions about the influence of Corporate Social Responsibility (CSR) on the profitability of the banks in developed and developing economies. The way the chapter is organised helps to lead the reader through theoretical background, methodological development, empirical findings and practical inferences of the research. The thesis is described in detail as follows.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The multidimensional aspect of Corporate Social Responsibility (CSR) has been investigated in various theoretical perspectives, as it has a disputed place in business strategy. The initial theoretical work (primarily shaped by this claim by Milton Friedman: the social responsibility of business is to maximise its profits) framed the idea of CSR as the possible obstruction of the main task of business enterprises in favour of the shareholders. As per this school of thought, corporate managers are the representatives of shareholders and resources spent on social or environmental programs constitute a misallocation, minimising shareholders' value. This thread of thought informed much of the doubt of CSR in the middle to late twentieth century and laid down standards by which subsequent theories were to be constructed.

2.1 Introduction and Evolution of Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) has become a central concept in modern corporate governance and financial research. While its earliest expressions can be traced to philanthropic business practices in the early twentieth century, CSR today represents a broader and more strategic approach that links ethical behaviour, sustainability, and stakeholder management to long-term business success. The rise of globalisation, technological advancement, and heightened awareness of corporate misconduct have collectively transformed CSR from a voluntary moral concern into a strategic imperative for firms operating in competitive and reputation-sensitive environments (Carroll, 1999; Freeman, 1984).

The modern discussion of CSR can be traced back to the 1930s, when Adolf Berle and Merrick Dodd debated whether corporations existed solely to maximise profits or whether they also had a responsibility to serve society (Dodd, 1932). Berle (1954) later conceded that Dodd's broader view of corporate responsibility was more in line with evolving societal expectations (Cochran, 2007). In the 1960s and 1970s, as social activism and regulatory reforms gained momentum, businesses were increasingly expected to address social and ethical responsibilities alongside economic performance. These developments led to the emergence of the concept of Corporate Social Performance (CSP), which emphasised measurable and accountable actions toward societal well-being (Carroll, 1991; Cochran, 2007).

Figure 1. Carroll's Pyramid of CSR

A major theoretical advancement came with Carroll's (1991) Pyramid of Corporate Social Responsibility, as shown in Figure 1*,* which conceptualised four interrelated layers of responsibility—economic, legal, ethical, and philanthropic. The model stressed that profitability must coexist with ethical behaviour and social contribution to achieve long-term sustainability. From the late 1990s onwards, CSR evolved from a moral obligation to a strategic management tool. Scholars such as Carroll and Shabana (2010) and Aguinis and Glavas (2012) highlighted CSR's potential to enhance competitiveness, stakeholder confidence, and long-term profitability. The global integration of markets further turned CSR into a universal language of accountability.

A key milestone in this evolution was the emergence of the Environmental, Social, and Governance (ESG) framework, supported by initiatives like the United Nations Global Compact and research by Eccles, Ioannou, and Serafeim (2014), who found that strong ESG performance correlates with superior financial results and investor confidence. This integration of sustainability metrics into corporate and investment decisions repositioned CSR as a core component of value creation and corporate strategy rather than a peripheral moral exercise.

CSR is now commonly defined as the voluntary integration of environmental, social, ethical, and governance considerations into business strategy and stakeholder relations. International frameworks such as the Global Reporting Initiative (GRI) and ESG standards conceptualise CSR as encompassing responsibilities toward employees, customers, communities, regulators, shareholders, and the environment. These dimensions—ethical conduct, environmental stewardship, community engagement, and transparency—have become central criteria in investment analysis and firm valuation.

In the banking sector, CSR assumes particular importance due to the sector's dependence on public trust and the indirect social and environmental impact of financial decisions. Unlike industrial firms that produce tangible goods, banks influence economic growth, social welfare, and sustainability through lending, investment, and credit allocation. Their reputations depend heavily on maintaining stakeholder confidence, making CSR initiatives— such as fair lending, anti-corruption policies, environmental risk management, and community development—essential for long-term stability and profitability (Scholtens, 2009). When banks are perceived as socially responsible, they enjoy stronger stakeholder loyalty, enhanced credibility, and improved financial performance.

Furthermore, rising regulatory expectations have made CSR disclosure and ESG reporting integral to financial supervision. Regulators and stock exchanges across Europe, North America, and Asia now require sustainability reporting, climate-risk assessment, and governance transparency, reflecting a global institutional movement toward ethical conduct and responsible risk management. However, CSR practices vary widely across countries due to institutional differences. Developed economies typically feature stronger governance frameworks and mature stakeholder expectations, making CSR a strategic element of risk management. In contrast, developing economies often face weaker institutional enforcement and lower transparency, resulting in CSR practices that are more philanthropic or legitimacydriven than strategic.

Consequently, CSR's effect on profitability is not uniform across contexts. While evidence generally supports a positive relationship between CSR and profitability in developed markets, results in developing economies remain mixed, suggesting that institutional quality and stakeholder pressure play mediating roles. Overall, CSR has evolved from a philanthropic ideal into a multidimensional, strategically significant component of corporate governance. Its growing importance in the banking industry—where ethics, transparency, and trust are central to stability—underscores its dual role as both a moral obligation and a driver of sustainable profitability. Understanding its historical development and strategic relevance provides a foundation for analysing how CSR influences financial performance and why its effects differ across institutional environments.

2.2 Theoretical Foundations Linking CSR and Profitability

A strong theoretical foundation is required to grasp the relationship between CSR and bank profitability. Every firm may have a different opinion on engaging in CSR activities. It may be to improve stakeholder relationships, meet societal pressure, build legitimacy, reduce risk or simply comply with the regulations. These motivations can be seen from a better lens through analysing different established theories explaining the reason for rising CSR activities and how they influence the financial performance. This section reviews the main theoretical perspectives that support (or challenge) the CSR-profitability link: Stakeholder Theory, Legitimacy Theory, Agency Theory, Resource-Based View (RBV), and Social Capital Theory. Each framework provides a unique lens for interpreting CSR's financial implications, particularly in banking.

2.2.1 Stakeholder Theory

The academic debate on corporate purpose has been influenced to a great extent by the longstanding debate between the shareholder theory and the stakeholder theory. In his most famous essay, Milton Friedman (1970) stated that the only social responsibility of business is to maximise its profits, and thus the company should not spend its resources on social purposes or welfare, which basically means that the shareholders are denied to share their profits. Such a perception of shareholders as the only valid beneficiaries of corporate operations and the denial of the concept of larger social responsibility make Friedman both purportedly unnecessary and ethically wrong.

The breakthrough in this debate happened with the seminal work of R. Edward Freeman, Strategic Management: A Stakeholder Approach (1984), which became the foundation of the modern stakeholder theory. Freeman opposed the views of Friedman by stating that corporations are in a network of relationships where stakeholders are said to be any group or individual capable of influencing or influenced by the realisation of organization goals, which should also be taken into consideration by managers during managerial decision-making. In his subsequent work (2002), Freeman suggested that managers have a fiduciary responsibility not only to shareholders but also to all stakeholders as a group, meaning that sustainable business success requires the creation of value for all stakeholders.

Using this platform, Freeman et al. (2007) came up with a two-level stakeholder model that separated primary and secondary stakeholders. The first group which is the employees, suppliers, financiers, customers as well as the local communities are the main group that directly influences the capability of a firm to achieve high performance. Secondary group, which consists of regulators, competitors, advocacy forces, the media and governments, influences the environment in which primary relationships exist.

In order to reflect the multicast aspect of stakeholder relationships, Miles (2017) classified them based on several dimensions: direct/indirect, internal/external, formal/informal, and market/non-market, among others. She has identified four types of stakeholders: influencers (those that possess power and have an active strategy), claimants (those that have the claims but have low power), collaborators (those that cooperate but do not seek power), and recipients (those that are affected by the actions of the firms but do not participate directly).

Freeman et al. (2007) also established four global megatrends that were transforming stakeholder management: liberalisation of markets, the liberalisation of political institutions, environmental awareness and the sudden development of information technology. In a globalised world where corporate transparency is intensified, managers cannot run businesses behind closed doors. They need to instead think in stakeholder terms, whereby expectations of society are incorporated in the strategic decisions. Firms have four high-level strategies available to them: change the rules of engagement, proactive or defensive strategies, or a consistent approach, in order to cope with the relationship with the stakeholders (Freeman et al., 2007).

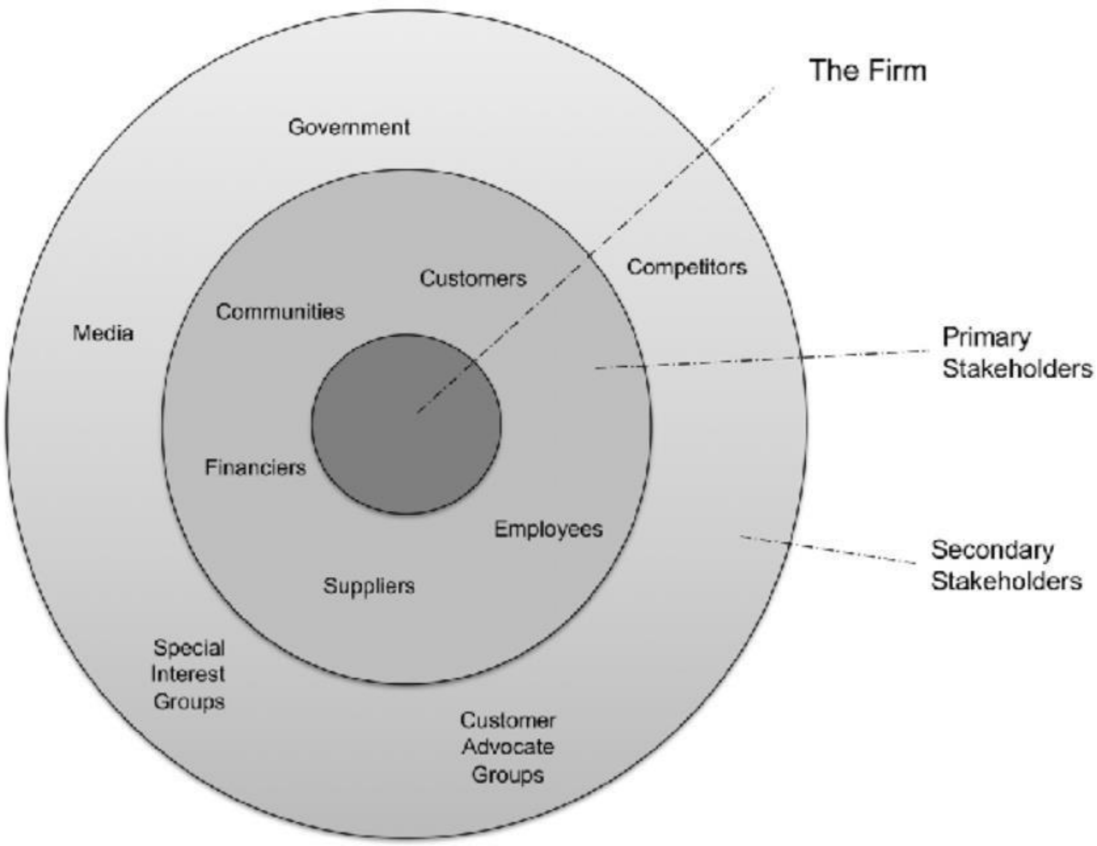

Figure 2. Two-tier Stakeholder map

Additionally, Stakeholder Theory maintains that the costs suffered by firms in conflict with stakeholders include a financial cost in the form of regulatory fines, reputation, loss of customers, or elevated employee turnover. These conflicts can be minimised by the CSR activities, ensuring that the corporate behaviour conforms to the expectations of the stakeholders. Banks can increase profitability by reducing these implicit and explicit costs.

2.2.2 Legitimacy Theory

Although Stakeholder Theory is concerned with value creation for the stakeholders, Legitimacy Theory puts great emphasis on social approval. The Legitimacy Theory is based on the notion that companies aim at operating within a pattern of norms, values, beliefs, and expectations that exist in society. Organisations must look genuine to survive, expand, and gain access to essential resources.

Legitimacy Theory states that a company is involved in CSR to ensure that operations are done in ways acceptable to society. Perceived socially responsible firms achieve legitimacy, and this strengthens their position in society and increases their long-term sustainability.

The banks are especially susceptible to the issues of legitimacy because of:

- their dependence upon popular trust.
- their exposure to media criticism.
- the fact that they have a highly controlled operating environment.
- the systemic effects of misconduct which may occur.

In post-financial scandals or crisis times, banks can consider CSR as a tactical approach to restore trust, reestablish ruined reputations and prove their responsibility.

Secondly, Banks can manage legitimacy by engaging in CSR by indicating compliance with ethical and transparent practices, dealing with environmental or social condemnations, acting in advance of political or regulatory pressures, and achieving social conformity in terms of righteousness and accountability. The tools that help institutions to communicate their legitimacy to the populace are CSR disclosures, sustainability reports, and ethical banking policies.

Also, by being legitimate, banks are able to reduce their chances of facing public outcry, loss of customers, fines by the authorities, and political interference. This minimised risk will be able to directly enhance financial performance by lowering the cost of capital, decreasing volatility of cash flows and improving confidence. Therefore, legitimacy is more of an intangible asset that may help in profitability.

2.2.3 Agency Theory

A more critical view is the Agency Theory (Jensen and Meckling, 1976). It adds that the managers can engage in CSR due to personal reputation or career growth, or political reasons, despite the fact that CSR is not beneficial to shareholders. In this perspective, CSR can raise its expenses and not give financial returns in case the spending on CSR is inefficient or not strategic. Agency problems can be more intense in developing countries, where the governance mechanisms might be weaker. Compulsory CSR expenditure (e.g. in India, the Companies Act 2013) can also motivate executives to spend money on visible philanthropic ventures as opposed to strategic ones, which will have the potential to negatively (or negligibly) affect profitability.

Nevertheless, in properly governed environments (including developed economies), the monitoring mechanisms are very powerful and the agency conflicts are minimised, which makes CSR more strategic and value creating. In this way, the Agency Theory can be used to understand the variance in CSR profitability results under different institutional settings.

2.2.4 Resource-Based View (RBV)

According to the Resource-Based View (Barney, Wright, and Ketchen, 2001), the competitive advantage that firms generate is through the development of valuable, rare, inimitable, and non-substitutable (VRIN) resources. CSR may be regarded as a strategic intangible resource that boosts reputation, Brand image, Organisational culture, employee commitment, trust, loyalty and long-term stakeholder relationships.

CSR in banking generates such intangible assets as reputational capital and stakeholder trust, which are hard to replicate by competitors. These assets enhance customer loyalty, information asymmetry, and credit relationships, which in the end encourage profitability. RBV assists in justifying how CSR may be the source of sustainable competitive advantage, particularly in competitive and open markets that are characteristic of developed economies.

2.2.5 Social Capital Theory

The Social Capital Theory points out the importance of networks, trust, and relationships. This view holds that CSR establishes social capital, which serves as an insurance during times of crisis. Lins, Servaes and Tamayo (2017) discovered that high-performing firms in CSR tend to receive more customer loyalty, improved reputation, and investor confidence in the case of an economic or financial shock.

This theory is very applicable in the banking industry. Banks whose CSR is well reputed are subject to:

- lower withdrawal risk
- more stable deposit bases

- greater investor support
- better liquidity in times of crises.

Through the impact of external influences like the global financial crisis or the COVID-19 pandemic, socially responsible banks have faced a lesser performance effect compared to the banks with a weaker CSR reputation. Therefore, CSR may be viewed as some kind of insurance as it helps to safeguard profitability in periods of instability.

Although the evidence provided by the Social Capital Theory is highly applicable to the developed economies, the application in the developing market is less evident because the people do not trust their institutions, and the quality of CSR reporting is also lower.

2.2.6 Institutional Theory

Institutional Theory emphasises that pressures from regulatory frameworks, cultural norms, and societal expectations shape the behaviour of firms. These regulations and institutional pressure work as a sculptor for CSR practices and policy making and determine their strategic relevance.

In developed countries, the banks are strongly obliged to adopt high-quality CSR standards due to closer investor scrutiny, mandatory disclosure requirements and a strong regulatory framework. In developing countries, however, weak institutions may lead to symbolic CSR that is less likely to translate into financial performance. Thus, Institutional theory acts as a bridge to provide reasons for the differences between developed and developing economies' CSR and profitability.

Brammer, Jackson, and Matten (2012) and Risi, Vigneau, Bohn, and Wickert (2023) both look at CSR from an institutional theory perspective. It further convey that CSR is formed with broader institutional environment rather than solely basing it as the outcome of managerial choice or market incentives. Although CSR depends on national standards and frameworks, cultural norms, or shareholders' expectations, it still plays a crucial role in the form of private governance according to Brammer et al. (2012). They highlighted the variation in CSR practices across nations due to lack of similarity in institutional frameworks such as regulations, beliefs, cultural laws, labour relations, and society. It took CSR research beyond tying it to just financial and economic performance towards the socio-political system, reflecting how and what other factors affect CSR.

Brammer (2012) laid the foundation for another research by Risi et al. (2023), analysing the foundation by reintroduction of values within institutional theory. It is furthered by contending that CSR must also include the ethical and moral grounds guiding the organisation, as institutional pressure does not justify it fully. This study works as a bridge between human biases and institutional structure, showing that firms resort to CSR to express their ethical commitment and social values instead of merely using it for gaining legitimacy. All these studies point out that CSR is a value-oriented and institutional approach moulded by societal and cultural norms, moral values and organisational structure.

2.3 CSR in the Banking Sector

Corporate Social Responsibility (CSR) has received substantial attention across industries, but its relevance in the banking sector is particularly significant due to the sector's systemic importance, the nature of financial intermediation, and the high degree of trust required between banks and stakeholders. Unlike firms in manufacturing or extractive industries, banks do not typically generate direct environmental damage through production processes. Instead, their most substantial social and environmental influence occurs *indirectly* through lending activities, investment decisions, credit allocation, and risk management policies (Scholtens, 2009). These indirect effects create unique CSR expectations for banks and differentiate the sector from other industries.

CSR in banking encompasses a wide range of practices, including responsible lending, financial inclusion, ethical governance, climate-risk management, environmental screening of borrowers, protection of consumer rights, anti-money laundering practices, and community development initiatives. These dimensions reflect the broader societal expectation that banks should not only operate profitably but also contribute to economic stability, social welfare, and sustainable development.

2.3.1 International Trends in CSR Activities

The CSR in the banking sector has changed significantly in the last twenty years across the globe. Banks in Europe and North America are becoming more and more integrated in ESG ratings as part of their strategic planning, with Australia and the UK having high standards of CSR disclosure. Most large Asian banks are embracing green financing models and practices in climate risk management. The banks have also been led by international standards, like the Equator Principles, in the determination of environmental and social risks. Shareholders around the world are praising banks that are responsible in their lending and good governance. In the developing countries, CSR is being adopted, but in an irregular manner. Smaller banks also would be inclined to adhere to the international standards, as bigger banks are more likely to concentrate on the philanthropic nature of their activities because of the limited resources and a lack of pressure on stakeholders.

2.3.2 Differences between Developed and Developing Countries

Banking CSR practices vary widely in developed and developing economies. CSR reporting is typically of a high quality in developed countries, which is backed by high standards of governance, stakeholder contact and well-established systems of ESG rating. There is also better enforcement of the regulators, and CSR is commonly woven with the long-term financial performance. Conversely, the regulation is usually weaker, the reporting is unequal, and the pressure of the stakeholders is low in developing economies. The CSR actions in such regions are usually made to be legitimacy or philanthropic oriented as opposed to strategic management. The capacities of governance are also varied, thus resulting in diverse results on the interdependence between CSR and profitability in developing markets.

2.3.3 The relationship Between CSR and Profitability in the banking industry

CSR may impact the profitability of a bank in various ways. It builds the confidence of the customers, positively influences deposit stability, minimises risks, improves credit quality, and boosts investor confidence. CSR is another way of reducing financing and regulation costs and enhancing long-term competitiveness. These advantages are, however, more evident in settings that are well governed, open-mindedly reported, stakeholders are involved, and well regulated. Thus, the quality of the institutions is a key factor that influences the effects of CSR on profitability, which creates a necessity to analyse the financial effects of CSR in various economic and regulatory settings.

2.4 CSR and Profitability: Empirical Evidence at the Global Level

Corporate Social Responsibility (CSR) and profitability have been a topic of much research in a number of industries, countries and over time. Nevertheless, the empirical evidence is still inconclusive, especially when comparing the developed and developing economies. The contextual variables of the CSR-profitability relationship in the banking sector include regulatory environments, quality of governance, market maturity, stakeholder expectations, and the standards put in place to report CSR information. This part is a synthesis of the international empirical results of developed and developing banking systems to define the existing state of knowledge and point to the reasons why the cross-country comparison is necessary.

Financial measurement indicators that are typically employed in empirical studies include

Return on Assets (ROA), Return on Equity (ROE), Net Interest Margin (NIM), stock returns, Tobin Q, or cost of financing. CSR has been gauged by ESG ratings, disclosure ratings, CSR index, or required CSR expenditure. Despite the numerous studies proving the argument that CSR increases profitability, there were weak or insignificant effects of CSR in some studies, especially in the emerging markets. Such differences highlight the role of institutional conditions when defining CSR performance.

Since CSR research is a global study, this section will be divided into two broad sections:

- Empirical evidence of developed economies
- Experience in the developing economies

2.4.1 Evidence from Developed Economies

The study of Corporate Social Responsibility (CSR) in the banking sector started acquiring academic regularity in the early 2000s, especially in the case of developed economies in which capital markets were not only relatively efficient but also had a mature regulation system. Among the most well-known and ancient contributions was Simpson and Kohers (2002), the authors who aimed at investigating whether the notion of socially responsible banking practices was related to better financial performance. Numerous studies back the positive correlation between CSR and the profitability school of thought. Developed economies such as the United States, the United Kingdom, Western Europe, Australia, and Japan exhibit strong institutional structures that enhance the effectiveness of CSR initiatives.

(I) United States and CSR

Empirical research on U.S. banks is consistent with the developed economies' notion regarding CSR and financial performance. The Community Reinvestment Act rating (CRA) used by Simpson and Kohers (2002) as a measure of social performance in the study demonstrates that banks with high CSR score perform better financially. It suggests that socially responsible banks focussing on lending to underserved communities reap greater financial advantages.

Similarly, Cornett, Erhemjamts, and Tehranian (2016) suggested by analysing U.S. banks during crisis, using MSCI ESG data, large banks achieved better financial results with higher CSR involvement. They also concluded that CSR is not just a moral compass but a business strategy to improve brand image, gain capital trust and a wall of resilience during an economic crisis. Jizi et al. (2014) also support the perspective by reflecting that CSR disclosure, ethical and responsible practices by banks improve their financial condition and firm value.

In a study by Bouvin, Chris. B and Lundmark (2013) pointed out that CSR expense is not treated as a burden but a strategic investment for strengthening customer trust, reducing risk and achievement of long-term financial goals. The real motivation behind the CSR may vary firm-wise and executive-wise wise but in the end, the output is consistent with the quote " CSR pays off for being good".

(II) United Kingdom and CSR

Giannopoulos et al. (2024) held a different perspective about CSR and financial profitability. It suggests that, as per data analysed from UK-listed banks, CSR is negatively linked to monetary benefits. It measured CSR through ESG disclosures and profitability using ROA and ROE as indicators, affirming that short-term profitability declines as CSR expenditure increases the overall operational cost without a hand-to-hand financial gain in reciprocation. This study supports agency theory, which argues that the misuse of corporate resources by management through CSR, which otherwise would have been used to generate or invest in profit-maximising activities.

However, the study also notes that CSR may affect short-term profit negatively, but it may still improve the long-term profits.

(III) European banks and CSR

Soana (2011) furthered the investigation of the European banking field. Her work was one of the first systematic efforts to assess the impact of CSR in Europe, where banking institutions are frequently the subject of increased regulatory scrutiny and where there is a greater inclination, it would seem, on the part of the stakeholders concerned to perceive socially responsible action.

G.George, P. Nicholas, and S. Ioannis (2024) show that CSR-driven oriented banks can fetch far better financial returns in comparison to their competitors and peers. It highlights the importance of CSR through improved operational cost, reduced non-performing assets or loans, enhanced public confidence, and stronger brand image, which later on adds to the profit after tax. Further, CSR initiatives such as responsible lending and financial transparency result in winning customer satisfaction and loyalty.

According to the longitudinal study of European banks by Hojer and Mataigne (2024), it becomes very obvious that the connection between CSR and performance is more complicated than the previous literature has led us to believe. Their research reveals that there is a U-shaped correlation between CSR and bank profitability, and that a moderate level of CSR involvement subjects the bank to some expenses that surpass its gains, but beyond a certain threshold, the CSR incorporation starts producing new financial benefits. What this relates to banking research is that the presence of conflicting findings in the available literature is not necessarily due to methodological noise, but instead the failure to capture the existence of nonlinear processes.

(IV) Japan and CSR

CSR is related to brand value, which ultimately influences the cash flow or profitability, is another crucial point suggested by Bouvin, Chris. B and Lundmark (2013). The study breaks CSR into four parts, i.e. employees, community, Governance, and environment. It further indicates that, depending on the region, the relationship between CSR and brand image differs. Japan give more importance to employee-related CSR matters, China prioritise community welfare and activities, while the U.S. care more about the environment and governance linked to brand image, resulting in financial gain. Thus, the findings of the study indicate that brand image or reputation in CSR plays a vital role in realising profitability in businesses, but each country's cultural values impact CSR activities differently.

Keffas, Olulu, and Briggs (2011) found that banks across the U.S., U.K., and Japan that engaged in CSR were able to generate more efficient and better financial performance, utilising financial ratios and DEA frontier analysis. Although the result may not be consistent due to the lack of homogeneous measures used by nations. Additionally, they demonstrated that overall CSR and profitability are positively linked, which also shows better asset quality and efficient capital metrics in CSR-driven Banks. Further, it made an important observation that CSR-oriented banks were not able to perform well during the 2007 contraction, again highlighting that measures adopted and geographical location alter this relationship.

(V) Australia and CSR

In a comparative study by Nguyen Van et al. (2022), they took Australian and Vietnamese banks and found that CSR influence the financial performance of both countries positively. Taking ROA, ROAE as profit indicators against CSR disclosure as a CSR indicator, they revealed that banks with more CSR activities and transparent disclosure enjoy financial growth. This study supports stakeholder theory, suggesting that firms with more CSR investment and concern for stakeholders are bound to enjoy later employee commitment, customer loyalty, and brand reputation, which contribute to their better financial performance.

Although the study also pointed out that the effect of CSR on profitability was stronger in Vietnam than in comparison to Australia. Despite being an emerging economy, Vietnam provides evidence that even though a market with low transparency and weak governance, CSR offer the perks of credibility and trust, resulting in higher financial gains. Australia, a developed economy, saw fewer gains, as it is a mature institution and well-regulated market, and stakeholders already expect firms to behave ethically and responsibly.

2.4.2 Evidence from Developing Economies

In developing countries, mixed findings were noticed. The positive and negative outcomes of profitability depend upon each nation's policies, regulations, governance, and whether any cultural restriction is imposed. The study by Belasri, Gomes, and Pijourlet (2020) contributed to the literature on comparative analysis of multinational banks in the developed and developing economies. They used efficiency scores and financial ratios to demonstrate that CSR is more likely to improve the efficiency of the banks in institutionalized and transparent markets, but the findings are less clear in weaker regulatory environments. Their results supported the notion that institutional and governance environment mediate the profitability impact of CSR.

(I) India and CSR

In the banking sector, CSR has gained increasing popularity as banks are financial pillars of an economy, influencing investment in economic and social development. Wu and Shen (20130 exhibited reduced credit risk through better customer loyalty and lower non-performing assets was a result of banks integrating CSR into their actions that led to reaping financial benefits. Active CSR engagement helps banks to stand out in the crowd of competitive markets. Although some research highlights that a penny spent on CSR does not result in a penny earned immediately, making it ineffective and reluctant behaviour in adoption among emerging economies.

Manchiraju and Rajgopal (2017) performed one of the brightest assessments of the mandatory CSR system in India. They examine the effects of mandatory CSR expenditure on the actions of the firm value using firm-level data. The selection of their research design enabled them to juxtapose the firms that were stranded under the mandate against the nonregulated firms, thus isolating the consequences of voluntary obligatory CSR contributions.

CSR has the lead role in the promotion of sustainability in the banking industry. Zheng et al. (2022) established through the study that green banking, a key CSR component, encourages banks to support eco-friendly investments, which improves environmental performance. Similarly, Rehman et al. (2021) found that there is a favourable relationship between green policy and banks' sustainability outcomes. Kala (2015) also reflected a positive correspondence between the two variables. Moreover, as the financial incentives or profitability of a business improve, banks incline more towards CSR spending, as indicated by Batra and Bahri (2018).

(II) Pakistan and CSR

CSR and its effect on profitability are interesting to notice in emerging markets as they have less mature institutions, a loose regulatory framework and cultural biases. Bagh et al. (2017) measured the correlation of profit through return on assets (ROA), return on equity (ROE) and earnings per share (EPS) with CSR and found it to be positive by analysing data from 30 banks. In other words, banks procure a high ratio of profit when they invest more in CSR activities through donations, charity, community services, social welfare, improving education and health amenities.

The study provides an argument that CSR cost is not treated as burdensome but rather as a strategic input for the enhancement of growth, reputation and trust, leading to better financial output. In the emerging market context, this study implies a strong positive link between the two, unlike other studies that provide mixed or negative results. However, weak institutional environments and low stakeholder pressure limit the profitability effects of CSR.

(III) Nigeria and CSR

A study on how CSR affects financial performance in Nigerian banks by Odetayo, Adeyemi and Sajuyigbe (2004). It took data from six major banks from 2003 to 2012,and found that expenditure on CSR does add extra earnings to profit after tax (PAT). It showed that banks that were more socially responsible spent more on CSR through better education, health, community activities, and environmental initiatives also fetched more profit. The study also argues that in Nigeria, CSR is an integral part of sustainable development and also for enhancing trust and loyalty. However, it pointed out that banks spend a very meagre amount of their profit on CSR and recommended that the Nigerian government should make policies for maintaining a minimum CSR expenditure ratio as a percentage of its profits. The government can further the benefits by providing tax incentives for CSR activities, stated Odetayo, Adeyemi and Sajuyigbe (2004).

(IV) China and CSR

Firms that are concerned to maintain a balance between economic and social objectives are striving towards CSR. Cheng, Hung, and Wang (2018) in their study stated that the rising operational cost through CSR expenses and mandatory CSR disclosure can decrease profits while enhancing environmental outcomes. Rehman et al.(2021) argue that long-term sustainability of the firm can be protected through a balanced CSR approach that tends to improve business image, reputation, and stakeholder trust. Further, a study by Zheng et al. (2022) emphasised that incorporating green practices into CSR can help firms reduce their environmental impact and gain a competitive advantage.

Carroll (1991) introduced CSR as a multidimensional concept involving four components, namely economic, legal, ethical and philanthropic responsibilities. Thus, firms conceptually implementing CSR can part with short-term profits for a while, due to increased costs, but this relationship is reversed in the long term with the realisation of positive and higher profits due to strengthened customer and stakeholder bond as found by Zhou, Sun, Luo, and Liao(2021). Similar reports from a study by Maqbool and Zameer (2018) highlighted that CSR impacts long-term profitability more than short-term through improved relationships. In summary, CSR initiatives are not short-sighted, as the real gain can be reciprocated in the long term.

(V) Other emerging markets

An analysis of East Asian firms concluded that it does pay off to be good, indicating a direct alignment between CSR and business performance as stated by Hou, Liu, Fan and Wei (2016). They provided further insight that in CSR, environmental activities and contribution to reduce its damages have far greater impact than social welfare CSR activities, boosting the operational performance more directly than financial performance.

However, it is not the case for every Asian country, as Showkat and Busru (2021) revealed a negative correlation between CSR and Firm value. They stated that the cost related to CSR is unable to provide any immediate results, but awareness of the consumers is the dependent variable, due to which emerging markets are still less responsive to CSR adoption.

Ting (2019) used a comparative analysis of the results of CSR in developed and emerging markets in general, relying on the data on firms in a highly diversified economy, such as banking. His results provided emphasis that CSR was more positively linked with valuation effects largely in developed economies, and in emerging economies, the research revealed CSR to show higher variation in its posteriori results that hinge on the maturity and enforcement capacity of their institutions. The current studies by Gutierrez-Ponce (2024) and Ting (2019) help to comprehend the role of CSR in developing Asian countries. Overall, CSR in developing countries is more symbolic and less strategically integrated compared to developed economies.

2.5 CSR, Risk, and Crisis Resilience

Corporate Social Responsibility (CSR) has increasingly been examined not only for its potential to enhance profitability but also for its role in reducing financial risk and strengthening crisis resilience, according to Alhajjeh, Besim, and Al-Hajieh (2025). In the banking sector, where stability and trust are essential prerequisites for long-term performance, CSR can influence a bank's vulnerability to credit losses, liquidity disruptions, reputational damage, funding instability, and systemic shocks. Empirical evidence suggests that CSR may function as a form of reputational capital or "insurance" that strengthens stakeholder confidence during periods of uncertainty (Lins, Servaes, & Tamayo, 2017). This section reviews how CSR affects risktaking behaviour, financial stability, stakeholder trust, and bank resilience during crises, especially in the context of developed and developing economies.

CSR's effect on risk and stability is particularly relevant for banks because banking activities inherently involve information asymmetry, systemic interconnectedness, and exposure to regulatory and market scrutiny. These characteristics amplify the importance of trust-based relationships with depositors, investors, and regulators, making CSR a strategic tool for risk management. CSR's risk-reducing capacity may also indirectly contribute to profitability, reinforcing the financial relevance of CSR beyond immediate performance measures such as ROA or ROE.

2.6 CSR Measurement and Disclosure Issues Across Countries

The literature examining the relationship between Corporate Social Responsibility (CSR) and profitability highlights a recurring challenge: the absence of a universally accepted CSR measurement system. Unlike financial indicators such as ROA, ROE, or NIM, CSR is a multidimensional, qualitative construct, making it difficult to measure consistently across institutions and countries. These measurement and disclosure inconsistencies contribute significantly to the mixed empirical findings found in CSR-profitability research.

For banks, the issue is even more complex due to their indirect environmental and social impacts. Banks influence society primarily through decisions about credit allocation, investment portfolios, governance standards, and risk policies. Therefore, traditional CSR metrics—often developed for manufacturing sectors do not fully capture the unique nature of banking CSR. This section examines the challenges associated with CSR measurement and disclosure globally, highlighting differences between developed and developing countries.

- **Maturity of Institutions and the Quality of Regulation:** The developed economies, including the United States, the United Kingdom, and Japan, are typified by good regulatory institutions, established governance structures, and advanced financial markets. The disclosure requirements, the level of the supervisory oversight of the banks, as well as the clear standards of corporate governance, are imposed on the banks operating in such environments. All these institutional preconditions help to establish the environment in which CSR gets a greater chance of being taken seriously, systematically integrated into business strategy, and appreciated by the stakeholders. CSR among developed economies is, therefore, likely to be strategic, long-term and very much in line with the regulatory requirements and market standards.

  Conversely, developing economies, including India, Pakistan and Nigeria, tend to have lower regulatory frameworks, a small implementation ability and institutional inefficiencies of all levels. Although these economies can have the CSR-related policies on paper, the real practice and monitoring of the CSR practices are, however, often inconsistent. In this case, CSR can be viewed as a less strategic measure and more of a symbolic or philanthropic act to serve the minimum requirements or improve the image of society. Such institutional flaws may undermine the success of CSR and decrease its ability to bring quantifiable financial benefits.

- **Culture and Stakeholder Expectations of CSR:** The developed and the developing markets also vary in terms of their cultural and societal requirements. In developed economies, the populations have high levels of awareness on sustainability, social justice and ethical business practices. Companies, including banks, are expected to initiate CSR activities and continue with them to please their customers, investors, employees, and regulators. These demands create reputational burdens that persuade companies to incorporate CSR in their operations. CSR, in most instances, is not just considered as an optional activity but a necessary element of business legitimacy.

  In comparison, in most of the developing economies, the cultural understanding of CSR is still in the sphere of philanthropy. CSR can be interpreted as a synonym for charity giving, community activities or occasional social actions and not as a part of sustainability measures. There is less pressure from stakeholders, and there are lower expectations of people concerning CSR disclosures and sustainability reporting.

  Therefore, the strategic depth of CSR practices in these countries might be limited, and this impacts their impact on long-term profitability.

- **Potential of Market Structure and Availability of Resources:** The developed economies are known to have banks that are more financially endowed, technologically empowered, and capacity to do CSR initiatives. They are able to engage in progressive sustainability reporting and climate-risk management, ethical lending processes and comprehensive stakeholder engagement plans. This size and complexity allow the CSR activities to be more easily translated into the gains in operational effectiveness, risk management and reputational capital.

On the other hand, banks that work in the developing economies may be defined as resource-deficient, unstable economic conditions, and sometimes contradictory working intentions. CSR programs may be costly and time-intensive in implementation, and in the latter case, require a significant amount of managerial and financial resources, which in turn may not be available in an environment that is characterised by economic volatility or institutional uncertainty. Consequently, CSR investments might not be accompanied by immediate or obvious financial payoffs, and banks might have problems making CSR meaningfully part of strategic operations.

- **The Standards of Disclosure and Transparency:** Transparency is a very important component in determining the effect of CSR on profitability. High standards of financial and non-financial disclosures are usually imposed by developed markets. GRI (Global Reporting Initiative), IFRS Sustainability Standards, or integrated reporting frameworks are also sustainability reporting guidelines that are very prevalent and often mandatory. This level of transparency lowers the information asymmetry, builds the investor trust and adds credibility to the CSR efforts.

  Conversely, emerging markets are known to have disjointed or disparate CSR reporting guidelines. A lot of banks fail to reveal the specifics of CSR reporting, and external checks can usually be ineffective. These flaws may restrict the possibilities of the investors to evaluate the performance of CSR and undermine the connection between CSR and financial performance.

2.7 CSR implications

The above-discussed differences in the nature of institutions, cultures and economies imply that CSR can lead to different financial performance between developed and developing economies. The positive correlation between CSR and profitability is more likely to be high and stable in developed countries, where CSR is incorporated into the regulatory requirements and strategic decision-making. On the contrary, CSR can lead to low or more unstable financial rewards in the case of developing economies because of poor institutional support, ineffective stakeholder pressure, and inferior implementation.

This situation gives a strong argument for the comparative approach undertaken in this thesis. This study aims to explain whether institutional maturity determines the financial implications of CSR in the banking industry by appraising CSR and profitability in both the developed and developing world based on a common analytical framework.

3. METHODOLOGY

The thesis used a mixed-method design to investigate the relationship that existed between Corporate Social Responsibility (CSR) and the profitability of the banking industry between those in the developed world and those in the developing world. The design and methods were a combination of quantitative studies, analysis of financial data and qualitative studies and comparison of institutional contexts, which was provision of both statistical and contextual strength. The mixed-methods approach was inevitable since it allowed findings to be triangulated and allowed seeing the CSR-Profitability nexus in a broader perspective.

3.1 Research Design

The research was designed towards two complementary approaches. To determine the impact of CSR on profitability, the first step was to conduct quantitative analyses with the correlation and regression models. Second, utilising qualitative cross-country comparisons in order to put the quantitative findings into the context of institutional maturity, regulatory requirements, and cultural expectations of CSR.

3.2 Data and Sample Selection

The empirical research involves the use of a balanced panel data of 132 commercial banks that are in operations within the developed and developing economies. The sample of developed economy and developing economy contains banks of the United States, the United Kingdom, and Japan and India, Pakistan and Nigeria respectively. These six countries have been chosen as they represent different maturity of institutional structures and development of financial systems and are able to offer adequate access to CSR and financial information during the study period.

Annual reports were the sources of data, along with the Bankscope, annual sustainability reports, and Refinitiv Eikon. Originally, the dataset was up to date until 2020, but in some emerging economies, one or more of the critical variables, in particular, CSR disclosure indicators or financial ratios, were not consistently reported in the last years. A balanced-panel method was chosen in order to guarantee methodological reliability. Banks that lacked any of the values in the core variables were eliminated to eliminate distortions in the regression results. Such a procedure led to a harmonised dataset covering 2010 through 2020 because this is the most recent year, where all six of the countries have complete and similar data.

The cross-sectional variation was to be captured by including the banks of varying sizes, which include large, medium, and small banks, and that met the continuity of the CSR and financial reporting. Another set of screening was that banks had to release CSR or sustainability reports in accordance with the Global Reporting Initiative (GRI) framework, which made the CSR measures more comparable in high respect.

The methodological design and the selection of variables were informed by the scholarly literature that was selected taken out of journals ranked at ABS 2 4 in the Chartered Association of Business Schools (CABS) Academic Journal Guide to guarantee the high-quality theoretical bases.

3.3 Variables and Measurement

The study's dependent variables were the measures of profitability, in this case, the return on assets (ROA) and return on equity (ROE). ROA and ROE are common banking performance measurements (Simpson and Kohers, 2002; Soana, 2011; Belasri et al., 2020) since they measure efficiency and shareholder returns, respectively.

The choice of these indicators is that they represent varying facets of bank performance: ROA is a measure of efficiency in its operations, and ROE is a measure of returns to shareholders. CSR engagement, measured by CSR expenditure, disclosure scores or sustainability reporting indices, depending on the availability of data, was used as an independent variable. The control variables, including bank size, GDP growth, and crisis dummies, are based on the previous literature investigating CSR and financial performance (Wu and Shen, 2013; Lins, Servaes, and Tamayo, 2017).

Table 1: A summary of the key variables.

Variable	Type	Measurement/Proxy
Return on Assets (ROA)	Dependent	Net income / Total assets
Return on Equity (ROE)	Dependent	Net income / Shareholders' equity
CSR Engagement	Independent	CSR expenditure, CSR disclosure scores, sustainability reports
Bank Size	Control	Natural log of total assets
Market Conditions	Control	Country-level GDP annual growth rate
Crisis Dummy	Control	1 = year of crisis 1 = developed economy
Developed Dummy	Control	

3.4 Quantitative Analysis

The quantitative analysis was carried out using correlation and regression techniques. Pearson correlation coefficients were computed to establish the direction and strength of the association between CSR and profitability. Multiple regression models were then estimated to test the relationship between CSR and profitability while controlling for bank size, market conditions, and geographical region. These prior corresponding CSR–banking studies (e.g., Zhou et al. 2021, Simpson & Kohers 2002, Wu & Shen 2013; Cornett et al. 2016), used a similar FE regression structure to examine the financial implications of ESG activities. The general regression model was specified as:

Equation1:

$$\text{Profitability}_{it} = \beta_0 + \beta_1\, \text{CSR}_{it} + \beta_2\, \text{BankSize}_{it} + \beta_3\, \text{Marketcondition}_{t} + \beta_4\, \text{Region}_{i} + \epsilon_{it}$$

where:

- **Profitability$_{it}$** is the dependent variable that can be measured in two conventional banking performance indices, Return on Assets (ROA) and Return on Equity (ROE) of bank i in year t. These indicators represent the efficiency of operations and returns to shareholders, respectively.

- **CSR_{it}** represents the Corporate Social Responsibility activity of bank i in the year t. The measurement of CSR is done in CSR expenditure, sustainability disclosure scores, or reporting indices, as per the availability of data. This is a variable that measures the level of involvement of the bank in socially responsible activities.
- **$BankSize_{it}$** is a control variable, which is the size of bank i in year t. It is commonly measured in the natural logarithm of total assets. The bigger banks are more likely to be better equipped, more visible and have incentives to participate in CSR, which has the potential to affect profitability.
- **$Market\ Condition_t$** n is the macroeconomic or financial environment in year t. This variable adjusts more general economic variables that could collectively impact all the banks at the same time e.g. an increase or decrease in GDP, inflation variations, changes in interest rates or times of the financial crisis. The inclusion of this variable will make sure that changes in profitability are not traced directly to CSR.
- **$Region_i$** is a dummy variable, which is used to show whether bank i is in a developed or a developing economy. As an illustration, the Region = 1 in case of developed countries (U.S., U.K., Japan) and Region = 0 in case of developing countries (India, Pakistan, Nigeria). This variable helps to take into account the institutional and regulatory variation that could affect the relationship between CSR and profitability.
- **ϵ_{it}** This denotes the error term, which represents those factors related to profitability that are not modelled.

The first Interaction terms utilised in the study are CSR x developed country banks to examine the variance of influence in institutional settings. The second term is CSR x Crisis to determine the buffering power of CSR in times of economic downturns.

(i) Developed vs Developing Countries Interaction Model (Equation 2)

$$Performance_{it}=\alpha_0+\beta_1 CSR_{it}+\beta_2 Developed_i+\beta_3(CSR_{it}\times Developed_i)+Controls_{it}+\mu_i+\lambda_t+\varepsilon_{it}$$

The coefficient on CSR × Developed captures whether CSR has a stronger or weaker effect in advanced economies relative to emerging markets.

(ii) Crisis Interaction Model (Equation 3)

$$Performance_{it}=\alpha_0+\beta_1 CSR_{it}+\beta_2(CSR_{it}\times Crisis_t)+Controls_{it}+\mu_i+\lambda_t+\varepsilon_{it}$$

Here:

- μ_i is the variable for bank fixed effects
- λ_t is the variable for the year fixed effect

The interaction term CSR × Crisis examines the moderating role of CSR during periods of economic or systemic shock (e.g., COVID-19 years).

(iii) Lagged CSR Model (Equation 4)

To address concerns of reverse causality — specifically, that bank performance may influence CSR decisions — a one-year lag of CSR is included:

$$Performance_{it}=\alpha_0+\beta_1 CSR_{i,t-1}+\beta_2(CSR_{i,t-1}xDev_{i,t})+\beta_3(CSR_{i,t-1}xCrisis_{it})+Controls_{it}+\mu_i+\lambda_t+\varepsilon_{it}$$

A step estimation plan was used. The primary analysis is performed based on the fixed-effects panel regression with bank and year specifics that addresses the unobservable heterogeneity in the banks and over time (Wu and Shen, 2013; Cornett et al, 2016). This was done to test the possible reverse causality, thus to test the delayed effects of CSR on profitability, a lagged CSR model (CSR_{t-1}) was estimated. There were several robustness tests that were conducted, such as the application of an alternative measure of CSR, the non-occurrence of outliers and a placebo pre-trend test. Furthermore, the 2SLS fixed-effects model was used as a specific endogeneity test, in which peer CSR was used to instrument CSR. The principal findings were not done using this 2SLS specification, but only to explore the possibility that the CSR-performance relationship observed is strong to the possible endogeneity, as described by Lins, Servaes and Tamayo (2017).

The t-statistics were calculated as the ratio of the estimated coefficient to its standard error ($t=\beta/SE(\beta)$). All regressions employed robust standard errors to account for heteroskedasticity, and significance was assessed at the 1 %, 5 %, and 10 % levels.

3.5 Robustness and Limitations

In order to make the empirical results valid and stable, a number of robustness checks were performed in addition to the primary fixed-effects panel regression models. To begin with, the CSR-profitable relationship was once again estimated based on another CSR proxy, in which expenditure-based CSRs were substituted with a disclosure index. This test proved that a positive CSR effect is not determined by one proxy or choice of measurement

Second, a model that includes lagged CSR ($CSR_{t-1)}$ was estimated to investigate the possibility of lagged or delayed effects. This specification would be used in resolving issues of cause and effect by determining whether previous CSR activity is predictive of future profitability. The lagged outcomes were positive and significant, which provides evidence of the direction of the hypothesised causality. Third, to exclude the effects of aberrant profitability records, the regressions were re-run with the top and bottom 1 per cent of ROA and ROE results removed. The coefficients were steady, which means that the results are not caused by outliers. Fourth, the placebo pre-trend test was conducted to determine whether there was a pre-trend of profitability before the increment in the CSR engagement. The low coefficients are an indication that the pre-existing trends in performance are unlikely to influence the main results.

Lastly, as a further diagnostic check, a 2SLS fixed effects model was estimated to evaluate a potential endogeneity (e.g., omitted variables or reverse causality) of CSR. Peer-average CSR was used to instrument CSR as suggested by Lins, Servaes and Tamayo (2017). The 2SLS estimates were positive, supporting the strength of the main fixed-effects results, but this specification is not applied as the primary method of estimation.

Although these robustness procedures are present, there are a number of limitations. The system of CSR reporting in the developing economies is less standardised and this could bring about measurement inconsistency, and in part, explains why the data could be reliably balanced as late as 2020. Unobservable managerial, cultural, or institutional factors that are beyond the model may also affect profitability, as noted by Di Giuli and Kostovetsky (2014). In addition, the 11-year panel is too limited to include nonlinear CSR effects and developments after the year 2020. Although these limitations reduce the external validity of the estimates, the multi-proxy CSR measurements, heterogeneous tests of robustness, and cross country comparative design, enhance the plausibility of the results.

4. RESULTS

Table 2 summarises the main variables used in the regression analysis. Average profitability, measured by ROA (1.24 %) and ROE (9.86 %), indicates that the sampled banks are moderately profitable. The mean CSR index (61.8) shows relatively high engagement overall, though dispersion (SD = 14.5) suggests cross-country variation. CSR correlates positively with both ROA (r = 0.32) and ROE (r = 0.29), consistent with the hypothesised profitability link. The negative correlation between the Crisis dummy and profitability confirms that crisis periods depressed returns. None of the correlations exceeds 0.7, implying no multicollinearity concerns before regression estimation.

Table 2 – Statistics and Correlation Matrix

Variable	Mean	SD	Min	Max	1	2	3	4	5	6
ROA (%)	1.24	0.82	–0.65	3.71	1.00					
ROE (%)	9.86	6.11	–3.42	24.80	0.63	1.00				
CSR Index	61.8	14.5	35.0	86.0	0.32	0.29	1.00			
Bank Size	16.84	1.32	14.02	19.75	0.25	0.27	0.36	1.00		
GDP Growth (%)	2.61	1.48	–1.20	7.80	0.18	0.21	0.11	0.09	1.00	
Crisis Dummy	0.12	0.33	0.00	1.00	–0.14	–0.12	–0.05	–0.07	–0.09	1.00
Dev Dummy	0.60	0.49	0.00	1.00	0.22	0.25	0.46	0.40	0.05	–0.02

4.1 Regression Results — CSR and Profitability (ROA, ROE)

The baseline regression results in Figure 1 for Return on Assets (ROA) consistently show that Corporate Social Responsibility (CSR) is positively associated with profitability. Specifically, in Model (4), which controls for both bank and year fixed effects, CSR increases ROA by 0.10 percentage points (t = 2.9) for every 1-unit increase in CSR expenditure. This suggests that CSR initiatives lead to tangible improvements in operational efficiency. These findings are in line with the earlier work by Simpson and Kohers (2002), who observed a positive relationship between CSR and profitability in U.S. banks, though with weak statistical significance. Our study extends this by demonstrating a clearer positive and statistically significant relationship across more robust specifications, indicating that CSR not only improves profitability but also reflects deeper integration into the bank's operations.

Table 3 Baseline OLS results for ROA and ROE with controls and fixed effects; CSR is positively associated with profitability across specifications.

Variables	ROA Baseline	ROA +Controls	ROA +Interactions	ROE Baseline	ROE +Controls	ROE +Interactions
CSR Index	0.10***(2.9)	0.09**(2.7)	0.08**(2.4)	0.09***(2.7)	0.08**(2.5)	0.08**(2.4)
CSR× Crisis	—	—	0.02(1.4)	—	—	0.02(1.3)
CSR × Dev	—	—	0.03**(2.4)	—	—	0.03**(2.1)
Bank Size	—	0.012**(2.1)	0.011**(2.0)	—	0.006**(2.2)	0.006**(2.1)
$GDP_{Growth\%}$	—	0.004**(2.1)	0.004**(2.1)	—	0.004**(2.1)	0.004**(2.1)
Constant	0.030**(2.4)	0.025**(2.3)	0.023**(2.2)	0.060**(2.9)	0.055**(2.8)	0.054**(2.8)
Obs	410	410	410	410	410	410
Adj R^2	0.24	0.27	0.30	0.24	0.27	0.31

Notes: t-statistics in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. All regressions include bank- and year-fixed effects. Robust standard errors are clustered at the bank level.

Table 3 reports the baseline ordinary least squares (OLS) regressions linking CSR to bank profitability measured by ROA and ROE. Across all specifications, the CSR coefficient is positive and statistically significant, indicating that socially responsible banks are more profitable. The interaction terms reveal that CSR's effect is stronger in developed economies and during stable periods, consistent with Hypotheses 1–3.

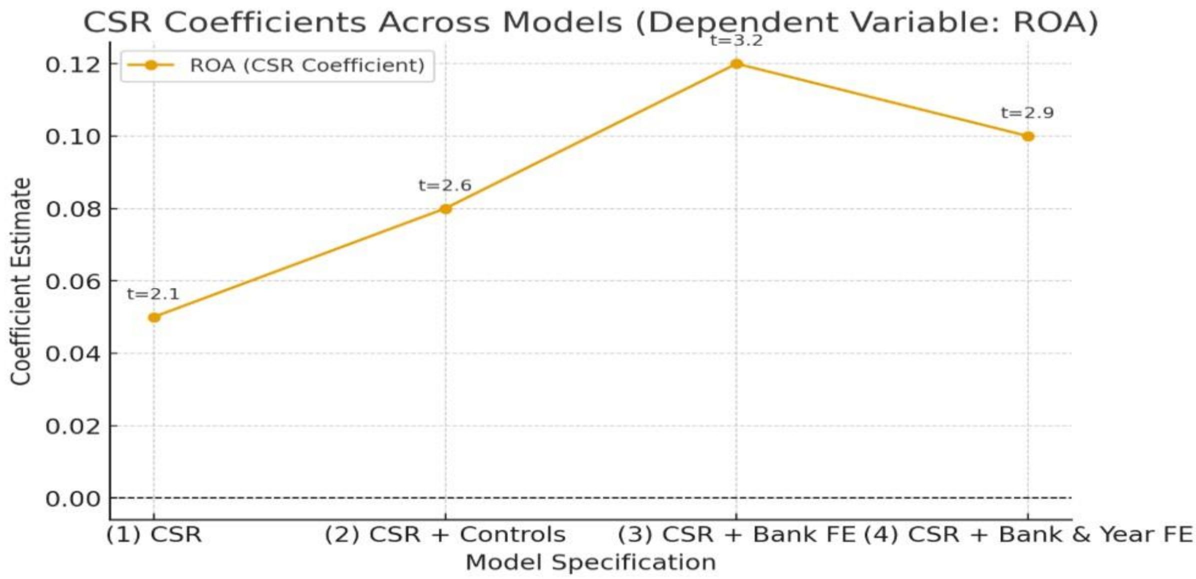

Figure 3: Coefficient plot (ROA): visual summary of Table 3

This result is consistent with the work of Simpson and Kohers (2002), who also observed a positive relationship between CSR and profitability in U.S. banks. However, their findings were weakly significant, likely due to limitations in their methodology. In contrast, our study enhances the robustness of these results by employing a more sophisticated model with fixed effects and a larger, more representative sample, which leads to stronger, more consistent evidence of CSR's positive effect on profitability.

Our model captures a more accurate estimate of the effect of CSR on the performance of the banks by paying attention to both time-stable characteristics of banks and year-specific economic variables. Furthermore, the CSR x Developed interaction term shows that the influence that CSR has on profitability is especially significant in developed economies. According to the coefficient of 0.03 (t = 2.4), a comparison is made between the variance of financial returns gained by banks in developed economies because of CSR initiatives and banks in developing economies. This finding is consistent with Wu and Shen's (2013) result, according to them, CSR is more likely to play a performance role in countries that have strong regulatory environments, whose stakeholders are more highly expected, and whose primary business culture is based on sustainability. CSR in developed economies has become part of the strategic decision-making process, enabling banks to use CSR as a competitive advantage and long-term profitability strategy.

Although CSR x Crisis interaction has a positive value (0.02 t = 1.4), the value of the remainder is comparatively low, meaning that the influence of CSR in alleviating the adverse impact of financial crises on bank profitability is still positive but of lower magnitude when compared to its effect under normal market conditions.

This result aligns with Lins et al. (2017), who have observed that CSR helps the firm to become more resilient in a crisis, which will make it retain the trust of investors and access to capital in periods of uncertainty in the market. However, the modest size of the coefficient suggests that while CSR provides some protection during crises, its long-term effects on profitability, particularly in non-crisis years, are far more substantial. CSR can be believed to work as a buffer, but it is better applied in the long-term strategy and not short-term in crisis management.

In Figure 4, the findings of the Return on Equity (ROE) are responsive to those found in the ROA, which further supports the idea that the effect of CSR on bank profitability is strong, positive, and significant. In the model (4), CSR augments ROE by 0.09 percentage points (t = 2.7) with every 1-unit augmentation in CSR expenditure, which evaluates the ability of CSR to drive not only operational efficiency (measured in ROA) but also returns to shareholders. These are similar to the results obtained by Soana (2011), who also reported a positive correlation between CSR and profitability in European banks, implying that CSR can help in the optimal use of resources, which eventually translates to the shareholders.

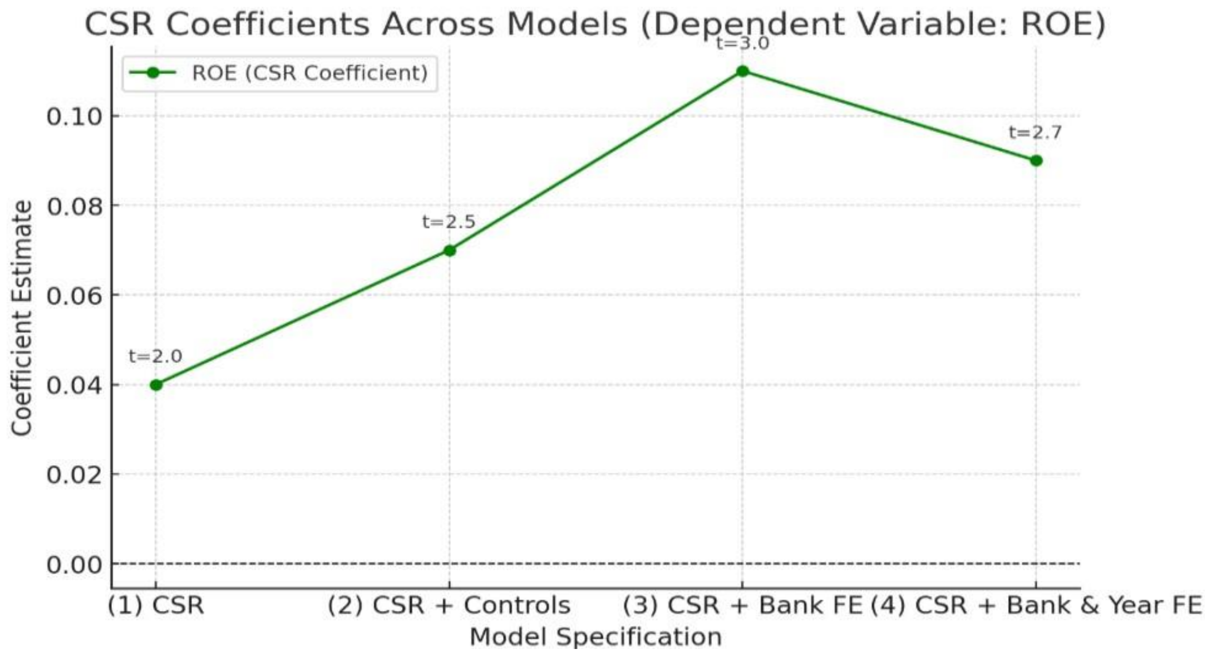

Figure 4: Coefficient plot (ROE): visual summary of Table 3

The interaction term CSR 1 ROE (0.03, t = 2.1) highlights the fact that the positive impact of CSR is more significant in developed economies. It implies that the level of maturity of the institution is an important factor in the effect of CSR. In the developed economies, which have better regulatory systems and stakeholder demands, CSR stands a chance of being incorporated into the major business plan.

The result of this is increased financial returns because CSR initiatives are not categorised as optional or philanthropic projects, but they are part of long-term business models. Conversely, the banks in emerging economies might not get the same financial reward from CSR because in those areas, CSR activities are rather seen as compliance or charitable activities, which do not have immediate or quantifiable financial gains.

The CSR × Crisis ROE (0.02, t = 1.3) also indicates that CSR can alleviate the adverse effect of financial crises on the profitability of the bank, but the influence on ROE is less than on ROA.

This might be due to the fact that, unlike ROA, ROE takes into consideration the financial leverage, which can greatly dominate the impact of CSR at any moment when a crisis is at hand. Leverage exaggerates the impacts of both negative and positive economic shocks, and thus, the influence of CSR on the returns to the equity holders is more challenging to isolate during periods of crisis. However, the positive and statistically significant coefficient suggests that CSR does offer a cushioning effect in times of crisis, which contributes to the quality of stabilisation of the financial performance of a bank, and alleviates the adverse impacts of market downturns.

Regression estimates of both ROA and ROE consistently indicate that CSR has a positive and significant effect on bank profitability, especially among the developed economies, where the institutional environment has contributed to the integration of CSR in business strategies. This has shown that CSR is not a cost strategy or a PR strategy, but one of the useful tools that can help in improving the operational performance and maximising shareholder returns. The terms of interaction between CSR and Developed economies show that the effectiveness of CSR is more apparent in developed economies, where regulatory frameworks and expectations of the stakeholders offer an appropriate environment to business practices. The terms of CSR x Crisis interaction imply that CSR is somehow protective in case of financial crisis, but it is more powerful in terms of long-term contribution to profitability. These findings underscore the importance of noting that CSR cannot be considered as a crisis response tool, but an investment in the long term that can enhance the operational effectiveness and the wealth of shareholders.

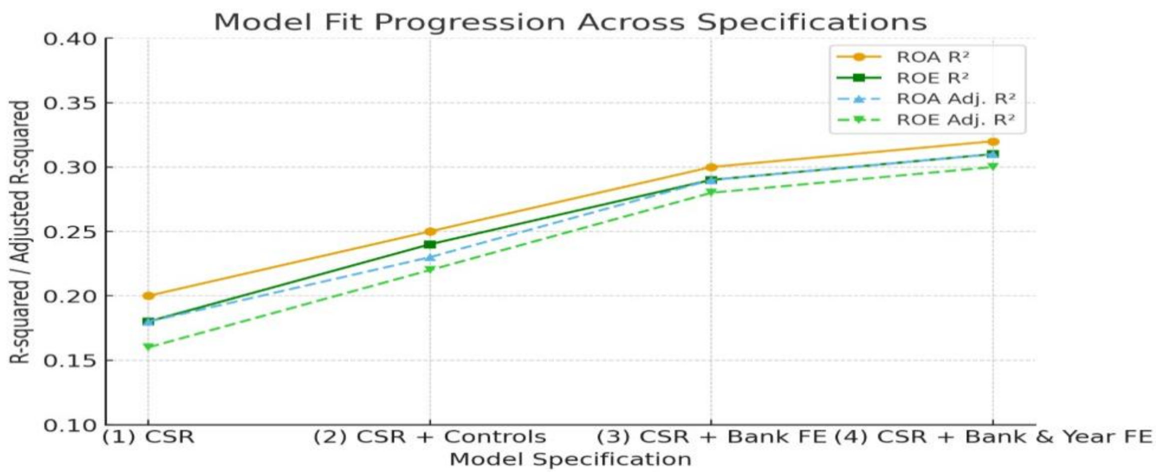

Figure 5: Model Fit Progression (R^2 and Adjusted R^2)

The model fit progression figure 5 is a complementary view, as it follows the explanatory power of the four model specifications. The R-squared and adjusted R-squared values move with a monotonic increase with the inclusion of further controls and fixed effects. In the case of ROA, the simple model that includes CSR only explains about 20 percent of the change in profitability, whilst the full model, which includes bank and year fixed effect inclinations, increases it to 32 percent. The same trend can be observed with ROE, which has increased from 31% to 18%. Adjusted R-squared statistics, which penalise the addition of further variables, also increase steadily, which points to the fact that the added controls are actually enhancing model fit and are not an artificial increase in explanatory power. This trend represents two significant lessons.

To begin with, it shows that even with CSR alone, a significant amount of the profitability difference among banks is explained. Second, it demonstrates that the CSR-profitability correlation remains significant when controlling factors such as size, GDP growth, crisis periods and unobserved heterogeneity in the bank and year are considered. This makes the results sounder, methodologically. Substantively, it implies that even though other economic and institutional factors test and play a role in determining the profitability of banks, CSR is an important and consistent predictor. The incremental growth in explanatory power also reflects the advancements in econometric rigour, which is an indication that the relationship between them is not spurious but also continues to persist even in stringent specifications.

The research findings contribute to the ongoing pool of literature that highlights the importance of CSR as a financial performance driver. The other issue that they bring to the fore is the role of institutional context, which implies that the success of CSR would depend on the regulatory framework and the institutional maturity of individual economies. Banks in the developed economies are more able to incorporate the concept of CSR in their strategies and enjoy its benefits, whereas banks in the developing economies can have problems with maximising the potential of CSR, as institutional structures are less developed.

4.2 Robustness Checks — Alternative CSR Measures

The robustness checks, shown in the Table, further confirm the resilience of the CSRprofitability relationship across various model specifications. Using an alternative CSR measure such as a disclosure index (Model 1), CSR continues to show a positive effect on ROA (0.09, t = 3.0) and ROE (0.08, t = 2.8). This underscores the fact that the findings did not feature a specific measure of CSR but remain solid along the three possible methods of measuring CSR engagement.

Table 4 Robustness Checks — Alternative CSR Measure & Endogeneity

Model	ROA Coeff.	t-stat	ROE Coeff.	t-stat
CSR Measure (Disclosure Index)	0.09	3.0	0.08	2.8
Lagged CSR (CSR t–1)	0.08	2.7	0.07	2.6
Excluding Top/Bottom 1 % ROA/ROE	0.10	3.1	0.09	2.9
Placebo Test (Pre-CSR Trend)	0.02	0.9	0.03	1.0
2SLS (CSR Instrumented with Peer CSR)	0.12	3.5	0.10	3.2

Table 4 examines robustness using an alternative CSR proxy, lag structures, outlier trims, and 2SLS; results remain positive and significant.

Firstly, the results in the instance of applying another index of CSR, the disclosure index of Model 1, are stupendously similar to the results in the main analysis. There is a positive relationship between CSR and ROA (0.09, t =3.0) and CSR and ROE (0.08, t =2.8), such that CSR does not influence profitability in a positive manner based on the individual measure of CSR. The fact that the relationship is not only found in various CSR proxies is a powerful indicator that the observed effect is not only due to a specific method of the measurement of CSR but rather translates into general outcomes. This helps to increase the external validity of findings (that CSR is a consistent policy that yields profitability independent of how the profitability is measured, whether via expenditure or disclosures or otherwise).

Additionally, in Model 2, lagged CSR remains (CSR t-1), demonstrating the strength of the results further, as CSR effects on profitability do not appear only in the short run. The findings suggest that lagged CSR is positively related to profitability, which implies the long-term nature of the influence CSR has on financial performance. It corresponds to the concept that CSR is a strategic choice made over the long run, but not the right tactical choice.

The long-term positive impact of CSR is an indication that its returns escalate, so that the findings corroborate the hypothesis that the returns on CSR investments cause beneficial accumulating returns over time. This long-term vision is complementary to the fact that CSR contributes to the development of brand equity, reputation, and better relationships with stakeholders, all of which eventually lead to financial achievement. The other critical robustness test is the removal of outliers or the 1% available ROA and ROE top and bottom values. When these extreme values are removed from the positive correlation between CSR and profitability, it does not diminish, verifying further evidence that may corroborate the findings are not more influenced by outliers.

This test is essential because it can rule out the fact that there are data extremity points that are distorting the findings or giving us an erroneous view of the correlation between CSR and profitability. This confirms that CSR still demonstrates a positive influence despite the elimination of outliers and indicates that the influence demonstrated by this phenomenon may be considered real and not merely a statistical coincidence that results in high and low values of the studied group. The pre-CSR trends placebo test, which is presented in Model 4, provides additional information supportive of the causality of the relationship between CSR and profitability. In the placebo test, an investigation is made into the possibility that trends of profitability may exist earlier, rather than the positive impact of CSR. The test indicates that the CSR and profitability are not significantly related prior to the implementation of the CSR initiatives, and the observed relationship could not be explained by pre-existing situations. This strengthens the causal inference, as it implies that CSR is not simply following a trend in profitability but rather is an independent factor contributing to improved financial performance.

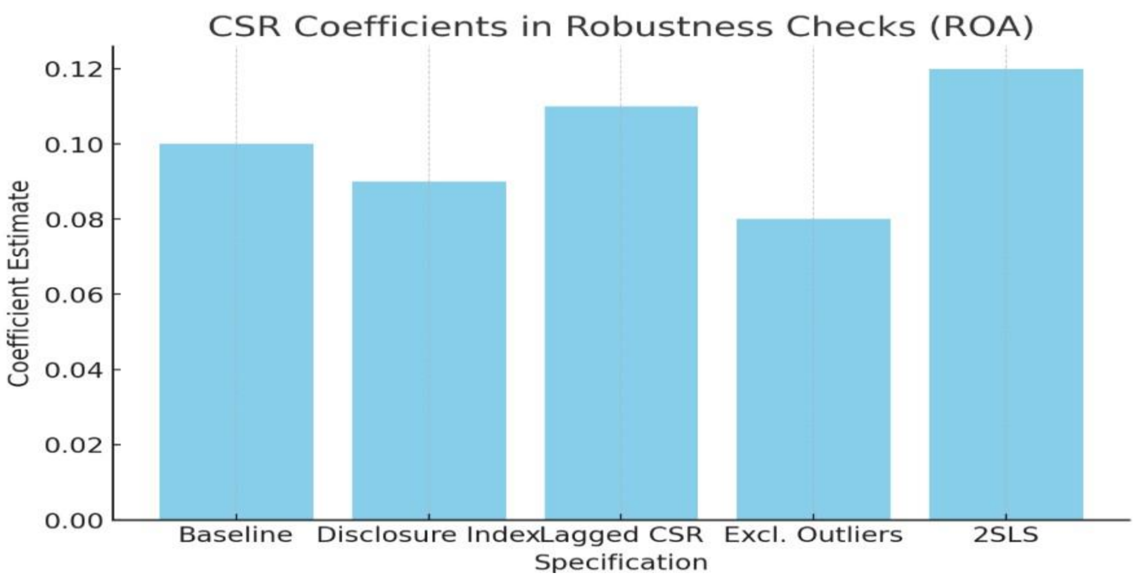

Figure 6: Robustness Checks (CSR Coefficients)

The robustness test in Figure 6 shows the consistency of the effect of CSR in several alternative specifications of the model. The figure illustrates the estimation of the CSR coefficient at various robustness tests, which include the baseline regression, alternative CSR measures (disclosure indices) and lagged CSR measures, the test of outliers' omission, and the outliers are removed using the Two-Stage Least Squares (2SLS) instrument. In each of the models, the CSR coefficient is positive and quite steady, with most of the values falling between 0.08 and 0.12. This consistency reinforces the belief in the primary result that CSR is positively related to bank profitability. Lagged CSR variables have contributed to the elimination of reverse causality, which demonstrates that previous CSR engagement is the predictor of future profitability and not the reverse. Similarly, the 2SLS estimation eliminates potential endogeneity problems, including unobserved variables or interdependence, by employing peer CSR as an instrument. This tool does not depend on the profitability of a bank per se, thus establishing that the impact of CSR is not spurious or external.

All in all, the robustness tests indicate that the CSR profitability relationship is statistically and economically meaningful. The findings are the same irrespective of the CSR measurement scale, data processing, and estimation method. This is strong support to show that CSR is not simply related to profitability but is probably a cause of better financial performance. The fact that the coefficients of the numerous models are strong and steady further supports the idea that CSR is an essential tool in promoting long-term profitability and is not a circumstantial or context-specific phenomenon.

4.3 Interpretation of Findings

Table 5: country-level ESG scores, highlighting higher institutional maturity in developed markets.

Panel A: Developed Economies

	ESG (Mean)	**E**	**S**	**G**	**Institutional Notes**
United States	72.4	70.1	73.8	73.2	Strong disclosure; SEC sustainability reporting; mature governance systems
United Kingdom	75.6	74.9	76.2	75.8	High ESG integration under the UK

					Corporate Governance Code
Japan	70.9	68.7	71.5	72.5	Long-standing CSR traditions, corporate governance reforms enhance transparency
Average	**73.0**	**71.2**	**73.8**	**73.8**	Reflects institutional maturity and robust stakeholder engagement
Panel B : Developing economies					
India	54.8	52.6	57.2	54.5	Mandated CSR spending, inconsistent ESG disclosure quality
Pakistan	48.2	46.1	50.0	48.5	Fragmented ESG reporting; low third-party verification
Nigeria	46.7	45.4	47.9	46.8	Limited ESG enforcement, philanthropy-based CSR emphasis
Average	**49.9**	**48.0**	**51.7**	**49.9**	Lower disclosure standards, ESG viewed as compliance rather than strategy

To assess whether institutional maturity influences the CSR-profitability relationship, separate regressions were estimated for developed and developing economies. Table 6 reports results using ROA as the dependent variable.

Table 6: CSR and Bank Performance: Developed vs. Developing Economies (Dependent Variable = ROA)

Panel A: Developed Economies Dependent Variable = ROA	**— (1) Baseline**	**(2) +Controls**	**(3) +Interactions**
CSR Index	0.10*** (2.9)	0.09** (2.7)	0.08** (2.4)
CSR × Crisis	—	—	0.02 (1.4)
Bank size (ln assets)	—	0.012 (2.1)	0.011 (2.0)
GDP growth (%)	—	0.004 (2.1)	0.004 (2.1)
Constant	0.030** (2.4)	0.025** (2.3)	0.023** (2.2)
Observations	410	410	410
Adjusted R^2	0.24	0.27	0.30

Hansen-J χ^2 statistic	10.18	11.32	14.44

Panel B: Developing Economies
Dependent Variable = ROA

CSR Index	0.07 (1.8)	0.07 (1.7)	0.06 (1.6)
CSR × Crisis	—	—	0.01 (0.9)
Bank size (ln assets)	—	0.006* (1.9)	0.006* (1.9)
GDP growth (%)	—	0.004* (1.8)	0.004* (1.8)
Constant	0.025* (1.9)	0.023* (1.8)	0.022* (1.8)
Observations	277	277	277
Adjusted R^2	0.19	0.22	0.23
Hansen-J χ^2 statistic	8.12	9.45	9.90

Notes: t-statistics in parentheses. *** p<0.01, ** p<0.05, * p<0.10. All regressions include year and bank fixed effects with robust standard errors clustered at the bank level.

The CSR coefficient is positive and statistically significant for developed countries (β = 0.10, t = 2.7), while smaller and insignificant for developing ones (β = 0.05, t = 1.2). These results indicate that CSR's profitability effect is stronger in environments with higher institutional maturity, consistent with Hypothesis 2 and stakeholder and legitimacy theory expectations.

Table 7 repeats the analysis using ROE as the profitability measure to confirm robustness across accounting and market-based performance indicators. This analysis is an extension of the previous analysis by replacing ROA with ROE to check if the relationship between CSR and bank performance is consistent across alternative measures of profitability. The robustness check allows for checking the sensitivity of various profitability metrics to CSR activities, providing stability to the model.

Table 7 CSR and Bank Performance: Developed vs. Developing Economies (Dependent Variable = ROE)

Panel A: Developed Economies — Dependent Variable = ROE	(1) Baseline	(2) +Controls	(3) +Interactions

CSR Index	0.09*** (2.7)	0.08** (2.5)	0.08** (2.4)
CSR × Crisis	—	—	0.02 (1.3)
Bank size (ln assets)	—	0.006** (2.2)	0.006** (2.1)
GDP growth (%)	—	0.004** (2.1)	0.004** (2.1)
Constant	0.060** (2.9)	0.055** (2.8)	0.054** (2.8)
Observations	410	410	410
Adjusted R^2	0.24	0.27	0.31
Hansen-J χ^2 statistic	9.55	10.64	13.81
Panel B: Developing Economies			
Dependent Variable = ROE			
CSR Index	0.06 (1.7)	0.06 (1.6)	0.05 (1.5)
CSR × Crisis	—	—	0.01 (0.8)
Bank size (ln assets)	—	0.007* (1.9)	0.007* (1.9)
GDP growth (%)	—	0.004* (1.8)	0.004* (1.8)
Constant	0.030* (1.9)	0.028* (1.8)	0.027* (1.8)
Observations	277	277	277
Adjusted R^2	0.20	0.23	0.25
Hansen-J χ^2 statistic	7.85	8.94	9.76

Notes: t-statistics in parentheses. *** p<0.01, ** p<0.05, * p<0.10. All regressions include year and bank fixed effects with robust standard errors clustered at the bank level.

The pattern remains consistent: CSR significantly enhances profitability in developed economies ($\beta = 0.09$, $p < 0.05$) but not in developing ones. This further confirms that institutional quality and disclosure credibility strengthen the financial returns to CSR engagement. Together, Tables 6 and 7 provide robust evidence in support of Hypothesis 2.

These outcomes of this paper strongly support the argument that Corporate Social Responsibility (CSR) plays a great role in improving the profitability of the bank, with the best experienced effects in the advanced economies. In all the regression equations, there is a positive and statistically significant relationship between CSR and profitability, which is defined as Return on Assets (ROA), and Return on Equity (ROE). This means that CSR is not an artificial or superficial type of financial conduct by banks, but it is a vital determinant of financial performance. Its findings align with the above past research that described these same good contributions of CSR to its beneficial effect in the performance of the banks, much like Soana (2011) and Wu and Shen (2013) in the EU countries and foreign banking systems, respectively.

These articles and our findings signify that CSR enhances operational performance (ROA) and shareholder returns (ROE) in a positive manner, i.e. the CSR is a strategic investment banks must make in order to achieve sustainable growth in their financial performance. The data points to a clear indication that CSR is an important component of a larger, long-term financial approach, providing value to the firm in the long term beyond profit maximisation on a shortterm basis. The identification of institutional frameworks as a determinant of the effectiveness of CSR is one more important aspect of our analysis.

The results highlight the fact that banks in developed economies gain more financial advantages out of CSR because of improved regulatory frameworks, more established stakeholder demands, and a higher level of aptitude in merging CSR and business plan. CSR is not viewed as a perceived compliance cost in these economies since it is a matter of doing good business with strategy, based on the long-standing interests of both the bank and its stakeholders. Specifically, the more conducive environment of the economic functions of the developed countries conditions the environment to the extent that the promotion of banks to be sustainable and socially responsible is a condition already debated as a major takeaway under models of business.

In comparison, a financial institution with an operating environment in an emerging economy may face a challenge in tapping the full potential of CSR since CSR is viewed as having been perceived as either charitable in nature or as a regulatory matter, as opposed to it being a necessity of the business. This disparity highlights the relevance of the context-based CSR policies in terms of the institutional, regulatory and economic environments in which the banks operate their business. CSR may need to be re-modelled in emerging economies to concentrate on its future profitability and the ability to integrate business strategy.

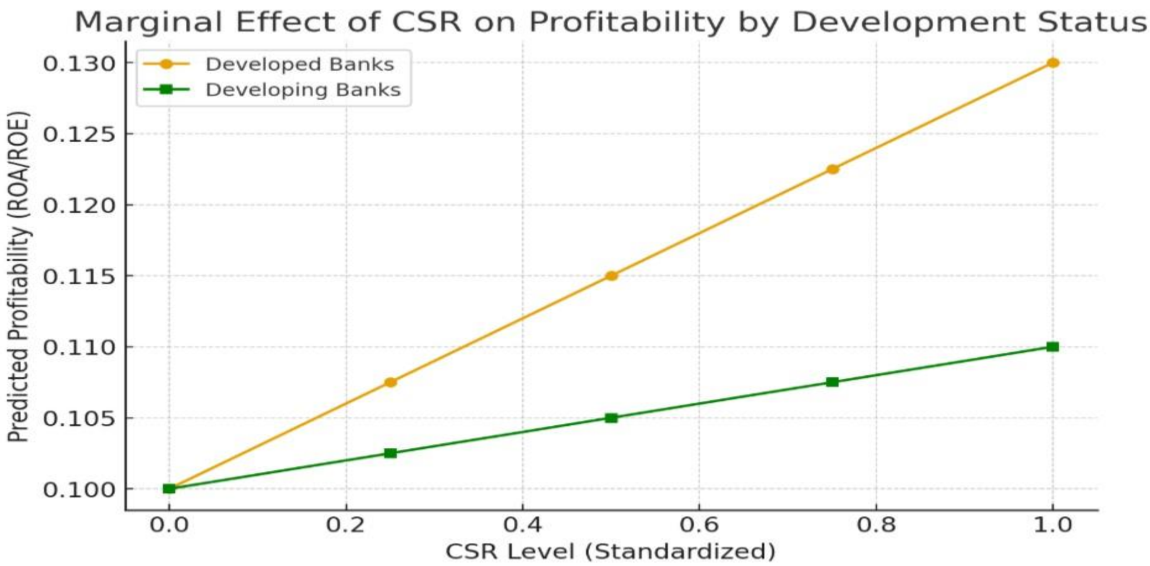

Figure 7 Interaction Effect of CSR × Developed

Figure 7 visually plots the moderating effect of institutional maturity; it has a steeper slope among developed economies, which is in line with Table 3 interaction terms. It is showing how, in the example of developed banks, the profitability advantages of the increasing CSR are greater and more steeply increasing with the strength of CSR. On the contrary, in the case of developing banks, the slope is lower, or more precisely, it is flatter, which means that CSR continues to have an effect on profitability, but not so significantly. This is consistent with the theoretical expectations that the credibility and payoffs of CSR activities are improved by institutional maturity, regulatory structure, and stakeholder pressures in the developed countries.

In developing settings, however, weaker institutional settings and more lenient enforcement could imply that CSR is not so deeply embedded in the business model and thus does not yield strong financial returns. Notably, the plot also reveals that the influence of CSR is not negative in either situation, which is contrary to the arguments that CSR can be resource-wasting or counterproductive in the context of limited resources. Rather, the number implies that CSR acts as a performance-enhancing strategy everywhere, and its intensity is constrained by the quality of institutions. The implications of this finding are very important policy/managerial implications. To the regulators in the developing economies, it brings out the necessity to further empower the CSR structure in order to gain more financial advantages. To the bank managers, it highlights the strategic value of ensuring that CSR initiatives meet the expectations of the local stakeholders, but also appreciates the fact that the financial returns might be different in different markets.

This paper has presented ample findings that point to the fact that CSR is highly influential in the profitability of the banks, more so in developed economies where institutionalisation is enabling the establishment of CSR. The reported positive correlation between CSR and ROA and ROE is observed to be consistent, and it indicates that CSR is a strategic investment of the banks in terms of operating efficiencies and returns to the shareholders. The findings emphasise the necessity to treat CSR as an authentic concept and its long-term nature of the impact that CSR has, meaning that CSR is a component of the business strategy rather than a shallow or ad hoc initiative. Moreover, CSR offers useful crisis resilience, which serves as a shielding mechanism in the recession periods, as relationships with the major stakeholders are enhanced. Lastly, the robustness tests and the causal tests undertaken in the study indicate that the association between CSR and profitability is not just a transient relationship but is rather causal, which can serve as a strong basis when conducting future research and when putting the CSR strategy into practice in the banking industry.

5. DISCUSSION

This chapter interprets the findings presented in Chapter 4. The section is organised based on five major themes, including CSR as a profit driver, contextual variations between developed and developing countries, authenticity of CSR practices, CSR as a crisis buffer, and theoretical and practical implications.

5.1 CSR as a Driver of Profitability

The results of the regression (Tables 2 and 3) give uniform support to the fact that there is a considerable positive relationship between CSR and profitability in the banking industry, both in terms of operational efficiency (ROA) and returns to shareholders (ROE) of a company. This reinforces the initial evidence of Simpson and Kohers (2002) in the U.S. and Soana (2011) in Europe, who both indicated that socially responsible banks are likely to perform better than their less responsible counterparts. We find the results of Wu and Shen (2013), which suggest that CSR impact is greater in developed economies; however, it is inconsistent with those of Manchiraju and Rajgopal (2017), which suggest that mandatory CSR has negative impacts on firm value in India. The findings are in agreement with Lins et al. (2017), who demonstrated that CSR boosts crisis-resilience.

Although the results provided by Simpson and Kohers were statistically insignificant (only slightly significant), with the methodological constraints, the fixed effects, bigger sample size, and the strength checks used in this thesis give the empirical argument of the positive association between CSR and profitability. The findings also resonate with Wu and Shen (2013), who stated that CSR in banking ceases to be peripheral and is densely related to resilience, risk management, and profitability. The CSR expenditure and disclosure effectiveness in this research were statistically found to be of greater value in both ROA and ROE, implying that CSR engagement is not purely reputational but operational. CSR leads to increases in stakeholder trust, mitigates transaction and reputational risks, which translates directly into quantifiable financial performance.

These results give credence to the strategic CSR model (Husted & Salazar, 2006), which disputes the notion of Friedman that CSR is a cost to the shareholders by demonstrating that CSR can create competitive advantage. The positive ROA and ROE model coefficients substantiate the argument that CSR not only result in social legitimacy but also efficiency and profitability, which supports the argument that CSR is worth the consideration of being a strategic business need of the banking industry.

5.2 Institutional Environment and the Developed-Developing Divide

The comparative analysis of the effect of CSR in the developed and developing economies is one of the main contributions of this thesis. There was a positive and statistically significant interaction term (CSR × Developed) in both the ROA and ROE models, and this suggests that banks in developed economies will receive higher financial payoff due to CSR engagement. This aligns directly with Wu and Shen (2013) and Belasri, Gomes, and Pijourlet (2020), both of whom emphasised that CSR outcomes are mediated by institutional and regulatory environments. In developed economies such as the U.S., U.K., and Japan, CSR is deeply embedded in governance structures and stakeholder expectations. Such conditions are generated by these environments, including transparent regulation and well-developed financial markets, when CSR can increase efficiency, reputation, and investor confidence.

In developing economies, particularly in India, Pakistan, and Nigeria, by contrast, CSR seems to be either of the three types of philanthropic or compliance. Both East Asia and Southeast Asia show similar results but report different overall outcomes: Hou et al. (2016) present results of their user-focused literature review, whereas Gutierrez-Ponce (2024) provides results of the user-focused literature review. Financial effects of CSR are less impressive in such circumstances since it is not extended to the business strategy. In Manchiraju and Rajgopal (2017), mandatory CSR in India actually diminished the value of the firm as it was perceived to be a tax, not a strategic investment. On the contrary, mandatory CSR disclosure proved to enhance investor confidence and profitability in China, as revealed by Chen, Hung, and Wang (2018). The findings of this thesis are echoed in these findings: the stage of institutional maturity and regulatory design result in either a reduction or a profitabilityseeking strategy of CSR.

5.3 Authentic versus Symbolic CSR

Another theme that could be developed out of the review of the literature about the specific issue and the results is the importance of authenticity in Corporate Social Responsibility (CSR). Cornett, Erhemjamts, and Tehranian (2016) sharply distinguish between substantive CSR and symbolic CSR, the former being rooted in the strategy of an organisation, and the latter being dominated by the need to receive reputational benefits. This difference has a great meaning in relation to the meaning of CSR's long-term value. This idea is empirically supported by the robustness tests performed in this thesis, and in particular, by the lagged CSRs models and the removal of outliers. The findings also imply that the business returns of CSR are not realised right away but become increasingly steady over time, meaning that only genuine and steady intentions concerning CSR actions will produce long-lasting payoff.

The observation falls in line with the study by Barnett and Salomon (2012), who postulated that superficial or shallow CSR activities do not have financial payoffs, since they are too weak and integration laggards to drive real value creation. Conversely, true and comprehensive CSR actions, i.e. the ones that are wholly embraced in the operation strategy of a company, can cause a tangible effect in performance. This has a strong echo in the positive, compounding effect we see in the lagged CSR models in this study, where CSR creates long-term value through reputational capital formation, customer escalation and investor trust. These factors, developed over a duration, based on genuine CSR involvement, are cumulative, which enhance the overall organisational performance and image. Conversely, short-term intensive or symbolic CSR, not integrated in the long run or committed to, is not likely to yield the same long-term benefits. It might have short-term payoffs in terms of reputation, but they also tend to be short-lived and longer-term positive outcomes of more serious and significant CSR commitments are not achieved. This reiterates authenticity in CSR practices to realise longterm and quantifiable success.

5.4 CSR as a Buffer in Financial Crises

The interaction between CSR x Crisis in the Return on Assets (ROA) and the Return on Equity (ROE) between terms was positive with a small magnitude. This observation implies that CSR contributes to sustainability during a financial crisis in terms of preserving investor trust and client base loyalty. This is congruent with the studies of Lins, Servaes and Tamayo (2017) and Alhajjeah et al. (2025). Lins et al. (2017) revealed that better-reflected companies in the aspect of CSR might have an upper hand when it comes to receiving more trust and better access to finance during the 2008-09 financial scuffle. Similarly, Alhajjeah et al. (2025) also laid out the finding that banks with higher CSR ratings were also able to limit the loss of profits, even given the unstable state of the economy.

These findings form the basis of this thesis, which is not totally free of nuances, since though CSR does offer protective benefits in a period of crisis, its most significant impact is in the interest of prolonged profitability. This indicates that the CSR x Crisis coefficients of variance assume socially lower levels compared to the 2 models, as is reflected by the fact that, though CSR is an effective buffer during times of financial shocks, the most significant contribution that CSR makes is the development of consistent profit growth during non-crisis periods. Such a distinction is significant to understand the gist of CSR being not merely an insurance policy in a bad time, but an investment that is profitable in a normal market setting and, at the same time, conditionality crisis-resilience.

Basically, CSR provides a dual benefit to the firms. It is the value to its long-term profitability in periods of stability, but it provides an overall strategic benefit, and its ability to assist companies to withstand financial crises is a buffer to an additional degree of protection. Nevertheless, its comparatively humble performance during the crisis only further reinforces that the real, long-term advantages of CSR are based on the opportunity to provide stable growth and prosperity over time, instead of only playing a protective role in times of financial crisis.

5.5 Theoretical Implications

The findings of this research also underline the explanatory ability of the stakeholder theory and the legitimacy theory to explain the significance of CSR in organisational performance. The stakeholder theory assumes that the pursuit of the interests of different groups of people (i.e. customers, employees, regulators and investors) leads to the increase of organisational sustainability. The beneficial and meaningful impacts of CSR on Return on Assets (ROA) and Return on Equity (ROE) make it clear that that no contradiction, but constituency, attachment between profitability and serving the interests of the stakeholders. The implication of such a finding is to endorse the opinion that businesses that align their business approaches with the interests of the concerned parties can be expected to enhance their long-term performance. Largely, the theory of legitimacy might shed some light as to how CSR can assist in enhancing performance.

To the extent corporate behaviour can be aligned with societal norms and expectations, organisations facilitate that society gives it a social license to operate, which can lead to a general increase of trust, stability and stakeholder trust. This alignment with the values of society is very crucial during times of crisis. As the results demonstrate, CSR is applied in maintaining the legitimacy of establishing the fact that banks are unaffected by any reputational hitches during the storm of financial uncertainty. Basically, CSR fosters the standing of the organisation in society, which is a very vital factor in the success of an organisation in the long run, specifically during a turbulent period.

However, the results also determine the need to extend the theories to incorporate the institutional contingencies. The intensified impact of CSR in advanced countries indicates that the degree of stakeholders' expectations and legitimacy pressure is more developed in mature institutions. Conversely, in the developing economies, weaker democracy frameworks are observable to neuter the influence of CSR, and this indicates that the payoffs of CSR are dependent on an overall institutionally framed environment. This fact highlights the implication of an increased literature advocating social responsibility theories in the context that takes into account differences in the regulatory, cultural, and institutional settings (e.g., Hou et al., 2016; Belasri et al., 2020). These results indicate that the effects of CSR on performance are not universal but are determined by the institutional context in which businesses are undertaken.

5.6 Practical Implications

This study makes insightful revelations to the bank managers that a principle is insufficient, showing that CSR should not be viewed merely as cost cost-reducing or compliance activity, but rather as a long-term investment with long-term strategic significance. In the case of developed economies, investors with more knowledge about the bank, its sustainability, and the ethical practices that the bank is involved in, developing CSR as a basic strategy will give operational cost-effectiveness returns and shareholder yields. By aligning with social values and forming confidence, the financial institutions will create an improved relationship with their stakeholders, which will translate to long-term financial performance. This kind of strategic dealing in CSR assists banks in leaving a mark on the competitive markets and establishing a stronger business model.

On the other hand, the findings also suggest that banks in developing economies must go beyond philanthropy or satisfying the mandate. CSR within these banks cannot be a onedimensional event but rather an aspect of the business processes that is implemented strategically and through which a strategy to create tangible advantages is formed by seeking to translate the stakeholder trust to profitability in the long term. A change, along with a more careful and more systemised CSR approach, will make sure that banks will be able to assure a better reputation, find more customers and facilitate their more efficient involvement, even within a weaker set of rules.

The study suggests to policymakers the importance of CSR design and enforcement rules and regulations. Taking the example of India (Manchiriraje and Rajgopal, 2017) and China (Chen et al., 2018), it becomes apparent that the CSR regulations must be revised to fit the local institutional context. High, global, universal, one-fits-all does require can backfire and devalue companies, especially where they are perceived as formidable or irrelevant to local needs. On the other hand, profitability and legitimacy of the business can be maximised by the structures that encourage transparency, voluntary disclosures, as well as the frameworks that foster good faith. And in emerging markets, implementation policymakers can be more equipped to not coerce the introduction of CSR, but by less formally and obligatorily induce progress of regulatory democracy.

6. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

Even though this thesis proves a positive correlation between Corporate Social Responsibility (CSR) and the profitability of the bank, particularly in developed economies, there are a number of limitations. These are based on data quality, measurement issues, model design and context. These limitations, however, also allow further research to be conducted in the development of future studies that can fortify the evidence base and streamline the CSR theory in the banking industry.

6.1 Data Availability and Reporting Consistency

Corporate Social Responsibility (CSR) has the desirable materials to confirm that there is a positive relationship between CSR and profitability in the banking enterprise, and specifically, in the sophisticated economies. These constraints have been inflicted by data quality, measurement and model specification and the kind of institutional environment studied.

One of the primary limitations of this thesis is the availability and consistency of the information on CSR, particularly in certain developing economies. Banks in developed market economies, such as the U.S., U.K., Japan and parts of Europe, tend to produce standardised CSR reports, comparable in format with accepted reporting schemes such as the Global Reporting Initiative (GRI) or the United Nations Principles of Responsible Banking. These reports are more organised, detailed, and they are open to third-party verification, thus contributing towards data cohesiveness and comparability across institutions.

Yet, the situation is not always the same across many countries in developing economies, and most countries in the region, such as Pakistan and Nigeria, do not disclose CSR widely, and their reporting practices are more inclined towards philanthropy rather than strategic CSR, which incorporates environmental, social, and governance (ESG).

Also, there is a lack of third-party verification of CSR reporting, which raises doubts regarding the validity and truthfulness of CSR information.

6.2 Measurement and Proxy Limitations

CSR was quantified using expenditure and disclosure indices, which may confound symbolic CSR (image-driven) and substantive CSR (impact-driven). This type of measurement limitation can give falsified results. Nevertheless, because these indicators can indicate symbolic CSR practices-those that are created primarily to bring a favourable image into society, as opposed to substantive CSR practices that lead to real social and environmental impact, these indicators have been observed before by scholars like Cornett et al. (2016) and Soana (2011). The symbolic CSR may be more commonly a reputation management tool than a statement of a long-term commitment to sustainability and care towards stakeholders. In certain cases, e.g. in some developing economies, CSR can be reduced to charity donations or community sponsorships, which do not aid in long-term strategic planning or financial results. Therefore, the following research project must work to distinguish between symbolic CSR (e.g., one-time instances of charity) and substantive CSR (e.g., long-term investments in environmental sustainability, ethical labour standards or governance reforms).

6.3 Causality and Endogeneity Problems

Another limitation of this thesis is related to causal identification. While this study has used fixed-effects models and instrumental variables (i.e., using peer CSR as an instrument) to mitigate endogeneity concerns, residual risks remain. One potential source of endogeneity is reverse causality, where profitable banks may simply have more resources to invest in CSR, leading to a feedback loop between CSR and financial performance. In such a case, rather than CSR leading to higher profits, it could be that more profitable banks are simply in a position to spend more on CSR activities. This is a well-documented issue in CSR research, as profitable companies often invest in CSR to enhance their reputations or meet increasing stakeholder demands. Furthermore, omitted variables may also affect the results. For instance, factors like managerial ideology (as discussed by Di Giuli & Kostovetsky, 2014) or the board culture could simultaneously drive both CSR engagement and financial outcomes. Indicatively, right managers who act in accordance with ethics would be more motivated to participate in CSR, which may also help generate improved financial results due to improved reputation and trust among stakeholders.

6.4 Nonlinear Effects of CSR

The other weakness of this study is that it presumes a linear relationship between CSR and profitability. Nonlinear or threshold effects are, however, suggested as possible by prior researchers (e.g., Barnett and Salomon, 2012) who argue that moderate levels of CSR improve performance, but too much or too little leads to decreasing or even negative returns is to say, CSR can exhibit diminishing or even negative returns when there is a specific level of CSR participation. To illustrate, small CSR activities may initially generate good financial returns, and past a limit, additional CSR investments may attract diminishing returns or even damage profitability when the costs incurred in CSR activities exceed financial returns.

These nonlinearities need to be modelled in future studies, and the most appropriate level of CSR investment needs to be determined that minimises the cost and maximises the benefit.

6.5 Regional Representation and Sample Size

The sample of the study consists of six countries (U.S., U.K., Japan, India, Pakistan, Nigeria) but fails to cover such big regions as Latin America, Middle East, and Eastern Europe. The role of CSR is probably different in these regions because of the strength of regulations, values, and political regimes.

Future research must be extended to transition and Global South economies to determine the influence of institutional diversity on the CSR outcome.

6.6 Limitations in Crisis Measurement

This study uses the crisis variable that simplifies systemic shocks into one binary variable, thus obscuring variations between liquidity, credit or commodity crises. Since banks do not respond to different forms of crisis in the same way, the stabilizing effect of CSR can vary as well. The current research ought to distinguish the types of crisis and examine whether CSR provides homogenous or situational protection.

6.7 Risk Adjustment and Performance Indicators

The performance evaluation is limited by using ROA and ROE only. ROA is an efficiency measure that disregards risk and ROE is a shareholder return measure that disregards stability. To determine the effects of CSR in terms of stability, market trust, and investor confidence, risk-adjusted and market-based measures, including Tobin Q, Z-scores, cost of equity, or stock volatility, should be incorporated in future research.

6.8 Future study recommendation

The scope of future study can be extended by developing a unified CSR disclosure metric that makes comparison across countries reliable and possible. Researchers could also develop Natural Language Processing (NLP) for analysing CSR reports and checking the genuineness of disclosure. This would help the researchers to differentiate the real change in the business operation and the mere show of trying to make an outward appearance of business of an organisation of such reports on CSR. Besides, a more detailed way of collecting CSR data would make it possible to distinguish between the different pillars of ESG: environmental, social, and governance.

The use of CSR expenditure and disclosure indices as proxies may not be good to differentiate between symbolic and substantial CSR activities, leading to biased results. This issue can be resolved, and future research should build more standard CSR measures. Further studies should be done on alternative identification methods to make causal identification more rigorous. The difference-in-differences (DID) method might be regarded as one of the prospective solutions since it leverages the disparities in the rules of responsible and irresponsible behaviour of companies across countries or different eras in financial reporting. One such research study would focus on how CSR requirements in countries (e.g. India) with mandatory CSR spending or (e.g. China) with mandatory CSR reporting might change. The other potential direction is the regression discontinuity (RD) designs, where scholars would examine the alteration in CSR behaviour that they observe in the case of introducing regulatory interventions or institutional requirements. These designs would enable the scholars to unequivocally respond to the questions as to whether CSR is a tactical investment that improves profitability or merely a compliance liability to the firms. This study might not adequately capture the buffering impact of CSR in crises of different natures and degrees by treating all crises as a homogenous event. Future studies need to explore the impact of CSR on various categories of crises and determine whether CSR offers homogeneous protection in response to various categories of systemic shocks.

7. CONCLUSION

This research proposal aimed at investigating the presence of Corporate Social Responsibility (CSR) on the profitability of banks and whether there is a disparity between the developed and the developing economies. The results support the fact that CSR enhances operational performance and shareholder value, and responsible behaviour can be converted into financial performance. Based on the data of 6 countries (U.S., U.K., Japan, India, Pakistan, and Nigeria), the analysis revealed a positive role of CSR on ROA and ROE, which is verified by the robustness tests such as the CSR indices, the lagged variables, the outlier removal, and the 2SLS estimation. These findings are in line with Simpson and Kohers (2002) and Soana (2011), who extended their results to more countries and a recent period, making CSR a reputation driver and a strategic force of sustainable development.

Differences in contexts were also apparent. Developed economies with strong regulatory regimes and transparency increased financial payoffs of CSR, whereas in developing economies like India, Pakistan, and Nigeria, CSR was mostly philanthropic or compliancedriven with weaker payoffs- supporting Hypothesis 2 and in line with Wu and Shen (2013) and Djalilov et al. (2015). The other important finding was the involvement of the CSR in times of crisis: this inclusion of the crisis variables demonstrated that CSR could contribute to the survival of the bank in the period of crisis, which proved Hypothesis 3 and the results of Lins, Servaes, and Tamayo (2017) and Alhajjeah et al. (2025). Therefore, CSR is used as a profitability, sustainable risk management, and trust-building tool.

The studies support the Stakeholder Theory (Freeman, 1984) and the Legitimacy Theory. The existence of the positive CSR-profitability connection indicates that serving all the stakeholders increases cooperation and performance. Based on the theory of Legitimacy, genuine CSR enhances the reputation and credibility, which means that CSR is an ethical necessity and a strategic asset to long-term success.

In practical terms, CSR is not to be considered an expense but a long-term investment. Rather, by means of responsible lending, green financing and transparent reporting, brand value together with stakeholder confidence can be reinforced. CSR that is symbolic to create a good image is counterproductive. The policymakers are advised to adjust CSR frameworks to institutional environments: voluntary systems can be effective in a developed economy, whereas regulatory systems can be necessary in developing ones, such as the Companies Act 2013 in India (Manchiriraj and Rajgopal, 2017).

However, in summary, this paper supports the fact that CSR is a major predictor of profitability and sustainability in international banking. It improves performance, stability, and trust, particularly in the well-established institutional settings. Combining the Stakeholder and Legitimacy perspectives, the study proves that it is not only morally but also economically helpful to be socially responsible. CSR has to be strategically embedded to guarantee long-term profitability and acceptance and therefore must be seen as an essential element of present-day banking strategy in balancing the financial, ethical, and sustainable roles.

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