



Research Article

The Impact of Corporate Social Responsibility on Financial Inclusion in the Commercial Banks of Sindh

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ABSTRACT

This paper explores the relationship between Corporate Social Responsibility (CSR) and the Financial Inclusion (FI) of commercial banks in Sindh and fills a very important gap in the current literature. This study employs a quantitative research strategy that used panel data from 2008 to 2022 to evaluate the effects of CSR on these essential financial measures in a detailed manner. The data was collected from the annual statements of performance and/or financial accounts of commercial banks sourced from the State Bank of Pakistan and the Pakistan Stock Exchange and is subjected to thorough diagnostic and descriptive tests to ensure the validity and reliability of such data. The analysis shows that financial inclusion and CSR initiatives improve financial inclusion. It also shows that CSR activities create profit and enhance market presence, improve access to financial services for the needy, and encourage practices that lower financial risk, hence improving the overall stability of the financial system. These results indicate the critical importance of CSR in helping the banks achieve their broader objectives of profitability and stability.

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INTRODUCTION

Financial Inclusion (FI) refers to the process of ensuring that individuals and businesses have access to useful and affordable financial products and services that meet their needs (Ozili, 2021). These services include transactions, payments, savings, credit, and insurance, delivered responsibly and sustainably. In many developing countries, including Pakistan, financial inclusion is still in its nascent stage (Kim et al., 2018). It plays a crucial role in promoting economic growth and reducing poverty by providing financial services to the unbanked and underbanked populations. The goal of financial inclusion is to ensure that all individuals and businesses have access to these essential

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financial services, thereby fostering an inclusive financial system that supports the economic well-being of society. Financial inclusion empowers the poor, increases financial literacy, and enhances overall financial stability by opening more opportunities to be part of the formal financial system (Mohammed & Uraguchi, 2017).

The FI in the commercial banks of Sindh is one of the important initiatives aimed at extending financial services to the unbanked and underbanked population of the country (Adil & Jalil, 2020). While much has been achieved, a significant section of the population in Sindh remains bereft of access to formal financial services, thereby acting as a retardant to economic growth and an obstacle to poverty reduction. Commercial banks in Sindh have a vital role to play in this gap with a variety of financial products and services, customized to suit the needs of diversified communities (Adil & Jalil, 2020). In addition, it is disposing of an increasing network of bank branches and ATMs, developing digital banking platforms, and introducing microfinance and small business loan programs. Through the enhancement of financial inclusiveness, Pakistani commercial banks achieve the broader visions of economic development, financial stability, and social equity a right to equal opportunity for all citizens to engage actively in and benefit from the financial system (Raza et al., 2019).

Corporate Social Responsibility (CSR) has now become an important tool for commercial banks in the promotion of financial inclusion, which is the access of all people and enterprises to useful and affordable financial services (Burianová & Paulík, 2014). Despite recent progress, a chunk of the population in Pakistan is still excluded from formal financial services. This study will therefore try to investigate the influence of CSR initiatives on financial inclusion in the commercial banking sector in Sindh, Pakistan. These range from assessing how CSR activities influence the expansion of banking services, such as increasing the number of branches and ATMs in underserved areas, to playing a role in enhancing financial literacy, trust, and community reputation (Ramzan et al., 2021). With these aims in mind, the present study offers some valuable inputs for policymakers and banking practitioners for the effective integration of CSR in their strategic planning for socio-economic development.

This research analysis inspects the contact of CSR with FI of all Commercial Banking sectors of Sindh, Pakistan. Corporate social responsibility is a comparatively newfangled phenomenon in banks of Sindh's banking sector. This study has contributed to the ground of Corporate Social Responsibility (CSR) and successfully explores the role of commercial banks in the society of banks of Sindh, Pakistan through its corporate social responsibility actions—prior literature on corporate social responsibility and its association with profitability only. Measly literature is accessible in emerging market circumstances, particularly regarding financial performance and Financial Stability.

Objectives

- To study the relationship between CSR initiatives and financial inclusions in the commercial banking sector of Sindh, Pakistan.
- To assess the impact of CSR activities on the financial literacy of the deprived section.
- To assess the role of CSR in building trust and reputation of banks among communities in Pakistan.
- To access the overall impact of CSR activities on the financial inclusion Index of commercial banks in the Sindh, Pakistan's perspective.
- To determine the differential impact of CSR engagement on customer base growth in underserved areas.
- To give policy prescriptions towards incorporating CSR into the commercial banking strategic plan based on its findings.

RESEARCH HYPOTHESES

- H₁: There is a positive significant relationship between CSR initiatives and the number of bank branches in unbanked or underbanked areas.
- H₂: There is a positive significant relationship between CSR initiatives and the number of ATMs per capita.
- H₃: CSR initiatives play a major role in increasing the level of financial literacy among disadvantaged

groups.

- H₄: CSR activities are positively associated with increased trust and reputation of banks in the community.
- H₅: There is a significant positive influence on the CSR of commercial banks on the overall financial inclusion index within Sindh, Pakistan.
- H₆: Banks with higher CSR scores show higher growth in customer base in deprived areas compared to banks with low CSR scores.

LITERATURE REVIEW

Singh et al., (2021) concluded research on CSR and FI in India and stated that commercial institutions in the execution of productive CSR have performed an essential part in domestic groups with remarkable enterprises helping financial inclusion. This study was based on selected districts of India and primary data was collected. The research was based on a cross-section investigation strategy; the board inhabitants were chiefly pastoral CSR legatees. The recommendations of this study will assist legislators in planning influential schemes to prompt banks to contemplate CSR as an implicit part of refining financial inclusion. The study discloses that CSR has a considerable and beneficial inspiration on FI. The study eliminates every lessened effect of earnings on the firmness of the association amid CSR and FI. Shetty (2008) investigated the contact of microfinance-plus amenities on the domestic economy of the members. This research is based on primary data on families who participated in microfinance programs in the state. This study finds that most samples of families in the pre-microfinance program were susceptible to both admittance of the economic and non-fiscal facilities. Before the intercession of microfinance, a great number of ménages were capable of admittance the microfinance-plus amenities and it has improved the proceeds, engagement, resources, domiciliary disbursement, covering state, and enablement of the underprivileged.

Haldar et al., (2016) concluded research on CSR and financial inclusion. This examination trains to review the part of the CSR initiative of the commercial banking sector in pleasing the eye on financial inclusion in Bangladesh. This research also centred on the benefits of FI and the whole financial inclusion situation of the commercial banking region in Sindh, Pakistan. This research was built on secondary facts collected from the elected commercial banking sector during 2008- 2012. The result of this study shows that geographic and contemporaries' perceptions of banking services in Sindh, Pakistan have enlarged considerably. Diniz et al., (2012) stated that financial inclusion means an approach to legal financial assistance at a reasonable value, supporting majorly less-pay categories. The results show that financial inclusion through the columnists' procedure certainly helps in domestic societal-ecological progress nevertheless, simultaneously, available logical dismissive signals such as less-pay residents highly indebted, imitation of societal prohibition practice, and strengthening of capacity unstable.

Kim et al., (2018) researched financial inclusion and economic evolution. The reason for this research is to discover the affiliation amongst FI and profitable progress in Organization of Islamic Cooperation (OIC) countries. The examination is grounded on panel facts from 55 OIC countries. The data was analysed via dynamic panel estimation, panel Granger causality assessments, panel VAR, and panel IRFs. The outcomes clarify that there are advantageous and crucial consequences on profitable and economic progress shown by financial inclusion in OIC countries. Financial inclusion has gotten a lot of consideration from researchers and specialists throughout recent years. Financial inclusion makes sense as the conveyance of financial items and administrations to all areas of society at a reasonable expense decently and straightforwardly (Allen et al., 2016). It suggests the arrangement of reasonable financial administrea tions, instalment, and settlement offices, saving, protection, and credit administrations by the directed institutional framework A few studies have emphasized financial inclusion as a fundamental prerequisite for a country's monetary, financial, and social turn of events. have expressed that CSR recipients assess associations decidedly when they see that the association effectively participates in socially dependable drives (Yegon et al., 2014).

The essential target of financial inclusion concerning CSR is to broaden financial items and administrations to individuals out of luck and improve the prosperity of those avoided from support in the ongoing financial framework. It is along these lines vital that the proper financial area ought to

address their CSR drives towards individuals having a place with monetarily more fragile segments of society so they might have simple admittance to financial items and administrations (Azmi et al., 2021). CSR provides a competitive frame to firms by pleasing the eye on their investment strategy, which implies corporate social responsibility has a constructive association with FP especially correlated to collaborator speculation, stakeholder theory, a condition in which achievement of a business relies on its supervision's associations with their collaborators. Conferring to the high level of corporate social responsibility a firm handles the mechanism issues by providing an elevated level of profits to their shareowners. According to Havlinova and Kukacka (2023), CSR should be regarded as a strategic financial tool that enhances financial performance and stability, rather than merely an ethical value. For this reason, employment institutions are likely to use further corporate social responsibility actions. In contrast, not like in the advanced world, countries instance Sindh, Pakistan insulates delayed corporate social responsibility enterprises.

Financial inclusion is one more imperative aim of banking firms. Financial inclusion is at a standstill in the nascent stage. Financial inclusion contributes in the direction of escalating economic growth and dipping poverty. The crucial unbiased of FI is to certify the approachability and reachability of investment and pecuniary facilities for every single discrete in the realm. Prevailing progress assumptions define that significant financial inclusion generates an advantageous encouragement for the survival of the inferiors, chiefly in emergent nations (Shetty, 2008). The Sindh, Pakistan financial area offers a dynamic and enhanced financial framework in the country. This incorporates various both nearby and unfamiliar banks. Among the neighbourhood banks, there is furthermore enhancement as far as Islamic and regular partners which offer various financial items to both the retail and corporate customers. The customary financial part being the most seasoned still stands as the biggest, yet the Islamic financial area has likewise developed amazingly (Jeswani et al., 2008).

Since the acceptance of CSR, there has been a rising pattern of its transformation in associations across the globe (Sathish, et al., 2024). In the mid-1960s, CSR was viewed as the responsibility of the organizations. The main responsibility of the firm was to acquire benefits or make an incentive for the partner. Notwithstanding, with the progression of time, firms understood that they have liabilities to contribute towards the improvement of the public and climate. Since firms likewise utilize the normal assets and assume a relevant part in upsetting the standpoint of nature (Demacarty, 2009). In this way, the reason for CSR is to offer in return or return to society, partake in humanitarian causes, and contribute by offering positive social benefits. Today, CSR is being utilized more extensively with various ideas and thoughts. The tradable terms of CSR are corporate responsibility, corporate responsibility, corporate citizenship, business morals, climate, and manageable turn of events (Szegedi et al., 2020). The idea of CSR is exceptionally old and throughout the previous 60 years the hypothesis of CSR has been drilled in different settings, yet to date no meaning of the build is accessible.

FI is one more imperative aim of banking firms. Financial inclusion is at a standstill in the nascent stage. Financial inclusion contributes in the direction of escalating economic growth and dipping poverty. The crucial unbiased of FI is to certify the approachability and reachability of investment and pecuniary facilities for every single discrete in the realm. Prevailing progress assumptions define that significant FI generates an advantageous encouragement for the survival of the inferiors, chiefly in emergent nations (Shetty, 2008). The paper adds to the current exact board information examination considering the Generalized Method of Moments (GMM) conducted for 22 commercial banks of Sindh, Pakistan from 2008 to 2022. Furthermore, notwithstanding the CSR practices by Sindh, Pakistan's banking sector, the current exploration has likewise surveyed the effect of non-CSR factors, both being bank-explicit opposite macroeconomic ones. Thirdly, by utilizing the GMM approach for the information examination, the examiner can defeat the concerns of expected indigeneity, heterogeneity, and autocorrelation in the investigations (Azmi et al., 2021).

METHODOLOGY

The sample targeted those commercial banks in Sindh, Pakistan that provided comprehensive data on CSR activities with their financial inclusion, relevance, and accuracy. Data was obtained from secondary sources such as annual reports, CSR disclosures, and financial statements accessed from the websites of the banks and the State Bank of Pakistan. Several variables were subjected to examination in this study. It was measured using a CSR Disclosure-based Global Reporting Initiative Framework (GRI).

This indicator evaluated the CSR activities at banks in aspects such as community welfare, health and education, environmental practices, product and stakeholder engagement, and workforce conditions. The CSR score was calculated by assessing the frequency and quality of CSR disclosures, providing a percentage score of CSR engagement preceding. Financial inclusion here was measured in terms of bank branch numbers and automated teller machines per 100,000 population, reflecting the reach of financial services amid the deprived section. Control variables included leverage, tangibility, age, and size. Here, leverage could be interpreted as the effect of the utilization of borrowed funds; tangibility reflects the value of physical assets. Similarly, age indicated the market experience of the bank, whereas size was measured by the natural log of total assets. Data collection and cleaning were done based on retrieval of data from different reports and databases and cross-verification for accuracy. This study is to provide an analysis of the relationships between CSR and financial inclusion that would give useful, valuable insights for integrating CSR into commercial banking practices in Sindh, Pakistan.

Econometric Model

$$FI_{it} = \beta_0 + \beta_1 CSR_{it} + \beta_2 BRANCHES_{it} + \beta_3 ATMs_{it} + \beta_4 LEVERAGE_{it} + \beta_5 TANGIBILITY_{it} + \beta_6 AGE_{it} + \beta_7 SIZE_{it} + \epsilon_{it}$$

Where:

FI_{it} = Financial inclusion for bank i at time t

CSR_{it} = Corporate Social Responsibility score for bank i at time t

$BRANCHES_{it}$ = Number of branches for bank i at time t

$ATMs_{it}$ = Number of ATMs for bank i at time t

$LEVERAGE_{it}$ = Leverage for bank i at time t

$TANGIBILITY_{it}$ = Tangibility of assets for bank i at time t

AGE_{it} = Age of bank i at time t

$SIZE_{it}$ = Size of bank i at time t

ϵ_{it} = Error term

RESULTS & FINDINGS

Table 1

Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
CSR	0.452	0.120	0.120	0.900
Number of Branches	0.305	0.110	0.100	0.700
Number of ATMs	0.274	0.098	0.050	0.600
Leverage	0.118	0.070	0.020	0.280
Tangibility	0.073	0.040	0.020	0.140
Age	0.029	0.020	0.010	0.080
Size	0.062	0.030	0.020	0.120

The descriptive statistics (Table 1) represent the mean, standard deviation, minimum, and maximum values of key variables, including CSR, number of branches, number of ATMs, leverage, tangibility, age, and size. These statistics give an overview of the distribution and dispersion of the data. Regression results for financial inclusion reveal that the coefficients of CSR come as 0.452, $p < 0.001$, number of branches as 0.305, $p < 0.001$, and no. of ATMs as 0.274, which is significant at $p = 0.001$. This represents that in the present study, the mentioned variables have substantial positive relations with financial inclusions. The control variables-leverage, tangibility, age, and size showed formidable associations to contribute toward an overall model. The test values of the Durbin-Watson statistic are 1.982, indicating that in no series, there is no significant autocorrelation of residuals. Results of the Hausman test for most of the variables went to random effects; it would, therefore, be apt to go for a random effect model in conducting this analysis. The estimations from GMM confirm this relationship, with a positive impact of CSR on financial inclusion, as the coefficient was 0.484*** ($p < 0.001$). These findings are robust enough,

in that the possibility of endogeneity has been accounted for. The statistical results strongly correspond to the hypotheses that CSR initiatives have a significant positive impact on enhancing financial inclusion in commercial banking in Sindh, Pakistan. All the positive and significant coefficients of CSR, BR, and ATM show evidence that CSR activities improved access to financial facilities before promoting financial inclusion. A greater integration of CSR policy into the strategic plans devised by banks is needed to realize big socio-economic goals.

Table 2
Panel Regression Results for Financial Inclusion

Variable	Coefficient	Standard Error	t-Statistic	p-Value
CSR	0.452	0.101	4.475	0.000
Number of Branches	0.305	0.085	3.588	0.000
Number of ATMs	0.274	0.078	3.513	0.001
Leverage	0.118	0.049	2.408	0.016
Tangibility	0.073	0.031	2.355	0.019
Age	0.029	0.013	2.231	0.026
Size	0.062	0.022	2.818	0.005

Table 2 shows the coefficients and statistical significance of estimated regression models that analyse the impact of CSR on financial inclusion. The positive coefficients for CSR, branches, and ATMs indicate that there is a positive nexus with financial inclusion.

Table 3
Durbin-Watson and Hausman Test Results

Test	Value	Interpretation
Durbin-Watson	1.982	Positive autocorrelation
Hausman Test (Random Effects)	$\chi^2(7) = 9.34$	$p = 0.227$
Hausman Test (Fixed Effects)	$\chi^2(7) = 15.84$	$p = 0.026$

Table 4
Generalized Method of Moments (GMM) Results

Variable	Coefficient	Standard Error	t-Statistic	p-Value
CSR	0.484	0.110	4.400	0.000
Number of Branches	0.326	0.094	3.468	0.001
Number of ATMs	0.289	0.083	3.482	0.001
Leverage	0.129	0.054	2.389	0.017
Tangibility	0.082	0.035	2.343	0.020
Age	0.031	0.015	2.067	0.039
Size	0.065	0.025	2.600	0.009

Hypotheses and Justification

The positive significant coefficient of CSR, 0.452, $p < 0.001$, in the regression model, denotes that CSR activities are positively related to the number of bank branches. This supports the hypothesis that banks engaging in more CSR activities tend to have more branches, thereby improving access to financial services in underserved areas. The coefficient for the number of ATMs is also positive and significant at 0.274, with a p-value of 0.001, hence indicating that CSR activities increase the number of ATMs. This, therefore, supports the hypothesis that CSR initiatives help in expanding the network of ATMs, hence facilitating better access to financial services. Though the direct influence of CSR on financial literacy is not captured from the presented regression results, the positive effects on financial inclusion proxies such as the number of branches and ATMs indirectly indicate the rise in financial literacy. The CSR activities also involve financial education programs, which could result in improved financial literacy among the people.

The overall effectiveness of CSR on financial inclusion for both branches and ATMs shows that philanthropic activities help to gain not only trust but also a better degree of reputation for the banks themselves. That is to say, the more a bank engages in CSR practice, the more positively it is viewed as a member of the community and thus has greater access to services accordingly. The positive coefficient for CSR in the regression analysis is 0.452, at $p < 0.001$, while the coefficient for the whole sample, which was included in the model, allows one to conclude that CSR influences the financial inclusion index. This composite measure represents holistic success on the part of CSR initiatives in improving the level of financial inclusion. The high positive coefficients for CSR, branches, and ATMs suggest that banks with higher engagement in CSR can expand their customer base more successfully. An increase in the number of branches and ATMs in the under-served areas suggests greater reach and service to the customers.

Discussion

The results of the present study establish that CSR activities significantly contribute to influencing financial inclusion in the commercial banks of Sindh, Pakistan. The data shows that CSR activities increase the number of branches and ATMs, which are very instrumental in expanding access to financial services in underserved areas. Results show that banks engaging in the practice of CSR are better placed to improve their outreach and expand their financial services to more people, thereby completing financial inclusion. The various regression models used in this study show that the relation between CSR and financial inclusions is gradual, with significant positive coefficients. Most of the variables obtained from running the Hausman Test favoured random effects, hence making the results reliable. GMM further confirms these results by taking care of both endogeneity problems and heteroscedasticity.

With the implementation of CSR initiatives, banks can gain a good reputation and earn trust in the community a very crucial success factor in deepening access to financial services. Activities viewed to spearhead this inclusive financial system include financial literacy programs, community engagement, and ethical banking practices. These initiatives not only help banks fulfil their social responsibilities but also enhance their competitive advantage by attracting a larger customer base. CSR and FI in Greater Detail elaborated on how various CSR initiatives, increasing the number of bank branches and ATMs in less-served areas, educating customers, and building up trust in the community for offering financial services contribute to financial development inclusion. Not only do these activities satisfy the banks' social obligations but also increase their competitiveness in the marketplace.

Comparison with Previous Studies: We have appended an exhaustive account of the analysis undertaken on previous CSR and financial inclusion literature with fair studies and how their view relates to or extends what is existing literature. For instance, we have elucidated the point that our findings were like those from Singh et al., (2021) and Shetty (2008), but at the same time, contributed to the understanding of the context of Sindh, Pakistan's commercial banking. Implications for Policy and Practice: We stressed the practical significance of our findings for policymakers as well as for banking practitioners. From the clear evidence of the relevance of CSR to financial inclusion, we recommend that there is a need for such focus in the strategic planning of banks as more social and economic objectives are targeted.

CONCLUSION

The study has provided evidence that CSR initiatives meaningfully affect financial inclusion in the commercial banking sector in Sindh, Pakistan. First, there was a significant positive relationship observed between CSR initiatives and the number of bank branches in undeveloped areas, an indication that banks engaging themselves in CSR activities are the ones most likely to widen their branch network to these locales. Second, CSR initiatives contribute positively to the number of ATMs per capita, thus further enhancing access to financial services. Third, although not directly measured, it is very likely that the positive effect of CSR on financial inclusion indicators will go through increased financial literacy among excluded populations, given that most CSR activities include financial education programs. Fourth, CSR activities are associated with increased trust and reputation of banks within communities, which in turn encourages more use of banking services. Fifth, CSR activities remarkably improve the overall financial inclusion index, meaning comprehensive improvement of access to financial services. Sixth, banks with higher CSR scores tend to show more growth in customers in unbanked and underbanked areas compared

to banks with low CSR scores. These findings support the increasing importance of CSR integration within the strategic planning of banks in the achievement of wider socio-economic objectives, while they also provide actionable insights to policymakers and banking practitioners toward the development of an inclusive financial system in Sindh, Pakistan.

The study concludes that CSR plays a vital role in promoting financial inclusion in Sindh, Pakistan's commercial banking sector. It has been established through the findings that CSR activities go a long way in facilitating access and availability of financial services to underserved populations. The banks spread their branch networks and increase ATM availability for the convenience of people and businesses towards inclusive financial development. The integration of CSR into the strategic planning of banks would ensure a pragmatic approach towards growth and development. One positive influence of CSR on financial inclusion has proved that ethical performance along with community involvement is very essential for broader socioeconomic objectives. Banks that provide sufficient importance to CSR can achieve not only improved financial performance but also become helpful in maintaining overall stability and robustness within the financial system.

Recommendations

- **Expand Scope:** Future studies can investigate how CSR applies to other industries aside from banking, enabling the wider scope of its implications across various industries.
- **Longitudinal Studies** These are studies that have the potential to appreciate the impact of CSR on financial inclusion in the long term.
- **Comparative Analysis:** Compare differences in impacts between developed and developing countries concerning outcomes and contributing factors of CSR.
- **Stakeholder Analysis:** Investigate the specific impacts of CSR on different stakeholder groups, such as employees, customers, and communities, to develop targeted CSR strategies.
- **Integration with Technology:** Examine the role of technology in enhancing the effectiveness of CSR initiatives, particularly in promoting financial inclusion and stability.
- These recommendations aim to guide future researchers and analysts in further exploring the multifaceted impacts of CSR and developing more effective strategies for its implementation.

Limitations

- **KASB Bank and NIB Bank:** The annual reports for KASB Bank and NIB Bank are not available. For this reason, the study will fail to be able to fully explain their financial performance, financial inclusion and financial stability approaches, besides their view on corporate social responsibility.
- **Silk Bank:** Annual reports regarding the years 2020, 2021, and 2022 are not available for this bank. Without this information, one cannot emphasize a complete and realistic representation of the financial activities undertaken by this bank and its pursuits regarding corporate social responsibility for the respective years.
- **First Women Bank:** The annual reports of First Women Bank are not available for the years 2019, 2020, 2021, and 2022. The unavailability of continuous four-year data has created a gap that does not allow studying this bank's financial performance along with CSR activities for these years.
- **Financial Losses and CSR Activities:** Banks that have recorded huge financial losses for many years in a row would have drastically reduced their CSR activities due to constrained budgets. This would indeed make the true impact of CSR on financial performance hard to attain since data could be biased by such exceptional financial circumstances.

Competing Interests

The authors declared no competing interests.

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