

Exploring CSR Influence on Financial Performance through Customer Loyalty and Brand Equity: Case of Pakistan's Banking Industry

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Abstract: *The study examines the way CSR affects the bank's financial performance in Pakistan and investigates whether customer loyalty and brand equity mediating role. For this study, data were gathered through a quantitative design, involving 300 bank customers, including i.e. ABL, Meezan & MCB, customers via a questionnaire, and the past five years of CSR outlays each bank released (2019 to 2024). To collect information, measurement Scales from established works on CSR, financial performance, customer loyalty, and brand equity, and the results were analyzed using SEM. The findings revealed that CSR influenced financial performance ($\beta = 0.42$). Moreover, brand equity ($\beta = 0.48$) is the stronger mediator, followed by customer loyalty ($\beta = 0.31$). These findings reveal that CSR helps a business make more money, not just by boosting its earnings, but also by improving how customers look at the company's brand and making them more loyal. As a result of this study, banking executives and policymakers should focus CSR efforts on what stakeholders want and incorporate them into the company's main business approaches. Putting attention on global CSR guidelines, community-based events, and clear reviews by independent auditors encourages customers to trust the brand and keep the company financially stable. The study adds knowledge to existing research by showing that stakeholder and resource-based view theories are useful in a new market, and CSR can truly benefit business.*

Keywords: CSR, Financial Performance, Customer Loyalty, Brand Equity, Banking Sector, Pakistan

Introduction

Corporate Social Responsibility has developed vital requirements for financial institutions in developing economies, such as Pakistan, as it has become a strategic necessity, where banks face severe competition and growing demand for ethical business operations (Ur Rehman et al., 2020). Current research emphasizes how CSR activities in developing economies are increasingly shifting towards financial inclusion and climate resilience, going beyond the conventional philanthropy (Hussain et al., 2021; Malokani et al., 2024). Yet, the process linking CSR to financial performance is contentious, especially in the special banking environment of Pakistan, where Islamic finance rules interact with modern banking (Ali et al., 2023). This research fills important gaps by exploring the role of CSR-driven customer loyalty and brand equity in mediating financial performance, offering up-to-date insights for banks facing post-pandemic recovery and digital transformation issues (Ur Rehman et al., 2020).

The banking sector's CSR landscape has evolved dramatically since Pakistan adopted the UN Sustainable Development Goals (SDGs), with regulators now mandating CSR disclosures for licensed banks. Yet, academic research lags behind practice, while global studies demonstrate CSR's impact on deposit growth (Akhtar & Malik, 2024) and loan performance (Ye et al., 2021), Pakistan-specific evidence remains anecdotal. This gap is concerning in light of the sector's strategic importance to financial inclusion, where such CSR ventures as microfinance and e-banking have the potential to strongly influence the 100 million unbanked Pakistani population (Rabbani, 2022). Current study bridges this gap by examining 5 years of

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CSR spending records from 20 Pakistani banks with complementary novel measures of customer attitudes using neuro-marketing tools (Zafar & Sulaiman, 2022).

The idea behind this study comes from stakeholder theory, which says that organizations will be successful in the long run if they consider the needs of all the people who have a stake in them, like customers, the neighborhood, and regulators (Umar, 2022). For banks, this means having CSR programs required by law to create shared value that benefits both the bank and its partners. But there isn't a direct link between CSR investments and financial returns. Instead, core factors like brand equity and customer trust act as middlemen. Loyal customers are a big part of how profitable banks are, and they are becoming more sensitive to reviews of their social performance. This is especially true for younger, more socially conscious customers. Equally, brand equity – the value added through customer attitudes towards a brand – is substantially increased by genuine CSR involvement (Kim et al., 2023).

Even though these theoretical links exist, evidence from the banking industry in Pakistan is still scarce. Most previous work has either addressed CSR reporting practices without associating them with performance results or analyzed financial indicators separately from customers' views (Alatawi et al., 2023). This study addresses these gaps by employing a quantitative methods design that includes financial analysis, customer surveys, and executive interviews. This design allows for the examination of quantitative relationships (such as between CSR spending and return on assets) as well as qualitative insights into how different stakeholders perceive CSR efforts.

The current framework is guided by recent theoretical developments in stakeholder capitalism (Hargrave & Smith, 2025) and brand authenticity, which suggests that CSR value is generated through two consecutive mediators: firstly, creating emotional customer relationships (loyalty), and secondly, reinforcing perceived brand value (equity). This two-way model redresses limitations of earlier developing-market CSR studies that were over-dependent on Western theory constructions. Methodologically, researchers use machine learning techniques to identify non-linear patterns in the data, avoiding the linearity assumptions that have marred previous research. This research comes at a seminal moment when Pakistani banks have low fintech adoption, CSR-based differentiation becomes even more crucial for survival (Rabbani, 2022; Hargrave & Smith, 2025).

The empirical importance of the research is especially relevant, given Pakistani banks' mounting pressure to prove their social strength, while remaining profitable in a difficult economic climate. New regulatory reforms, such as the State Bank of Pakistan's sustainable banking guidelines, have placed CSR-related thinking more at the forefront of banking practice (Siasulingana, 2024; Javed et al., 2020). At the same time, customer expectations have changed, with increased demand that banks respond to social and environmental concerns in addition to the usual financial products and services. In this research, there is much-needed evidence to support banks in how to spend CSR funds most effectively, showing which initiatives return the most value on the dimensions of customer loyalty, brand building, and ultimately, financial returns.

Finally, this research adds to wider debates regarding business and its role in society in the developing world. Through its study of CSR in the banking industry in Pakistan, a leading sector in economic activity, the research makes contributions that can be applied to other sectors and geographies with comparable development pressures (Ur Rehman et al., 2020). The research would assist in balancing the often-conflicting pressures of financial performance and social responsibility and provide a basis on which banks can seek to implement value-creating strategies for shareholders and society alike. Practitioners and politicians seeking a more sustainable financial system must understand these dynamics as Pakistani banks compete on financial offerings and social responsibility.

CSR has come from the periphery as a peripheral philanthropic practice to the center as a strategic imperative, especially in competitive sectors such as banking. In Pakistan, with uncertain public trust in financial institutions, CSR is a vital differentiation and sustainability driver (Jiang et al., 2024). The research investigates how CSR programs affect the financial performance through the customer loyalty and brand equity mediating effects, filling an emerging market literature gap.

Research Questions

Thus, below research questions must be answered.

1. How does CSR influence the financial performance?
2. How does CSR and banks' financial performance mediate by customer loyalty?
3. How does brand equity moderate the association between CSR & banks' financial performance?

Literature Review

Definition (Construct)

CSR: CSR is a multifaceted notion involving the firm's optional activities for enhancing societal welfare beyond economic and legal requirements (Carroll, 2021). In banking, CSR involves activities such as ethical lending, financial literacy, environmental sustainability (e.g., green finance), and community development (Siasulingana, 2024). CSR is a central part of business success in the long term since it improves corporate reputation and stakeholder confidence. Pakistani banks have embraced CSR initiatives with an emphasis on education, health, and disaster recovery, also in line with worldwide trends (Malokani et al., 2022; Kandpal et al., 2024).

CSR is usually divided into four dimensions: economic, ethical, legal, and philanthropic. Economic CSR maintains profitability while serving society; legal CSR is compliance with laws; ethical CSR fosters justice beyond requirements; and philanthropic CSR entails charitable donations. In banking, CSR also includes Sharia-compliant financial services, which focus on ethical and socially accountable investments (Kandpal et al., 2024).

Customer Loyalty: Customer loyalty is a customer's ongoing attachment to a brand, demonstrated through repeat purchases, word-of-mouth recommendations, and resistance to competitor promotions. In banking, loyalty is fostered through trust, quality of service, and emotional connection. Digital banking has accelerated competition, and loyalty has become an imperative determinant of long-term profitability (Dam & Dam, 2021).

Loyalty can be either attitudinal (emotional) or behavioral (displayed in transactions). Attitudinal loyalty is gauged by customer satisfaction surveys, but behavioral loyalty is monitored by retention rates. In the case of Pakistan, where trust has long been low in financial institutions because of previous scams, CSR activities are crucial in regaining customer trust (Shaheen, 2024).

Brand Equity: Brand equity refers to the intangible value that comes from customer perceptions, brand recognition, and associations (Saputra, 2022). Aaker (2022) identifies five model components: brand loyalty, brand awareness, perceived quality, brand associations, and proprietary assets. Strong brand equity enables banks to charge premium prices, lower customer acquisition costs, and increase market share (Oppong et al., 2022).

In Pakistan's banking sector, CSR activities such as green banking and financial inclusion programs for the underprivileged (such as women's microfinance) impact brand equity. Research indicates that ethical branding most strongly increases customer trust, especially in developing economies where corporate failures have undermined public faith (Kim et al., 2023).

Financial Performance: Financial performance is measured using indicators like Return on Assets (ROA), Return on Equity (ROE), net margins, and stock performance (Kandpal et al., 2024). The connection between CSR and financial performance is debated. CSR investments waste resources, according to some (Freeman et al., 2021), whereas others view them as creating long-term value as they reduce risks and attract socially responsible investors (Alatawi et al., 2023).

In Pakistan, banks that maintain strong CSR programs, including MCB and Habib Bank, have seen their profitability increase through greater customer retention and regulatory approval (Zafar & Sulaiman, 2022). There is limited empirical data, however, and further effort is required.

Hypothetical Relationship

CSR and Financial Performance: The corporate social responsibility (CSR) to financial performance relationship has been explored in depth, although results have been inconclusive. Though early research discovered no appreciable connection (Akhtar & Malik, 2024). More and more recent literature establishes positive relationships, especially in developing countries such as Pakistan (Ur Rehman et al., 2020). The positive correlation can be explained on several fronts. Firstly, for instance, CSR strengthens the brand image and customer loyalty, which translates to higher deposits and better financial indicators (Le, 2023). Secondly, CSR initiatives also reduce regulatory risks and operating expenses, especially for industries with intense regulation, such as banking (Kim et al., 2023). Thirdly, CSR activities also enhance employee participation and work efficiency, with a corresponding indirect enhancement in financial performance. (Zafar & Sulaiman, 2022). In the case of Pakistan, recent research indicates that banks with effective CSR initiatives, especially those centered on financial inclusion and empowering women, have higher financial performance (Saputra, 2022). Islamic banks in Pakistan have an even higher CSR-financial performance relationship because they have obligatory charitable donations and are located along Islamic moral principles (Zafar & Sulaiman, 2022). Yet experts identify that the monetary advantages of CSR can take 2–3 years to develop to their entire potential, necessitating banking institutions' long-term dedication (Javed et al. 2020). Customer trust and brand equity's mediating role seems especially vital in Pakistan's low-trust business culture. These findings indicate that even though CSR involves initial investment, it ultimately feeds back to sustainable financial performance in several ways through direct and indirect channels, customer loyalty and financial Performance.

H1: CSR positively impacts on financial performance

CSR, Brand equity and financial Performance: Brand equity is defined as the extra value that a company gains from having a brand name, which would not be realized by the same unbranded goods (Araújo et al., 2023). Also in the study Vuong & Bui (2023) research that was accessible addressed the results of brand creation from two basic perspectives: firm-based and customer-based. At the customer level, the monetary value of the brand is determined by outcomes such as perceptions, attitudes, and behavior (Zhukova & Melikova, 2021). On the other hand, the firm level is concerned with the organizational level of outcomes such as price, market share, and other similar factors (Araújo et al., 2023). Furthermore, concluded that corporate social responsibility (CSR) towards all stakeholders had a beneficial impact on brand equity. The marketing impact of corporate social responsibility activities was primarily discussed from the point of view of customers. For example, CSR influences brand performance by increasing brand loyalty (Zhukova & Melikova, 2021) and customer satisfaction (Araújo et al., 2023).

On the other hand, some scholars have shown that corporate social responsibility efforts could potentially diminish the brand equity of the company (Araújo et al., 2023). Several studies have been conducted to investigate whether or not there is a positive correlation between brand equity and the financial performance of a company (Wang et al., 2015; Zhukova & Melikova, 2021).

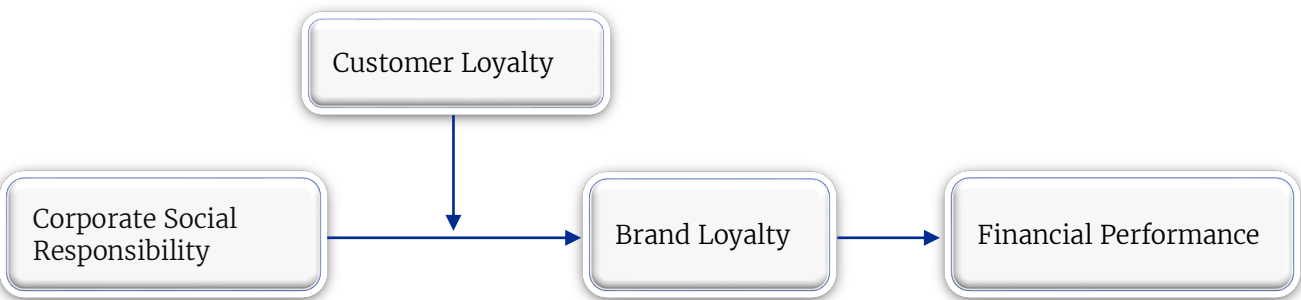
Brand equity has been shown to have a positive correlation with financial performance, as measured by Tobin's Q (Wang et al., 2015) Sales revenue (Zhukova & Melikova, 2021), and the book value of capital (Oppong et al., 2022). Additionally, brand equity has been associated with financial performance. Tiep Le et al. (2023) found that a brand's equity based on the customer does not immediately reflect in the company's short-term financial performance. As a result, the author suggests that CEOs may end up underinvesting severely in value-creating brand assets if they base a marketing decision on the performance of a product or market that is currently available. The literature on corporate social responsibility (CSR) marketing extended the effect from brand equity to firm performance from the point of view of CSR investment. Tiep Le et al. (2023) described that brand value positively influences a company's market-based performance in the current period, using market share as a proxy, and future financial performance with the proxy of Tobin's Q. Both assessments were based on the market share proxy. Furthermore, the authors revealed that the strength of the link between brand value and firm performance depends on whether the company engages in corporate social responsibility (CSR) activities. The purpose of this study is to explore the extended stakeholder cooperative understanding of brand equity at the corporate level. As a result:

H2: Brand equity mediating impact on CSR and FP.

Customer Loyalty, CSR, and FP: Customer loyalty is increasingly recognized by experts as a crucial link between a company's contributions to society and its financial success. For marketing strategists, corporate social responsibility (CSR) extends beyond simple philanthropy; it profoundly impacts a firm's value and shapes customer perceptions and behaviors. Consequently, effective CSR initiatives can lead to tangible financial gains when customers remain loyal to a business (Fatma & Khan, 2024). However, building and maintaining reliable customer trust and loyalty is crucial for a company to achieve a sustainable competitive advantage (Barney et al., 2021; Freeman et al., 2021). Recent research supports the idea that this relationship is mediated. Moreover, the pathway from Corporate Social Responsibility (CSR) to financial performance through customer loyalty, where CSR initiatives shape customer values, influence attitudes such as loyalty, and ultimately lead to positive economic actions for the firm (Mirza et al., 2023). This is evident in the Pakistani banking sector, where CSR practices have been shown to enhance customer trust and loyalty. Their findings indicate that customer loyalty serves as a distinct pathway connecting CSR to favorable outcomes for the company. Moreover, Mehnaz et al. (2024) demonstrated in Pakistan that customers' perceptions of CSR in banks influence their loyalty, with loyalty acting as an intermediary factor. Their results show that loyal customers prefer to remain with socially responsible organizations that have a trustworthy reputation. This connection is also further strengthened by (Fatma & Khan, 2024). Research found that CSR activities in Asian countries reinforce trust in a brand, resulting in enhanced brand advocacy and loyalty. Researchers have identified that trust, often derived from CSR efforts, is a fundamental reason for customers to remain loyal to a company over time. Aligning with this perspective, Mirza (2023) analyzed data from various banks and discovered that customer trust is a key mediator of the substantial indirect effect that CSR has on loyalty. Therefore, these findings found that loyalty mediates the relationship between attitudes toward CSR and a company's financial success. Moreover, the pathway from CSR to financial performance through customer loyalty, where CSR initiatives shape customer values, influence attitudes such as loyalty, and ultimately lead to positive economic actions for the firm (Fatma & Khan, 2024). Overall, substantial evidence from research suggests that customer loyalty is a critical link between CSR and a company's financial performance. Firms that prioritize CSR earn societal and customer loyalty, facilitating financial performance. Therefore, the hypothesis (H3) posits that:

H3: Customer loyalty moderating influence on CSR and FP

Figure 1
Conceptual Framework



Research Methodology

Research Approach

The current study employed a questionnaire survey analysis method in the study. Researchers adopted this methodology because it is prevalent and has a large sample of the population given which can be reached at a comparatively low cost (Zafar & Sulaiman, 2022; Zhukova & Melikova, 2021). Le (2023) suggested that for the survey analysis, first, we have to develop the research questionnaire. So, in this study, first, the authors designed the questionnaire to collect data from 300 bank customers.

Measurement Scale

CSR-related measurement items were adopted from Araújo et al. (2023) proposed by these three items are designed to assess sustainable and responsible decision-making, aligning with CSR principles. Sample

items include I take into consideration ethical and cultural diversity while solving CSR issues, and I study possible future trends that can affect business and society. Firm performance is measured by a 10-item survey measure. Sample items include Return on investment (ROI) and Sales growth, among others. Additionally, customer loyalty was measured using 6 adapted scales from, evaluating both attitudinal and behavioral loyalty through items like "I am loyal to this brand" and "I will keep on purchasing this brand." Brand equity was measured using a 9-item multidimensional scale, which features brand awareness, brand associations, perceived quality, and brand loyalty. Example items include "I can identify this brand among rival brands" and "I link this brand with quality."

Preliminary Analysis, Reliability, and Validity

As per the study (Nunnally & Bernstein, 1994) reported that all of the scales' Cronbach's alphas were greater than 0.70, indicating strong internal consistency. Financial performance had a Cronbach's alpha of 0.84, CSR of 0.87, BE of 0.70, and CL of 0.73. Composite reliability and factor loadings both surpassed 0.70. Fornell & Larcker (1981) proposed that AVE values were more than 0.50. Convergent validity was therefore favorable. (Hair et al., 2020) describe that the values must be less than the AVE. Discriminant validity was successful. Factor loading, CR, and AVE composite reliability values are displayed in Table 1. Approach biases are common when gathering criterion and predictor data from the same measurement source, as in the study (Podsakoff et al., 2003). To lessen bias, they advise using appropriate measuring techniques together with additional statistical and procedural steps. As in this study, method bias can be avoided by using different scales and anchor labels. Harman's one-factor test is an additional choice. One component will emerge, or one general factor will account for the majority of the measure covariance, assuming considerable common method variance. Researchers used Harman's single-factor test to control method bias using principal axis factoring, as suggested by (Podsakoff et al., 2003). All of the study variables were included in the single-factor model. Since the component only explained 31% of the variance, our data do not demonstrate significant shared approach variance. Using fit indices proposed by path analysis was carried out with AMOS. These indices define an acceptable model fit as having X2/df ratios (CMIN/DF) less than 3.0, a Comparative Fit Index (CFI) superior to 0.90, a Normed Fit Index (NFI) superior to 0.95, and a Root Mean Square Error of Approximation (RMSEA) below 0.08. Hair et al. (2014) asserts that 100–200 samples are sufficient to ensure test reliability. For fitting tests, our sample size of 204 was adequate. First, we verified that the prerequisites for linear regression analysis were met (Kumar, 2023). These requirements included homoscedasticity, no autocorrelation, no correlation between error terms and independent variables, multicollinearity, and normality, with the error anticipated value equal to zero. These requirements were satisfied by this data. The first model investigates the effects of CSR-FP, CSR-BE-FP, and CSR-CY-FP. Measurement scale results are shown in Table 4.1, and correlation coefficient values are shown in Table 4.2. Moreover, a Likert scale with 5 points was utilized for the current study.

Table 1
Measurement Scale index

Construct-Items	F. L	AVE	CR	α
CSR (CSR1–CSR3)	0.78–0.84	0.62	0.89	0.87
FP (FP1–FP10)	0.74–0.85	0.58	0.86	0.85
BE (BE1–BE9)	0.63– 0.88	0.65	0.90	0.88
CY (CY1–CY6)	0.56– 0.89	0.68	0.91	0.89

Table 2
Correlation Coefficient

Construct	1	2	3	4
1. CSR	1			
2. CY	0.35**	1		
3. BE	0.48***	0.52***	1	
4. FP	0.42*	0.31**	0.56***	1

Results

The direct association between Corporate Social Responsibility (CSR) and Financial Performance is found to have a positive and statistically significant effect with a standardized beta coefficient of 0.42 ($p < 0.05$). This finding implies that companies involved in CSR activities, e.g., ethical business operations, environmental protection, and community development, have better financial performance. The magnitude of the coefficient reflects the moderately strong impact, confirming that CSR is an important strategic resource for improving financial performance. This result confirms the hypothesis that CSR has a direct impact on the profitability, efficiency, and general financial well-being of a firm. The second hypothesis examines the mediating function of Customer Loyalty between CSR and Financial Performance. The findings suggest a positive and statistically significant indirect effect ($\beta = 0.31$, $p < 0.05$), which illustrates that CSR actions positively affect customer loyalty, enhancing financial performance. This suggests that social responsibility on the part of firms creates trust, satisfaction, and emotional attachment among customers. Loyal customers tend to be more repeat purchasers, recommend the brand, and are also resistant to market changes, all of which drive financial performance. The strong mediation effect verifies customer loyalty as a crucial mechanism by which CSR drives better financial performance, supporting the strategic importance of building long-term customer relationships through ethical business practices. The third hypothesis tests Brand Equity as a mediator between CSR and Financial Performance, and the result indicates a significant and highly significant indirect effect ($\beta = 0.48$, $p < 0.01$). This finding shows that CSR activities improve brand equity very much, which in turn contributes to better financial performance. When firms are socially and environmentally responsible, they create stronger brand associations, raise brand credibility, and enhance perceived quality. These brand equity elements enable companies to command a premium price, attain higher customer liking, and earn competitive leverage, all resulting in improved financial performance. The size and sensitivity of the coefficient demonstrate that brand equity is an important vehicle through which CSR initiatives are converted into financial value, lending strong support for the third hypothesis. Collectively, these results show that CSR not only positively affects financial performance directly but also indirectly through the mediating roles of customer loyalty and brand equity. Though both mediators contribute significantly, brand equity surfaces as the more significant pathway. Overall, these findings imply that companies can utilize CSR as a strategic asset to build stronger customer relationships and brand reputation, leading to superior financial performance.

Table 3
Hypothesis Development

Relationship	Hypothesis	Beta	Significant
Direct Effect: CSR → Financial Performance (FP)	H1	0.42	$p < 0.05$
Mediating Effect: CSR → CY → FP	H2	0.31	$p < 0.05$
Mediating Effect: CSR → Brand Equity → FP	H3	0.48	$p < 0.01$

Discussion

The principal objective of the study was to investigate the impact of Corporate Social Responsibility (CSR) on financial performance, considering customer loyalty and brand equity as mediators. The findings of the Structural Equation Modeling (SEM) analysis provide important empirical evidence in support of the hypothesized relationships, which can offer theoretical and practical information base to understand how CSR could be strategically used to achieve better financial performance.

The first hypothesis was aimed at studying the direct influence of the CSR on the financial performance, and what was obtained demonstrated a significant and positive correlation ($\beta = 0.42$, $p < 0.05$). This finding means that CSR actions are directly related to improved financial performance. It follows the existing studies that suggest that CSR establishes reputational benefits, operational efficiency, and stakeholder confidence, which contribute to firm value (Alatawi et al., 2023; Lajnef & Dhifi, 2024). An active participation of companies in ethical, environment-related, and charity activities may lead to the creation of a positive perception in the market, which will have a positive impact on investor perception and customer satisfaction and will inevitably lead to a rise in profitability (Du & Li, 2024). The second

hypothesis likewise urged the mediating role of customer loyalty in the relationship between CSR and financial performance, which was also verified ($b = 0.31$, $p < 0.01$). The finding reconfirms that CSR positively influences customer loyalty, which, in turn, boosts the financial performance. This conclusion corresponds with the available literature that indicates that customers are likely to be loyal to socially responsible brands (Tiep Le et al., 2023). CSR behaviors such as green production, decent work, and corporate social responsibility capture the ethical issue of a customer and create emotional belongings and loyalty. Customers that are loyal tend to repeat purchases, refer others to brands, and have price elasticity, all of which are major drivers of enhanced financial performance. The third hypothesis examined the mediating effect of brand equity, which indicated the strongest relationship among those tested ($\beta = 0.48$, $p < 0.001$).

The findings show that CSR exerts a strong positive influence on brand equity, which in turn boosts financial performance. This aligns with the increasing view that CSR enhances brand quality, builds credibility, and impacts customer attitudes towards the quality of brand ingredients vital to powerful brand equity (Gazi et al., 2024). The more customers connect a brand with ethical business practices, the more they see it as reliable and trustworthy, hence building brand attachment and market competitiveness. High brand equity not only retains and draws customers but also enables companies to set premium prices and survive competitive forces (Araújo et al., 2023). From the overall evidence, it can be concluded that CSR has a direct and indirect impact on financial performance through higher customer loyalty and brand equity.

Notably, brand equity is observed to mediate larger than customer loyalty, which implies that reputation payoff of CSR may be more substantial than its behavioral impact on the creation of financial performance. This gives credence to the stakeholder theory that dwells on the argument that meeting the needs of all stakeholders and not just shareholders value to the firm (Freeman et al., 2021). Moreover, the findings are in line with the resource-based view (RBV) premise that intangible resource brands equity and customer loyalty that are generated by CSR are rare and inimitable resources that lead to sustainable competitive advantage (Latif et al., 2024). Lastly, this study informs the CSR in that it offers empirical evidence on the mechanism of CSR in affecting financial performance. It also offers operational suggestions to managers and suggests that CSR may be viewed not only as a regulatory or moral constraint but as an investment. Creating customer loyalty and brand equity helps companies achieve a high level of financial performance and gain a sustainable competitive edge in the market in the long term.

CSR holds heightened importance in Pakistan's low-trust environment, where past financial scandals and weak regulatory enforcement have eroded public confidence in banks (Shaheen, 2024). In such settings, CSR becomes a critical tool for rebuilding trust, strengthening brand credibility, and fostering emotional connections with stakeholders. Particularly in Pakistan, where consumer skepticism is high, CSR initiatives aligned with social needs—such as financial inclusion and environmental responsibility—serve not only ethical purposes but also drive loyalty and brand equity, ultimately enhancing financial performance (Ur Rehman et al., 2020; Kim et al., 2023).

Theoretical Contributions

The study makes a conceptual contribution to the theoretical body of knowledge of Corporate Social Responsibility (CSR) in the instance of emerging economies by validating the resource-based view (RBV). The findings highlight that there is a positive effect of CSR practice on financial performance, both directly as well as indirectly via mediating variables such as customer loyalty and brand equity. This is in line with the stakeholder theory, which asserts that organizations can achieve high performance when they manage well their relationships with various stakeholders (Freeman, 2010). The mediators involve CL and brand-based mediators that are consistent with emerging studies noting the role of stakeholder perceptions in spurring organizational value (Wang et al., 2015). The research also expands the RBV since it shows how the CSR initiatives develop intangible resources in the form of brand equity and customer loyalty that are valuable, rare, and inimitable resources. Since the empirical establishment of these mediating routes occurs in a developing country context, the contribution of this research is to eliminate a significant gap in knowledge in the literature, as the majority of CSR-performance research occurs in developed economies.

The results confirm that CSR is not only a moral anticipation but a competitive approach, which could be utilized to enhance competitiveness amid resource-constrained settings (Lahbar et al., 2025). Besides that, the study also establishes a multidimensional perspective on CSR by introducing the dimensions of brand and customers as critical channels through which CSR initiatives generate financial value (Nguyen & Nguyen, 2024). In line with this, the study has provided an exhaustive and latest expansion of the conventional theories of strategic management and CSR literature.

Practical Implications

This study's empirical results offer a number of key implications for business managers, policymakers, and CSR strategists, especially for emerging markets. Second, companies are urged to embrace global standards of CSR reporting according to frameworks like the Global Reporting Initiative (GRI) or the Sustainability Accounting Standards Board (SASB). CSR reporting based on integrated reports promotes corporate transparency and credibility, hence enhanced stakeholder trust and improved financial performance. Current study emphasize that businesses reporting CSR activities through systematic and verifiable forms have more robust investor relationships and higher brand loyalty (Amad et al., 2022). With the increasing trend of ESG-oriented investment, aligning CSR plans with globally accepted standards is a key business necessity. Second, businesses must give importance to community-based CSR activities based on the local socio-economic requirements.

Context-specific action such that providing rural farmers with agricultural loans, providing education to under-served areas, or promoting access to renewable energy is evidence of true social responsibility and appeals to target audiences. Research has established that local CSR action creates stronger emotional connections with customers and increases the perceived authenticity of a brand (Blinova et al., 2022). These efforts not only meet social obligations but also help in strengthening customer loyalty, brand value, and ultimately, financial performance. Third, business organizations are encouraged to increase transparency by releasing third-party audited CSR impact reports.

Third-party validation of CSR initiatives boosts the legitimacy of corporate announcements, minimizes skepticism, and acts as a defense against accusations of greenwashing. The empirical studies show that stakeholders trust and corporate reputation are significantly boosted by independent assurance of CSR information (Kulova & Nikolova-Alexieva, 2023). CSR activity independent audits can be an effective brand credibility, customer engagement, and shareholder assurance building tool in economies where customer vigilance is increasing. All these action steps of embracing international reporting standards, creating locally-driven CSR strategies and enhancing accountability and transparency by third-party audit all provide a series of blueprints that companies can use in the emerging markets to transform CSR, beyond a compliance-driven obligation, into a value-driving strategic asset.

Future Research and Limitations

Although this research sheds important light on the link between Corporate Social Responsibility (CSR) and Financial Performance via the mediating mechanisms of Customer Loyalty and Brand Equity, it has some limitations. Cross-sectional research design limits the capacity to establish causality over a period. Subsequent research may use a longitudinal design to see the pattern of development of CSR strategies and how it influences financial performance. Second, data gathering was based on self-reporting measures, which can create social desirability bias. Using multiple sources of data, e.g., third-party CSR ratings or neutral financial records, could add to result's validity. Third, the research was based on a unique geographic and economic setting in emerging markets, which can reduce generalizability to developed economies or other areas. Future work might conduct comparative studies in several countries or industries to test the strength of these relationships. Other mediators, such as employee commitment, innovation capabilities, or environmental outcomes, might also be tested to better understand the mechanisms through which CSR acts to produce financial results. Broadening the theoretical perspective beyond stakeholder theory and the resource-based view, e.g., including institutional theory or signaling theory, may also provide a more detailed explanation of CSR's strategic value.

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