

## CSRs Knowledge and Management of Corporate Social Responsibility in Pakistan

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### Abstract

*The aim of the study is to collect first-hand information from the corporate practitioners regarding the “why” “how” “when” and “where” of corporate social responsibility (CSR hereafter) by conducting an interview session with the companies listed on the Pakistan Stock exchange. It was observed that the involvement in CSR is beneficial for firm performance and affected by external forces (institutional forces) and internal features (firm’s resources). In addition, the priority of stakeholders and the urgency of CSR dimensions (CSR’s pyramid) are well understood in the context of Pakistan too.*

**Key Words:** CSR, Corporate Environment, Pakistan, Institutional Forces, Firm’s Resources

**JEL Classification:** M14.

### Introduction

Corporate performance is deeply affected by encountering different local forces in corporate strategy. CSR is the combined effect of corporate activities that internalize the externalities of economic, social and political systems to create a favourable environment for corporate operations. Recently, universal issues like climate change and environmental protection have got more attention from academic scholars and social activists. Numbers of humanitarian organizations and government institutes have been engaged to access corporate strategies to minimize the negative impact of corporate activities and develop a sustainable economy.

In the modern era, CSR is not only considered to be beneficial for the stakeholders but also for a corporation. The inspiration of an enterprise to be involved in CSR activities is sometimes relying on the grounds of ethical standards, logical outline or corporate financial benefits, usually the mixture of all of these combined dynamics (Kotler & Lee, 2005). Mitra et al (2008) highlighted that an enterprise should encounter workforce health & safety, environmental protection, waste management, resource depletion and product quality in corporate activities. Carroll (1991) defined that generating profit for investors and obeying the law are the main obligations of the enterprises. However, in recent times, enterprises are needed to obey all the layers of the CSR pyramid, similar to the bottom line of Carroll’s

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theory. The principles for generating merely economic benefits are not fitted in the modern era, as proposed by Friedman (1970). Therefore, enterprises are contributing more to legitimize the corporate operation and gain the license from the overall stakeholders, even if it is not directly enhancing the firm performance. Regardless of the universal parameters, the local institutional forces are playing a major role to pressurize the enterprises to behave ethically in corporate operations. In addition, the enterprises are also willingly contributing to the society and fulfilling the needs of the local forces and thus release information to their stakeholders with various channels, for example, annual reports, press releases, CSR or sustainability reports, etc.

### **CSR's Dynamics and Framework**

Corporate operation affects the whole dynamics of living in local as well as international contexts. Every enterprise is obliged to obey the minimum standard of the local law while conducting corporate operations. Academic scholars (e.g. Belkaoui and Karpik, 1989; Patten, 2002; Roberts, 1992; Gray et al, 1995) have interpreted various theories (e.g. agency theory, legitimacy theory, stakeholder theory and the political economy of accounting theory) and made links with the concept of CSR. Kendall and Kendall (1998) anticipated that corporate governance comprehends an ethical approach, culture, social, organizational structure and the equilibrium between the objectives of all interacted stakeholders. There is a need to formulate guidelines to protect the stakes of the corporate stakeholders and bring the enterprises to be more accountable and transparent in their activities. Chapple and Moon (2005) examined that the perception and exercise of the CSR are varying in Asia, due to differences in the local culture, religion, social and economic situations. Moon and Vogel (2008) specified that modern corporate regulations are assumed to be tighter and more exclusive, thus restrict corporate decision power. In developing countries, other social and institutional forces are playing an active role in the absence of legal settings.

Institutional theory is providing an initiative for an enterprise to adjust their corporate activities with the local institutional forces. Similarly, the legitimacy theory has also strengthened more in the adoption of CSR strategy for enterprises. Matten and Moon (2008) observed that differences in the CSR concept are mainly affected by the local institutional frameworks. CSR is basically shaping a triangular platform for governments, the general public and the corporation to defend their rights and raise the voice for their demands. Specific to Pakistani context, there is still lacking an obligatory legal framework for CSR; however, there are few things in the legal system of Pakistan which are considered an alternative to CSR in Pakistan. Campbell (2007) emphasized the importance of the legal rules & regulations by stating that there is much need to have set standards guidelines to monitor the corporate activities and point out the immoral operations. CSR is basically the interplay between the stakeholder's demands and corporate supply to build a win-win situation by satisfying the needs of both simultaneously. Greenberg and Baron (2011) defined that the theory of CSR is basically the corporate obligation of the enterprise to encounter the comforts of all the stakeholders while formulating strategies and conducting the corporate operation.

### **Research Design and Methodology**

A case study approach was used to examine the impact of both institutional dynamics of

Pakistan and the firm features on the level of CSR activities. Similarly, the cost incurred in performing different CSR activities was linked and its effect was found on the corporate benefits. To draw a more in-depth picture of the impact of CSR on the firm performance, the stakeholders were classified and the indicators of CSR were assigned. The qualitative technique was employed to gather the data and explore new areas for the study in the sample country. Qualitative research is applicable for understanding and questioning the “how, why and what” circumstances of an issue. In other words, qualitative research is important to know why the things they are, and to acquire the response in simple text than statistical numbers (Hancock, 2002). According to Creswell (1998), a qualitative research method can be conducted by case studies, personal experience, life stories, interview, and observational, historical, interactional and visual text. The qualitative approach produces more concrete and specific findings to the concern event and behaviour but might not be generalized to other populations. The case study can be conducted to create both qualitative and quantitative information; however, this approach is more suitable for a qualitative technique to generate widely data for the definite situation (Burnham et al, 2008).

The data were collected from Chemical and Cement industries by conducting an interview session and then finding a link to the secondary information in annual reports. There are three types of conducting an interview; structured, unstructured and semi-structured interviews (Bryman and Bell, 2007). Due to the flexible nature and relaxed parameter, a semi-structured interview was conducted. In such a type of interview, the interviewer put up the question and the interviewees are responding like an ordinary conversation. The target population was the senior managers and policymakers. An interview’s guideline (see appendix), was sent to the respondent prior to conducting the interview. The interview was started with formal greetings and basic discussion by asking general questions. The permission was asked for an audio recording of the conversation. Initially, similar questions were asked from these representatives, however, the subsequent questions were different according to their response and the nature of information required.

### **Case Study (Interview Sessions)**

According to representatives, CSR strategy is reflected in our corporate vision, mission and core business values. To comply with the above statements, our company has an affiliation with numbers of international CSR reporting bodies (third party) to ensure transparency in the disclosed information. It was claimed that sustainability is always considered to be very essential for corporate performance. The concept of social responsibility is to take necessary action in an ethical manner and put efforts into community development. Our company is fully aware of the importance to endorse the collective benefits of customers, environment, employees and the nearby community in corporate operations. Various steps have been taken to save energy and preserve the environment parallel to striving for the bottom line of the business operation.

### **Institutional Forces**

Regarding the influence of the institutional forces, It was revealed that these exerted pressures should not be taken too lightly. These forces exert pressure from different angles on corporate operations in the shape of government rules and regulations or other social pressure from activist groups. In addition, there are other organized groups of experts who

are well aware of the organizational behavior and working as watchdogs and thus indirectly controlling the corporate strategies. For example, research scholars in academia, health specialists, environmental activists, NGOs and so on. These “social institutions can even facilitate or restrict the access of corporations to purchase the raw materials or sell the finished products in the marketplace in a situation where the legal system is weak”. The representative also affirms the importance of the various institutional dynamic pressures. According to the respondent:

*“Well, for me all the local social customs, as well as public policies, are important both in a personal and professional capacity”.*

For this reason, the management of any company is always relying on to have a strong relationship with these pressure groups for corporate sustainability. The management is well aware of the importance, knowledge, and sensitivity of these pressures. There is no objection over the competency of these institutions; however, the enterprises should also have the capabilities to categorize properly the local issues to achieve better results and legitimacy.

### **The Firm’s Characteristics**

The respondents explained that although the concept and benefits of CSR are clear to all the practitioners and corporate managers why some businesses are involved more and others are less and what are the constraints that few of the corporations are even not bother to be involved? While entering into CSR spending, it is very crucial to align the internal corporate resources with the external needs and demands of the stakeholders. For example, if the company is not earning much profit for the owners and investors, then how the CSR budget is allocated to the external stakeholders by scarifying the investors’ money. Therefore, profitability is a major thing for any company to execute social activities. According to a representative:

*“The participation in the CSR activities is basically originated as a result of the company strength and extra resources to gain more returns (directly and indirectly) from it”.*

They added that the major things are the willingness of the owners (in most case private ownership) in addition to financial and other resources. Similarly, the priorities of the engagement in CSR activities are varying due to the versatile and dispersed investors or shareholders. A large number of shareholders might have the probabilities of belonging to different clusters of groups. Similarly, to the versatility of shareholders, the management and board of directors are also exposed to the opinion of different board members belonging to different demographic backgrounds; for example; gender, dependent or independent director, executive, and non-executive directors. The more involved in CSR activities, the more experience will be gained with the passage of time but not neglecting the major feature of the firm which is profitability and the corporate resources (you can say size). The maturity of any process needs time and effort; therefore, the age and size of the firm are the important indicators that significantly influence the CSR activities.

### **Benefits of CSR Activities**

Corporations are not social development institutions, however, they are liable legally and ethically to conduct the business activities within the given spheres and circles. The respondent stated (with a big laugh) by quoting that:

*“How can one expect from a profit-oriented organization to spend a handsome amount on other activities, which are not included in the core business”.*

Business communities are neither self-sufficient to acquire all the required resources for production, nor they are producing for their needs only. They are always relying on the physical marketplace for purchasing the raw materials and selling the finished products. This process is called the supply chain, which needs a number of interactions with different individuals and institutions. The representative of the company combined all these dynamics in the following sentence.

*“Good and quality products can be delivered to the customers to satisfy their demands and earn the estimated premium profit if the raw materials from the supplier are genuine and the production process is updated both humanly and technically”.*

Corporate benefits can't be measured on a daily basis (short-run only) and just with the financial indicators. Corporate reputation needs a long time but “corporate defamation” is speedy and spontaneous if the activities are not handled properly. Depending on the nature of the production process and the sensitivity of the corporate activities, customers are more conscious to know more about the corporation, not only the quality and price of the products. In this regard, CSR is a process to obey all the standards of ethics and behave more sensible in all the activities, which ultimately beneficial for the business in terms of financial or non-financial returns. The respondent further added that although the cost (or investment in other words) might generate corporate benefits but could not be calculated in the same financial years and that's why it is reflected as a cost or expenses in the financial statements of the company. However, the respondent has agreed that such types of activities are beneficial indirectly for the company but the ultimate intention should not only be restricted merely the increase in profit or income. To cut the matter short, involvement in CSR is a profitable investment; this should not be considered as a “sunk cost”. These activities can bring many financial and non-financial benefits in long-term if handled carefully.

## **Stakeholders**

The corporate governance is basically the compliance of the governmental rules, regulations and the satisfaction of the stakeholder's needs in addition to the obedience of all ethical standards. It was observed that these companies are collaborating on different projects for health, education, sports, and environmental protection. In addition, the linkage was established with prestigious independent research centers and other local and international academic institutes for conducting seminars and conferences. Stakeholders are always engaged while formulating the strategies and taking regular initiatives to bring a wide range of stakeholders in decision-making loops. It was confirmed by the respondents that one of the prime purposes of corporate activities is to generate a maximum possible return for investors. We are always trying to maximize the sales turnover and achieve the highest target to generate much profit for the investors. The corporate risk is closely observed to create shared value by executing the opportunities and build the corporate image among the shareholders. The suggestions and recommendations of the investors are warmly welcomed, and they are encouraged to take part and give feedback/recommendations in the corporate affairs and general meetings of the company. The concerned officials regularly evaluate the feedback and actions are taken as per need.

As a “responsible citizen” we always believe in close coordination with the community

to create a win-win situation. Our company has always contributed to the local community and gave a helping hand to vulnerable people during natural disasters. The affected people were provided with medicines, shelters, edible and non-edible things in a hard time. All of these initiatives are portraying the corporate enthusiasm towards a better community. Several other plans are also executed for the wellbeing of the local community in the fields of education, health, and poverty alleviation. Apart from the permanent health facilities, numbers of free medical camps were organized every year on a regular basis. The literacy program is also on the priority list which can be seen by the establishment of different schools and provision of scholarship to the students. Our company also supports various technical training centers to teach different skills to the employees and poor people of the community. Practical steps have been taken to promote female education and vocational training which is otherwise kept deprived in many societies of Pakistan. Various sports activities were sponsored on the district and national level to encourage and emerging talent in the country. We always encourage acquiring raw material from the local market.

### **CSR's Dimensions**

Our Company is producing the best quality products against the value of the money of consumers, without affecting the profit of the investors. The operational process cost is regularly monitored to enhance efficiency and minimize the incurred cost during production. The corporate activities are always directly or indirectly concerned about the income of the shareholders, creating jobs, the source of taxation and collaborating in developing the infrastructure of the community. The company also provides inputs to build the capacity of the overall supply chain, in addition to consumption of the local raw materials, hiring from the local community and directly contributing to the prosperity of the local community. Our company is investing in those activities which are generating a good return for investors in parallel with the satisfaction of other stakeholders. Due to prioritizing the needs of the customers with innovative products our company emphasizes more on research & development. These innovative and updated technologies are not only minimizing the environmental hazards but also increasing the profitability by optimum usage of raw material. The direct economic interventions are; dividend for the shareholder, payment to investors in shape of return on loans, governmental taxations, duties, wages and other monetary benefits to the workforce, etc. Sustainability is only beneficial when it is completely cohesive with the corporate operation and aligns with the basic goals of an enterprise.

Our internal corporate culture is based on honesty, integrity, and diligence. Our company always encourages encountering more ethical values and the heights of integrity, which is more important to alleviates the risk from the wide range of stakeholder groups. All types of national or international events are organized on a voluntary basis to promote awareness regarding employee rights, environmental protection, and community development. All other voluntary corporate codes of conduct include but not restricted to fair competition, ethics, social norms, cultural values and revealing information of the product's features. We believe in open interaction within the working premises and among the corporate partners, dealers, and buyers but never compromise on leakage of the corporate confidential information and trade secrets. High standards of ethics are executed throughout the corporate operation, whether it's in soft form (dealing with the stakeholders) or hard form (production, packaging, marketing, and distribution). We are more concerned

to modernize the HR policy that can inspire the induction of special people (physically challenged people). The sustainability execution is not only restricted to the obedience of the mandatory obligations of the country but also showing loyalty to the universal ethical and sustainable behavior in every corporate event on a voluntary basis.

## **Conclusion**

Although like other developing countries, the notion of CSR is new in Pakistan: however, most of the enterprises (especially listed companies) are aware of the importance of this concept. Different enterprises and corporate managers understand, interpret and exercise the dilemma of CSR differently, which is subjected to their personal perception, local needs, and corporate features. The ideology of the CSR activities is basically reflecting the social needs and the expectations of the stakeholders. These enterprises are striving to develop trust in the eyes of the investors, customers and get the assurance and license from the community, social activists, environmental protection bodies and the general public of the society. Every enterprise should have to abide by the rules of the institution and other stakeholders to legitimize their corporate operation. On the basis of information collected from the company's representatives, it can be concluded that these companies are more inclined towards social work and community prosperity by executing different projects: for example, health assistance, promoting education, providing food and shelter to the vulnerable people and sponsoring different sports events. It was also found that the enterprises working in Pakistan are more inclined towards the shareholders, employees, customers, community, and environment. In the same vein, to implement different layers of the CSR's pyramid, these enterprises were found to be inclined towards all of the CSR dimensions.

To recognize the concept of CSR as a vital part of firm performance, enterprises are needed to understand its broader scope, not merely complying with the applicable laws and regulations. The enterprise working in Pakistan should have a sophisticated corporate procedure, aligned with the international regulations to satisfy the demands of the overall stakeholders. They need to exercise the updated corporate governance styles and sophisticated CSR strategy to achieve a competitive edge over their competitors. They should not worry about the spending of the financial budget on CSR activities. Such type of "investments" has the capabilities to generate profit (directly or indirectly) for the company.

There are various types of businesses that are controversial and have a negative impact on the environment, health, and wealth of the consumers and overall stakeholders, which are called "sin industries". These industries have more inclination to proactively respond to stakeholders' concerns and contribute more to whitewash their own strains. The sample companies are environmentally sensitive and that might be the reason that they are more involved in CSR activities. The sample set for this study is not representing the whole set of companies listed and operating in Pakistan. There might be the constraint of generalizability of the results to all enterprises working in Pakistan.

The results of this study will support the researchers in identifying a different theoretical framework based on the institutional forces, firm's characteristics, the pattern and urgency of the corporate's social contribution, the importance of stakeholders and the order and applicability of the various CSR dimensions. In the case of Pakistan, this study will provide much support and insight for further study in the field of CSR. The reason is

that Pakistan is lacking the data in the field of CSR due to ignorance by the researcher. Secondly, the institutional dynamics and thus the resources of the firms working in Pakistan are unique, which might differentiate the concept of CSR than rest of the world, especially the developed countries. However, the concept of CSR might be similar to other similar local culture and institutional structure, for example, India and Bangladesh.



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**Appendix: Interview Questions**

**1. General Questions**

1. Can you please introduce yourself and your designation in this organization?
2. Can you please introduce your company?
3. Who is responsible for formulating the corporate strategies in your company?
4. What are the core corporate goals and objectives of your company?

**2. Institutional Forces**

1. Do you think that the local institutions of Pakistan are well aware of the concept of CSR?
2. How do the stakeholders' expectations execute in CSR activities?
3. To what extent are the governmental rules and regulations affecting the CSR strategy?
4. To what extent are the local social norms and values are pressurizing the CSR strategy?

**3. Firm Characteristics**

1. What are the unique/distinguished characteristics of the CSR strategy of your company?
2. How is the firm's profitability necessary for engaging in CSR activities?
3. How do different shareholders (foreign shareholders, local shareholders, management shareholders, the total number of shareholders) respond differently to CSR activities and spending?
4. How does the board diversity (e.g. Gender diversity, independent director) influence the CSR strategy?
5. Do you think that the concept of CSR is subjected to the firm's age and size?
6. To what extent are the external bodies (Auditors & CSR guidelines) affecting the CSR activities?

**4. Benefits of CSR**

1. Do you consider that the spending on CSR activities is a "Sunk cost" or "investment"?
2. Do you think that the "revenue" earned from the CSR is always more than the "cost" incurred?
3. What are the benefits (if any) achieved by engaging in CSR activities?

**5. Stakeholders Classifications**

1. Who are the major stakeholders of your company?
2. How do they impact the corporate operation of your company?
3. What is the hierarchal classification (regarding corporate goals) of these stakeholders?

**6. CSR Dimensions**

1. Do you think that economic gain is the most important indicator of a firm's performance?
2. How do the philanthropy/corporate charity benefit both the business and community?

3. How does compliance with the local laws negatively affect the firm financial performance?
4. Do you think that the violation of ethics does not matter more for the firm's performance in the context of Pakistan?