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Full Length Research Paper

Company's financial performance & CSR: Pakistan context

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The concept of CSR is on rise for acceptance worldwide. Many developed countries are implementing that idea and gaining benefits of it. But in Pakistan this concept is relatively new. Organizations here are not aware of it. They believe that CSR means giving donation or charity and the organizations are involved in philanthropic activities. The research is qualitative in nature and the data are collected from both primary and secondary sources. For secondary data sources of journals, articles, news, reports and companies' websites are used and for primary data corporate managers are engaged in in-depth interviews. During this data collection process especially during interviews it was found that different managers had different perceptions but everyone agrees on one point that through CSR company's identity is fortified. Thus a strong positive impact becomes evident on the financial performance of the organization. Further, the image ultimately enhances revenues in term of sales, shareholder's value, brand loyalty, employees' retention. Hence CSR has strong positive impact on financial performance of companies.

Keywords: Corporate Social Responsibility (CSR), Corporate Financial performance(CFP)

INTRODUCTION

The evidence of corporate social responsibility can be marked in 18th century. A notable example is Cadbury chocolate which started a factory in a garden known as Bourneville. In the year 1900 George Cadbury made the Bourneville village to promote green environment. However, the concept got filliped in late 1960s. Its focus was how to fulfill business responsibility that ultimately

benefited the society. The official definition of CSR appeared in 1970 and mangers of the firms applied management tools to resolve CSR related issues while in 80s businesses and society came in a closer bond and corporations gave more importance to their stakeholders. In 90s the concept of CSR was accepted worldwide and in the year 2000 CSR became one of the important

strategic issues for the corporations.

Corporate social responsibility (CSR) is a duty of organization to act in a sensible way. It means allowing part of earnings of the organization to the betterment of the society. Another mode of defining CSR is getting success in a legal manner and giving respect to workers in the organization. This way CSR can be defined as the way of achieving commercial success by means of establishing ethical values and respecting and caring the people at work, in the communities and the surrounding environment. The field of CSR is emerging from the last decade. Companies which integrate (CSR) practices in their operations find easy distribution of their products compare to other companies. The customers usually go on the name of the company and buy the brands. Companies which look after the interest of the needy get good image in the society, and that is sold in the market. Such companies attract the investors and thus easily collect funds compare to other companies.

Initiatives of Corporate Social Responsibility

Kotler classifies six types of corporate social initiatives. They are as follows:

Cause Promotion

In this initiative corporation contributes its fund in order to promote awareness about social issues.

Community Volunteering

In community volunteering corporation allow their employees to volunteer their time for the betterment of the society.

Socially Responsible business Practice

Corporation adopts such discretionary business practices which will improve the environment and also make investment to support the welfare of the people of the society.

Cause Related Marketing

In this type of promotion organization promises to contribute or fixes a percentage of revenue for the welfare of the society based on product sale.

Corporate Social Marketing

Corporate social marketing is a type of imitative that requires organization support for the improvement and behavioral change of the people.

Corporate Philanthropy

This is the most basic type of initiative taken by organization for the well-being of the inhabitants of the society. Corporation makes direct donation to Trusts or NGOs.

Impact of Social Performance on Financial Performance

An enlightened view that CSR can significantly impact the financial performance of a corporation has been depicted as '**enlightened shareholder approach**' according to which the corporate decision maker should give importance to environmental and social issues with a view to getting maximum financial return in the long run. (Brine et. Al, 2007) On the other, there lacks data that proves it is actually practiced. (Smith,1996).

Research Problem

"Do Corporate Social Responsibility business practices influence the financial performance of the organizations operating in Pakistan?"

Objectives

- To explore the nature and the direction of the relationship between the financial performance and the social performance of the organizations operating in Pakistan.
- To compare the impact of financial performances before and after the implementation of CSR in organizations in Pakistan.

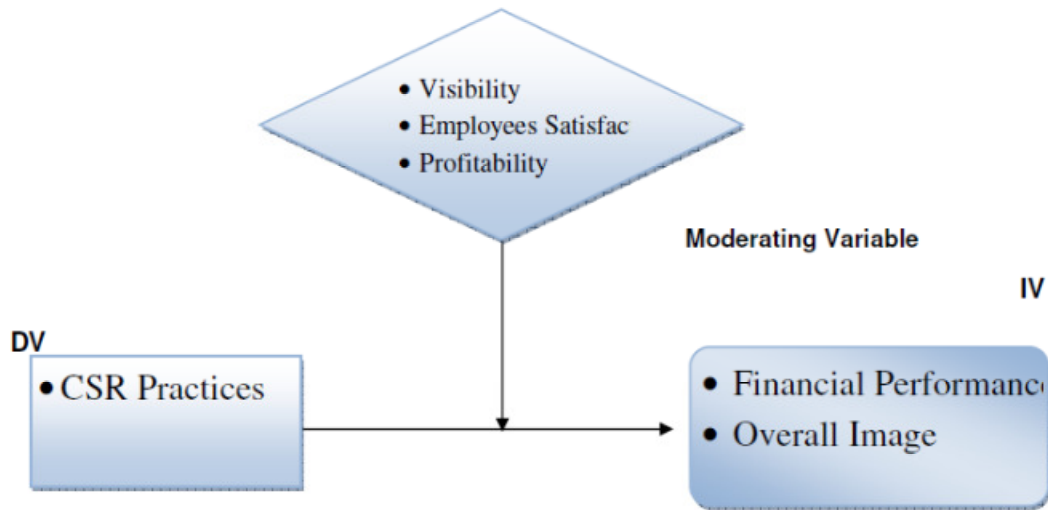
Justification

This research report will be useful for those managers of organizations who do not know the correct implication of CSR and how CSR activities have a good impact on their company financial position in the long run.

Limitation

- Limited to Giant Organization

Theoretical Framework



- Time Constraints

Scope

In Karachi both national and multi-national firms are in operation. By reading their sustainability reports and taking their managers interviews one can find out their current and future plans in the field of CSR.

Assumption

It is assumed that the data collected from a few organizations of Karachi represents the whole companies operating in Karachi.

Literature review

In the opinion of Packard (1939) most of the people believe wrongly that the only objective of the company is to make money. Although this perception is not wholly wrong one should go into depth and other aspects of the objectives.

Global practices of CSR

United Kingdom

UK has a significant role in the field of CSR and it has been recorded that CSR activities are very much and well practiced in United Kingdom (UK) for many years now.

The Role of UK Governments since the 1970s

It has been observed that governments of UK had been engaged in different roles of CSR practices. Moon (2004) observes that the governments of Blair (Labour 1997 - 2007) and Thatcher (Conservative, 1979 - 1991) played different roles in the field. They helped smoothen CSR practices in the UK. Between the periods of Thatcher in 1980s, UK faced numerous economic and social problems like high inflation, un-employment, high interest rates as well as inner city riots. The governments thought that there had been no choice but to hand over the task of finding best possible solutions to the business community by supporting and appreciating them to be CSR aware

United States

CSR in U.S. has been taken as love for humanity in the sense of caring. In the wider perspective CSR is considered as corporate citizenship which shows the situation and position of the company under the society and how the organization deals with interest groups, government and other firms (Waddock2006),(Logsdon2002),(Wood2005).

Financial Analysts and Institutional Investors

In US the importance of CSR reporting has been rising since past decade but it has been growing rapidly for the last few years. In US the culture of issuing CSR report is rising day by day and many US companies are now issuing their CSR report. General Electric (2005) and

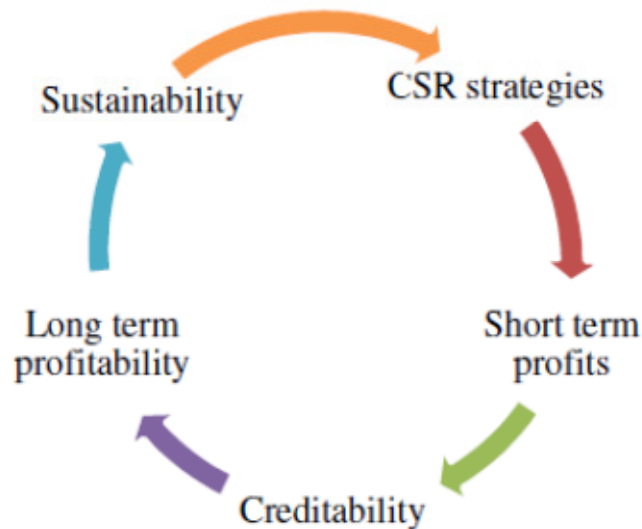
Categories	PSO	SHELL	ENGRO	UNILEVER
Department of CSR	No, CSR Department there is a CSR committee	No, Department name is social investment and communication	Yes, Separate Organization	Yes, Separate Department
Motive Behind CSR	To pay back to the society	To sustain the business in long run	To create sustainability for business and give opportunity to people of remote areas	Create sustainability which based on three factors improve health, reduce environmental impact and improve living standard
Company Internal Environment	Safe and healthy environment	Yes we provide safe and hygienic environment	Yes, Engro gives safe and clean environment both in office and plant side	Safe and secure environment
Employee Retention	Yes, it might be to some extent	No, it motivated employees but it can't retain employees	No, I don't think so	Employees can be retained to some extent
Follow Global Standard	No follow any standard make their own policies	Yes, follow proper global guidelines	Yes, we follow GRI guidelines	Don't follow but we take guidance from global standard and benchmark company which is best in CSR
Pressure from Government & Local interest Group	Yes, government influence in some projects and definitely obstacle come from community itself	Yes, pressure come from local groups and status quo	Yes, some local groups creates problem in implementation of CSR projects	Yes, when implement the projects in rural areas pressure coming through community and small groups
Impact on financial performance	No, I don't think it impact on our FP	Yes, to some extent it impact FP because through CSR employees are motivated and operations are efficient	Yes ,if you do strategic CSR it directly impact your FP as ENGRO did it	Yes, I think it impact FP in sense through CSR our market value improve and also our employees are motivated
Strengthen Company Identity	Yes, fortify company identity	Yes it does improve company identity in positive way	Yes, it definitely strengthen company identity depend on if your external communication is good	Yes, it braces company identity in a positive sense.
Follow competitor Practices	No, we don't follow competitor practices	No we don't follow	Yes if those practices make sense with our business we follow	No we don't follow competitor strategy
Create Visibility	Yes, it creates visibility.	Yes ,it creates visibility but we are not focus towards visibility	Yes, it creates visibility we won Asian CSR award so it create our visibility	Yes it 100% create visibility like build hospital

Time Warner(2005) may be quoted in this connection.

CSR practices in emerging economics

Dubai is one of the fastest growing economies where

policies support higher level of economic expansion but it has been observed that there is high chance of poor labor practices, injustice and other environmental damages. It has been recorded a rapid pace of growth there during the last thirty years. The reasons behind this



growth are comprised of two major factors namely (1) imaginary and motivated leadership (2) Open market aggressive strategy. In emerging economies the positive link between CSR and firms CFP is not justified and one can disagree on the basis of perception and views of stakeholders that how they take the CSR activities of a firm. Therefore, developing/emerging economy doesn't support communicating CSR activities to their stakeholders. Take for example, in Dubai there is ineffective management with the stakeholders.

CSR in Malaysia

Conventionally the purpose of Malaysian corporation is to maximize the wealth of shareholders. And for this purpose they tread an extra mile, if need be. For the last few years corporations require to reevaluate company objectives. The factors that forces corporation to review their objective are human rights, oil crises, Tsunami (2004) and labor issues. Activities like donation or other CSR practices were done in the past in Malaysia but for the last few years there appears extra efforts in the field. There are reasons for that. According to Zain (2004) the government of Malaysia indirectly pressurizes the companies to participate in community welfare.

CSR practices: Pakistan perspective

The advent of CSR is a new phenomenon in Pakistan. It does not mean there was no charity or community service practices here. Some individuals and corporations were involved in these type of practices for a long time. However, the modern concept of CSR and its practices are recent development to socio economic development. Recently a story was published in (Tribune, 2012). In that it is said that success in business lies in

welfare of all stakeholders. Jhangir Tareen, the author of the article, further explains his business model which he implements in their sugar mills. He extends sugarcane farmers micro credit and technical support, as was said.

Research report by MS. Ambreen

In her research report she analyzed the association of CSR with sustainability and profitability and for which she collected data from 100 companies of different sectors. The results reveals that in Pakistan oil & gas sector has 80% understanding of CSR, consumer product 75%, banking and service industry has 56% and remaining sectors like chemical, cement, textile etc are 30 or less than 30% understanding of CSR concept

RESEARCH METHODOLOGY

Research design

This research is qualitative in nature (exploratory study). In qualitative research one goes in depth for a particular issue and explores things.

Population

The population of our research project is organization managers who deal with CSR practices for the last one year.

Sample and Sampling method

Eight managers, directors/ advisors were interviewed. The sampling method that has been used for the report

is convenience sampling which is one type of non-probability sampling.

Data Collection

Data was collected from the national and multinational organizations which are executing the CSR business practices like PSO, ENGRO, UNILEVER, SHELL etc.

Measurement/Instrument selection

For in-depth interviews the open ended questioner is used.

Plan of Analysis

In-depth interviews are analyzed through content analysis. In content analysis data has been transcribed and main theme identified.

Discussion and analysis

CONCLUSION AND RECOMMENDATIONS

In the corporate world, the concept of corporate social responsibility has been increasing for the last two decades. CSR is the responsibility of an organization to act in a right way and should give some proportion of its earnings for the betterment of the society on the one hand and on the other for flourishing their businesses in the long run. Through different articles and reports it becomes clear that many decades ago CSR came into practice in the developed countries like UK. At the time of Thatcher's government in 1980, UK faced high inflation, unemployment, city riots and lots of social and economic problems but when Blair government appeared on the scene, they institutionalized the CSR practices which improved their social conditions. But in Pakistan the concept is still in the emerging stage and companies are not fully aware of the true concept and of CSR.

Most of the companies in Pakistan are mystified between CSR and philanthropy activities. This study was designed to explore the experience and perception of giant organizations regarding the motive behind their CSR practices and how these practices impact the financial performance of the companies.

PSO is one of the giant fuel distribution companies in

Pakistan, but still it doesn't know the true concept of CSR. Shell and Unilever as multinational companies are implementing CSR practices according to the global standards because their regional offices set certain standards and according to those standards they have to implement CSR practices. It is admirable that they focus on the common social dilemma and work accordingly. In Pakistan only a few local companies adopt true CSR practices. Engro does so according to the global standards and carry out their CSR practices through the value chain of their businesses. Government should also design proper framework for CSR standard so that companies implement correct CSR program.

Those organizations which had CSR strategies in their vision and mission provided community development programs, safe and healthy environment to their employees and encouraged voluntary participation in the social causes. These strategies resulted in employee retention and image and reputation building. These steps not only improved operational efficiency but also increased product quality. Ultimately they had a positive impact on the financial performance of a company. For example, Engro provides safe and healthy environment to their employees. It is also involved in the philanthropy activities that leads towards the real concept of CSR. Moreover, Engro in their dairy business had 2000 milk collection centers in the rural areas of Punjab and Sindh, which provides economic opportunities to the farmers as a result of which Engro is successful in getting the good quality of milk which enhances their product quality and also improves logistic efficiency, which has directly boost the profits of the company. All the representatives of national and multinational organizations are agreed with the Flammer (2012) that eco-friendly practices increase the stock prices significantly but less with the more CSR practices and CSR is considered to be resource of decreasing marginal returns. But Engro's experience is different. According to them CSR practices build image among the customers and their innovative and quality plans, products and services provide customer satisfaction which leads to increased revenues and increased market price. But, according to their experience they illustrated that the impact of CSR is not quantifiable so it is not advisable to figure out exact amount though it is a fact that companies are doing these practices for generating positive image and for more income in flow. As the profit rises, stock prices also increase which creates sustainability in the firm and that is the ultimate motive of CSR.

This study concludes that when companies implement CSR strategies in their operations, they become able to produce good quality of product which creates reputation of the brand in the market and this strengthen brand's identity through which they attract new investments and

increases customer loyalty which enhances companies short term profitability along with visibility. But unfortunately in Pakistan, organizations are unable to measure the impact of CSR in monetary terms or absolute value.

RECOMMENDATIONS

According to the analysis CSR is a two-way process. Firstly organizations fortify their identity or build up their reputation by fulfilling their responsibility. Through these practices organizations initiate welfare work for the society and resolve their problems. A few recommendations may be put forward in this context below:

- 1) The most important thing is initiation of nationwide awareness programs, arranging conferences about CSR so that stakeholders and other organizations can understand true concept of CSR.
- 2) Organization should consider CSR as competitive advantage and should implement their mission and vision so that they realize the advantages of CSR.
- 3) The course of CSR is included in core subjects of universities so that it can help produce CSR professionals in the market.
- 4) Government should institutionalize the standards of CSR or at least develop best practices guidelines so that organizations benchmark themselves and implement strategies according to them.

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