

# **Corporate Social Responsibility, the Role of Stakeholders and Sustainable Development**

## **“A Case Study of Pakistan”**

**By**

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**Abstract**

The Country Pakistan is chosen as a case study on the topic” Corporate Social Responsibility (CSR), the Role of Stakeholders and Sustainable Development” because of the unique nature, social & environmental challenges facing by the corporate sector of Pakistan. This study is aimed to provide understanding of CSR and the status of existence, implementation and utilization of CSR in the corporate sector of Pakistan along with the details of long term financial success associated with CSR. This paper also focused on the environmental and social externalities affecting the socio economic and financial success and point out the difficulties for best implementation of CSR Activities in Pakistan. What should be the objective of the corporate sector was also discussed before giving suggestions and conclusion.

## **1. Introduction**

Corporate Social Responsibility (CSR) is a way towards responsible competitive environment; it provides that, social behavior of businesses is the parameters for success. CSR movement all over the world had been to many phases and faces after its orientation in the corporate world with a history of over 100 years in the developed economies <sup>1</sup>. The initial phase was started with the charity then social activism with environmental protection movements. On the other hand, simultaneously, legislations regarding consumers' right were developed that resultantly forced to change the corporate behaviors and indulged them to adopt such behavior that make them more compliant towards legal, social and customer satisfaction. The next phase of developing CSR, in the corporate world rested with the absorption of social role aligned with the profit takings. In past few years, a paradigm change in the CSR role of the corporate world was observed from profit orientation organization to building relationship with share holders and society. In a summarized form the role of "CSR oriented organization" would be acceptable positive competitiveness, earning social respect and react for the betterment of the society. In a country like Pakistan, the CSR started its voyage few years back, however most of the CSR was related with the natural disasters and catastrophe of earthquakes of 2005 and Floods of 2010.

## **2. Corporate Structure in Pakistan**

Three folds corporate structure is found in Pakistan;

1. State Owned Enterprises managed by State (Government Institutions)
2. State Owned Enterprise managed by Others (Semi Government Institutions)
3. Private Entities (Local & Multination Companies)

After the independence of Pakistan in 1947, there were few state owned enterprises, infrastructure was not available adequately. However, people migrating into Pakistan started and flourished their businesses and successfully thousands of enterprises were established and ran successfully. Further, in early seventies, majority of the private owned enterprises were nationalized by the then Government forcefully, resultantly, the ownership of most of the corporate sector were kept by the state. Due to mishandling and having no experience by the government to take over such a huge number of enterprises, majority were privatized in last decade of 20<sup>th</sup> century. Some of them were privatized completely and some partially with management transfer rights. In due course of time, some domestic and foreign companies (multinational companies) were also became part of Pakistan Corporate structure, creating a perfect competitive environment while assuming the available corporate social responsibilities.

Corporate Social Responsibility (CSR) is not merely a fantasy but a phenomenon in the existing world. Domestic as well as Foreign Companies operated in any part of the world have some social responsibilities without fulfilling such could not make any organization

a successful one <sup>2</sup>. Developing countries and emerging markets companies are seen in the purview of performing CSR, which provide them two way successes which are also interrelated and directly proportional to each other i.e. Socio Economic Success and Financial Success.

### **3. Environmental and Social Externalities affecting the Socio Economic and Financial Success of any organization:**

<sup>3</sup> With reference to our case study of Pakistan the following are some of the factors that significantly affect the Socio Economic and Financial Success of organizations in Pakistan;

1. Environmental Protection, Health & Safety
2. Discrimination at Workplace / Unfair Employment / Working Condition and Child Labor
3. Political Pressure and Political Instability
4. Corruption, Terrorism & Illiteracy
5. Fundamentalism, Extremism & Religious Interventions
6. Social, Cultural, Economical Behaviors
7. Rule of Law & Prevailing Legislations & Accountability
8. Clientele base, Market niche & Marketing Strategy
9. Cartels Formation, Greedy Behavior & non existence of Competitive Environment.

### **3.1 Environmental Protection, Health & Safety**

The organizational success (social acceptance and financial success) is very much reliant on various environmental aspects. The environmental protection, health & safety of the work force and general public are now an admitted fact by the corporate sector all over the world. Now days, the CSR stakeholders spent millions of dollars for the awareness of environmental protections and health & safety issues. In our case study of Pakistan, various projects of the corporate sector were condemned having negative impact on environmental protections. Labor administration departments are vigilant on health and safety issues of workforce and civil society & media are observing every act of corporate sector in the parameter of health and safety issues for general public. Although, the success in this regard is not up to the mark, yet far better than what was happening in last decades. Civil Society and Media has come into the battle field in last 10 years to save not only the work force but also the general public from any misconduct of the corporate sector pertaining to the environmental protection, safety and health issues. In Pakistan, the CSR compliant companies towards environmental protection, safety and health are more successful and socially accepted rather than those companies which do not consider environmental issues on priority, while launching new projects.

### **3.2 Discrimination at Workplace / Unfair Employment / Working Condition and Child Labor**

The Government of Pakistan has promulgated various labor laws to administer any sort of discrimination at workplace, unfair employment, working conditions of employees and to prevent child labor. The Pakistan Economy is mostly undocumented economy which is really a threat to tackle above said factors affecting the socio economic success and financial success of any organization. For short term gains, the child labor and unfair employment would be the best option to exercise because the child labor and illegal employment (non immigrant and illegal work force i.e. unfair employment) is the cheapest available labor in the world but for long term financial success this practice would be un acceptable and the worst to get the sustainable development. Further, the reputation of organization and motivation of employees regarding discrimination at workplace and provision of ill working condition to the employees also affects the financial success of organization. The lesser the discrimination at the work place and the better the working condition, results in maximization of profits, which turns into financial success of the company. Similarly, the worst the working condition, the lower the morale and motivation of employee results in failure of the company. The role of stakeholders is very much important for creation and provision of better working conditions to employee. It has been observed in our case study that the organizations which are performing well in past few decades and showing a sustainable development and growth have very good relationship with their employees in terms of providing them safe,

healthy, non-discriminated and fair employment opportunities. On the other hand, the employees of CSR compliant organization towards above said traits have also been observed to be felt pride for being the part of such organizations.

### **3.3 Political Pressure and Political Instability (PPPI)**

PPPI is one of the major social factors that affect the socio economic and financial success of any organization in Pakistan. Since, the independence of Pakistan PPPI has been the nightmare of entrepreneurs and investors in Pakistan. As discussed above, in early 70s most of the enterprises of Pakistan were nationalized and resultantly shaken the confidence of entrepreneurs and investors, which not only harmed the ongoing initial phase of CSR implementation in the country but has also damaged the future prospects in this regard. PPPI is one of the major factors that drive the policy of any organization. A recent example was observed in January 2011, when an organization (Karachi Electric Supply Corporation- KESC) fired 4500 redundant employees from organization, but due to severe political pressure KESC had to take its decision back and all the 4500 employees were restored. Further, as observed in last 40 years in Pakistan, twice Marshal Law was imposed, 6 Elected Governments were not allowed to complete their constitutional tenure and more than a dozen of Prime Ministers were changed. Thus the Political Instability has seriously damaged the Financial Success of organizations in the Past few decades and it's continuing in the current scenario.

### **3.4 Corruption, War, Terrorism/Law & Order Situation and Illiteracy**

The second important social factor that brutally burst the success history of enterprises in Pakistan is Corruption, War, Terrorism/Law & Order Situation and Illiteracy. As available on records, Pakistan has fought 3 wars in last 62 years which resulted in economic disaster to the country. Further, more than 100,000 people have been killed in last 62 years as a result of terrorism which damaged the soft image of Pakistan as a safe place for investment. Corruption is also another factor which has hollowed the roots of economic growth in Pakistan in last 62 years. Whereas, illiteracy is the mother of every evil resides in Pakistan. Due to huge rate of illiteracy in the society, most of the times positive actions are taken with negative perceptions and mostly the reputation of any organization travel with rumors rather than the research. All the above mentioned four social illness have caused severe injury to the financial success of almost all the corporate sector in Pakistan. In our case study of Pakistan, any organization can attain a short term financial success through involving in corruption by bribing the local and fiscal authorities through invasion of taxes and make the authorities to change the policies to get some benefit but in the long run these ill practices could not be benefited. Due to Afghanistan War and Kashmir issue with India, Pakistan is in a war like situation and a victim of terrorism and therefore the law & order situation is terrible for the last many decades, as a result of which organizations in Pakistan could not be flourished and worked at their utmost level. Further, they are now always vulnerable to various safety,

credit, market and financial risks which ultimately affected the sustainable development, financial success and growth of the Company.

### **3.5 Fundamentalism, Extremism & Religious Intervention**

The major factor amongst the other factors affecting the socio economic and financial successes of organizations in Pakistan is Fundamentalism, Extremism and Religious Intervention (FERI). In Western societies the fundamentalism, extremism (religious extremism & social extremism) and religious intervention are though not considered as important factor for socio economic and financial successes. However, a recent example was observed in Italy when an advertisement of Ice cream was banned due to the intervention of Vatican City. In societies like Pakistan, no organization could be saved against the bitterness of FERI. <sup>4</sup> Few years back an example was observed when the products of the companies having any sort of relationship with Israel and Denmark were boycotted, as a result of which many companies borne losses of millions of dollars. With reference to our case study of Pakistan, the society reacts every quickly both negatively and positively on any statement / act of some people, group of people, associated companies or stakeholders of any organization directly or indirectly associated with the religious matter, it is the proven fact in Pakistan and every organization has acknowledged this fact and now they try to restrain themselves from such activities that affect the religious sentiments of general public.

### **3.6 Social, Cultural, Economical and Environmental behaviors**

The study of social behavior with regard to the case study of Pakistan CSR could be used to understand the impact of Social, Cultural and Economical Behaviors (SCEB) on socio economic and financial successes of organizations in Pakistan. As per the applied model of this study the SCEB are interdependent and correlated with each other, while providing difficulties for adoption and execution of socio economic and financial changes that comes with the successes associated with each other. If any multinational company providing any social community service to any group of people in Pakistan, on the first stage their efforts would be seen in the parameters of conspiracy for the country, in the second stage the success/failure would be linked with some preset agenda and lastly, the entire process of corporate social responsibility will be challenged on some custom/environmental or economical disadvantage. It is very difficult to perform CSR activities in Pakistan with the pre-defined negative SCEB behaviors.

### **3.7 Rule of Law, Prevailing Legislations & Accountability**

Pakistan is a country where Rule of law, prevailing legislations and accountability though exist but has negative impressions on financial success of any organization. The laws are made and amended only to protect and favor certain group of people. <sup>5</sup> For instance in December 2010 one Statutory Regulatory Order (SRO) was notified, allowing to import 5 years old used cars into the country. After 22 days of the issuance of the said SRO the notification was cancelled. Till the time a certain group of people whose

imported cars were landed at the ports were made cleared in 22 days time period. After the issuance of the said SRO more than 10,000 vehicles were purchased by the Corporate sector of Pakistan from all over the world some of were in transit and rest were at the port of other countries. Suddenly, without any purpose and intimation the above referred SRO was declared cancelled by the authorities causing huge losses to companies across Pakistan. Simultaneously, accountability is also a major factor that impacts the socio economic and financial success of organizations in Pakistan. After the cancellation of National Accountability Ordinance, no accountability law was prepared and promulgated in last 3 years. There is no accountability for any thing in Pakistan except what the Supreme Court of Pakistan is doing now days. Constitution of Pakistan provides a Sue Moto Action by the Supreme Court of Pakistan, by which the Courts are noticing every illegal, unconstitutional and unethical act of Governments, authorities and other sectors. This is what the people of Pakistan wanted from the Supreme Court of Pakistan after the successful movement of independent Judiciary in the country. Though, the scope of Supreme Court in this regard is not limited but everything could not come into the notice of court. The only hope remains with the people and corporate sector of Pakistan is the Supreme Court of Pakistan, which is the final authority for ensuring Rule of Law and Accountability in the Country.

### **3.8 Clientele base, Market niche & Marketing Strategy**

Another factor of socio economic and financial success of the corporate sector in Pakistan rests with the Marketing Strategy, depth of Clientele base and Market niche. The effective the marketing strategy, the more the clientele base which resulted in higher financial success. Pakistan is a country where two third of the population comprises of young generation, the successful marketing strategy for any corporate sector is to attract this segment of market. In last one decade the Cell phone users of Pakistan have crossed by 100 million and majority of the users are the young generation. The cellular service providers are focusing on this particular segment from last few years providing cheapest call rates, night call package etc. and in this way getting the more socio economic and financial successes. Every product/Service has its own specific customers, to identify and target the customer is to be the focal point of every organization, thus the financial success and social acceptance is dependent on the marketing strategy adopted by the organization. Reputation pertaining to social and environmental protection activities also provides better opportunities for proper marketing. In Pakistan, sales promotional activities are associated with some social cause not only to boost the sales of the company but also to foster the goodwill and reputation of the company. Examples of diaper sales and internet services with contribution of certain some of money for certain social and noble cause are referred in this report.

### **3.9 Cartels Formation, Greedy Behavior & Non-Competitive Environment**

The another factor that affects the socio economic and financial success of the organization in Pakistan is Cartels Formation, Greedy Behavior and non competitive environment for lust of profits. It was observed in last 20 years in Pakistan, greedy corporate sector formed various cartels and provided and made available to the consumers non competitive environments for their lust of profits. The two famous cartel formation was amongst the others were Cement manufacturing cartel and Sugar industry cartel were being famous in last one decade, which were formed to protect the interest of their own rather than to protect the interest of the consumers with the aid of some authorities <sup>6</sup>. As a result, sugar and cement prices were inflated, supplies were made short despite higher demand for maximization of profit and loss to the society in general. Such act of organizations damages the CSR scope and role of corporate world.

### **4. Long Term Financial Performance Associated with CSR Activities**

It is a true phenomenon that the companies assuming Corporate Social Responsibilities are financially performing well then other companies in the entire world and also in Pakistan. The compliance of CSR focused organizations in Pakistan are observed in three major areas. However, the number of such organizations could be counted on finger tips.

1. Compliance to Environmental code
2. Compliance to Labor code
3. Compliance to Social code

Most of the organizations are complied with the social code but limited to only with the provision of charity/philanthropy for some social and noble cause. However, some organizations are complied with social and Labor code to some extent. Whereas there are only few organizations (most of them are multinational companies) which are in compliance with the above three codes, because of their foreign linkages with their parent companies or associations with international institutions. In our case study of Pakistan, two incidents occurred in the last one decade that has opened the door of CSR in Pakistan, i.e. the Earthquake of 2005 and the Floods of 2010.

On October 08, 2005 a large magnitude of earthquake hit the northern areas of Pakistan. As a result of which more than 100,000 people were killed and millions of people were displaced with loss estimation of more than 50 billion US dollars. This is the time when the CSR role of corporate sector was observed not only in Pakistan but in the entire world. Approximately more than 10 billion US dollars were received as aid from different countries, corporate sectors and general public. The CSR oriented companies in Pakistan helped with their best available opportunities by providing financial aids, community services, developing infrastructure, developing educational institutions, providing basic house hold to the affected people directly and through government support<sup>7</sup>.

In the year 2010, a large magnitude of floods destroyed the major rural areas of Pakistan, the death toll was around 30,000 citizens of Pakistan, whereas the loss to the property and infrastructure was estimated around 40 billion US dollars. The CSR assuming organizations from all over the world including the Pakistani corporate world helped the victims of floods <sup>8</sup>.

The activities of CSR assuming organizations in Pakistan is not limited to the extent of above cited examples but generally their role is extended to the community services, developing primary and secondary educational institutions in the remote areas of the country, promoting higher education in the country and providing financial aids to poor people. On the other hand employees working in CSR assuming organizations feel better, prepare for challenges and crises, having sound reputations and good, equipped better management approach. The CSR reputation of the organization is associated with the products and services offered by them and people feels that if they buy product and services from these CSR compliant organizations the society will get the return in turns. Further, the CSR compliant organizations are also seen with pride, having sound market relationships with all the stakeholders including, their shareholders, financiers (financial institutions), government authorities and general public.

For instances, one CSR assuming organization manufacturing and selling the diapers of children launched a scheme that for sell of every diaper a rupee will be donated to some

charity. One CSR compliant organization, an internet service provider, launched a scheme that, for sell of every internet connection Rs. 50.00 will be donated to Shaukat Khanum Cancer Hospital. This shows that the corporate world of Pakistan is still in the initial phase of charity. It was noticed that after the launch of the above schemes the sale of the products and services of the above referred companies were increased, which increased the financial performance and impact the success of these companies.

The second phase of CSR, in the Pakistan corporate world is in process that rests with the compliance of environmental code and absorption of social role aligned with the profit takings. Once the initial phase of CSR is completely implemented amongst the entire corporate sector along with the development of relevant legislations, the second phase will be implemented successfully.

## **5. Environmental and Social Aspects of Long Term Financial Performance**

<sup>9</sup> As already discussed, in this research that what are the social and environment externalities negatively or positively affect the corporate financial performance. The environmental and social behavioral study of Pakistani socio economic system suggests that the following are the major environmental and social dimensions that could increase the long term financial success, sustainable development and growth of any organization in Pakistan.

### **5.1 Environmental Aspect of Long Term Financial Performance**

Various academic researches have provided that the environmental aspects of long term financial performance are associated with the reputation of organizations performing CSR activities in the area of energy conservation, proper using of waste materials, environmental protections, change of environmental hazard production processes to environmental friendly processes, restraining from discharge of toxic emission and wastes, compliance towards provision of human friendly environment to the employees/workforce, encourage equal and fair employment practices, considering the health and safety of all the stakeholders, involving in the production of safe and secure products and reactive on proper feedback from all stakeholders.

### **5.2 Social Aspect of Long Term Financial Performance**

It has been observed world wide that the CSR compliant companies focusing on various social aspects for attaining sustainable development and increasing financial performance are generally avoids involvement in law breaking activities, tax evasion, corruption, bribing the authorities, activities that impact the religious sentiments of stakeholders, activities negatively impacts the social and cultural concerns of the people, discrimination in employment opportunities, involve in unethical corporate actions, influence the authorities, disregarding the labor laws for wages and employment, forced working of employees, encouraging child labors and disrespecting the social and cultural sentiments of all the stakeholders.

There is a strong relationship exists among the CSR activities, sustainable development, positive growth and financial success and it has been noticed that various immoral and environmental hazard activities damages the reputation of the company which impacts the price of that company in stock markets. Organizations having good reputation and performing CSR activities easily influence their target markets and get maximum advantage from it. However, organizations non compliant with CSR, always suffering with bad reputations and losses. The CSR compliant companies are seen as model among their peer group companies on the scale of growth and positive financial performances.

## **6. What is Corporate Governance?**

<sup>10</sup> Corporate Governance (CG) is the method where by the organizational goals are identified, accomplished and scrutinized. CG could not be seen isolated from CSR even it is the important element of CSR activities. CG is one of the important parts of the big ice berg of CSR. The sole purpose of CG is to protect the interest of all the stakeholders of the corporate sector while providing assurance in respect of good governance in the company, where each stakeholder performs its due and assigned role more effectively and efficiently with a sense of responsibility, accountability and transparency. The good CG also provides assurance to each stakeholder that the company is well managed and well controlled. The parameter of CG is computed through its legal frame work. In our case study of Pakistan, Code of Corporate Governance has been framed in order to control and administer the company according to the best practices being followed and

adopted by the entire corporate world. Securities & Exchange Commission of Pakistan is the apex regulating body of all the corporate structure exists in Pakistan (SECP). The Code of Corporate Governance (CCG) in Pakistan has been put into place for compliance of all listed entities in Pakistan. The CCG requires each listed entity to confirm upon various set of rules of business by the board of directors, shareholders, audit committees and management and compulsory reporting of compliance is required under annual audited report issued by the external auditors. The CCG also requires various disclosures that need to be reported by the stakeholders at different stages. Other than listed entities CCG is not required to be implemented. Besides, the listed companies some unlisted companies have adopted the CCG voluntarily for promoting transparency, good corporate governance, integrity, truthfulness, just and reasonable business dealings and professional commitment.

## **7. Who are Stakeholders?**

The following is list of 6 key stakeholders for any corporate sector;

- I. The Corporate sector/ Board of Directors / Board of Trustees / Management
- II. Human resources/ Staff / Employees / Personnel / Work force
- III. Clientele / Consumer / Customer
- IV. Purveyor / Supplier / Financer (Finance Providers- Financial Institutions)
- V. Society / People / Media / Auditors
- VI. Government / Regulator / Local Authorities / Associations

## **7.1 Role of Stakeholders in the Corporate Governance of Corporate Sector (Emerging Market Firms) of Pakistan**

Corporate Governance (CG) in its true sense is the mechanism of achieving the pre set corporate objectives where responsibilities are associated with accountabilities. Good Corporate Governance could not be achieved with out the proper participation of all the stakeholders in the process of corporate governance. The Pakistan stock markets have been categorized the Emerging Market and all the listed companies at stock markets are required to ensure the compliance of Code of Corporate Governance. The one important function of Corporate Governance is to protect the interest of all the stakeholders. During the past one decade, the emerging markets firm of Pakistan has recognized the significant role of Stakeholders role for the corporate governance.

<sup>11</sup> In the year 2005, the World Bank, in its Corporate Governance Country evaluation report, rated Pakistan as “observed” regarding “Stakeholder rights were given respect for decision making” and “Performance-enhancing mechanisms”. Further, it was pointed out in the assessment that all the required objectives were found satisfactorily and no bigger weaknesses were identified in this regard. However, for “Restoration of violated rights” and “Coordination among stakeholders with the board regarding immoral and unlawful practices” were assessed “partly observed” and it was stated that the compliance of prevailing regulatory framework was observed satisfactorily with respect to Principle,

practices and enforcement diverge”. “Right of entry to get and collect information” and “valuable liquidation and Creditor’s rights” were assessed as “highly observed” showing that only few shortcomings were observed without questioning the capability and intention to accomplish the status of “completely observed” in the short term. The World Bank’s assessment also indicated that Creditor i.e. the one of the important stakeholders in Pakistan listed companies remained as fragile sector. However, in past few years significant development were observed to make them stronger and effective stakeholder by introducing the Financial Recovery Act and establishment of various grievances handling forums including specialized courts (Banking Courts) dealing with the matters pertaining to the creditors (financial institutions) and the proceedings of these courts were declared as the summary proceedings, which should not take a period of more than six months for an appropriate recovery of settlement from the date of filing of recovery suit. Through the Financial Recovery Act, the creditors are also been facilitated for the recovery of amount and sale of properties held as securities. These efforts have significantly preserved the Creditors’ right. Further, the World Banks Assessment report also pointed out that Pakistan is the better place as compare to its neighbor jurisdictions for protection of stakeholders’ right and especially the Creditors’ right. The report specifies that the Creditors have been given right in various circumstances where they could appoint and nominate their representative on the board of a listed company. However, the another stakeholder “Employees” of the listed companies have not been given any right to appoint any person or to sit on the board of the company, whereas, the

employees are encouraged and protected in case, if they act as “whistle blower” by virtue of their employment contracts but in absence of any law for the protection of whistle blowers the achievement in this regard are not satisfactory. The report also specifies that the other stakeholders in the Pakistan corporate world are the workers / workforce of the companies, and they play a significant role in the corporate governance and react on any illegal and unethical activity very positively. Further, their rights are also protected through labor administration laws.

As evident from the World Bank Report that, stakeholders are regarded as essential part of the CG and have greater role in the CG of Pakistan corporate sector (emerging market firms). In Pakistan it is consider that the stakeholders are a key factor and be utilized to improve existing corporate governance structure. For instance, in the corporate structure of Pakistan, institutional investors/shareholders and creditors/financial institutions has significant presence and appointment of non executive and independent directors on the board of emerging firms are the result of institutional shareholders active participation in the CG.

Every Stakeholder has some unique and special role in the CG exercise. All stakeholders are playing their due role and as a result of which corporate reforms are on its way. From the above discussion, it is concluded that the stakeholders of corporate sector in Pakistan has very effective role in the CG. However, the role is not efficiently been utilized to

improve the in Pakistan. The efficiency in this regard was observed to be different on case to case basis. On overall basis, the role of stakeholders was not found efficient towards Good Corporate Governance. Although each stake holder is performing its due and assigned role but the achievements are not up to the mark of international standards as evident from the World Bank assessment report. Further, though the Corporate Governance is far better, if compare the status of CS in Pakistan with its neighboring countries which have similar opportunities and problems but the stage of complete satisfaction towards Good Corporate Governance is far away.

In all over the world the CG is also seen under the purview of CSR activities and role of stakeholders in this regard is given here under;

## **7.2 Role of Stakeholders in the implementation of CSR**

<sup>12</sup> Stakeholders are the essential component for implementation of CSR in any society. The world has now become a corporate village, where every act of it, is seen under various parameters starting from human rights to social cause, environment protections to civil and labor rights. Every person attached with the corporate world, in bigger terms is directly or indirectly a stake holder and every organization along with its stakeholders recognize the importance of CSR. In a society like Pakistan, serious efforts are required to implement certain procedures for active coordination among all the stakeholders. It was observed in many cases that without active coordination, the social responsibilities assuming by the corporate sector is some how not serving the purpose for all the

stakeholders. The distant approach in this regard is seriously hampering the implementation of CSR activities and it is necessary to introduce a meaningful interaction among all the stakeholders to take the maximum advantage of available CSR activities in the country. As per the trend analysis of consumer behaviors all over the world, the paradigm shift of cost-quality sensitivity to CSR sensitivity is observed in past few years. However, the same was not observed swiftly in the case of Pakistan, where cost-quality sensitivity is given more wait. The CSR activists are now pushing among others for moving the focus towards CSR sensitivity. The above fact also evaluates the current status of Pakistan Corporate Sector in the field of CSR as compared to other jurisdictions.

Among all the stakeholders the society/people/media is the major stakeholder and their perception towards specific products/services are the driving factor for financial success of any corporation in any jurisdiction. In our case study of Pakistan, the Civil Society and the Media plays a pivotal role for changing the perception of any product/services offered by any company. A recent example is noted in Baluchistan Province of Pakistan, where one international mining company was trying to get the license of one of the world largest copper and gold mine while offering lesser return to the Government of Baluchistan, in connivance with some local authorities. The media noticed this deal and reported news channels as a result of which not only the Supreme Court of Pakistan took a Sue-Moto action of the deal but also the civil society filed a case to restrain the local authorities to transact such loss making deal with that company.

## **8. Deficiencies/Problems observed in the Stakeholders for the best implementation of the CSR Activities in Pakistan**

<sup>13</sup> Following are some of the difficulties that were observed in our case study of Pakistan for best implementation of CSR Activities in Pakistan.

1. Lack of Coordination amongst the stakeholders
2. CSR is not charity it is assuming social responsibility
3. Free Market / Fair Competition
4. Reporting/Disclosure Requirements
5. Unawareness; what rights are and how they could be protected
6. Unavailability of Standards to be Adopted
7. Lack of unified plan & Awareness

### **8.1 Lack of Coordination amongst the stakeholders**

It has been discussed above that there is serious lack of coordination amongst all the stake holders of CSR except in the case of marketing activities where customers are directly communicating with each other. In order to implement a better CSR activities in Pakistan there is a need to encourage coordination among each stakeholder with the corporate sector.

## **8.2 CSR is not charity it is assuming social responsibility**

The other problem faced by the CSR activist in Pakistan is the perception of CSR as charity. Charity is one of the smaller part of the big ice berg of CSR. There is a need to change this perception of CSR from charity to social services. Further, with reference to our case study of Pakistan that, most of the corporate sector of Pakistan is of the view that CSR is not a social responsibility rather a compulsory imposition and organizational efforts for the implementation of CSR is not more then just a feeling of “pride”. However, lack of sense towards the financial triumph and long term organizational success requires serious efforts for the change in perception toward CSR and sustainable development associated with it. This exhibits the trait of corporate sector in Pakistan towards negative perception of CSR as Charity.

## **8.3 Free Market / Fair Competition**

The major deficiency for the effective implementation of CSR in Pakistan is unavailability of free markets and fair competitions. By bringing in the fair market competition and free markets the sustainable growth associated with it, could create price diminution, quality appreciation, environmental protection, social recognition. Unavailability of free markets and fair competition is associated with the short span of organizational goals. However, for long term organizational and social success free market and fair competition is the pre requisite.

#### **8.4 Reporting/Disclosure Requirements**

Pakistan is mostly undocumented economy not only this is the phenomena from the Government but also observed this trait in corporate sector and general public. Effective CSR could not be implemented without information dissemination to the targeted users. There are various reporting and disclosure requirements are made compulsory for corporate sector but the same is not implemented in letter and spirit. The Companies Ordinance 1984 and Code of Corporate governance requires a list of disclosure need to be reported by the each stakeholder along with its disseminations accordingly. Two types of private entities can be identified in Pakistan; Family owned enterprises and Public owned enterprises. Major violations of Code of Corporate Governance were observed in Family owned enterprises. This behavior of organizations could be because of two most import reasons. i.e. lack of trust and fear of loosing. To address this issue, first of all trust deficit need to be overcome among the stakeholders.

#### **8.5 Unawareness; what rights are and how they could be protected**

Unawareness from prevailing laws, available forums, applicable standards for consumer protection and social services amongst the stakeholders are also common phenomenon. Like every society, Pakistan also has various laws protecting the consumer rights, discouraging cartels, artificial price inflations & supply deflations and legal disclosure requirements to protect the consumers/customer rights. Labor laws are also present to protect the interest of workforce/employees, but there is no proper awareness of such

information to the stakeholders. 60% of the stakeholder doesn't know what their rights are and how they could be protected. CSR in most part of the world is changing the thinking and spreading awareness among the stakeholder regarding their rights and protection of rights.

### **8.6 Unavailability of Standards to be adopted**

In our case study of Pakistan, there is a serious need to develop some standard set of benchmark for CSR implementation and measurement between the different corporate sectors and among the stakeholders. Every society has different dimensions, different norms, different reaction and approach to similar situations therefore the internationally adopted standards if adopted, may create disharmony and would be difficult to implement in Pakistani culture, therefore different set of standards need to be developed and implemented accordingly.

### **8.7 Lack of unified plan, Awareness & Forum**

The stakeholders in Pakistan have no unified approach or plan to tackle the problems associated with the implementation of CSR activities in Pakistan. First of all, a forum of stakeholder needs to be developed accordingly consisting of professionals having vast experience and sound knowledge of CSR and make an executable plan, then awareness campaign be launched accordingly in order to educate the stakeholders. There is a specific need to create awareness among each stakeholder for better utilization of

resources and to get the maximum advantage from implementation of proper CSR activities in Pakistan. Further, future leadership needs to be developed and groomed accordingly. Various companies are interested to introduce CSR activities in Pakistan from their sides but have no guidance whether from government institutions or association bodies. Institute of Chartered Accountants of Pakistan, Institute of Cost and Management Accountant of Pakistan and Institute of Chartered Secretaries of Pakistan should add CSR on their priority list and to workout plan for implementation of CSR activities in listed companies' structure of compliances.

### **9. Objective of Corporate Sector of Pakistan (Emerging Market Firm)**

<sup>14</sup> The core objective of every company in any part of world is none other than the maximization of shareholder value, capitalization of profits and general acceptance i.e. branding and creating goodwill in the market. However, for any emerging market firm the core objective should never be the maximization of shareholder value only, but the objective of the firm should be a balanced objective of maximization of shareholder value and implementation of CSR.

With reference to the corporate sector of Pakistan, the long term financial & socio economic success, acceptance among all the stake holders and sustainable development & growth, the objective of the corporate sector should always be a mix of maximization of shareholder value with recognition of CSR compliant organization. However, for

short term financial success, some of the organizations do believe in only maximization of shareholder value in order to sacrifice the long term sustainable development and growth. There are a lot of examples of various listed entities, where they had got various chances for short term financial gains by involving them in some illegal and unethical activities, which may damage their reputations but they preferred not to indulge themselves in such activities and to look for long term organizational reputation and financial success.

The mix of objective between the maximization of shareholder wealth and to be a CSR compliant organization varies with the nature, extent and scope of businesses. The ideal approach as observed in the case study of Pakistan is the fifty- fifty approach, where the objective of the organization is set with respect to fifty percent focus on maximization of shareholders value and fifty percent focus on the implementation and practice of CSR activities. Further, as already discussed in this report that, the society responds positively both socially and financially, in respect of each investment made by corporate sector for the betterment of society. Positive social success from society on investments made by corporate sector can be attained in short term tenure. However, positive financial success from the society is associated with long term commitments.

Maximization of shareholder value is also associated with the long term commitment and long term commitment is interrelated with general acceptance, reputations and good will in the society and general acceptance, reputations and good will could not be attained

without assuming the social responsibility, therefore in a long run the maximization of shareholder value is directly related with assuming the CSR. For every market, whether developed, developing, under developed and emerging market, there is only one formula for maximization of shareholder value in the long run is to perform the social due role or assuming the CSR.

As discussed in the start of this paper that corporate structure of Pakistan is of three fold and corporate sector is in its initial phase of CSR implementation so the best strategy for sustainable growth is rest with the development and implementation of CSR.

## **10. Conclusion**

It is apparent from this study that the long term financial success, sustainable growth and development of every organization rest with the implementation CSR activities. There is a strong need that the corporate sector of Pakistan requires swift actions to accept and implement the fast growing CSR activism that is being adopted world wide and setting the new standards of financial successes, social reputations and growth. On overall basis, the corporate sector in Pakistan is at the initial stage of CSR activism but needs serious efforts to accept and assume the present fast pace of CSR along with recent paradigm change world wide. There is a requirement to progress the overall quality of CSR in the Pakistan. The stakeholders are the most important element of CSR environment in any society and with reference to Pakistani society, the stakeholders needs to get the awareness of what their rights are and how they could be protected. Further, the

misconception regarding the CSR as charity/philanthropy needs to be dealt with according through awareness campaigns. The advantages associated with the implementation of CSR requires to be disseminate among all the stakeholders by way of dialogues among the stakeholders, including but not limited between government authorities, media, civil societies, trade unions/associations, shareholders and the management of corporate. Various deficiencies were observed on uniform law making for the promotion of CSR activities with the involvement of all the stakeholders in the country. The role of stakeholders is required to be more focused, effective and efficient towards good corporate governance and implementation of CSR. SECP being the apex regulator of the corporate sector in Pakistan can play a significant role in driving the efforts of all the stakeholders towards good corporate governance and CSR. At the end, the long term financial & socio economic successes, sustainable development and organization growth of corporate sector of Pakistan as a whole, is associated with the implementation of Corporate Social Responsibilities.

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