

**THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON  
PROFITABILITY OF FIRMS: A CASE STUDY OF FERTILIZER & CEMENT  
INDUSTRY IN SOUTHERN PUNJAB, PAKISTAN**

**Prof. Dr. Abdul Ghafoor Awan**

Dean, Faculty of Management and Social Sciences,  
Institute of Southern Punjab, Multan-Pakistan.

**Naveed Akhtar (Corresponding Author)**

MS Scholar, Department of Business Administration  
Institute of Southern Punjab, Multan- Pakistan

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**ABSTRACT:** *The Corporate Social Responsibility (CSR) is a powerful tool or channel for ensuring greater benefits to the individual organization and enables a better engagement in the society. The study examines how Corporate Social Responsibility (CSR) is contributing to mass access of Fertilizer & Cement Industry in the local and global market. The study used cross section primary data from the level of executives of the corporations. Towards the achievement of its objectives this study uses descriptive statistical tools. The findings of the study revealed that practicing of CSR is playing pivotal role to pick up the brand image and reputation of the Pakistani Fertilizer & Cement Corporations to the customers in the local and global arena. This study focuses on the society that has a lot of sacrifices for the benefits of these organizations, as a result of which the organizations must share the fruits of profit to society in the form CSR. In Pakistan, the major part of society is poor and government is unable to cater with the general problems of the society/population and the business organization have earning huge profits in the same country and in the same society. In our country the contribution of society towards the business organizations is at maximum but the CSR activities in Pakistan are not up to the mark.*

**KEYWORDS:** CSR, CO, ROI, CF.

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## **INTRODUCTION**

Corporate social responsibility (CSR) has been present in the Management and Accounting literature for about 45 years (Wood, 2010). Both organizations and societies have significantly increased their focus on CSR in recent years (Adams and Frost 2006; Gulyás 2009; Young and Thyil 2009). Traditionally, companies have to focus on strategies for their business operations and profit such as differentiation, diversification, turnaround, concentration and globalization. However, recent developments in strategic thinking support the need to add activities that expand out from the company into society. Scholars have identified these activities as corporate social responsibility (CSR) activities (Carroll 1979; Margolis and Walsh 2001). Further, CSR scholars, managers and authors have recognized the actions of cause marketing, donation, society improvement, disaster relief, protection, peace initiatives and pollution reduction as companies' social responsibility activities. Among the many reasons identified to persuade companies to

implement CSR are popularity (Fernando, 2007), business strategy (Dentchev, 2004) and stakeholder pressures (McWilliams and Siegel (2001)). However, there are some direct benefits that have been recognized by many scholars of implementing CSR from the companies' point of view (Margolis and Walsh 2001; Porter and Kramer 2002). As a result, studies are used to examine the relationship between CSR performance and company performance to identify the above benefits.

The practice of CSR has been dominated by developments in Western developed countries, such as the United States of America (USA) and the United Kingdom (UK) (Chambers et al. 2003) and it is unclear whether it translates easily into developing and low income countries. These specific circumstances have been discussed by several scholars who have identified the gaps between developed and developing countries when CSR is implemented (Chambers et al. 2003; Matten and Moon 2004; Chapple and Moon 2005; Visser 2007). Writers such as Edmondson and Carroll (1999), Burton et al. (2000) and Khan (2005), have suggested that different cultural models and traditional customs may mean that a great deal of what is currently understood about CSR may not be applicable in developing countries such as Pakistan.

UN Global compact has introduced ten principles, which are used in both developed and developing countries as a foundation for applying CSR in their organizations.

Substantive Area	Principle
Human Rights	1. Business should support and respect the protection of internationally proclaimed human rights; and 2. Make sure that they are not complicit in human rights abuses.
Labor Standards	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. The elimination of all forms of forced and compulsory labor; 5. The effective abolition of child labor; and 6. The elimination of discrimination in respect of employment and occupation.
Environment	7. Businesses should support a precautionary approach to environmental challenges; 8. Undertake initiatives to promote greater environmental responsibility; and 9. Encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.

**Main research question**

The main research question is to measure the impact of Corporate Social Responsibility on profitability of business firms. We will investigate how Pakistani companies in fertilizer and cement sector are implementing CSR and what is its impact on their performance of profitability?

The objective of this research paper are stated as under:-

- i. What are the conditions of Corporate Social Responsibility in Pakistan?
- ii. The concept of CSR is being implemented in its true sense in the corporate sector.
- iii. The companies implementing CSR are obtaining any benefit in terms of better performance, better profitability and improving good will in the market and consumer community.

**Scope of the Study**

This study helps the readers to understand the basis concept of CSR and particularly in third world countries like Pakistan where the fundamental rights are very poor. It further helps to implement the CSR practices in the real sense in order reap its benefits. The scope of CSR is wide in Pakistan because now business firms are understanding its meaning and benefits and this is the reason they are opting it.

**LITERATURE REVIEW**

The chapter aims to overview the development of CSR concept, the drivers of CSR and the benefits of CSR found by different writers.

**The Concept of Corporate Social Responsibility**

The concept of corporate social responsibility (CSR) refers to the universal opinion held by a raising number of citizens that modern businesses have obligations to society That extends beyond their responsibilities to the stockholders or investors of the firm (Visser, Matten, Pohl, & Tolhurst, 2010). As different authors tend to express different feelings around the concept of CSR and the determination of CSR boundaries, Dahlsrud A. (2006) analyzed the differences and similarities in the definitions by doing a literature analysis. He identified five categories and dimensions, which are commonly associated with definitions of CSR: Environmental, social, economic, voluntary, and stakeholder concerned (see Dahlsrud, 2006). The analysis showed that definitions are linked up to a large extent, "it is concluded that the confusion is not so much about how CSR is defined, as about how CSR is socially constructed in a specific context" (Dahlsrud, 2006).

Table 1 Different dimensions of CSR

<b>CSR DIMENSIONS</b>				
<b>Economical</b>	<b>Social</b>	<b>Environmental</b>	<b>Stake Holders</b>	<b>Voluntary</b>
Profit Seeking Business Orientation	Public Environment Improvement	Clean Environment Security	Relations with Stake Holders (Based on Values)	Above and Beyond required by Law

Source: adapted from A. Dahlsrud (2006).

Table 2. **The concept of CSR**

Author	Concept
Gardening. And Leipuvien., (2007)	Corporate social responsibility a concept under the participants in their business activities and relationships with stakeholders on a voluntary basis include social, environmental and other issues.
European Commission	A concept whereby companies integrate social and environmental concerns in their line of work operations and in their interaction with their stakeholders on a voluntary basis.
World Bank	The commitment of commercial enterprise to contribute to sustainable economic development, working with Employees, their families, the local community, and society at large to improve their quality of life, in ways that are both safe for business and good for development.

Source: adapted from Pusva. kyt. (2009) by authors, 2012.

European Commission defines CSR as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Commission of the European Communities, 2006).

### **The evolution of the CSR concept**

Over the final decade, corporate social responsibility has become one of the most debated concepts in business, scientific discipline and society. The legal age of scientists believe that CSR will be the predominant subject in the future as long term goals and ethical behavior prevail. The CSR concept itself started developing with a wage increase of religion (Crane, 2008), Philosophical systems (Zhu & Yao, 2008), industrial revolution and has principally been formed by the twentieth century. To the extent that there is a job, then there is a wide range of responsibilities to the public, government and other interested people. Patrick Murphy (2009) classified four CSR areas that encompassed the period before and after 1950:

1. The beginning stop was “philanthropic” in which companies donated to charities. The period lasted approximately till 1953.
2. The following period was appointed an “awareness” era, during which businesses’ responsibility became easier identifiable and business became more involved in Community affairs (Murphy, 2009).
3. In the late 1960s the era of “issue” has worked and shaped business mentality. The Companies began focusing on different topics such as racial discrimination and Pollution problems (Murphy, 2009).

4. In the mid-1970s the era of “responsiveness” began. Companies started taking seriously managerial actions to address CSR issues.

Likewise.. Ken. & Ru. Evi. is (2011) also noted that a formal and research-grounded interpretation of CSR started in the second half on twentieth century and since 1950s, which set a “birth” of the formal corporate social obligation, many scholars have been top of form researching CSR from different points of opinion. One of the first volumes published on responsibilities of business is Howard’s R. Bowen’s Book “Social Responsibilities of the Businessman” (1953). The publication is argued for mark the starting times of the modern period of literature on CSR. Bowen was one of the first to articulate a definition as to what social responsibility means (Murphy, 2009).

Although there have been many definitions of CSR since Bowen and much of the development has happened, the initial definition of CSR could be relevant even today. Because of his early and seminal work, Carroll A. B., 1999 argues that Howard Bowen should be named the “Father of Corporate Social Responsibility.” Since 1950s, many scholars have been researching CSR from different points of opinion. With the acceleration of concept, much of the review article on CSR emerged as easily. In 1976 Milton Friedman, a famous USA economist and a winner of a Nobel Prize, expressed his strong belief that the only obligation for business is to cook and raise earnings. Theodore Levitt (1958), the marketing expert, stated the same sentiment by warning that “government’s job is not a business, and the business’s job is not government”. equally a bunch of authors argued whether the “concern of occupation is business” (Friedman),whether establishing a profit and, creating jobs and paying taxes is a social responsibility itself and where are the limits of a social responsibility; Carrol (1991) made a great contribution in defining CSR by developing one of the best known CSR models- Carroll’s pyramid. Carroll indicated that four kinds of social responsibilities constitute CSR: economic, legal, ethical and philanthropic. He designed the pyramid of the responsibilities and claimed that all of the responsibilities always existed to some extent but “only in recent years ethical and philanthropic functions have led a substantial Place” (Carrol, 1991).

**Table 3 Carroll's pyramid**

Be a good Corporate Citizen	<b>Discretionary Responsibilities</b>	Contributes resources to community, improve quality of life
Be ethical	<b>Ethical Responsibilities</b>	Obligation to do what is right, just and fair. Avoid harm
Obey the Law	<b>Legal Responsibilities</b>	Law is society’s observation about right n wrong, play by the rules of the Game.
Be profitable	<b>Economic Responsibilities</b>	The foundation upon which all others rest

Source: adapted from Carroll, 1992.

## RESEARCH METHODOLOGY

The basic research question of this study is described earlier that what does CSR means and how it influence in Pakistan's culture and to what extent the Pakistani organizations socially responsible and finally is there any relationship among the CSR (independent variable) and human rights, Environment, Labor standards, Corporate Governance and Organization's Interest (dependent variables).

### Data and Type

There are three aspects involving the research design of the study: qualitative, quantitative and mixed method approaches. Traditionally research approaches use the first two designs, while the mixed method design is a relatively new concept (Tashakkori and Creswell 2007). Over the past three decades researchers have discussed and debated the concepts, methods and quality standards for studies that utilize the mixed method approach (a combination of the quantitative and qualitative approaches) (Creswell and Clark 2007; Tashakkori and Creswell 2007; Creswell 2009). At the same time a considerable amount of research on corporate social reporting in contemporary annual reports has been undertaken (Ernst and Ernst, 1979; Trotman, 1979; Guthrie and Mathews, 1985; Cowen, Ferreri and Parker, 1987). Accordingly, this study uses the mixed method approach to answer the three research questions.

### Sampling

As previously mentioned in earlier discussion, the present study has been designed as an exploratory study. According to Creswell and Clark (2007), both qualitative and quantitative data are collected in a sequential time order. The following information consists to present study which are the time horizon, weighting, confidentiality and the research model of the study is discussed in this section here.

### Selected Variables

A dependent variable is one which changes as a result of the independent variable being changed. With the help of these two variables a researcher will find the relationship between the both variables and will check the possible outcome in a way that either the dependent variables are influenced by the independent variable or not.

- (i) Human Rights
- (ii) Environment
- (iii) Labor Standards
- (iv) Corporate Governance
- (v) Organization's Interest

An independent variable is one which is manipulated by the researcher. It is like the knob on a dial that the researcher turns in order to measure its impact on the other dependent variables. Corporate social responsibility is an independent

**Estimation Techniques**

The author used two methods to analyze the data. These methods are given below:-

**Delphi Method:**

This method is also known as three stage method because analysis is completed in three stages: development of conceptual framework, analysis of literature review and selection of business firms on the basis of their relations with people, customers, employees and environmental activities.

**Multiple Regression:**

In this method the effect of different independent variables are measured on a dependent variable through Ordinary Least Square (OLS) and other relevant methods.

**DATA ANALYSIS****Delphi Method.**

The results obtained through Delphi Methods are shown in the following table:

This table shows Impact of age of organization on Workplace Policies, Environmental Policies, Marketplace Policies, Community policies and Company Value .

Descriptive		N	Mean	Std. Dev.	Std. Err.	Min	Max
<b>Workplace Policies</b>	Below 5	40	10.43	2.571	.406	4	15
	6-10	37	13.46	2.268	.373	8	18
	11-15	41	15.37	1.655	.258	12	20
	16-20	55	16.49	1.574	.212	13	20
	above 20	27	19.00	1.271	.245	16	20
	<b>Total</b>	<b>200</b>	<b>14.83</b>	<b>3.330</b>	<b>.235</b>	<b>4</b>	<b>20</b>
<b>Environmental Policies</b>	Below 5	40	16.93	3.511	.555	11	24
	6-10	37	22.95	2.687	.442	18	28
	11-15	41	25.15	2.725	.426	18	30
	16-20	55	28.20	2.738	.369	23	34
	above 20	27	32.52	2.532	.487	29	36
	<b>Total</b>	<b>200</b>	<b>24.93</b>	<b>5.699</b>	<b>.403</b>	<b>11</b>	<b>36</b>
<b>Marketplace Policies</b>	Below 5	40	11.33	2.912	.460	5	19
	6-10	37	14.81	2.942	.484	6	22
	11-15	41	16.29	2.136	.334	12	19
	16-20	55	18.71	2.233	.301	12	24
	above 20	27	21.22	2.276	.438	15	24
	<b>Total</b>	<b>200</b>	<b>16.36</b>	<b>4.056</b>	<b>.287</b>	<b>5</b>	<b>24</b>
<b>Community Policies</b>	Below 5	40	10.70	2.997	.474	3	16
	6-10	37	13.14	2.226	.366	7	18
	11-15	41	14.56	1.975	.309	11	19

<b>Company Value</b>	16-20	55	15.69	1.709	.230	12	19
	above 20	27	18.04	1.870	.360	14	20
	<b>Total</b>	<b>200</b>	<b>14.31</b>	<b>3.161</b>	<b>.224</b>	<b>3</b>	<b>20</b>
	Below 5	40	9.75	2.539	.402	4	16
	6-10	37	12.16	2.180	.358	8	16
	11-15	41	14.78	1.388	.217	11	17
	16-20	55	16.15	1.061	.143	14	18
	above 20	27	18.78	1.281	.247	15	20
	<b>Total</b>	<b>200</b>	<b>14.21</b>	<b>3.427</b>	<b>.242</b>	<b>4</b>	<b>20</b>

The above table reflects the impact of the different variables on the age of an organization, this table is based on primary data consisting 200 inquires through questionnaire and results positive relationship among different statistical tools.

### Regression Analysis

The results of regression analysis are tabulated as under:-

**Table 5 Variables Entered/Removed**

<b>Model</b>	<b>Variables Entered</b>	<b>Variables Removed</b>	<b>Method</b>
<b>1</b>	WP, EP, MP, CP, CV	-	Enter

a. Dependent Variable: CSR

b. All requested variables entered.

**Table 6 Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
<b>1</b>	.681 <sup>a</sup>	.382	.371	3.15948

a. Predictors: (Constant), WP, EP, MP, CP, CV

**Table 7 ANOVA**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
<b>1</b>	Regression	1459.317	3	364.829	38.856	.000 <sup>b</sup>
	Residual	2365.807	196	9.982		
	Total	3825.124	199			

a. Dependent Variable: CSR

b. Predictors: (Constant), WP, EP, MP, CP, CV



The above table shows that the independent variables statistically significantly predict the dependent variable,  $F(3, 95) = 38.856$ ,  $p < .0005$  (i.e., the regression model is a good fit of the data).

**Table 8 Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3.334	.807		4.132	.000
Workplace Policies	.280	.073	.261	3.837	.000
Environmental Policies	.152	.068	.152	2.242	.026
Marketplace Policies	.414	.125	.213	3.313	.001
Community Policies	.188	.099	.136	1.893	.060
Company Value	.255	.125	.112	1.631	.060

a. Dependent Variable: CSR

A multiple regression was run to predict Corporate Social Responsibility from Workplace Policies, Environmental Policies, Marketplace Policies, Community Policies and Company Value. These variables statistically significantly predicted Corporate Social Responsibility,  $F(3, 95) = 38.856$ ,  $p < .0005$ ,  $R^2 = .681$ . WP, EP and MP added statistically significantly to the prediction except CP and CV,  $p < .05$ .

## FINDINGS AND RESULTS

The relationship between CSR and human rights, environment, labor standard, corporate governance and organization's interest, southern Punjab in Pakistan are positive and significant. The model was tested using the statistical techniques such as multiple regression analysis and Delphi method. The statistical techniques involved the CSR framework development, developing the disclosure index and examining the relationship between CSR and human rights, environment, labor standard, corporate governance and organization's interest, to test the relationships between CSR and other factors. Our study has proved the following hypotheses:

- \*The higher level of CSR (corporate social responsibility) shows higher level of human rights, disclosure is positive.
- \* The higher level of CSR (corporate social responsibility) shows higher level of environmental effects, disclosure is positive
- \* The higher level of CSR (corporate social responsibility) shows higher level of labor Standards, disclosure is positive.
- \* The higher level of CSR (corporate social responsibility) shows higher level of corporate governance, disclosure is positive.
- \* The higher level of CSR (corporate social responsibility) shows higher level of organizations' interest (profit), disclosure is positive. CSR included the 5 stakeholders, human rights,

environment, labor standard, corporate governance and organization's interest as dependent variable and the CSR is considered as independent variable. As a result of which it is found that the relationship between dependent variables, CSR and independent variables is positive and significant.

## CONCLUSIONS

In the light of above findings it is concluded and recommended that the organization should work for the betterment of the society in larger interest of the country so that not only the organizations grow in terms of profit but the community should also be strengthened side by side.

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