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## RESEARCH ARTICLE

# HOW DO FINANCIAL INSTITUTIONS IN PAKISTAN OPERATE ON CORPORATE SOCIAL RESPONSIBILITY STANDARDS?

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### ABSTRACT

This article has been based on the analysis of CSR practices of financial institutions in Pakistan and their evaluation on the performance of organizations. The objectives of this article are: a) analyzing the literature regarding CSR practices in the financial industry, b) evaluating the CSR practices followed by organizations in financial industry in Pakistan, c) identifying the perceptions of customers and general public towards CSR practices of organizations in Pakistan and d) proposing suggestions to organizations in Pakistan for improving their CSR practices. For evaluating the objectives of study, primary data has been used in this study. For this purpose, the researcher targeted a sample of 170 employees of financial institutions from Rawalpindi. This sample was selected through random sampling technique. 152 appropriately filled questionnaires were obtained and it resulted in 89.41% response rate. Through statistical analysis of study, it was found that environmentally sustainable practices, philanthropic practices and stakeholder relations are positively related with the organizational performance. On the other hand, this study also concluded that legal compliance has not been related with the organizational performance. This article concluded that CSR practices do influence organizational performance in Pakistan's financial industry. This study provided a foundation to future researchers to take a large sample of organizations and expand scope of the current study.

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## INTRODUCTION

Financial crisis in the last decade has shifted public attention towards financial industry, specifically financial institutions (San-Jose *et al.*, 2011), because the failure of leading financial institutions transformed into the global crisis. This financial crisis has affected the quality of life of hundreds of people across the globe through reduced consumption, high inflation and increase in unemployment. This financial crisis showed that the banks and other financial organizations lacked interest in concerns of customers, partners and others stakeholders (Chatterjee and Lefcovitch, 2009; Graafland and Van de Ven, 2011; and Fassin and Gosselin, 2011). This also raised the importance of socially responsible banking system that meets interests and concerns of all stakeholders while fulfilling needs of shareholders. The idea of corporate social responsibility can be defined as the corporate initiatives that are taken to assess the effects of company's practices on natural environment and social welfare (Lenka and Jiří, 2014). This concept has been applied to the company's efforts that go beyond the regulations for protecting natural environment and social cause. Sharif and Rashid (2014) suggest that corporate social responsibility is the

corporate citizenship behavior that involves the short term costs that may not deliver immediate return or benefit, but ensure long term social, financial and environmental returns that are positive for overall society (Orlitzky *et al.*, 2003). Within financial industry, the social responsibility aspects refer to the reporting mechanisms, social welfare practices and regulations followed for carrying business activities.

Although studies have been conducted to elaborate the relationship between corporate social responsibility practices and organizational practices, but they have remained inconclusive. This is because some studies have found positive relationship between organizational performance and CSR practices (Agle *et al.*, 1999; Heinze *et al.*, 1999), some proved no relationship between the two variables (Jin and Drozdenko, 2010; Griffin and Mahon, 1997), and some have concluded negative association between organizational performance and CSR practices (Margolis and Walsh, 2001). These mixed streams of literature suggest that there is something missing about appropriate relationship between organizational performance and CSR practices. Moreover, the concept of CSR has not been largely developed within Pakistan. These missing links are main motivation for conducting this study within perspective of Pakistan's financial industry.

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The present study has been aimed to investigate the relationship between CSR practices of financial organizations and organizational performance in the financial industry of Pakistan.

This study has been aimed to contribute the literature and organizations in multiple ways. First, this study investigates the association between organizations' performance and CSR practices from perspective of Pakistan whereas most of previous studies have been conducted within perspective of western countries. Second, financial organizations in Pakistan can be guided through findings of this study to enhance their performance through effective CSR practices.

## Objectives

This study has been conducted to analyse that how organizations in financial industry in Pakistan follow social responsibility aspects. The objectives of this article include: a) analyzing the literature regarding CSR practices in the financial industry, b) evaluating the CSR practices followed by organizations in financial industry in Pakistan, c) identifying the perceptions of customers and general public towards CSR practices of organizations in Pakistan and d) proposing suggestions to organizations in Pakistan for improving their CSR practices.

## Literature Review

### CSR and its dimensions

Corporate social responsibility (CSR) is a relatively new idea that has been explored or defined in multiple ways. **McWilliams and Siegel (2001)** suggest that CSR is beyond the traditional regulations or compliance of organizations to engage in actions that are socially good and also beyond the interests of firms that are required by laws. On the other hand, **Carroll (1979)** has proposed four-dimensional model for elaborating the concept of corporate social responsibility (CSR). These dimensions include ethical, economic, legal and philanthropic responsibilities of an organization. Previous studies have noted that legal CSR practices are compulsory for organizations, but they should also focus on other aspects such as economic, philanthropic and stakeholder relations (**Greening and Turban, 2000; and Rupp et al., 2006**).

**Wang et al. (2014)** have advanced the idea of corporate social responsibility in relation to the organizational performance and revealed that socially responsible corporations outperform than conventional firms. On the other hand, in an old study, **Friedman (1970)** has proposed a contradictory argument that the only responsibility of an organization is to utilize its resources for enhancing its profitability and increasing wealth of shareholders. In this respect, **Wang et al. (2014)** were of the view that if managers use shareholders' wealth for their own interest and good, it will not be appropriate for the overall social interest. This can further result in contingency among interests of managers and shareholders leading to the lower organizational performance. A few studies have demonstrated that there is no relationship between corporate social performance and financial performance (**Branco and**

**Rodrigues, 2006**). In the same line, **Fitch (1976)** noted that corporate social responsibility can be pursued by organizations if they aim to explore and resolve the problems of society in which they are involved and when they seek incentives or profitability from such initiatives. These studies have ignored the positive insights of social responsibility that contribute in high organizational performance. This literature stream implies that organizations are more effective in resolving societal problems in a capitalistic society.

### CSR and organizational performance

Several researchers have conducted studies to elaborate the relationship between CSR practices and organizational performance (e.g. **Orlitzky et al., 2003; McWilliams and Siegel, 2001; Zeng et al., 2010**). From resource based perspective, **Branco and Rodrigues (2006)** have suggested that implementation of CSR practices can reap competitive advantage for the organization through deployment of sustainable resources and developing skills of employees that cannot be imitated by competitors. Contrary to this, others have developed mixed results about this association between the two aspects. This variation can be because of two reasons. First, there can be some mediating variables that mediate the association between organizational performance and CSR practices of an organization (e.g. **Yu and Choi, 2014**).

Second, several previous studies have focused on elaborating the consumer perception and employee attitudes towards CSR practices (e.g. **Rupp et al., 2006; Jin and Drozdenko, 2010**). Contrary to this, **Pearce and Ensley (2004)** have noted that cooperation of stakeholders in the organizational activities and CSR stance of an organization plays critical role in the organizational performance. Several recent studies have also noted positive association between organizational performance and CSR practices (e.g. **Xiaohui et al., 2014; Yu and Choi, 2014**). In the same line of thought, **Wang et al (2014)** have also proved positive hypothetical relationship between financial and social performance of an organization in the long run. Some others have revealed that internal efficiencies, social performance and unique characteristics of an organization strengthen its financial performance and return on investment (**Orlitzky et al., 2003; Pearce and Ensley, 2004**).

## Theoretical Framework

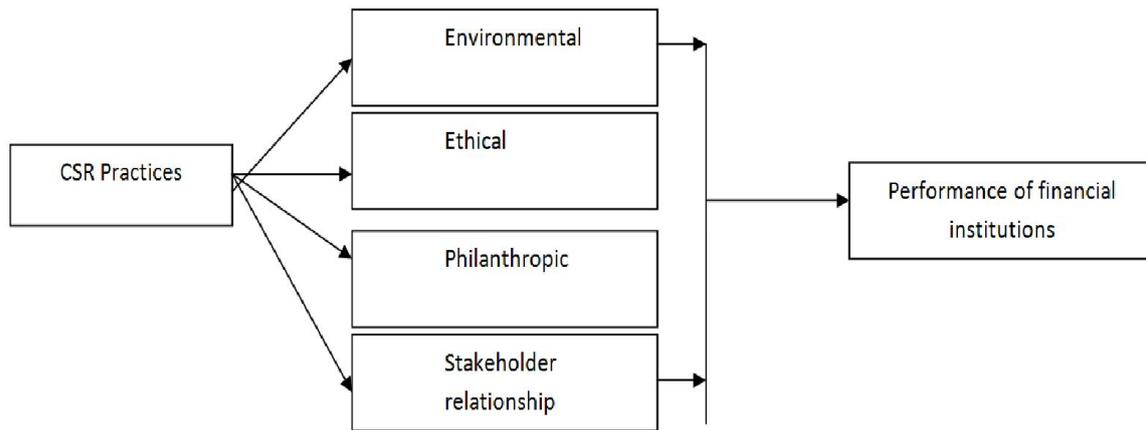
### Hypotheses

H1: Effective stakeholder relations result in high performance of financial institutions

H2: Legal compliance is positively associated with the organizations' performance

H3: Environmentally sustainable practices lead to high performance of financial institutions

H4: Philanthropic practices of the organizations result in high performance of financial institutions



**MATERIALS AND METHODS**

The current study has been conducted by choosing quantitative methodology for investigating the extent to which CSR standards influence the organizations’ performance in Pakistan. The quantitative methods are used when the purpose is to prove the hypothesis of a study. In the same manner, this study has developed certain hypotheses that are tested through quantitative methods carried through statistical techniques. This study includes mix of primary and secondary data. The secondary data has been collected through books and journals articles to investigate literature gap regarding the topic area. On the other hand, the primary data has been collected through a survey conducted through close ended questionnaire. The primary data has been gathered from employees and senior management of the organizations in Pakistan.

For conducting survey, a questionnaire has been developed around likert scale. This questionnaire has two parts. In the first part, personal information such as age, gender and duration of service in the organizations has been investigated. On the other hand, the second part is focused on the variables of study. In this section, questions regarding dimensions of CSR and organizations’ performance have been included. For gathering primary data, the researcher has targeted the population of organizations in the financial sector of Rawalpindi. From different organizations of Pakistan in Rawalpindi, a sample of 170 employees has been selected. This sample has been selected through random sampling technique. This survey resulted in 89.41% response rate as 152 appropriately filled questionnaires were obtained.

Statistical and descriptive analysis techniques have been used in the current study for elaborating the relationship between variables of the study. Regression analysis has also been conducted to analyse the relationship between CSR standards and organizations’ performance in Pakistan.

**RESULTS AND DISCUSSION**

The demographics of the respondents suggest that 53% of them were males and the rest of them were females. The following table represents the findings about gender of respondents:

Gender of respondents	
Gender	% of Respondents
Male	53%
Female	47%
Total	100%

It was found that 21% respondents were up to 30 years of age. 38% were between 31-40 years and 23% were between 41-50 years of age. The rest of respondents were above 50 years of age. The following table represents the findings about age of respondents:

Age of Respondents	
Age	% of Respondents
Up to 30 years	21%
31-40 years	38%
41-50 years	23%
Above 50 years	18%
Total	100%

Regarding the employment duration, it was found that 19% were serving the organization for less than 3 years. 33% were serving for 3-6 years and 30% were serving for 7-10 years. The rest of respondents were serving the organization for more than 10 years. The following table represents the findings about duration of service of respondents:

Years of Service	
Duration	% of Respondents
Less than 3 years	19%
3-6 years	33%
7-10 years	30%
Above 10 years	18%
Total	100%

**Correlation analysis**

For investigating the association between CSR dimensions and organization’s performance, correlation has been conducted. The following table demonstrates the correlation among different variables:

	Stakeholder rlt	Legal	Envrt	Philan	Perfor
Stakeholder rlt	1.000	.769	.578	.645	.719
Legal	.769	1.000	.730	.600	.635
Envrt	.578	.730	1.000	.593	.540
Philan	.645	.600	.593	1.000	.577
Perfor	.719	.635	.540	.577	1.000

	Model	Standardized Coefficients	t	Sig
1	(Constant)	0.232	1.199	0.232
	STAKEHOLDER RLT	0.542	7.365	0.000
	LEGAL	(0.059)	(.614)	0.312
	ENVRT	0.123	2.632	0.005
	PHILAN	0.179	4.896	0.000
	R Square	67.5%		
	Adjusted R square	66.6%		
	R	.822 <sup>a</sup>		

Dependent Variable: organizations' performance

Predictors: (Constant), STAKEHOLDER RLT, PHILAN, LEGAL, ENVRT

The hypotheses of the study have been proved as below

Hypothesis	Beta	t-values	p-values	Significance
Effective stakeholder relations result in high performance of organizations (H1)	0.542	7.365	0.000	Significant
Legal compliance is positively associated with the organizations' performance (H2)	(0.059)	(.614)	0.312	Non- Significant
Environmentally sustainable practices lead to high organizational performance (H3)	0.123	2.632	0.005	Significant
Philanthropic practices of the organizational result in high financial performance (H4)	0.179	4.896	0.000	Significant

## Regression analysis

For analyzing the relationship between CSR standards and organizations' performance, multiple-regression analysis has been performed. The following table demonstrates regression analysis of CSR dimensions and organizations' performance. It is clear from the above table that environmentally sustainable practices, philanthropic practices and stakeholder relations are positively related with the organizational performance. On the other hand, legal compliance has not been related with the organizational performance.

## Conclusion

This study was conducted for analyzing the extent to which CSR standards have been followed by organizations in Pakistan and also to analyze that how these CSR standards influence organizational performance in the financial industry. For this reason, quantitative and statistical methods have been used to prove the hypothesis. It has been concluded that CSR practices do influence organizational performance in Pakistan's financial industry. This study concludes that all CSR dimensions are not positively related with the performance of organizations in Pakistan. It has been concluded that effective stakeholder relations, philanthropic practices, and environmental sustainability practices of organizations do have positive influence on the organizational performance. However, legal compliance does not relate with the organizations' performance in Pakistan. These results are in line with those of [Nareeman and Hassan \(2013\)](#) who investigated that legal compliance of organizations does not influence customer loyalty and satisfaction. The results of this study cannot be generalized to a large population of organizations in Pakistan because of small sample. In this way, this study provides a foundation to future researchers to take a large sample of organizations and expand scope of the current study.

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## Appendix

### Part One

#### Please mention your gender?

- Male
- Female

#### Please mark your age group?

- Up to 30 years
- 31-40 years
- 41-50 years
- Above 50 years

#### For how many years you have been serving in this organization?

- Less than 3 years
- 3-6 years
- 7-10 years
- Above 10 years

### Part Two

Please fill the following questionnaire on the basis of following scale:

Strongly agree = 1, agree = 2, neutral = 3, disagree = 4, and strongly disagree = 5

#### CSR practices

Environmental CSR practices:

- Our organization has adopted environmental protection policy
- The wastage (paper) is disposed by organization effectively
- The organization has taken measures for energy saving in the branches
- The plastic money issued by organization (debit and credit cards) is prepared from environment friendly material

Ethical CSR practices

- The organization has developed ethical code of conduct for employees
- The organization remains honest with the customers
- The organization has adopted fair disclosure policy

Philanthropic CSR practices

- The organization has run campaigns for social development of local community in Pakistan
- The organization supports local community in education of children
- The organization contributed towards social welfare during natural calamities in Pakistan

Stakeholder relationship CSR practices

- The organization conducts regular meetings with shareholders
- The management takes feedback from employees regarding its policies
- Customer feedback is taken by the organization through surveys or other tools

Organizational performance

- The organization has competitive advantage over others in terms of deposit growth
- The market share of organization is higher than competitors
- The profitability of organization has increased over the years
- The return on investment by the organization has increased over the years