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CAPTURING PRE AND POST SECURITY EXCHANGE COMMISSION OF PAKISTAN VOLUNTARY GUIDELINES OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE 2013 IMPACT ON FIRM PERFORMANCE IN PAKISTAN

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Abstract:

The aim is to study the relationship between corporate social responsibility and its performance in pre and post-regulation of the Security Exchange Commission of Pakistan (SECP) voluntary guidelines 2013 regarding Corporate Social Responsibility (CSR). To conduct this research, secondary data was collected from the annual reports of sample firms for the prescribed period of 2011-2015. For CSR data collection, content analysis was used. Return on Assets (ROA) and Return on Equity (ROE) were used to measure financial performance. The results revealed a significant positive effect of CSR on firm performance. Similarly, results indicated the pre SECP regulation has a significant positive impact on firm performance. The post SECP regulation of CSR also depicts a significant positive effect on firm performance with slight improvement after adopting voluntary guidelines. These study results provide information for understanding the concept of CSR practices in Pakistan's business environment and will help to improve not only the financial performance of the business community and improve the stakeholder wealth.

1. Introduction:

The notion of CSR has attracted the attention of business leaders as well as academicians. Ethical business conduct and activities related to environmental benefits and society determine a business entity's overall performance. These performances support firms to deliver while sustaining their goodwill and reputation. CSR is a business model that regulates itself, directs a business entity to be socially accountable not only to its shareholders but also to stakeholders and society. In the modern world, business organizations are expected to operate profitably and contribute to the community as these gains are associated with the firms' social contributions. The study of (Huang, Chen, & Nguyen2020) revealed that besides serving the core objectives of being profitable, the firms are bound to show corporate responsibility towards stakeholders, specifically employees, customers and the local community where the firm operates. These responsibilities include the firm's commitment to protecting the environment, donations to different social organizations, providing health and safety to the employees at the work place, and contributing to other social projects.

In developing countries, CSR is adopted as a voluntary activity into the business strategy. In contrast, most developed countries have adopted the CSR strategy into business operations (Hayat, Khan, & Iqbal, 2020). However, it is mandatory to differentiate between corporate accountability and corporate social responsibility to limit stakeholders' demands (Cash, 2012). The determinants of CSR activities in an organization are of two types. The first is stakeholders' activism and government regulations, and the second is the self-regulation of business firms. Campbell (2007) explored that business firms are induced to incorporate socially responsible behavior when their stakeholders observe them. The CSR issue was first highlighted in Pakistan when some humanitarian organizations found children and sweatshops' labor work in the carpet and sports industry. In response, a consortium was established in 2003 called the "Pakistan Compliance Initiative" to monitor the Pakistan business sector's corporate activities and control illegal and unethical activities from the firm's operation. In 2009, a general order was initiated by the SECP to implement the CSR activities of corporate firms in Pakistan. Unfortunately, business firms took it as a format for business promotion and relationship with the public because of the unavailability of a format for reporting CSR activities' disclosure.

The SECP's voluntary guidelines regarding CSR were issued in 2013 to develop systematic CSR activities and develop measurement procedures for these activities. Therefore, the companies registered on the Pakistan stock exchange ought to consider these guidelines and their impact on firm performance and its stakeholders' influence. This paper aims to find the relationship between CSR and firm performance and compare the pre and post-effect of voluntary guidelines of SECP regarding CSR disclosure on firm performance.

2. Literature Review:

2.1. Concept of Corporate Social Responsibility:

The notion of CSR has been studied from many dimensions. The international bodies regulating the concept of CSR in corporate sectors are struggling to devise a standard format for CSR reporting. The research work (Carroll, 2016) explored that the main objective of a business firm is to profit or to achieve its economic goals, the secondary obligation is to operate within legal boundaries, that the firm should follow and develop ethical guidelines and finally, it should contribute to philanthropic responsibilities. McWilliams & Siegel

(2001) suggest that by implementing the CSR strategy, the firms obey the law and contribute beyond the legal requirements. The CSR practicing organisation achieves their economic goals by enhancing their image and gaining a competitive advantage in the long run. As it is difficult for the government to address social issues and other problems independently, business organisations by doing CSR activities can help address those issues. Firms that practice CSR may improve value chain activities, form public-private partnerships, and fulfill legal obligations to address environmental issues.These activities result in long run financial success.

Although the concept of CSR has been accepted in the corporate sector for the last three decades, its validity in business organizations remains a question mark.Hicks & Friedman (1963) explored that the firm's main objective is to be profitable for its shareholders; if the agents contribute to CSR activities, they utilise principles of principles. Further, the amount spent on CSR activities will affect the returns on investments and wages and increase production costs. The study of Husted & Salazar (2006) agreed with the arguments of Friedman. It revealed that firms should invest in those CSR activities which will benefit them in the long run and not affect shareholder profit. Siegel & Vitaliano (2007) explored the samples of large companies in the US and argued that businesses that use CSR as a strategy in their framework should be selected given that it will reward them positively.

Furthermore, the study of Maignan & Ferrell (2004) argued that the products of CSR practicing firms are preferred in the market by their customers. More than 75% of customers are willing to shift to firms that involve CSR practice in their operations. A study conducted by Hess, Rogovsky, & Dunfee (2002) surveyed 1000 customers in US markets and concluded that about 45% of customers were impressed by the firms who contribute to society as donations.

Many studies have been conducted on the topic of CSR and its impact on firm performance. These studies show different results; some studies have positive while others have a negative effect on firm performance. Kuntz, Kedia, & Whitehead (1980) studied the banking sector in the US business environment for the association between CSR activities and bank performance and found a significant negative impact on the dependent and independent variables. The study of Waddock & Graves (1997) explored that CSR strategy positively impacts firm performance. The research work of Bashir, Hassan, & Cheema (2012) revealed that a firm's CSR activities positively impact worker satisfaction and thus increase firm profitability.

Similarly, the study (Bashir et al., 2012) explored CSR research and its impact on firm performance using firms registered on KSE and revealed a positive relationship between CSR and firm performance, legal and economic responsibilities and significant negative impact of CSR and ethical responsibility. The study further explores that CSR activities of business firms create a positive business environment in a country and helps in promoting a culture where laws are obeyed eagerly. Contrary to that, studies of Raucci & Tarquinio (2020) conducted studies in the Italian business environment and suggested a significant positive impact on CSR and firm financial performance. Baughn, Bodie, & McIntosh (2007) argued about the Canadian banking environment and explored that the size of banks matters during financial crises. Large banks show the significant positive impact of CSR on firm performance. The study of Pachar & Singh (2013) explored the CSR impact on firm value and revealed the significant positive effect of CSR on firm performance. Ehsan, Kaleem, &

Jabeen (2012), studied CSR and its impact on firm performance in a Pakistani business context and found a significant positive effect of dependent and independent variables. The findings of Cochran & Wood (1984) suggest that the mean age of a business firm is correlated with the rankings of the firms while taking into account the CSR strategy in its operation.

Further, the study explored the significant positive impact of CSR and firm performance. The study (Nazir, Iftikhar, & Rana, 2011) examined the tobacco sector of Pakistan and revealed that the notion of CSR is new in the Pakistani business context. As the tobacco sector's core business contributes negatively to society, it contributes to CSR activities to create goodwill in the community. In a similar vein, the study (Kanwal 2013) explored the CSR and firm performance relationship in registered companies on KSE and found a significant positive correlation between the two variables. The studies further suggest that the CSR strategy has a dual positive impact on firm performance. It creates a positive image among its customers and also improves the firm's financial performance. The study (Gherghina & Vintilă, 2016) explored CSR and firm profitability and firm size in Romania's business context and found a significant positive impact between the variables. In the Nigerian business context, the study (Uwuigbe&Egbide, 2012) revealed a significant positive effect between firm size and corporate social responsibility. They further argued that large-size firms are more capable of including CSR activities into their strategies as compared to small-size firms. Branco & Rodrigues (2008) say that a firm's shareholders expect management to be more responsible socially, especially in large firms. As a result, large firms contribute heavily towards CSR objectives.

2.2. Hypotheses:

H1: There is a positive and significant impact of CSR activities on the firm performance of Pakistani companies

H2: There is a positive and significant difference between pre-SECP voluntary guidelines regarding CSR disclosure and Pakistani firms' financial performance.

H3: There is a positive and significant posteffect of SECP voluntary guidelines regarding CSR disclosure on Pakistani firms' financial performance.

3. Methodology:

Annually published reports were used to collect secondary data of the selected firms. The top 25 firms registered on KSE for five consecutive years, i.e., from 2011-2015, were selected. The insight behind the selection of these five years is to compare the pre and post-effect of voluntary guidelines of SECP regarding CSR disclosure. Those firms are selected which have published annual reports for the above mentioned years. Financial institutions are skipped from the sample as they follow different financial procedures from other firms. Thirty-eight companies were selected as samples for this study.

Different studies have used various sustainability reports of annual published information (Muoghalu, Robison, & Glascock, 1990; Hart & Ahuja, 1996). In this research work, CSR will be measured using content analysis. This method has been widely used in different research work (Hayat, Khan, & Iqbal, 2020; Milne & Adler, 1999; Beck, Campbell, & Shrives, 2010). Using content analysis, every sentence has been flicked through to collect the accurate data of CSR. Parameters were determined for data collection using content analysis as "1" is codified for one sentence, and each sentence is equal to one.

The dependent variable, i.e., firm performance, is measured using proxies of ROA and ROE. Many research studies have used these proxies (Ang, Cole, & Lin, 2000; Abor, 2005).

4. Analysis:

Model 1: OLS, using observations 1960-2146 (T = 187)
Dependent variable: ROE

	Coefficient	Std. Error	t-ratio	p-value	
CSR	0.000642928	9.21720e-05	6.975	<0.0001	***
Dummy for Pre and post SECP guidelines	0.121990	0.0308146	3.959	0.0001	***

Mean dependent var	0.257308	S.D. dependent var	0.225881
Sum squared resid	11.32123	S.E. of regression	0.247378
R-squared	0.482362	R-squared	-0.192943
F(2, 185)	86.19634	P-value(F)	3.53e-27

As shown in the table above, the model is sufficiently fit, with an F value of 86.19634 and a P-value less than 0.05, and an R-square of 0.48, indicating that CSR accounts for 48% of the variation in firm performance.

There is a significant relationship between corporate social responsibility (CSR) and firm performance (FP). A unit change in CSR will bring 0.000642928 in Firm performance. Pre SECP regulation FP is significantly related to CSR. The Post CSR regulation by SECP is positively associated with CSR. A unit change in CSR will bring 0.121990 changes in Pre SECP regulation FP and Post SECP regulation. A unit change in CSR will bring 0.122632928 in FP of Pakistan, which is slightly higher than Pre regulation of SECP.

Model 2: OLS, using observations 1960-2146 (T = 187)
Dependent variable: ROA

	Coefficient	Std. Error	t-ratio	p-value	
CSR	0.000268024	4.66274e-05	5.748	<0.0001	***
Dummy	0.0777704	0.0155883	4.989	<0.0001	***

Mean dependent var	0.131567	S.D. dependent var	0.109364
Sum squared resid	2.897190	S.E. of regression	0.125142
R-squared	0.469536	R-squared	-0.302309
F(2, 185)	81.87573	P-value(F)	3.39e-26

As shown in the table above, the model is sufficiently fit, with an F value of 81.87573 and a P-value less than 0.05, and an R-square of 0.46, indicating that CSR accounts for 46% of the variation in firm performance.

There is a significant relationship between corporate social responsibility (CSR) and firm performance (FP). A unit change in CSR will bring 0.000268024 in Firm performance. Pre

SECP regulation FP is significantly related to CSR; however, Post CSR regulation by SECP is associated substantially with FP. A unit change in CSR will bring 0.0777704 change in Pre SECP regulation FP; However, Post SECP regulation, a unit change in CSR will get 0.078038424 in FP of Pakistan.

These results are in line with Szegedi, Khan, & Lentner's (2020) study results. Similarly, this study is in line with the results of Hayat, Khan, & Iqbal (2020). The results confirm the analysis of Nadeem & Malik (2014), where the results show the lack of CSR activities in Pakistan. However, the model depicts a positive association between CSR and firm performance. Similarly, these results are also similar to the effects of Bagh, Khan, Azad, &Khan (2017) in the Pakistan business environment that confirm the positive significance of CSR on firm performance. Furthermore, these specific study results are the same as Kiran, Kakakhel, &Shaheen (2015) 's research work that illustrates the significant positive effects of CSR and firm performance.

On the other hand, the results of this study are opposed by the results of the study of Iqbal, Ahmad, Basheer, & Nadeem (2012), which revealed a significant negative effect of CSR on firm financial performance. Similarly, this study contrasts with the results of Fatima &Bashir (2018), showing a significant negative impact of CSR and firm performance.

CSR pre and post-SECP guidelines confirm study by Javaid Lone, Ali, & Khan (2016). This study also demonstrates the effect of (Hayat & Khan, 2018). The study revealed that adopting the CSR guidelines of SECP in 2013 has improved the CSR disclosure and thus helped in the companies' performance.

5. Conclusion, Recommendations, Limitations and Future Direction:

The research endeavor aims to examine the relationship between corporate social responsibility and its performance in pre and post-regulation of SECP voluntary guidelines 2013 regarding CSR. Secondary data was collected from the sample firms' annual reports for the prescribed period of 2011-2015. Furthermore, content analysis is used to analyze CSR, whereas; ROA and ROE are taken as financial performance measures. The results revealed a significant positive effect of CSR on firm performance. Similarly, results showed the pre SECP regulation has a significant positive impact on firm performance. Following the adoption of voluntary guidelines, the post-SECP regulation of CSR has a marginally positive effect on firm performance.

Raucci & Tarquinio(2020) conducted a study in the Italian business environment and suggested a significant positive impact of CSR on firm financial performance. The study concludes that the sample firms' post-SECP regulation CSR practices have witnessed higher effective results than the pre-SECP regulation CSR practices. The results are also in line with Gherghina & Vintilă, 2016) that revealed a positive and significant relationship between CSR practices and firms' performance. It is a good sign for a developing economy like Pakistan to have this slight, considerable improvement in firm performance in response to the SECP regulations regarding CSR practices in Pakistan. It is clear from this study that Pakistanis can spare some portion of their funds to implement CSR practices. Therefore, it is recommended that policymakers focus on the continuity of purifying the SECP regulation regarding CSR practices to combat global markets. The study further recommended that to get a competitive advantage, the firms should ensure compliance with SECP regulations in an actual letter and spirit that demands the new dynamic global business world.

The study is limited to the time frame of the data, variables of interest and sample size. Therefore, future research studies can be conducted considering the impact of CSR on capital structure. Further, the sample size could be enlarged in another future study considering other PSX sectors that have not been included in the current study.

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