

Corporate Social Responsibility Disclosure in Banking Sector of Pakistan: Evidence from Commercial Banks

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Abstract

This paper determines the current status of Corporate Social Responsibility (CSR) in Pakistan especially in the banking sector. The annual reports of listed commercial banks are analyzed from the year 2008 to 2018, regarding CSR practices. Nine different dimensions of CSR were inspected through content analysis. The results of the study show that the concept of CSR in Pakistan is not fully developed and is in transition stage. However, the participation of commercial banks in social responsible activities and its disclosure has been increased in last decade. In present scenario, Pakistan is confronting some serious socio-economic and environmental risks and the banks might contribute to reduce environmental issues by adopting sustainable banking practices. The study suggests that the banks in Pakistan should incorporate policies concerning supplier and environmental aspects of CSR in their business operation as the disclosure performance of the banks with respect to the study dimensions is below average.

Keywords:

Corporate Social Responsibility, Banking Sector, Content Analysis, Philanthropy, Environment

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1. Introduction

The concept of Corporate Social Responsibility (CSR) in Pakistan is relatively new and underdeveloped as compared to developed nations, where CSR is considered as key element for long-term success. In Pakistan the definition of CSR is confused with philanthropic activities of the firm and labour rights (Waheed, 2005; Khan, 2012). According to the definition of Industry Canada (2005, p.1), “the way firms integrate social, economic and environmental concerns into their values, culture, decision making, strategy and operations in a transparent and accountable manner and thereby establish better practices within the firm, create wealth and improve society”. In developing world, the issues of corruption, pollution, labour working hours and overtime, due to the failure of companies to comply with national laws and regulations against the said dilemmas, discourage firms to go beyond the existing legal obligations (Lund-Thomsen, 2008).

In Pakistan, there are no specific laws and regulations

outlining CSR obligations of business organizations to ensure their social and environmental compliance, and CSR in the country is completely on voluntary basis (Waheed, 2005). However, certain laws are comparatively associated with firms’ CSR responsibilities, such as labour laws, environmental laws and some of the constitutional provisions. The Provincial Employees Social Security Ordinance 1965 bonds the companies regarding the provision of Health and safety measures, sick leave, disabilities benefits, pension and death grants (The Provincial Employees Social Security Ordinance, 1965). The Article (9a) of the constitution covers the areas concerning environmental and consumers rights protection, Article (11 and 17) of the constitution restrict companies to practice forced and child labour and also intimidate the sexual discrimination (The Constitution of Pakistan, 1973). The Environmental protection Act 1997, ensures control for pollution and deforestation and improvement of biodiversity (Alam, 2008). In 2013, the Security Exchange Commission of Pakistan (SECP) issued CSR guidelines, aimed to enhance the awareness in companies to design CSR policies, and adopt social responsible practices concern-

ning reporting and disclosure of their CSR

activities, accountability and transparency, community support and environment (SECP, 2013). Likewise, certain non-governmental organizations and research institutes are working for the promotion of CSR in Pakistan. Some of these organizations are: Corporate Social Responsibility Center Pakistan, National Forum for Environment and Health, and Responsible Business Initiative Pakistan. These organizations encourage the businesses towards CSR initiatives through seminars, trainings, policy guidelines and stakeholders' dialogues.

According to Awan et al., (2018) asserted that in small and medium enterprises, the more focused dimensions of CSR are environment, legal and economic perspectives. Whereas, philanthropy is widely considered as an ethical and social priority in this sector. This study explores the actual practices concerning CSR undertaken by commercial banks in Pakistan and the level of its disclosure. Different dimensions of CSR were thoroughly analyzed, in order to know the nature and involvement of banking sector in CSR activities, and their contribution towards social, economic and environmental benefits to the employees, suppliers, competitors and society in large. After brief introduction of CSR in Pakistan, this paper is organized as follows: section 2 addresses the CSR in banking sector of Pakistan; section 3 briefly describes the methodology. Section 4 and 5 illustrates the results and discussion of content analysis and conclusion of the study respectively.

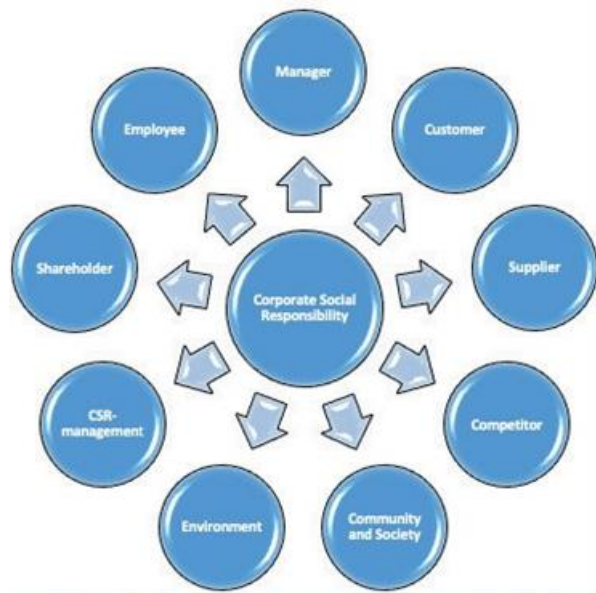


Figure 1. CSR stakeholder theory
Source: own edition

2. Corporate Social Responsibility in Banking Sector of Pakistan

Banking sector is one of the important economic pillars of any country and contributes in its growth and prosperity, by providing financial assistance to both private and governmental organizations. McKinnon (1973) determined that the increase in the financial activities of banking sector is positively associated with the growth of the region. The financial sector of Pakistan operates under the supervision of State Bank of Pakistan (SBP) and is divided into three major divisions; regular banks, micro finance banks and non-banking financial firms. According to the State Bank of Pakistan, 33 schedule banks, having 13692 branches altogether, are providing their services across the nation (SBP, 2018).

Social accountability and social responsibility are the prompt areas of CSR in Pakistan based companies, and the companies are struggling to extend their CSR practices by incorporating environmental accountability and human rights in their operations (Awan et al., 2010). The CSR awareness in local companies in Pakistan is lagging behind and the environment, human rights and anticorruption aspects of CSR are almost ignored in these companies. As compared to local firms, the multinational firms operating in Pakistan show more commitment while practicing and disclosing CSR (Naem and Welford, 2009).

Yamak and Suer (2005) pointed that a number of stakeholders such as shareholders, employees, managers, depositors, borrowers and regulating bodies are connected to the banking sector. Banking sector as compared to other sectors, adopted CSR principles and reacted relatively late to the CSR-related global issues. Keeping in consideration the importance and seriousness of CSR in business operations, banks also incorporated CSR policies and initiated CSR programs including educational, sports, cultural and environmental programs (Polyshronidou et al., 2014).

Years											
Banks	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Allied Bank	0.6479	0.6479	0.6338	0.6338	0.7183	0.6901	0.7606	0.7465	0.7606	0.7887	0.7887
Bank Alfalah	0.5915	0.5775	0.6197	0.6338	0.6197	0.6761	0.6901	0.6901	0.7042	0.7042	0.7042
Bank Al Habib	0.5775	0.5915	0.6761	0.662	0.6479	0.662	0.6901	0.7042	0.7183	0.7465	0.7183
Askari Bank	0.5915	0.5915	0.6338	0.6056	0.6338	0.6338	0.662	0.662	0.662	0.6761	0.662
Bank Islami	0.5493	0.5493	0.6056	0.6197	0.662	0.662	0.662	0.662	0.662	0.6761	0.6901
Bank of Khyber	0.5211	0.5211	0.5352	0.5915	0.5915	0.5915	0.6479	0.6338	0.6761	0.7183	0.7183
Bank of Punjab	0.493	0.493	0.507	0.5211	0.5634	0.6338	0.6901	0.7183	0.7183	0.7183	0.662
Faysal Bank	0.5634	0.5915	0.5915	0.6056	0.6197	0.6197	0.6479	0.6338	0.6479	0.7042	0.7183
Habib Metropolitan	0.6197	0.6197	0.662	0.6338	0.662	0.662	0.662	0.662	0.662	0.6761	0.6761
Habib Bank	0.5915	0.6197	0.662	0.6761	0.6901	0.7042	0.7042	0.6479	0.7324	0.7465	0.7324
JS Bank	0.5634	0.507	0.6056	0.5915	0.6056	0.662	0.6761	0.6761	0.7042	0.7465	0.7042
Muslim Commercial Bank	0.5634	0.6479	0.7183	0.7324	0.7183	0.7465	0.7606	0.7324	0.7887	0.7887	0.7887
Meezan Bank	0.5775	0.6056	0.6197	0.6056	0.6901	0.6761	0.6901	0.6901	0.7042	0.7465	0.7465
National Bank of Pakistan	0.662	0.6901	0.662	0.6761	0.7042	0.6901	0.7042	0.7183	0.7324	0.7606	0.7606
Samba Bank	0.4648	0.4507	0.4789	0.4648	0.4789	0.493	0.507	0.507	0.5211	0.6056	0.662
Standard Chartered Bank	0.662	0.6901	0.7183	0.6761	0.6761	0.6901	0.7042	0.7183	0.7606	0.7887	0.7746
Silk Bank	0.493	0.507	0.5634	0.5775	0.6197	0.6338	0.6479	0.6338	0.6479	0.6479	0.662
Soneri Bank	0.4789	0.4789	0.493	0.5352	0.5775	0.6197	0.6761	0.6761	0.7042	0.7183	0.662
Summit Bank	0.4789	0.4789	0.4789	0.493	0.5352	0.5493	0.5775	0.5634	0.6197	0.6338	0.6338
United Bank	0.6056	0.6338	0.662	0.662	0.6901	0.662	0.7324	0.7042	0.6901	0.7324	0.6901
Yearly Averages of CSRI of all Bank	0.5648	0.5746	0.6063	0.6099	0.6352	0.6475	0.6675	0.6690	0.6923	0.7162	0.7106
Overall CSR Disclosure (2008-2018)	-	-	-	-	-	0.6449	-	-	-	-	-

Table 1. CSR Disclosure Index (Score) of Listed Com-

Banks having transparent policies concerning CSR have high organizational reputation and attract more investors and borrowers, which results in profitability (Ross, 2010). Mohsan et al., (2011) reckoned that the banking sector in Pakistan is experiencing an intense competition, to survive in this competitive environment, banks are expanding their services by initiating online and mobile banking. Most of the banks have adopted CSR as strategic marketing tool, to increase the customers' attractions and to achieve the competitive edge (Porter and Kramer, 2006). Khan et al., (2015) asserted that banking customers in Pakistan perceive CSR as provision of quality services, trust and the healthy professional behavior of employees with their customers. Safi and Ramay (2013) brought that the knowledge and awareness of banking customers have developed overtime regarding CSR activities and consider the environmental protection and sustainable development of the community as a core responsibility of the banks.

Sharif and Kashif (2014) concluded that the CSR disclosure performance of commercial Banks in Pakistan is high and positively influences the financial performance of the firm. Habib Bank Limited (HBL) incorporated the concept of CSR in their vision statement. The bank has donated more than Rs. 144 million (PKR) to different governmental institutions and NGO's, to support the health, education and community building programs (HBL, 2016). Allied Bank Limited (ABL)

engaged in employee training and development, sports sponsorships, environmental protection, education and healthcare programs. The bank has donated Rs. 10 million (PKR) to Prime Minister's Earthquake Relief Fund, to assist and compensate the affected people of Baluchistan (ABL, 2018). Askari Bank has initiated "Plant a tree, Make Pakistan green", under this project the bank will plant 3000 trees in collaboration with Metropolitan Corporation Islamabad (Askari Bank, 2019). The National Bank of Pakistan (NBP), integrated the CSR in its corporate policy and a separate division is dedicated to supervise the CSR initiatives of the bank. The primary focused areas of NBP are: health and education, employees' welfare, natural disaster relief and improvement of living standards of people living in poverty (NBP, 2018).

Dimensions	Disclosure Percentages (%)
Shareholder	82.88
Employee	70.46
Manager	92.82
Customer	65.62
Supplier	40.53
Competitor	68.64
Community and Society	68.64
Environment	40.04
CSR-management	79.32

Table 2. Average Disclosure Percentages of Each Dimension from 2008-2018
Source: own edition

3. Methodology and Data

The CSR data of 20 listed commercial banks were obtained from their annual reports for the year 2008 to 2018, downloaded from their respective official websites. These annual reports were analyzed in accordance with CSR-dimensions based on stakeholders theory (Appendix I); Shareholder, Employee, Manager, Customer, Supplier, Competitor, Community and Society, Environment and CSR-management (Scholten, 2009; Gao, 2011; Sharif and Kashif, 2014; Deutsch and Éva, 2018), through content analysis.

For the purpose 0 and 1 were assigned to each item, depends on the disclosure of each item in the annual report of respective bank. 1 mean the bank have disclosed the CSR item and vice versa. The total disclosure index for a particular bank is as follow:

$$CSRI_j = \frac{\sum_i^n x_{ij}}{n_j}$$

Whereas

$CSRI_j$ = Corporate social responsibility index of jth bank

n_j = total number of CSR items for jth bank, $n=71$

$x_{ij} = 1$ if "ith" item is disclosed by "jth" bank annual reports and 0 if the item is not disclosed in annual reports/websites.

4. Results and Discussion

The results provided in table I, portray that the average overall CSR disclosure of all listed commercial banks in Pakistan from 2008-2018 was 0.6449, highlighting that in the said time period, these banks disclosed 64.49 percent of information regarding their CSR activities. The results of the content analysis indicate that the level of CSR disclosure in commercial banks in Pakistan is moderate. However, an increase has been noticed over the years as compared to 2008. The

overall CSR score of these banks in 2008 was 0.5648, whereas in 2018 it increased to 0.7106. Muslim Commercial Bank (MCB) has maximum disclosure score among all other banks in the study. In 2008 the average disclosure score of MCB was 0.5915, which increased to 0.7465 in 2018. The second highest overall average CSR disclosure score was 0.7145 of Standard Chartered Bank (SCB), followed by Allied Bank Limited with an average of 0.7106. The average disclosure score (0.5122) of Samba Bank was very poor and is the lowest among all other commercial banks under-study. However, the disclosure performance of Samba Bank also increased over the time period 2008-2018. In 2008 the CSR disclosure score of Samba Bank was 0.4648, increase to 0.668 in 2018. The average score of summit bank (0.549) and Soneri Bank (0.6018), below average as compared to other banks in the sample.

Table II, shows the average disclosure score with respect to each dimension during 2008-2018. The finding of the study determines that 92.82 percent information was disclosed in Manager/Governance dimension of CSR followed by Shareholder 82.88 percent and CSR-management 79.32 percent respectively. The minimum amount of information by commercial banks in Pakistan was disclosed in environmental aspects of CSR, which was 40.04 percent, followed by supplier with 40.53 percent respectively.

5. Conclusion

The main objective of this study is to investigate the level of corporate social responsibility practices and its disclosure in listed commercial banks of Pakistan. Content analysis was utilized to analyze the annual reports of listed commercial banks of Pakistan regarding the disclosure of shareholder, employee, manager, customer, supplier, competitor, community, CSR-management and environmental aspects of CSR. The analysis shows that the overall disclosure of CSR practice has been improved, as in 2008 the average CSR disclosure of all listed commercial banks was 56.48% while in 2018 it was 71.1%. The increase in overall CSR disclosure from 2008-2018 is 14.62%. All the banks under study showed satisfactory disclosure performance in all dimensions except suppliers and environment. The reason is that banks do not focus enough on environmental issues, most of the banks do not have policies or guidelines concerning environment, none of the bank

in the sample disclosed information in order to follow the World Bank and OECD environmental guidelines. Very few banks have environment protection programs. On other hand, the main focused areas of CSR for these banks were shareholders, employees, customers and the provision of financial assistance to different institutions, working for the development of the community; contributing in health, education, natural disaster reliefs and sports. The finding of the study indicated that the level of CSR in banking sector of Pakistan is moderate. The study suggests that the banks in Pakistan should incorporate policies concerning supplier and environmental aspects of CSR in their business operation as it will benefit the bank in a number of ways such as: increasing level of employees' motivation and retention, reducing costs and increasing operational efficiency via paperless environment and energy efficiency, improving the reputation and credibility of the banks in business environment.

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Appendix 1.

Categ	Shareholder	Categ	Employee
S. No	Items	S. No	Items
1	Investor relation Management	1	Gender diversity
2	Common Forum for dialogue	2	Employee education & Training
3	Flexible policies for shareholders and investors	3	Employee benefits
4	Appreciating shareholders	4	Employee safety & Hygiene
5	Information disclosure for share holders	5	Equal opportunity
		6	
		7	Minorities (discrimination Policy)
		8	Employee motivation
			Number of employees
Categ	Manager	Categ	Customer
S. No	Items	S. No	Items
1	Board of Directors (Names, qualification & position)	1	Marketing Practices (responsible, ethical)
2	Independent Directors	2	Customer satisfaction
3	Board effectiveness (Governance structure)	3	Customer Awareness
4	Relation between all stakeholders	4	Social Responsible Investment
		5	Social Responsible Saving
Categ	Supplier	Categ	Competitor
S.No.	Items	S. No	Items
1	Equal opportunity to suppliers	1	Relationship with Competitors
2	Provision of info to suppliers	2	Collaboration with competitors
3		3	Fair selling practice
4	Fair negotiation with supplier		(No negative advertisement)
	Support, caring, protection and advances		
Categ	Community and Society	Categ	Environment
S. No	Items	S. No	Items
1	Charitable Initiatives/zakat	1	Environmental programs
2	Health and education	2	ISO 14000/14001
3		3	Environmental Guidelines
4	Employment opportunities	4	Pollution Control
5	Eradication of Poverty	6	
7	Sports and Culture	7	Recycling
8	response to natural disasters	8	Energy efficiency
9	Community welfare Program	9	
10	Human rights	10	Investment in agriculture sector
	Disable Person	11	World bank Guidelines
			OECD Guidelines
Categ	CSR-Management		
S. No	Items		
1	Code of Conducts/ethic		
2	Sustainability report		
3	Anti-bribery		
4	Transparency (Internal, external audit)		