

Corporate Social Responsibility (CSR) Disclosure in Plantation & Consumer Products' Industry in Pakistan

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Abstract

The paper enlightens the importance of the disclosure about CSR in Pakistan. Objectives of this study are dual and focus on the Plantation & Consumer Product's industry in Pakistan. First objective of the study: to inspect the extent of CSR disclosure. Second objective of the study: to affirm that whether profitability, size of the firm and leverage have a relationship with the disclosure level of CSR. In data collection procedure, annual reports of the one hundred thirty eight firms of consumer product's industries and forty eight Plantation companies listed in Pakistan are used. Content Analysis and Pearson chi-square techniques are used for data analysis. The results of current paper were not important for the consideration of higher management to improve the degree of the disclosure of CSR in Plantation & Consumer Products' industry but also in the high interest of the companies to improve their CSR disclosure.

Keywords - CSR, Environmental information, Leverage, Plantation & Consumer Product industry, Size of Firm

I. Introduction

"Business encompasses the economical, legal, ethical and philanthropic expectation that society has of organization at a given point in time" (Carroll, 1979). Organizations and their managers are facing pressure in the modern commercial area to play an essential role in the

welfare of the society (Balabanis, Phillips, & Lyall, 1998). Public awareness has grown up in the last few decades due to some extra ordinary efforts by the corporation in the society (Reverte, 2009). Investors give much importance to the information of society and environment while taking decision about investment and demand reasonable disclosure of that particular information (Yekinni, 2008). In this global era, the stakeholders do not demand high profit from the company but also interested in what extent of the companies involved in the CSR activities. To respond such question, it is the necessity for the organizations to disclose their activities CSR activities and now it became the main agenda in many companies. Some business scandals such as Parmalat, WorldCom and Enron along with effects of environmental changes have forced to reevaluate their responsibilities towards their societies and all their stakeholders (Daniel Silberhorn, 2007). Many countries like Australia and South Africa (Public Environmental Reporting Framework 2000 and The King Report on Corporate Governance (King II) in 2002 respectively) take proactive step in adapting the CSR information disclosure by recognized this important issue. The other countries like Denmark, Norway, France, Belgium, Japan, Hong Kong, Canada and Netherlands have formulated and promulgated CSR reporting and made it mandatory more importantly in natural environmental matters and many public Accounting Firms operating internationally, governmental department and organizations have also developed the manuals of “best practice” the reporting on sustainability in order to provide better services to their clients and their societies (Lee, Faff, & Smith, 2009).

In Pakistan, the basic listing requirements of the public companies to get listed is to disclose the brief description of their CSR practices and activities assumed by listed issuer and its subsidiaries with effect from December 31st 2007 (Appendix 9C, Part A, paragraph 29). Over the time, CSR has developed in Pakistan at its higher level and Pakistan recognizes among the most emerging countries in connection of Social Corporate Responsibility (Zulkifli & Amran, 2006). Many public and private companies set their business objectives with Social Corporate Social Responsibility through many governmental and non-governmental endeavors in connection of creating awareness regarding CSR importance (Goi & Yong, 2009). Asia Business Barometer conducted a groundbreaking research project in 2008 to understand position of disclosure of CSR among twenty firms in Malaysia, Thailand, Hong Kong and Singapore and project’s results revealed that Malaysia stood at second position in communicating and reporting of CSR (CSR Asia, 2008). Mounting CSR disclosure interest can also be noted through large number of entries of organizations for 2005 ACCA MISRA in which an increasing trend was seen of the companies judging their disclosure of social and environmental performance (Tay, 2007).

After examining environmental and social disclosure from the data of thirty companies doing construction business listed in Malaysian stock exchange for the period of four years i.e. 1998 to 2002. The aim of this paper is to determine the relationship between the extent of environmental and social disclosure and company’s attributes such as leverage, size, audit firm and profitability of the respective firms. The result showed the positive relation between company’s profitability, size and its CSR disclosure.

A financial trend analysis was conducted to make sure that the construction specially owned by “Corporate Owners” knows about their social obligation whether it is not completely fulfilled. It is concluded that that CSR has a relation with audit firms but no supportive evidence of relation between disclosure and company’s leverage (Zain & Janggu, 2006). Mali, Dodik and Nazli, (2003) investigated CSR disclosure. They took the data of ninety eight companies listed on Malaysian stock exchange. The companies taken for examination were

showing effects of CSR exposure influence the company's relation with public. It is usually "good news" for public as monetary or quantitative disclosure and "bad news" is minimized. Susela and Azlan (2008) examine the CSR disclosure is based of multination, foreign affiliations / ventures in development of economy.

Different researches resulted that the government has strong effect on different levels of corporate social responsibility disclosure but there was a strong evidence of influence of foreign affiliates. It was identified that the accurate description of CSR disclosure in Malaysia is the fulfillment of government's strategic goals is its cherished desire. This study on CSR disclosure which is practiced Malaysia. This investigation is a sequel of previous studies to cover new events in CSR disclosure which threw light on improvement and development of disclosure of CSR.

The objectives of this research are dual in nature: to inspect the level of disclosure of CSR and to determine whether profitability, size & leverage correlates with the disclosure level of CSR. Second objective of the study is based on the establishment of the following hypotheses:

H1: There is no significant relationship between firm size and level of CSR disclosure

H2: There is no significant relationship between firm profitability and level of CSR disclosure

H3: There is no significant relationship between firm leverage and level of CSR disclosure

Therefore, the focus of the study is CSR disclosure of consumer products and plantation industries only. The main purpose behind the selection of these industries is the direct relationship with environment and society. Moreover, there was less interest shown by the previous researchers on the disclosure of CSR on these industries.

II. Objectives of Study:-

1. To determine the effects of firms' size on Level of CSR disclosure
2. To determine the effects of firms' profitability on Level of CSR disclosure
3. To determine the effects of firms' leverage on Level of CSR disclosure

III. Methodology

The quantitative study includes an overlook of annual financial reports regarding consumer products and plantation industries situated in the main markets of Pakistan. Reason to include said companies listed in Pakistan is required to disclose the activities related to CSR activities in annual financial reports. These AFR were downloaded from the websites of the selected industries of financial year ended 2009. Financial year 2009 is only selected for latest availability of data regarding annual reports. Very first sample contains one hundred thirty eight consumer products' firms and forty eight plantation industries. From sample eighteen (13.05%) consumer products companies and fourteen (29.16 %) plantation companies has been excluded. After exclusion of the companies the remaining population is one hundred twenty (86.95 %) consumer products' companies and thirty four (70.84 %) plantation industries respectively.

AFR were used as a source of collecting information because their own credibility (Tilt, 1994). AFR should base upon the consistency alongwith financial statements presented and the auditors should also confirm the materials in that reports is not deceiving and also filter to disseminate the information which will change the true and fair view of accounts of the organization and also they have advantages of the other ways of communications (Sweeney & Coughlan, 2008). AFRs actually examined and separated through dichotomous way. This system (Dichotomous) "awards one point for a company that discloses the CSR item and awarded zero point for non-disclosure" (Alrazi, Sulaiman, & Ahmad, 2009). Process regarding collection of data continues with categorized of the disclosure into high, medium & low level of CSR disclosure. Below mentioned table illustrates the three level categories.

Table 1:
Scale for Level of CSR Disclosure Category

Level	Total CSR Disclosure (Number of Sentences)
High	More than 31
Medium	16-30
Low	1 – 15

Measurement of Dependent Variable

Total CSR disclosure in Annual Reports is the dependent variable of the study which shows the CSR disclosure level. Dependent variable of the study was measured by counting the number of sentences, because reliable, meaningful and complete data provide the further analysis of the data (Milne & Adler, 1999). Measurement of the study is consistent with other research like (Alrazi, Sulaiman, & Ahmad, 2009).

Measurement for Independent Variables

There were three independent variables of the study i.e. Size, Profitability and Leverage of the organization.

Size of the firm: total assets of company were used in this study in the measurement of the size of the company and the measurement of the size of the firm is reliable with preceding studies by (Arief & Kurnia, 2008). Company size widely categorized into three major categories: less than Rs. One billion (Small), Rs. Two billions (medium) and above Rs. Two billions (large).

Firm's profitability: Net income and Return on Asset (ROA) were two proxies used to measure the profitability of the company. These proxies were consistently used in the previous researches by (Menasa, 2010) and (Reverte, 2009). Net income is further categorized into three main categories of the consumer products industry like less than Rs. Two hundred millions (low income), Rs. Four hundred millions (moderate income) and above Rs. Five hundred millions (high income). The plantation industry is also classified into three categories based on their net income like less than Rs. 500,000,000 (low income) Rs. 500,000,000 to 1,000,000,000 (moderate income) and above Rs. 1,000,000,000 (high income)

Leverage of the firm: Leverage of the firm measured on the bases of total debt to total equity of the firm, this proxy is consistent with preceding studies like (Siregar & Bachtiar, 2010).

IV. Data Analysis

Content Analysis and Correlation Analysis were used in this study for data analysis.

Content Analysis

This technique was used to get the results of the first objective of the study. It is used to convert the qualitative information into quantitative numbers by counting sentences. It was consistently used in previous researches to calculate the extent of CSR disclosure in the literature (Hackston & Milne, 1996). Validity of Content analysis of companies' AFRs checked by matching the sample of firms and coding of their CSR activity (Bowman, 1984). Krippendorff, (2004) defined the reliability into three categories: reproducibility, stability and accuracy for content analysis.

Pearson Correlation

The results of the second objective of the study were collected by using Pearson correlation where CSR disclosure level is correlated with independent variables (size, profitability and leverage of the company).

V. Results & Discussion

1. CSR Disclosure Level in Consumer Product's and Plantation Industries:

The results of the level of CSR disclosure activities of companies are presented in the given table no. 2:

Table 2:

Disclosure CSR Activities

Level of CSR disclosure	Consumer Products	Percentage	Plantation	Percentage
Disclosure CSR activities	112	93.33	29	82.86
Non-disclosure CSR activities	8	6.67	6	17.14
Total	120	100.00	35	100.00

One hundred twelve companies (93.33%) disclosed the activities of CSR and only 8 companies (6.67%) were not disclosed their CSR activities of the total sample from consumer products industry. Furthermore, twenty nine companies (82.86%) disclosed CSR related activities and six companies (17.14%) of the total sample from the plantation industry did not disclose CSR activities. The low percentage of disclosure of CSR activities show that the companies are well aware about the importance of CSR disclosure and have adequate information about it.

Table 3:

Sentences for CSR activities discloses in AFRs

Descriptive	Disclosure Sentences of CSR activities in AFRs	
	Consumer Products	Plantation
Maximum	122	54
Average	17	20
Minimum	3	4
Total	1860	620

One thousand eight hundred sixty and six hundred twenty sentences were disclosed by one hundred twenty consumer product industries and thirty plantation companies. Seventeen and twenty sentences are average for consumer product and plantation industries respectively.

Maximum One hundred and twenty two sentences of CSR disclosure disclosed by the consumer product industry. The minimum disclosure disclosed by the company is only two sentences of CSR activities. For plantation industry, maximum fifty eight sentences of CSR activities disclosed and minimum is four sentences.

Table 4:

Disclosure of CSR information

Descriptive	Consumer Products		Plantation	
	No. of Companies	Percentage	No. of Companies	Percentage
High	6	5.36	4	15.38
Medium	17	15.18	6	23.08
Low	89	79.46	16	61.54

Total	112	100	26	100
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Table 4 showed CSR disclosure in which eighty nine consumer product companies (79.46%) are stand at low, seventeen (15.18%) are at medium and only six (5.36%) companies are falling in the high category. In the plantation section, sixteen (61.54%) companies lying in the low category, six (23.08%) in the medium and only four (15.38%) companies are lying in the high category.

Testing of Hypotheses

Three independent variables are used in this paper Firm size, Profitability of the firm and leverage of the firm. Size of the firm was calculated by calculating the total assets of the firm, profitability is related to the net income, ROA and leverage was calculated by total debt to total equity.

The relationship between Firm's Size and Disclosure Level of CSR

Table: 5

Relationship of level of CSR disclosure and firm's size

Relationship Between	Pearson Correlation	
	Consumer Product	Plantation
Firm's size and level of CSR disclosure	0.40**	0.42**

$P < 0.05^{**}$

The above table showed that there is a moderate correlation between disclosure level of CSR and size of firms ($r = 0.40$, $p < 0.05$ for the companies related to consumer products and $r = 0.42$, $p < 0.05$ for the category of plantation industry). According to the results of R of the relationship of firm's size and level of CSR disclosure, the hypothesis is rejected. Our finding of this hypothesis is consistent with the preceding researches (Ayadi, 2004). These researchers found that firm size is correlate with level of CSR disclosure activities.

The Relationship of Firm Profitability and CSR Disclosure Level

Table 6:

Relationship of Firm Profitability and CSR Disclosure Level

Relationship Between	Pearson Correlation	
	Consumer Product	Plantation
Company's Profitability calculated by ROA and level of CSR disclosure	0.08	0.16
Company's Profitability calculated by net income and level of CSR disclosure	0.52**	0.56**

$P < 0.05^{**}$

Findings of this hypothesis revealed that company's profitability is correlated with the level of CSR disclosure with Pearson correlation value 0.08 for consumer products' and 0.16 for plantation industries respectively. The results show that firm profitability which calculated by ROA is not significantly affect the CSR disclosure in the both categories of industries. The results show that there is an insignificant relationship between firm profitability calculated by ROA and CSR disclosure level.

Company's profitability calculated by net income is second measured. The correlation analysis of the measure showed that company's profitability calculated by net income is correlated with level of CSR disclosure with the results 0.52 for consumer products and 0.56 for

plantation industries. It has a significant value at $p < 0.05$ with moderate relationship. The results confirm the results of previous study (Menasa, 2010). It infers that companies disclose social and environmental activities with more profit and adequate funding (Zain & Janggu, 2006).

Relationship of level of CSR disclosure and firm leverage

Table 7:

Relationship of level of CSR disclosure and firm leverage

Relationship Between	Pearson Correlation	
	Consumer Product	Plantation
Firm's leverage and level of CSR disclosure	0.03**	0.05**

$P < 0.05^{**}$

Table: 7 describes the results of the 3rd hypothesis which is "There is no significant relationship between firms' leverage and disclosure level of CSR". The values of Pearson correlation (0.03 for consumer products and 0.05 for plantation industry) revealed that there is an insignificant relationship between leverage of the firms and level of CSR disclosure. The results reject the hypothesis. Results show constancy with the previous research (Menasa, 2010). The findings of their study are there is a significant relationship between firm's leverage and level of CSR disclosure.

VI. Recommendations

This study revealed that there is more place for improvements of disclosure of CSR in the consumer product and plantation industries. First area of improvements is related to the support of higher authority. Governments should make arrangement to overlook and enforce the development of CSR disclosure in the industries time to time. Companies should responsible for the development of CSR disclosure and take a step forward to develop CSR disclosure strategies. Second, Companies who have the less attention about CSR disclosure should get connected with the high level of CSR disclosure and take it as an example to improve their CSR disclosure strategies and programmes. Companies ought to take part in the social activities and solve the societal problem like shortage of skilled workers and healthcare sector by using the corporate capital (Adzrin, Ahmad, Tower, & Zahn, 2009). Third, companies should take responsibility to public their CSR activities. Companies' CSR activities can promote CSR disclosure in Pakistan by rewarding them. Fourth, shareholders should support companies in CSR disclosure activities. Finally the education ministry of the country should add it in the curriculum at school level or at university level to teach students about CSR disclosure and their benefits toward society.

VII. Conclusion

The results of the study concluded that the higher degree of disclosure of CSR activities was found in the most of the industries. This is the sign of development in the disclosure of CSR activities in Pakistan. Companies enlarge their annual financial reports by adding up the social, environmental, product and employee information rather than the traditional reporting format (Zulkifli & Amran, 2006). CSR disclosure activities gets importance from the companies by this development. Conversely, still many firms show low attention to disclose their CSR activities in their annual financial reports. Moreover, this research concluded that a gap lied to show the disclosure of CSR activities related sentences in the annual reports of the companies.

This study abridged that the higher degree of CSR disclosure has a positive relationship with the income of the companies. Some of the studies suggested that the size of the firms is correlate the level of CSR activities (Ayadi, 2004). Nazli (2007) revealed that the companies have large volume be the part of the public eyes and show more interest in the political side for disclosing the CSR activities in order to get more political benefits and legitamization of their existance. She also findout that companies have larger volume are seemed to be more interested in the CSR activities in order to improve their image building in the eyes of the society.

in other hand, ROA and leverage is not correlate with the CSR disclosure level. it suggests that debt do not have the influence on the CSR disclosure activities. Companies have the equal responsibility towards the CSR disclosure wheather they have the higher debt financing structure or less.

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