

CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY: A STUDY ON TELECOMMUNICATION SECTOR OF PAKISTAN

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ARTICLE INFO	ABSTRACT
<p><i>Article History:</i> Received: 10 Sep 2019 Revised: 15 Nov 2019 Accepted: 20 Jan 2020 Available Online: 05 Jun 2020</p> <hr/> <p><i>Keywords:</i> corporate governance, corporate social responsibility, telecommunication sector, discipline, transparency, social awareness</p> <hr/> <p><i>JEL Classification:</i> D63, I14, I24</p>	<p>The corporate governance mechanisms in Pakistan are not given much importance to enhance the corporate social responsibility activities in business organizations. Organizations are expanding their boundaries and adopting new and innovative ways to show that they care for humanity. This article studies the influence of corporate governance on different corporate social responsibilities activities in Pakistani organizations. Five-point likert scale questionnaire was used to measure the impact of corporate governance on corporate social responsibility activities in the telecommunication sector of Pakistan. Regression analysis was done to test the relationship between corporate governance and corporate social responsibility, along with other correlational and descriptive statistical analysis. The results suggest that the corporate governance dimensions of discipline, social awareness, transparency, fairness and responsibility have a significant effect on corporate social responsibility.</p>

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1. INTRODUCTION

Western countries introduced the notions of corporate social responsibility (CSR) and corporate governance (CG). In the former era, these practices have been established and practices immensely by these countries. Essentially through the accomplishments of the multinational companies operating globally, the knowledge about potentially successful CG measures and CSR activities has been disseminated to the other parts of the world. CG is mainly defined as the procedures, rules, regulations and policies that influence the way how a corporate is managed (Khatab, Masood, Zaman, Saleem, & Saeed, 2011). Husted and Salazar (2006) explain CSR as means to enhance the business performance while considering the societal benefit at large and adopting the ethical customs. CSR is considered as one of the extension of an organization's effort to take effective CG measures, such as transparency and accountability, in emerging economies (Love & Rachinsky, 2006). With an increased focus on societal welfare by the social scientists and the practitioners, organizations have become more sensitive towards adopting effective CG structure that can facilitate CSR activities. Effective CG mechanism not only positively influences the economic growth of an organization (Yasser, Entebang, & Mansor, 2011) but also makes it capable to respond to the societal demands for welfare. Thus, CG and CSR are extremely entrenched in business practices these days and indicate a growing need to develop such mechanisms that can facilitate both the concepts in a combined framework (Jo & Harjoto, 2011). Pakistan is a lucrative market for understanding the CSR potential and how it is influenced by the CG mechanisms adopted by various corporate sectors. If implemented, good governance can lead to engaging CSR activities for multiple stakeholders of the organizations, thus, leading to enhanced performance of such organizations.

2. LITERATURE REVIEW

In the 1930's, the subject of CSR was initially deliberated in a Harvard Law Review article that discussed the provisions of accountability for the responsables of a society (Malik, 2014). Hopkins (2014) accentuates that CSR is a perpetual pattern of business activities aimed towards prodigiously fulfilling the needs of social well-being of the employees and other community members. It is a commitment to expand the well-being of society, conform to the ethical, moral and environmental standards and raise stronger relationships with the stakeholders (Vaitkevičius & Stukaitė, 2009). Furthermore, it has been argued that the contribution of senior-level management is extremely vital to the effective execution of a CSR program (Lerner & Fryxell, 1994). Literature also reveals that socially responsible

organizations enjoy a strong customer base due to a positive perception about organization’s effort for social welfare (Mejri & DhruvBhatli, 2014). This eventually leads to improved sales and customer reliability.

The corporate governance concept was developed in the late 1980’s when numerous U.K companies distorted because of insufficiency of operating and functional control. It resulted in the development of “Cadbury Committee” on CG by London Stock Exchange in the year 1991 (Miglani, 2012). CG is a structure by which corporations are controlled and in which the responsibilities and privileges are shared by the chief performers of an organization (Chan, Watson, & Woodliff, 2013). The corporate governance structure enables an organization to encourage the efficient use of its resources and correspondingly want responsibility intended for the supervision of assets. Moreover, CG is a comprehensive word that can be described as a structure of responsibility between owners, and corporate management entities (Muhammad & Rafiq, 2012). The emerging scrutiny reports that responsibility, discipline, transparency, fairness and social awareness are key standards in smart governance system of a corporate and also provide protection against monetary crisis. It is appropriate to indicate here that transparency, disclosure, sustainability and ethical behavior are fundamental subjects in both CG and CSR. Moreover, CSR is constructed on the perception of self-governance whereas CG is a broadest control mechanism within which an organization takes its management decisions (Jamali, Safieddine, & Rabbath, 2008). Concerning CSR and CG, there is an apparent correspondence between them depicting that effective governance brings sustainable responsibility according to the desires of all main stakeholders. There is, consequently, a clear correspondence among the combined implication of CG and CSR that generates synergies through a systemic approach (Nikolic & Zlatanovic, 2018). This is mainly because it involves a multifaceted mesh of unified stakeholders and add significance to the organizations. However, numerous CSR researchers accentuate that the standards of governance are essential for the internal aspects of CSR (Buchholtz, Brown, & Shabana, 2008).

Bertrand and Mullainathan (2003) claim that when executives are not carefully observed and segregated from corporate governance, organizations are not able to deliver the promised value to its stakeholders. In this regard, a strong commitment to CSR is positively correlated to good governance mechanisms. Pakistan, being a developing economy, needs a consistent and thorough focus on building effective corporate governance mechanisms in its corporate sector for sustained CSR activities. Previous researches conducted in Pakistan show a positive association between CG and CSR activities in varied types of business organizations (Gul, Muhammad, & Rashid, 2017). However, there is no significant research on the telecommunication sector of Pakistan to understand the relationship of CG and CSR. With the increased advancement in this particular sector of Pakistan’s economy, a research gap exists to study these variables and their interdependence. This study is significant to reduce this gap through statistical analysis of these concepts by collecting the data from the telecommunication sector of Pakistan.

2.1 Theoretical Framework

The following figure shows the theoretical frame work developed from the literature review of the chosen variables i.e. CG and CSR. It is representing the influence of corporate governance (independent variable) on corporate social responsibility (dependent variable).

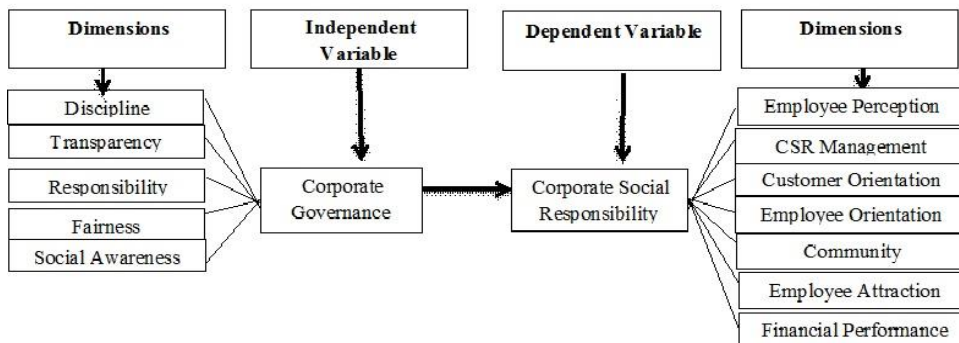


Fig. 1. Theoretical Framework

3. RESEARCH METHODOLOGY

It is an exploratory research work with a deductive approach. The data was collected in a non-contrived setting. Telecommunication companies including Mobilink, Telenor and Ufone were chosen for the study. The population was comprised of the key organizational players which included middle and top-level managers of these organizations.

The data was gathered from the selected telecommunication companies through convenience sampling technique by using the questionnaires. The sample size for the study is 106 which resulted from the response rate of 70% (N=106). The responses were collected on a five-point likert scale ranging from Strongly Disagree (1) to Strongly Agree (5). Lastly, the questionnaire used in this research was developed from the literature review; a study done by Muhammad and Rafiq (2012) for CG and doctoral thesis by Sweeney (2009) for CSR. The data collected through the questionnaires was quantitatively analyzed using IBM Statistical Package for Social Scientists (SPSS) version 20. There were 20 questions for CG and 19 questions for CSR in the questionnaire developed for this study. Mainly, correlation analysis was done among different dimensions of CG and CSR, whereas, Regression analysis was performed to understand the impact of CG on CSR; along with different descriptive findings.

4. RESULTS AND FINDINGS

Following are the results and analysis based on the data collected from various telecommunication companies operating in Pakistan.

4.1 Data Reliability

The values of Cronbach alpha were calculated to show the reliability of the variables used in questionnaire. In this case, the values of CSR and CG were .843 and .831, respectively which fall under the acceptable limit of data reliability.

4.2 Demographical Analysis

Among 106 respondents, there were 75 males and 31 females. Most of the respondents i.e. 42.5% (N=106) were aged from 21 to 30 years age. 36.8% of respondents were aged from 31 to 40 years. Correspondingly, the remaining portions belonged to age 41-50 (16%) and 51 & above (4.7%). All the respondents had been engaged in CSR activities for at least 5 years with an overall working experience of more than 10 years.

4.2.1 Relationship between Gender and CSR

H₁: *There is a significant association between gender and CSR.*

Table 1 is depicting the results of one sample t-test of the variables: gender and CSR. The significance level 0.000 which is <0.05 from where we will come to know that significant relationship exists between gender and CSR. It demonstrates that different gender has different perception for CSR activities. According to their perceptions different programs should be conducted to accelerate CSR activities. Therefore, H₁ is accepted.

Table 1. One-Sample Test

	T	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Gender	29.114	105	.000	1.292	1.20	1.38
CSR	74.758	105	.000	3.666	3.57	3.76

Test Value = 0

4.2.2 Relationship between Age/CSR Engagement/Working Experience and CSR

H₂: *There is a significant association between age and CSR.*

H₃: *There is a significant association between CSR engagement and CSR.*

H₄: *There is a significant association between work experience and CSR.*

Table 2 is depicting the one-way ANOVA test of the variables age, engagement in CSR activities and overall work experience with CSR. The significance level 0.378 which is >0.05 represents that no significant relationship is found between CSR and age which shows that CSR different initiatives programs and strategies can be implemented effectively by any age group. Therefore, H₀ is accepted. One way ANOVA test of the variables engagement in CSR and CSR reveal the significance level 0.043 which is <0.05. Thus, a significant relationship is found between them which shows that the engagement level in CSR activities may determine the level of incorporation of CSR in organizational operations. Therefore, H₃ is accepted. Finally, table 2 reveals the significance level of 0.766 between work experience and CSR which is >0.05. This shows an insignificant relationship between work experience and CSR. Thus, CSR activities are not linked with more years of experience rather they can be started at any stage of career or organizational life. Moreover, they can be executed by anyone regardless of experience by following the organizational code of conduct, giving back to societies, be legally and economically viable. Therefore, H₄ is rejected.

Table 2. One-Way ANOVA

Variable	Sum of Squares	Df	Mean Square	F	Sig.
Age	.795	3	.265	1.041	.378
CSR Engagement	2.047	3	.682	2.815	.043
Work Experience	.139	2	.069	.268	.766

4.3 Correlational Analysis

The correlation was performed to understand the impact of different dimensions of CG on CSR and the impact of CG on different dimensions of CSR. Table 3 depicts the correlational values for these variables.

4.4 CSR and the Dimensions of CG:

4.4.1 CSR and Discipline

H₅: *There is a significant association between CSR and discipline.*

Table 3: Correlation Analysis

Factors	Sig. level	Pearson Correlation
CSR with CG dimensions		
Discipline	.001	.324
Transparency	.000	.586
Responsibility	.000	.469
Fairness	.000	.393
Social Awareness	.000	.403
CG with CSR dimensions		
Employee perception	.000	.383
Senior Management Involvement	.000	.365
Customer Orientation	.002	.299
Employee Orientation	.000	.528
Community Welfare	.000	.418
Employee Attraction	.000	.502
Financial Performance	.000	.384

Table 3 illustrates that CSR and organization discipline are significantly related as the significance level is 0.001 ($p < 0.05$). And the value of $R = 0.324$ indicates that there is a moderate level of association between the CSR and discipline. This shows that if formal rules and regulations (required for maintaining the discipline) are adopted by an organization, these may help the organization to get engaged in CSR activities. Thus, H₅ is accepted.

4.4.2 CSR and Transparency

H₆: *There is a significant association between CSR and transparency.*

Table 3 depicts that both CSR and transparency are significantly related to each other and the value of $R = 0.586$ shows that there is a moderate level of association between both variables. This correlation between both variables shows that the companies sustain trust of its stakeholders and other community members through transparency of its operations and by the information provided to the general public. Organizations use internationally recognized accounting methods that guarantee the transparency level as required by the investors and other stakeholders. Thus, H₆ is accepted.

4.4.3 CSR and Responsibility

H₇: *There is a significant association between CSR and responsibility.*

Table 3 represents that CSR and responsibility are significantly related as significance level is 0.000 and the value of R shows that there is a moderate relationship between both the variables as its value is 0.469. This correlation shows that the management of an organization owning high level of responsibility shows more CSR activities. Good governance mechanisms owing to responsible management show more CSR. So, accept H₇ is accepted.

4.4.4 CSR and Fairness

H₈: *There is a significant association between CSR and fairness.*

According to Table 3, CSR and fairness are significantly related as the significance level is 0.000 and the value of $R = 0.393$ shows that there is a moderate level of association between both variables. This relationship shows that when the companies are involved in fair activities like avoid discrimination, are more concerned towards employee

equality and provide incentives purely based on employees performance, they tend to become more socially responsible. Thus, H8 is accepted and Ho is rejected.

4.4.5 CSR and Social Awareness

H₉: *There is a significant association between CSR and Social Awareness*

Table 3 shows that CSR and social awareness are significantly related as the significance level is 0.000 and the value of $R=0.403$ shows that there is a moderate level of association between both variables. This relationship shows that if company is fully aware of the social norms such as prohibiting the under-aged employment and environmental consciousness, it will be show more commitment with CSR activities. So, H9 is accepted.

4.5 CG and the Dimensions of CSR:

4.5.1 CG and Employee Perception

H₁₀: *There is a significant association between CG and employee perception about CSR.*

Table 3 depicts that CG and employee perception about the organization's CSR activities are significantly related at the significance level 0.000. The value of $R=0.383$ shows that CG and employee perception are moderately related to each other. This relationship shows that if an organization is implementing effective CG with all its crucial elements like transparency, responsibility and fairness, then the employees' perception about organization's CSR activities will be improved. Therefore, H₁₀ is accepted.

4.5.2 CG and Involvement of Senior Management in CSR Activities

H₁₁: *There is a significant association between CG and the level of involvement of senior management in CSR activities.*

Table 3 shows that CG and the involvement of senior management in CSR activities are significantly related at significance level 0.000. The value of $R=0.365$ shows that CG and the level of senior-level management in CSR activities are moderately related to each other. It means that the CG tools are vital to the effective execution of a CSR program. With effective CG in an organization, senior management will feel liable to take part in CSR activities. Therefore, H₁₁ is accepted.

4.5.3 CG and Customer Orientation

H₁₂: *There is a significant association between CG and Customer Orientation.*

Table 3 shows that CG and the CSR activities towards customer are significantly related at significance level 0.000. The value of $R=0.299$ shows that CG and customer orientation have a weak relationship. It means that although CG is an internal aspect but it may direct the organizational members to focus on customer-oriented CSR activities; consequently, leading to better image in the minds of the customers. Therefore, H₁₂ is accepted.

4.5.4 CG and Employee Orientation

H₁₃: *There is a significant association between CG and Employee Orientation.*

Table 3 reveals that CG and CSR activities towards employees are significantly related at significance level 0.000. The value of $R=0.528$ shows that CG and CSR activities towards employees are moderately related to each other. This relationship shows that if CG mechanisms in telecommunication companies provide the employees with a completely fair environment and take employees as their most important responsibility, the employees will also take the CSR initiatives more enthusiastically. Therefore, H₁₃ is accepted.

4.5.5 CG and Community Welfare

H₁₄: *There is a significant association between CG and community welfare.*

Table 3 depicts that CG and community welfare are significantly related at significance level 0.000. The value of $R=0.418$ shows that CG and the community welfare are moderately related. This relationship shows that effective and responsible CG mechanisms help the organizations to take better part in community welfare activities. So, we accept H₁₄.

4.5.6 CG and Employee Attraction

H₁₅: *There is a significant association between CG and employee attraction.*

Table 3 of correlation represents that CG and employee attraction are significantly related at significance level 0.000. The value of $R=0.502$ shows that CG and the employee attraction are moderately related to each other. This relationship shows that effective CG would result in more attractions like job satisfaction and motivation among employees, which may also result in improved productivity for such organizations. Thus, H₁₅ is accepted.

4.5.7 CG and Financial Performance

H₁₆: *There is a significant association between CG and financial performance of a firm.*

Table 3 shows that CG and the financial performance of a firm are significantly related at significance level 0.000. The value of $R=0.384$ shows that CG and company's financial performance are moderately related to each other. This relationship shows that CG plays a vital role in enhancing the firm's financial performance. CG tools such as responsibility, transparency, fairness and proper implementation of discipline in all the matters of organizations can have a positive impact on their performance. Thus, H₁₆ is accepted.

4.6 Regression Analysis

The regression analysis was performed between CG and CSR.

H₁₇: *There is a significant association between CSR and corporate governance*

Table 4 depicts the model summary of independent variable CG in which the value of R shows a significant and moderate to strong relationship between CG and CSR. R square represents the percentage change in the dependent variable due to change in independent variable. This table discloses that 40.8% change or improvement in CSR activities can be attributed to CG mechanisms at a telecommunication organization.

Table 4. Model Summary for Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639 ^a	.408	.402	.390

a. Predictors: (Constant), CG

Table 5. Coefficients^a for Regression Equation

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.320	.280		4.718	.000
	Mean.CG	.660	.078	.639	8.461	.000

Dependent Variable: CSR

In the above table 5, the numerical figures are given which are used for the computation of regression equation. As the regression equation is: $Y = a + b(x)$, therefore,

$$CSR = \text{Intercept} + \text{Slope} * CG$$

$$CSR = 1.320 + 0.660 * CG$$

If we take CG on the scale equal to 4 i.e. (agree) then;

$$CSR = 1.320 + 0.660 * 4$$

CSR = 3.96 which is approximately equals to 4. It shows that the change in independent variable (CG) will cause the same change in dependent variable (CSR). It also demonstrates that effective CG will enhance the organizational CSR activities and more initiatives can be taken for CSR programs in those organizations. Thus, H₁₇ is accepted.

5. CONCLUSION

CSR activities are considered to be a necessary part of the organizational operations. The effective CG mechanisms can enable an organization to get engaged in CSR activities at a larger scale. CSR helps to improve the perception of an organization among its employees and it may also differentiate the organization from its competitors. Additionally, effective CG will help the managers to do the right things in the right direction which may help the telecommunication sector to offset several risks. Furthermore, there should be high level of involvement of senior management in CSR activities so that more initiatives should be taken which will, ultimately, bring an excellence in the overall organizational productivity. A comprehensive awareness of acceptable corporate social norms among the corporate members can also positively impact the customers' perception about CSR initiatives taken by an organization. CSR activities under effective CG can be used as a competitive advantage in organizations as it provides an edge to the organization over their competitors and also deliver the greater benefits to the community members. Finally, it can be clearly said that effective CG in Telecommunication sector can lead to better engagement in CSR activities which may result in better organizational performance in all aspects. Lastly, the CSR practices under effective CG mechanisms can be comprehensively studied in multiple corporate sectors of Pakistan. Moreover, future

researches can test the theoretical framework in different contexts. A multi-cultural comparative analysis of CG and CSR can also be worthwhile to study.

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