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CSR, Contracting and Socially Responsible Investment: Opportunities for Pakistani Firms

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Richard Janda and Joseph Wilson¹

1. Introduction

Nobel Laureate Milton Friedman remarked famously that the corporate social responsibility of the firm is to increase its profits.² The New York Times Magazine September 13, 1970. At the time he said this, he meant to dismiss the very notion that corporations should look beyond a single, financial bottom line so as to envisage a social or environmental bottom line as well. Broader social concerns, he argued, were to be addressed by governments through their regulatory authority, with which corporations would simply comply as a matter of law. Executives were not expert in and had no mandate to engage in public policy-making. What Friedman did not anticipate was that the market itself would begin to signal the need for corporations to take social and environmental considerations into account so as to sustain and improve their capacity to make money. The contemporary irony of his remark is that many of the world's leading corporations are embracing an ambitious – some would say too open-ended – agenda for responding to multiple stakeholders precisely to maintain their social license to operate and make money into the future. A January 2005 Survey in the *Economist* entitled the “Good Company” while highly critical *à la* Friedman of what it characterized as the over-extension of the CSR, acknowledged that CSR had “won the battle of ideas” and was now well anchored in corporate practice.

If investors, customers and other stakeholders demand socially responsible performance, it can hardly be contrary to the financial interests of the corporation to demonstrate that it is achieving such performance. Indeed, corporations that seek to maintain their leadership into the future will have a strong incentive to be pro-active rather than to wait for obligations to be cast upon them. This proposition was illustrated recently when the President and CEO of GE called for greater corporate as well as governmental action to reduce the effects of climate change and for the US to reverse its position on the ratification of the Kyoto Protocol. Failure to do so, he argued, would leave US firms vulnerable to better and faster adaptation by foreign companies making strong current investments in improved environmental practices.

The purpose of our paper is to explore two ways in which Pakistani firms can take advantage of the growing corporate social responsibility movement so as to improve their own economic performance. First, the presence of MNCs in Pakistan, the vast majority of which have made significant CSR undertakings, means that Pakistani firms seeking to do business with them will often have to meet CSR tests themselves. Second, the increasing financial clout of so-called Socially Responsible Investment (SRI) funds means that Pakistani firms have an incentive to comply with CSR standards so as to become eligible investment instruments. We begin by canvassing briefly the history of CSR movement and what are by now relatively well-known CSR principles and standards. We then explore

¹We would like to acknowledge financial support of the LUMS-Citigroup Corporate Governance Initiative. We are grateful to Hari Subramaniam for his extensive research assistance.

²The New York Times Magazine September 13, 1970.

some examples of how Pakistan-based multinationals as well local firms are currently engaging in CSR practices. We argue that Pakistan can and should acquire the reputation for being a leader in this domain.

2. Origin of CSR: Early Debates

Just as the antitrust laws in the United States were legislated fearing the “bigness” of firms, the CSR movement find its roots in the same concern. Back in 1930s, Professor Merrick Dodd argued for corporation’s social responsibility. The notion emerged out of the 1920s American economy, which was dominated by a small number of gigantic, stable corporations that essentially controlled the nation’s business. Professor Adolf Berle by responding to Professor Dodd’s notion of CSR, started a debate over the nature of a corporation, i.e., whether it is an economic or a social entity. The debates probed the nature of responsibility that corporate managers and directors owed their shareholders and other groups directly influenced by them. Later, more debates emerged during ‘60s, ‘70s and ‘90s. There were two main features of the debates. They basically revolved around the ideas that the economy was dominated by a relatively small number of large, powerful, and stable business corporations that were qualitatively different from their smaller competitors. The debates also assumed that the solution to pressing social ills did not lie in the elimination of these corporations, but rather to implement legal mechanisms following which the corporate managers and directors would take into account the needs not only of shareholders but of workers, consumers, and communities when making business decisions.

The last couple of decades have witnessed a dramatic change in the relationship with the civil society and the State. Trade liberalization, globalization and the withdrawal of governments from the role of service provider of public utilities have redrawn the lines of business and markets. Additionally, “the relationship between companies and civil society has moved on from paternalistic philanthropy to a re-examination of the roles, rights and responsibilities of business in society.”³

These factors “have led to the emergence of a new approach to Corporate Social Responsibility (CSR), with companies recognizing that improving their own impacts and addressing wider social and environmental problems will be crucial in securing their long-term success.”⁴ Today, CSR has become an integral part of most Codes of Corporate Governance around the world.

2.1 CSR: Definition

It is difficult to define what really represents the term “social responsibility” of businesses.⁵

³*Corporate Social Responsibility Implications for Small and Medium Enterprises in Developing Countries*, United Nations Industrial Development Organization Vienna, 2002 , p. 2. Available at: <http://www.unido.org/userfiles/BethkeK/csr.pdf>

⁴Id.

⁵The ISO and Corporate Social Responsibility, Issue Briefing Note: Perceptions and Definitions of Social Responsibility, IISD et al. May 2004

“The ISO (International Standards Organization) Strategic Advisory Group on Social Responsibility (SAG) recognizes that there is no single authoritative definition of the term “corporate/organizational social responsibility,” and does not seek to provide one.” However, there are various CRS definitions. World Business Council for Sustainable Development defines CSR as: “The continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”⁶

The European Commission defines CSR as “Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing more into human capital, the environment and relations with stakeholders.”⁷ Business for Social Responsibility defines CSR as “Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business.”⁸

ISO does however, states that most CSR definitions are interplay of social, environmental and economic impacts of an economic enterprise's business activities. It therefore states that Social Responsibility “is taken to mean a balanced approach for organizations to address economic, social and environmental issues in a way that aims to benefit people, communities and society.”⁹

CSR is, therefore, about business ethics, corporate citizenship, and corporate accountability and sustainability. Business for Social Responsibility refers to “achieving commercial success in ways that honors ethical values and respect people, communities, and the natural environment.” CSR concept chiefly requires businesses to assume greater responsibility with respect to ethical, social, labour and environmental conditions with the underlying objective to ensure “health of nations”.

Here, one must realize that the spirit behind CSR remains voluntary. CSR primarily wants businesses to go beyond their legal requirements and then contribute towards the health of nations. It is therefore important to distinguish between CSR activities and compliance with non-voluntary international environmental, social and other standards. Similarly, it is also important to distinguish between CSR and corporate philanthropy. Some argue that corporate philanthropy is a morally dubious transaction since corporate managers indulge their charitable instincts not at their own expense but

⁶See WBCSD (2001), *Corporate Social Responsibility: Making Good Business Sense*. WBCSD. Washington,

⁷EU Green Paper (2001), *Promoting a European Framework for Corporate Social Responsibility*. Brussels, Commission of the European Communities.

⁸BSR – Online Introduction to CSR www.bsr.org/BSRLibrary/TOdetail.cfm?DocumentID=138

⁹The ISO and Corporate Social Responsibility, Issue Briefing Note: Perceptions and Definitions of Social Responsibility, IISD et al. May 2004

at the expense of firm's owner. The Supreme Court of New Jersey, struggling with a corporate gift to Princeton University in *A.P. Smith Mfg. Co. v. Barlow*¹⁰ held:

that just as the conditions prevailing when corporations were originally created required that they serve public as well as private interests, modern conditions require that corporations acknowledge and discharge social as well as private responsibilities as members of the communities within which they operate.

The above discussion brings us to an important question: How do we determine CSR activities? One can define a two pronged test to determine CSR activities given as follows:

1. Does it improve the company's long-term profitability? and
2. Does it advance the broader public good?

3. CSR Principles and Standards

CSR, also referred to as business ethics, corporate citizenship, corporate accountability, and sustainability has been defined by Business for Social Responsibility as “achieving commercial success in ways that honors ethical values and respect people, communities, and the natural environment.”¹¹ CSR requires businesses to assume more responsibility with respect to ethical, social, labour and environmental conditions. The underlining objective is to ensure the “health of nations.”

Today, CSR has become an integral part of most Codes of Corporate Governance around the world. Examples of such codes are: OECD Guidelines for Multinational Enterprises, the Caux Principles for Business, Global Sullivan Principles, the Principles for Global Corporate Responsibility: Benchmarks, the United Nations Global Compact, the Global Reporting Initiative (GRI), and Social Accountability 8000 (SA 8000).¹² The last two codes are different from the others in that the GRI is a reporting standard rather than a set of recommendations for specific standards and practices. It contains recommendations on what indicators companies should use in reporting social, environmental and economic performance. SA 8000 contains auditable code of practice and is accompanied by “accreditation” processes for auditors.

In parallel to the emergence of auditable CSR standards, there has been a dramatic growth in the size of investment portfolios managed according to principles of socially responsible investing (SRI). SRI “is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context

¹⁰ 98 A.2d 581, 586 (N.J. 1953).

¹¹ *Overview of Corporate Social Responsibility*, (visited October 21, 2004).

¹² See e.g., Kathryn Gordon, “The OECD Guidelines and Other Corporate Responsibility Instruments: A Comparison, Working Papers on International Investment,” Number 2001/5 available at <http://www.oecd.org/dataoecd/46/36/2075173.pdf>

of rigorous financial analysis.”¹³ 2003 Report on Socially Responsible Investing Trends in the United States available at Normally three strategies –screening, shareholder advocacy and community investing– are employed for socially responsible investing. For example, in the US alone, in the year 2003 a total of US \$2.16 trillion (more than one out of every nine dollars) in assets were held in professionally managed portfolios using SRI strategies.¹⁴ *Id.* Europe has taken the lead in promoting SRI through new regulations and national legislation.¹⁵ CSR and SRI have thus become closely connected. To attract SRI funds, companies must now conform to some form of CSR.

3.1 International Voluntary Codes

Perhaps the most visible and well-known international voluntary code is the U.N. Global Compact. Over 100 of the world’s leading firms have signed on to ten broad principles in the areas of human rights, labour standards, the environment, and anti-corruption. The Global Compact operates through public accountability and transparency rather than through any specific enforcement mechanism. In return for committing to the Ten Principles, companies may use the U.N. logo in promoting their Global Compact initiatives. The Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies

¹³2003 Report on Socially Responsible Investing Trends in the United States available at http://www.socialinvest.org/areas/research/trends/sri_trends_report_2003.pdf

¹⁴*Id.*

¹⁵*See, e.g.*, details listed at <http://www.eurosif.org/pub2/lib/2004/09/news1/index.shtml>

Anti-Corruption

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

There are several sectoral and cross-cutting CSR reporting initiatives. The most well known and widely deployed is the GRI, which is an independent organization that seeks to develop and distribute globally applicable Sustainability Reporting Guidelines. These Guidelines are for voluntary use by organizations for reporting on the economic, environmental, and social dimensions of their activities, products, and services. GRI is an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with United Nations' Global Compact. Companies are encouraged to use the GRI Guidelines in order to outline their progress under the Global Compact.

The GRI Guidelines provide a framework for reporting an organization's sustainability performance by outlining the core content that is broadly relevant to all organizations regardless of their size, sector, or location. The Guidelines also assist organizations in presenting a balanced and reasonable picture of their economic, environmental, and social performance, benchmarked against the performance of others.

However, here one needs to make a distinction between CSR and legal regulation. European Union's Green Paper states:

Corporate social responsibility should nevertheless not be seen as a substitute to regulation or legislation concerning social rights or environmental standards, including the development of new appropriate legislation. In countries where such regulations do not exist, efforts should focus on putting the proper regulatory or legislative framework in place in order to define a level playing field on the basis of , which socially responsible practices can be developed.¹⁶

EU Green Paper provides European Companies a framework for CSR. Realizing the inherent difficulties in standardizing CSR, the Green Paper defines a company's internal and external dimensions of CSR. The internal dimensions include human resource management, health and safety at work, adaptation to change, and management of environmental impacts and natural resources. The external dimension of CSR for a company consists of taking care of local communities, working closely with business partners and suppliers to reduce costs and increase quality, human rights and global environmental concerns. As is evident this framework only provides general guidelines than specific standards. However, the position of developing specific standards is not without problems. The problems primarily arise from different notions of CSR in different countries. In a briefing note¹⁷ on social responsibility prepared by 6 partner institutes for International

¹⁶Green Paper "Promoting a European Framework for Corporate Social Responsibility" Brussels, COM(2001) 366 final, Commission of The European Communities, European Union, 18.7.2001

¹⁷The ISO and Corporate Social Responsibility "Issue Briefing Note: Perceptions and Definitions of Social Responsibility", May 2004, IISD, IIED, IUCN, AICC RIDES, DA.
http://www.iisd.org/pdf/2004/standards_definitions.pdf

Standard Organization (ISO), the authors note by taking Chile, South Africa and India into consideration that both national drivers of CSR and national conception of it vary among developing countries. In the three countries mentioned above, CSR has primarily its roots in a country's history and culture of philanthropy (for e.g., India). However, in all these three countries, the concept of CSR is increasingly changing because of the changing global and political scenario and businesses are developing holistic social responsibility strategies. For example, in South Africa businesses tend to include targeted support for the state to enable to meet its developmental objectives/goals¹⁸. The briefing note also observes that due to varying conceptions for CSR in different countries, there is a growing need to clarify various perceptions and concepts associated with CSR. At the same time, given all the constraints in developing (generally agreed upon) CSR standards it is extremely important to develop one. The briefing note observes:

An SR standard will only be welcomed if it can deal both with global demands and local realities, and if it leads to real social and environmental improvements. Standards should maintain consistency across different categories of organizations and in different countries, but need to be flexible enough to take into account the interests and capacity of those different organizations, irrespective of their size, sector or location, as potential users, demandeurs and stakeholders.

Apart from MNCs present in Pakistan, there is no Pakistani company that reports under the GRI, although Engro is in the midst of issuing a Report. An interesting comparison can be made with India, which has six domestic companies that file under the GRI (Table 1).

Organisation	Country	Sector
Dr. Reddy's Laboratories	India	Health care products
ITC Limited	India	Other
Jubilant Organosys	India	Chemicals
Paharpur Business Centre	India	Commercial services
Tata Motors	India	Automotive
The Tata Iron & Steel Company Limited	India	Metals products

In the Pakistani context, it is important to note that multinationals reporting under GRI (such as Unilever, Tetrapak, Nestle and British American Tobacco) must also include information about the environmental and social performance achieved through outsourcing and supply contracts. This means that local firms that do not themselves report under GRI or even have CSR policies may nevertheless find themselves indirectly subject to CSR scrutiny if they want to deal with MNCs.

¹⁸ibid, 9

3.2 Government Initiatives

Government initiatives have been relegated to advising and encouraging stakeholders to participate in the CSR process. However, recently this trend has been given more of a push by governments taking more of an active role via tax incentives (Canada) and appointment of ministers specifically in charge of sustainable development (building networks to ensure that CSR principles are taken seriously (UK)) and finally the use of government regulatory oversight to propel CSR innovation and implementation (USA-EPA).

UK

The UK was the first country in the world to formalize CSR reporting requirements through the Pension Amendment Act of 2002, and indeed this initiative has been capped by the creation of a Ministry of corporate Social Responsibility and Sustainable Development.¹⁹ It is now mandatory for all pension funds to disclose whether they take ethical, environmental and social considerations into account when making investment decisions.

Prior to the reforms, SRI funds stood at a mere £3 billion of £1.5 trillion invested in the UK. Now up to 1/3 of asset fund totals have an SRI policy attached. A 2004 Report of Association of British Insurers assessing the impact of the new governmental measures arrived at the following pointed and revealing conclusions:

- the weight of evidence does not support traditional assumptions about the negative impact on risk or returns of introducing social, environmental and ethical investment criteria. On the contrary, incorporating social, ethical and environmental (SEE) criteria can reduce volatility and increase returns;
- social and environmental impacts do not fall uniformly across or within sectors – some companies are more or less exposed than others, just as with conventional business drivers;
- companies are not equally skilled at managing the impacts, even if they are equally exposed; and
- investors and lenders, therefore, need detailed information on specific company exposures, but also strategies and success in managing those exposures.²⁰

The social, technological and economic forces, which have pushed corporate responsibility up the political and business agendas, show no sign of slackening. As SEE issues become more important, investors will need to take more account of them, and investment managers or advisors who fail to do so will be in danger of failing their clients.

¹⁹Australia followed suit and is discussed in another paper for this conference.

²⁰<http://www.abi.org.uk/>

USA

At the federal level, US governmental involvement with CSR has in essence been limited to corporate environmental impacts which are overseen by the Environmental Protection Agency (EPA). The EPA has developed a voluntary reporting regime under which if a company submits a report indicating that it is indeed meeting and exceeding EPA standards, the EPA will then submit the firm to a less onerous inspection system. In line with developments at the state level, the EPA is also deploying a tradeable pollution credit regime that creates a further financial incentive for firms to meet and exceed EPA emissions standards.

Canada

Canadian government bodies such as the Canadian International Development Agency, Department of Foreign Affairs, Export Development Canada, Agriculture Canada and Industry Canada are taking a role in the development of Corporate Social Responsibility (CSR). For example, Industry Canada has included the promotion of corporate social responsibility as a component in improving Canada's innovation performance, employment growth and income growth. It encourages CSR practice by providing capital and help with getting companies online with CSR and Sustainable Principles.

Further, the Canadian Sustainable Development Strategy in the environmental sector for example calls for tax credits for low emission producers of industry or tax credits for upgrading to a higher technology that causes less pollution.

Under Canada's Kyoto protocol undertakings, if companies meet their emissions standards or reduce their output dramatically, they get monetary compensation by way of tax credits or carbon credits. Via taxes, the government is making it easier to justify changes in practice for managers and shareholders and thus is channeling corporate behaviour.

Canadian banks and federally incorporated or registered trust and insurance firms with more than \$1 billion in equity financial institutions having over \$1 billion dollars in assets must file Public Accountability Statements that meet criteria that are even more stringent than those of the GRI. For the time being, however, this requirement is restricted to only a few actors, although there are calls to extend the reporting requirements more broadly.

a) Illustrations of Canadian Industry Sector CSR Initiatives

Different industry sectors in Canada have been developing their own particular approaches to CSR. Companies are recognizing the importance of working together in order to best achieve voluntary corporate social responsibility solutions in their respective industry sectors. For example, the Canadian Chemical Producer's Association (CCPC) has developed implementation standards under the global chemistry industry's Responsible Care Program, which seeks to promote the responsible management of the chemical industry. All member companies are required to implement guiding principles and codes of practice and to report on their environmental performance in the annual Emissions Report. The Canadian Association of Petroleum Producers (CAPP) has established the Environmental, Health and Safety Stewardship Program under

which members produce an annual performance report. The Canadian Steel Producers' Association (CSPA) has also developed a Statement of Commitment and Action Regarding Environmental Protection which seeks to apply sound management systems in an effort to pursue pollution prevention. Other industry sectors that have created similar voluntary CSR standards include: the Canadian Electricity Association (CEA), the Mining Association of Canada (MAC), the Forest Products Association of Canada (FPAC), and the Vinyl Council of Canada (VCC).

Individual Canadian corporations also play a fundamental role in the elaborating and extending CSR principles. Three Canadian-based MNCs are worth citing by way of illustration: Alcan, Placer Dome and BCE. Alcan Inc. is a leading example of a corporation that has made a commitment to CSR by formally linking social responsibility with the business objectives of the organization. It did this by entrenching a sustainability framework based on three components: (i) maximizing value; (ii) continuous improvement; and (iii) commitment to environment, health and safety excellence. In 2003, Alcan Inc. created a senior level cross-functional Sustainability Steering Team to guide the company's efforts. They also joined the United Nation's Global Compact and realigned their corporate Community Investment Program (CIP) towards sustainability-related initiatives.

In the mining industry, since July 2000, Placer Dome was a founding member of the United Nations Global Compact with Business. Other CSR initiatives pursued by the corporation include the adoption of a sustainability policy, a corporate governance code of conduct, a Care Project intended to help former miners develop alternative livelihoods, and a Home Based Care Program for mineworkers no longer able to work due to HIV/AIDS.

BCE Inc. is Canada's largest communications company BCE's environmental issues are governed by a single, over-arching policy and managed according to the ISO14001 standard. Socio-economic issues are governed and managed through a series of policies and issue-specific management systems. These policies are reflected in BCE's Code of Business Conduct. In addition, BCE's 2004 Corporate Responsibility Report was prepared based on the 2002 Global Reporting Initiative (GRI) guidelines.

3.3 SRI Funds and Market Indexes

Our research has not disclosed the existence of any domestic Pakistani firm that benefits from foreign investment through foreign based SRI funds; nor are there any domestic Pakistani SRI investment funds. One dark cloud on the horizon is that the California Public Employees Retirement System (CalPERS), the world's largest pension fund, has placed Pakistan on an unenviable list of countries off limits for ethical reasons. Nevertheless, to illustrate the opportunities that exist to attract SRI investment, we briefly discuss two major markets that currently have sustainability/socially responsible indexes: the Dow Jones Sustainability Index (DJSI) and the FTSE 4 Good-London Stock Exchange. Each Index has a different set of criteria for choosing which companies make it to the list. For our purposes, the world index within each index shall be explored.

Dow Jones Sustainability Index

Dow Jones uses the Sustainable Asset Management (SAM) questionnaire produced by external analysts to gauge the CSR component of the corporation. SAM Questionnaires specific to each of the DJSI industry groups are distributed to the CEOs and heads of investor relations of all the companies in the DJSI investable stocks. The questionnaire is designed to ensure objectivity by limiting qualitative answers through predefined multiple-choice questions. The completed company questionnaire, signed by a senior company representative, is the most important source of information for the assessment. Furthermore, to ensure quality and objectivity of the Corporate Sustainability Assessment, an external review by PricewaterhouseCoopers is completed. The review monitors and maintains the accuracy of the assessment procedures and results. There is currently no section focusing on sub-contracting or outsourcing, but with the trend toward expansionist assessment of CSR, one can reasonably predict that it is only a matter of time before such a section is added to the SAM questionnaire.

Currently, only four companies from the developing world are registered with the DJSI: one from Thailand, three from Brazil, and one from South Africa. There are at least two reasons why is the case. First, to be a member of the DJSI, companies must already be part of the Index and second Tobacco Companies are not allowed. If GRI is any indication, the most prolific producers of CSR data and submission have been Tobacco manufactures and their subsidiaries. Furthermore, companies that use child/prison labor are also denied if it can be proven during the analysis.

Primary investors are mutual, hedge and CSR related funds. The index has been performing extremely well. The index has created 3 spin off's: one focusing on North America, a Global Index and the Stoxx integrated index comprising of , , and the . The Stoxx index has been the fastest growing index in the EU.

FTSE 4 Good

FTSE 4 Good has very similar principles to that of the DJSI.²¹ The index is much smaller than its US counterpart and has no companies from developing nations. Its criteria are as follows:

To qualify for inclusion in the FTSE4Good Index Series, companies must be in one of the following starting universes: the FTSE-All Share Index (UK), or FTSE All-World Developed Index (Global). For inclusion, eligible companies must meet criteria requirements in three areas:

- Working towards environmental sustainability
- Developing positive relationships with stakeholders
- Up-holding and supporting universal human rights

²¹<http://www.ftse.com/ftse4good/FTSE4GoodCriteria.pdf>

Companies that have been identified as having business interests in the following industries are excluded from the FTSE4Good Index Series:

- Tobacco Producers
- Companies manufacturing either parts for, or whole, nuclear weapons systems
- Companies manufacturing whole weapons systems
- Owners or operators of nuclear power stations
- Companies involved in the extraction or processing of uranium

However, FTSE has stricter guidelines than the DOW concerning Human Rights; companies are expected to highlight involvement in countries of concern

- Companies with significant involvement in countries with the greatest human rights concern have been identified as potentially having a significant impact. Therefore these companies are also required to meet the human rights criteria.

- Thus the FTSE Model has different strata for each company grouping based on the industry sector (Agriculture-high risk, IT-low Risk) while also taking to account global operations especially in countries of interest.

Given the investment of traditional UK-based funds in the commonwealth market, it would be prudent to assume that the higher standard of the FTSE would invariable have an effect on the companies and their contracting agencies in years to come.

4. Pakistani Companies Engaged in CSR

4.1 CSR Practices of Multinationals

The practices of MNCs have direct as well as secondary impacts on corporate social responsibility in Pakistan. MNCs themselves are key participants in the implementing CSR, in addition they apply CSR standards on the firms with whom they enter into contractual arrangements. We have chosen three examples to illustrate this: Shell Oil, Unilever and Nestle.

ICI Pakistan Ltd²²

ICI is one of the few companies to have a very clear stance on CSR. It has contributed in both equity and socially responsible initiatives. It practises disclosure of shareholder information and its publications, may it be financial or press releases.

a) ICI Pakistan Foundation

Set up in 1991, the Foundation's philanthropic and social aid initiatives have kept pace with the Company's growth and diversification into various businesses and the setting up of plant sites in different parts of the country.

²²<http://www.ici.com.pk>

It provides financial support to bonafide and established healthcare, educational and social welfare organisations and projects that serve the underprivileged members of society. A percentage of Profit after tax is allocated to the Foundation each year to carry out its philanthropic activities.

Grants are intended to complement rather than substitute government or other private funding. Over the years ICI Pakistan has supported and encouraged social development initiatives, which include improving and enhancing infrastructural facilities in the local educational institutions in and around Khewra and Sheikhpura, where two of the major operations of the Company are located.

b) Health

ICI Pakistan, with the assistance of the Layton Rehmatulla Benevolent Trust (LRBT) doctors, conducts Eye Clinic programmes, at the Company's Winnington Hospital located at the Soda Ash plant, Khewra since 1991. The Winnington Hospital established in the ICI Estate at the Soda Ash plant Khewra serves the community by providing free weekly OPD facility.

c) Drinking Water

ICI Pakistan, considering the acute shortage of drinking water in Khewra has provided nine Community Water Taps in the area around the Soda Ash plant. These Water Taps are operative round the clock providing approximately 23,000 gallons of drinking water daily to the residents of Khewra.

d) Women Development

Established in 1973 the Ladies Welfare Centre at ICI Pakistan's Soda Ash Plant in Khewra serves the local community by imparting skills development training to girl students under the supervision of a team of trained Lady Instructors. Trades include cutting & stitching, knitting, embroidery, cooking and religious teaching. Since its establishment the Centre has trained 1060 students of the Khewra community. Currently the Centre has 80 students.

e) Education

The Winnington School located inside ICI Pakistan's Soda Ash Khewra estate caters to the educational need of the staff children and the community in and around Khewra. At present 73% of the students are from the community and 27% of the students are children of the employees.

f) Community Work

The Polyester Fibres Business of ICI Pakistan actively supports the Sheikhpura community with particular focus on a small village of Tibbi Harya situated adjacent to the Plant. The Business in collaboration with an NGO, Idara-e-Taleem-o-Aghai, have improved the condition of the community school. The school is now able to provide transport to the teachers, cold drinking water from a chiller and clean environment with newly painted school premises. The depth of the water source has also been improved to provide better quality water to the students and the residents of the village.

ICI Pakistan Paints Business, as a part of its community relations, supports the SOS Children's Village, Lahore.

g) Environment

Project Green is a tree plantation drive launched by the Soda Ash Business in 1992, on its dried-up limebeds. Due to the Project, bio-diversity of the area has been improved; Eco Friendly nature of the effluent demonstrated; use of recycled water has been established and a sanctuary of birds and mammals and a recreational area for the people has been created. ICI Pakistan with the collaboration of WWF – Pakistan organizes Nature Carnivals every year. As a post carnival activity, ICI Pakistan also conducts presentations at schools highlighting the significance of Road Safety, Safe Homes and Personal Health.

Shell Oil

Shell Pakistan has undertaken wide range of initiatives that fall within the purview of corporate social responsibility in particular on human rights, environment, labor standards, health, education, and anti-corruption. In 1976, Shell published its Statement of General Business Principles (SGBP) that incorporates fundamental business principles.

These principles are not only meant for Shell employees but also with whom Shell conduct its business “notably contractors and suppliers, but also to other third parties.” Shell’s “standard contracts require its contractors and suppliers to understand the SGBP and, in the course of their work for Shell, to treat their employees properly, uphold the law, and refrain from anything that could harm Shell’s reputation.”²³ Shell specifically forbids paying bribes or “facilitation fee.” Some of the activities undertaken by Shell in discharging its CSR are:²⁴

a) Environmental Protection

Being an oil company most of the concerns that have been raised against its operations are environment related. Two projects which have been undertaken by the company jointly with the WWF for the preservation of forests are:

Protection and preservation of the Mangrove Forests in the Indus Delta Area (south of Karachi) which is serving as a means for the survival of the fishing communities, as well as for preservation of bio diversity. The project is aimed at enhancing and building the capacity of the local community so that they can carry out conservation and development activities on their own.

Ayubia National Park, an area near Islamabad, where the local community have been consuming wood at the rate of 11 metric tons per household a year. If this rate

²³http://www-static.shell.com/static/pk-en/downloads/about_shell/business_standards.pdf

²⁴http://www.shell.com/home/Framework?siteId=pk-en&FC2=/pk-en/html/iwgen/leftnavs/zzz_lhn8_0_0.html&FC3=/pk-en/html/iwgen/society_environment/dir_shellandsociety_10111700.html

persists, the forest will be facing complete extinction in next twenty years. Efforts have been made to encourage households to use LPG instead of firewood. In this regard, LPG equipment has been provided at a subsidized rate to 300 households. The goal is to convert all 25,000 houses from the surrounding communities to LPG. These efforts are complemented with awareness building programmes in the local schools about forest protection.

In its endeavours for the improvement of GALIAT, development of the Nathia Gali Park has been undertaken. Visible efforts have also been made for the reducing air pollution and the after effects of oil spills, for instance Shell has increased the number of service stations offering CNG from 54 last year to 72. It is also the first local oil company to acquire Tier I marine oil spill control and recovery equipment giving it a localized ability to respond promptly and effectively to reduce the aftereffects of oil spills.

b) Labour Standards

One of the basic functions of the company is the transportation of petroleum goods through out the country. Addressing the issues such as poor road conditions in Pakistan and potential disaster arising from accident of vehicles carrying fuel and petroleum goods, the company has initiated Safar Bakhair, a road safety programme.

c) Health Sector

Investments in the field of health have been made with the object of providing basic health facilities to the underprivileged group of people. The activities include: Establishment of Karvan-E- Hayat – facility for mental health care in Karachi; funding of Layton Rahmatullah Benevolent Trust comprising of six hospitals throughout the country aimed at providing free eye care treatment including cornea replacement to over a million people; and the kidney center which provides free medical treatment including dialysis to poor patients.

d) Education

Recognizing the importance of education Shell Pakistan has made contributions for providing quality textbooks for under resourced schools, and establishment of schools for girls. Notably, Shell has contributed in establishing, Behbud Association that supports schooling of girls; launching Human rights education programme and the book group aimed at providing free text books to poor students; establishing Shell house by the name of ASHIANA at the SOS Village in Karachi; and Tameer Programme, whose objective is to develop entrepreneurial skills of the youth. Launched in January 2003, over 10,000 people have benefited from this programme so far.

e) Conservation of Heritage

In this respect contributions have been made for the protection and preservation of those sites which have been neglected despite being declared, UNESCO world heritage. These include Rohtas Fort, a 15th century construction by Emperor Sher Shah Suri. Key contributions have also been made for the protection and development of Mohhata Palace Museum that used to be the residence of father of the nation.

Unilever

While the CSR practices of Unilever Pakistan are concentrated in the areas of water, health and education, the company as subsidiary of a multinational adheres to broad set of principles relating to social responsibility. The company shares its “values with the thousands of partners around the world who help [it] source and produce its brands, and deliver them to consumers”²⁵

In 2004, the company has devised a new supplier approval process that “formally includes assessment and rating of environmental care, health and safety at work and compliance with [Unilever] business principles.” The Company provides the Business Partner Code to all raw material and packaging suppliers with whom it has direct relations, and has trained auditors in place in all regions who assess suppliers and co-packers.²⁶

The CSR activities designed to help local communities falls under the headings of:

a) Water

There are areas in Pakistan, for instance, Thar – a dry, desert region in Southern Sindh—that has acute shortage of water. Unilever in partnership with a local NGO had supplied hand pumps to the residents of Thar. The programme was started at the end of 2001, and so far 132 hand pumps are installed at a cost of Rs. 3 million and an additional 86 costing Rs. 2 million are planned for the year 2005.

b) Health

Unilever Pakistan support leading medical institutions with a proven track record of curing and caring for the poorest in the society. The Company has provided support to the Agha Khan University Hospital in building its Oncology department and Shaukat Khanum Memorial Cancer Hospital in providing free cancer treatment to its patients. In addition Unilever Pakistan is a regular supporter of other medical organisations that treat the under-privileged. These include Layton Rehmatuallah Benevolent Trust, Marie Adelaide Leprosy Centre, The Kidney Centre and Lady Dufferin Hospital.

c) Education

With only 40% literacy rate, the education sector in Pakistan requires considerable support. Under its community involvement programme, Unilever has provided primary schooling to under-privileged areas; improved curriculum in lower income / rural schools, via superior textbooks; and provided teacher training for public schools to improve teaching standards.

²⁵http://www.unilever.com/Images/Social%20Report%202004_lowres_tcm13-13233.pdf

²⁶Id.

Nestlé

“Nestlé Corporate Business Principles,” documents business principles that reflects Nestlé commitment to Corporate Social Responsibility as the way of doing business.²⁷ Nestlé fully subscribes to the United Nations Global Compact. In relation with its business partners, “Nestlé insists on honesty, integrity and fairness in all aspects of its business and expects the same in its relationship with all business partners and suppliers of materials, goods and services.”²⁸ Nestlé also supports OECD Recommendations on Bribery and International Business Transactions of May 1994. Nestlé’s Pakistan-specific CSR practices that fall under its Social Action Programs are:

a) Child and Mother Issues

Nestlé arranges nutrition program for undernourished children and mothers through several NGO partners and charitable organizations.

b) Donations

Nestlé makes donations to hospitals and organizations that provide services to the poor and also responds to appeals by the government and NGOs for assistance to victims of flood, earthquake, drought and other natural calamities.

c) Rural Support Programs

Nestlé provide assistance to rural population which does not have easy access to portable water by undertaking tube well and hand pump installation schemes in selected areas.

d) Educational Support to Underprivileged Students

Nestlé makes its contribution to help improve the quality of education in rural areas that remained neglected for too long. It undertakes to rehabilitate and refurbish primary and middle schools, particularly those for girls.

4.2 CSR Practices of Local Companies

We list here below CSR practices reported by local companies.

Engro Chemicals Pakistan Limited

Engro Chemicals Pakistan Limited (ECPL), the second largest producer of Urea fertilizer in Pakistan, was incorporated in 1965. Among other activities that are discussed below the website of ECPL also lists contribution to national exchequer in last five years, duties, taxes and surcharge Rs. 7.4 billion and workers profit participation fund Rs. 418 million under the rubric of CSR.²⁹

²⁷Nestlé Milkpak Limited, Management Report 2004, P. 50.

²⁸Nestlé Corporate Business Principles, p 14.

²⁹<http://www.engro.com/>

Community Welfare

a) Health care projects built/supported

Engro Chemicals Pakistan Limited has provided free snake bite treatment in Dharki and more than 38000 victims have been treated under this initiative. ECPL annually sets up free eye camps in rural areas. It also pioneered the concept of walk-a-cause in Pakistan and has raised funds to build kidney centre at Karachi, Shaukat Khanum cancer hospital at Lahore and a drug prevention & control centre at Islamabad. It has also contributed towards the Eye OPD building at JPMC, Karachi, a thalassemia centre at Sukkur, Agha Khan's Cardiovascular surgery unit, nuclear medicine program and oncology unit. Near its plant location at Dharki, ECPL has initiated projects at rural health centre Daharki that include developing a maternity home, an eye clinic and a blood bank at Daharki. It has also established a dialysis centre at Daharki.

b) Education

Under education, ECPL has given scholarship endowment fund for Lahore University of Management Sciences (LUMS). It has helped construct a modern school facility in collaboration with the citizen's foundation (TCF). ECPL has contributed Rs. 20 million towards this project. It has also helped establish a teachers training and resource center at Daharki to improve quality of teachers. Besides these, ECPL has contributed towards the causes of IDA Rieu school for blind, Karachi, IBP school of special education, Absa school for deaf children, Sahara school in Daharki, construction/upgrading of urban schools, talent scholarships in rural areas and educational scholarships to ECPL dealers' children.

c) Sports/others

In order to improve the sports facilities at Daharki, ECPL has constructed a sports stadium at Daharki. Among, other CSR activities, ECPL has helped in up-gradation of Daharki railway station, construction/pavement of roads and sewerage system in villages around Daharki. It has also actively supported the cause of World Wildlife Fund.

To raise the level of stakeholder information dissemination on CSR, ECPL in collaboration with Responsible Business Initiative (RBI) has started work on sustainability reporting Global Reporting Initiative (GRI) guidelines.³⁰

d) National Refinery Limited

National Refinery Limited (NRL), incorporated at Karachi in 1963 as a public limited company, is currently owned by the Government of Pakistan through its Ministry of Petroleum and Natural Resources.³¹

³⁰<http://www.jang.com.pk/thenews/jun2004-daily/22-06-2004/business/b22.htm>

³¹<http://www.nrlpak.com/introduction.html>

NRL has documented its business ethics in its “Statement of Ethics and Business Practices.” NRL “requires honesty and fairness in all aspects of its business and in its relationships with all those with whom it does business.”³² It prohibits any direct or indirect offer, payment, solicitation and acceptance of bribe in any form.³³

In discharge of its CSR, NRL has contributed Rs. 10 million towards the rehabilitation of Shahrah-e-Ghatib, and has donated computer hardware to NED University campus. NRL plans to participate in social development programs for uplifting of educational standards in the under privileged government schools. In this respect, it has planned to adopt two government schools, and has allocated budget for that.³⁴

5. Conclusion

Sophisticated CSR initiatives are indeed under way in Pakistan, led mostly by MNCs with a presence in this country. While some domestic Pakistani firms have followed suit, there is certainly room for expanded development of CSR standards and reporting practices both so as to benefit from the opportunity to contract with MNCs, and in order to attract SRI investment. The Securities and Exchange Commission of Pakistan is well positioned to play a lead role in promoting and indeed in some measure coordinating a national CSR initiative under the aegis of the new Code of Corporate Governance. The Pakistani corporate sector is of course in some measure dependent on the broader social climate of human rights, labour standards, environmental sustainability, and anti-corruption initiatives. But for the corporate sector to develop a CSR stake in the improvement of these domains will redound to their benefit and to the benefit of Pakistani society as a whole. One hopes that the participation of Pakistani firms in the Global Compact, GRI, DJSI and FTSE 4 is not off in the too distant future. Absence of such participation will amount to yet another barrier to the development of Pakistan’s economy. On the other hand, a concerted effort to develop a Pakistani CSR strategy, perhaps led by the SEC, could make a positive contribution to Pakistan’s global reputation as a place to invest and do business.

³²<http://www.nrlpak.com/ethics.html>

³³Id.

³⁴Annual Report, 2004; http://www.nrlpak.com/chairmans_review_annual_r.html

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Abstract

The purpose of our paper is to explore two ways in which Pakistani firms can take advantage of the growing corporate social responsibility movement so as to improve their own economic performance. First, the presence of MNCs in Pakistan, the vast majority of which have made significant CSR undertakings, means that Pakistani firms seeking to do business with them will often have to meet CSR tests themselves. Second, the increasing financial clout of so-called Socially Responsible Investment (SRI) funds means that Pakistani firms have an incentive to comply with CSR standards so as to become eligible investment instruments. We begin by canvassing briefly the history of CSR movement and what are by now relatively well-known CSR principles and standards. We then explore some examples of how Pakistan-based multinationals as well local firms are currently engaging in CSR practices. We argue that Pakistan can and should acquire the reputation for being a leader in this domain.



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