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## Why do Institutional Forces Matter more in Corporate Social Responsibility?



**Abstract** *In this paper, we analyze the effect of the country's institutional forces on the level of corporate social responsibility disclosure (CSR) within the companies listed on Pakistan's stock exchange. Numbers of theories (e.g., institutional theory, legitimacy theory) are used to understand the relationship among the formal institutional forces and the level of CSR. The available assumptions for the regression model were fulfilled in addition to Hausman's test. It was found that the level of CSR is sensitive to the intensity of various local institutional forces. Such types of institutional forces predict the limits how to understand, build, and maintain the relationship between business and society. The results of the study offer a comprehensive picture for policy-makers, practitioners, and common corporate beneficiaries to understand the "why" and "how" of the corporate social responsibility (CSR) phenomena in developing countries context, particularly in Pakistan.*

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### Introduction

Even in modern age, our planet is suffering from various social, economic and political issues. To overcome these problems and develop an ideal living place, corporate world should come forward and play their positive roles. Regardless of various suppositions, corporate world already has contributed too much for human development. Corporate social responsibility (CSR) is the social obligation of the business world to discharge their duties in good faith with best corporate strategy. This will not only minimize the corporate negativity but also enhance the legitimacy, and stabilize the relationship with stakeholders. Scholars from different fields have described the importance of CSR based

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on theoretical and empirical justifications. Clark (1939) was the pioneer of the modern CSR concept, which was then refined by an American economist Bowen in 1953. According to Fredrick (1960), the business communities are responsible to enhance the social and economic value simultaneously. McGuire et al. (1988) was in the favor that business community should not restrict their activities only to economic and legal obligations, but should have a wider sphere of politics, social prosperity, education and workforce betterment. Carroll (1979) revitalized this idea by introducing four dynamics of CSR in hierarchal order (i.e., economic, legal, ethical, philanthropic), which is called the CSR's pyramid. Later on, Elkington (1997) introduced the concept of triple bottom Line (TBL), i.e., people, planet and profit (3Ps model).

Since the beginning of 21st century, the concept of CSR has got momentum toward practical application than just restricted to theoretical background. In other words, recently, the needs of almost all concerned stakeholders have been encountered by the corporate world. The concept of modern CSR is basically the results of globalization. Stakeholders' activism and involvement of international agencies compelled the corporate world to mitigate corporate negativities. Islam and Deegan (2010) highlighted the role of media regarding CSR in developing countries. They observed that the negative corporate operation gets the attention of worldwide community and as a result, enterprises disclose more CSR activities to mitigate the effect of these negativities. As per the level of practicality and the strategy of CSR are concerned, there are still low trends in the domestic and small enterprises as compared to big and multinational companies operating in developing countries. Sheikh and Beise-Zee (2011) emphasized that it is important to identify the local issues before aligning the corporate resources to tackle the concern problems. Institutions in developing countries deliberately acting to be ignorant regarding law enforcement and social compliance to attract the international investors to make their own country as "pollution heaven" (Campbell, 2007). These corporations are expected to be responsive to regional guidelines and compel the local governments to set their own regulations to monitor the corporate activities. Basically, institutions are formed to implement and regularize different rules. These types of rules and regulations are based on the informal (i.e., norms, values and customs) or formal (i.e., legal, political systems) standards. Due to variations in culture, political and legal systems, the standards of such institutions change from one region to another region and even in same region from time to time. The intensity and urgency of these drivers and forces vary in different cultural and institutional structure. Practically, the corporations working in any part of the world are exposed to different types of local forces from numbers of stakeholders. As per the World Bank, these social groups have various expectations and thus give rise to various demands based on domestic institutional quality and governance (Worldwide Governance Indicators).

Universally, due to CSR education and awareness, sensitive stakeholders expect more social and ethical activities from enterprises. However, like other social phenomenon, the intensity and priority of CSR involvement varies globally, depends on the domestic social, economic and legal systems. Based on Hofstede cultural dimension, Ioannou and Serafeim (2012) examined that enterprises operating in individualistic societies disclose more CSR as compared to collectivist societies. In given context, CSR activities basically reflects the domestic prospects of a community which are more prominent in their institutions (Brammer et al., 2012). Due to exceptional and unique institutional dynamics in developing countries (Rottig, 2016), such type of domestic expectations will vary from developed countries. Even in developing countries, the

collective settings of formal and informal institutional dynamics formulate the corporate practices (Feng et al., 2017). Formal institutional dynamics act as governing institutions and thus contribute to form the legislation, constitutions, legal systems, economic policies and other administrative guidelines. The current shape of CSR outline has surpassed the elementary and compulsory social, legal and ethical expectations and entered in inclusive global prospects under United Nations' umbrella. Within given institutional system, corporate activities always rely on the interaction with other stakeholders, and thus enterprises are left no choice but to implement corporate strategy according to the needs of these specific stakeholders, which may lead to complicated and diversified settings (Amaeshi et al., 2016; Jamali and Karam, 2018). The country law, political system, social values, religious beliefs and economic structure changes from country to country; consequently, influence corporate structure and decisions. Logically, institutional dynamics in developed countries are more promising and thus provide a concreated base for any social phenomenon and thus for the concept of CSR. Therefore, it is very important to find out the significance of these local forces on corporate structure within given context. In this regard, this study is going to determine the importance and adequacy of local institutional forces in developing country (Pakistan).

In light of the above arguments, it is important to recognize the actual forces and drivers of “how” and “why” that “motivate” or “compel” the corporations to spend handsome amount on such “non-business activities”. In addition, it is very important to examine up to what extent the national institutional dynamics influence the CSR execution and how much the overall local settings affect the degree of CSR involvement within specific region? This study was conducted to detect CSR's parameter on the basis of strength and intensity of different local forces in developing countries. This research finds out the fundamental of ‘how’ and degree of ‘what’ on the level of CSR within given context of institutional settings through institutional and legitimacy theories; and thus, suggests social and practical implications. This study is conducted to investigate the local institutional forces that are significant to shape the CSR strategy. This is very vital to know either the local institutional background has any impact on the corporate activities operating in specific region.

The rest of the study is divided as follows: Subsequently, the concept of CSR in developing countries (especially Pakistan) is discussed. The ‘theoretical framework and hypotheses development’ part explains various theories related to this study and thus proposes hypotheses based on previous literature. Methodology segment states how the data was collected and which types of techniques were used to analyze the data. The ‘Analysis and discussion’ part of this study reports the findings and discuss various arguments and thus followed by the last part which concludes this study and recommend feasible research aspects.

### **CSR's Trends and Dynamics in Developing Countries (Pakistan)**

As discussed earlier, the concept of CSR was originated in western countries. According to Jamali and Miurshak (2007), the debate on the recognition of CSR has already been matured in the developed countries; however, it is a new concept in developing and underdeveloped countries. All of the CSR theories were framed in developed countries context and most of the research was also done in western countries. In this regard, these types of theories are under objections in the context of developing countries context (Frynas, 2005). Actually, the typical ‘one-size-fits-all’ methodology of the current CSR

outline seems unfit in the context of developing countries (Fox, 2004). CSR dimension that is prioritized in western countries may not be necessary to be beneficial to the same extent in developing countries. This concept should be customized according to the local culture, norms, religion, political and legal system. However, before formulating customized CSR guidelines and reporting principles, it is true that practically there is no concrete system which will be applicable in different developing countries. Loimi (2002) asserts that the major drivers for CSR in the developed economies include globalization, environmental issues, international initiatives, pressure from non-governmental organizations, media, risk management, pressure from employees and customers, and competitive advantage. On the other hand, CSR in developing countries is initiated by culture, political, economic and social dynamics (Amaeshi et al, 2006). Government regulations in low-income countries are providing a huge space for international corporations to bring investment and operate business activities in their countries. These soft laws encourage international businesses to exploit the natural resources and make pollution heaven in developing countries (Campbell, 2007; Moon and Vogel, 2008). Jamali and Miurshak (2007) argue that unlike developed countries institutions, standards and systems are not strong in developing countries, which can enforce the corporations to behave ethically. Baughn et al (2007) examine the CSR activities of 15 countries relative to economic, political, and social conditions. They found a significant relationship between CSR and country 's economic, political, and social contexts, which indicates that the progress in these areas plays a major role in shaping CSR structure in a country.

Comparatively, little research has been conducted regarding CSR in the context of Eastern and undeveloped countries (Belal and Owen, 2007; Islam and Deegan, 2008). Pakistan is one of the prominent countries in Asia and especially in South Asia, but still, it's lacking CSR research (e.g., Lund-Thomsen & Nadvi, 2010; Hassan et al, 2012). The main reasons are political uncertainty, widespread corruptions, immoral corporate culture, human rights abuse, unemployment, and environment humiliation (Jhatal et al, 2014). In the 1990s, Nike in Pakistan was badly scrutinized by the international media and NGOs due to the involvement of minor workers. Dobers and Halme (2009) examined that the emerging countries have a unique set of political, economic, and social system, therefore, the impact on the CSR dimensions is different. In most of the developing countries, the local community has more expectations from the business community to provide what is lacking (Cash, 2012; George et al, 2016). Such type of expectations from the community and responsiveness from corporation establish a hybrid relationship. As a result, corporations working in developing countries adopt self-regulatory guidelines based on the local vulnerability rather than international standards (Noronha et al, 2013). Ahmad (2006) conducted a research study regarding the CSR activities conducted by the corporation operating in Pakistan. He observed that corporations in Pakistan are prioritizing philanthropic activities in their CSR incorporation. It was further mentioned that other activities regarding CSR in Pakistan are environmental protection, employees 'wellbeing, ethical relationship with suppliers and social marketing. Other studies observed that most of the importance was given to literacy, child protection, water supply, water purification and infrastructure in the aspect of CSR activities (CSR Pakistan, 2013; Lund Thomsen & Nadvi, 2010). In short, the concept of CSR in Pakistan is mainly revolving around the health, education, and social development projects (Khan et al, 2013).

In true sense, there are only a few laws and regulations regarding CSR in Pakistan issued by Security Exchange Commission of Pakistan (SECP) and state bank of Pakistan. The initiative to implement CSR activities in corporate operation was taken first time by SECP in 2009. Unfortunately, due to the unavailability of specific reporting CSR format from the regulation body, the corporations took it a tool of public relation and corporate promotion. Stakeholders were unable to judge the CSR activities conducted for purely social welfare. The current concreated guidelines ‘CSR voluntary guidelines-2013’ was issued from the SECP. The purpose of these guidelines was to streamline the corporate activities and measure the proper dimensions of their operation in business strategy. These CSR guidelines are not mandatory for any organization. However, most of the corporations working in Pakistan are adopting these guidelines for CSR activities/reporting. These guidelines will be used to make a structure for the practical implementation of CSR activities and as a yardstick to measure the social efficiency. Apart from these orders and guidelines, there are other laws (e.g., corporate laws, environmental laws, labor laws and consumer protection laws) provided under the constitution of Pakistan, which have some relevancy to CSR regulations in the country. All forms of slavery, forced and child labor are illegal under the constitution of Pakistan. Similarly, the recruitment of minor (under the age of 14) and unfavorable and unsafe working condition or any type of discrimination are considering as illegal in any industry working in Pakistan. The employers are not allowed to exploit any person because of his/her cast, religion, race or sex. Collectively, the constitution of Pakistan is portraying a clear message regarding the rights of employees, particular vulnerable (e.g., child and woman).

As discussed earlier, there is scarcity of literature regarding CSR in developing countries, especially in Pakistan. Therefore, it is very important to unveil the basic local dynamics which affect the CSR in given context. More specifically, this study is going to uncover the importance of external forces that are continuously pressurizing the corporations to behave ethically in their corporate activities. In summary, this study contributed to theory (both institutional and legitimacy theories) and literature in many ways. Firstly, this study adds empirical research ground regarding CSR approach in developing countries, specific to Pakistan and other similar countries. Secondly, the sequence and order of various local forces were identified according to their importance and inevitability. Thirdly, this study insights the institutional theory and elaborate the importance of local external forces that continuously exert pressures on the corporations. Finally, legitimacy theory is testified to affirms that business actions cannot be conducted without the involvement of stakeholders and the social license from external players.

## **Theoretical Framework and Hypotheses Development**

### **CSR Theories**

CSR is an extensive terminology and has flavors of almost every field. However, due to lack of specific definition, it is a big hurdle to develop CSR framework and define its dynamics (Ward & Smith, 2006).

Legitimacy theory states that there is an invisible contract between the corporation and society. Corporations need to maintain a good image while encouraging stakeholders to raise their voice if there is a violation of the general rules. An organization should have the policy to respond to outdoor forces, which are necessary for

the existence and continuity of its operation (Suchman, 1995; Deegan, 2002). It can be described as a “generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995, p. 574). This theory postulates that enterprises are playing a mediating role between the business profit and societal needs. In general, there are numbers of external dynamics (both individually & collectively) that affect and regulate corporate operation. The value chain of a corporation is influenced by the social problems of the local community (Porter & Kramer, 2011), which can be resolved by mutual consultation between the corporation and the community. However, the dynamics of legitimacy theory varies from society to society due to variation of social norms and values in different cultures.

Institutional theory states that the corporate structure is formed as a result of the interaction between the corporations and institutions which then directs corporate activities (North, 1990). This theory is important to understand different external pressures and behave according to those forces in a given social context (Scott, 1995). As reflected in the legitimacy theory, corporation is always in a close contact with the people and community which are comprised of different legal and social standards. These standards are not only included the formal institutions (e.g., legal regulations and legislative systems) but also informal (e.g., social norms, religious values, local customs and traditions). The presence of institutional pressures is not only acting as external force to corporate world to behave ethically but also specify different CSR dimensions. The understanding of these domestic factors enables the corporation to be responsive to the local regulations and implement CSR strategy according to the local institutional forces. Number of scholars had shown much interest to investigate the impact of these set standards legal rules, and societal norms and values in a local context (e.g., Campbell, 2007; Chapple and Moon, 2005). The dynamics of this theory enable the corporations to be responsive to the local regulations of the specific country.

Kostova and Zaheer (1999) stated that the CSR strategy should be aligned according to the institutional factors of the host country. Holland and Foo (2003) found that the country specific systems (i.e., legal and regulatory) influence the environmental reporting practices while comparing enterprises operating in USA and UK. In another study conducted in Norway, Denmark and USA, it was examined that the national institutional dynamics and social values affect the level and quality of CSR (Smith et al., 2005). The differences in institutional dynamics are the result of variation in social, political and economic practices within given region (North, 1994) and these differences are supposed to be higher in case of developing countries (Doh and Guay, 2006; Wright et al., 2005). The intensity of institutional forces is not identical across the countries (Doh and Guay, 2006), and this gap increases while comparing developing and developed economies (Meyer and Peng, 2016). Number of scholars (e.g., Campbell, 2007; Chih et al., 2010; Moon, 2004) have considered many institutional factors to examine the vast concept of CSR activities and execution in different countries. Most of the scholars (e.g., Young and Makhija, 2014; Lim and Tsutsui, 2012; Kostova et al., 2008) are in favor of conducting CSR studies on the basis of institutional theory. They emphasize the importance of institutional dynamics with the argument that there is always identical CSR's pattern under similar institutional settings. The reason is that enterprises are involved to execute CSR activities that align with the domestic needs to attain the state of legitimacy within given institutional circumstances (Kostova et al., 2008) and divert the future corporate uncertainty which may meager CSR actions (Filatotchev and

Nakajima, 2014). The execution of CSR action is due to the presence of governmental, stakeholders' and other agencies (either individually, organizational and national level) (Scott and Meyer, 1994). As there was found huge differences among the motives to build the fundamental institutional systems in specific region, therefore, there might be possibilities of existence to understand and practice CSR activities differently in different nations (Aguilera and Jackson, 2003; Matten and Moon, 2008; Jackson and Apostolakou, 2010). Consequently, these dynamics are supposed to be more effective in formulating and regulating CSR activities/reporting.

## **Hypotheses Development**

The local norms and values are affecting the business activities in every culture. Therefore, the corporate managers should have complete information about the norms, values, beliefs of the host country. For many decades, the scholars are making efforts to uncover this myth by comparing the worldwide national culture. Cahan et al. (2016) found the positive relationship among the intensity of local institutions and the volume of CSR. Peng et al (2012) discovered the connection between the national culture and the concept of CSR. The impact of institutions and adopting the customized form of CSR to fit with local needs was conducted by Husted and Allen (2006). Jamali (2010) explored the ground realities and local needs of Lebanon and suggested that CSR strategies should be customized to satisfy the local market demands. It is necessary to integrate with the organizational macro-level strategies, but the localized needs of operating market should not be ignored (Porter and Kramer, 2006). In this regard, an enterprise should be in such a position to choose either one or another or follow a twofold approach to satisfy their stakeholders. The bargaining between power holding and power-seeking has been given rise to a hybrid type of establishment. Numbers of scholars (e.g., Kostova and Zaheer, 1999; Rosenzweig and Singh, 1991; Margolis and Walsh, 2003; Maignan and Ralston 2002; Campbell, 2007; Aguilera et al, 2007) have already put more efforts to demonstrate the relationship between institutional forces and CSR operation with different empirical and conceptual models. These institutions are exerting pressure on corporations to formulate their strategies according to the local formal (politics, legislation, rules, regulations) and informal (beliefs, norms, values, traditions, needs and religion etc.) institutional structure. Considering the importance of CSR activities and the benefits achieved in developed countries context, a question arises whether the enterprises are also exposed to the same forces in the context of developing countries. In addition, why does an enterprise willingly divert the “operational budget” towards “non-operational budget”? Specific to sample country (Pakistan) and the nature of CSR (voluntary), it is important to examine the underline dynamics of the local institutions regarding the level of CSR. These study further insights to the research by paying twofold attention. First, whether all the available set of the institutional forces are equally important and exert the same level of pressure on the level of CSR. Secondly, how the level of CSR is sensitive to the variation of different institutional forces within a given time.

There are many tools to calculate the quality of the local system; i.e., social, political and environmental. Malik (2002) stated that the sum of all the research studies has taken more than 150 governance indicators in their studies. Set of these indicators have been used by number of researchers in their studies as alternatives while measuring the institutional position of specific country (Bovaird and Loffler, 2003; Globberman and

Shapiro, 2002). The world governance indicators (WGI) are the most commonly used dynamics in various researches which consist of the following indicators.

### **Voice & Accountability (VA)**

Goetz and Jenkins (2002) defined that voice is the mechanism to launch a complaint, protest, politicizing, involve in decision making and implementation, and output delivery. This is the right of every citizen (regardless of social class) to express their opinion, affiliate or demand from those who are in power. Accountability is the liability (to respond the public observation and queries) of those who formulate and execute rules and regulations for state machinery. In the simplest words of Schedler (1999), it is the interaction between “X” and “Y”, where “X” is liable and answerable to “Y” for his/her action if “Y” is obliged for an explanation. VA is the basic indicator of governance through which the citizen can exert pressure to minimize inequality and alleviate poverty and vulnerability. According to the World Bank, VA is the right of the citizen through which the people are empowered to select their democratic leadership, having freedom of expression and association. In the light of the discussion, it is hypothesized that:

**H1:** There is a positive relationship between “VA” and the level of CSRD.

### **Government Effectiveness (GE)**

According to World Bank, GE is the perceptions of the quality of public and civil services, the degree of its independence from political pressures, the quality of policy formulation & implementation and the credibility of the government's commitment to such policies. It is the duty of the state to implement the policies to build an atmosphere where all the citizens of the state are free to contribute towards the social development. Kaufmann et al (1999) examined a strong direct link between GE and human development. The reason is lying in the logic that societies having effective government are more concerned to be conscious to minimize negativity and enhance the social prosperity. In the light of the discussion, it is hypothesized that:

**H2:** There is a positive relationship between “GE” and the level of CSRD.

### **Regulatory Quality (RQ)**

Rules and Regulation in a state are important for social and economic prosperity. The state should have the formula to calculate the “cost & benefits” of local society, national economic development and global environmental security while formulating the codes of conduct. According to the World Bank, RQ is the perception of government’s ability to formulate policies and regulations that permit and promote private sector development. If the citizens of the state are noticing that their presence is justifying equally in an institution and assume that the rules and regulations are supportive, they will be more motivated to comply with the governmental regulations. In the light of the discussion, it is hypothesized that:

**H3:** There is a positive relationship between “RQ” and the level of CSRD.

### **Rule of Law (RL)**

It is about the effectiveness and strength of set standard rules and regulations within

the society, where there is no discrimination among the citizen regarding obeying the legal code of conduct. In this case, every government and public officials who are making law, those who are implementing and those who enforce it are treated equally and nobody has the power to enforce any law which contradicts the universal doctrine. It is about to bring justice to the citizens and treat everyone equally irrespective of their economic, social, religious and gender status. The existence of RL is vital to identify the problems, rectify the errors and thus safeguard every human right for all the citizens. In the light of the discussion, it is hypothesized that:

**H4:** There is a positive relationship between “RL” and the level of CSR.

### **Political Stability (PS)**

The political system is the combined form of politics and government, which comprised of legal, economic, cultural, and other social systems. The stability of a political system has a direct impact on the social and economic development of every country. The stability of the politics can be measured by the predictable behavior of the political system. Usually, the overall performance of a state is evaluated by undertaking the political situation at a given time. An improved political system is more concerned in providing citizens what they want, and it transmutes individuals’ and firms’ preferences into policy decisions in a more efficient manner (Bird et al, 2008). In the light of the discussion, it is hypothesized that:

**H5:** There is a positive relationship between “PS” and the level of CSR.

### **Control of Corruption (CC)**

According to the World Bank, the term corruption means the sensitivity of the level to which public power is executed for personal advantage. It is very important for any institution to be transparent enough; otherwise, they will not adequately exercise their constitutional law to discharge associated obligations. In such case, the citizens of the state are unable to perceive or evaluate the institutional performance and are kept ignorant about government decision. If the institutions are not bothering to respond to the queries and requests of citizens, the enterprise will be less inclined to be involved in ethical corporate behavior. As a result, the enterprises will be less motivated to spend a huge amount on CSR activities. In the light of the discussion, it is hypothesized that:

**H6:** There is a positive relationship between “CC” and the level of CSR.

### **Methodology**

Quantitative method was used to codify the data with the help of an empirical model to find the cause-and-effect association and examine the hypotheses on the basis of the assigned framework. The World Bank project website “World Governance Indicator (WGI)” was used to measure the independent variables for country institutional forces. CSR related data were collected from the annual reports published by the enterprises on their concerned corporate websites. The sample companies were selected from the list of “Top 25 companies of the year” with total of 48 companies for 5 years (2014-2018). Every year, Pakistan stock exchange is selecting the top 25 companies on the basis of profitability, firm value, transparent reporting and compliance with the rules and regulations of the country. The sample list was consolidated by selecting all the companies in 2014 and then added other companies which were announced in the

following years, till 2018. The duplication of the sample companies was avoided by exporting all the companies to excel sheet announced for the sample period (2014-2018). The sample period was taken from 2014 due to the introduction of CSR voluntary guidelines-2013 in previous year. All the announced companies were selected which was even once reflected in the sample period as shown in table 1.

**Table 1.** Number of Sample Companies

Session	Number of Companies
2014	25
2015	25+4=29
2016	29+11=40
2017	40+7=47
2018	47+6=53
Unavailable Data	5
Available	48

It is reflected from the previous research that content analysis (CA hereinafter) is more sophisticated and precise technique for data collecting, interpreting and extract various objectives from manuscript, diagrams, statistics, signs, theme and all available data (Neuman, 2003). Berelson (1952) expressed that the process of CA is “a research technique for the objective, systematic and quantitative description of the manifest content of communication” (p. 18). Number of scholars (e.g., Adams et al, 1995; Adams and Harte, 1999; Beck et al, 2010) have applied this technique to categorize various aspects of social and environmental dynamics of the corporate published reports. These researchers have used different methods, e.g., by taking the number of characters, words, sentences, pages and proportion of the volume of CSRD to total disclosure (Hassan, 2014). This study calculates CSRD by measuring the economic, philanthropic, legal, ethical, investor, employee, customer, community, health, education, sports, environment and government CSR dimensions with the help of content analysis. Subsequently, every sentence of the given data was observed for the above-mentioned dynamics and was coded with value of “1” if it matches the given criteria. On the other hand, if more than one dimension is disclosed in scanned text, then the text will get the value less than “1” (e.g., the value of “1” will be divided by the quantity of the dynamics revealed in given sentence). Many other scholars (e.g., Eng and Mak, 2003; Haniffa and Cooke, 2002) have used similar technique in previous studies.

Prior to running regression, various diagnostic tests were directed for the satisfaction of statistical assumptions. Gujarati (2012) stated that there are four fundamental assumptions which need to be satisfied regarding regression model; i.e., collinearity, heteroscedasticity, normality and linearity. In addition, Hausman’s test was conducted to predict the tendency (Fixed v/s Random effects model) of Pooled ordinary least square (OLS). The equations given below deliver the relationship among the country level determinants with the level of CSRD.

$$CSR_{i,t} = \beta_0 + \beta_1 VA_{i,t} + \beta_2 GE_{i,t} + \beta_3 RQ_{i,t} + \beta_4 RL_{i,t} + \beta_5 PS_{i,t} + \beta_6 CC_{i,t} + \mu$$

## **Analysis and Discussion**

Different diagnostic tests were conducted to fulfill the assumptions made for regression analysis. The issue of multicollinearity was found through both correlation matrix and vector inflation factor (VIF) as shown in table 2.

**Table 2.** Correlation Matrix and Vector Inflation Factor (VIF)

Correlation Matrix							
	CSR	VA	GE	RQ	RL	PS	CC
CSR	1						
VA	0.11*	1					
GE	0.09	0.17***	1				
RQ	0.04	0.81***	-0.1	1			
RL	0.14**	0.80***	0.41***	0.30***	1		
PS	0.09	0.69***	-0.09	0.27***	0.83***	1	
CC	0.14**	0.90***	0.30***	0.49***	0.96***	0.78***	1

**Vector Inflation Factor (VIF)**

Variables	VA	GE	RQ	RL	PS	CC
VIF Values	2551.01	6.38	985.84	1026.78	11.87	2551.02

*This table presents the Pearson correlation coefficients and the vector inflation factor. The variables are given as; CSR (Corporate social responsibility), VA (Voice & Accountability), GE (Government Effectiveness), RQ (Regulatory Quality), RL (Rule of Law), PS (Political stability) and CC (Control of corruption). The significance level as follows:*

*\*\*\* Significant at the 1% level, \*\* Significant at the 5% level, \* Significant at the 10% level.*

The correlation coefficients for these variables are more than 0.7 (or 70 per cent), which designates that these variables are highly correlated with each other. However, vector inflation factor (VIF) test was also conducted to examine the issue of collinearity and confirm the results of correlation matrix. The VIF test for the given model shows that there are high values for VA, RQ, RL, PS and CC. These values are greater than 10 and confirm the problem of multicollinearity in the given data. Therefore, this study has dropped the VA, RL and CC to overcome this issue. In addition, Hausman’s test is used to assume the appropriateness of the regression based on either random or fixed effects. The results of the Hausman test portray that the pooled OLS model is adequate, in favors of the fixed effects alternative.

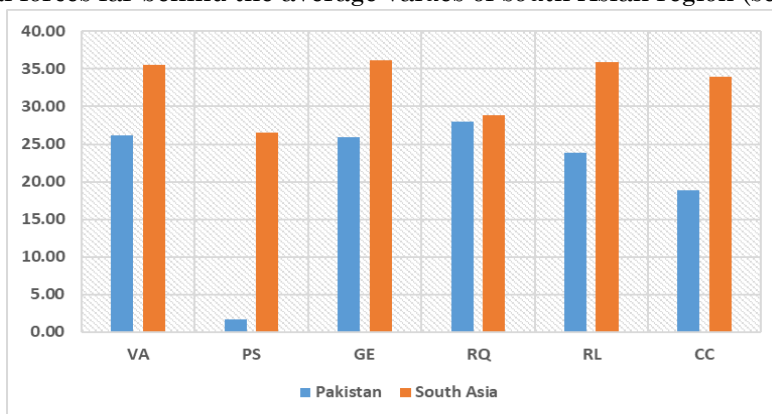
To examine the relationship between the dependent and independent variables, Pooled OLS and fixed-effects regression models were used which is shown in table 3. A positive coefficient directs a high level of CSRD, while the negative coefficient certifies the low level of CSRD. The appropriateness of the model can be reflected by adjusted R-square and P-value.

**Table 3.** Impact of Institutional Forces on the Level of CSRD (Pooled OLS and Fixed-Effects Regression)

Variables	OLS			Fixed-effects		
	Coefficient	t-ratio	P-Value	Coefficient	t-ratio	P-value
Const	-283.37	-8.77	***	-295.6	-6.16	***
GE	5.13	28.94	***	5.29	27.15	***
RQ	1.95	6.38	***	2.07	6.64	***
PS	10.2	3.14	***	10.28	3.11	***
F. Age	-1.5	-5.36	***	-1.29	-3.36	***
F. Size	31.27	15.2	***	31.38	14.65	***
EPS	0.87	4.25	***	0.73	3.53	***
R-squared		0.202			0.213	
Adju R-squared		0.182			0.189	
P-value(F)		0			0	

The table demonstrates the impact of formal institutional forces on CSRD based on pooled OLS and Fixed-effects Regression regression model. The coefficient, t-ratio and p-value are given. The significance level as follows, \*\*\* Significant at the 1% level, \*\* Significant at the 5% level, \*Significant at the 10% level.

According to the regression results, all of the independent variables are found to be statistically significant and positively related to the level of CSRD. In other words, all the formal institutional forces have a direct relationship with the level of CSRD, which confirm hypotheses (H2, H3 and H5). In short, formal institutional forces in Pakistan influence the corporate sectors to be sensitive towards ethical business and thus keep themselves involved in different CSR activities and disclosure. Geographically, Pakistan is one of the prominent countries located in South Asia; however, institutions are not matured due to poor and fragile political, economic and social systems. Overall, Pakistan ranks lower positions on the Worldwide Governance Indicators (WGI); voice and accountability (VA), political stability & absence of violence/terrorism (PS), government effectiveness (GE), regulatory quality (RQ), rule of law (RL) and control of corruption (CC). Based on the values of past ten years (2010-2019), the average values of Pakistan institutional forces far behind the average values of south Asian region (see figure 1).



**Figure 1:** WGI comparison (Pakistan v/s South Asia)

Lim and Tsutsui (2012) explained the corporate insincerity while implementing CSR by the enterprises operating in developing economies, due to the nonexistence drives and accomplishment of the officials. Santema et al. (2005) examined the variance in different domestic forces due to cultural gap while conducting a study across five European countries; e.g., United Kingdom, Netherlands, Germany, France and Poland. Different institutional forces are pressurizing the enterprises to behave ethically and involve in different CSR activities and thus reporting. In a situation of external threat or uncertainty to corporate operation, enterprises are more concerned to follow these institutional rules and regulations to sustain the social license (legitimacy) for acquiring the corporate resources and support the persistence and sustainability (Pfeffer and Salancik, 1977; Campbell, 2007; Matten and Moon, 2008). From the coefficient values, PS is the most important factor of the formal institutional forces that affects the level of CSR, followed by GE and RQ. The institutional forces consist of a unique set of rules and regulations which affect the corporate strategies and operations. Therefore, enterprises are assumed to adjust and modify their corporate strategies to respond to these domestic pressures. Institutional theory postulates that the regulatory or cognitive outline of the institutional forces form a structure for enterprises within which they have to operate. Therefore, enterprises should have a proper and concrete institutional vision which can satisfy the demands of the regional, national and international standards for formal and informal forces. The formal institutional forces are influencing the nature of the firm and thus behave in a way to confirm the formal norm and values of the surrounding (North, 1990). In a situation of weak formal institutional environment, corporations even don't bother to satisfy the universal ethical and legal standards in their corporate activities. In a strict institutional environment, all of these forces depend on each other's and coordinating in such a way to build a favorable condition in a complementary way to satisfy the needs of the corporation and all stakeholders. Garcia-Sanchez et al, (2016) argue that the enterprises working in more law-enforcing country are inclined towards endorsement labor rights and safeguarding the stakes of a wide range of stakeholders. Institutional forces and regulatory institutes are serving to cope with the laws, regulations and rules that either encourage to follow certain types of conducts or confine others within the given jurisdiction of a specific state (Scott, 1995). Legitimacy theory can be used interchangeably with institutional theory, observing that the fulfilment of CSR obligations is basically the aligning of the corporate strategy to the local norms, values and customs of the society, which is considered the informal institutional forces. Lim & Tsutsui (2012) and Young & Makhija (2014) highlighted the importance of conducting further CSR studies relevant to institutional dynamics to explore the significance of this concept across various countries.

Patten (1991) and Williams & Pei (1999) stated that enterprises are participating in CSR actions mostly due to the external factors (stakeholders' activism) rather than internal (economic motive). Formal institutional dynamics comprised of compulsory regulations, procedures and strict arrangements that specify the limits and boundaries of individual and organizations, while informal institutional dimensions composed of social norms, values and ethical standards extracted from various cultural, religious or political systems of specific region (Doh and Guay, 2006). Logically, the 'willingness' of enterprises are subjected to the availability and intensity of external actors that regulate corporate regulations in given context. Therefore, it can be proposed that the enterprises operating in developing countries are also sensitive towards these

institutional dynamics. It might be the reason that in developed countries the enterprises are supposed to be voluntarily more sensitive to encounter social issues (CSR activities), however, in developing countries, institutional forces are necessary to exert pressure on enterprises to execute CSR action. An exact relationship between business world and external institutions is essential to shape a 'socio-corporate framework' for attaining a 'win-win' situation for both parties.

The findings of our study confirm with the results of numbers of scholars (e.g., Kostova and Zaheer, 1999; Rosenzweig and Singh, 1991; Campbell, 2007; Aguilera et al, 2007; Margolis and Walsh, 2003; Maignan and Ralston, 2002). Other scholars, in the field of management, have progressively highlighted the impact of extensive institutional forces on the level of CSRD (King and Toffel, 2007). Mishra and Suar (2010) and Kusku (2007) determined the importance of the country-level characteristics while conducting their CSR study in India and Turkey respectively. The results of this study can be extended to other nations, having identical institutional dynamics, especially in Asia.

## **Conclusion**

Usually, it is claimed, that the CSR activities are conducted due to the willingness and contributions of the business communities. However, there are also external forces which are constantly exerting pressures on enterprises to behave ethically and be conscious to the stakes of other beneficiaries affected by the business operation. The current study conducted the investigations of 48 firms listed in Pakistan stock exchange from 2014 to 2018. The purpose of this research was to investigate the local forces that affect the level of CSRD. The impact of the country level characteristics (formal institutional forces) on CSRD was examined with the help of WGI. Institutions are basically the combination of different forces: for example, laws, rules, codes, norms, values and traditions that regulate the human behavior. The fulfillment of the obligations of these institutional dynamics for any business organization ensures the enhancement in corporate performance and reduction in operational cost. In short, local institutional structure plays an important to shape the CSR format and direct the corporations to involve in CSR activities and thus disclosure. Legitimacy theory can be used interchangeably with institutional theory, observing that the fulfillment of CSR obligations is basically the aligning of the corporate strategy to the local norms, values and customs of the society, which is considered the informal institutional forces.

The findings of this study affirm the claims based on institutional and legitimacy theories that the presence of a vigorous institutional structure acts as a shield to dodge the unethical corporate activities, and thus propagate strong signals towards the corporate world in given context. Pakistan is a developing country, where the government doesn't have many resources to provide even basic human rights: for example, education, health and other infrastructure. Therefore, such types of responsibilities are executed by the business communities, especially the big enterprises. Other stakeholder groups and particularly the activist groups (civil society and NGOs) should have proper agenda and motivation about the importance of CSR in Pakistan. In short, it was examined that the institutional settings of Pakistan are significantly and directly affecting the level of CSRD.

The results of this research study extend the limited CSRD literature in developing countries in general and Pakistan in particular where there is a scarcity of research.

The results of this study will also support the researchers in identifying different theoretical framework based on institutional and legitimacy theories. The government should give an obligatory status to the CSR concept and implement strict guidelines which can safeguard the rights of overall stakeholders. However, the implementation of these regulations does not seem to be obligatory until the pressure raised from the general public. In this regard, other stakeholder groups and particularly the activist groups (civil society and NGOs) should have a suitable program and inspiration about the importance of CSR in Pakistan. In addition, the government should also have a proper appreciation system to encourage the enterprises and recognize their contributions towards the social development. On the other hand, the corporate policymakers should have a sophisticated corporate procedure, aligned with the international regulations to satisfy the demands of overall stakeholders before formulating corporate strategies.

Although the results of the current research study are very vital, however, there are constraints on data management which should be considered while applying the findings. First, the results of the study should not be generalized to all enterprises operating in Pakistan as the data was collected from the “Top 25 companies of the year” listed in Pakistan stock exchange. Secondly, the CSR related data was collected manually through CA, although much care was taken, however, there are chances of minor clerical mistakes due to human error.

The future research studies should put more efforts to investigate the relationship between the informal institutional forces and culture difference of Pakistan in cross countries study (comparing Pakistan with another country). Besides, the tendencies and priorities of the CSR activities and the nature of these activities in different operational sectors is one of the interesting and less explored topics for further research, especially in Pakistan: For example, comparing the sin industries (health and environment sensitive) with neutral industries, labor-intensive industries with capital-intensive industries, and business to business (B2B) industries with business to consumers (B2C) industries.

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