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Impact of Corporate Governance on the Corporate Social Responsibility Disclosure: Empirical Evidence from Financial and Non-Financial Sectors of Pakistan

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Abstract

This study investigates the impact of corporate governance on corporate social responsibility (CSR) disclosure in financial and non-financial sectors of Pakistan from 2010-2016. The content analysis technique is used to report the CSR disclosure of the companies. The Reporting Frequency Comparison and Paired Sample T-Test are conducted to compare the CSR disclosure in both the sectors and determine the potential change in the CSR disclosure before and after introducing Securities and Exchange Commission of Pakistan CSR voluntary Guidelines 2013. Furthermore, random effect regression highlights that the non-executive directors and foreign ownership significantly impact the CSR disclosure in the financial sector, while in the non-financial sector, only foreign directors are found to influence the CSR disclosure. Among all postulated hypotheses, only H1 & H4 are accepted in financial and non-financial sectors, with H2 only accepted in the financial sector. The Reporting Frequency Comparison and T-test results suggest that CSR disclosure is higher in the financial sector, and the level of CSR disclosure has increased significantly after introducing CSR voluntary Guidelines, 2013. This research study is novel and has set practical implications for the policymakers as it has performed reporting frequency-based comparison between both the sectors and has identified the various CSR sectors in which both financial & non-financial sectors may improve upon their social performance.

Key words: Corporate Social Responsibility; Corporate Governance; CSR Disclosure; Pakistan

JEL Code: M14, G3, G34

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1. Introduction

The European Commission (2001) has defined CSR as the voluntary integration of social and environmental concerns into the firm's core operations and its interaction with the stakeholders. The major CSR concerns of the companies are its employees, customers, environment, community, and a range of different stakeholders who are either directly or indirectly related to the company's operations. Initially, CSR was confined to the developed countries (Belal, 2000); as corporations gain more influence and their geographical sphere of operation is widening, CSR has become a paramount concern even in developing countries. As a result, the corporations have become aware of the significance of socially oriented activities and their reporting. CSR has been assumed as an essential requirement by more than 70% of the corporate executive for the success and growth of the company as per the survey undertaken in 2002 by Price Water House Cooper international (Simms, 2002). Currently, corporations are investing a considerable part of their profits in CSR practices, and they regularly report voluntary CSR activities undertaken by them.
CSR reporting is defined as the deliverance of necessary information by the company to its stakeholders concerning its products & services quality, human resource issues, philanthropic activities, and other community involvement endeavors (Esa & Ghazali, 2012). El Ghoul (2011) has revealed that the present companies give importance to their financial performance and invest sufficient time and resources to improve their corporate governance mechanism and social relationship with the community. CSR can be integrated into the mainstream policies of the company through effective corporate governance (CG) mechanism. Ruangviset et al., (2014) have associated corporate governance with transparency. They have stated that the corporations with proper corporate governance mechanisms ensure accountability, transparency, and ethics and maintain the highest corporate governance standards while generating sufficient profits for shareholders.

Very few studies are conducted in Pakistan to investigate the relationship between corporate governance and CSR disclosure. Most of the previous CSR studies in Pakistan are relevant to the brand image (Bashir & Amir, 2019; Irshad et al., 2017; Nazir et al., 2011; Safdar & Idrees, 2016; Yunis et al., 2017) and financial performance of the firm (Awan & Akhtar, 2014; Bagh et al., 2017; Javed et al., 2013, 2020; Kiran et al., 2015; Raza et al., 2012; Szegedi et al., 2020). Few studies examined the relationship between CG and CSR in Pakistan (Ashfaq & Rui, 2018; Gul et al., 2017; Lone et al., 2016; Majeed et al., 2015; Sharif & Rashid, 2014), but no empirical work compares the impact of CG on CSR disclosure in financial and non-financial sectors of Pakistan. Therefore, this study fills the gap by comparing the CSR disclosure and influence of CG on the CSR disclosure in both financial and non-financial sectors of Pakistan. The current research would contribute to the existing literature by presenting updated information and empirical evidence on the CSR disclosure and CG influence on the CSR reporting in the financial and non-financial sectors of Pakistan. Furthermore, this study has also discussed different CSR theories in detail and has explained their practicing in the corporate sectors of Pakistan.

Corporate governance serves as a base for CSR activities as it establishes a value-creating relationship between stakeholders and the company (Welford et al., 2008). The corporate governance (CG) mechanism not only maintains transparent financial reporting but also ensures the discharge of the organization's social responsibilities. It implies that corporate governance (CG) may exhibit a positive effect on CSR disclosure. It has been mentioned by Stuebs and Sun (2015) that sound corporate governance improves different aspects of the firm performance along with improving the financial performance of a firm. Corporate governance serves as a means to ensure the execution and reporting of varying CSR practices. The importance of CG lies in the fact that it protects the rights of various stakeholders and maintains a sustainable, transparent environment. Spitzeck (2009) has stated that corporations do not act socially responsible manner unless CSR matters are integrated into the company's decision-making and corporate governance structure. The companies integrate CSR concerns into their existing corporate governance structures to improve their decision-making processes. It allows the corporations to consider their duties beyond financial aspects and focus on environmental and social concerns.

Maximizing the wealth of shareholders is still a prime objective of corporations. Therefore, corporate governance and CSR policies ensure that this objective of the company is met and ensure that the company's social obligations are fulfilled. Thus, corporate governance is an essential tool that allows the corporations to exercise CSR activities and communicate these socially oriented practices, likewise to society. Such behavior of corporations is consistent with the stewardship theory of corporate governance, which advocates that the corporate managers work in the capacity of stewards. They make sure to safeguard the interest of different stakeholders (Davis et al., 1997).

Contrary to this, there is agency theory that declares managers as the agent of the shareholders (principal). According to the agency theory, managers' and shareholders' interests contradict each other, giving rise to the possible agency conflict between the principal and agent. The managers may not always make the decisions that maximize shareholders' interest, as argued by Padilla (2002). Hence, we can say that the corporate governance elements may exhibit both positive and negative impacts on CSR disclosure. The positive effects of corporate governance on the CSR disclosure indicate the stewardship perspective of corporate governance (CG), whereas the negative impact supports the agency theory of corporate governance. In developing countries, most CSR & CG studies are limited to the non-financial sector while ignoring the financial sector, particularly the commercial banks (Deegan et al., 2002). Therefore, this research study aims to empirically determine the impact of CG on CSR disclosure in both financial and non-financial sectors of Pakistan. It also checks whether corporate governance's stewardship or agency theory best fits Pakistan's financial and non-financial sectors. Furthermore, this study also compares the CSR disclosure of both sectors with the help of reporting frequency. Moreover, the mean difference test is conducted to determine the change in CSR disclosure of the companies before and after the introduction of SECP voluntary CSR guidelines 2013.

2. Literature Review & Hypotheses Development

The literature review is divided into two major sections. The first section discusses different CSR theories & sustainability reporting, while the second section highlights the relationship between corporate governance variables and CSR disclosure along with the postulation of the study hypothesis. Various CSR theories explaining the firm's motives behind practicing CSR activities are enlisted below.

Corporate Social Responsibility Theories

The instrumental CSR theory suggests that the only social responsibility of companies is wealth creation (Friedman, 1970). Therefore, those CSR activities are undertaken by companies that will increase their profitability. McWilliams and Siegel (2001) have stated that it is acceptable for business organizations to perform the moderate level of philanthropy for the sake of profit maximization. Shareholder value maximization is the critical instrumental theory that states that business's sole responsibility is shareholder value maximization. The company may aim to achieve a competitive advantage through social investment in the competitive context and developing strategies for the bottom of the economic pyramid. The political theory states that the companies invest in socially-oriented activities for their political ends and avoid potential regulations by the state authorities such as implicit, explicit taxes and different regulatory actions (Gamerschlag et al., 2011; Giannarakis et al., 2014; Lin, 2020). The cause-related marketing and social contract theory are the essential concepts of political theories.

The ethical theory states that the acceptance of social responsibilities is the moral obligation of the business above any consideration. The common good approach, sustainable development, and universal rights are the essential elements of ethical theories. The integrative theories advocate that the company's existence and growth depend on society; therefore, the business entities should integrate the social demands into their organizational objectives. The integrative theories include legitimacy theory, stakeholder management theory, and the model of corporate social performance. Schwartz and Carroll (2003) proposed the corporate social performance model, which advocates that corporate performance must be based on the economic, legal, and ethical domains. The legitimacy theory states that the companies disclose their CSR practices to develop a positive image and to legitimize their business activities (Brammer et al., 2006; Daub, 2007; Janang et al., 2020; Javed et al., 2020), and stakeholder theory emphasizes on the significance of association between the company and the stakeholders (Hill & Jones, 1992).

Sustainability Reporting

The CSR theories make it certain that the corporations undertake different CSR activities and report them to society for their economic, political, social, and ethical considerations. Whatever is the business consideration, it can be communicated to society through the process of CSR disclosure/reporting. Thus, CSR disclosure is an essential tool for businesses to achieve their economic, political, social, and ethical considerations and disclose them to society. The important CSR guidelines issued by different countries include a Silver Book by the Malaysian Government, Combined UK Code, Australian Code, OECD Guideline, The South African Second King Report, and German Code. In the footsteps of the developed countries, the Securities and Exchange Commission of Pakistan (SECP) has also recently issued CSR Reporting Voluntary Guidelines in 2013.

Corporate Governance Variables and CSR Disclosure

Corporate governance has been rejuvenated as a significant component of international business due to ethical and financial scandals such as WorldCom, Enron, Ahold, and Parmalat. Shareholders demand more disclosure and transparency due to the past financial scandals and current global financial crisis. The businesses continuously aim to become more transparent in their operations to ensure the fulfillment of stakeholder's requirements (Borgstedt et al., 2017; Kolk & Pinkse, 2009). The association between different corporate governance elements and CSR disclosure has been explored in some studies (Adel et al., 2019; Altuner et al., 2015; Cheng & Courtenay, 2006; Dwekat et al., 2020; Esa & Ghazali, 2012; Jo & Harjoto, 2011; Khan, 2010; Stuebs & Sun, 2015). However, (Barakat et al., 2015; Said et al., 2009, 2017; Salehi et al., 2017) do not demonstrate a significant association between certain corporate governance instruments and CSR disclosure. The literature review also reveals that few research studies are conducted in Pakistan to underpin the potential relationship between different instruments of corporate governance and disclosure of corporate social responsibility (Ashfaq & Rui, 2018; Gul et al., 2017; Lone et al., 2016; Majeed et al., 2015; Sharif & Rashid, 2014). The association between CG variables and CSR disclosure is discussed in the subsequent paragraphs.

Composition of Non-Executive Directors (COMPNED)

The non-executive directors strengthen the check and balance mechanism of the corporations to make sure that the rights of all the stakeholders are protected. The agency theory advocates that the non-executive directors are required on the board to control and monitor the activities of executive directors due to their opportunistic behavior (Guping et al., 2020; Jensen & Meckling, 1976). The existence of non-executive directors is also necessary for the settlement of disputes among different parties. The minor conflicts may arise as potential threats for the organizational survival in the absence of non-executive directors. The non-executive directors are supposed to put pressure on the corporations to disclose and get engaged in different CSR practices as they maintain a balance between the company's activities, its social values, and legitimacy. Shafai (2019) and Zahra and Stanton (1988) have stated that the non-executive directors are concerned about fulfilling the corporation's social responsibilities to enhance their honor and social prestige in society. They encourage the management to disclose higher CSR practices to reduce agency conflicts between the owners and managers. Moreover, these directors ensure that the companies are working not only in the interest of shareholders but also for other stakeholders. Khan et al., (2013) and Khan (2010) also reported a positive relationship between the non-executive directors (NED) and CSR disclosure of the firms. Furthermore, (Cheng & Courtenay, 2006; Lone et al., 2016; Majeed et al., 2015; Muttakin & Subramaniam, 2015; Sharif & Rashid, 2014) are also among several researchers who have reported a positive impact of the NED's on the CSR disclosure. Thus, this study also assumes that the presence of a non-executive director on the board will enhance CSR reporting.

H1: Higher is the proportion of non-executive directors on the board; greater is the extent of CSR disclosure.

Foreign Ownership (FOROWN)

The foreign directors bring innovative ideas, cultural diversities, and heterogeneous experiences to the board. The diversity in the board is considered to increase the board's independence as contrary to the traditional boards, the board members from different cultural and ethnic backgrounds have a distinct set of minds. The holding of higher shares by foreign owners leads to enhance demand for disclosure due to geographical separation between owners (shareholders) and management (Bradbury, 1991; Vo & Chu, 2019). The foreign directors on the boards are aware of the rising disclosure expectation from the global community. They possess relevant CSR knowledge and experience and disclose higher CSR activities to attract foreign capital and retain foreign investors. A study conducted by Khan et al., (2013) confirmed that strategies related to reporting voluntary social practices are favored due to the presence of foreign directors. Muttakin and Subramaniam (2015) supported the existence of diversity on the board. Previous research studies also established a significant relationship between board diversity and CSR reporting (Ayuso & Argandoña, 2009; Cabeza-García et al., 2018; Haniffa & Cooke, 2005; Ibrahim & Angelidis, 1994; Katmon et al., 2017; Khan, 2010). The above discussion clarifies that the foreign directors on the boards of Pakistani companies can positively influence CSR disclosure. Therefore this study postulates the following hypothesis:

H2: Higher is the proportion of foreign nationals on the board, higher is the CSR disclosure.

Debt to Equity Ratio (DTE)

The positive debt to equity ratio communicates that the firm can easily negotiate its liabilities. The firm is in a well-off state to spare some resources for both short- and long-term endeavors. The higher gearing ratio indicates that the company has raised funds intensively through debt financing. The previous literature reveals that most of the firms with higher debt proportion communicates more voluntary information. The companies do so to assure their stakeholders, especially their creditors, that the company, shareholders, and management are less likely to elude their contractual rights (Raimo et al., 2021; Schipper, 1981). Moreover, the corporation also communicates that it provides due importance to its role towards different stakeholders and general society. The literature review highlights that in some cases, the high gearing ratio tends to reduce the CSR disclosure of the firm (Habbash, 2016). A large portion of the firm's resources is used to pay the debt, otherwise available for spending on different CSR activities. Therefore, the firms decide to use the capital for debt payment instead of undertaking the high cost of CSR disclosure. Most of the literature (Eliwa et al., 2019; Ferguson et al., 2002; Naser et al., 2002) supports the positive association between the gearing ratio and CSR disclosure; therefore, this study also hypothesizes a positive relationship between gearing ratio and CSR disclosure.

H3: There exists a positive association between the gearing ratio and CSR disclosure.

Firm Size (STA)

Various groups in society always pressure the larger companies to disclose their activities as they have more resources that can be spent on multiple CSR activities. The directors of larger companies are also more independent to spend on different sustainability initiatives. Additionally, the big companies are always under more scrutiny of regulatory authorities, governmental and non-governmental organizations; therefore, they are assumed to be highly involved in reporting their social responsibility activities to legitimize their existence in society. Large-sized companies tend to disclose higher CSR practices to prove their corporate citizenship and legitimize their businesses(Khan, 2010; Schröder, 2021). As larger companies significantly impact society, they are subject to disclosing comparatively greater information (Andrew et al., 1989; Moussa et al., 2021). The researchers have documented that the company size directly correlates with the level of the CSR disclosure (Barakat et al., 2015; Giannarakis et al., 2014; Habbash, 2016; Ruangviset et al., 2014; Said et al., 2009). Hence, the large companies backed by significant size investments and revenues are supposed to make a considerable contribution towards CSR activities; therefore, it has been hypothesized:

H4: There exists a positive relationship between the size of the company and CSR disclosure.

Return on Equity (ROE)

The firm's financial performance is also considered the primary determinant of the CSR reporting as considerable social practices cannot be undertaken unless it generates a substantial amount of profit. The management of the large firm is authorized more autonomy and flexibility, allowing the firm to channelize greater resources towards CSR initiatives. The management of the high-profit firms discloses more information to establish a positive impression of the firm's financial performance. They also dissimilate greater information to report their social accomplishments and to display their ability to maximize shareholders' value. The finding by Haniffa and Cooke (2005) reveals that high profit-yielding companies are more inclined to disclose greater social information to legitimize their existence in society. The CSR disclosure also serves as the clear indicator that the firm has been able to generate sufficient profit and subsequently distribute it among various stakeholders of the society. Only those firms can publish their corporate social practices whose social contributions are worth mentioning and have contributed considerably to different CSR initiatives. As a result, both CSR disclosure & the financial performance of the firm can have a positive relationship. Several research studies have indicated a positive association between the financial performance of the firm and CSR disclosure (Barakat et al., 2015; Beck et al., 2018; Khan, 2010; Said et al., 2009; Sharif & Rashid, 2014; Siueia et al., 2019). Consistent with the previous literature, this study also assumes a positive relationship between the company's financial performance and voluntary CSR reporting.

H5: Financial performance of the company is positively related to CSR disclosure.

3. Research Methodology & Data

The annual sustainability reports for the period 2010-2016 of 50 companies from financial and non-financial sectors of Pakistan are analyzed through content analysis technique to rank the companies as per their CSR disclosure. The influence of different corporate governance instruments on the CSR disclosure of both sectors is examined with the help of random effect regression analysis. The Paired Sample T-test is conducted to determine the potential change in CSR disclosure of the companies before and after the introduction of SECP Voluntary CSR Guidelines 2013 and to compare the CSR disclosure in the non-financial and financial sectors. The CSR disclosure is also compared in both the selected sectors with the help of reporting frequency-based comparison, which requires dividing the reporting frequency for each CSR item by the total number of observations in both the sectors.

Study Population and Sample

The population of this study is 575 companies listed on Pakistan Stock Exchange (PSX). A sample of 50 companies is derived to represent all the companies listed at the Pakistan Stock Exchange. Only those companies that issue sustainability reports or regularly report their sustainability practices under a separate CSR portion in the annual reports are included in this study. The different sectors from which the companies are selected are presented below:

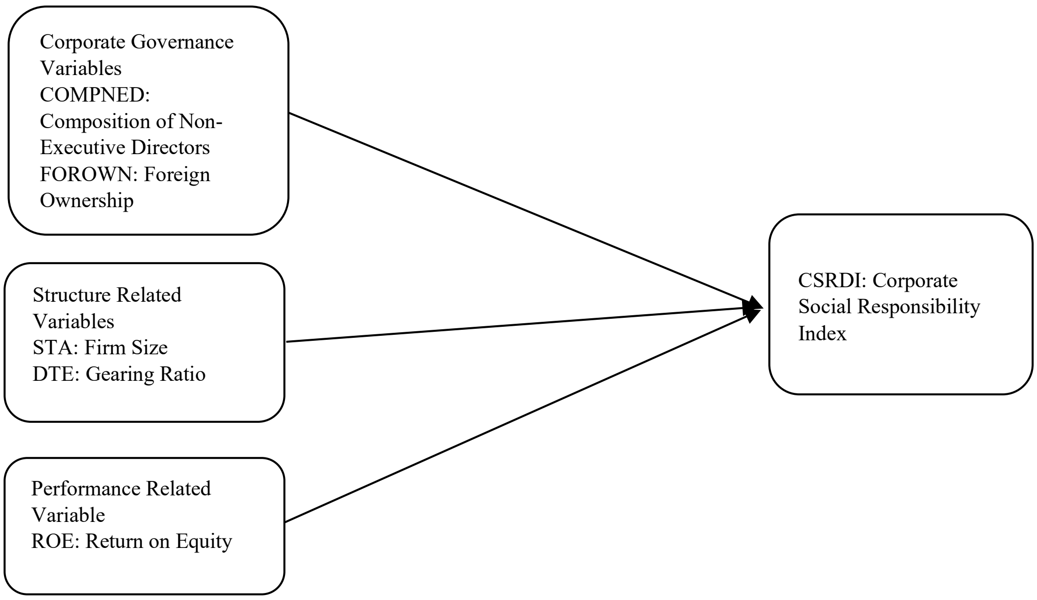
Table 1. Distribution of companies by sector

Non-Financial Sectors	No. of Companies	Financial Sector	No. of Companies
Fertilizer	3	Commercial banks	10
Chemical	3	Non-Banking financial companies	5
Cement	6		
Automobile	5		
Oil, Gas and Petroleum	8		
Food	4		
Miscellaneous	6		
Total Companies	35	Total Companies	15

Source: Authors' calculations

This study examined the impact of corporate governance variables on corporate social responsibility of financial and non-financial sectors of Pakistan. The research model for this study as per Figure 1 below:

Figure 1. Conceptual framework



Source: Authors' estimates

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Econometric Model

The econometric model relevant to this study is presented as follows:

$$CSRDI_{it} = \beta0 + \beta1COMPNED_{it} + \beta2FOROWN_{it} + \beta3STA_{it} + \beta4ROE_{it} + \beta5DTE_{it} + et_{it} \quad (1)$$

The econometric model presents the dependent and independent variables used in this study. The CSR disclosure (CSRDI) is the dependent variable while the composition of non-executive directors (COMPNED), foreign ownership (FOROWN), firm size (STA), return on equity (ROE), and debt to equity ratio (DTE) are employed as independent variables.

CSR Disclosure Index (CSRDI)

The formula to calculate the CSRDI is presented below:

$$CSRDI = d70\ i\ /nj \quad (2)$$

In CSRDI, D is coded as 0 and 1. Code 0 means that the CSR item has not been reported. On the contrary, code 1 means that the CSR item has been reported. It means that for any company, meeting a particular CSR item is coded as 1, and failing to meet a specific item is coded as 0. Nj represents the maximum number of items disclosed by the jth company $nj \leq 70$. The total scores secured by the company are added and then divided by the maximum number of the score (70). The percentage score secured by the company is used to rank the company in terms of CSR disclosure. Minor changes have been made to the CSR disclosure index (CSRDI) previously used by (Khan, 2010; Sharif & Rashid, 2014) in order to make it suitable to the current Pakistani environment. Ten additional CSR items are also included in the CSRDI as these additional CSR provisions are reported by most of the Pakistani companies.

Explanatory Variables

The explanatory variables selected in this study consist of corporate governance elements, structure, and performance-related variables. The table plotted below represents all the independent variables used in this study and their symbols and measurement methods.

Table 2. Description of explanatory variables

Variable Name	Symbol	Measurement Method	Expected Relationship
Corporate Governance Variables			
Composition of Non-Executive Directors	COMPNED	The proportion of non-executive directors to total directors on the board	Positive
Foreign Ownership	FOROWN	The proportion of foreign national board members to total directors on the board	Positive
Structure Related Variables			
Firm Size	STA	Log of (Fixed Asset + Current Asset)	Positive
Gearing Ratio	DTE	Long Term Debt / Total Equity	Positive
Performance Related Variables			
Return on Equity	ROE	Net Income After Tax/Total Equity	Positive

Source: Authors' calculations

4. Findings & Discussions

The results section starts with analyzing the CSR disclosure index and comparing CSR practices in financial and non-financial sectors. In the next step, descriptive statistics & correlation matrix analysis is performed to present the data in a summarized form and determine the relationship between variables used in this study. Furthermore, random effect estimations are performed to test the role of corporate governance (CG) on CSRDI in financial & non-financial sectors.

Companies Ranking Based on the CSR Disclosure

Table 3 contains the CSR ranking of all 50 companies included in this research study. The average score of each company, along with the percentage, is provided in Table 3. The CSRDI shows that the top 10 positions are equally secured by financial and non-financial sector companies, whereas the lowest 10 are secured by 3 financial and 7 non-financial companies. Moreover, all the three lowest-ranking companies are non-banking financial companies which indicate that the CSR disclosure among the Non-Banking Financial Companies (NBFC's) is deficient.

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Table 3. Companies ranking based on the CSR disclosure

Sr. No.	Company Name	Total Score	% Score = T. Score/70	Ranking
1	Lottee Chemicals	47.83	68.33	1
2	NBP	47.29	67.55	2
3	Indus Motors	46.14	65.92	3
4	Standard Chartered Bank	44.14	63.06	4
5	Pakistan Petroleum Ltd	44.00	62.86	5
6	MCB Bank	41.86	59.80	6
7	Fauji Fertilizer	41.86	59.80	6
8	HBL	41.43	59.18	7
9	ABL	41.29	58.98	8
10	National Refinery	40.86	58.37	9
11	Meezan Bank	40.57	57.96	10
12	ICI	39.00	55.71	11
13	Pak Oil Field	39.00	55.71	11
14	Pak Suzuki	38.71	55.31	12
15	Hino Pak	38.57	55.10	13
16	UBL	38.00	54.29	14
17	Nestle	37.29	53.27	15
18	OGDCL	36.86	52.65	16
19	Lucky Cement	36.71	52.45	17
20	BOK	34.43	49.18	18
21	EFU Life Insurance	34.43	49.18	18
22	Ghazi tractors	33.50	47.86	19
23	Siemens	33.17	47.38	20
24	Askari Bank	32.71	46.73	21
25	Adam Jee	32.20	46.00	22
26	Shell	31.86	45.51	23
27	Fatima Fertilizer	31.71	45.31	24
28	Mari Petroleum	31.71	45.31	24
29	DG Khan Cement	30.71	43.88	25
30	Attock Cement	30.14	43.06	26
31	Atlas Honda	30.14	43.06	26
32	Phillip Morris Tobacco	29.57	42.24	27
33	Bank Islami	29.29	41.84	28
34	Engro Corporation	29.29	41.84	28
35	Fauji Fertilizer Qasim	28.86	41.22	29
36	Cheret Cement	28.57	40.82	30
37	Hub Power	28.57	40.82	30
38	Nishat Mills	27.71	39.59	31
39	National Foods	27.29	38.98	32
40	PTC	27.14	38.78	33

41	Attock Petroleum	24.71	35.31	34
42	Unilever	24.43	34.90	35
43	Engro Polymer	22.29	31.84	36
44	Pioneer Cement	21.14	30.20	37
45	PEL	18.14	25.92	38
46	Service	17.67	25.24	39
47	Maple leaf Cement	16.86	24.08	40
48	Habib Modaraba	16.00	22.86	41
49	Arif Habib Ltd	15.57	22.24	42
50	Orix Leasing	12.57	17.96	43

Source: Authors' calculations

Comparison of CSR Disclosure in Financial and Non-Financial Sector: T-Test Approach

The Paired Sample T-test shows that though the CSR disclosure is higher in the financial sector, the difference is still not statistically significant as the probability of the Paired Sample T-test is greater than 0.05 percent.

Table 4. Mean difference comparison of CSR disclosure in financial & non-financial sectors

Paired Two-Sample T-test		
Group	Mean	S.D
Non-Financial Sector	0.454	0.126
Financial Sector	0.483	0.160
$Pr(\|T\| > \|t\|) = 0.0703$		

Source: Authors' calculations

Financial and Non-Financial Sectors Disclosure: Frequency Based Comparison

The percentage score for each CSR item in both sectors is estimated by dividing the CSR item reporting frequency by the total number of observations in financial and non-financial sectors. This comparative analysis helps to discover the individual contribution of the companies from both sectors towards each CSR sector.

Table 5. Financial and non-financial sectors disclosure: frequency based comparison

CSR Items	Financial Sector Reporting Frequency	Non-Financial Sector Reporting Frequency	% = Financial Reporting Frequency /Total Observation	% =Non-Financial Reporting Frequency / (Total Observation
A: Contribution to Health sector				
1. Medical support for the patients	68	168	67.33	69.42
2. Medical assistance program	47	129	46.53	53.31
3. Health assistance to disabled and less privileged children	62	94	61.39	38.84
4. Support to burns and acid victims	15	12	14.85	4.96
5. Leprosy centers donations for leprosy patients treatment	20	39	19.80	16.12
6. Organizing transplantation of organs and surgical operations	39	83	38.61	34.30
7. Costly medical equipment donation to different hospitals	23	64	22.77	26.45
8. Cash donation for running/setting up cancer hospital	36	53	35.64	21.90
9. Donation of money for kidney hospital operation theater	31	58	30.69	23.97
10. Rotary club donations for purchasing equipment to help the kids with hearing impairment issues	24	36	23.76	14.88
11. Cash donation to child & women, hospitals to endure their operational expenses	25	43	24.75	17.77
12. Donation to different eyes hospital	30	75	29.70	30.99

13. Financial assistance for ophthalmological operation of born blind children	24	46	23.76	19.01
14. Organizing blood donations	48	74	47.52	30.58
Total			34.79	28.75
B: Education sector contribution				
15. Donation to various institutions operating for improve female literacy	52	156	51.49	64.46
16. Scholarships programs for the research students of various universities	66	113	65.35	46.69
17. Scholarship programs for poor and meritorious students	80	175	79.21	72.31
18. Granted fund for blind rehabilitation and education	21	32	20.79	13.22
19. Scholarships for physically disabled students	33	37	32.67	15.29
20. Donation of books and other equipment to different educational institutions	52	132	51.49	54.55
21. Organizing student competitions on international and local levels	62	134	61.39	55.37
22. Donation for the architecture and arts students	47	65	46.53	26.86
23. Paid/unpaid internships for university students	38	119	37.62	49.17
24. Part time jobs and management trainee programs for university students/fresh graduates	27	95	26.73	39.26
Total			47.33	43.72
C: Activities for natural disaster				
25. Contribution for flood and earthquake affected individuals	52	136	51.49	56.20

26. Donations by the employees for affected people	39	100	38.61	41.32
27.Homeless people rehabilitation measures	44	80	43.56	33.06
28. Distribution of cloths and other goods among the affected people	43	101	42.57	41.74
29. Donations for internally displaced people (IDP's)	34	78	33.66	32.23
30. Donation to Prime Minister/Chief Minister flood victim relief fund	36	90	35.64	37.19
Total			40.92	40.29
D: Other donations				
31.Free medical camps/health care center establishment in the rural areas	51	159	50.50	65.70
32.Arrangement of drinking water facilities	43	75	42.57	30.99
33. Financial assistance to the terrorism hit families	11	13	10.89	5.37
34. Donations for the poor Thalassemia patients	47	61	46.53	25.21
35. Donations to improve the street children condition	61	138	60.40	57.02
36. Financial assistance to neighbor countries' natural affected victims	8	11	7.92	4.55
37. Sponsoring different events and games on national & international levels	54	115	53.47	47.52
38. Donation to different sports organizations	53	72	52.48	29.75
39. Donations to various trusts working for the destitute people	74	168	73.27	69.42
Total			44.22	37.28
E: Activities for employees				
40. Staff engagement program	76	156	75.25	64.46
41. Employees training	89	201	88.12	83.06

42. Number of employees	84	172	83.17	71.07
43. Career development of the employees	94	215	93.07	88.84
44. Employee benefits	94	199	93.07	82.23
45. Compensation plan for employees	86	178	85.15	73.55
46. Facilities to employee’s relatives	69	126	68.32	52.07
47. Number of employees trained	71	132	70.30	54.55
48. Amount of budget allocated on training of the employees	47	64	46.53	26.45
49. Employees categories by function	39	89	38.61	36.78
50. Employees safety measures	47	191	46.53	78.93
51. Information about support for day-care, maternity and paternity leave	5	18	4.95	7.44
52. Anti-harassment workplace policies	55	90	54.46	37.19
53. Employment of special person	50	103	49.50	42.56
54. Employment of women	49	104	48.51	42.98
55. Whistleblowing policy	51	65	50.50	26.86
Total			62.25	54.31
F: Environmental concerns				
56. Awards for environmental protection	17	105	16.83	43.39
57. Plantation of the trees	27	109	26.73	45.04
58. Supporting private/public environmental protection movements	49	169	48.51	69.83
59.Energy conservation measures	56	87	55.45	35.95
60. Environmentally friendly equipment and facilities	35	188	34.65	77.69
61. Promoting environmental awareness in the community	37	177	36.63	73.14
62. Recycling of waste material	53	89	52.48	36.78

Total			38.76	54.55
G: Product/services/statements				
63. Explanation of major services/product	82	208	81.19	85.95
64. Improvement of product/service quality	93	224	92.08	92.56
65. Improvement of customer service	90	187	89.11	77.27
66. Receipt of CSR awards	57	127	56.44	52.48
67. Value added statement	85	229	84.16	94.63
68.Information for conducting safety research on the products of company	0	73	0.00	30.17
69.Consumer protection measures	51	102	50.50	42.15
70. Different certifications	56	80	55.45	33.06
Total			63.86	63.53
Grand Total			48.32	45.37

Source: Authors' calculations

Consistent with the Paired Sample T-test results, the total score also highlights that CSR disclosure is higher in the financial sector. Secondly, the CSR sector analysis demonstrates that product/service/statement is the CSR sector in which both non-financial and financial sectors have made the highest contribution. This means that the behavior of Pakistani companies in both sectors is more consistent with the instrumental theory. The Pakistani companies prioritize producing quality products & services to maximize the shareholders' value and gain a competitive advantage. Contrary to this, in the health sector, the lowest financial and non-financial sector performances are observed. It reflects that the companies from these sectors are least concerned about their ethical responsibilities, and their CSR behavior is least aligned with the integrative and ethical theories.

Both financial and non-financial sectors have displayed the lowest items to support the acid burn in the health sector. Thus, both sectors have an immense need to increase the medical support for acid-burn victims. The comparative analysis of the companies' contribution towards the health sector reflects that the financial sector outperforms the non-financial sector. It shows that the social behavior of the financial sector is more consistent with ethical and integrative CSR theories. Additionally, the lowest contribution by both sectors towards the health sector also shows that the companies in Pakistan give the least consideration to the ethical concerns and the practice of the ethical & social integrative CSR theories is not much prevalent in both financial & non-financial sectors. Therefore, this study recommends that the firms operating in Pakistan increase their financial assistance towards the health sector. This initiative will improve the health condition of less privileged communities in Pakistan and enhance the corporate image of the corporations on ethical grounds. Improving the standards of education in society is the social and ethical responsibility of corporations. Similar to the health sector, the education sector also highlights that the behavior of financial companies is more aligned with the social integrative and ethical CSR theories. Both sectors have disclosed the lowest CSR items for the grant fund for blind education and knowledge in the educational sector. Therefore, both sectors should allocate more funds for the education & rehabilitation of the blinds.

The activities for natural disasters also represent the ethical and social considerations of the corporations. Pakistan is one of the countries which were hit by major natural disasters during the last decade. The earthquake in 2005 and flood in 2011 took hundreds of lives and left thousands homeless. Furthermore, the recent war on terror has internally displaced millions of tribesmen. During these disasters, the whole world had turned its attention towards Pakistan. The activities for natural disasters demonstrate that both sectors practice a similar level of ethical and integrative CSR theories. Moreover, these selected sectors have the lowest items for donation to internally displaced persons. Therefore, it is suggested that both these sectors should enhance the financial assistance for internally displaced persons.

The financial sector leads the other donation sector as well, which makes the social behavior of the financial sector more ethical & based on social integrative & ethical CSR theories. Activities for employees are backed by the social integrative & ethical theories and support the political and instrumental theories since the investment in human resources yields economic profit to the businesses. The financial sector outperforms the non-financial sector in terms of the activities for the employees. Both sectors have displayed minimum items for information about paternity or daycare leave. Therefore, it is suggested that the companies in Pakistan should provide formal paternity/daycare leaves to their employees to balance their employees' social and professional lives.

The environmental concern is the only CSR sector in which the non-financial sector outperforms the financial sector of Pakistan. The higher contribution by the non-financial companies towards the environmental problem explicitly advocates the higher practicing of social integrative and ethical CSR theories in the area of environmental concerns by the non-financial sector. The excellent performance of the non-financial sector in terms of environmental concerns is due to the nature of non-financial firms. As by nature, non-financial companies are pollutants to nature and have a detrimental effect on the environment. Therefore, the non-financial companies make comparatively more significant investments into different environmental concerns (Gamerschlag et al.,

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2011). As a result, this study proposes that financial firms should divert relatively more resources to better the environment. This step will improve the environment and help to lessen the environmental degradation in Pakistan. The further analysis highlights that the financial sector has the lowest score for environmental protection, and the non-financial sector has secured the lowest score for energy conservation measures.

The matching contribution by both sectors towards the product & services sector strongly advocates the practicing of instrumental and political theories by both the sectors as improved product/service quality always allows the business to achieve a competitive edge over its competition and maximizes the business profit. Furthermore, the highest contribution by both these sectors towards product/service and activities for employees reveals that the political and instrumental CSR theories are practiced vastly by the majority of the firms in both financial and non-financial sectors. Since the expense incurred by the companies on its employees & product/service above all helps the companies to meet its economic ends. Lack of disclosure by the financial companies in case of conducting safety research on company products is justifiable as the financial companies offer non-tangible products and services to the customers. However, there is a need to enhance the disclosure on conducting safety research on the products of non-financial companies.

The better performance of the financial companies in different CSR sectors reflects that the practice of instrumental, integrative, ethical, and political CSR theories is more prevalent in the financial sector. The better social performance by the financial companies can be attributed to the tight disclosure regulations put forward by the State Bank of Pakistan (SBP) under the corporate governance section of SBP prudential regulations. For instance, the 3rd clause of prudential regulation No G-3 of SBP requires all the commercial banks to disclose all financial donations exceeding 100,000/- Rupees. Therefore, this study suggests that the regulatory body of non-financial companies should also set specific mandatory CSR disclosure regulations.

Extent of the CSR Disclosure Before & After Introduction of SECP 2013 Voluntary CSR Guidelines

Table 6. Comparison of CSR disclosure before and after SECP 2013 voluntary CSR guidelines

Paired Two Sample T-test			
Groups	Obs.	Mean	S.D
0	144	0.436	0.130
1	199	0.482	0.139
Pr(|T| > |t|) = 0.0020			

Source: Authors' calculations

The Paired Sample T-test demonstrates that the mean CSR disclosure has increased significantly after introducing CSR voluntary guideline 2013 by the Securities & Exchange Commission of Pakistan (SECP). Our result supports a Pakistani research study undertaken by (Lone et al., 2016). Esa and Ghazali (2012) have also reported a significant increase in the CSR reporting of Malaysian firms after the launch of Silver Book in Malaysian firms.

Descriptive Statistics

The descriptive statistics for the independent variables are presented in Table 7. The composition of non-executive directors (COMPNED) has a mean of 0.736, which shows that many companies are dominated by non-executive directors in Pakistan, although the companies having foreign nationals on their boards are not very high. ROE, firm size (STA) & debt to equity (DTE) have means of .207, 7.67 and .458 respectively. The comparative descriptive statistics for financial and non-financial sectors highlight that the average CSR disclosure in the financial sector is higher than in the non-financial sector. The average composition of non-executive directors on the board, debt to equity ratio, and firm size are also higher in the financial sector. Contrary to this, the average foreign ownership and return on equity are greater in the non-financial sector. The detailed descriptive statistics for both sectors are provided in the table presented below.

Table 7. Descriptive statistics

Overall Sample					
Variable	Obs.	Mean	Std. Dev.	Min	Max
CSRDI	343	.462	.137	.0143	.786
FOROWN	343	.211	.240	0	.857
COMPNED	343	.736	.195	0	1
DTE	343	.458	.814	0	7.748
STA	343	7.675	.690	6.092	9.346
ROE	343	.207	.292	-.766	2.222
Non-Financial Sector					
CSRDI	242	.454	.126	.114	.786
FOROWN	242	.227	.251	0	.857
COMPNED	242	.697	.207	0	.928
DTE	242	.398	.486	0	2.544

STA	242	7.470	.493	6.427	8.771
ROE	242	.236	.331	-.503	2.222
Financial Sector					
CSRDI	101	.483	.160	.0143	.771
FOROWN	101	.172	.206	0	.714
COMPNED	101	.830	.119	.429	1
DTE	101	.601	1.290	0	7.748
STA	101	8.165	.835	6.092	9.346
ROE	101	.139	.140	-.766	.437

Source: Authors' calculations

Correlation Matrix

The correlation analysis indicates a significant correlation between CSRDI and all the explanatory variables, except for the ROE. The correlation between CSR disclosure and the composition of non-executive directors (COMPNED) is not as strong as the correlation (0.24) between foreign ownership (FOROWN) and CSR disclosure. Further analysis highlights that debt to equity (DTE) is negatively associated with the CSRDI with a correlation coefficient of -0.39 (P< 0.000). The variance inflator factor (VIF) test suggests low level of multi-collinearity in the model as the variance inflator factor for all the independent variables is less than 10.

Table 8. Correlation Matrix

	1	2	3	4	5	6	VIF	1/VIF
1.CSRDI	1.000							
2.DTE	-0.394***	1.000					1.00	0.995
3.FOROWN	0.243***	-0.005	1.000				1.12	0.895
4.COMNED	0.147***	0.042	-0.222***	1.000			1.29	0.774
5.STA	0.534***	0.033	-0.217***	0.351***	1.000		1.17	0.853

6.ROE	0.071	-0.056	-0.130***	-0.265***	-0.015	1.000	1.13	0.887

Note. *, ** & *** shows statistical significance at 1%, 5% & 10% respectively

Source: Authors' calculations

The separate correlation analysis for the selected sectors shows a significant correlation between the CSR disclosure& all explanatory variables in the financial sector except the correlation between foreign ownership & CSRDI. On the other hand, in the non-financial sector, CSRDI represents a significant correlation with gearing ratio, firm size, and foreign ownership.

Results of Panel Least Square

We first applied Pool regression analysis to ascertain the impact of the explanatory variable on the CSR disclosure. Further, Breusch & Pagan LM Test (P < 0.05) is applied, suggesting that the random effect model is appropriate. For selecting between random and fixed-effect model, the Hausman test (P-value > 0.05) for the overall sample & both financial and non-financial sectors was applied, which suggests the application of random effect regression method.

The random effect regression result for the overall sample highlights that foreign ownership has a significant impact (P<0.01) on the CSR disclosure of the overall sample and both sectors. Other things being constant, a unit increase in the foreign ownership is followed by 0.217, 0.200 & 0.145 units increase in the CSRD of the overall sample, non-financial and financial sector respectively. This reflects that the foreign directors in Pakistani companies possess CSR relevant experience, and they are more aware of the rising disclosure expectation from the global community; therefore, they disclose greater CSR activities to attract foreign capital. This relationship also supports the previous research studies carried out in other developing countries. For instance, (Khan, 2010) documented a positive association between foreign directors & CSRDI in the financial sector of Bangladesh.

Table 9. Panel random effect regression estimation

Variables	Overall Sample	Non-Financial Sector	Financial Sector
FOROWN	0.217*** (0.034)	0.200*** (0.040)	0.145*** (0.058)
COMPNED	-0.009 (0.029)	-0.026 (0.033)	0.120** (0.055)
DTE	-0.070*** (0.008)	-0.123*** (0.014)	-0.039*** (0.008)
STA	0.144***	0.153***	0.156***

	(0.013)	(0.021)	(0.016)
ROE	0.019 (0.016)	0.0095 (0.017)	0.002 (0.040)
Constant	-0.656*** (0.101)	-0.667*** (0.155)	-0.893*** (0.133)
Diagnostic Tests			
N	343	242	101
R2	0.66	0.48	0.812
Wald Stat. (P value)	232.62 0.000	154.82 0.0000	155.45 0.000
Hausman Stat (P-value)	0.079	0.114	0.044
Breusch & Pagan LM Random Effect Test (P value)	0.000	0.000	0.000

Note: CSRDI is used as a dependent variable, standard errors are presented in parenthesis and *, ** & *** shows statistical significance at 1%, 5% & 10% respectively

Source: Authors' calculations

The non-executive director (COMPNED) does not significantly impact CSR disclosure of the overall sample and non-financial sector. It shows that the non-executive directors are not carrying out their monitoring role effectively and have a minimal role in influencing the CSR disclosure in the non-financial sector. Contrary to this, the impact of non-executive directors is significant on the CSR disclosure of the financial sector. In the financial sector all other things remaining the same, a unit increase in the composition of non-executive directors (COMPNED) increases the CSR disclosure by 0.120 units. It shows that non-executive directors in the financial sector discharge their responsibilities in the most desired manner. They encourage the management to disclose higher CSR practices to reduce the agency conflict between the shareholders and managers. Previously, (Khan, 2010; Sharif & Rashid, 2014) also documented a positive impact of non-executive directors on the CSR disclosure of Bangladeshi and Pakistani commercial banks.

The control variable, the gearing ratio, negatively impacts the CSR disclosure in both sectors and the overall sample. The regression results show a 0.07, 0.123 & 0.039 units decrease in the CSR disclosure due to one unit increase in the gearing ratio of the overall sample, non-financial and financial sectors, respectively, if other things remain constant. It indicates that instead of undertaking voluntary CSR disclosure, the companies opt to reduce the high level of debt. These results support the research studies conducted by different authors such as Habbash (2016).

The firm size (STA) also significantly influences CSR disclosure of the overall sample, financial and non-financial sectors. It can be interpreted as a unit increase in the firm size leading to increased CSR disclosure by 0.144, 0.153, 0.156 units in the overall sample, non-financial and financial sectors, provided all other things remain the same. It is because the larger firms have more financial resources to spend on CSR activities. Research studies by different authors also highlight a positive association between firm size and CSR disclosure (Cormier & Gordon, 2001).The return on equity (ROE) has a positive but insignificant impact on the CSR disclosure in all regression models. The insignificant effect of ROE on CSR disclosure is also supported by Esa and Ghazali (2012) and Richardson and Welker (2001). Furthermore, the P-value of Wald Statistics is less than 0.05 in all the regression models, indicating that all our regression models are statistically significant. Whereas the values for the R Squared are 66, 48 & 81 percent in overall sample, non-financial and financial sector regressions respectively.

5. Conclusion

This study has examined the CSR disclosure in the financial and non-financial sectors of Pakistan. The major elements that could have an impact on the CSR disclosure are also taken into account namely; foreign ownership, presence of non-executive directors, profitability ratio, firm size and gearing abilities of the financial & non-financial firms. Furthermore, the extent of CSR disclosure before and after the introduction of SECP voluntary guideline 2013 is also examined in this study. The impact of CG elements on the CSR disclosure is documented with the help of multiple regression analysis, while the paired sample T-test is applied to compare the CSR disclosure in the financial & non-financial sectors. H1 & H4 hypothesis are accepted jointly in both financial and non-financial sectors as well as overall sample, with H2 only accepted in the financial sector. Besides this, H3 shows significant but reverse relationship than the anticipated hypothesis in both financial and non-financial sectors. Lastly, H5 hypothesis is rejected for overall sample as well as financial and non-financial sectors.

The results of the study show that the foreign ownership, non-executive directors, gearing ratio & firm size significantly influence the CSR disclosure in financial sector of Pakistan whereas in the non-financial sector, the foreign ownership, gearing ratio and firm size are documented to significantly influence the CSR disclosure. Moreover, the paired sample T-test results and reporting frequency comparison highlights that the CSR disclosure is higher in the financial sector &the CSR disclosure has increased significantly after the introduction of CSR Voluntary Guidelines 2013.Furthermore, the financial sector outperforms the non-financial sector in the areas of health, education, other donations & activities for the employees. Thus, the non-financial sector should improve its social performance in these CSR areas. The only sector in which the non-financial sector leads the financial sector is environmental concerns. The findings also show that both financial & non-financial companies have made highest contribution towards the CSR sector product/service followed by the activities for employees. Contrary to this, the lowest contribution by both sectors can be observed towards the health sector. Finally, the CSR disclosure ranking shows that consecutive lowest three positions are occupied by non-banking financial companies which reflect that CSR disclosure is very low in the NBFC's.

This research study has set multiple implications based on the study findings. Firstly, increase in the CSR disclosure due to foreign ownership in both financial and non-financial companies indicates that the foreign national directors have CSR related experience which they use to design effective CSR policies. They are aware of the rising disclosure expectations from the global community therefore they enhance the CSR disclosure of the companies to satisfy the ethical foreign investors and to attract the foreign capital. Additionally, they make sure to safeguard the interests of different stakeholders through enhancing the CSR practices of the firms in both sectors. Thus, this study proposes that the Pakistani companies should increase the proportion of foreign directors on their boards.

Secondly, the lack of influence of non-executive directors on the CSRD in the non-financial companies and positive and statistically significant effect on CSRD in case of financial companies highlight that the non-executive directors on the boards of non-financial companies lack real independence and have a very limited role in influencing CSR disclosure. They do not carry their monitoring role effectively and are least concerned about the CSR disclosure. On the other hand, the non-executive directors in the financial companies work in the capacity of the responsible stewards since they reduce the agency conflicts between shareholders and managers through enhanced CSR disclosure. Furthermore, the respective positive & negative impact of firm size and gearing ratio on the CSR disclosure in both the sector companies demonstrate that the larger companies from both these sectors spend more on sustainability practices. CSR disclosure is reduced due to increase in debt proportion of their capital structures as these firms are left with less financial resources to spend on the CSR practices. Finally, this research study acknowledges the introduction of SECP CSR Voluntary guideline 2013 as a very positive initiative since the CSR disclosure has significantly enhanced after the introduction of 2013 Voluntary CSR guideline.

The major limitation of this study is the application of the manual content analysis technique which requires analyzing the extensive content presented in the published reports. Therefore, it is expected that certain CSR items might have been missed to be reported by the researchers. Furthermore, the reporting frequency comparison presented in this study can be used to analyze the CSR disclosure among different sectors of Pakistan covering comprehensive time period for the extended sample.

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