

Reviewing Corporate Social Responsibility Initiatives of Tobacco Industry in Pakistan

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Abstract

The performance of the firms in corporate sector is heavily dependant upon the corporate governance practices (Nazir et al. 2009) as well as consideration of social responsibility into the general managerial practices of firms, the dimensions of socio-cultural environment into business procedures and compliance with other ethical and regulatory issues. The researchers have focused on the incorporation of corporate environmental governance issues into business practices in order to gain a competitive advantage for the firms (Wise and Ali, 2008; Mitra et al. 2008). However, a little has been found on the corporate environmental governance issues and practices of Pakistani firms in tobacco industry since the concept of corporate governance and corporate social responsibility is newer for the emerging economies like Pakistan. This shows study tells about the two companies and their corporate responsibility towards the society. Pakistan Tobacco Company and Lakson both are in same business which is risky to health for customers but they are considering Corporate Social Responsibility and environment safety for generating goodwill in the minds of customers and stakeholders.

Key words: corporate governance, corporate social responsibility, health and safety, environmental issues, community involvement, case study, Pakistan.

JEL Codes: G30, G38, I30, J20, K23, Q25

1. Introduction

The performance of the modern corporations is heavily dependent on business activities as well as its role for sustaining long term reputation and good will, which in general called Corporate Social Responsibility (CSR) of firms. CSR is the subset of firms' overall corporate governance practices regarding business procedures, legal and ethical practices with the focus on investors' rights protection and social stakeholders of the firm. During the past few decades, this role of the firms in the society has been as issue of growing public awareness. Many firms contributing towards economic growth have been blamed for creating social problems in the society. Some of the issues researched most frequently include long corporation power, employer safety and health, environmental proactiveness, waste management, resource depletion and product quality (Mitra et al. 2008). The corporations are induced to be accountable to a wider set of audience than share holders only. Friedman's (1962) doctrine, that the only social responsibility of the manager is to maximize the profit of shareholders, is not universally acceptable; rather the role of the corporate governance is to maximize the share holders' wealth along with sustaining appropriate returns for all other societal stakeholders. Studies have proved that awareness is being growing on the part of firms putting an obligation to help society even if it earns loss or profit (Wise and Ali, 2008).

During the mid 1970's, various accounting institution began to consider social disclosures in company's reports due to the criticism of using profit as the final mean to evaluate corporate performance. Moreover the researcher also began to articulate the different theories in this regard i.e. agency theory, legitimacy theory, stakeholder theory and political economy of accounting theory (Belkaoui and Karpik, 1989; Gray et al., 1988; Guthrie and Parker, 1990; Patten, 1991, 1992; Roberts, 1992; and Gray et al., 1995a). However, there is still no consensus exist on the generally accepted frame work of the accounting for corporate social responsibility (Mitra et al., 2008). Despite of this lack of consensus about why firms report social responsibility information, an increasing number of local and multinational firms started disclosing their activities of social responsibility in their annual reports voluntarily. In this regard, Corporate Social Disclosures (CSD) are defined by Guthrie and Mathews (1985) as the provision of financial and non financial information stated in its annual report or separate social reports relating to interaction with its physical and social environment.

The present study aims at analyzing the corporate governance practices of two Pakistani firms relating to corporate social responsibility with a view to examine and link corporate governance practices with ethical business processes as well as providing some domestic evidence on corporate social disclosures of firms in Pakistan using a case study method. The remainder of the paper has been organized as follows; the second section of the paper develops the theoretical background and model for the paper, the third discusses and analyzes the three case studies selected for study and final section concludes the paper suggesting some implications for the companies and management.

2. Theoretical Background

Majority of the studies in CSR have focused on the developed economies of the world and a little work has been done in emerging markets like sub continent. UNCTAD (2004) defined CSR as imparting the social responsibility actions into the business policies and procedures including economic, social and environmental concerns. The minimum standard observed by the organization is to compliance with law regarding CSR. The scope of CSR includes the direct as well as spill over impact of organization's actions that may affect society. However the extent of organization social liability is still a debatable issue.

Kendall and Kendall (1998) proposed that good corporate governance encompasses an ethical approach, culture, society, organizational paradigms and the balance between the objectives of all interacted parties of organization. There should be a decision making model giving weight to all above stakeholders and there must be accountability and transparency in the actions and decisions. However, Talakdar and Bakhtear (2007) reported that top performing sector of Dhaka Stock Exchange in December 2007, i.e. banking sector, indicated a low incidence of corporate social responsibility reporting which is a negative implication of corporate governance in banking sector of Bangladesh.

Chowdhury (2006) also considered the environmental perspectives and urged that there is strong need for firms to incorporate environmental responsibility in to their corporate governance practices & policies and future strategies should avoid manipulation and misrepresentation of the information. Because, in the long run, the choices of being not 'green' may has serious

consequences financially and environmentally. Same thing is also observed by Kabir (2007) for Lover Brothers Bangladesh Limited to allocate more resources and time to become a model of 'green' business in its sector and achieve long term benefits.

"Environment Reporting" is a concept that is relatively new in Pakistan. It provides an opportunity for companies to inform stakeholders of their corporate efforts in ensuring that operations and businesses have minimum impact on the environment. Companies should not view environmental reporting as an impediment to their businesses. Instead, they should embrace it as an opportunity to enhance their business. This is a real challenge in a country like Pakistan, where the command and control systems permeate the governance of our economy. The tendency for pervasive regulatory frameworks often tends to prove self defeating in that they only tend to focus on disciplinary actions, rather than providing the corporate sector with an enabling environment for greater compliance on social and ecological standards.

In this regard, Institute of Chartered Accountant of Pakistan (ICAP) has introduced IAS 19 that deals with employees benefits for short term, long term, post employments and termination benefits. Benefits regarding wages, salaries, securities contributions, short term leaves, sick leaves, medical leaves for family and different retirement benefits are given to employees according to their job status. Disclosures about employee's safety and job security policies ensure public about ethical and moral values of a corporation and attract foreign investments; hence a positive effect is shown on firm's performance. ICAP has launched reporting requirements regarding internal control and disclosure of different risk management systems, yet no particular standard has been developed regarding the external environmental control standards.

Moreover, government has introduced established Pakistan Environment Protection Act (PEPA) and introduced National Environmental Quality Standards (NEQS) in 1997. According to which companies are required to follow environmental regulations controlling for population, agricultural wastage, social hazards or any damage to human life. The ACCA-WWF Pakistan Environmental Reporting Awards were launched with the collaboration with the Ministry of Environment and IUCN Pakistan in 2002 to recognize and reward companies that report

corporate environmental, social and sustainability performance to a broad range of stakeholders. In addition to it, the work of the Global Compact is to be organized through the soon to be functional Global Compact Foundation, a not-for-profit company that seeks to work closely with the corporate sector on Corporate Social Responsibility issues and in developing effective incentive systems for rewarding and sustaining good corporate performance in Pakistan.

In the light of above discussion, the present study provides a link between theoretical perspectives of corporate social governance with practices to Pakistani companies regarding CSR reporting. Two companies from the tobacco industry of Pakistan are selected as case study to analyze the corporate social disclosure. The tobacco sector of Pakistan just consists of three public limited companies listed on Karachi Stock Exchange including Pakistan Tobacco Company (PTC), Lakson Tobacco Company and Khyber Tobacco Company limited. We are unable to find any data regarding the corporate social responsibility and environmental reporting about Khyber Tobacco so this company was skipped out. The major indicator of corporate governance in any country may include establishment of rights of stakeholders, enforcement of regulation and law and order, protection of creditors and customers. Mostly, researchers categorize the reporting of these social actions for the purpose of study. In this regard, current study utilizes the six categories of CSD proposed by Hackson and Milne (1996).i.e. environmental; (2) energy; (3) employees; (4) product; (5) community involvement; and (6) others. The CSR reporting of the three selected companies has been analyzed using the above six categories.

3. Case Study 1 -- Pakistan Tobacco Company (PTC)

3.1 Background

Being the first multinational company in the country, Pakistan Tobacco's operations started in 1947 and it was first foreign direct investment from British American Tobacco Company in the sub-continent. The company produces high quality branded products for customers Benson and Hedges, Gold Leaf, Capstan, Gold Flake and Embassy. PTC role is to build long term shareholders value and to give high quality products and to balance people's expectations.

Pakistan Tobacco Company mainly has three business principles in which one principle support environmental impact that is good corporate conduct. The belief of this principle includes:

- i. Business should have high level of behavior and integrity
- ii. Achieving standard environmental performance
- iii. Respect human rights
- iv. High level of corporate social responsibility should be in tobacco industry.
- v. Tobacco industry should participate in the formation of government polices that affects it.

3.2 Corporate Social Responsibility

Pakistan Tobacco Company believes to have a good business practice which they think is attained by good environmental practices. They control their impact on environment by using 3R's principle i.e. Reduce, Recover and Recycle. So now the question arise that how they work on this principle and what they have done till now regarding environmental practices. They basic aim of PTC is to control or reduce CO² (carbon dioxide) which effect the environment badly. They have several environmental programs which include: (1) Waste management; (2) Energy conversation; (3) Water management; (4) CO² emission. PTC also guides other companies to become environmental friendly and to work on 3R's principle. PTC believes that their approach to CSR is letting them to survive in the market because by doing business in risk to health product and still doing business from so long means that they are behaving in socially responsible way and care for the impact and effect on environment. PTC is also trying to fulfill society's expectations by taking in account some concern issues. In terms of the transparency to the stakeholders of the company, PTC Annual Report for 2007 was recognized as the best in its category by Institute of Chartered Accountants of Pakistan.

3.3 Environment Health and Safety (EHS)

PTC conducts their business operations in a way which is not harmful for their employees or workers. The management uses clean technologies and safety systems and it is ensured that there is safe environment for employees by minimizing the use of natural resources, water recycles etc

and all these are done in NEQS (national environmental quality standards) limits. PTC ensures that their EHS policy is fulfilling British American tobacco policy which has international standards and best practices. PTC is also involved in monitoring their environmental performance for GRI (Global Reporting Initiative) where they communicate their social performance. In 2006, National Forum for Health and Education (NFEH), a Non-Profit organization focusing on environmental, health and educational awareness in Pakistan, has awarded Pakistan Tobacco with the "*Environment Excellence Award*". Moreover, British American Tobacco Company has awarded PTC with "*EHS Excellence Award*" in 2007.

3.4 Community Involvement Initiatives

Pakistan Tobacco Company is very much concerned with its community development. In this regard, the management has taking some somber actions relating to community involvement and for taking care of the general public. Some of these initiatives are:

- i. People believe that hepatitis disease is because of pesticides and it should be avoided in cigarettes. In response to this, PTC started using pesticides which is approved by Government of Pakistan. This disease has another cause so for this PTC has also made a joint venture with NIH (National Institute of Health) to pay attention to the issue.
- ii. PTC has also reduced the use of agro chemical in their crops which is another dangerous element for environment diseases and PTC is leading in this initiative.
- iii. PTC has set mobile doctor units to facilitate the people in order to fight against diseases. This strategy is mainly for people in rural areas because they need medical assistance.
- iv. Medical camps are also arranged by PTC in collaboration with LBRT (Leyton Rehmatullah Benevolent Trust) and Merck Pakistan limited.
- v. PTC is providing educational opportunities like scholarships and building schools. The company has also partnered with two NGO's that is ABES (adult basic education society) and TCF (the citizen foundation)
- vi. PTC is not using child labor in operations of the company because it has prohibition clauses in contracts with the farmers that don't allow the use of child labor.

- vii. They work on new products by in contact with regulators, government and scientists and to create a less harmful product.

It is evident from the above discussion that Pakistan Tobacco Company has very serious concerns for the corporate social responsibilities and environment health and safety in the community in which it is operating. All these initiatives taken by Pakistan Tobacco Company are letting them to build good image in the mind of the customers despite of their unhealthy products and service for customers. According to Hackston and Milne (1996) categories of CSD, Pakistan Tobacco Company is complying with employee's safety, environmental proactiveness and community involvement initiatives. They try to come up the expectations of the customers and create them socially responsible institutional citizens, as this is an integral part of the green environment and community involvement policy of Pakistan Tobacco Company Limited.

4. Case Study 2 -- Lakson Tobacco Company Limited (LTC)

4.1 Background

Lakson Tobacco Company Limited (LTC), an affiliate of Philip Morris International Inc., is a publicly listed company on the Karachi and Lahore Stock Exchanges. Lakson was awarded for best company in 2005 from KSE and ranked in top 25 companies of KSE in the years 1997, 1998, 1999, 2003, 2004 and 2005 respectively. Lakson Tobacco Company manufactures cigarettes in three factories which produce cigarettes and one tobacco leaf threshing plant, all located in various parts of the country. Being the second largest tobacco company in country Pakistan, LTC provides 2500 jobs to people all across the country by in operation and sales offices. Lakson Tobacco Company aims at to provide best products to their customers and it also help to reduce unemployment by contributing in other business units.

4.2 Corporate Social Responsibility

Lakson has been contributing for the welfare of the society in Pakistan. In corporate responsibilities they have been doing in many ways that is in Health, Atmosphere, Agriculture, Education and Employee.

4.2.1 Health

Lakson Tobacco Company has started a medical trust in 1994 which have arranged many eye camps for the needy people. LTC employees have also participated in these camps. In these camps, eye surgeries and eye test of poor people were done and glasses were provided for free of cost. LTC have established many hospitals: (1) Medical hospital at Mardan in 1998; (2) Medical hospital at Sahiwal in 2002; (3) Medical hospital at Kotri in 2005. LTC provided mobile dispensaries the remote areas of various parts of the country.

4.2.2 Environment

Lakson Company has tried to protect the environment by reducing the boiler emission. This includes emission of few gases which are CO^2 , NO^2 and SO^2 . The use of latest technology of the boiler plant and other related machinery has reduced the emission of CO^2 from almost 451.09 mgNm^3 in 2005-2006 to 246.22 mgNm^3 in 2006-07 and emission of SO^2 from reduced from 14.21 mgNm^3 to 8.33 mgNm^3 in the respective years.

4.2.3 Agriculture

In order to avoid environmental issue and crop diseases, Lakson Tobacco Company has reduced the use of chemicals in their plant site and crops as compared to other neighbor sites. This will surely reduce the general public diseases caused by the infected eatables.

4.2.4 Education and employees:

Lakson is working on the education and employees' safety by building schools and providing opportunities for gatherings. AK-12 school was established at Kotri (Sind) in 2005 by Lakson. LTC provides better environment to their employees by best surrounding and community. Every year employee's families are invited on 14 August celebration. Eid Milan parties and annual dinners are held. Sanali Khara Bhai foundation is working with Lakson to provide educational expenses to brilliant and deserving students.

4.3 Safety Policies of Lakson Tobacco Company

Lakson take in account their employees and environment safety. They have some safety policies in order to avoid mishaps which include:

- i. Implementation of necessary control measures in operations
- ii. LTC provide proper training to their employees
- iii. Safety policies are improved on regular basis and monitored properly.

This case study shows that LTC is contributing in social welfare even if they are producing the products which are assumed by the general public to be harmful to health. Among the proposed categories of corporate social disclosures of Hackston and Milne (1996), Lakson is following the environment, community and employees modules. The company is taking employees' safety measures which show their serious concern about safety of the employees. All the welfare operations help them to create goodwill of the company in specific, and for Lakson group in general.

5. Conclusions and Recommendations

The present study sheds some light on the corporate environmental practices of two leading companies of Pakistan in tobacco industry. After the analysis of these cases discussed, it can be concluded that the behavior of firm is heavily dependent on the social work and community involvement in the society in which it is operating. Although the traditional finance theory argues that profit maximization is main objective of the managers; however, business norms have been changed now. The organizations are participating in the welfare of the society and its employees by incurring heavy expenditures for the sustainable and long term development just like PTC and Lakson. These organizations are trying to build trust and confidence of the society in the business operations and procedures. Despite of the fact that, there is no strict law and regulation regarding these CSR initiatives of the company, they are making it possible on the volunteer basis. The other facet of these initiatives may be seen as; stakeholders of the industry are getting more aware and conscious of business processes that are having impact on the environment and society. According to these cases discussed above, it shows that both

companies although dealing in products which is not environment friendly like tobacco, cigarettes etc. but they are doing a lot for the welfare of the country like building hospitals and also people are getting aware to diseases. Both the companies are also developing and implementing their own environment and safety polices for the employees.

Finally, the study discussion regarding the corporate social responsibility and initiatives taken by these firms suggest some implications for the other firms in Pakistani market. Corporate social responsibility is not a social activity these days; rather, it has become as one of the core business procedures and policies. The firms following these practices are very successful; not only in terms of financial matters, but also sustaining their long term positive image in the minds of customers, investors and other societal members. The choice is in the hands of the management of business concerns; whether they are incurring some expenditures and getting 'green' today or ready to facade pressure and consequences from the stakeholders tomorrow. Companies are now trying to get a positive image regardless of what products or services they are providing to the customers.

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