

# Does Profitability of a Corporation depends on it's Corporate Social Responsibility?

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## Abstract

This study was to find the impact of corporate social responsibility practices on the firm financial performance of the oil and gas sector of Pakistan. For this study, fourteen companies of the oil and gas sector, listed on the Karachi stock exchange of Pakistan were selected as samples. Secondary data has been collected covering ten years from 2010-2019. The data was collected from the annual report and state bank site of Pakistan. E-views have been used to test the impact of CSR and firm profitability. For this study four tests were used to check the significance and stationarity of data. In which include Unit Root test, Co-integration, Vector Error Correction Estimation, and Granger Causality test. On the basis of the Unit Root test results, all variables show the stationarity. According to the results of Co-integration, there is no long-run relationship between variables. According to Granger Causality results shows all variables are move to another and impact on another if CSR take dependent variable excluded net profit after tax (0.0249), net profit margin (0.9989) and total assets are (0.4841) so, in which all three variables are move to one variable that is CSR. In vector error correction estimates take a137 observations these observations shows a results about short run dynamic relationship of variables. So In overall tests are used for analysis shows significant and stationarity results and these are good for study so it means these results create a positive impact on CSR and firm performance.

**Keywords:** Total Assets, Net Profit Margin, Net Profit After tax, Corporate Social Responsibility, oil and gas sector.

Corporate social responsibility (CSR) refers to the obligations and responsibilities that a company has towards society. CSR can be described as a decision making process by a business that is linked to ethical values and respect for individuals, society, and the environment as well as compliance with legal requirements. Corporate social responsibility has become much popular over the most recent couple of years. A large number of organizations issues report on corporate social responsibility nowadays. The demand of the people towards the organizations also increases the reputation of the organization's reputation as well as increases the organization's performance. McWilliams, (2001) describe Corporate Social Responsibility as "All those activities which are not forced by the law these all activities running just for benefits for the society because it primary benefit only for a society not for the business." Another researcher like Lea, (2002) has defined CSR as "Corporate social responsibility is about all the organizations and business there is no legal obligations to perform in the society. All the organizations have own choice to perform it in society just for society environment not for financial purposes. In this way organizations attract with their customers, suppliers, employees and other communities in which they operate, as well as they also protect the environment for the help of corporate social responsibility." Kiran, (2015) stated that the idea of shared esteem or Corporate Social Responsibility (CSR) has exponentially pulled in the consideration of the business world and also researchers. The general execution of a firm is incredibly dependent on the moral business activities and activities identified with social and natural advantages. These activities will help an organization to manage its reputation and goodwill.

CSR consists of a considerable number of practices of corporate governance. . Policies, system, practices are related to corporate governance the focus of which is to enhance social conditions, rights, protections, environmental protections, and assurance of the enthusiasm of the considerable number of stockholders of the business. It is the time not to restrict business just for the productivity of the firm but relates those with the social advantage as a monetary benefit are connected with a social advantage of society. CSR is not simply speculation but rather a solid connection between the firms, what's more, its stakeholders. Different researchers defined CSR in different ways. Policies, systems, practices are related to corporate governance.

According to Ruben, C., (2009) CSR activities about a welfare of a society on the behalf of a firm toward its stakeholders (customers, employees and general public). The main aim of these firms to work for a society and profit maximization. These firms also perform some actions in which include donations or commitments regarding environment safety; social and well-being projects, and providing a healthy and safe working place for its employees.

Corporate social responsibility is a long term plan when it yield enough business related benefits to the organization, specifically by supporting core business activities contributed in the firm for achieving organization strategies and plans. Anderson, (1980) Strategy theory explains the relationship between a company long term plan and the economic and non-economic contribution intends to make its shareholders as well as stakeholders (employees, customers, communities etc. Corporate social performance is a critical factor to consider for all firms. In CPS

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includes some factors these all factors are effect on the decision making of the companies decisions and behavior far into the future. These factors are social issues, environmental pressures, stakeholder's wood, (1991).

Corporate social responsibility plays an important role to achieve an organizational competitive advantage for other organization competitors. CSR also affect the financial performance of the organization it also help the organization to achieve its long term and short term goals and retain the good reputé in the market.

Financial performance means measuring and analyzing the financial objectives and goal of the organization to see whether they are achieved or not. In global world, organization face many challenges about their products and services weather they earn or not so, in this way firms try very well to fulfill our customers demand at any cost beyond lost their customers because people s are most conscious about the organization's work for the prosperity of the society so, in this regard firm also provide a better environment of their customers because their environment impact on society and natural environment.

In previously studies have mainly focused on developed countries CSR and financial performance rather than the developing country like Pakistan. Earn a profit and also achieve a competitive advantage. Most of the firms are not yet quiet familiar with the importance of CSR and thus they don't pay much attention on the CSR. Now a day's people have more knowledge about welfare of societies. Kotler et al. (2005) describe that companies can gain great benefits from participating in CSR and that these benefits are the reasons for their engagement in Corporate Social Responsibility.

#### **Problem Statement**

The concept of CSR and its impact on profitability are an important part of the long term success and its goodwill of the firm. The problem statement of the study is to find the impact of CSR practices on the profitability and value of the firm in oil and gas sector of Pakistan.

Research will be conduct on Pakistani sector to check the effect of CRS on the performance of firm.

#### **Objectives of Study**

The purpose of this study is to measure the corporate social responsibility and firm profitability dependent and independent variables of the oil and gas sector of Pakistan. CSR and firm profitability tell us about which company of oil and gas sector is better position now a day and which company face a loss.

#### **Research Question**

- What impact of net profit after tax on CSR and frim profitability?
- What impact of net profit margin on CSR and firm profitability?
- What impact of total assets on CSR and firm profitability?

#### **Hypotheses**

**H<sub>1</sub>:** CSR has a significant and stationary relationship with net profit.

**H<sub>2</sub>:** CSR has a significant and stationary relationship with net profit margin.

**H<sub>3</sub> :** CSR has a significant stationary relationship with total assets.

#### **Research Gap**

The gap of this study there is no work for 10 years of 14 companies of this sector about CSR and firm profitability.

#### **Literature Review**

Bowen, (1953) the concept CSR is easy to understand because it's all about towards the society. In which organization perform responsibilities just for better environment of the society not for earning profit in which include moral and ethical values these all values not specify by all law every organization has own ethical values under these values they perform in the society and achieve their targets to create a good environment in the society.

According to Brundtland, (1987) definition of CSR is "Ways of progress which meet the needs and aspirations of the present." Wood, (1991)described CSR as "a business firms configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable results as they link to the organizations societal relationships." generation without compromising the ability of future generations to meet their wants."

According to Maignan I,(1999) bulk of customers prefer to buy products those firms whose perform activities as a social responsible and also about 76 % are willing to switch their brands from those firms who are not participating CSR activities to the ones who are actually participating these activities.

Carroll, B., (2003) the first important goal of the organization is to fulfill its economic goals and legal obligation, than ethical goals. Ethical goals are not include in organizations legal obligations some organizations perform it at their own choice.

Deetz, (2003) Stated that corporate social responsibility actions are proactive need of the society. CSR activities are important because it create the better environment, create better value of society, create better relationship between employees, treating employees fairly and philanthropic. Corporate social responsibility increases employee commitment level with the organization because CSR activities include welfare of the employees and their families Ali et al., (2010).

According to Dawkins, (2004) if an organization donates anything for social benefits, so it increase commitment level of previous customers and attracts the motivated potential employees. According to Stawiski, (2010) Organizations should involve their employees in decision making to get the maximum benefits of CSR these decisions are related with organizations environment, community and also related to employees themselves. So employees will be motivated for organizations decisions regarding CSR in this regard employees work more and organizational performance will also increase.

Corporate Social Responsibility is a positive aggregate amusement. The key supporters of this view proposed that organizations could help dispose of poverty and earn profit at the same time by introducing pro-poor business model. They accepted that the poor had cumulatively greater amount of disposable income if their requirements were served properly by the business. Bargon. J.H.,(1972) found not a positive connection among social duty and financial performance and expressed that because of greater obligation of the association on the general public includes to the extra cost, which is determine to the other firm not at all like different organizations, which are not dependable.

Soloman,(1985) stated that, different analysts have contended on its positive approach of being specifically associated with each other. Different authors have specified in their research paper that customer goodwill and superior employees are important and key than accomplishment for corporate social obligation.

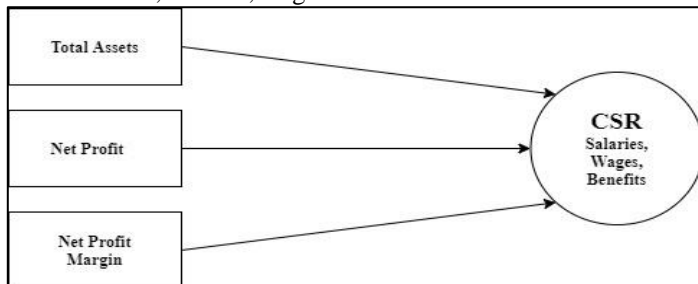
Davis, (1960) states CSR as “Actions and decision made by business persons partially beyond the Organization’s direct economic and technical interest”. Since the 1970s, different researchers have given more consideration toward the Corporate Social Performance (CSP) and also CSR. (Carroll, 1979)

Carroll,(1979) he was the famous writer who planned a four part definition of CSP including the Economic Responsibility, Discretionary Responsibility, Ethical Responsibility and Legal Responsibility. Carroll contended that the executives or managers of organizations who have chosen the Corporate Social Performance must follow the standards, the standards from the meaning of CSR that take under consideration an accurate detail of where, why, how and in what way the owners of firm are related to social responsibility, and a list of essentials and guidelines that coordinate the CSR.

Robert,(1984) studied the different ways in which the social and financial performance has been placed into utilization in past and made up mind to utilize a reputation records to assess the CSR, they additionally stressed on the demand of ethics.

### Theoretical Framework

This theoretical framework has been shown below the determinants of corporate social responsibility and profitability of oil and gas sector. In which five variables were selected that Include total asset, net profit, net profit margin, net sales and their effect on profitability CSR which is dependent variables in this study. CSR could be measured with the help of dummy variables like donations, salaries, wages and benefits.



**Figure 1:** Thematic Diagram

This theoretical framework base on base article cannot change in variables that all the variables are same.

In this study use a four test. In which include that: Unit Root Test (Augmented Dickey Fuller), Co-integration, Granger Causality, and Vector Error Correction Estimation.

### Methodology

The population of this research in oil and gas sector of Pakistan. The sampling technique that was used in the study is multiple random sampling techniques. The sample size regarding this research was consisting of 14 companies for the time period of 2010-2019, covering a period of 10 years. These companies are following from which companies we take data for this study. E-views test used for this study. These tests are used on the way to

test the impact of independent variable on dependent variables. In this research I collect data for two sources in which one is Annual reports of the companies and other is state bank site of Pakistan.

### Operationalization of variables

#### Donation

Donation is money or some other item of value given to a person or charity in need.

#### Total Asset

The final amount of all current assets (cash, account receivables, stock etc.) and non-current assets (plant, furniture, building etc.) are shown in a balance sheet.

#### Net profit

Net profit is an overall profit of the organization that is when companies all expenses are deducted into the company’s sales. After deduction of all the company expenses the amount is left so this amount called a net profit.

#### Net profit margin

The net profit margin is the amount of profit a business receives for each unit of sales.

#### Net sales

Net sales are the amount of sales generated by a company after the deduction of all the grants, returns and any discount allowed.

### Analysis and Findings

#### Test 1: Result of Unit Root Investigation

Variable	Test for Unit Root In	Test Stat	Probability
CSR	1% level	-3.478	0.0000
	5% level	-2.882	0.0011
	10% level	-2.577	0.0696
Net Profit After Tax	1% level	-3.477	0.0000
	5% level	-2.882	0.0521
	10% level	-2.577	0.0000
Net Profit Margin	1% level	-3.477	0.0000
	5% level	-2.882	0.0062
	10% level	-2.577	0.0000
Total Assets	1% level	-3.478	0.0000
	5% level	-2.882	0.0002
	10% level	-2.578	0.0423

In this study Augmented Dickey Fuller test used to find out the results of unit root test by taking four variables. In which includes are total assets, net profit margin, net profit after tax and corporate social responsibility. This test tells us about normality and stationarity of data. The results of these variables are stationary at level because it meets the OLS results. At level I take results in three forms first one is 1% second is 5% and third is 10%. On 1%, 5% and 10% level results shows are significant results but 10% result of CSR show an insignificance result because its value is more than 0.05.

#### Test 2: Results of Co-integration

Unrestricted Co-integration Rank Test (Trace)

Hypothesize No. of CE(s)	Statistic	Trace Critical Value	0.05 Prob.**
None *	154.1787	47.85613	0.0000
At most 1 *	55.77909	29.79707	0.0000
At most 2 *	31.66041	15.49471	0.0001
At most 3 *	11.90223	3.841466	0.0006

Unrestricted Co-integration Rank Test (Maximum Eigenvalue)

Hypothesized	Max-Eigen	0.05	
No. of CE(s)	Statistic	Critical Value	Prob.**
None *	98.39960	27.58434	0.0000
At most 1 *	24.11868	21.13162	0.0184
At most 2 *	19.75818	14.26460	0.0061
At most 3 *	11.90223	3.841466	0.0006

Max-eigenvalue test indicates 4 co-integrating eqn(s) at the 0.05 level

Co-integration shows a long run relation between variables (Total Assets, Net Profit Margin, Net Profit After Tax and CSR) and its value cannot more than 5% critical value. If its value exceeds 5% so this result rejects a Johansen co-integration test. So in these results critical values show not a long run relation but its results show a significant relationship between them because all probability values are less than 0.05.

### Test 3: Granger Causality

Excluded	Chi-sq	df	Prob.
NET_PROFIT_AFTER_TAX	17.54300	8	0.0249
NET_PROFIT_MARGIN	0.884734	8	0.9989
TOTAL_ASSETS	7.496644	8	0.4841
All	25.28770	24	0.3903
variable: NET_PROFIT_AFTER_TAX			
Excluded	Chi-sq	df	Prob.
CSR	10.44933	8	0.2349
NET_PROFIT_MARGIN	1.994078	8	0.9812
TOTAL_ASSETS	32.32048	8	0.0001
All	292.4333	24	0.0000
Dependent variable: NET_PROFIT_MARGIN			
Excluded	Chi-sq	df	Prob.
CSR	7.046407	8	0.5316
NET_PROFIT_AFTER_TAX	13.99267	8	0.0820
TOTAL_ASSETS	14.26566	8	0.0751
All	17.74608	24	0.8151
Dependent variable: TOTAL_ASSETS			
Excluded	Chi-sq	df	Prob.
CSR	2.872580	8	0.9421
NET_PROFIT_AFTER_TAX	9.057758	8	0.3374
NET_PROFIT_MARGIN	0.085343	8	1.0000
All	19.85309	24	0.7051

Granger causality test applied on where any relationship among variables. Granger Causality test is used when we know that some relationship exist among two variables but we do not know which variable causes the other to move. If take CSR so Net profit after tax show a 17.5% effect on CSR and it's a significant relationship between both variables because its probability is 0.0249. Net profit margin create the 0.88% effect on CSR and its probability is 0.9989 so its show an insignificant. Total assets shows a 7.49% cause on CSR and its probability is 0.4841 so its show a significance relation.

If take a net profit after tax so CSR show an impact 10.44%, Net Profit Margin show a 1.99% and total assets show a 32.32% impact on net profit after tax in which CSR and net profit margin show an insignificant relation and total assets show a significant relation with Net profit after tax.

If take net profit margin so CSR show a 7.046% impact on net profit margin. Net profit after tax show an impact 13.99% on net profit margin and total assets show a 14.26% effect on net profit margin and these all variables show an insignificant relation with net profit margin. If take total assets so CSR can increase with 2.87% due to total assets and net profit after tax increase 9.057% due to total assets and net profit margin can create impact 0.085% due to total assets so all three variables are cause to each other and all are move to another.

### Test 4: Vector Error Correction Estimation

Co-integrating Eq:	CointEq1
CSR(-1)	1
NET_PROFIT_AFTER_TAX(-1)	-2.3772
	-0.3566
	[-6.66620]
NET_PROFIT_MARGIN(-1)	1673850
	-346042
	[ 4.83713]
TOTAL_ASSETS(-1)	0.02451

-0.0063  
[ 3.91904]  
-4E+06

C

Error of vector correction estimation has been practical. The aim of it in study to achieve the short run dynamic of PBIT (net profit after tax), net profit margin and total assets. Speed of adjustment in case of short run disequilibrium showed by coefficient of co-integration equations. Coefficients of all three co-integrating equation have not significant relationship in case of Pakistan.

### Conclusion

The study covers ten years period (2006-2015) and include fourteen companies of oil and gas sector to study the corporate social responsibility and performance of this sector. In the form of sectorial average we analysis the performance of fourteen companies. On the basis of the unit root test all results are stationary at level and also show a significant results because its F-Statistics values are 0.0000 of all the variables this show the model is good fit. According the results of co-integration variables are not show long run relationship with other variables but its results are significant at most 3 and it's also influence on CSR and firm performance. Granger causality results show cause between variables. In which all variables are move to another variables and also a cause to another. According to results all variables are meet the requirement of Granger Causality. In vector error correction estimates take a137 observations these observations shows a results is significant and these test applied on study to identified the short run dynamic variables. So In overall results shows significant results and these are good for model. These all results show a positive relation corporate social responsibility and firm performance of oil and gas sector of Pakistan.

### Limitations of the study

- Time duration of the study is short from 2006-2015 that could influence then results.
- This study emphasize on secondary data that is restricted to information obtainable from the yearly financial statement of banks.
- In this study I select some variables and ignoring the most of other variables.
- Different other factors which affect the profitability of oil and gas sector like earnings before interest and taxes, operating expenses ignored here.
- The variables used in this study based on past studies.

### Recommendations of the study

- This study can be used for further research with the period of time.
- Various techniques can be applied on this research.
- Researchers can take large sample size for this type of study.
- Various factors can include in this research.
- Various financial ratios (variables) can be used in this study.

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