Impact of Ownership Structure on Corporate Social Responsibility: Evidence from Pakistan

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Abstract— Corporate Social Responsibility (CSR) has got large attention in the field of research, academics, in countries, governments and in the platforms of non-governmental organizations (NGOs) over a period of time. The purpose of this study is to investigate the relationship and impact of ownership structure with CSR.

This study uses five variables of ownership structure including individual ownership, institutional ownership, government ownership, foreign ownership and insider ownership and uses composite index measure of CSR. 47 non-financial firms listed in Karachi Stock Exchange (KSE) of Pakistan are used in this study, and study uses panel data estimation as a tool for regression. This study also uses size, profitability, firm-age, and leverage as control variables.

The findings of this study reveal that except government ownership all other ownership variables have significant relationship with CSR. It was found that institutional, individual and foreign ownership have positive impact on CSR, whereas, insider ownership show the negative impact on CSR.

Our empirical results have several policy implications for good corporate governance practices in Pakistan and other emerging economies that the governments have need to make some strict policies for firms regarding the CSR that will compel firms to be responsive to social activities.

The originality and novelty of this study lies in the fact that this is the first study to the best knowledge of researcher that investigates econometrically the relationship between CSR and ownership structure in Pakistan.

Index Terms—Ownership Type, Corporate Social Responsibility, Legitimacy theory, Pakistan.

1 Introduction

IN the dynamic economy of dynamic world the corporate social responsibility (CSR) – the responsibility of businesses towards the society – has got large attention in the field of research, academics, in countries, governments and in the platforms of non-governmental organizations (NGOs) over a period of time. CSR is used now in the corporate field as an important operational tool as well as to resolve the agency conflicts (Harjoto & Jo, 2011; Jones, 1995; Vilanova, Lozano, & Arenas, 2009). The importance of CSR is increasing hand in hand with increase in globalized trade, importance of high corporate reputations, and increased importance of relationship among the stakeholders.

It is not necessary for the businesses to engage in CSR activities, but it is a discretionary part of the activities performed by a business. Ultimately, the basic goal of a firm is to maximize the profits after allocating its available resources. Firm is achieving this goal not only by its interaction with its suppliers, customers, shareholders and employees, but also by the interaction with its society where it performs its business. Therefore, it is not possible for the firm to sustain in the society without ignoring society because paying attention means to involve voluntarily in social activities, such as, community development, health and education, green environmental policies, good employee and customer relations, fair policy in business, and contribution in governmental development programs. The main areas of CSR appear to be leadership, vision and values, marketplace activities, workforce activities, supply chain activities, stakeholder engagement, community activities and environmental activities (Blowfield & Murray, 2008).

As we know the decision of corporate social responsibility engagement is totally to be taken by the management of a firm. Managers usually take their interests first into consideration. The instrumental stakeholder theory (Jones, 1995) explains the reasons for firms to take owners in the account when they want to involve in CSR activities. This theory recommend that corporations can use social initiatives to lessen the agency and transaction costs that will impact the relationship with its stakeholder. This impact will only when there is positive contribution of social initiatives in aims and goals of those stakeholders. These social initiatives may be of different kinds as the firm's owners goals are aligned with. Agency-owner conflict as identified by Jensen & Mackling (1976) states that there is the contradiction of interests between owners and managers. Owners want from the managers to work better for increasing their share values and in the contrary the managers have their own interests to serve, so the conflict arises. Ownership structure – the particular percentage of ownership type of a firm – matters the decisions of a firm. Does ownership type also matters the decisions of CSR involvement? We will investigate this question in this study. A firm has to face multiple types of owners which may have interests contradicting with each other (Jensen & Meckling, 1976). As we discussed earlier that CSR is now used as a tool to resolve the agent-principal conflicts, because, management can take some social initiatives to reduce the agency costs and information that can substitute the stakeholder relationship (Harjoto & Jo, 2011). At the same time, these stakeholders can make some investments to become owners so that the relationship can be strengthened and by doing this they can provide an indication that they are loyal and committed. The argument about the role of corporation in a society can be assessed frankly in relation to public listed companies due to the fact that the directors must have to balance the shareholders' claims and also to those authorities which they take into consideration while making decisions of the firm. In the corporate world such companies form a less number because this world is dominated by family owned businesses (Peng and Jiang, 2011) including US (Yu, 2001), and especially in Asia such as in India (Iyer, 1999) and Pakistan (Ghani and Ashraf, 2005). However, this is now important economically and due to exposure of public firms listed on the world stock exchanges to be concern on the debate of CSR. Frideman (1986) and other researchers advice the listed companies to not disturb the shareholders' value while deciding to involve in social initiatives. This means that company should not sacrifice its basic economic goal which is maximizing of profits and shareholders' value by making the social activity decisions.

The ethical reasoning of people in corporations provided to answer the questions that does structure of shareholding matter for CSR also in developing countries (such as Pakistan) like in developed countries and do determinants of CSR are same in developed and developing economies. This study will focus on answering these questions throughout.

In social and environmental reporting, the most appropriate and frequently used theory is legitimacy theory. According to the Suchman (1995) legitimacy is the societal perception that the actions of an entity are desirable, proper or appropriate within socially constructed systems of norms, beliefs and definitions. For a business firm to gain legitimacy, it must appreciate the need for a meaningful interaction with the society.

This study will develop and test the concepts as to how different types of ownership would have a specific association with firm's CSR. The preference of CSR policies may be different in firms with different types of owners. This study will provide an empirical proof of relationship and association between firms' CSR and its ownership structure in Pakistan. As such, according to the knowledge of authors, it is the new study in the context of particular relationship in Pakistan, which has never been studied yet.

This study will offer a new outlook for firms, investors and other stakeholders about their investment portfolios and CSR. This information will beneficial for investors as well as beneficial for much more effective direction for policies of corporate engagement. In particular, the intermediaries (investors) will appear more sensitive in in this respect. The study will also suggest for the firms to be more concern in the consideration of relationship with stakeholders in respect to their CSR policies. At the same time, this study will also help the stakeholders to take more effective decisions. Furthermore, the study will also provide a viewpoint for investment managers and executives of multinational companies to be concern in the consideration of CSR for creating social values along with shareholders' value.

Most of the studies on CSR focus on examining the relationship between corporate financial performance and CSR (Mishra and Suar, 2010; Peloza and Papania, 2008; Mill, 2006; Griffin and Mahon, 1997). A smaller work has been done to showing the interest of this particular field in developing countries (Idemudia, 2007; 2009b; Edoho, 2008; Eweje, 2007). In recent past, the interest has shifted to examine the relationship of ownership structure with CSR in developing countries (Dam and Scholtens, 2012; Haung, Yan, Chen, Zhang & Ayers, 2010; Jamali, Safieddine & Rabbath, 2008). This study is the accompaniments and improves this trend in some aspects like, data and methodology.

2 Literature Review and Hypotheses

A number of researches conducted by different authors to find out the factors that influence the decision of a firm due to corporate social responsibility (Khan, Muttakin & Siddique, 2012; Purushothaman, Tower, Hancock, & Taplin, 2000; Roberts, 1992). Since the last few decades, across the different parts of the world a lot of work has been done in the academic research for the purpose of finding the practices of social reporting by corporations operating (Kansal, Joshi & Betra, 2014). The focus of academics and researchers working in the domain of corporate social responsibility (CSR) have been shifted from measurement of only corporate social responsibility (CSR) to scrutinizing its determinants (Khlif & Souissi, 2010; Saleh, Zulkifli, & Muhamad, 2010; Kotonen, 2009; Ghazali, 2007; Eng & Mak, 2003; Purushotahman, Phil, & Ross, 2000). All researchers that worked on to find the determinants of CSR found both financial and non-financial factors that determine the CSR and CSR disclosure, including: financial performance (Oeyono, Samy, & Bampton, 2011; Waddock & Gravess, 1997; Roberts, 1992) and transparency (Qian, Gao & Tsang, 2014), size of the business (Said, Yuserrie, & Haron, 2009; Haniffa & Cooke, 2005; Eng & Mak, 2003; Hackston & Milne, 1996), age of the company (Rahman, Zain, & Al-Haj, 2011; Cormier, Magnan, & Velthoven, 2005), characteristics of the board and nature of the industry (Hossain & Reaz, 2007), corporate governance (Khan, et al., 2012) and ownership structure (Qian, et al., 2014;Dam & Scholtens, 2012).

It was recognized in the theory of the firm that corporations and organizations may play a different social role which, in turn, can impact upon its behavior and strategy. (Berle & Means, 1932). Why would shareholders think about CSR? The main reason of involving in CSR is its relationship with financial performance (Margolis, Elfenbein & Walsh, 2007). These studies recommend that firms do not want to suffer by involving in CSR activities. The modern empirical studies supports this conjecture (Galema, Plantinga, & Scholtens, 2008; Bauer et al., 2005). The positive relationship of CSR and financial performance may be the reason for some shareholder to involve in CSR. After that, managers will act in different ways, when they find a particular type of owners, with regard to CSR activities than they could have been acted without this particular type of owners (David et al., 2007; Neubaum & Zahra, 2006). Furthermore, moral values can also affect the decisions (Bénabou& Tirole, 2010).

The instrumental stakeholder theory (Jones, 1995) explains the reasons for firms to take owners in the account when they want to involve in CSR activities. This theory recommend that corporations can use social initiatives to lessen the agency and transaction costs that will impact the relationship with its stakeholder. This impact will only when there is positive contribution of social initiatives in aims and goals of those stakeholders. These social initiatives may be of different kinds as the firm's owners goals are aligned with. When there arises a conflict between shareholders and management, CSR will be used as means for the resolution of the conflict. (Harjoto & Jo, 2011). There would also be an inverse effect when CSR initiatives of the company have a signal of responsibility in their activities. This can develop a strong relationship for the company with its stakeholders.

However, when investors seek the motives besides the financial motives while making investment decisions, conflict of interest may arise with CSR which may not impact fully in market prices (McWilliams & Siegel, 2001). The reason may be investors' willing to secure their value of investment and it may show their sensitivity to the prices of shares regarding the particular firm's reputation (Clark and Hebb, 2005). Therefore, it is found that CSR is positively related with the owner's non-financial motives. So, both financial and non-financial motives has a role in investors' choice but these can differ in types of owners (Aguilera et al., 2007; Lydenberg, 2007; Ryan & Schneider, 2002).

2.1 Individual Ownership and CSR

Individual ownership refers to the percentage of shares held by individuals or public (Dam & Scholtens, 2012). This also refers that the investment by private individuals in the stock market. The literature shows that, individual investors seek non-financial performance besides the financial performance. Some individual investors are motivated by dividend (Graham & Kumar, 2006), some investors are motivated by tax incentives (Sialm and Starks, 2009), and some investors are motivated by ethics (Bollen, 2007). Similarly, Van der Burg & Prinz (2006) and De Bondt (1998) point that most individual investors use less information in decision making regarding their portfolio risks and returns, instead, they have other non-financial motives to consider. That may be the reason that some individual investors do not reach to such portfolios that are optimal (Barber & Odean, 2000). In the context of CSR, responsible conduct of the firm will be clearly appreciated by some investors and even may focus their investment in the companies that are well in this respect (Dam & Scholtens, 2012). Eurosif (2010) reports that out of total investments, individuals' investments make a small percentage.

Some researchers suggest that dispersion of owners causes a pressure for firms to involve in voluntary activities, that is, corporate social responsibility (Cullen and Christopher 2002; Chau & Gray 2002; Ullmann 1985). Indeed, this type of ownership is positively associated with CSR, this is because when a firm's shares are held by public, the issue of accountability arises (Khan, et al., 2012). However, it is the fact that individual owners are mostly concerned with instant earnings (Ehsan, Tabassum, Akram & Nasir, 2013). Pakistani investors (individual investors) including traders and job holders have mostly interest in the source of finance which is immediate and speculative investors dominate the trading in KSE (Mehar, A., 2005). Mostly individual investors are concerned with financial outcome i.e, dividend (Zi & David, 2008). Hence, we assume here from the above discussion that individual ownership may have negative relationship with CSR. So, we hypothesize:

H1: *Individual ownership is negatively related with corporate social responsibility.*

2.2 Institutional Ownership and CSR

Investment of institutions in a company that is listed in a stock market are referred to as institutional investor or institutional ownership and they are mostly the largest shareholders in terms of category in most countries (Dam & Scholtens, 2012). These institutional investors may be insurance companies, mutual funds and pension funds. "Institutional investors" cannot be define with on simple definition. Most relevant statement about institutional investor that can point out their common feature is that they are not physical persons. In fact they are incorporated as legal entities. Institutional investors exact form (legal form), varies broadly includes partnerships of limited liability (firm of private equity) to joint stock companies of profit maximizing like investment companies (closed-end funds) and companies incorporated by special statue like some sovereign wealth funds. Institutional investors may operate as a part of a larger firms group or as an independent. This is, for instance, institutions that manages and invests money of other people's. Most of the time term institutional investors is replace with the term "intermediary investors". In the case of mutual funds these are mostly subsidiaries of insurance companies and banks. Sovereign wealth funds, can be termed as vital owner when they operate as a financial stabilization funds. We also have private equity funds, with limited partners, where working partner co-invests according to level of investment and is termed as hybrid form. Institutions invest considerably in stocks of their funds (Dam & Scholtens, 2012). Allen & Santomero (1997) and Scholtens & Van Wensveen (2000) call the institutional investors as delegated watchdogs. Dam & Scholtens (2012) argue that institutional investors invest on the behalf of employees to transform the risks. Therefore, these investors are motivated by financial performance regarding their objectives of investment. In the context and according to prior research, it can be say that the association between institutional ownership and CSR is positive (Dam & Scholtens, 2012). If company engages in CSR activities, the institutional investors seek the long- term benefits in such involvements (Turban and Greening, 1997). Some researchers find positive relationship between institutional ownership and rankings in disclosure (Bushee and Noe, 2000). Thus it appears that if a firm is involving in CSR activities, it does not affect the financial performance and will also alleviate risks specified for the firms (Harjoto & Jo, 2011; Scholtens, 2008 Lydenberg, 2007; Margolis et al., 2007).

Institutional owners have different impact on the firms with different characteristics of social performances as they are concerned with the social and institutional pressures which impacts their preference of their investments (Hoq, et al., 2010). Hoq et al. (2010) reports that institutional investors are motivated either by financial performance or by diversity of businesses of the firm. However, Li et al. (2006) reports that Institutional investors can organize greater involvement in CSR on the behalf of a firm either through actively taking part in the decision making process or they can invest only in such firms that are involved in social activities. Additionally, if companies are looking for long-term cash flows to engage in corporate social responsibility, then it may be an incentive for institutional investors because they also look for long-term cash flows (Hoq et al., 2010). Sethi (2005) find the positive relationship between institutional investors and CSR. He argued that some institutions, such as, public pension funds, may tend to have long -term impacts on the good citizenship, sustainability, and environment while making any investment decision. Given this explanation, we assume here that that institutional ownership will have the positive impact on firm's engagement in CSR. Therefore, we hypothesize that:

H2:*Institutional ownership is positively associated with corporate social responsibility.*

2.3 Insider Ownership and CSR

Insider ownership is referred to as the investment made by an investor in stocks of the firm where he is employed plus the shareholdings held by the directors and their family members. It is the proportionate of shares which are held by directors of the company and their families (Khan et al., 2013). The higher the insider ownership the less concern about the accountability to general public, which will result in lower CSR actions (Ghazali, 2007). In Pakistan, most companies are dominated by this type of ownership as most shares are held by directors and their families. The family head is the foremost shareholder and manager whereas the distant family-members within the business group help operate various firms within that business group (Javid & Iqbal, 2007; Gani & Ashraf, 2005). This dominance of family managers leads to the situation where company's important decisions are taken in family meetings which are then regulated formally in board meetings which are only symbolic (Ahmed and Siddiqui 2011). Since, the accountability to public and involving in social initiatives are irrelevant for this type of ownership structure because there are less outside investors in the company. For this type of companies, there is may be less public accountability issue due to the relatively small interest of outsiders (Khan et al., 2013). This is because the percentage of public ownership is relatively low in in the companies which are held by insiders at and since they are less or no concerned with social initiatives.

There are also other studies in which researchers have find positive relationship of managerial ownership and family ownership with CSR (e.g, Islam & Deegan, 2008; Belal & Owen, 2007). However, they identified other important stakeholder existing when this relationship is positive. Hence, this relationship will be positive in the presence of particular stakeholder (i.e, pressure from international buyers).

Managerial owned companies may not heavily invest in social activities on the basis of cost and benefit analysis as costs of heavy investments in social activities may be higher than its potential benefits. So it can be expected that there is less amount of information regarding CSR in managerial owned companies (Ghazali, 2007). Similarly, Won, Chang, Martynov and A. (2011) suggests after the comparison of developed and developing economies that, in developing countries financial markets might not concern social investments by involving in social activities as compared in developed countries which is high in value and concern. Hence, we assume negative relationship between managerial ownership and corporate social responsibility. So, we hypothesize that:

H3:*More the companies are owned by Insiders lesser the company is engaged in Corporate Social Responsibility.*

2.4 State/Government Ownership and CSR

State ownership or government ownership refers percentage of shareholding in the stock of a firm by government or government institutions (Dam & Scholtens, 2012). The aim of any government, in most countries, is clearly to improve the social conditions along with and particularly environmental conditions of its country (OECD, 2010). Dam and Scholtens (2012) report that this is not only responsibility that government has to bear rather some other cases are also important which includes growth, education, employment, development, health, social care, equity etc. and these initiatives are aligned with CSR. In contrast, when the aim of government is to reduce the unemployment in particular industry or in particular region, this may conflict CSR. Dam and Scholtens (2012) further argue that the important mean to achieve these goals is to take part in direct investment by participating in the stock of firms listed in stock exchange of its country. For the sake of politics and country strategic value, government can invest in a particular company of a particular industry or to make provision for a particular region (Klein, Mahoney, McGahan, & Pitelis, 2009; Harris &Wiens, 1980). This is the reason of making investments by a government in such firms or industries that are not commonly viable (Ding, Zhang, & Zhang, 2007; Vining & Boardman, 1992). Moreover, the companies which have state holdings can use it to track political goals and objectives (Ding et al., 2007). Hence, this could be expected that state owned companies are more sensitive politically because of more public accountability and more eyes of public on these companies. That is due to the fact that indirect state ownership means that companies are largely publicly owned. Thus, it can be said that these type of companies are largely involved in socially activities and also can disclose more those activities to show the statutory existence (Khan et al., 2013). So we can conclude that the company with more shares held by government will have positive impact on CSR. So we hypothesize that:

H4:*Government/State ownership is positively associated with corporate social responsibility.*

2.5 Foreign Ownership and CSR

Bradury (1991) and Schipper (1981) reports that requirements for CSR disclosures is usually more when a firm is owned proportionally higher by foreigners. This is because of separation of owners and management by geographical diversity. This means that the firms with higher proportionate of foreign shareholding are typically more involved in CSR activities (Khan et al., 2013). This is due to having more exposure of market and different knowledge and values to foreign owners. Thus, a firm having higher foreign shareholdings are more concern to involve in CSR particularly in environmental and social actions that may help the foreign owners in effective decision making (Dam & Scholtens, 2012). Some researchers find significant positive relationship between CSR and foreign ownership (e.g, Haniffa & Cooke, 2005). It is, thus possible that foreign ownership can be a driver of CSR initiatives for corporations in any country (Khan et al., 2013). Foreign ownership is now very common in multinational firms mostly in developing countries and globalization is the main cause of enhancement of firms in CSR involvement in Asian countries (Chapple & Moon, 2005). Another researcher (e.g, Brancato, 1997) also argued that shareholders of United States have stressed firms to engage in socially responsible cases for more than 60 years. On the other hand, it is also possible that all foreign investors may not support the social initiatives. For example, many European and U.S. investment companies have often been seen engaged in behaviors that are against social values (Yoshikawa et al., 2010). However, a possible caution of that argument can be found in over-reducing the characteristics of foreign investors and disregarding their profile changeability. Thus, to ensure the positive impact of foreign investor on CSR, it is essential to recognize their profiles that may specify the foreign owners' investment preferences and alignments (Khan et al., 2013). Hence, we can expect that foreign ownership will have the positive impact on firm's CSR. Hence, we hypothesize that:

H4:*Greater the extent of foreign ownership higher the companies are involved in Corporate Social Responsibility.* ***Research Data and Methodology***

3 RESEARCH DESIGN AND SAMPLING

The purpose of this study was to investigate the relationship between corporate shareholdings (ownership structure) and Corporate Social Responsibility (CSR) in the companies listed in Pakistan Stock Exchange. For this purpose, secondary data was collected from non- financial company's annual reports and sustainability reports listed in -100 for ten years from 2005-2014. The reason of taking only non-financial firms was that in the checklist of items for measuring the CSR. Some of the themes are not directly relevant to financial firms such as information regarding the environment and production (Raffournier, 1995; Depoers, 2000; Haniffa & Cooke, 2002). Due to the service orientations of financial firms they are less with the issues of environments (Brammer and Pavelin, 2008).

The study consists a finite population 100 companies listed in the -100 index. Due to the constraints of time, data availability and service oriented companies, we selected the sample size of 71 manufacturing companies as the representative of whole population. There are various sectors categorized in the stock exchange but researcher has derived seven main sectors (Oil and Gas, Chemicals, Construction and Materials, Electricity, Food Producers, Personal Goods, and Miscellaneous) of manufacturing companies as shown in Appendix 1. Any sector categorized in the stock exchange containing the number of companies equal or less than three were put in miscellaneous category. This categorization was aligned with the categorization made by Monika et. al., (2014).

Sample was further reduced to the size of 47 due to unavailability *or partial unavailability of data of 24 companies. This study estimates the regression for the period of 9 years from 2006-2014. Hence, the total number of observations for the study are 423. Appendix 1 elaborates the description of sample. For the purpose of analysis, researcher uses the Panel Data Analysis technique. Through this technique, it is possible to observe the different cross sectional units for different time series data which can be pooled together.*

3.1 Variables

CSR is the dependent variable in this study. To assess the CSR involvement of firms we studied annual reports and sustainability reports of the sample firms and a modified checklist of 24 items to measure the CSR was used. 20 item checklist was also used by Muttakin & Khan (2014) in their study in Bangladesh. They followed the checklist constructed by Haniffa and Cooke (2002, 2005) and Ghazali (2007) and developed a modified checklist including the items relevant to Bangladeshi companies. Since, there are similarities in industry culture between Bangladeshi and Pakistani (Khan & Miah, 2013), this study also used that checklist to assess the information. Researchers modified the checklist according to the guidelines given by S. A. Butt in his book "Corporate Social Responsibility". Appendix 2 shows the checklist items used as a measure for CSR in this study. Items have been grouped into 5 different themes namely, community involvement, environmental information, employee information, product and service information, value added information, ethics and value statements. A dichotomous procedure was applied whereby a company was awarded 1 if an item included in the checklist was disclosed in annual report or sustainability reports otherwise 0. CSR index was derived by computing ratio of actual scores awarded to the maximum possible score attainable for items appropriate to that firm. CSR index used by Haniffa and Cooke (2002) given as following was used:

$$CSR_i\ Index = \frac{\sum_{t=1}^{N_i} x_{ij}}{N_i}$$

Where,

CSR_i Index = Corporate Social Responsibility Index for i^{th} firm

N_i = number of items expected for i^{th} firm, where $N \leq 20$

x_{ij} = 1, if i^{th} items are disclosed for firm j, 0 if otherwise, so that $0 \leq CSR_{ij} \leq 1$

3.2 Independent variables

This study uses different ownership variables as independent variables that includes: insider ownership, foreign ownership, government/state ownership, institutional ownership and individual ownership. Insider Ownership is defined as the percentage of equity share held by the firm's management, their friends and family, whether directly or indirectly. The choice of insider ownership as explanatory variable is consistent with our hypothesis (H3) and also consistent with previous studies (e.g, Khan et al., 2013; Ahmed & Siddiqui, 2011; Stewart & Yermo, 2008; Ghazali, 2007). In this study, Individual Ownership is measured by the percentage of shares held by individuals/general public in a firm. Issue of accountability arises and common public is more willing to invest in that firm which is socially responsible (Khan et al., 2013). Institutional shareholders can be measures as percentage shares held by the different financial institutions in the firm. Institutional investors have different impact on the firms with different characteristics of social performances as they are concerned with the social and institutional pressures which impacts their preference of their investments Hoq et al., 2010). Government ownership is measured as the percentage of shares in a firm held by the government. Choosing the government ownership as an independent variable is consistent with the studies of Haung (2010), Lee (2009) and See (2009), which argue that the companies with the extent of government ownership tend to maximize their welfare behavior to the society by involving in CSR practices. Foreign ownership is measured as the percentage of shares held in a firm by foreign investors. Firms having higher foreign shareholdings are more concern to involve in CSR particularly in environmental and social actions that may help the foreign owners in effective decision making (Dam & Scholtens, 2012).

3.3 Control Variables

Previous literature (e.g., Heal, 2005; McWilliams & Siegel, 2000; Ullmann, 1985) finds that size, risk, and industry are important control variables for corporate social performance. Therefore, we use firm size, profitability, company age, industry type, and leverage of the firm as control variables (Arora & Dharwadkar, 2011; Bird et al., 2007; Elsayed & Paton, 2005; Lo & Sheu, 2007; Ohlson, 1995).

Size was measured by taking natural logarithm of total assets of firm j in year i. It is a relevant control variable as there is some evidence that smaller companies are less concerned with CSR and because it reflects organizational slack (Arora & Dharwadkar, 2011; Waddock & Graves, 1997). Profitability was measured by the net profit divided by total assets in for a firm in a particular time. Profitable firms seek reputation by involving themselves in social activities (Ghazali, 2007). Leverage was measured by total debt to equity because the extent the firms are levered less they engage in CSR (Dam and Scholtens, 2012). Firm age was measured by taking the natural log of number of year since the company's incorporation (Khan et. al., 2013).

3.4 Model Specification

The specific form of the econometric model that is to be tested in this study can be written as follows:

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$$CSR_{it} = a + \beta_1 MNG_{it} + \beta_2 INST_{it} + \beta_3 EMP_{it} + \beta_4 STAT_{it} + \beta_5 FOR_{it} + \beta_6 IND_{it} + \beta_7 FAM_i + \beta_8 FSZE_{it} + \beta_9 LEV_{it} + \beta_{10} INDST_{it} + \beta_{11} PROF_{it} + \beta_{12} FAGE_{it} + \mu_{it}$$

Where:

CSR_{it} is Corporate Social Responsibility of firm i at time t, a is Constant, β1- β12 are Coefficients,

MNG_{it} is the percentage of shares owned by directors of firm i at time t, $INST_{it}$ is the percentage of shares of the firm i owned by institutions at time t, EMP_{it} is the percentage of shares owned by employees of firm i at time t, $STAT_{it}$ is the percentage of shares of firm i owned by government at time t, FOR_{it} is the percentage of shares of firm i owned by other foreign firms at time t, IND_{it} is the percentage of shares of firm i owned by individuals at time t, $FSZE_{it}$ is firm size measured in natural logarithm of total assets of firm i at time t, LEV_{it} is leverage measured by ratio of book value of total debt to total assets of firm i at time t, $PROF_{it}$is profitability measured by ratio of EBIT and total assets of firm i at time t, $FAGE_{it}$ is firm age measured by natural log of the number of years since the firm's inception of firm i at time t, and μit is error term.

4 Empirical Results

The focus of this section is to present the empirical findings of the relationship between ownership structure (individual ownership, institutional ownership, government ownership and foreign ownership) and CSR.

4.1 Correlation Matrix

The purposes to present the correlation matrix is to examine whether there exist bivariate relationship among the variables both dependent and independent and whether this relationship is strong or weak, and positive or negative. The stronger the relationship exist between variables the extent of multicollinearity issue arises.

In the correlation matrix from Table 1 below we can see that except government ownership all other types of ownership have significant relationship with corporate social responsibility. This may be due to privatization process in few recent decades by which it is possible that controlling influence of the governments in shaping or determining CSR decisions in corporations have weaken.

Foreign ownership (FORN), individual ownership (INDV) and institutional ownership (INST) show the positive relationship with corporate social responsibility (CSR), whereas, insider ownership (INSD) shows the negative relationship with CSR. This is because investment in social initiatives may be decision by firms that have higher level of foreign ownership, as corporate strategy and because of getting the social reputation high in order to maximize their profit margins (Reinhardt et al., 2008, Lyon and Maxwell, 2008). It also follows the previous research that institutional investors might invest in those firms with

TABLE 1
CORRELATION MATRIX

		1	2	3	4	5	6	7	8	9	10
1	**CSR**	1									
2	**FMAG**	0.29**	1								
3	**FORN**	0.09*	0.19**	1							
4	**GOVT**	0.27	0.12*	-0.10*	1						
5	**INDV**	0.14**	0.01	-0.16**	-0.30**	1					
6	**INSD**	-0.24**	0.02	0.04	-0.25**	0.19	1				
7	**INST**	0.28*	0	-0.1	-0.01	0.22	-0.06	1			
8	**LEVG**	-0.19**	-0.07	0.05	0.07	0.09	-0.03	-0.14*	1		
9	**PROF**	0.35*	0.15**	0.08	0.21**	-0.23**	-0.24**	-0.01	-0.38**	1	
10	**SIZE**	0.17**	-0.02	-0.16**	0.49**	-0.12**	-0.51**	0.37**	0.10*	0.12*	1

CSR: Corporate Social Responsibility; FMAG: Firm Age; FORN: Foreign Owners GOVT: Government Ownership; INDV: Individual Ownership; INSD: Insider Ownership; INST: Institutional Ownership; LEVG: Leverage; PROF: Profitabilit SZE: Size

**. Correlation is significant at the 0.05 level.*

***. Correlation is significant at the 0.01 level.*

reputational environmental records and might avoid to invest in those firms that have proven to have poor records regarding environmental issues, and consider those investments as risky (Spicer, 1978). Although, the relationship is not stronger rather it is weak or moderate. Foreign ownership, insider ownership and institutional ownership has moderate relationship with CSR as their correlation values are 0.09, 0.24 and 0.28 respectively. Individual ownership has bitter weak relationship with CSR (-0.14) which is also negative and means that increase or decrease in insider ownership would result in decrease or increase in corporate social responsibility. Government ownership has shown positive and moderate relationship with CSR but it is not statistically significant.

In control variables, all variables have shown significant relationship with CSR. Firm age has significant, positive and moderate relationship with CSR (0.29). Leverage (LEVG) has shown negative (-0.19) relationship and size has shown positive (0.17) relationship. This means that there exist a relationship so that these variables should be controlled to know the impact of ownership structure on corporate social responsibility. Profitability has shown positive and moderate relationship but it is insignificant.

4.2 Regression Analysis

In order to get the finding of the impact of ownership structure on corporates social responsibility, this study carries out panel data estimations. The reason – to control the endogeneity bias – has provided earlier that why this study is using panel data as an estimation tool. Through panel data estimation we have conducted analysis by three panel models includes: common effect model, fixed effect model and random effect model. But interpretation and discussion will be provided only for the results *from fixed effect model due to its appropriation model for our sample data. This appropriation of fixed effect model was found on the basis of results from Likelihood Ratio Test and Hausman Test (represented in table 2 and 3 below).*

From Appendix 3, the probability of cross section is significant, which means that the study rejects the null hypothesis and accept the alternative hypothesis, which means that the appropriate model is fixed effect model as it is significant at 95% confidence level. However, this is not final decision because we have to decide again between fixed effect model and random effect model which assumes that the values of coefficients follow the random path. This decision is dependent on the significance of F-statistics in Hausman Test.

The null hypothesis of the Hausman test is that random effect is consistent and efficient and the alternative hypothesis is random effect is inconsistent and fixed effect is more suitable.

From the results in Appendix 4, it is cleared that the value of the probability is significant, hence the study rejects the null hypothesis and accepts the alternative hypothesis, indicating that the best appropriate model is fixed effect model. Hence, this study is considering fixed effect model as the final model to be analyzed.

This regression is used for 47 non-financial companies listed at Pakistan Stock Exchange for the period of nine years from 2006 to 2014.

The results from Table 4 below fixed effect table show Adjusted R^2 is 17.85% percent, which means that only 17.85% changes in dependent variable (CSR) is explained by exogenous variables.

TABLE 4

IMPACT OF OWNERSHIP STRUCTURE ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

Variables	Common Effect Model	Random Effect Model	Fixed Effect Model	T-Stat (FEM)
Constant	0.302	1.934	2.215	1.948
INSD	-0.993**	-0.832***	-1.113*	-2.371
INDV	2.311**	2.204***	2.234***	4.992
INST	0.073**	0.052*	0.087*	2.172
GOVT	0.016	0.415	0.565	0.368
FORG	0.114***	0.073	0.079**	4.784
FMAG	0.182***	0.023***	0.263**	4.555
PROF	0.324	0.111	0.098	0.325
SIZE	0.214**	0.047**	0.147*	3.267
LEVG	-0.222**	-0.012*	-0.212*	-2.222
Adjusted R^2 (FEM)		17.85%		
F-statistics (FEM)		42.44		
Prob. (F-stat) (FEM)		0.000		
Durbin Watson (FEM)		1.43		

CSR: Corporate Social Responsibility; FMAG: Firm Age; FORN: Foreign Ownership; GOVT: Government Ownership; INDV: Individual Ownership; INSD: Insider Ownership; INST: Institutional Ownership; LEVG: Leverage; PROF: Profitability; and SZE: Size; FEM: Fixed Effect Model
**. Coefficient is significant at the 0.05 level.*
***. Coefficient is significant at the 0.01 level.*

Individual, institutional and foreign ownership show positive and significant impact on CSR as their t-stat. values are 4.992, 2.172 and 4.784 respectively.

Individual ownership is highly significant and shows the positive variation of 2.234% (β =2.234) i.e, CSR shows 2.234% change in response with the change of 1% in individual ownership, institutional ownership shows the positive variation of 0.87% (β = 0.87) therefor, CSR is explained by 0.87% with respect to 1% change in institutional ownership and foreign ownership shows the variation of almost 0.080% (β=0.079) on CSR.

In control variables, above results show that profitability is insignificant (t-stat=0.325 < 1.96) whereas, size and leverage has significant impact on CSR (t-stat=3.26; 2.222 > 1.96). Size shows the positive variation of 1.47% (β=1.47) and leverage shows the negative variation of 0.21% (β=0.212), hence, CSR is exposed by 1.47% and 0.21% with respect to 1% change in size and leverage respectively. Firm age has shown also a highly significant and positive relationship with CSR (t-stat=4.555>1.96) and a variation 0.263% (β=0.263). This indicates that the older the firms are the higher the involvement in CSR is.

5 DISCUSSION AND CONCLUSION

5.1 Discussion

This section provides a general discussion of the empirical results found in Table 4.6. It is important to note in general, that the empirical result of this work is consistent with the conclusions of emerging literature. The empirical findings show that various ownership structures will impact differently on corporate decisions to commit resources to each particular category of CSR.

Results from Table 4 confirms our H3 that there is negative relationship between insider ownership and CSR. These results are align with the previous literature (e.g, Khan et al., 2013; Ahmed & Siddiqui, 2011; Stewart & Yermo, 2008; Ghazali, 2007). This is because of the fact that the higher the insider ownership the less concern about the accountability to general public, which will result in lower CSR actions (Ghazali, 2007). In Pakistan more companies are mostly dominated by this type of ownership as most shares are held by directors and their families. The family head is the foremost shareholder and managers whereas the distant family-members within the business group help operate various firms within that business group (Javid & Iqbal, 2007; Gani & Ashraf, 2005). However, our results are not align with those who find insider ownership as positive in relationship with CSR (Islam & Deegan, 2008; Belal & Owen, 2007).

Our results from table 4 do not confirm our hypothesis (H1). Results show the positive impact of individual ownership with CSR. Although, these findings are aligned with (Khan, et al., 2013). However, Dam and Scholtens (2012) found that individual ownership is negatively associated with CSR. There may be some reasons of founding positive relationship of individual ownership with CSR, for example, when most shares are held by individuals or general public, the issue of accountability arises and common public is more willing to invest in that firm which is socially responsible. (Khan, et al., 2013), and dispersion of owners causes a pressure for firms to involve in voluntary activities, that is, corporate social responsibility (Cullen and Christopher 2002; Chau & Gray 2002; Ullmann 1985).

In table 4.2 institutional ownership is found to have positive impact on CSR, therefore, hypothesis (H2) is accepted. This finding is aligned with the findings of many previous studies (e.g, Khan, et al., 2013; Neubaum & Zahra, 2006; Graves and Waddock, 1994; etc.). This is because, Improving social performance, that is, involving in CSR activities by a company held majorly by institutions does not appeal any consequences in this type of ownership (Graves and Waddock, 1994) and if company engages in CSR activities, the institutional investors seek the long- term benefits in such involvements (Turban and Greening, 1997). However, Dam and Scholtens (2012) have found insignificant relationship between institutional ownership and CSR. They argue that institutional investors invest on the behalf of employees to transform the risks. Therefore, these investors are motivated by financial performance regarding their objectives of investment.

Our results show that government ownership is found to have insignificant relationship with CSR. This finding is not align with any previous study. However, to some extent, similar view is discussed by some researchers that due to the dearth of equal distribution of wealth and allocation of resources equally, and lack of macro-economic strategies, there is less effect on overall CSR performance on firms owned by governments (Ite, 2004). Similarly, the insignificant relationship is also supported by the fact that government might have other agencies that are specially charged with CSR responsibilities, especially, for provision of basic social welfares, like healthcare, education, pension schemes, etc,. Hence state-owned firms are not ready to show the response to allocating resources to social initiatives (Zhange et al., 2009; Bai & Xu, 2005).

Our hypothesis (H5) is also accepted as the results in table 4.2 show that foreign ownership is positively associated with CSR. This finding is aligned with previous literature and many researchers found the positive relationship between foreign ownership and CSR (e.g, Khan et al., 2013; Dam & Scholtens, 2012; Haniffa & Cooke, 2005; Jeon et al., 2011; Yoshikawa et al., 2010 Bradury, 1991 and Schipper, 1981). This is because of separation of ownership and management by geographical diversity (Bradury, 1991 & Schipper, 1981). This is also due to having more exposure of market and different knowledge and values to foreign owners. Thus, a firm having higher foreign shareholdings are more concern to involve in CSR particularly in environmental and social actions that may help the foreign owners in effective decision making (Dam & Scholtens, 2012). One may argue, for example, that all foreign investors may not favor the socially responsible investments because it has been seen that many European and US investment companies have often been involved in such behaviors that are antisocial (e.g., Yoshikawa et al., 2010). Thus, to ensure the positive impact of foreign investor on CSR, it is essential to recognize their profiles that may specify the foreign owners' investment preferences and alignments (Khan et al., 2013).

This study has used some variables as control variables which includes leverage, profitability, firm size and firm-age. Profitability has found insignificant in relationship with CSR and this result is not aligned with previous research. Previous results show that more the profitable firm is the higher the CSR involvement by the firm is (Khan et al., 2013; Dam & Scholtens, 2012). Leverage has measured as debt-to-equity ratio and is found negatively associated with CSR. These results are also aligned with Khan et al. (2012) and Dam & Scholtens (2012). The levered firms are more reluctant to participate in CSR, because these firms are more concern with the credibility in the eyes of creditors as how timely they are paying their debts. So their preference is to pay debts so higher the firm is levered lower the CSR involvement is. Size also been found to have a positive relationship with CSR. This is also aligned with the previous literature. This suggest that firms with large number of assets have more resources to allocate in CSR practices (Elochukwa, 2012).

It has been also found that firm age has positive impact on CSR and is consistent with the results of Khan et al. (2013). It is argued that older firms are actively participate in social initiatives to get more good reputation and credibility in the eyes of general public and investors.

6 CONCLUSION

We demonstrated in this study that in our modern era, firms might no longer confined to its basic objective and responsibility, that is, to maximize the wealth of its shareholders. This study shows that beyond those responsibilities, firms have to engage discretely in social responsibilities as well. Otherwise, firms might have to face less reputation, low profits, and less resources. This study also provides the business, philosophical and ethical arguments against the thought that by involving in CSR can devastate the profitability of a firm, which however, might be still a gear to capture long-term benefits and competitiveness for a firm.

The main purpose of this study was to investigate the relationship between ownership structure and CSR. For the purpose, we used *the composite index to measure the CSR and estimate the impact of individual ownership, institutional ownership, government ownership and foreign ownership on CSR with controlling effects such as firm age, size, profitability, and size. For the estimation we analyzed 47 non-financial firms listed in Pakistan Stock Exchange for the period of 9 years from 2006-2014.*

The empirical results found that different ownership types impact differently on CSR. We observed that insider ownership have negative impact on CSR due to the fact that insider owners feel less accountability to general public. We also observed that individual ownership affects positively the CSR practices because when most shares are held by individuals or general public, the issue of accountability arises and common public is more willing to invest in that firm which is socially responsible. Similar observation was found for institutional ownership. Institutional investors have different impact on the firms with different characteristics of social performances as they are concerned with the social and institutional pressures which impacts their preference of their investments. Regarding the government ownership we observed that there is insignificant relationship of government ownership with CSR. This might be due to the reason that government might have other agencies that are specially charged with CSR responsibilities, especially, for provision of basic social welfares, like healthcare, education, pension schemes, etc., hence, they have inducements to allocate resources on CSR. Finally, we observed that foreign ownership have also positive impact on CSR. This is because of separation of ownership and management by geographical diversity and due to having more exposure of market and different knowledge and values to foreign owners.

The conclusions of our empirical results have several policy implications for good corporate governance practices in Pakistan and other emerging economies. That governments of emerging countries especially Pakistan has need to make some strict policies for firms regarding the CSR that will compel firms to be responsive to social activities. The observation of positive effects of control variables (leverage, firm age, and size) suggest that governments should shape the industry policy in such a way that there would a stable and sustainable business environment. Government should develop industry specific CSR policy by taking in consideration the characteristics of industry individually, because results of this study reveals that industries disclose CSR related information according to its characteristics (ownership structure, leverage, firm age, and size). CSR guidelines 2013 issued by Security Exchange Commission of Pakistan (SECP) are generalized in nature and are not capable to fulfill its basic objectives due to varying characteristics of industry, and its quit obvious to understand that generalized nature of CSR policy cannot fit in the environment where characteristics of industries are greatly differ from each other.

Out of the 100 listed firms in KSE-100 index, 71 non-financial firms were selected for the sample but only 47 companies of them had the enough data to be estimated in the study. Moreover, some of the companies dominated by insider ownership and government ownership are not listed in KSE-100 index. Future research should consider this limitations and gather data of more companies and also should include financial firms in the sample. Moreover, future research should also consider those firms as well for the study which are not listed in KSE-100 index in order to get more appropriate results. Furthermore, this study has used composite measure of CSR as the average value of CSR score obtained in all themes of CSR. Future research should investigate each theme separately to know the extent of involvement in CSR practices in every respect. In addition to that future research should also use corporate governance variables along with ownership structure variable as independent variables.

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APPENDIX

APPENDIX 2

CSR CHECKLIST ITEMS

Themes	Items	Item No.
1. Community Involvement	1. Charitable donations and subscriptions	1
	2. Sponsorships and advertising	2
	3. Community program (health and education)	3
2. Environmental Policies	1. Environmental policies	4
3. Employee Information	1. Number of employees/human resource	5
	2. Employee relations	6
	3. Employee welfare	7
	4. Employee education	8
	5. Employee training and development	9
	6. Employee pro fit-sharing	10
	7. Managerial remuneration	11
	8. Workers' occupational health and safety	12
	9. Child labor and related actions	13
4. Product and Service Information	1. Types of products disclosed	14
	2. Product development and research	15
	3. Product quality and safety	16
	4. Discussion of marketing network	17
	5. Focus on customer service and satisfaction	18
	6. Customer award/rating received	19
5. Value Added Information	1. Value added statement	20
6. Ethics	1. Statement & Code of Ethics	21
7. Value Statements	1. Vision Statement	22
	2. Mission Statement	23
	3. Core Values	24

APPENDIX 1

SAMPLE DESCRIPTION

Panel A: Sample Size			
Number of Companies	100		
Less:			
Service Oriented Companies	29		
Total	71		
Panel B: Industry-Wise Distribution			
Industry Sector	Total No. of Firms	No. of Firms Less Due to Unavailability of Data	Total No. of Firms Selected for Sample
Oil and Gas	9	3	6
Chemica			7
Constru			6
Electrici			4
Food P			5
Persona			5
Automo			5
Miscella			9
Total	71	24	47

APPENDIX 3

LIKELIHOOD TEST RATIO

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	141.36	9	0

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APPENDIX 4
HAUSMAN TEST

Effects Test	Statistic	D.F	Prob.
Cross-section F	50.336	-46366	0
Cross-section Chi-square	840.404	46	0