Corporate Social Responsibility and Competitiveness – a case study of ENGRO Corporation

Ashfaq Ahmad
Research Scholar, School of Business & Economics, University of Management & Technology, Lahore, Pakistan

Nida Akram
Northeast Forestry University
China

Maliha Amin
University of Management and Technology, Lahore Pakistan

Abstract
The current study was an academic project which was meant to investigate the role of corporate social responsibility in the competitiveness of a business, particularly in the Pakistani business perspective. The study was conducted in the perspective of a Pakistani public multinational, ENGRO Corporation. We analyzed the current CSR initiatives of ENGRO in Pakistan, its CSR expenditure during the last three years, its share in the total CSR expenditure in the industry, and the role of CSR initiatives in its competitiveness. We found that ENGRO's contribution to CSR was significant as compared with its competitors and it was seemingly helping the corporation to achieve competitive edge over its contestants in the industry. However, our findings also revealed that despite gradually increasing revenues of ENGRO, there was not a corresponding increase in its CSR expenditure. The research endorsed the CSR role in competitiveness but also suggested that there was still a lot to do in Pakistan with regard to CSR initiatives and their role in competitiveness.

Keywords
Corporate Social Responsibility; Corporate Shared Value; Competitiveness; Pakistan

I. Introduction
The concept of corporate social responsibility dates back to the 1950s when H.R. Bowen observed that businesses were obliged “to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society” (1953, p. 6). His simple proposition kicked off the modern debate about social responsibility in business ((Heald, 1970; Eberstadt, 1973; Carroll, 1991). That’s why Carroll (1999) gives him the title of the Father of the concept of Social Responsibility. During the 1960s and 1970s, the CSR literature developed significantly and the researchers built the theoretical foundations of the concept, introducing such alternative notions as corporate social responsiveness and corporate social performance. In the 1980s, researchers started making efforts to measure CSR’s role in the sustainability of a business (Carroll, 1999). The era of the 1990s onwards has witnessed the transition of CSR to alternative themes such as stakeholder theory, business ethics theory, and corporate citizenship. Nevertheless, the substance of CSR remains the same all the way from Bowen to date. To Bowen (1953), social responsibility entails two assumptions: firstly, a business has a social contract, which legitimizes it (Donaldson, 1983) by bringing business behavior into conformity with society's objectives and, secondly, a business acts as a moral agent in the society (Ozar, 1979; Rawls, 1971). Just like governments, businesses reinforce those values, which are in consistent with the moral values of the society (Donaldson, 1982). The ideas of social contract and moral agency convert the concept of ‘responsibility’ into ‘responsiveness’, which shifts the emphasis away from social obligations in the direction of social response processes. This shift in emphasis guides businesses to the content of what is to be done beyond ‘something more’ (Ackerman and Bauer, 1976, p. 7). Sethi (1979) argues that it
is the search for legitimacy that has prompted businesses to move from economic responsibility to social responsibility, which is an equivalent of social responsiveness. In a word, CSR requires the businesses to be socially responsive in addition to being economically viable in order to gain legitimacy in the society (Carroll, 1991).

The idea that business and society are concomitant is as old as the CSR itself is. Friedman (1962, 1970) believes that CSR initiatives contribute to the sustainability of businesses. Preston and Post (1975, 1981) argue that business and society are interpenetrating systems, linked through the market process. There is ample empirical evidence supporting the idea that economic and social responsibilities are not mutually exclusive but are part an all-encompassing concept of corporate responsibilities. For instance, Zenisek (1979) is of the view that CSR is just a managerial responsibility resulting from the evolution of American capitalism.

Tuzzolino and Armandi (1981) have introduced a very interesting need-hierarchy framework for corporations, quite similar to Maslow's need hierarchy for individuals, in which the lowest level of responsibility (the physiological needs equivalent) is profitability, while the highest level of responsibility (the self-actualization needs equivalent) is social responsibility. Once the need for profitability (economic responsibility) is satisfied, the firm looks towards appeasing all of its claimants (social responsibility). Drucker (1984) accentuates this stance by arguing that profitability is the most fundamental responsibility of the firm, followed by other responsibilities, which should also be given equal importance by the firm.

We can find an ample body of research, which acknowledges the relationship between corporate social responsibility and the financial performance of a firm (Arlow & Gannon, 1982; Ullmann, 1985). Particularly, one latest research (Chen, 2011) exhibits the modus operandi of CSR’s contribution to a firm’s sustained competitive advantage. Chen constructs a CSR model on the basis of the data of 185 companies. The model consists of four core components: accountability, transparency, competitiveness, and responsibility. The results support the proposed model. The research concludes that since these constructs play a dominant role toward CSR, the firms, while developing business strategies, must give priority to accountability and transparency. This will not only strengthen their competitiveness but will also generate responsibility and in turn lead to CSR, thus enabling these companies obtain great advantages in the long run.

If we go through the list of the most profitable companies of the world, we will come to know that the majority of them also rank high on the Corporate Social Responsibility Index (CSRI). For example, Google, Microsoft and the Walt Disney Company rank 3rd, 6th and 12th respectively in the list of the biggest technology and media companies in terms of earning per employee (Lauria, 2014). Their earning per employee is $270,123/employee, 221,212/employee and 34,857/employee respectively (Lauria, 2014). At the same time, among the top 50 companies of the world with the exemplary CSR initiatives, Google, Disney and Microsoft also rank 2nd, 12th and 18th on the CSR Index (Environmental Leader, 2011). This practical evidence stands testimony to the positive relationship between CSR and firm profitability as well as competitiveness.

II. Literature Review

The review has been conducted in the perspective of economy profile of the country and the industry profile (fertilizers, food, petrochemicals) of ENGRO Corporation.

A. CSR in Pakistan - Economy Profile

Pakistan is agro-based country, which owes its economic development primarily to agricultural sector. Agriculture plays its role in the national growth, inter alia, by fulfilling the national requirements of foodstuff, producing cash crops which are converted into internationally tradable goods and by providing raw materials to the manufacturing sector (Kirkpatrick and Barrientos, 2004).

Pakistan’s population is 178.9 million as of 2012 statistics. Agriculture contributes 26% to GDP and 52% of the entire population is receiving its living from it. A major portion of population (67.5%) is rural based. Pakistan stands 20th in world farmhouse production and 5th in milk production. Pakistan produces agricultural products like cotton & rice that are universally tradable. External exchange received from agricultural goods exports constitutes 45% of Pakistan’s national exports. Therefore, in today’s world, agricultural farming is considered inevitable for the economic development of a country

www.theinternationaljournal.org > RJSSM: Volume: 06, Number: 11, March 2017
and Pakistan’s case stands testimony to it. Pakistan’s agricultural sectors makes significant contribution to the country’s growth as it is linked with the production of seeds fertilizers, machinery, and labor. Engro Pakistan is an agriculture-based industrial corporation of Pakistan which enjoys an exclusive part in the national economic development through its product range including fertilizers, foodstuff, energy, chemical, business automation solutions and so on.

B. CSR in Pakistan - Industry Profile
Engro Corporation is a public multinational, whose share market price is PKR 187 (June 10, 2011 statistics). It is one of Pakistan’s largest conglomerates with businesses ranging from fertilizers to power generation. It is one of Pakistan’s most progressive, growth oriented organizations. Its diverse range of companies represents its rich legacy of innovation and growth. Making a start with the local fertilizer industry, Engro has evolved into an influential corporation worldwide that is known for its commitment to highest standards of quality and consistently delivering excellence in every aspect of business.

Currently, Engro’s portfolio consists of six businesses, which include fertilizers, foods, chemical storage & handling, trading, energy and petrochemicals. Fuelled by the vision of becoming the premier Pakistani enterprise with a global reach, passionately pursuing value creation for all stakeholders, Engro’s investments in agriculture, foods, energy and chemicals are all designed to fulfill Pakistan’s economic needs.

Integrated in the agricultural sector and reaching out to over 1.5 million farmers, Engro provides Rs. 77 billion of farm inputs and procures Rs. 19 billion of farm produce, converting it into consumer food products, thus providing convenience, hygiene and nutrition to over 5.5 million consumers every single day. It also generates low cost electricity from flared gas for millions of Pakistanis, developing indigenous power generation from Thar Coal and LNG facilities and, hence, helping Pakistan overcome the energy crisis.

In its journey to become a successful company, its management structure has evolved into a transparent and competitive organization. Engro Foundation serves as a single platform for community engagement activities and social investments for Engro affiliates. By pooling its financial and managerial resources under the Foundation, it seeks to create large scale social impact. UN’s Global Compact (GC) has listed Engro Chemical for providing one of the five best notable Communications on Progress (COP) in chemical sector from around the world.

III. Research Methodology
This research is based on data retrieved from the company website. However, personal interviews were also conducted to get further details. The information thus collected served the basis of our analysis of the relationship between CSR and competitiveness at ENGRO Pakistan. We employed financial and sustainability reports of the company for the years 2011, 2012 and 2013 and linked the data with Engro’s following CSR initiatives for our analysis.

A. CSR at ENGRO Pakistan
Engro runs following social development projects:

1. Engro Foods:
    Engro Foods have joined hands with Ali Institute of Education, Lahore and The Citizens Foundation for the educational uplift of the community.

2. Engro Fertilizers:
    Engro Fertilizers started 2 Katcha Schools in Ghotki in 2001 and now a total of 11 schools are operating with an enrollment of more than 850 students and 18 full time trained teachers.

3. Engro Polymer & Chemicals:
    Engro Polymer and Chemicals focus on various CSR programs including Flood Relief and Rehabilitation, Forest Gradation and Water Conservation which are intended to meet environmental and social challenges faced by the community.
4. Engro Vopak
Engro Vopak is actively involved in social development initiatives in healthcare and education, supporting community during floods, earthquake and internal displacements.

B. Other Notable CSR Initiatives
- Solar lights in Gharo
- Dream Foundation Trust’s school in Muwach Goth near Hub
- Breast Cancer awareness campaign - Pink Ribbon
- Supply of Milk to underprivileged children at Behbud school

IV. Results and Findings
To examine the role of CSR in competitiveness, we conducted an analysis of Engro’s sales, revenues and CSR expenditure reflected in its sustainability statistics and financial statements for three years. The results are reproduced below.

A. CSR and Competitiveness at ENGRO

1. Engro Sales
The sales statistics of Engro show a remarkable increase specifically during the last three years, from 2011 to 2013 (Figure 1). These sales figures represent the cumulative total of all groups of the corporation. So it can be concluded from these indicators that the company is fulfilling the prime objective of a business which is to be profitable over time.

![Figure 1: Engro Sales](image1)

Source: Financial Report, 2013 (Engro Corp)

2. Engro Revenues
As per Figure 2, the revenues of Engro shot up from Rs.40,000 million in 2008 to Rs.160,000 million in 2013, which means that the company has been able to achieve competitive advantage in domestic as well as international market.

![Figure 2: Engro Revenues](image2)

Source: Financial Report, 2013 (Engro Corp)
3. Engro CSR Expenditure

Figure 3 shows Engro’s investment on CSR during the last three years as compared to the total CSR expenditure of the Industry. Total investment is the combination of investments made by all Engro Affiliates along with its social partners such as USAID and SANA.

![Comparison in Million Rupees](image)

Source: Financial and Sustainability report of Engro Corp for the year 2013

**Figure 3**: CSR Expenditure

As is clear from Figure 3 and Table 1, the contribution of the corporation constitutes 42%, 38% and 70% of the total CSR expenditure of the industry during the years 2013, 2012 and 2011 respectively. These facts suggest the expansion of the Engro Foundation and its partnerships with various national and international organizations and their significant contribution to CSR initiatives within the industry.

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR Total Expenditure of Industry</td>
<td>186.7</td>
<td>186</td>
<td>117</td>
</tr>
<tr>
<td>CSR ENGRO Expense</td>
<td>79</td>
<td>72</td>
<td>83</td>
</tr>
<tr>
<td>ENGRO %age of CSR Industry Expense</td>
<td>42%</td>
<td>38%</td>
<td>70%</td>
</tr>
</tbody>
</table>

Source: Financial and Sustainability report of Engro Corp for the year 2013

Table 1: Comparative data of CSR Investments in industry

As displayed in Figure 4 the main focus of this CSR investment is on the improvement of livelihood, followed by education and health.

![Categorization of CSR Expenditure](image)

Source: Sustainability report, 2013 (Engro Corp)

**Figure 4**: Categorization of CSR Expenditure

This is, however, one side of the picture. Table 2 shows the percentages of revenue and net income spent by Engro Corporation on CSR initiatives, which reveals entirely a different picture. The statistics
paint a dismal picture if we look at CSR expenditure of the company as a percentage of total its total revenue, which is on average merely 0.06% of revenue. The situation may improve slightly if we analyze the CSR expenditure in terms of percentage of net income of the company. Nevertheless, starting from a mere 0.16% of the net income for the year 2011 and then moving up marginally in 2012 to 0.20%, the CSR investment again nosedived to a meager 0.10% of net income in 2013, which questions the social credibility of the organization.

Table 2: Comparative date of CSR Investments with the company

<table>
<thead>
<tr>
<th>Rupees in Million</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engro total revenue</td>
<td>140,000</td>
<td>120,000</td>
<td>110,000</td>
</tr>
<tr>
<td>ENGRO CSR Expenditure</td>
<td>79</td>
<td>72</td>
<td>83</td>
</tr>
<tr>
<td>CSR ENGRO Expense in %age of revenue</td>
<td>0.05%</td>
<td>0.06%</td>
<td>0.07%</td>
</tr>
<tr>
<td>CSR ENGRO Expense in %age of net income</td>
<td>0.10%</td>
<td>0.20%</td>
<td>0.16%</td>
</tr>
</tbody>
</table>

Source: Financial and Sustainability report of Engro Corp for the year 2013

V. Discussion

The scrutiny of the financial reports and sustainability reports reveal the facts that although there is a huge contribution by Engro and its sister organizations to the uplifting of the community through CSR initiatives, yet a very small percentage of the revenue and net income is spent by the company on such initiatives. These findings put a question mark on the company’s social vision and community servicing policies. No doubt they are providing a platform for elevating the livelihood of the community but by using more of others resources than by integrating its value chain to CSR initiatives. In the perspective of the role of CSR in competitiveness, our analysis throws light on the strengths and weaknesses of the company and enlists its opportunities and threats through a SWOT Analysis as is displayed in Figure 5.

A. Strengths

In terms of its CSR initiatives, Engro doesn’t focus on one area. It caters the areas of education, health care facilities, training facilities, emergency relief, physical infrastructure as well as housing provision. It has aligned itself with various NGOs as well which provides diversity in their initiatives. Their working sponsors include Pakistan Poverty Alleviation Fund (PPAF), The Sindh Rural Support Organization (SRRO), The Citizen foundation (TCF), the Government of the Punjab (GOP) and United States agency for International Development (USAID).
Additionally, since its inception of a webpage, Engro has maintained a policy of provision of information; all financial statements are readily available to all at all time. In addition to that Engro has affiliated itself with GRI (Global Reporting Initiative) since 2010 which promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

Finally, Engro remains the pioneers to initiate WELD program (women empowerment through livestock development). The project, which is one of its kind, seeks to train a team of 300 Female Livestock Extension Workers (FLEW) and 300 Female Village Milk Collectors (FVMC) who deliver services at doorstep to livestock owners for increasing production and linking their produce with relevant business providers.

B. Weaknesses
Engro allocates less than 1% of its profit before tax to its CSR initiatives whereas other firms such as FFC allocated Rs 355 million on one single project which is far greater than Engro. Additionally, there is disparity about the funds allocated to CSR in the financial reports and the sustainability reports which produces confusion with regard to the application of funds.

C. Opportunities
In year 2011, Engro foundation invested around Rs.186 million on social investment which was a huge amount as compared to all other competitors in the industry whereas Attock refinery was spending a meager amount of Rs 20 million on their CSR initiatives. This showed that Engro had the capability to do more in those areas where its factories and plants are located. Engro has definitely worked to make a difference in lives of the community particularly where their technical facilities are located. The improvement in the livelihood of its workers is destined to increase its competitiveness in the industry.

D. Threats
Despite the claims, ENGRO reports show slight discrepancies between the amount claimed to be allocated to CSR and the actual amount invested. As against their claim to invest 1%, the actual figure as presented in analysis is far below than that. Keeping in view the ethical considerations, this state of affairs points out loopholes at least in their reporting. Inconsistencies in reports and ground level work could lead to reputation loss of ENGRO in the eyes of consumers as well as the stakeholders, thus threatening their competitive advantage in the market.

VI. Conclusions and Recommendations

A. Conclusions
The current research was conducted as a case study of ENGRO Pakistan in order to investigate the assertion of a number of previous researches (Arlow & Gannon, 1982; Ullmann, 1985; Chen, 2011) that corporate social responsibility initiatives contribute to the competitiveness of a business. On the basis of a thorough analysis of the data contained in financial and sustainability reports of the company, we arrived at the conclusion that, through its CSR investments, Engro Corporation, along with its strategic partners, is definitely playing an important role in the welfare, development and empowerment of the communities located around its installations. Nevertheless, it is not clear from the company’s reports as to whether or not the CSR investments are contributing to company’s competitiveness and continuously increasing revenues. Besides, we found that although the contribution of Engro Pakistan to CSR is significant as compared to its competitors in the industry, but the amount of CSR allocation is infinitesimal if we look at it as a percentage of the company’s total revenue or net income. In the final analysis, in spite of the ever increasing revenues that Engro is piling up with each passing year, the amount invested by it in CSR ranges from a paltry 0.1% to 0.2%, which is insignificant. With less than 1% CSR allocation, one cannot expect CSR investment to contribute significantly to competitive advantage.

B. Recommendations
Seen in a broader perspective, although it is logical to claim that a company’s spending for social causes is something which makes its business more compatible, but it is hard to link CSR investments to competitive advantage. This issue can be addressed by shifting focus from CSR to Shared Value,
which Engro has gradually started doing because it allows a company to integrate the corporate social responsibility activities to the value chain, thus resulting in a direct link between CSR investments and competitiveness. Engro Pakistan is going for shared value through such programs as WELD (Women Empowerment through Livestock Development), FLEW (Female Livestock Extension Workers) and FVMC (Female Village Milk Collectors). These programs contribute to women empowerment, on the one hand, and deliver services at doorstep to livestock owners for increasing production, on the other. These are, however, at the initial stages and Engro Pakistan needs to aggressively follow this policy of shared value. Currently, Engro’s CSR initiatives are restricted to the locations surrounding its technical facilities and plants. Engro Corp needs to extend the scope of its CSR initiatives beyond its factory areas, for which it will have to increase its CSR allocation of funds. The government and regulatory bodies also need to play their role in making the businesses allocate reasonable funds for taking solid CSR initiatives. We also need to create awareness of corporate social responsibility both in academia and the industry.

C. Final Word

To sum up, CSR investments can contribute to competitiveness of a business if serious efforts are made to improve the livelihood of the community through reasonable funds allocations. Engro Pakistan is among the pioneers of CSR initiatives in Pakistan but the volume of CSR investments by large companies in the country is almost insignificant as compared to the CSR programs of their international counterparts. A lot needs to be done by Engro and other multinationals in the country to make their presence felt internationally in the field of corporate social responsibility.

References


