Does CSR Influence Firm Performance?
A Longitudinal Study of SME Sectors of Pakistan

Muhammad Ikram [a*], Robert Sroufe [b], Muhammad Mohsin [ac], Yasir Ahmed Solangi [a], Syed Zulfiqar Ali Shah [d], Farrukh Shahzad[e]

[a] College of Economics and Management, Nanjing University of Aeronautics and Astronautics, Nanjing, P.R. China.

[b]Donahue Graduate School of Business, Duquesne University, Pittsburgh, Pennsylvania, USA

[a] College of Economics and Management, Nanjing University of Aeronautics and Astronautics, Nanjing, P.R. China.

[c]School of Finance and Economics, Jiangsu University, Zhenjiang, China

[d]Faculty of Management Sciences, International Islamic University, Islamabad, Pakistan

[e]School of Economics and Business Administration, Chongqing University, Chongqing, China

Abstract

Purpose: This study aims to examine whether Corporate Social Responsibility (CSR) activities influence firm performance based on a longitudinal survey for Small and Medium-Size Enterprises (SMEs) in Pakistan. Empirical studies suggest that the SME sector plays an essential role in the economic development of Pakistan and can be considered the back bone of the economy.
Design/Methodology/Approach: The data for this study was collected from SMEs located in the cities of Karachi, Lahore, and Faisalabad in Pakistan. A well-designed questionnaire was administrated over 240 entrepreneurs to analyze and measure the impact of CSR on financial performance for a 12-month period. We employed econometric analysis of the data using structural equation modeling.
Findings: Results reveal significant relationships between CSR and two determinants of firm performance, namely employee commitment and corporate reputation.
Implication: Findings of the study are important for policy makers, entrepreneurs, and other professionals in SMEs sectors both in under-developed and, with further application and exploration, in developing countries.
Originality/Value: The value of this work can be found in no longitudinal study prior to this has investigated relationships of CSR and firm performance in the SME sector and the Pakistani economy. Hence this study significantly fills an important gap in the research.

Keywords: Corporate Social Responsibility; SME; Firm Performance; Entrepreneurs; Pakistan

1. Introduction

There is increasing pressure on corporations to manage and administer the assessment of social responsibilities. This, in turn, has forced organizations to devote time and resources to Corporate Social Responsibility (CSR) measurement and to ensure the mutual interests and expectations of stakeholders. Assessment of CSR activities in small and medium enterprises (SMEs) shows a lack of empirically enriched analysis and quantitative studies. Some researchers (Harris, 2018; Nazari, Hrazdil, & Mahmoudian, 2017) have focused attention on different aspects of CSR, and even build the foundation of early studies in this emerging field of research. Yet, few studies provide empirical evidence and measurement of CSR achievements for SMEs. The wide-ranging contemporary CSR attributes related to the SME industry requires a substantial assessment to measure this construct. Furthermore, the development and empirical formulation of a framework is necessary due to the changing characteristics of CSR over time. We therefore, see a research opportunity to understand current practices as we explain and predict the changes that will be experienced in the future.

There are various concerns related to the role of social and environmental activities, and business role in these activities in any country. For the purposes of this study, we see firm performance as relating to overall organizational achievements reflected in the functions and outcomes of its operations, effectiveness of employees and CSR activities. We also know from the literature and prior studies that financial performance, or the measure of how well a firm utilizes its assets and business model to generate revenues reflecting financial health over a given period. The focus of much of the literature, and this study involves financial performance. For the purpose of providing some boundaries, financial performance for the purpose of this study involves traditional attributes of market share, profit growth, sales, return on assets, return on investments, and performance relative to competitors. Here we see traditional performance frontiers being pushed out by calls to better understand relationships of social and financial performance (i.e., Cochran and Wood, 1984) and the opportunity to expand research into the social responsibilities of firms.

CSR relates to stakeholders such as governments, and civil society to also help manage business relations (Lawton, McGuire, and Rajwani, 2013). Developing countries like Pakistan are confronted with a considerable challenge of understanding and enabling social, environmental CSR activities in support of firm performance while meeting the increasing challenges of global economies and societies. Pakistan is home to 220 million people of the world's population which lacks sufficient access to the clean environment and social facilities as this often becomes the responsibility of an organization's CSR. Whereas the people in developed countries, even in rural areas enjoy the social benefits and clean environment provided by their economies, the government of Pakistan has limited resources and limited political infrastructure (Shazad, and Asidi, 2013). Add to this, political instability having a negative impact on domestic private investment, and firms have an opportunity to fill an evolving gap in governmental services (Ali, Hashmi, and Hassan, 2013). Because of this, the public also relies on firm CSR activities for social benefits.

Previous studies reveal that both practitioners and scholars see CSR as important. A review of the relevant literature suggests that in the past, an insignificant amount of research has attempted to explore the nexus between CSR and financial performance (Crifo et al., 2016). Previous studies show mixed results, where some even suggest no relationship between CSR and financial performance (Aʇan et al., 2016). Another group of researchers found an indirect relationship between CSR and financial performance (Herrera Madueño et al., 2016), while some studies suggest a positive relationship (Vo, 2011). We believe there is a significant research gap and need for systematic studies and proper exploration of the CSR, SME, and financial performance relationship in a developing country context. In doing this, we can build on, and add new contextual insight to prior studies measuring the impact of CSR activities on firm performance of large corporations in developed countries (Oikonomou et al., 2012). With little attention given to the SME sector, we aim to fill a gap in the field of CSR exploring performance relationships of firms with the potential to find new insights for governments and entrepreneurs within developing countries.

Various studies at national to international levels can broadly be classified into three different groups. The first group (Sial et al., 2018) concentrated social characteristics and performance, and they neglected the other dimensions of CSR. The next group (Aɫan et al., 2016) measured the environmental characteristics and performance while they ignored the other dimensions of CSR such as social and economic performance. The third group of studies (Ting and Yin, 2018) focused social characteristics with performance while neglecting other fundamental constituents of CSR such as employee commitment and corporate reputation.

After reviewing the literature, we found that various studies utilizing different variables (Al-Dah et al., 2018). However, to date, none have assessed both the social and environmental responsibilities in relation to financial performance, employee commitment, and corporate reputation in in a developing country context. Thus, we found a need for and have conducted a quantitative study covering aspects overlooked variables that include the environment, corporate reputation, financial performance, and, CSR.

To the best of our knowledge, this study is the first of its kind. We have been unable to find prior studies that have applied a longitudinal research methodology to analyze the relationship between CSR and financial performance. This study is an attempt to make available new insights for researchers and practitioners within peer review journals regarding the changing Pakistan economy. This study is carried out with the intention of filling the gap in the literature while providing new information regarding CSR and financial performance using a longitudinal research design for within a developing country. Data was collected from SMEs located in Karachi, Lahore, and Faisalabad, as these cities are home to a large number of SMEs in Pakistan and can broadly represent SMEs within this country.

The outcomes of this study can help policymakers, entrepreneurs, and other business professionals working in the SME sector to understand the relationships between CSR practices and financial performance. This, in turn, should also help promote growth in CSR in the SME sector. This study is also important, as it adds to the existing knowledge on CSR practices and financial performance in SME sector in a developing economy.

The structure of study is as follows. Section 2 presents the literature regarding CSR and SME sectors of Pakistan. Section 3 provides a framework for research and hypothesis development. Section 4 presents our methodology and data analysis techniques are with the results and discussion section presented in section 5 and 6. Finally, we discuss the conclusion, limitation and future direction of research.

2. Literature Review

2.1 Stakeholder Theory Perspective of CSR and Financial Performance

Institutional isomorphism is the process in which organizations gain increasing structural similarity (DiMaggio and Powell, 1983). For the purposes of this study, this process is assumed to be driven by decision-makers wanting to create organizations that conform to, and excel in their practice of social rules for both private and public sector organizations (Frumkin, Galaskiewicz, 2004) in the context of Pakistan. In this literature review, we overlay types of institutional isomorphism, i.e., normative, coercive, and mimetic as threads running through, and connecting shareholder theory, legitimacy, institutional theory, and employee commitment and social exchange. In doing so, we attempt to provide theoretical context for the CSR domain while also discussing relationships to financial performance.

Stakeholder theory was first described by Freeman (1984), suggesting that shareholders are merely one of many stakeholders in a company. This theory says stakeholders are anyone invested and involved in, or affected by, the company: employees, environmentalists near the company's plants, vendors, governmental agencies, and more. Freeman's theory suggests that a company's real success lies in satisfying all its stakeholders, not just those who might profit from its stock. Because of this, we find stakeholder theory a building block for why CSR is important and who it can impact. Stakeholders influence institutional change, help to determine the reputation and legitimacy of firms, and include employees as social change agents. We next review how CSR has been operationalized and its relationships to more traditional forms of financial performance.

Some studies have examined the influence of CSR on firm performance (Saeidi et al., 2015a; Rettab et al., 2009). Yet these studies lack consistent empirical results. Here, we see a need for further examination of the relationships involving CSR and the financial performance in search of more consistent empirical results. Lin et al., (2015) observed investment in the CSR as an additional expense for the companies. Spending for CSR may be seen as misallocation of resources, and the company may experience declining profits (Blomgren, 2011). Contrary to this, the results of (Cordeiro and Tewari, 2015) indicate that companies involved in the socially responsible activities experience sound financial performance as a form of mimetic change and we see this same opportunity present itself in Pakistan. Through a review of 52 studies, they found the CSR practices of companies raise their market value and operational profitability. Soundararajan and Brown (2016), and these findings are constant with a prediction offered by instrumental stakeholder theory (Jawahar and McLaughlin, 2001) proposing that socially responsible programs lead to higher firm value through improving the brand equity, reputation of the firm and saving its operation costs while deterring future action through coercive regulations of government. This is a form of positive structural social capital that business managers can engage in. It includes interacting with and connectivity among and between actors, networks and the government (Lee, 2009). Researchers agree that a lack of CSR attributes and a limited selection of diverse firm performance measurement leads to inconsistent findings regarding CSR on the company (Wang et al., 2016). This is why many researchers utilize aggregated CSR scores/dimension for testing the association between firm value and CSR (El Ghoul et al., 2017). The argument that CSR has distinct motives and characteristics is growing (Zhao and Murrell, 2016), with few researches trying to test diverse aspects of a CSR score found in some of the literature and another purposeful reason why we focus on Pakistan to test diverse aspects of CSR in an emerging industry and country context.

We found Wang et al., (2015) divided the measure of CSR into the non-operation and the operation related practices. Whereas Rhou et al., (2016) employed two separate CSR dimensions (i.e., negative and positive CSR) on the value of shareholders in a restaurant context. However, how the diverse form of internal and the external CSR is linked with the financial performance of companies is not clear in the literature. Furthermore, the conflicting relation between financial performance and CSR may rely on the measurement of financial performance (Feng et al., 2018). Prior research shows that CSR raised the company's financial performance when Tobin's q was utilized, but impose no influence, or even reduce, the financial performance of the company's when the ROA and ROE are employed (DiSegni et al., 2015). Thus, the use of a robust performance measure will offer a good understanding of the relationship with Company CSR practices. The accounting-based measures of financial performance, i.e., ROA and ROE, represent the company's management efficiency and short-run profitability that have been used in prior studies. These measures support how certain allocations of resources lead to a company's short term returns (Kaul and Luo, 2018).

2.2 Corporate Reputation Legitimacy/ Institutional Theory

As CSR pushes the bounds of traditional firm performance measurement, we see reputation and institutional theory as building on stakeholder theory. Institutional theory's origins are in how organizational change is driven less by functions and more by symbolic actions and external influences (Meyer and Rowan, 1977). Researchers building on this theory emphasize a key insight of institutional theory is imitation: rather than necessarily optimizing their decisions, practices, and structures, organizations look to their peers for cues to appropriate behavior (Marquis and Tilcsik, 2016). Numerous researchers base their investigation on legitimacy/institutional theory (Khan et al., 2015; Bason and Anagnostopoulos, 2015) for understanding the association between corporate reputation and CSR reporting. We can consider reporting of CSR to be a normative reputation and legitimacy management instrument that reacts to forces through stakeholders and is driven through the communication of company identity. These corporations engage with stakeholders because they have the power to affect the company's outcomes (Karaosmanoglu et al., 2016). It is suggested that communication is primarily for building a healthy relationship with stakeholders (Aupperle et al., 2018). Managing stakeholder perceptions about the company is good for strengthening future relations (Bear et al., 2010) and strengthens mimetic isomorphism as firms response to future uncertainty pushes them to manage stakeholder perceptions. While Park et al., (2014), found that communication allows the company to start the dialogue for creating awareness, understanding, and appreciation of strategic objectives, preferably resulting in both corporation and its environment. According to Maas et al., (2016), corporate reporting should be focused on stakeholders of the company rather than the investors, while there exists relatively little investigation on this form of reporting.

Prior research has also considered the legitimacy of the corporation to be the procedure by which historical firm performance is translated into the probability for a sustainable future (Li et al., 2017). Therefore, legitimacy reflects the element of CSR as the reputation of the corporation can be an important variable. Legitimacy is stated as the assumption that company actions are desirable and appropriate within particular socially constructed definitions, values, beliefs, and norms (Ahn and Park, 2018). We would also argue that a lack of legitimacy lends itself to opportunities for coercive isomorphism, and as CSR becomes more of the norm, we would find normative isomorphic actions supporting institutional change. Pollach (2015) considers the connection that provides the general grounds for legitimacy treatment and corporate reputation is considered a complementary perceptions of corporate identity that is commonly revealed in CSR reports. These CSR reports serve as vehicles of public relations that are designed for offering reassurance and for supporting a 'feel-good' company image. This is important to note when communication plays a leading role in controlling corporate image (Bebbington et al., 2008). We, therefore, find legitimacy and institutional theory an important context for gaining a better understanding of how SMEs in Pakistan may be engaged in these same activities, isomorphic change, and contribute to new insights to CSR.

2.3 Theory of Employee Commitment and Social Exchange

When trying to focus on a key stakeholder group, we employees a key factor in the success of CSR activities and a key stakeholder. Social exchange theory studies social behavior in the interaction of two parties that results in both economic and social outcomes (Lambe, Wittman, and Spekman, (2001). Self-interest and interdependence are central to social exchange (Lawler, and Thye, 1999). These are the basic forms of interaction when two or more actors have something of value to each other, and they must decide whether to exchange and in what amounts (Lawler, 2001). The efficient delivery of corporate environmental and social responsibility initiatives can depend on the responsiveness and engagement of employees. Employee self-interest and interdependence on the firm plays an important role in the success of business practices. This is noteworthy as employees help to define the conditions and methods of their work (DiMaggio and Powell, 1983). When conducting this study and working with practitioners in the field, the relative nature of employee commitment in SEMs is important to institutional change. The motivation of employees is needed for success, and their commitment to achieving goals is required for desired CSR practices (Slack et al., 2015). We see this as a normative pressure of isomorphism. There exist numerous studies on the motivation of employees and research on commitment to organizational settings. Although the models are interrelated, this literature has stayed separate from each other. Even though commitment is supported by motivation, neither has dealt with complexity levels that exists in its own area (Birtch et al., 2016) and more work can be done here.

According to Kang et al., (2015) the commitment is referred to as the force that fixes the individual to the course of the act that is of the relevance to the certain target. Commitment will boost the normative behaviors that lead to positive goal results and therefore reinforce the commitment of employees to the company. This commitment can be the result of various methods, and it is directed towards the various levels of engagement like task, customer, team, etc. (Sloan et al., 2017). Within the organization, three types of commitment are notable. An affective commitment is driven by the attachment to an organization, normative commitment is an obligation to persist in the company, and continuance commitment is the perceived expense of leaving. These commitments stem from diverse centers of loci while dealing with different 'attitudes' that have diverse implications for behaviors because they are directed to divergent centers (Bray and Williams, 2017). The centers of commitment differ as the affective commitment is grounded on the value congruence and the personal identification with a target. The normative commitment is based on the feeling of the obligation for the benefits attained. Organizational socialization and the continuance commitment is linked to a perception that it's more favorable for remaining with the company as compared to leaving. The theory of social exchange Cropanzano et al., (2017) would propose that an employee's commitment toward the company will depend on their view of the benefit and the value that they obtain from membership in the organization. This perception is held by evidence that the 'high-commitment' human resources practices and trust in the management impose a major effect on building the commitment of employee's (Yamao and Sekiguchi, 2015).

2.4 CSR and Firm Performance in SME Sector

In the contemporary business environment, it is believed that CSR practices do impact a firm performance in the SME sector. We propose these types of practices in a Pakistani setting are important. It has been observed that companies that are actively involved in CSR practices provide services to the stakeholders. Alternatively, those firms who do not practice CSR, fail to provide a greater service to society. Several researchers suggest that a nexus between CSR and financial performance towards the social and environmental issue can be captured on the bases of three dimensions, i.e., economic, stakeholders, and voluntariness (Ikram, Mahmoudi, et al., 2019).

Typically, firms can be categorized as small, medium, and large on the bases of their size. It has been observed that large firms have close relationships with the society and stakeholders.

Medium and small size firms are directly governed by the owner of the SME who is responsible for making decisions regarding CSR practices of the respective firm (Bear et al., 2010). Basically, in the SME sector, the entrepreneur is responsible for managing and implementation of CSR activities. It is at this level, the SME that is the basis for our approach to investigating what these firms are doing in the country context of Pakistan.

According to Petersons and King (2009), CSR practice all around the world contribute significantly to the growth and development of firms. The concept of CSR is focused on employees, community, society, and stakeholders as all of them are directly or indirectly affected by firm policies (Kull et al., 2016). The intersection of CSR practices and SMEs financial performance has been getting the attention of researchers. Some of the relationships studied include how to define and characterize CSR and SMEs, development, motivation and engagement, barriers in CSR, and SMEs sector growth in developing countries. Our theoretical framework builds on this prior literature and is presented in Figure 1.

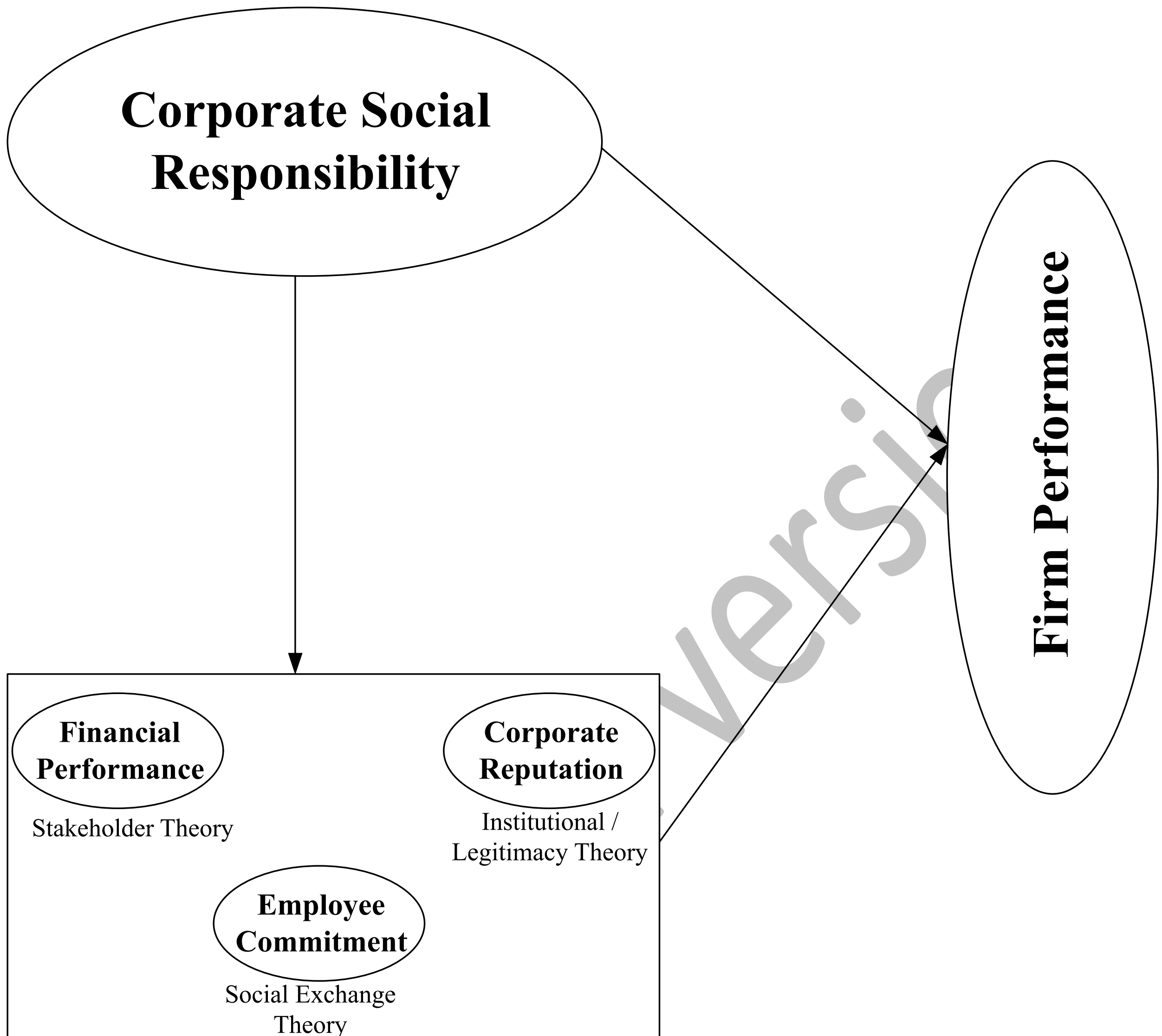

Figure 1: Theoretical Framework

Masurel and Rens (2015), attempted to analyze the outcomes of active CSR practices on the firm performance of SMEs. His results suggest that in the case of developing countries, proper CSR practices are positively linked with the higher growth and enhanced financial performance of firms in the SME sector. He also found that insignificant work had been carried out in this regard in the case of developing countries. Similarly, Choongo (2017) also suggested that there is a need for further well-organized studies.

There is a continued need to understand CSR activities based on geographical and socio-economic differences in the environment of the regions and countries. Hence, some studies involving CSR practices and firm performance in developing countries, should not be used as a policy guideline in developing countries. Hilman and Gorondutse (2013), themselves used and call for studies using a cross-sectional research design as it can help to identify the positive impacts of CSR on firm performance of the SME sector of developing countries.

3. Development of Hypotheses

In this study, we investigate the impact of CSR practices on financial performance. Our hypotheses are dependent upon the relationships among three dependent variables, namely, employee commitment, corporate reputation, and financial performance of the firms. The variables used in this study are based on a review of the literature and have been tested in prior studies while combined in a novel way in this study to provide new insight. Three measures of firm performance were used in this study financial performance, corporate reputation, and employee commitment because they capture a more dynamic impact of CSR on the firm's overall performance than single-item measures. Next, we further develop the variables, relationships, and hypotheses.

3.1 Social, Environmental CSR responsibilities and Financial Performance

The first effect of CSR that is considered in this study is financial performance. While some studies also show negative or neutral effects, overall, the literature supports the idea that CSR impacts firm performance positively. Torugsa et al., (2012) observed that employee responsibility and environmental responsibility have significant positive relationships with corporate financial performance. SMEs are motivated to pursue CSR activities when they perceive a business benefit and value for the company. Environmental responsibility can also result in better financial performance in the form of cost reduction (waste recycling, reduction in energy and water consumption) (DiSegni et al., 2015). Care for the environment can also result in SMEs to win more contracts with clients that are environmentally conscious which, in turn, can lead to better financial performance of the firm in the long term. It is, therefore, reasonable to suggest that firms which get involved in community and environmental responsibility can attain improved firm performance in the long term.

Based on prior research, the role of CSR and relationship to financial performance can be neutral to positive. As per Eccles and Serafeim (2013), environmental CSR responsibility and employee participation have a positive and significant impact on financial performance in large firms. This is further supported by the integration of sustainability found by (Sroufe, 2017). Husted et al., (2016), also observed that the SME sector and CSR activities promote a company's image and increasing business value at both the national and international levels. Taking this further, the SME sector can enhance benefits for entrepreneurs in the form of internal engagement and increase customer loyalty. Thus, SME industry plays a vital role in the uptake of CSR activities and responsibilities involved in global business growth.

Review of the literature suggests that CSR promotes a long-term relationship between society and organizations, and consumers prefer buying products from companies which are actively involved in CSR practices (Dobers and Halme, 2009). The CSR responsibility for environmental performance involves enhancing an organization's performance through recycling, waste management, as well as energy consumption (Maldonado-Guzman et al., 2017). The SME sector can find advantages and long-term benefits through adopting environmental CSR activities. We suggest that a firm should consider their environmental responsibility of CSR as it will positively affect firm performance and the long-term development of society. We propose an integrated framework examining social and environmental CSR constructs and their relationships with firm performance. This includes employee commitment, and corporate reputation as elements of overall business performance of an organization are presented in Figure 2. The conceptual model sets up measurement of the effects of both social and environmental CSR while supporting a transformational theory and hypotheses that involving a positive association of social CSR and environmental CSR with the financial performance of SME sector firms in Pakistan. The following research hypotheses are developed to measure firm performance:

(H1): There is a positive association of Social CSR and Environmental CSR with firm Financial Performance of the SME sector in Pakistan.

(H1a) Environmental responsibility CSR is positively related to firm Financial Performance of the SME sector in Pakistan.

(H1b) Social responsibility CSR is positively related to firm Financial Performance of the SME sector in Pakistan

3.2 Social, Environmental CSR Responsibilities and Corporate Reputation

The second effect of CSR in this study is the firm's reputation. Corporate reputation is also understood as an important intangible resource which can be enhanced or destroyed by the firms' decision to or not to engage in CSR activities and disclosures (Shim and Yang, 2016). Although the firm's reputation is intangible, it can help improve sales, and attracts business partners and capital, while aiding the firm to recruit and retain employees and contributes to a company's competitive advantage. Entrepreneurs and managers in SMEs expect improved company reputation when they engage in CSR. Zhu et al., (2014) established that involvement in CSR activities contributes to a better reputation of the firm in the society, thereby creating a competitive advantage. Enhanced reputation eventually leads to improved firm performance in the long run. Chong (2009), pointed out that SMEs are motivated to engage in CSR activities to improve the firm's reputation, employee motivation, and economic performance. Therefore, despite the different characteristics between SMEs and large firms, it is possible that SMEs' involvement in CSR can lead to improved corporate reputation and eventually better firm performance over time. This is because entrepreneurs make decisions based on the idea that CSR improves company reputation and image and increases sales figures. In doing so, improved reputation provides competitive advantages, which positively impacts on firm performance in the long run.

According to Asrar-ul-Haq et al., (2017), reputation is associated with evaluation and assessment of environmental and social attributes influencing firm performance. Reputation is important for firms involved in industries with high corporate regulation, and it can enhance intangible resources, i.e., goodwill, over time (Nowduri, 2012). A firm's intangible reputation can affect its business partnerships, sales, recruiting and retaining of employees in the organization, managing them and help achieve a competitive advantage through effective human resource.

Previous studies on CSR suggest that all over the world, entrepreneurs play a vital role in enhancing firm performance and promotion of these practices. Firms engaged in CSR build their reputation in the community, which can lead to improve market competitiveness (Larrán Jorge et al., 2015). Further, it is considered that the nexus between CSR activities and corporate reputation is not straight forward in the SMEs sector; because this includes both small and medium-sized firms. Usually, SMEs owners do not publish CSR activities due to the lack of visibility and lack of communication and reporting at this level.

According to Freire and Loussaïef (2018), the SMEs sector and CSR activities promote corporate reputation, and employee engagement. The characteristics of SMEs and large firms can enhance CSR activities as well as financial performance. We see corporate reputation benefits and potential long-term competitive advantages from CSR. Similarly, organization culture, corporate reputation, and transformational theory support the hypothesis for positive association of Social or Environmental CSR with a corporate reputation of the SME sector in Pakistan.

Therefore, following research hypotheses are developed to measure corporate reputation:

(H2): There is a positive association between Social and Environmental CSR with Corporate Reputation of the SME sector in Pakistan

(H2a) Environmental CSR is positively related with Corporate Reputation of the SME sector in Pakistan

(H2b) Social CSR is positively related with Corporate Reputation of the SME sector in Pakistan

3.3 Social, Environmental CSR Responsibilities and Employee Commitment

The third effect of CSR in this study is employee commitment. Past research demonstrates that the involvement in CSR activities can build a strong bond between employees and the organization, which leads to better employee commitment and firm performance over time (de Roeck et al., 2014). Organizations involved in CSR attract and retain employees, thereby, reducing hiring and training costs, thus, leading to better firm performance in the long term. A number of authors established that CSR activities have significant positive effects on employee commitment to the organization. Firms with a good social responsibility can not only attract better employees but also increase their morale and retain them. In SMEs, CSR focus on the internal stakeholders especially the employees and the community (Singhapakdi et al., 2015). SMEs invest in environmental responsibilities such as improving the working conditions. He further suggested that there may be a connection to “profit,” as improvement of working conditions may result in employees having better motivation and fewer sick leaves, thus increasing their productivity in the long-term.

According to Farooq et al., (2013), employee commitment is a term used for devotion to work, engagement in the firm, and loyalty towards the organization to achieve competitive advantage. If the employees are committed to organizations, they can increase organization productivity and simultaneously decrease the employee turnover. Previous studies show that CSR and employee commitment has positive and significant relationship and strengthen culture in the organization. According to Zhu et al., (2014) organizations are involved in CSR activities, managing human resources, and employee development to get long-term benefits. Many studies take this further saying that CSR and employee's commitment has significant and positive relationships in the organization. Further, international firms focused on employees, retain them through incentives to motivate and engage them in the organization to get improved financial performance (Jones et al., 2014). According Bernhardt et al., (2000), firms working in small and medium-size sector focus on internal and external CSR activities to help improve the working environment. We propose that research frameworks underpinning the transparency and collaboration with customers and sustainable practices can be enhanced by the capability of CSR through employee commitment. Thus, employee commitment enhances customer satisfaction. Our framework proposes the interrelated transformational social and environmental responsibilities of CSR is influenced by employee commitment of SME sector in Pakistan. Therefore, following research hypotheses are proposed to assess employee commitment:

(H3): There is a positive relationship of Social CSR and Environmental CSR with Employee Commitment of SME sector in Pakistan

(H3a) Environmental CSR is positively related with Employee Commitment of SME sector in Pakistan

(H3b) Social CSR is positively related with Employee Commitment of SME sector in Pakistan

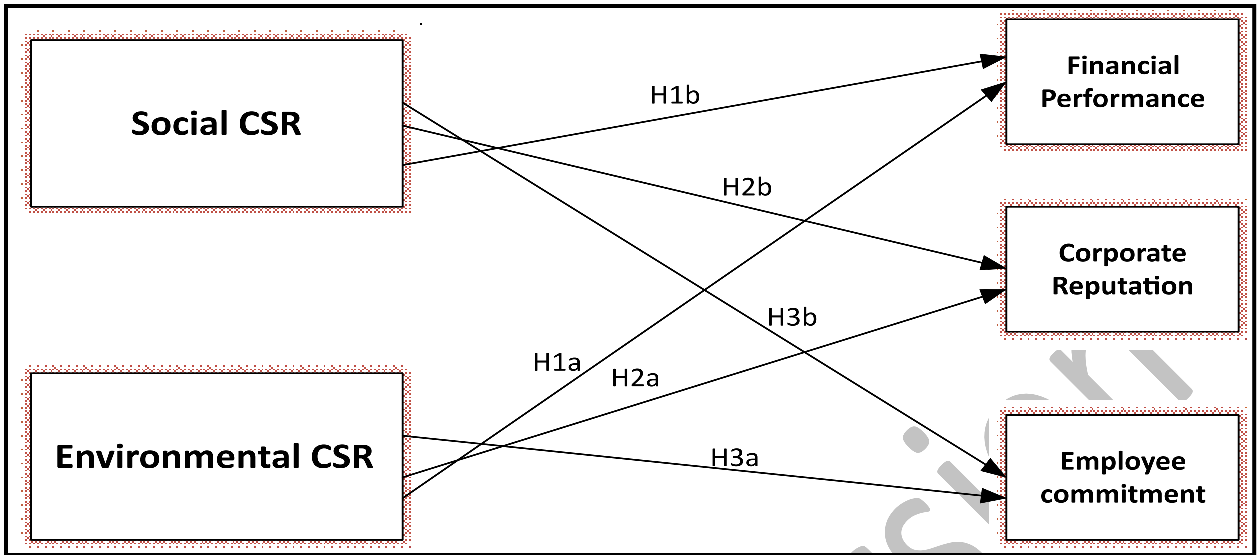

Figure 2: Conceptual Model

4. Data Collection and Methods

Different methodologies and statistical software have been used to measure corporate social responsibility. The purpose of this study to investigate whether adoption of CSR activities improve firm performance in the SME sector of Pakistan using longitudinal survey data and structural equations modeling (SEM). In this regard, the SEM technique is used to empirically investigate the relationship among observed and latent variables. Our literature review demonstrates measures of firm performance based on social and environmental CSR. This section elaborates the development of SEM and why it is applicable to assessing CSR and firm performance in this study. We also discuss data collection methods, the development of the instrument, and data collection.

Data collection

In this study, we use a longitudinal research design with data collection using a survey instrument from SMEs in Pakistan. The first data set was collected in 2016 and a second data set was collected in 2017 from SMEs in the cities of Karachi, Lahore, and Faisalabad. The data is labeled as follows with the first-year data designated t1 and second-year data designated t2. Yearly data was gathered from SMEs sectors because financial performance is measured and assessed at the end of the year. SMEs firms were selected based on size, with SMEs characterized in this study as organizations with 1 to 250 employees. A sample of SMEs was drawn from a population within three major cities of Pakistan. More than 2000 SMEs meet the requirement however only 360 were selected randomly from the population as a convenience sampling technique was utilized to get data from respondents in their work place environment. A description of survey data is provided in Table 1. A pre-tested survey was reviewed before being administered over the selected sample to collect our data. During 2016 total number of responses was 200 whereas in 2017 it was 140. A total of 20 incomplete questionnaires were dropped from the analysis. The final sample of 340 SMEs was utilized for longitudinal analysis. Table 2 represents the descriptive statistics of data.

Table 1: Description of the survey

Study Aspect	Value
Time	2016–2017
Location	Pakistan
Sector	SME's
Cities	Karachi, Lahore, Faisalabad
Sample size	2000
Number of responses	340
Response rate	17%

Source: self-elaboration

3.1 Instrument

Firm performance is a dependent variable with many studies and authors operationalized this into two categories; one is related to financial performance, and second is related to non-financial performance. Financial performance depends upon the assets, liabilities, expenses, revenues, productivity, and growth of the firm. The non-financial performance includes the new product development, market orientation, and competitive profit. The study measured financial and non-financial measures because within a target sector of SMEs in Pakistan. We used corporate reputation, employee's commitment and financial performance as variables to identify the impact of CSR on overall firm performance of the SME sector. We utilized six items from a previous study to help measure financial performance (Saeidi et al., 2015b).

We used Likert scale items ranging from 1 strongly disagree to 5 strongly agree. Corporate reputation consists of three items adapted from the study of (Rettab et al., 2009). Employee commitment consists of three items adopted from the study of (Fombrun and Gardberg, 2000). We operationalized CSR with nine items adopted from (Masurel and Rens, 2015). The survey was developed in 2015 and 2016 for data collection based on the CSR and SME literature. For CSR, two dimensions of social CSR and environmental CSR were operationalized based on the literature and our prior work in this field.

3.2 Structural Equation Modeling

We used SEM to empirically investigate the structural relationship between social, environmental CSR as latent variables, financial performance, corporate reputation, and employee commitment as measured variables. We posit that the adoption of CSR activities have a positive relationship to financial performance (Ikram, Zhou, et al., 2019). SEM is well known, has been used in social sciences field for decades. According to Lee and Lee (2015), SEM comprises two stages, refinement of variables processes in first stage, with the second stage handled the structure model estimation. The adaptability of this method is used to confirm the reliability of measures in a way to prevent conflicts between the structural model and the measurement (Phan and Baird, 2015).

As a standard guideline, if the p-estimation of the Satorra Bentler scaled chi-square is equivalent to, or more prominent than, 0.05, and root mean square error (RMSEA) is lower than

0.08, the estimation of comparative fit index (CFI) is equivalent to, or higher than, 0.95 and the value of standardized root mean square residual (SRMR) is less than 0.05, the model is said to be fit (Ramesh et al., 2019). Table 5 discuss the fitness of model, whereas the result of SEM are within Table 6.

5. Results

This section unpacks the data and analysis used in study. Our analysis is based on longitudinal design as data was collected over two years, 2016 and 2017. Prior studies on financial performance and CSR frequently use a single-equation ordinary least squares (OLS) regression and unidirectional approach that can show a biased outcome due to endogenous relationships. In an effort to lessen the problem of indigeneity we used and measured the structural parameters of structural equation modeling and we also strengthen the novel characteristics of heteroscedasticity when using the structural equation model (SEM). The study used confirmatory factor analysis (CFA) for reliability and validity of the data, with SEM structural equation modeling used for full modeling data analysis.

5.1 Descriptive Statistics

Table 2 present the descriptive statistics of latent variables (social CSR, environmental CSR) as well as the measured variables (Financial performance, corporate reputation, employee commitment). Among the 340 respondents, 76% were male, and 24% were female. Group classification by age shows 40% respondent age were between 18-30 years, 25% were between 30-40 years, 20% were between 41-50 years and 15% were above 50 years. The maximum value of the variable, as well as minimum, show the least value of variable marked by each respondent.

Table 2: Descriptive statistics and variable description

Variables	*Description*	*Mean*	*Sd.*
(FP1)	Your company has had a large market share?	1.24	.428
(FP2)	We have been larger than competitors in size.	1.51	.783

(FP3)	Company profit growth has been substantially better.	1.62	.781
(FP4)	Company sales growth has been substantially better.	3.84	1.266
(FP5)	Company return on assets has been substantially better.	3.61	1.138
(FP6)	Company return on investment has been substantially better.	3.83	1.316
(FP7)	Regarding overall performance, during the last year, did your company perform poorly relative to competitors?	3.99	1.193
(CorRep1)	Does your company have a good reputation?	3.79	1.169
(CorRep2)	Is your company widely acknowledged as a trustworthy organization?	3.95	1.172
(CorRep1)	Does your company known to sell high quality products and service?	4.00	1.193
(EmpCom1)	Our employees are very committed to the organization.	3.56	1.359
(EmpCom2)	The bond between the organization and its employees is very strong.	3.85	1.333
(EmpCom3)	Do employees often go above and beyond their regular responsibilities to ensure the organization's well-being?	3.77	1.134
(SOCSR1)	Does your company ensure workplace health and safety?	3.47	1.466
(SOCSR2)	Does your company implement training and development programs for employees?	3.66	1.132
(SOCSR3)	Does your company periodically test employee satisfaction?	3.97	1.203
(SOCSR4)	Does your company human resource policy is partially aimed at workplace diversity?	3.49	1.042
(SOCSR5)	Does your company sponsor students in schools?	3.79	1.119
(SOCSR6)	Does your company offer industrial attachments (internships) to students?	3.50	1.012
(SOCSR7)	Does your company use a formal customer complaint register for clients?	3.66	1.091
(SOCSR8)	Does your company active within an organization with a social purpose?	4.00	1.182
(EnvCSR1)	Does your company save energy beyond legal requirements?	3.74	1.082
(EnvCSR2)	Does your company save water beyond legal requirements?	3.55	1.159
(EnvCSR3)	Does your company voluntarily do recycling and/or re-use?	3.37	1.349
(EnvCSR4)	Does your company take action in order to reduce waste?	3.62	1.128
(EnvCSR5)	Does your company purchase environmentally friendly products?	3.50	1.352
(EnvCSR6)	Is your company a member of an environmental organization?	3.76	1.309
(EnvCSR7)	Is your company well equipped to improve the sustainability/CSR of clients?	3.90	1.444
(EnvCSR8)	Does your company suggest sustainable solutions to clients?	3.67	1.461

N=340, Minimum=1, Maximum=5

5.2 Reliability and validity of measures

Prior to data analysis, a reliability analysis was tested through SPSS Cronbach's alpha. This examined financial performance, corporate reputation, and employee commitment, social and environmental corporate social responsibility. The overall result of the reliability and Cronbach alpha is greater than .80 which is acceptable in social sciences study. CFA was employed to verify the convergent and discriminant validity of the variables, which showed the good fit among the data and model after measurement of model. The value of chi-square was observed significant, CFI was greater than 0.95, the GFI was near to 0.90, the RMR was less than .09, and RMSEA was 0.71($\chi 2/df$=2.14 less than 3, SRMR=0.081, GFI=0.885, CFI=0.960, RMSEA=0.71). A t-test was employed to test the convergent validity for each path of the CFA model. The value of construct estimated average variance extracted (AVE) was greater than 0.50; moreover the value of composite reliability was 0.78 (Hur et al., 2014). All the path coefficient t-values were significant, the value of AVE construct estimates was greater than 0.50, and the CR was noted above 0.70, which implies convergent validity confirmation as shown in Table 3. According to (Munro et al., 2018) AVE of all of the construct estimates should be greater than their construct square correlation estimates. The requirement of all the constructs passed and convergent validity was confirmed.

Table 3: Confirmatory factor analysis result

Variable	Items	Factor loading	AVE	CR	Cronbach's α
Financial Performance	FP1	0.827			
	FP2	0.783	0.76	0.919	0.918
	FP3	0.837			
	FP4	0.736			
	FP5	0.837			
	FP6	0.825			
	FP7	0.834			
Employee Commitment	EmpCom1	0.776			
	EmpCom2	0.813	0.74	0.884	0.882
	EmpCom3	0.882			
Corporate Reputation	CorRep1	0.727			
	CorRep2	0.810	0.75	0.821	0.821
	CorRep3	0.778			
Social CSR	SOCSR1	0.832			
	SOCSR2	0.821			
	SOCSR3	0.745			
	SOCSR4	0.794	0.77	0.811	0.810
	SOCSR5	0.812			
	SOCSR6	0.787			
	SOCSR7	0.824			
	SOCSR8	0.775			
Environmental CSR	EcvCSR1	0.726			
	EnvCSR2	0.751			
	EnvCSR3	0.820			
	EnVCSR4	0.690			
	EnvCSR5	0.787	0.75	0.790	0.789

EnvCSR6	0.754
EnvCSR7	0.748
EnvCSR8	0.743

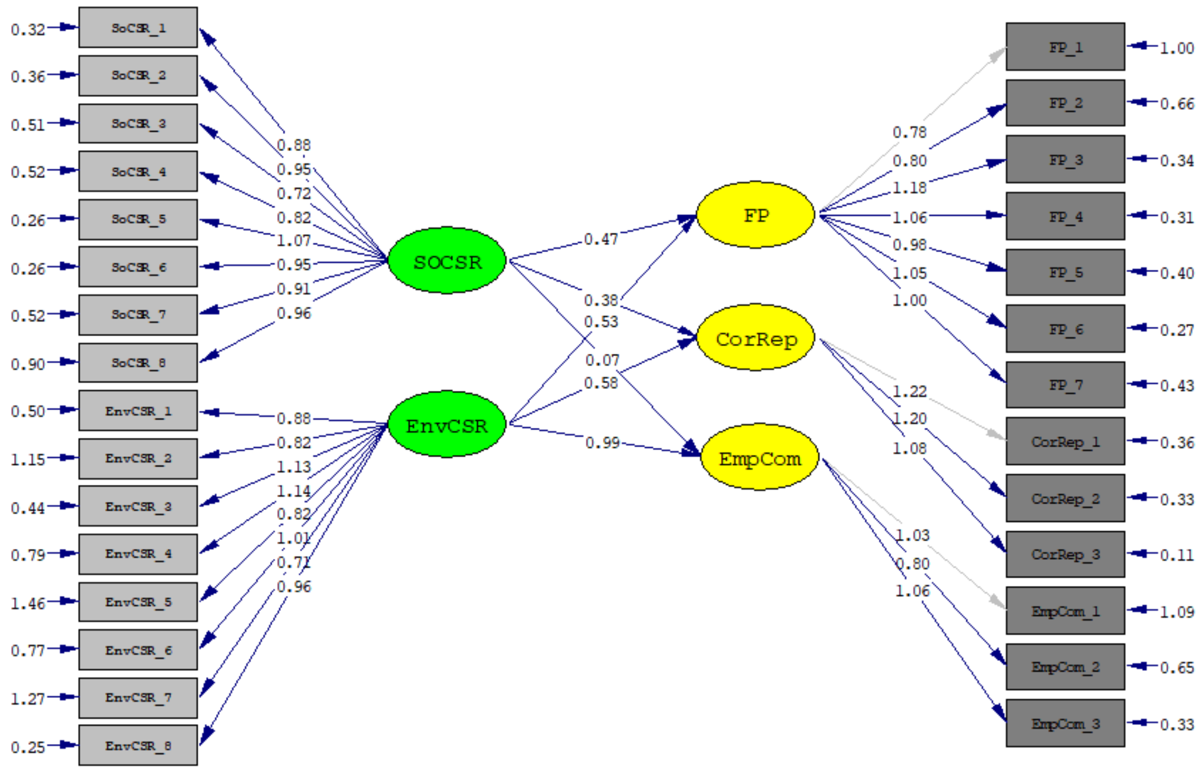

Figure 2: SEM Model

FP=Financial performance, CorRep=Corporate reputation, EmpCom=Employee commitment, SOCSR=Social CSR, ENVCSR=Environmental CSR

Table 4: Residual Covariance

Variables	**Environmental CSR**	**Social CSR**	**Employee Commitment**	**Corporate Reputation**	**Financial Performance**
Environmental CSR	.000				
Social CSR	.000	.000			
Employee Commitment	.000	.000	.000		
Corporate Reputation	.000	.000	-.395	.000	
Financial Performance	.000	.000	1.082	2.297	.000

5.3 Structure Model

The application of SEM was employed to investigate the impact of CSR on financial performance through robustness of estimation method is presented in Figure 2. Social and environmental CSR showed positive and significant effect on financial performance. The fitness of SEM model was confirmed, and result is presented in Table 5. The good fitness of the model revealed that the nexus between social and environmental CSR and financial performance of SME's is statistically significant confirming some prior work by (Crifo et al., 2016; and Vo, 2011). Moreover, social CSR was observed as statistical insignificant with corporate reputation and employee commitment. The Satorra-Bentler scaled *p*-value is greater than 0.06, the value of RMSEA is 0.038, the CFI value is 0.973, and TLI value is higher than 0.9, the value of SRMR is observed 0.038 and value of IFI is higher than 0.9; all the good fit tests confirm statically significant.

Table 5: SEM model good fit indices

Fit Statistic	Value	Desirable Criteria	Description
RMSEA	0.058	< 0.08 Good	Root mean squared error of approximation
CFI	0.973	> 0.9 Good	Comparative fit index
TLI	0.961	> 0.9 Good	Tucker–Lewis index
SRMR	0.038	< 0.09 Good	Stand root mean squared residual
IFI	1.000	> 0.9 Good	Incremental fit index
χ^2/df	2.10	< 3 Good	Chi-square

The results of SEM model is presented in Table 6. The social and environmental CSR has a positive and significant effect on financial performance meanwhile hypothesis H1a, and H1b hypotheses mean values were 0.257 and 0.308 respectively. Here we find support of stakeholder theory links between CSR and financial performance (Saeidi et al., 2015a, and Rettab et al., 2009). The highest path coefficient is between environmental CSR and financial performance which is 0.310; it means environmental CSR has positive and significant impact on financial performance of SMEs. The second highest path coefficient is environmental CSR corporate reputation which is

0.260; the third-highest path coefficient is social CSR and financial performance which is 0.258, the fourth highest path coefficient is environmental CSR and corporate reputation which is 0.250. The lowest and insignificant result of the hypotheses is social CSR and corporate reputation with a path coefficient of 0.129 and social CSR and employee commitment with a path coefficient of 0.162 respectively. The results show a positive association with environmental CSR and financial performance which path coefficient was found 0.308 ($p<0.05$), so the hypothesis H1b is accepted. Table 4 being connected with the social- and environmental-related proactive CSR, the covariance error was allowed of the latent and construct variables to be considered free in order to avoid error in the correspondence parameters.

The results suggest that social CSR and financial performance are positively and significantly associated with each other, with path coefficient of 0.257 ($p<0.05$), hence H1a is also accepted. Paradoxically, our results show an insignificant relationship between social CSR and firm corporate reputation with partial path coefficient of 0.127 ($p<0.10$), consequently, hypothesis H2a is not accepted. This result does not support legitimacy and institutional theory link to CSR. However environmental CSR and corporate reputation are positively associated with each other, with path coefficient of 0.260 ($p<0.05$), leading to accepting hypothesis H2b and partial support of prior work by (Asrar-ul-Haq et al., 2017). Results suggest that based on this sample and the items used for construct development, social CSR and employee commitment do not have a significant relationship with each other, with a partial path coefficient of 0.162 ($p<0.10$), so hypothesis H3a is not supported. Finally, the results show that environmental CSR and employee commitment positively and significantly associated with each other, which path coefficient is 0.250 (p<.0.05), so the hypothesis H3b is accepted. These results lend partial support to prior work by (Zhu et al., 2014; Slack et al., 2015), when looking at employee commitment and social exchange.

Table 6: SEM results

Hypothesis	Relationship	Path Coefficient	Mean	Standard Deviation	T	p	Result
H1a	SOCSR & FP	0.258	0.257	0.050	3.721	0.002**	Significant
H1b	ENVCSR & FP	0.310	0.308	0.078	3.918	0.000***	Significant
H2a	SOCSR & CorRep	0.129	0.127	0.103	1.722	0.162	Insignificant
H2b	ENVCSR & CorRep	0.260	0.259	0.070	3.022	0.004**	Significant
H3a	SOCSR & EmpCom	0.162	0.158	0.108	1.662	0.142	Insignificant
H3b	ENVCSR & EmpCom	0.250	0.248	0.082	2.891	0.002**	Significant

6. Discussion

Our findings support prior work in finding a positive and significant relationship between financial performance and CSR. This improved financial performance can result in access to slack resources and further investment in CSR activities. Organization and stakeholder theory support our findings that there is a motivation to build corporate reputation and close relationships through CSR. The results also support the mimetic and normative mechanisms of institutional isomorphic change. The longitudinal research design allowed data collection two times on an annual basis. Three proxy variables, namely corporate reputation, employee commitment, and financial performance of the firm have been utilized to measure firm performance. Social CSR and environmental CSR were used as independent variables. The results of this study reveal employee commitment and corporate reputation as insignificantly linked with financial performance over time.

Overall, effectiveness of CSR practices and communication result in improved trust, consumers' CSR awareness, employee engagement, and improved perceptions of corporate reputation as CSR are associated with benefits to society (Slack et al., 2015). Moreover CSR practices and communication can be used to enhance the level of public expectations of corporate communication and supported by expectation confirmation theory (Hsu and Lin, 2015). CSR practices including good corporate citizenship and a green premium for products enhance profitability and can attract green consumers. The CSR and financial profitability relationship support additional advantages offered by CSR within adopting organizations (Grewatsch and Kleindienst, 2017).

The results reveal that CSR objectives can be part of the core domain of organizations and help accomplish objectives for social and corporate goals. CSR objectives, including the consideration of realistic goals, quick delivery process, six sigma quality programs, reduction of production waste align with improvements in sustainable development (Seliger et al., 2007). CSR strategic objectives can be associated with organizational efforts to achieve stakeholder's sustainability with a focus on environmental, social, financial and economic performance (Baumgartner and Rauter, 2017). Standards for sustainable development involving social economic and environmental concerns help to identify organizational policies for process efficiency in terms of economic and environment, and continuous improvements employees involvement (Epstein, 2008). Corporate advantage, access to innovation, and implications include attempts to improve CSR can be a driver of improved financial performance (Inoue and Lee, 2011).

This study utilized three dependent variables indicating financial performance, corporate reputation, and employee commitment. The two independent dimensions of CSR were operationalized as social CSR and environmental CSR. Corporate reputation and employee commitment have a significant and positive relationship and impact on financial performance. As per Jamali and Mirshak (2007), the role of the SME sector should include encouraging and motivating employees to take part in CSR activates as this can result in financial benefits. CSR is helpful to save costs as well as reduce energy consumption and while improving financial performance.

Corporate sustainability shows an impact beyond waste reduction at the production level and is strongly related to the satisfaction of CSR stakeholders (Khaleel et al., 2017). The empirical results of this study reveal that measuring the impacts of CSR, i.e., increased efficiency, waste reduction, and improvements in the implementation of standards adopted by more socially responsible firms to improve CSR performance and provide benefits. The multiregional aspects of CSR should not be overlooked as organizational benefits and economies of scale improve the effectiveness of CSR in terms of impact om SMEs and society (Baumann-Pauly et al., 2013). Impact of CSR yields cost benefits, team-based organizational culture, and accepted outcomes involving environmental performance. According to Jamali and Karam (2018), policymakers involved in the SME sector should encourage employers to promote CSR activities for waste reduction, energy, and financial performance benefits and can also promote their activities as part of increased annual reporting which (Stites and Michael, 2011) say is lacking.

Our findings show that social and environmental CSR and the perceptions of firm performance, employee commitment, and corporate reputation create an opportunity to connect economic, commercial, and ecological goals. There is a direct relationship between core business values and sustainability with potential for development by corporations (Bernal-Conesa et al., 2017). CSR is a firm's activity communicating its perceived responsibility to stakeholders. Very interestingly financial performance, employee commitment, and corporate reputation directly affect customer satisfaction and value creation from sustainable practices and should involve both social and environmental characteristics of CSR.

The relationship between CSR and employee commitment is positive and associated with financial performance. In the Pakistani business environment, entrepreneurs and business owners are held responsible for carrying out CSR activities that also impact society. In turn, a strong society can help to set appropriate guidelines for organization to help enable optimum long term returns from investments. To get improved financial performance, firms can invest more investment in the acquisition of assets, products, services, and individuals aligned with CSR values. Based on the literature, results of this study, and our own observations, we find entrepreneurs in control of SMEs and their CSR activities can find new opportunities to raise their employee's workplace commitment through proper training and development in line with (Sroufe and Gopalakrishna Remani, 2018), enabling them to perform more effectively, support environmental and social CSR, and this will, in turn, increase the financial performance of the firm.

Due to the historical nature and rigidity of most of the financial measures, assessment of nonfinancial performance is needed to evaluate overall firm performance. Theoretical contributions of this study include further evidence that CSR leads to many intangible benefits for the company, such as corporate reputation, employee commitment, and non-financial performance. We were able to assess some intangible benefits/assets likely to be influenced by CSR. While the influence of CSR on financial performance is a widely researched area, its influence on non-financial performance still needs further investigation. This study examines the influence of CSR on both financial performance and non-financial performance of Pakistani companies. This study contributes to the literature building on stakeholder, legitimacy and social exchange theories with a focus on the CSR-firm performance link outside of prior studies in mostly developed countries by investigating the impact of the CSR on firm performance in SMEs in a new country context.

7. Conclusion

We have developed an empirical framework to measure how the adoption of CSR activities influence firm performance in the SME sector of Pakistan. Our collection and analysis of longitudinal data find a positive relationship between CSR practices financial performance. The results provide evidence that both social, and environmental dimension of CSR is positively related to financial performance and can contribute to the economic growth of a developing country. This study builds on mechanisms of isomorphic change with the resulting relationships to performance suggesting mimetic and normative isomorphism for SMEs within the context of this study. Our work builds on previous studies of CSR and firm performance, providing further evidence that CSR influences the financial performance of SMEs. The results of this study and the context in which it was operationalized, also reveal a paradox in that employee commitment and corporate reputation are insignificantly linked with firm within the industry, country, and time-periods in this study.

There are several limitations in this study that can be addressed in our call for further CSR research. First, this study highlighted generic CSR issues. Future research should include international management standards such as ISO 9001, SA8000, OHSAH 18000, ISO 14001, and ISO 26000 represent business processes improvement and help make industries more sustainable. Next, the proposed conceptual model can be further utilized and tested for more insights from other developing countries where CSR practices are at the startup level and where there is increased pressure for CSR from stakeholders. This study was carried out using the data primarily from the textile sector, which is a limitation needing further expansion into cross-industry analysis. There is a need for conducting similar studies over large samples in other sectors like education, banking in Pakistan and other developing countries.

Additionally, we measured financial performance, corporate reputation, and employee commitment. The use of three dimensions is a limitation, and future research on CSR needs to include and assess multiple dimensions of performance beyond what was used here. Finally, we utilized a longitudinal research design, and future research needs to involve cross-sectional study designs. The results are important for business professionals, as well as researchers and policymakers in understanding the importance of CSR in developing countries and SME sectors globally.

Contributions of this study include building on the existing stock of knowledge regarding entrepreneurship and SME sector, and suggests that CSR activities help achieve improved financial performance and potential competitive advantage. Further, we have established new insights within the context of Pakistan. In our current global world, CSR strategies can be used in national and multinational firms to enable organizational slack, ensure survival over time, and even be a market leader as organizations invest in environmental and social programs and community relations. The long-term survival of firms and available slack resources should continue to enhance CSR engagement with many important implications for practitioners and researchers.

This study has important implications for entrepreneurs, researchers, and policymakers which can encourage SMEs to adopt CSR activities in Pakistan and elsewhere. We next, expand on the political dynamics of this country to better set an agenda for CSR. To this end, a synchronized effort is needed to develop CSR in the Pakistani SME's sector that delivers a shared value to stakeholders and society at large.

First, there is an urgent need for the government to develop a national CSR policy through consultative process involving businesses, trade unions, chambers of commerce, NGOs, academia, and other stakeholder groups. The inputs from multiple stakeholders would help in identifying and prioritizing the development needs in the country and policy challenges that need attention. Governments should have a distinctive role in the progress of CSR in the SME sector through development and implementation of legislative frameworks. The major responsibilities of democratic government include maintaining rule of law, protection of human and labor rights, and provision of equal opportunities and basic facilities to all its citizens. In Pakistan many of these aspects need urgent government attention to improve socio-economic development of the country.

Opportunities for increasing CSR activities include, but are not limited to:

1. Launch CSR awareness programs to highlight benefits for SMEs and society.
2. Encourage political activities so that companies integrate CSR practices into their business processes, i.e., a governmental award and appreciation program providing certificates to SME's adopting CSR practices.
3. Encourage interactions between SMEs encouraging proactive CSR activities aligned with UN Sustainable Development Goals (SDGs), enabling capabilities for integrating financial, social, and environmental performance.
4. Conduct on-the-job training for employees within SMEs for environmental and social CSR.
5. Develop SME code of conduct (COC) in the native language of CSR activities for a range of employees.
6. Create CSR policies prioritizing strategies of zero waste, zero emissions, community engagement, green parks, and development of restrictive pollution emission laws.
7. Support/subsidies from the government for SMEs to implement and scale the environmental, financial, and other actions of the CSR while increasing dynamic relationships with stakeholders.
8. Extend CSR actions to SME supply chain initiatives supported by quality management that focus on general business development upgrading and training support to integrate social and environmental management.
9. Develop CSR supply chain opportunities for those serving local markets, and global value chains through meeting international standards.
10. Align SME CSR activities enabling the environment and social improvement when upgrading technical and management systems, with links to value creation through quality, productivity, and consumer demands.

Civil society organizations, including NGOs and advocacy groups, have a vital role in developing CSR awareness in public and cultivating a culture for CSR in Pakistan. These organizations can play a significant role in highlighting CSR needs for the government and the corporate sector in Pakistan. Also, civil society organizations have expertise in areas of social and environmental improvement; therefore, civil society and business partnership can enable CSR while simultaneously resolving many social and environmental issues.

Finally, the SMEs need to develop and understand that to compete in international markets; you cannot ignore CSR responsibilities. Pakistani SMEs can work in clusters in which they can collectively deal with the requirements of international buyers and address CSR opportunities in their local communities. To help enable this, the government can provide subsidies to the SME's sector to help them meet international and national management standards such as ISO26000, SA8000 and SMEDA (Small Medium Enterprise Development Authority) which measures and reports CSR activities of SME's. CSR trends and empirical evidence show increasing transparency, opportunities for financial performance improvement, and that SMEs make important contributions to the social needs of society.

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