



**The Emergence of Sustainability Reporting in Pakistan – The  
Institutional Logics Perspective**

**Zeeshan Mahmood**

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## **Dedication**

This thesis is dedicated to

My Parents

**(Mr and Mrs Mahmood Saeed Qureshi)**

For their endless love, sacrifice, encouragement and prayers

My Wife

**(Navida)**

For all the positivity, confidence and strength she gives me

&

My Kids

**(Fatima and Khizar)**

For giving me true happiness during this journey

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Shukr Al-hamdu-lillah  
*All the praises and thanks be to Allah*

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## **Abstract**

This study seeks to examine the institutional logics and processual dynamics behind the emergence of sustainability reporting (hereafter SR) in Pakistan. It investigates both the emergence of the SR field, as well as logics and processes of the initiation and implementation of SR in eight organisations.

This study utilises the institutional logics perspective (Thornton, Ocasio and Lounsbury, 2012) as an analytical framework for institutional and organisational analysis. Using this framework, Pakistani society is conceptualised and analysed as an interinstitutional system which provides the basis for understanding the field as well as organisational-level dynamics. The Pakistani SR field is conceptualised as a socially constructed space in which a variety of social actors, embedded in different institutional orders, are involved in the social construction of SR through constellations of subjective meanings and material practices (known as institutional logics). The theoretical perspective argues for the presence of multiple logics in a given field that both constrain and enable organisational and individual rationality for action. In order to explore these dynamics, this study uses an embedded case study design informed by semi-structured interviews and extensive documentary analysis.

This study identifies the presence of multiple logics in the Pakistani SR field which are linked with the evolution of institutional orders. This study finds that the dominant orders of family and religion act as social constraints for the emergence of SR in Pakistan which is mainly driven by the combination of market, corporate and professional logics. These logics, which collectively make a business case, are propagated mainly by the leading corporates, professional accounting bodies, non-governmental organisations and consultants. These actors through different events (e.g. award ceremonies, conferences, seminars and workshops) are involved in the institutional work for shaping SR. Organisational analysis finds that the decision to initiate SR and the implementation process is mainly driven by institutional forces that are mediated by organisational dynamics and situational contingencies. A combination of rationales is used by corporate managers of the eight organisations for justifying their reporting decision.

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## **List of Abbreviations & Acronyms**

ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
AICPA	American Institute of Certified Public Accountants
CDC	Conservation for Development Centre
CDM	Clean Development Mechanism
CICA	Canadian Institute of Chartered Accountants
CIDA	Canadian International Development Agency
CIMA	Chartered Institute of Management Accountants
CIPE	Center for International Private Enterprises
COCG	Code of Corporate Governance
COP	Communication on Progress
CS	Corporate Sustainability
CSO	Community Service Organisations
CSRCP	Corporate Social Responsibility Center of Pakistan
EIA	Environmental Impact Assessment
EMS	Environmental Management Systems
EPA	Environmental Protection Agency
EUAD	Environment and Urban Affairs Division
GHG	Green House Gas
GOP	Government of Pakistan
GRI	Global Reporting Initiative
HDI	Human Development Index
IAS	International Accounting Standards

ICAP	Institute of Chartered Accountants of Pakistan
ICMAP	Institute of Cost and Management Accountants of Pakistan
IFI	International Financial Institutions
IFRS	International Financial Reporting Standards
IGF	Inspector General Forests
IIED	International Institute for Environment and Development
IISD	International Institute of Sustainable Development and Sustainability
ILP	Institutional Logics Perspective
IMF	International Monetary Fund
ISO	International Organisation for Standards
IUCN	International Union for Conservation
MDG	Millennium Development Goals
MOCC	Ministry of Climate Change
MOE	Ministry of Environment
MONDM	Ministry of National Disaster Management
MTDF	Medium Term Development Framework
NCS	National Conservation Strategy
NEAP	National Environment Action Plan
NEP	National Environmental Policy
NEQS	National Environmental Quality Standards
NGO	Non Governmental Organisations
PCI	Pakistan Compliance Initiative
PEP	Pakistan Environmental Programme
PEPA	Pakistan Environmental Protection Act

PEPO	Pakistan Environmental Protection Ordinance
PERA	Pakistan Environmental Reporting Awards
PIA	Pakistan Institute of Accountants
PIIA	Pakistan Institute of Industrial Accountants
PICG	Pakistan Institute of Corporate Governance
PPP	Polluter Pay Principle
RBI	Responsible Business Initiative
SAR	Sustainability Accounting and Reporting
SD	Sustainable Development
SDPI	Sustainable Development Policy Institute
SECP	Securities and Exchange Commission of Pakistan
SMART	Self Monitoring and Reporting Tool
SR	Sustainability Reporting
TBL	Triple Bottom Line
UNCED	United Nations Conference on Environment and Development
UNEP	United Nations Environment Programme
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organisation
WB	World Bank
WCED	World Commission on Environment and Development
WCS	World Conservation Strategy
WWF	World Wildlife Fund

## Chapter 1: Introduction to the Thesis

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### 1.1 Prologue

There has been a considerable growth in the necessity and desirability of pursuing sustainable forms of development over the last four decades (CIMA, 2010). Various actors including the supranational institutions, governmental organisations and professional bodies are promoting the agenda of sustainable development. As the role of companies in sustainable development is of paramount importance (Herzig and Schaltegger, 2006), the issue of corporate sustainability is also gaining prominence in the agenda of governmental and non-governmental organisations (Unerman and Bebbington, 2007; Tregidga, Milne and Kearins, 2014). Demands for business behaviours that are consistent with sustainability are increasing (Milne, Tregidga and Walton, 2009). Although sustainability is a highly contested and ambiguous term (Gray, 2010) and there are doubts about the applicability of the concept at the organisational level (e.g. Gray and Milne, 2002; Aras and Crowther, 2009; Joseph, 2012), one approach that has emerged as a potential means of progressing towards sustainability has been the contribution of accounting through sustainability reporting techniques (Gray, 2002; Herzig and Schaltegger, 2006; Burritt and Schaltegger, 2010; Schaltegger, 2012; Bebbington, Unerman and O'Dwyer, 2014).

The Global Reporting Initiative (GRI, 2011, p. 3) defines Sustainability Reporting (hereafter SR) as the practice of *“measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development”*. The main mechanism through which organisations discharge their accountability is sustainability reports which are defined as reports *“that include*

*quantitative and qualitative information on their financial/economic, social/ethical and environmental performance in a balanced way”* (KPMG, 2002, p. 7). In practice as well in most of the academic research, SR is used as a broad term that is considered to be synonymous with other terms that are used to describe reporting on economic, social and environmental impacts (e.g., triple bottom line reporting, corporate responsibility reporting and sustainable development reporting). This study acknowledges that nomenclature is unclear although it considers SR as synonymous with other terms mentioned above. Also this research considers SR as an institution which practitioners believe to exist and which is socially constructed by practitioners through constellations of subjective meanings and material practices.

Despite the ambiguities underlying the concept, the practice of SR continues to become more widespread (e.g. Joseph, 2012; Comyns et al., 2013; Bouten and Everaert, 2014; Contrafatto, 2014; Stubbs, Higgins and Rinaldi, 2014; Battaglia et al., 2015). The KPMG (2002, 2005, 2008, 2013) surveys of corporate social responsibility reporting indicate an ever-increasing trend in SR. From only 35% of the world’s largest companies that produced a sustainability report in 1999, the latest survey revealed that *“almost all of the world’s largest 250 companies report on corporate responsibility”* (KPMG, 2013, p. 9) The latest survey in 2013 indicates that over three quarters (71%) of the 4,100 companies surveyed publish sustainability reports. The survey concludes that SR has now become a mainstream business practice. The survey also indicates the spread of SR across industries and across a diverse and eclectic mix of organisations.

Ever since firms started to report on social and environmental responsibility, researchers have sought to understand the patterns (e.g. Gray, Kouhy and Lavers, 1995; Buhr, 1998; Adams, 2004) and the motives underlying social and environmental reporting (e.g. Adams, 2002; Buhr, 2002; O’Dwyer, 2002; Spence and Gray, 2007). Over

the years, there has been a considerable increase in the volume of research on social and environmental reporting. This growing literature however, is dominated by legitimacy theory and stakeholders theory, primarily focuses on examining the external drivers of reporting and mainly draws upon analysis of reports and formal documents (Fifka, 2013; Hahn and Kühnen, 2013). Adams (2002) argues that such a limited focus has ignored internal organisational dynamics, especially the processes by which companies make disclosures and the attitudes of key players. She also maintains that the principal theories put forward to explain reporting practices lack explanatory power and do not capture the complexity of the phenomenon. Gray, Adams and Owen (2014, p. 90) also asserts that theorisation about social accounting within the organisation had been relatively less well-developed and calls for in-depth field studies on the evolution of social accounting within organisations. According to Thomson and Bebbington (2005), there is a need to move away from use of quantitative methodologies in order to explore internal organisational dynamics, as they are not suitable for such empirical focus.

In recent years, researchers have engaged with organisations in order to understand why they report and in particular on the processes of the initiation, institutionalisation and implementation of SR (e.g. Adams, 2002; Buhr, 2002; Adams and Larrinaga-González, 2007; Adams and McNicholas, 2007; Adams and Frost, 2008; Bebbington, Higgins and Frame, 2009; Lodhia and Jacobs, 2013; Contrafatto, 2014; Higgins and Larrinaga, 2014; Stubbs, Higgins and Rinaldi, 2014). These studies attempt to capture SR in action by looking at the institutional and organisational dynamics for the practice of SR. Nevertheless, theoretical understanding and explanation of the evolution, initiation, implementation and organisational effects of SR practices still remain underspecified. Neo-institutional theory is used as the main interpretive lens and the empirical focus is more on the organisational, rather than the field, level (e.g. Bebbington,

Higgins and Frame, 2009; Lodhia and Jacobs, 2013; Higgins and Larrinaga, 2014). In this context, there are calls for more engagement-based studies (Correa and Larrinaga, 2015) at multiple levels of analysis (Aguilera et al., 2007; Spence, Husillos and Correa-Ruiz, 2010) or different *levels of resolution* (Gray, Owen and Adams, 2010) that should explore not only the processes of the initiation, institutionalisation and implementation at the micro-level (organisational), but also the macro-level (field) dynamics for the evolution of SR (Higgins and Larrinaga, 2014).

An exceptional growth can be seen in the practice of SR in the emerging and developing economies<sup>1</sup> as indicated by the latest KPMG (2013) survey. The survey revealed a dramatic increase in SR rates in the Asia Pacific over the last two years. Almost three quarters (71%) of companies based in the Asia Pacific region now publish sustainability reports. Despite this tremendous growth, relatively few studies in SR literature have considered an emerging and developing economy perspective (Belal and Momin, 2009). Earlier research was mainly descriptive, based on secondary data and used quantitative content analysis to find out the extent of reporting and its determinants (e.g. Singh and Ahuja, 1983; Abayo, Adams and Roberts, 1993; Belal, 1999, 2000; Imam, 2000; Belal, 2001). However, during the last decade or so, this topic has been gaining prominence among the researchers in emerging and developing economies and the scope of research studies has been broadened. Nevertheless, there are very few qualitative engagement-based studies. Also the knowledge base is limited to a few country contexts (mainly Bangladesh, India, China and Malaysia) while theoretical explanations are limited to the use of legitimacy theory, stakeholder theory and neo-institutional theory. Therefore there is a need for more research studies in other country

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<sup>1</sup> This terminology is based on the country classification in the World Economic Outlook by IMF (<https://www.imf.org/external/pubs/ft/weo/2012/01/pdf/text.pdf>) which divides the world into two major groups: advanced economies, and emerging and developing economies. According to IMF (2012, p. 177). “this classification is not based on strict criteria, economic or otherwise, and it has evolved over time.”



contexts as according to Belal, Cooper and Roberts (2013, p. 81), “*we know very little about social and environmental accounting practices in many of the emerging and less developed economies*”.

This study seeks to fill the research gaps identified above (and described in detail in chapter 2) and to contribute to the SAR literature by understanding the field-level and organisational-level dynamics that have led to the emergence of the SR phenomenon in the context of Pakistan. The main focus of this research is on the logics and processual dynamics behind the emergence of SR field and initiation of SR by case organisations. This study employs the institutional logic perspective (Thornton, Ocasio and Lounsbury, 2012) as the conceptual framework for institutional and organisational analysis. This study conceptualise SR field as a socially constructed space in which SR is discussed and debated by a variety of social actors which are embedded in different institutional orders and are guided by different institutional logics. Multiple logics exist in SR field which both enables and constrain organisational rationality and action. This study adopts a qualitative, embedded case study methodology, and makes use of documentary analysis and semi-structured interviews with corporate managers and other social actors that are involved in the SR promotion and preparation process regarding their perspectives on the practice of SR in Pakistan. The study not only contributes to the extant literature but also provides useful information for future research studies to be carried out in Pakistan.

## **1.2 Research Objectives and Questions**

In the context of seeking to understand the emergence of SR in Pakistan, this study aims to achieve the following objectives.

1. To explore the institutional environment in relation to the emergence and development of sustainability reporting in Pakistan.

2. To explore the field-level dynamics for the emergence of sustainability reporting in Pakistan.
3. To explore the organisational-level dynamics for the initiation and implementation of sustainability reporting in case organisations.
4. To evaluate the usefulness of the institutional logics perspective in understanding the emergence of sustainability reporting in Pakistan.

In order to achieve the research objectives identified above, this study aims to answer the following two main research questions:

*RQ1: “How” and “Why” has sustainability reporting emerged in the context of Pakistan?*

*RQ 2: “How” can the institutional logic perspective help us to explain the emergence of sustainability reporting?*

For a better empirical and theoretical explanation, this study aims to answer the main research questions by looking into the following sub-research questions.

1. *How has Pakistani sustainability reporting emerged and evolved over the years?*
2. *What are the institutional logics prevailing in the Pakistani sustainability reporting field?*
3. *What are the organisational logics for initiating sustainability reporting?*
4. *How do institutional and organisational dynamics interrelate to shape the initiation and implementation of sustainability reporting in case organisations?*

### **1.3 Importance of the study**

The socio-economic and political realities of emerging and developing economies are different from those of the developed economies. According to the IMF (2012), emerging and developing economies are the most rapidly expanding, and hence the most lucrative

growth markets for business. However, it is in these countries where the social and environmental crises are usually most acutely felt in the world (Visser, 2008; Eweje, 2014). In addition, these are the countries where globalisation, economic growth, investment, and business activity are likely to have the most dramatic social and environmental impacts (Sanchez-Triana et al., 2014). Understandably, developing countries present a distinctive set of sustainability challenges which are collectively quite different to those faced in the developed world (Crane et al., 2008). Since social and environmental reporting has the potential to increase transparency and accountability of an organisation towards sustainability, it is important to increase our understanding of why and how social and environmental accounting is, or is not, evolving in emerging and developing economies (Belal, Cooper and Roberts, 2013; Correa and Larrinaga, 2015).

Business organisations working in emerging and developing economies are likely to have a crucial role, both positive and negative, in sustainable development which amplifies the need for and importance of research within this context (Correa and Larrinaga, 2015, p. 14). Also there is more need for, and importance of, organisational transparency and accountability because of the vulnerability and exploitability that prevails in emerging and developing economies (Belal, Cooper and Roberts, 2013). Because of this, and since SR is profoundly under-researched in developing countries, there is a tremendous opportunity for improving our knowledge and understanding and to contribute to the literature. Finally, accounting technologies (including reporting standards and guidelines) in developing countries are very often exported from the Western developed countries with a presuppositional baggage that ignores the differences in the local context. Therefore, there is a need for research that highlights these differences in the institutional context and unique sustainability issues, as otherwise

imported technologies may not contribute to sustainable development in developing countries (Belal and Owen, 2007).

Engagement-based case studies, exploring logics and processes for the emergence of SR, have both mobilising and enabling potential (Adams and McNicholas, 2007; Correa and Larrinaga, 2015). Such studies can reveal field-level and organisational-level dynamics which affect the adoption of SR across different contexts and organisations. They can also provide more grounded, subtle explanations of specific circumstances which enable the emergence of SR. Since logics determine what is appropriate and where to focus attention, logics also have implications for actual practice (Thornton, Ocasio and Lounsbury, 2012). According to Milne, Tregidga and Walton (2009) sustainability logics constitute the understanding of business actors to do sustainable development and, therefore, to constrain and enable particular actions and developments. SR, through talk and texts, has the potential to shape the institutional field by cultivating particular logics. Social actors may be involved in the collective mobilisation of particular logics, and shape the practice of SR in a way that increases the sustainability of the business and/or society and environment.

Pakistan has been selected as the case for this research because of the paucity of research in emerging and developing economies in general, and Pakistan in particular. Also, the practice of SR in Pakistan is still in its infancy and is largely unregulated as compared to other countries in the region (e.g. India, China, and Malaysia). It is therefore considered that by carrying out a comprehensive research on logics and processes for the emergence of SR in Pakistan, an important contribution could be made to enrich the literature as well as to make suggestions in order to enhance the practice. Lastly, because of the origin of the researcher, it was easy for him to obtain access to important actors and organisations in Pakistan which is very crucial for this type of research.

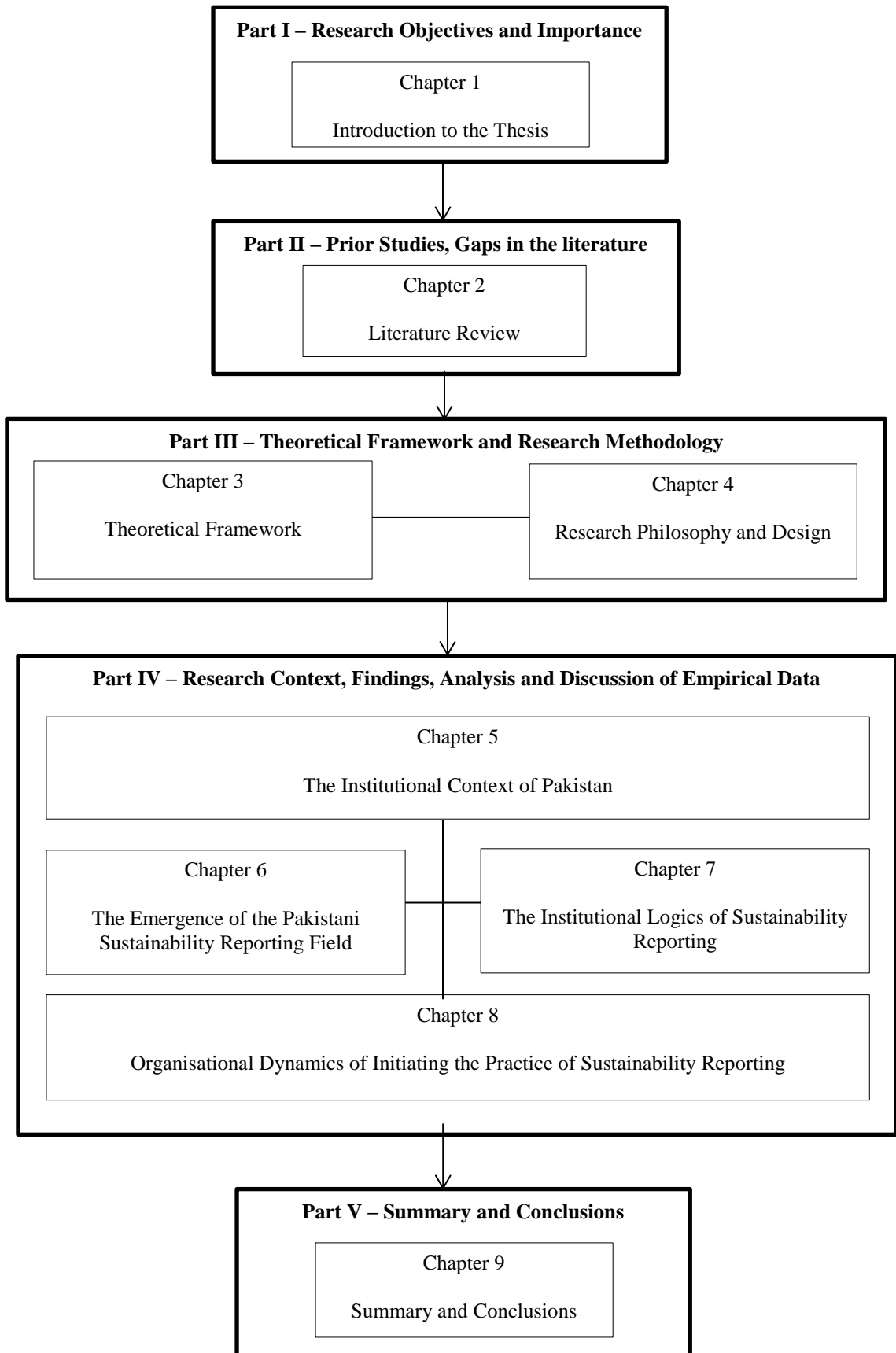
## **1.4 Structure of the Thesis**

This PhD thesis is organised in nine chapters. A diagrammatic representation of the thesis is presented in figure 1-1 below which highlights the link between the chapters. The introductory chapter is followed by chapter two for the discussion of prior studies and identification of gaps in the literature. Chapters three and four articulate the theoretical framing of this study as well as the research philosophy and design. These chapters provide the conceptual basis for the contextual review in chapter five and to present the findings and a discussion in the main empirical chapters (six to eight). The summary and conclusions of this study, including limitations, practical implications, contributions and suggestions for future research, is then presented in chapter nine.

Chapter one provides an introduction to the thesis and highlights the research background, objectives and importance and the way the thesis is organised and structured.

Chapter two presents a comprehensive review of the insights from the existing literature and research studies in the field of sustainability accounting and reporting. It starts with the discussion of the concept of sustainability and sustainable development. It then explores the historical developments in the field before exploring the research focus of extant studies. It then exclusively explores the literature on the subject in emerging and developing economies. Finally, a thorough and in-depth discussion of the relevant theories that have been frequently adopted by research studies in the field, such as the legitimacy theory, stakeholder theory and institutional theory, is explored. The chapter concludes by identifying the empirical and theoretical gaps in the existing literature which this research study addresses.

**Figure 1-1: Structure of the Thesis**



Chapter three presents the theoretical framework for multiple-level analysis of the emergence of SR in Pakistan. It starts with a brief introduction of the institutional logics perspective and then explains the main concepts that constitute the theory. The main contribution of this chapter is a framework for revealing institutional and organisational dynamics for the emergence of SR and its underlying logics. The chapter concludes with the limitations of the ILP.

Chapter four develops the research design underpinning this study. It starts with the discussion of the underlying philosophical assumptions of the research study. Then this chapter explains and justifies the qualitative case study approach, informed by semi-structured interviews and documentary analysis. The procedures and techniques used for data analysis as well as issues with validity and reliability also form part of the discussion in this chapter. Chapters three and four provide the foundation for the empirical work which is then provided in chapters' five to eight.

Chapter five provides a detailed account of Pakistani society as an interinstitutional system so as to explain the unique contextual setting within which this research study is situated. Chapter six discusses the historical account of the emergence and evolution of the Pakistani sustainability reporting field. The core of the chapter is to identify and explain field-level dynamics in the form of various events, actors, and their focus of attention, material practices and accompanying rationality. Chapter seven provides further substance for the findings from chapter six by explaining the institutional logics that prevails in the Pakistani SR field. Chapter eight presents findings from the eight organisations that have initiated the practice of standalone sustainability reporting. After presenting analysis of the eight organisations, the chapter concludes with the synthesis and theoretical discussion of the empirical insights of the eight cases.

Chapter nine is the concluding chapter. It restates the research background, summarises the key findings and make conclusions that address the research questions. The chapter also outlines both empirical and theoretical contributions as well as practical implications of this research. The chapter concludes with the limitations of this research study and potential avenues for future research.



## Chapter 2: Literature Review

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### 2.1 Introduction

The main question, “how and why has sustainability reporting emerged in the context of Pakistan?”, is to be framed within the context of existing literature. This chapter serves the purpose and presents a detailed and systematic review of the existing literature from both empirical and theoretical point of view. This chapter is organised into six sections. The first section attempts to understand and define the domain of corporate sustainability. The second section aims to review of the historical emergence and evolution of corporate sustainability reporting. The third section reviews existing studies that explore the dynamics of sustainability reporting in terms of both the rationale and process. Empirical research related to sustainability reporting in the context of emerging and developing countries is the main focus in the fourth section. Section five explores key theoretical perspectives that have been employed by previous researchers. Finally section six identifies the empirical and theoretical gaps that form the basis of research objectives and questions which this PhD study aims to address and contribute to the literature.

### 2.2 From Sustainable Development to Corporate Sustainability

The idea of Sustainable Development (hereafter SD) has developed over the last forty years. Prior to 1980, SD was part of the environmental lexicon, especially in the third world development context. The concept grew prominence in 1980 with the publication of IUCN’s world conservation strategy (Dryzek, 2013). SD as a concept gained momentum when the World Commission on Environment and Development (WCED) developed the term (Kaidonis, Stoianoff and Andrew, 2010). SD was defined by the commission as *‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’* (Bruntland, 1987, p. 43). This

definition is the one which is widely used and referred to by various governments, corporations, and other organisations across the world in their discussion on the concept. However the definition is very vague and is subject to multiple interpretations. According to Reid (1995) this was a deliberate strategy of the commission and that the vagueness and resulting flexibility has allowed the concept to attain popularity. Bell and Morse (2008) consider this flexibility and popularity as one of the main reasons for sustainability to remain fashionable and mainstream. However, Laine (2010) equates this to the blurriness to the various social actors that proposed and subsequently applied their own definitions of the concept. An important dimension to this debate was added by Dryzek (2013) who considers SD as a discourse that can be defined with any precision and proliferation of definitions as attempts to stake claims in the territory rather than adding conceptual precision to the term. According to him, the SD discourse has been captured by international business and over time environmentalists are becoming less visible. Overall, as Gray (2010) argues, sustainability is a highly contested and ambiguous term.

This contestation, ambiguity and differentiation over the meaning of sustainability is explained by Byrch et al. (2007) as different environmental “worldviews” held by different individuals and organisations for the fundamental beliefs about humanity’s proper relationships with nature. Discussions of these worldviews are often presented in the form of ideal types of sustainability and have been given various labels such as ‘reformist’ and ‘radicals’, ‘technocentrics’ and ‘ecocentrics’, ‘business view’ and ‘public view’ on sustainability, ‘light green’ and ‘deep green’, and ‘weak sustainability’ and ‘strong sustainability’ (Laine, 2005, p. 397). Broadly speaking, these different worldviews are distinct approaches to sustainability as they present different ideas on the problems and solutions for sustainability. In the weak sustainability view, environmental

and social problems are perceived to be less severe and less in conflict and sustainability is considered as a solution which will achieve simultaneously economic growth, environmental protection and social improvements. In the strong sustainability view, social and environmental problems are perceived to be more structural which requires radical solutions (e.g. restructuring of the current economic system). Sustainability is more considered from ecocentrics' viewpoints, placing the biosphere as a whole at the centre of the analysis (Bebbington, 2001).

Despite this vagueness and uncertainty over its meaning, the concept is extremely popular and during the last two decades, the concept has established itself as a prominent idea on both the local and global scale (Laine, 2010). Currently, sustainability is one of the most overused words in business (Aras and Crowther, 2010). According to Blowfield and Murray (2008), the definition of sustainability marries intragenerational and intergenerational equity and also wraps up the notions of 'eco-justice' and 'eco-efficiency'. However, their literature review confirms that 'sustainability' is mainly used to refer to a much narrower eco-efficiency agenda. This notion of 'eco-efficiency', according to Schmidheiny (as cited in Gray and Bebbington, 2007), was coined by WBCSD to capture the issue of "environmental justice". Gray and Bebbington (2001) argue that eco-efficiency alone is not sufficient to result in sustainability as it fails to capture increases in total environmental resources through material growth in consumption and production. They coined the term 'eco-effectiveness' to capture this phenomenon and propose 'eco-efficiency', 'eco-justice' and 'eco-effectiveness' as three essential elements of sustainability. Eco-effectiveness, here, is concerned with the total global impact of production and consumption whereas eco-justice (social) is related to intergenerational and intergenerational equity. For Gray and Bebbington (2001), all three

conditions/elements; eco-justice, eco-efficiency and eco-effectiveness must be met for both current and future generations in order to achieve sustainability.

There are different views on the origin of the concept of corporate sustainability (hereafter CS). According to Christofi, Christofi and Sisaye (2012), the concept of CS, in general, is the outgrowth of earlier concerns expressed in CSR, environmental regulation, SD, and stakeholder theory. In the management science literature the concept of CS refers to the capacity of the firm to create value and to continue operating over a long period of time (Perrini and Tencati, 2006). In this context, sustainability helps corporations to create sustainable competitive advantages. According to Christofi, Christofi and Sisaye (2012), the concept takes a different shape when, in 1992, the UN conference on environment and development promoted the idea of CS. During these times, the role of business in achieving the goals of SD was under constant debate which created a different view of the concept of CS. According to Gray and Bebbington (2000), WBCSD played a key role in convincing policy makers and governments around the world that businesses can deal with SD. As a result, the concept of SD was transposed to the corporate settings and CS emerged as a micro-level theoretical counterpart of the macro-level concept of SD (Utting and Clapp, 2008). In this way, the concept of CS marries the goal of value creation with environmental and social considerations (Christofi, Christofi and Sisaye, 2012). To what extent these goals can be achieved is a contentious issue between critics and business proponents. The view of critics is presented in the next section. For proponents, corporate sustainability leads to sustainable development. A business must give due consideration to social and environmental issues. These issues shall be recognised as sources of opportunities and risk prevailing in the business environment. Once addressed, this ensures continuation (sustainability) of shareholder value as well as contribution of a business towards sustainable development. This view is reflected in the

Dow Jones Sustainability Index (DSJI, 2012), which defines CS as a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments.

There is a general consensus over the importance of the concept of corporate sustainability. According to Hopwood (2009), sustainability poses a challenge to modern organisations. They should expand their traditional economic objective of shareholder wealth maximisation to include social and environmental elements if they are to operate in a sustainable manner. However, difference of opinion exists over the actual realisation of the concept of corporate sustainability. While there are researchers who believe that there is no conflict in the corporate pursuit of these demands, Gray (2013) argues that corporate quests for profitability, responsibility and sustainability are contradictory positions and are a pursuit of impossible dreams (Gray and Bebbington, 2007). Similarly Blowfield and Murray (2008) argue that markets under capitalism are principally designed to benefit wealth through the serious pursuit of profit. Markets and capitalism are simply not designed for the delivery of a socially responsible range of activities. As a result of this, sustainability becomes an issue when there is a clear economic (market) case for taking action. This is why corporations are encouraged to identify opportunities that have positive social or environmental implications alongside positive economic benefits (Cooper, 2013). Once a business case is identified, such voluntary initiatives are then justified in the name of responsibility, sustainability and a win-win solution for business and society. For example, modern corporations are putting much emphasis on initiating energy-conservation solutions as not only this enables them to provide a competitive advantage (through cost reductions), but also leads to less carbon emission. This reduction in carbon emissions then enables them to portray their role in sustainable development.

Companies generally refer to the economic-environment dimension of SD as corporate sustainability. According to Gray, Owen and Adams (1996), sustainability is essentially a social concept (intergenerational and intragenerational equity). But this dimension is completely missing from the corporate discourse. Overall, extant literature suggests that this economic imperative (dominant) is competing, and acting as a constraint with other imperatives (weak) which includes eco-justice issues of sustainability. An empirical example of this was provided by Belal and Cooper (2011) in their research study which demonstrates how the needs of powerful economic stakeholders are given priority and how quests for profitability, competitiveness and foreign investment led to the exploitation of children and women. This selective application of the concept led many researcher to conclude that the concept of corporate sustainability is captured by business (big corporations) which redefines the concept of corporate sustainability in a business-specific manner (Murray and Haynes, 2013). The notion of SD is presented as largely congruent with business as usual and that, in fact, makes good business sense (Spence, 2007).

### **2.3 Emergence and Evolution of Sustainability Reporting**

Sustainability reporting (hereafter SR) is among the recent developments in a long line of proposed reporting innovations that have attempted to extend the scope of the accountability of an organisation from financial accountability to include non-financial aspects. Buhr, Gray and Milne (2014) noted that the history of SR can be traced back to as early as the 1960s in the form of employee reporting that eventually came to be known as social reporting. Then, the concept of social responsibility spread in the 1970s both in Europe and in the United States. For the first time, organisations started to recognise their role in society above and beyond profit maximisation. This time period also marked the publication of the first wave of social reports (Fifka, 2013). By the end of the 1970s and

early 1980s, the concept of social responsibility as well as the practice of social reporting started to fade. Then, towards the end of the 1980s and early 1990s, attention was shifted towards environmental issues and this led to the emergence of environmental reporting. As the practice of environmental reporting was getting recognition, ideas about sustainability started to emerge and grew in recognition. The famous Brundtland report moved past the environment issue and established the notion of sustainable development, which covers issues related to both social and environmental sustainability.

With the increase in awareness of the concept of sustainability, different organisations and individuals started to pay attention to the concept of sustainability and initiated their efforts to transform the idea into practice (Bouten and Everaert, 2014). In this regard, the idea of sustainability accounting and reporting (hereafter SAR) was first conceived by Deloitte (a Big 4 accountancy firm) and the International Institute of Sustainable Development and Sustainability (IISD), as the link between environmental, economic and social performance (Buhr, Gray and Milne, 2014). The term “triple bottom line” (TBL) was initially coined by Elkington (1997) to represent reporting on environmental, economic and social performance. The idea was then further developed by the Global Reporting Initiative (GRI), which developed guidelines for such reporting and named them as sustainability reporting guidelines. Since then, the term ‘sustainability reporting’ emerged and was adopted by companies to represent reporting on economic, social and environmental performance. Although it was given the name of sustainability reporting, critical researchers believe that it has nothing to do with sustainability and such reporting at best is triple-bottom line reporting (Gray, Adams and Owen, 2014). The impact of GRI guidelines on the practice of sustainability reporting can be understood from the fact that the year when GRI guidelines were launched, almost 50 companies issued sustainability reports using these guidelines (Brockett and Rezaee, 2012).

An important feature of this historical emergence and evolution of SR is the linkage with sustainability awareness. It can be said that, at least in the context of developed countries, one of the factors that led to the emergence of SR is sustainability awareness. However, sustainability awareness itself is related to a number of other factors and is something that never remains constant. This has been noted by Buhr, Gray and Milne (2014) who recognise societal factors (socio-economic and political) as well as critical events that increases or decrease interest in topics such as social and environmental sustainability. They gave the example of the UK where interest in sustainability was found to be low during the time of conservative politics as well as during times of tough economic crisis. During these times economic growth and development takes precedence over sustainability.

While lack of political interest and economic crisis proved to be the main hindrance towards sustainability interest and awareness, critical events have been highlighted as the main factor responsible for the increase in societal interest and awareness about sustainability issues. Two such events include the Exxon Valdez disaster and the Bhopal tragedy (Hoffman, 1999). The Exxon Valdez disaster resulted in the establishment of the “Ceres/Valdez Principle” which defines a set of environmental reporting guidelines which were subsequently transformed into sustainability guidelines. It is not necessary that only events of an accidental nature raise interest and awareness; sometimes events of a softer nature may also do the task. For example in the US, celebration of earth day and publication of the Brundtland report led to the emergence and recognition of the sustainability movement. While these events create awareness, later developments which include creation of environmental protection agencies and passage of different pieces of legislation related to air, water and endangered species,



played an important part in the development of environmental aspects of sustainability reporting (Brockett and Rezaee, 2012).

Historical evolution is also linked with the role played by different actors (governments, NGOs, standard setters, professionals) in promoting sustainability and its reporting. These actors also played an important role in keeping the sustainability agenda alive, shaping it to suit their interests, and developing regulations, norms and guidelines. Gray, Adams and Owen (2014) noted that governments showed little interest in legislating disclosure of social and environmental information. There are very few countries where SR is mandatory. The first country that adopted a mandatory SR was Finland which did so in 1997. Since then, regulation for SR, in different parts of the world, is emerging in the form of legal frameworks by governments or listing requirements of stock exchanges that mandate this form of disclosure.<sup>2</sup> However the practice of SR is still voluntary in most parts of the world. Regulation has been recognised as an important factor in the emergence of SR in different countries as it motivates disclosure (Gray, Kouhy and Lavers, 1995) and is an important source of cognitive dissonance for managers (Adams and Whelan, 2009). In a joint research study by CICA, AICPA and CIMA (2010), compliance and regulatory requirements remains the most commonly cited critical driver for both large companies and SMEs for the adoption of sustainability practices.

Many academics argue in favour of mandatory SR as this will increase the incidence of reporting as well as the reliability and comparability of such reporting (e.g. O'Dwyer, Unerman and Bradley, 2005; Gray, 2006; Owen, 2007; Unerman and O'Dwyer, 2007). However, empirical evidence indicates inconsistent results related to

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<sup>2</sup> Other countries adopting similar laws are Australia, Austria, Canada, China, Denmark, France, Germany, Greece, Indonesia, Italy, Malaysia, the Netherlands, Norway, Portugal, Sweden, and the United Kingdom. In July 2011, the Singapore Exchange (SGX) introduced a "sustainability reporting guidance" framework, requiring its listed companies to disclose accountability for their operations and conduct business in a sustainable manner.

such linkage. Ioannou and Serafeim (2014), in their research on the impact of regulation on firms' sustainability disclosures and organisational processes, found that in some countries (China and South Africa) regulation results in an increase in disclosures as well as reliability and comparability while in other countries (Denmark and Malaysia), firms responded differently. At the same time, scholars are critical of the fact that regulations for SR may not be the solution for the problem of accountability towards society and the environment.

According to Gray, Adams and Owen (2014), there has been special interest and enthusiasm of NGOs in driving the sustainability agenda including SR. These NGOs, through initiatives, collaborations, conferences and workshops, are playing an active role in raising the interest and spreading it to other countries. Most noticeable is the role of the UN Global Compact which is "*a voluntary initiative that relies on public accountability, transparency and disclosure to complement regulation*" (Knudsen, 2011, p. 334). According to Bennie, Bernhagen and Mitchell (2007), corporate membership to UNGC provides opportunities for reputation and legitimacy. Another important role in promoting environmental and sustainability credentials was held by UK professional accounting bodies. These professional bodies actively worked through research projects and were influential in Europe. Among the four professional bodies, the most significant role was that of ACCA in launching reporting awards which set norms for the reporting practice (Gray, Adams and Owen, 2014). Interestingly, despite this special interest by professional bodies, empirical evidence suggests that individual accountants are less interested in sustainability disclosures (e.g. Buhr, 2002; Adams and Frost, 2008).

In the first decade of the 21<sup>st</sup> century, much progress has been made in sustainability reporting. There are a number of guidelines and multi-stakeholder initiatives that guide the reporting process. These include initiatives from diverse entities

including SustainAbility/UNEP, AccountAbility and GRI. Among all of these initiatives, GRI has been more successful in the establishment of generally accepted reporting principles for environmental, social and sustainability reporting. Also there has been significant increase in the breadth and depth of reporting practice. A large number of companies are engaging in sustainability initiatives and reporting them in their annual reports, websites and other medium of communication. This upward trend can be gauged from different surveys conducted by professional organisations (e.g. KPMG, 2002, 2005, 2008, 2013) and empirical studies of some researchers (e.g. Kolk, 2003, 2004, 2008). Buhr, Gray and Milne (2014) noted that some of the greatest growth in both stand-alone reporting and combined reporting has occurred in the relatively recent past, from 2005 to 2011. According to the GRI (2015), more than 8,000 global companies disclose sustainability information. However, considering the total number the world's organisations; this is a very small proportion. At the same time, there are challenges in application of the GRI framework, even among the world top organisations (Milne, Tregidga and Walton, 2009).

Since the use of the term “sustainability reporting”, its development has followed two main paths. One group of researchers (e.g. Gray and Milne, 2002; Aras and Crowther, 2009; Gray, 2010) takes the critical theory perspective and considers corporate sustainability accounting and reporting as a mere “buzzword” or a fad that will disappear in time. These researchers doubt the existence of anything like sustainability reporting (Buhr, 2007). Rather, these researchers consider sustainability accounting and reporting as a source of the problem that leads to unsustainable development. These researchers provide various arguments in support of their position. One strong argument put forward by Gray and Milne (2002) in this regard is that the sustainability report product is not serviceable, and it cannot be serviceable by definition. They cast serious doubts over the

applicability of the concept of sustainability at the corporate/organisational level. This follows the argument of Aras and Crowther (2009) which suggests that “sustainability” is insufficiently understood and that is why any accounting or reporting based on the notion is either unknown or flawed and simplistic. There is not much disagreement over the definition of sustainability, however understanding of the ways in which this is put into practice is a tricky bit of work and is open to all kinds of possibilities (Buhr, 2007). For critical researchers, one should question the rhetoric of corporate sustainability manifested by corporations in their sustainability reports in the context of this flawed and simplistic understanding of the concept of sustainability (Burritt and Schaltegger, 2010).

On the other hand, some researchers take the managerial perspective and consider sustainability accounting and reporting as a process and a product that is serviceable. Companies like to engage in the process and like to wear the product for everyone to see. There may be various reasons for this engagement. There may be various internal and external pressures and the resulting opportunities that lead companies to become involved in SR (these will be explored in the next section). Whatever the reason is, for this group of researchers sustainability accounting and reporting is something that exists and provides solutions to the problems of unsustainable development (Burritt and Schaltegger, 2010). Corporate Sustainability reporting is viewed as a new shift of the paradigm where it is not only concerned with the disclosure of relevant sustainability issues but is also considered as an integral part of the corporate communication process between companies and its internal and external stakeholders (Sawani, Zain and Darus, 2010). This feature of sustainability reporting is evident from the definitions KPMG (2002, p. 7) which defines sustainability reports as *“reports that include quantitative and qualitative information on their financial/economic, social/ethical and environmental performance in a balanced way”*. Similarly the GRI (2011, p. 3) defines sustainability

reporting as “*a practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development*”. Despite the two paths, in much of the practice and in the academic discourse, SR is synonymously referred to as corporate social and environmental reporting (CSER), sustainable development reporting (SDR), corporate responsibility reporting (CRR) or reporting on the triple bottom line (TBL) (Buhr, 2007; Bebbington, Higgins and Frame, 2009; Amran and Haniffa, 2011). This study acknowledges that nomenclature is unclear although it consider SR as synonymous with other terms mentioned above which refer to the same intention, i.e. to report corporate responsibility towards their stakeholders over economic, social and environmental issues.

## **2.4 Dynamics of Sustainability Reporting**

While the incidence of SR is increasing as indicated above, the practice is still largely voluntary. The format and content is not regulated and there are concerns that such reporting is captured and institutionalised either by companies, non-governmental organisations, dominant stakeholders, or by other entities (O'Dwyer, 2002, 2003; Parker, 2005; Belal and Owen, 2007). In the absence of any mandatory requirements for SR, there can be various motivations/rationales, internal (organisational) and external (contextual) factors that drives organisations to initiate such reporting. Understanding of these dynamics has been the major concern amongst the social and environmental accounting researchers (Deegan, Rankin and Tobin, 2002; Owen, 2004, 2007; Bebbington, Higgins and Frame, 2009; Contrafatto, 2014).

Empirical research exploring the motivations/rationales for undertaking SR suggests organisational legitimacy (Deegan, 2002) and stakeholder management (Deegan and Blomquist, 2006) as major motivations behind disclosures on sustainability issues. The decision to produce and publish the first environmental report, was, according to

Buhr (2002) motivated by a desire to fill a legitimization gap and to attain social legitimacy in order to operate. The main motivation for reporting, as found by Adams (2002, p. 245), was “*to enhance corporate image and credibility with stakeholders*”. According to Larrinaga-Gonzalez and Bebbington (2001), desire to control the national environmental agendas and perception of corporate performance was the main motivation among those organisations in disclosing the largest amount of environmental information.

While most of the rationales can be categorised as socio-political which focus on symbolic benefits of SR, research also indicated market-based rationales and the ones which focus on material benefits (Higgins and Larrinaga, 2014). For example, in a research study by Bouten and Everaert (2014), interviewees refer to market opportunities in the form of inclusion in the sustainability index and fulfilling the demand of institutional investors. A comprehensive list of these rationales are reported in the book chapter by Buhr, Gray and Milne (2014, pp. 61-62) which include: moral and ethical reasons, competitive advantage, peer and industry pressure, public relations, image management, risk management, financial benefits and regulation. They noted that sometimes the numbers of rationales are used by companies to explain their reporting situation. They also noted the proactive and reactive posture of companies in rationalising their decision to report. These observations indicate the diversity and complexity of motivations. However, a majority of these motivations, as suggested by Spence and Gray (2007) referred to some sort of commercial considerations articulated around the notions of the business case (both in the form of material and symbolic benefits) rather than the ethical responsibility case.

Empirical research exploring the external (contextual) and internal (organisational) factors that drive an organisation’s decision to report discovered a number of factors over the years. A meta-analysis by Fifka (2013) confirms that most

empirical studies found size, industry and profitability as internal determinants while stakeholder pressures and regulation were external drivers of such reporting. In a similar study, Hahn and Kühnen (2013) confirm that most empirical studies found corporate size, financial performance, social and environmental performance, and ownership structure as internal factors with corporate visibility or industry affiliation, country of origin and legal requirements as external factors driving SR. In addition to this, cultural context, socio-economic context, media pressure, awards and critical events are also recognised as external drivers (Adams, 2002). Overall, in the literature, SR is considered as an outcome of multiple factors and drivers (Contrafatto, 2014).

Methodologically, a vast majority of these factors were derived from the desk-based quantitative research which illuminates these dynamics by looking at disclosures in the annual report and hypothesising and testing their relationship with a number of factors (Owen, 2007). However, in recent years researchers have taken an interpretive approach for understanding why organisations undertake such reporting and the drivers (internal and external) of such reporting through qualitative content analysis of the annual reports and semi-structured interviews from organisational participants (see e.g. Adams, 2002, O'Dwyer, 2002). These studies gather primary data by explicitly seeking views of management about factors that motivate them to report. Broadly, these studies suggest an assemblage of factors (internal and external) that influence the extensiveness, quantity, quality and completeness of reporting as well as decisions and rationale to initiate the reporting process. Such an understanding is considered important as this may help in subsequent organisational change towards improved sustainability performance (Adams and Whelan, 2009).

This line of research is then further extended by researchers who focus on engagement-based field studies so as to provide better understanding of the processual

dynamics that influence both the reporting decision and the reporting practice. These studies, which are very scarce (e.g. Adams, 2002; Buhr, 2002; Adams and Larrinaga-González, 2007; Adams and McNicholas, 2007; Adams and Frost, 2008; Bebbington, Higgins and Frame, 2009; Lodhia and Jacobs, 2013; Contrafatto, 2014; Higgins and Larrinaga, 2014; Stubbs, Higgins and Rinaldi, 2014) are mainly looking at the “how” question in addition to the “why” question. These studies attempt to capture SR in action by looking at the institutional dynamics, organisational dynamics and practice of sustainability reporting. For example, the first environment report, according to Contrafatto (2014, p. 16), “*was the result of internal organisational dynamics, which were spurred by the influence (e.g. mimetic and normative) exerted by the favorable institutional factors*”. He found that the main rationale driving the reporting process was the notion of environmental responsibility as managers perceive the decision to report as the logical consequence of the initiatives undertaken by the company in respect of orientation towards environmental responsibility. He denies the fact that reporting is spasmodic or coincidental and their explanation gives importance to the internal processes as important determinants of reporting.

Bebbington, Higgins and Frame (2009) suggested that in the initiation of SR, external (institutional) pressures as well as internal organisational dynamics played an important role. However, the main rationale for the initiation of reports was identified as the business case (in terms of symbolic and material gains). They identified the importance of reporting workshops by NZBCSD<sup>3</sup> as part of external dynamics through which the business case was promoted and reinforced to the reporting organisations. They also highlighted how organisational dynamics in the form of business challenges, differentiation strategy and perception of rewards mediated the influence of external

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<sup>3</sup> New Zealand Business Council for Sustainable Development



dynamics on reporting organisations. Their analysis, however, was mainly aimed at the organisational-level rather than the field-level. Lodhia and Jacobs (2013, p. 606), in their study, found that “*reporting practices were driven by internal pressures as influenced by consultants and advisors such as ACCA with interests in promoting the growth of environmental reporting*”. They discovered that practice of environmental reporting was based on the notion of compliance and was driven by the desire to show leadership in this area. Their findings highlighted the need to understand not only organisational dynamics (e.g. internal factors and role of champions) but also how these internal factors (e.g. needs and interest of champions) are shaped by external factors.

The role of internal champions (e.g. CEO, communication managers) has been confirmed by a number of other studies as well as the role of internal organisational dynamics (Spence and Gray, 2007; Bebbington, Higgins and Frame, 2009; Bouten and Everaert, 2014). However, as argued by Higgins, Milne and van Gramberg (2014), these managers are part of the broader field in which sustainability reporting is discussed and are subject to different external (institutional) pressures and expectations which both constrain and enable their interests and actions. Therefore, for complete understanding of the dynamics related to the rationale and process, due attention shall be given to the processes and actors at the field-level in addition to the individual organisational circumstances (Higgins et al., 2014). Also, as argued by Aguilera et al. (2007) there is a need to understand the societal factors as business organisations are embedded in different national systems which expose them to different social, political and economic contexts and affect the salience of internal and external dynamics. Therefore there is a need for a multiple-level analysis (societal, field and organisational) which is missing from the literature.

## **2.5 Sustainability Reporting in Emerging and Developing Countries**

Despite of the fact that companies preparing sustainability reports in emerging and developing countries are fewer in number as compared to developed countries, the growth rate is stronger than developed countries as confirmed by a survey commissioned by the GRI, which revealed that the number of reports has quadrupled since 2005 (Guardian, 2011). Likewise, the KPMG (2013) survey revealed an exceptional growth in the practice of SR in the emerging and developing economies. The survey records a dramatic increase in SR rates, especially in the Asia Pacific where almost three quarters (71%) of companies now publish sustainability reports. Despite of this tremendous growth, research on SR focused mainly on developed countries with very little research available in developing countries (Belal and Owen, 2007; Islam and Deegan, 2008; Sawani, Zain and Darus, 2010; Amran and Haniffa, 2011). Much of the earlier and the current research are descriptive in nature and follow or replicate similar research in developed countries on sustainability practices. They are mainly based on secondary data and use quantitative content analysis to find out the extent of reporting and its determinants (e.g. Abayo, Adams and Roberts, 1993; Belal, 2000; Imam, 2000; Belal, 2001; De Villiers and Van Staden, 2006) There are two common findings of this kind of research. First, companies operating in developing countries provide limited disclosure on social and environmental performance and second, there are inconclusive and inconsistent results about determinants which range from company size, performance, industrial affiliation, culture, ownership structure, and board composition (Belal and Momin, 2009; Islam, 2010).

More recent research in the context of developing countries not only describe the practice and its determinants but also explain the practice and its institutional and organisational context (e.g. Rahaman, Lawrence and Roper, 2004; Kuasirikun, 2005;

Belal and Owen, 2007; Islam and Deegan, 2008; Amran and Haniffa, 2011; Beddewela and Herzig, 2013; Momin and Parker, 2013). These studies are the main focus of this literature review. The majority of these studies are interview-based exploring the perception of corporate managers and stakeholders. There are very few case-based studies that provide an in-depth analysis of the organisational practice of reporting in its institutional context. Theoretically, the majority of these studies have employed the dominant theoretical perspective of legitimacy theory and stakeholder theory in order to explain drivers and motivations behind such reporting. However in recent years, there have been few institutional theory-based studies which focus on both institutional and organisational dynamics. Overall, such research is very scarce and contributes towards identifying motivations and various factors (institutional, organisational and individual) that shape such motivations and organisational practice of sustainability reporting in developing countries.

Empirical studies in developing countries highlight the importance of studying societal (socio-economic, political and cultural) contexts as part of the institutional environment that significantly impact the disclosure practices and organisational rationales in developing countries. These contexts represent various structural and cultural conditions prevailing in a particular society. As argued by Islam and Deegan (2008), explaining this context can unbox various social and environmental expectations and pressures being exerted on an organisation and help in understanding their motivations. Various conditions that have been identified in the literature include: dependence on foreign aid, high level of poverty, corruption, inequalities, social exploitation, ownership concentration, strong ties between business interest groups and political parties, lack of awareness and interest in sustainability matters, lack of education, low media pressure, lack of civil society activism, lack of regulation, weak

government structures, lack of political will, and lack of enforcement capabilities (Belal, 2008; Ahmad, 2010; Belal and Cooper, 2011; Mahadeo, Oogarah-Hanuman and Soobaroyen, 2011; Momin and Parker, 2013). These conditions provide opportunities and constraints for the practice of SR in these countries. For example, Gao, Heravi and Xiao (2005) explain low levels of reporting in Hong Kong through lack of pressure from community groups and enforcement of regulations. Similarly, Kuasirikun and Sherer (2004) explain the lack of enforcement and lack of effectiveness of pressure groups in Thailand for the lack of reporting. Absence of CSR reporting in Jordan is reported by Naser and Abu-Baker (1999) due to the absence of regulatory requirements. In their study, Belal and Cooper (2011) associate lack of legal requirements, lack of awareness, lack of resources, lack of performance and associated fear of bad publicity as necessary explanations for the absence of social reporting in Bangladesh.

Momin and Parker (2013) also associate lack of reporting with the complex cultural business and regulatory environment in Bangladesh that discourages corporate self-praise, fails to require and enforce reporting, and promotes a climate of secrecy in business dealings and accountability. Their study revealed religious beliefs to be an important aspect of cultural conditions that is pertinent to Muslim-majority countries. Their study confirms that in Bangladesh, particular Islamic values act as a constraint for reporting as Islam regards self-disclosure of good deeds in a negative light. While explaining the lack of regulation related to social and environmental responsibility, they argue that structural dependence of politicians on the ruling economic class is one major reason that the status quo is maintained in these countries. Very few studies confirm (e.g. Mahadeo, Oogarah-Hanuman and Soobaroyen, 2011) some influence of local cultural conditions as an enabler of SR which is mainly driven by outside forces (Belal and Owen, 2007; Islam and Deegan, 2008; Momin and Parker, 2013). The following section will

explore in detail various motivations and factors behind those motivations for sustainability reporting.

Rahaman, Lawrence and Roper (2004) provide empirical evidence for the strong institutional compliance of World Bank requirements in the practice of environmental reporting for Volta River Authority in Ghana. Further to this, they explain that the particular situation of the authority, which they explain as the historical circumstances and constant financial difficulties, have locked in the authority for that sort of compliance. Belal and Owen (2007), through their engagement-based study of corporate social responsibility practice in Bangladesh, confirms that overall, the process of corporate social reporting is driven by external forces (notably parent companies and foreign buyers). In the presence of these external pressures, the main motivation and concern of managers is to improve corporate image and to manage powerful stakeholder groups. Their study sheds light on the possible tensions between specific national, organisational and international pressures facing any developing country. They argue that these pressures may provide a necessary explanation, and may influence the motivations. In addition to these institutional factors, their study also reveals that specific organisational circumstances and individual factors also affect the disclosure practices inside organisations. At the individual level, they found that those executives which have more exposure to Western ideas were more inclined to incorporate their ideas in order to improve corporate image.

Islam and Deegan (2008) observe that the pressures being placed on the Bangladeshi clothing industry by powerful stakeholder groups (multinational buying companies) were directly related to the expectations of the global community. Their study confirms that these pressures were reflected in the disclosure practices of the industry. In the presence of these external pressures, the main motivation was found to be economic

rather than concerns for social responsibility from the ethical perspective. They also found that critical events (child labour and frequent accidents) trigger the attention of the global community towards the issues related to social responsibility and impose their responsibility expectations through buying companies. Local media and NGOs add further pressure on the industry which had to respond to these expectations as external and internal pressures threaten the survival of the industry. Their findings provide empirical support for three theoretical perspectives. From the legitimacy theory perspective, they found disclosure practices as a legitimation strategy. From the stakeholders perspective, disclosures can be seen as an attempt to manage powerful stakeholders. From the institutional theory perspective, they found support for coercive isomorphism.

A number of studies have examined reporting issues, pressures and motivations in the context of subsidiaries of multinational companies in emerging economies. A study by Islam and Deegan (2010) confirms the sensitivity of global corporations towards media news, especially news related to labour practices where the corporations reacted by providing more disclosure. A study by Momin and Hossain (2011) confirms that MNC subsidiaries report less environmental information as compared to their parent counterparts. Employing legitimacy theory and neo-institutional theory, Momin and Parker (2013) explore internal and external pressures upon MNC subsidiaries. According to them, subsidiaries of multinationals simultaneously react to internal (HO office requirements) and external pressures (societal norms and expectations). From the institutional theory perspective, it shows institutional duality where subsidiaries wax and wane between reaction to corporate and societal expectations and customs. The study by Beddewela and Herzig (2013) however, confirms that subsidiaries of multinationals are mainly driven by the desire to gain internal legitimacy by fulfilling head office

requirements. They argue that this is the main barrier against publishing separate CSR reports in Sri-Lanka. Using institutional theory, they found no evidence of coercive mechanism. However, normative pressures were observed in the form of ACCA Sri-Lanka SR and other local award schemes. They noted that some interviewees expressed lack of trustworthiness over these award schemes, and they speculate that this is due to the societal issue of corruption as well as political motives. An element of mimetic isomorphism was found in the form of subsidiaries copying local companies which were taking lead in these reports. They also show that in Sri Lanka social and environmental reporting is mainly driven by several non-governmental institutions and professional bodies.

Some important insights are provided by researchers that have explored the perception of non-managerial stakeholders. A study by Belal and Roberts (2010) confirms that that stakeholders favoured mandatory reporting and consider SR as an important mechanism to discharge accountability in a democratic and transparent manner. Stakeholders view the current practice as having failed to meet expectations. They were found to be skeptical about corporation motivations and perceived profit motive and economic reasons as the main driver. The fact that the majority of the companies in export business make such disclosures, and that they are not involved in stakeholder engagement, makes these motives apparent. However, Belal and Roberts (2010) argue that mandatory reporting may result in unintended consequences without enhancing and investing in enforcement capabilities of regulatory agencies. These views are confirmed by Momin (2013) in a similar study of the perception of non-managerial stakeholders. In his study, NGO executives considered SR practice as adhoc and a public relation exercise. Although they perceive SR as a process of corporate accountability and showed interest in lobbying other pressure groups and encouraging regulation, NGO executives

assign lesser significance to disclosures (which they perceive as corporate commercials) and are more concerned with substantive actions.

## **2.6 Theoretical Perspectives on Sustainability Reporting**

In order to explain the rationale and process behind the practice of sustainability reporting, various theoretical perspectives are used by researchers. Three dominant theoretical perspectives which are used by researchers include - legitimacy theory, stakeholder theory and institutional theory. In this section, these three theoretical perspectives are critically reviewed. An important part of this review is the ability of these theoretical perspectives to capture the diverse and in-depth multi-level explanations for the phenomenon due to complexities at various levels. In recent categorisation of theories used in social accounting, Gray, Owen and Adams (2010) used the notion of *level of resolution* and categorised different theories as meta-theories, meso-theories and micro-theories. These three categories of theories differ in their level of resolution with meta-theories having low resolution while micro-theories provide higher resolution. In terms of their focus, the higher level is most abstract (abstracted from empirical conditions) while the low level is more specific than ground experience (Llewelyn, 2003). They argue that these different lenses will provide different understanding at different levels of resolution and no single lens can fully explain the phenomenon as it only captures a part of the picture either from the broad or narrow perspective. Based on these arguments, this review of theories will explore the explanatory potential and contribution of each of the theories. Specifically, it will look into the level of resolution a theory provides and whether the theory is capable of providing multi-level explanations and taking into account the complexity of external and internal contexts.



### 2.6.1 Legitimacy Perspectives

Over a period of time, legitimacy theory has been emerged as one of the dominant theoretical approaches to explore why corporate managers initiate SR and disclose particular items of social and environmental information (Deegan, 2007; Owen, 2007; Deegan and Unerman, 2011). There are two main variants of legitimacy theory: institutional and strategic/instrumental (Suchman, 1995; Deegan and Unerman, 2011). Institutional legitimacy goes back to the writings of (DiMaggio and Powell, 1983, 1991) and emphasise more on cultural embeddedness than agency. Strategic/instrumental legitimacy goes back to the writings of Ashforth and Gibbs (1990) and Dowling and Pfeffer (1975) which emphasise more on agency. However, they shall be considered as two sides of the same coin (Suchman, 1995), or two levels of analysis (Tilling and Tilt, 2010). The institutional view is outside-in (society looking in and imposing conditions) while the strategic view is inside-out (managers looking out and working to secure legitimacy).

Most of the research related to SR tends to draw its understanding of legitimacy from the second variant and is largely built on its articulation by Lindblom (1994) in an unpublished paper presented in a CPA conference (Gray, Kouhy and Lavers, 1995; Parker, 2005). According to Lindblom (1994, p. 2), legitimacy is “... *a condition or status which exists when an entity’s value system is congruent with the value system of a larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two values there is a threat to the entity’s legitimacy*”. Legitimacy theorists argue that firms have a ‘social contract’ with the broader society and that they seek to achieve a ‘fit’ between their value system and that of society (Deegan, Rankin and Tobin, 2002; Deegan, 2007). Under legitimacy theory, SR is “...*understood to be motivated by a*

*desire to demonstrate corporate conformity with societal expectations”* (Owen, 2007, p. 247).

Legitimacy is perceived as a resource upon which organisation survival is dependent (Dowling and Pfeffer, 1975; O’Donovan, 2002). Managers are considered to be the manipulator of that resource and if they perceive a legitimacy gap they try to regain this through legitimation strategies (Suchman, 1995). These legitimation strategies can be substantive and/or symbolic (Ashforth and Gibbs, 1990) and vary depending upon whether an organisation is trying to gain, maintain or repair legitimacy (O’Donovan, 2002). These strategies include informing and educating an external audience, trying to change their perceptions, deflecting their attention to other issues, or trying to change their expectations (Lindblom, 1994). This means that communication, in the form of disclosure of information to ‘relevant publics’, is essential for influencing legitimacy. Therefore corporate disclosures and reporting can be considered as legitimising devices as part of these legitimation strategies (Gray et al. 1995).

There are several studies that have found evidence that is consistent with this conceptualisation. These studies provide some useful insights about the managerial motivation of particular reporting and disclosure practices. For instance, Deegan (2002) found a linkage between unfavourable media attention and disclosure of sustainability information. Similarly, Cho and Patten (2007) suggest that firms with poor environmental performance or those operating in environmentally sensitive industries are more likely to disclose sustainability information as a legitimising tool. However there are a number of limitations of legitimacy theory. A number of researchers have contested the explanatory power of legitimacy theory. According to Adams (2002), legitimacy theory is limited due to the fact that it does not consider factors related to the social reporting processes as much as the attitudes of the agents. It does not explain how attitudes of agents are

themselves shaped. It does not explain why different managers perceive legitimacy threats differently and are involved in different legitimation strategies (Deegan, 2002). Also, the “external audience” is portrayed as a homogenous group instead of being heterogeneous, with differences in interests and power (O’Dwyer, 2002) among various stakeholders.

In that sense legitimacy theory is very much under-developed. In reality attitudes, priorities and institutions of corporate managers (as well as external audience) are guided by a complex range of internal and external factors that result in different ways of how they are motivated about the need for reporting and go about it. This has been confirmed by Adams (2002) in her study of the English and German firms in which she found internal factors to be extremely important in their influence on the quantity and quality as well as the scope of SR in both countries. Apart from these limitations of the legitimacy theory, it has also been applied in a narrow fashion by accounting researchers. According to Mobus (2005), accounting literature emphasised the strategic conceptualisation of legitimacy which is narrow. Although Suchman (1995) provides a more robust development of the theory, accounting research still relies extensively on the legitimacy theory framework of Lindblom (1994) which is largely reactive in that it suggests that organisations aim to produce congruence (Guthrie and Parker, 1989). Apart from some noticeable exceptions, legitimacy theory within accounting literature has been concerned largely with this reactive nature of organisational disclosure. These studies therefore tend to focus on corporate attempts to (re)build or repair legitimacy, and investigate legitimation as a reactive and short-term phenomenon (Tilling and Tilt, 2010). For better understanding of legitimacy dynamics, due consideration shall be given to both cultural embeddedness and an agential perspective which is missing from the literature.

### **2.6.2 Stakeholder Perspectives**

Stakeholder theory is a second, related theoretical perspective that has been widely used in the literature (e.g. Roberts, 1992; Belal, 2002; Deegan and Blomquist, 2006; Belal and Roberts, 2010). Stakeholder studies extended the work of Ullmann (1985) on relating the stakeholder perspective to CSR and disclosure. Stakeholder theory (Edward, 1984; Clarkson, 1995) is concerned with the effect of the environment on organisations. However, it does not consider the environment as a whole. It focuses on the relationship between organisations and its various stakeholders which constitute the environment (Berman et al., 1999; Chen and Roberts, 2010). This relationship has two elements: stakeholders affecting firms and firms affecting stakeholders. These two elements are represented in two variants of stakeholder theory; normative ethical stakeholder theory which suggests the moral obligation of firms towards all stakeholders and instrumental stakeholder theory which suggests the strategic management of key stakeholders (Berman et al., 1999). Both variants of stakeholder theory are discussed in the literature of sustainability reporting. In both variants, disclosure and reporting are seen as part of the dialogue between the company and its stakeholders (Gray, Kouhy and Lavers, 1995). From the normative (ethical) perspective, SR can be seen as a mechanism to discharge accountability towards all stakeholders. From the instrumental (strategic) perspective SR can be seen as a managerial tool or instrument to manage powerful stakeholders (Deegan, Rankin and Tobin, 2002). Decisions concerning the ‘what’ and ‘how’ of sustainability disclosure are argued to be made based on assessment of stakeholder demands that influence and/or are influenced by the firm.

Empirical research has confirmed the role of stakeholders as an important determinant of sustainability activities and disclosure (Roberts, 1992). Primary stakeholders were found to be concerned about the extent to which disclosure or non-

disclosure leads to some effect on the financial returns either in the form of an increase in reputation or by gaining a competitive advantage. However, secondary stakeholders were found to place greater importance on SR and want it to be transparent and are concerned with society and the environment (Tilt, 2007). The relative power of stakeholders was found to be an important determinant of sustainability disclosure (Roberts, 1992). There is evidence that stakeholders put heterogeneous demands on organisations and some of them are likely to be conflicting and mutually exclusive. In the presence of these conflicting demands, managers determine the range of stakeholders and their demands they seek to address (Unerman, 2007). This choice is dependent on their motives of engaging in SR. Stakeholder theory considers these motives to be either normative or instrumental. Through stakeholder perception studies, some researchers provide normative expectations of stakeholders in different contexts. In order to discharge accountability towards all stakeholders, which is considered to be the main motivation under the normative branch of stakeholder theory, actual practices should reflect these expectations. In contrast, researchers found different evidence that is more consistent with the predictions and explanations of instrumental stakeholder theory (Belal, 2002).

In an extensive stakeholders-based study Belal and Roberts (2010) found that disclosure practice in Bangladesh, opposite to the expectations of stakeholders, appear to be grounded in the normative perspective of stakeholders. They found that the current practice of reporting is largely a cosmetic response to pressures from the international market. These results are consistent with the results of some earlier studies. In an interview-based study of corporate managers in Bangladesh, Belal and Owen (2007) reveal that the major motivation of managers for social reporting lies in a desire on the part of corporate management to manage powerful stakeholder groups. They also express concerns over the potential of such reporting towards accountability, especially when

social standards are imposed from outside without consideration of local cultural, economic and social contexts. Similarly, Islam and Deegan (2008), by applying stakeholder theory, find that operating and disclosure policies of the organisation under study reacted to the expectations of the multinational buying companies – the group deemed to be the most powerful.

Overall, stakeholder theory in SR provides some useful insights in terms of highlighting the influence of powerful stakeholders, instrumental logic of managers and use of reporting as a tool to manage these powerful stakeholders. Much of these explanations (e.g. instrumental logic) can also be explained by legitimacy theory by lowering the level of resolution and considering society as a homogenous group. By specifying various stakeholders and how they influence reporting, stakeholder theory provides a better resolution. However, both of these theories provide insights into the presence of some sort of pressure and explain how these pressures are accommodated by companies in their reporting in a reactive way. As they focus on pressures, they focus on external factors while internal factors (like attitudes, priorities and institutions) of managers and stakeholders are ignored (Adams, 2002; Adams and Whelan, 2009).

### **2.6.3 Institutional Perspectives**

Sociological institutionalism comes in various forms. Of particular interest here are the neo-institutional theory perspective and the institutional entrepreneurship perspective that have been recently adopted in SR studies (e.g. Larrinaga-Gonzalez, 2007; Etzion and Ferraro, 2010). The two perspectives are different in terms of their emphasis on structure and agency. The neo-institutional theory perspective is more structural while the institutional entrepreneurship perspective is more agential. Institutional accounts in the neo-institutional perspective are primarily concerned with the influence of broader social structures on social action. Institutions are understood to “*comprise regulative,*

*normative, and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life*” (Scott, 2008, p. 56). Institutional accounts question explanations based on rational actor models and instrumental rationality (Scott, 2008). There is a belief that *“organizations and individuals who populate them are suspended in a web of values, norms, rules, beliefs, and taken for granted assumptions, that are at least partially of their own making”* (Barley and Tolbert, 1997, p. 93). These cultural elements (institutions) are in fact social constructions that stabilise over time and offer legitimate scripts for action (Berger and Luckmann, 1967; Meyer and Rowan, 1977; Scott, 2008). Institutions therefore set boundary on the rationality by putting constraints on the options that individuals and collectives are likely to exercise, thereby, increasing the probability of certain types of behaviour (Barley and Tolbert, 1997). Managers conform to institutions – i.e. become isomorphic with their institutional context in order to increase chances of firms’ survival as by conforming to social expectations they gain legitimacy – which is the central tenant of institutional thinking (Scott, 2008).

According to DiMaggio and Powell (1983) isomorphism emerges through three mechanisms - coercive, normative and mimetic. Scott (2008) identified three types of institutional pillars – regulative, normative, and cultural-cognitive that represent the three mechanisms. The regulative pillar is based on the rule’s setting, monitoring, recompense and punishment. Force, sanction and expedience are the central ingredients of the regulative pillar (Scott, 2008). This mechanism is usually exercised by powerful actors (e.g., the state, big customers, rating agencies) and pressures an organisation to adopt certain organisational practices (Greenwood et al., 2008). Such adoption is likely to be ceremonial and reflects a conscious and rational decision driven by the self-interest of an organisation in acquiring or maintaining resources (Higgins and Larrinaga, 2014). The

normative pillar focuses on values and norms (Scott, 2008). Salient actors in the field socially construct normative expectations which include what is desirable for an organisation and how things should be done. These expectations become external pressures for an organisation which in turn adopts organisational practices with the main motivation to respect social obligations (Greenwood et al. 2008). Such adoption still reflect a conscious decision, however under normative pressures, the logic of appropriateness sets limits on this consciousness and possibility of instrumental behaviour (Scott, 2008). Finally, under the cultural-cognitive pillar, activities are assumed to be enacted in relatively taken for granted ways. According to Scott (2008), the logic employed to justify conformity is that of orthodoxy, the perceived correctness and soundness of the ideas underlying action. According to DiMaggio and Powell (1983), the isomorphic mechanism that better captures the cognitive institution is imitation. Since organisations prefer to act in conventional ways, they imitate those peers that seem to be more successful and legitimate.

In case of conflicting prescriptions of institutional context and prescriptions of technical core of organisations, conformity may be ceremonial by decoupling symbolic practices from operations (Meyer and Rowan, 1977; Zucker, 1987). Institutional accounts mainly focus on the field-level and explain the process of how the social (institutional) context and pressures for social conformity shape organisational structures and practices. The concept of the field is central to the institutional studies which refers to the group of actors *“that partake of a common meaning system and whose participants interact more frequently and fatefully with one another with actors outside the field”* (Scott, 2008, p. 6). Fields can be “issue-based” (Hoffman, 1999) and may be considered as *“socially constructed space arising from interactions, shared interest, and common concerns”* (Gray, Owen and Adams, 2010). The Organisational field defines the set of legitimate



options for managers and constrains their discretion in the adoption of organisational practices (Hoffman, 1999). The process and the outcome of a process through which a practice becomes taken for granted in organisations is referred to as institutionalisation, which is the main focus of institutional studies (Larrinaga-Gonzalez, 2007). For instance, by now a corporate focus on sustainability “*has become a strongly institutionalised feature of the contemporary corporate landscape in advanced industrial economies. The idea that corporations should engage in some form of responsible behavior has become a legitimate expectation*” (Brammer, Jackson and Matten, 2012, p. 10).

Institutional studies are largely unexplored in the area of SR. However, in recent years, both structural and agential studies started to surface and add to the literature. Using the neo-institutional theory perspective, one line of work has explained the rise of SR due to institutional pressures on organisations leading towards isomorphism. SR may be initiated by managers to ‘fit in’ and to act ‘appropriately’ in the context in which they operate. This has been the main argument of Larrinaga-Gonzalez (2007) for the convergence of SR among firms. According to him, SR could become institutionalised through regulative, normative and cognitive institutional pressures, determining to some extent the choice of organisations in terms of whether or not to publish and report. Thus, SR can be viewed as a response to regulation and/or a response to voluntary initiatives on the grounds of social responsibility and/or as a mimetic pressure to follow the orthodoxy in fields. This has been confirmed by Bebbington, Higgins and Frame (2009) in their interview-based study of early reporters in New Zealand. They analysed and demonstrated the influence of coercive, normative and cultural-cognitive pressures that interact with various organisational conditions to shape SR as an ‘appropriate’ ‘normal’ activity or ‘the right thing to do’.

Another line of work on SR uses insights from the institutional entrepreneurship perspective and focuses on the role of strategic change agents, rather than isomorphic forces leading to conformity and stability. For instance, Brown, De Jong and Lessidrenska (2009) studied the institutionalisation of the guidelines of the GRI and showed how through a combination of discursive, material (resource-based) and charismatic tactics, GRI managed to institutionalise SR. These results were largely echoed and extended by Levy, Brown and De Jong (2010) by emphasising field-level power relations. Similarly, Etzion and Ferraro (2010) looked at the role of analogies as a mechanism guiding the institutionalisation of SR.

Overall, institutional perspectives provide useful lenses through which the institutionalisation process of SR may be viewed as an assemblage of external and internal factors (Adams and Larrinaga-González, 2007). Institutional perspectives are richer than legitimacy and stakeholder perspectives in terms of their explanation (Deegan and Unerman, 2011). It provides a complementary and partially overlapping, perspective to both legitimacy theory and stakeholder theory. The regulative pillar of institutional theory overlaps with the legitimacy and stakeholder theory that assumes a manipulative logic and power differences between various actors (Deegan, 2007; Higgins and Larrinaga, 2014). However, institutional theory, complements this through different motives to be explored, which are primarily based on the logic of appropriateness and on the social construction of reality (Larrinaga-Gonzalez, 2007). Institutional theory expands legitimacy and stakeholder perspectives (Deegan, 2002, 2007), downplays managerial agency and consider a more complex range of factors that influence reporting and disclosure practices rather than deliberate decision-making (Bebbington, Higgins and Frame, 2009). Managers conform to societal expectations of the actors in the organisational field to safeguard organisational success and survival (Meyer and Rowan,

1977) a view that is consistent with legitimacy theory and stakeholder theory. But this is not the only mechanism; other mechanisms can also shape this process of conformity and institutionalisation. It explains that managers will be subject to a combination of coercive, mimetic and/or normative pressures to change, or adopt, certain voluntary corporate reporting practices (Deegan and Unerman, 2011).

The two institutional perspectives, however, are skewed and explain SR as either an institutional outcome or the result of strategic agency of few individuals. The structural isomorphic studies limit their attention on the macro institutional environment and therefore portray organisations as conformists responding to external pressures. The main emphasis has been on the constraining nature of institutionalised beliefs and values (Dillard, Rigsby and Goodman, 2004). This has limited its explanatory potential as studies have tended to overlook the active role of agency and other dynamics in the process of institutionalisation (Dillard, Rigsby and Goodman, 2004; Lounsbury, 2008). By focusing on the homogeneity of structures and practices, institutional theory ignores the heterogeneity of structure and practice variation (Lounsbury, 2008; Thornton, Ocasio and Lounsbury, 2012). While explaining the institutional dynamics, organisational and individual dynamics are largely ignored (Oliver, 1991). According to Greenwood and Hinings (1996), internal organisational dynamics is an important determinant of organisational responses to external institutional pressures. In the words of Bebbington, Higgins and Frame (2009, p. 616), “*what goes on inside organizations is as important as what goes on outside organizations to the institutional process*”. This highlights the need for institutional studies that attach importance to the role of social actors (organisations and individuals) in the process of institutionalisation.

Agential institutional entrepreneurship studies, on the other hand, give too much power to individuals and ignore the role of social structures shaping interest and power of

agents. Institutional entrepreneurs are characterised as agents who can disembed themselves from existing institutional arrangements and can extend their self-interest to create new institutions or shape existing ones by deploying the resources at their disposal to create and empower institutions (Dacin, Goodstein and Scott, 2002; Leca and Naccache, 2006; Hardy and Maguire, 2008). They can manipulate cultural symbols and practices by story-telling and rhetorical strategies (Thornton, Ocasio and Lounsbury, 2012). This ability of institutional entrepreneurs to freely manipulate institutions has been criticised as it gives too much power to individuals (Hardy and Maguire, 2008) and fails to answer how institutional entrepreneurs discover their ideas and self-interest and whether these ideas and interests are embedded in, or are autonomous from, the social system (Thornton, Ocasio and Lounsbury, 2012). In a nutshell, entrepreneurship studies overplayed the strategic and rational intentions of the institutional entrepreneurs at the expense of unintended consequences and the embeddedness of actors in their institutional contexts. Therefore, for a more balanced institutional analysis, due consideration shall be given to structural forces in which social actors are embedded and the role of social actors in dealing with those structural forces. Such an analysis is missing from the literature.

## **2.7 Gaps in the Literature**

The overall discussion of this chapter leads to a consideration of the following empirical and theoretical limitations in the SR literature:

1. There is relatively limited research on the processual dynamics which led to the emergence of SR at the multiple level of analysis. There are very few studies that attempt to answer the “how” question in addition to the “why” question.
2. There is limited research in the context of emerging and developing countries. Extant literature is dominated by the studies in the context of Bangladesh with very few

studies in other country contexts. There is no research published in the context of Pakistan that explains the practice of sustainability reporting.

3. The majority of the SAR studies are quantitative in nature and adopt content analysis as the main method to reveal motivations and determinants. There are very few qualitative studies. There is a lack of engagement-based studies that provide an in-depth analysis of the organisational practice of SR in its institutional context
4. Extant research is dominated by legitimacy and stakeholder perspectives explaining strategic motivations for SR. In recent years there have been few institutional theory-based studies that explain the influence of broader structures on social action. Neo-institutional theory and institutional entrepreneurship studies can be found in the literature. The two perspectives, however, are skewed and explain SR as either an institutional outcome or the result of strategic agency of few individuals. There is a need for institutional studies that acknowledge both the role of social structures and social actors in any social action.

The above limitations have led to the conduct of this research which aims to achieve following objectives

1. To explore the institutional environment in relation to the emergence and development of sustainability reporting in Pakistan.
2. To explore the field-level dynamics for the emergence of sustainability reporting in Pakistan.
3. To explore the organisational-level dynamics for the initiation and implementation of sustainability reporting in case organisations.
4. To evaluate the usefulness of the institutional logics perspective in explaining the emergence of sustainability reporting in Pakistan.

Two main research questions which this study is trying to address are:

1. *“How” and “Why” has sustainability reporting emerged in the context of Pakistan?*
2. *“How” can the institutional logic perspective help us to explain the emergence of sustainability reporting?*

For better empirical and theoretical explanation, these questions are subdivided into the following four sub-questions. These questions are informed by the theoretical framework discussed in next chapter.

1. *How has Pakistani sustainability reporting field emerged and evolved over the years?*
2. *What are the institutional logics prevailing in the Pakistani sustainability reporting field?*
3. *What are the organisational logics for initiating sustainability reporting?*
4. *How do institutional and organisational dynamics interrelate to shape the initiation and implementation of sustainability reporting in case organisations?*

The choice of the institutional logic perspective as the theoretical framework for this study is informed by the gaps in the literature which recognise the need to study processual dynamics at a multiple-level of analysis and to consider the active role of agency by focusing more on organisational and individual dynamics. Also the theoretical perspective is left unexplored by researchers in the field of accounting in general and sustainability reporting in particular. Finally, empirical studies using the institutional logic perspective are mostly in the context of North America and Europe where the perspective was developed. There are calls for empirical research using the institutional logic perspective in emerging and developing countries in Asia to contribute to the scholarship of the institutional logic perspective (Sarma, 2013). The next chapter further

introduces and explains the theoretical framework and how it can be used to address the questions mentioned above.

## **2.8 Conclusions**

This chapter presented a systematic review of the literature on studies related to the practice of SR in developed and developing countries. After highlighting controversies over the meaning of the term sustainability and different dimensions of sustainability, this literature review concludes that the concept of sustainability is captured by businesses which define the concept in a manner that suits their interest. The literature review then looked into the studies that have documented the emergence of SR and has shown its linkage with the critical events that have sparked societal interest and awareness in these issues as well as the role of various actors in promoting such reporting. Looking into the dynamics of SR, the literature review highlighted a number of motivations as well as external and internal factors that influenced the decision-making process to report on sustainability matters. A review of studies in the context of developing countries revealed the importance of recognising differences in the societal context as an important part of the dynamic shaping the emergence of SR. Theoretically, due to the dominance of legitimacy and stakeholder theories, prior studies have provided strategic explanations for SR. In recent years, using neo-institutional theory, researchers have recognised the influence of broader structures but they put too much emphasis on it and have downplayed strategic agency. Therefore this literature review argues for a more balanced institutional analysis in order to address several gaps that have been identified and proposes the institutional logic perspective as an alternative institutional perspective that is left unexplored in the field of sustainability accounting and reporting.

## Chapter 3: Theoretical Framework

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### 3.1 Introduction

For explanations of ‘how’ and ‘why’ sustainability reporting emerged in Pakistan, this research study adopts the institutional logic perspective (hereafter ILP), that has been recently developed by Thornton, Ocasio and Lounsbury (2012) as a theoretical and analytical framework for institutional and organisational analysis. This chapter aims to explore the principles and main concepts that constitute the ILP. The main aim is to present a theoretical framework for multi-level analysis (see figure 3-1) so as to explain the emergence of sustainability reporting in Pakistan. The chapter is divided into five sections. The first section will discuss the basic principles and main concepts that constitute the ILP. The second and third sections present the theoretical framework for the field and organisational-levels of analysis. Some of the limitations of the ILP are presented in the last section. Usefulness of the ILP is highlighted in section five before conclusions.

### 3.2 The Institutional Logics Perspective

Thornton, Ocasio and Lounsbury (2012, p. 2), describe the ILP as a “*meta theoretical framework for analysing the interrelationships among institutions, individuals, and organisations in social systems*”. The ILP aids the researcher in exploring how individuals and organisations shape, and are being shaped by, their institutional environment. According to Cloutier and Langley (2013), the ILP is a useful and practical lens through which to account for the plurality of norms and beliefs in institutional theory and for explaining the processes underscoring institutional formation and change. The ILP follows a broad meta-theory: “*to understand individual and organisational behavior, it must be located in a social and institutional context, and this institutional context both*



*regularizes behavior and provides opportunity for agency and change*” (Thornton and Ocasio, 2008, p. 102). There are five fundamental principles that underline this meta-theory: society as an inter-institutional system, partial autonomy of social structure and action, institutions as material and symbolic, institutions as historically contingent, and institutions at multiple levels of analysis (Friedland and Alford, 1991; Thornton and Ocasio, 2008; Thornton, Ocasio and Lounsbury, 2012). This section provides a discussion of these principles and important concepts that constitute the ILP.

### **3.2.1 Society as an Inter-institutional System**

The ILP is based on the innovative idea of society as an inter-institutional system. This was the main contribution of Friedland and Alford (1991), who argued that the coexistence of “potentially-contradictory” institutions form the basis of ongoing societal transformation. They identified five important institutional orders (capitalist market, nuclear family, the bureaucratic state, democracy, and Christian religion) in Western societies and their central logics. Their work was then used by Thornton (2002) to develop industry specific logics in the form of ideal-types. The typology has now been expanded across a range of institutional orders and their elements in the authors’ further work (Thornton, 2004; Thornton and Ocasio, 2008; Thornton, Ocasio and Lounsbury, 2012), and today constitutes the most comprehensive theoretical framework in institutional logics theory: the “inter-institutional system”. The present framework (see figure 3-2), is made up of seven institutional orders of market, corporation, profession, state, family, religion and community, all theorised, across nine categories that collectively constitute logics of these institutional orders (Thornton, Ocasio and Lounsbury, 2012, p. 73).

Institutional orders can be understood as mega institutions (or societal orders) that can be found in a particular society. These mega institutions are guided and organised by

their distinct rationality or institutional logics (discussed separately in 3.2.2). Being part of a social system, organisations and individuals are under the influence of these institutional orders and their underlying logics. Each order represents a different set of expectations (logics) and can shape in different ways how rationality for action is perceived and experienced. This means that rationality varies with the institutional order and there can be multiple institutionally-based rationalities in a given context (Lounsbury, 2008) which may lead to different actions by providing a different reference system for such action (Goodrick and Reay, 2011). In this way the ILP differs from the neo-institutional theory which assumes a binary (rational-technical vs. non-rational-institutional) view of rationality (Thornton, Ocasio and Lounsbury, 2012).

An important feature of the ideal-type of “inter-institutional system” is near-decomposability of the institutional logics that constitute institutional orders. The institutional system described in the ILP has modular capacity. According to Thornton, Ocasio and Lounsbury (2012), the institutional orders and their logics, while interrelated, are also partially autonomous. These can be considered as subsystems of a complex system that are loosely coupled and can be segregated, blended and reconfigured. This is described as one of the essential features in explaining the concept of partial autonomy and addressing the problems of embedded agency and change. At the same time, the typological approach of the inter-institutional system allows for both integrative and interdisciplinary theorisation. The categorical elements of the institutional logics integrate the structural, normative and symbolic dimensions of institutions. This allows for multi-causal explanations of particular outcomes where the cultural content is specified according to the categorical elements of one or more of the seven institutional orders.

### **3.2.2 Institutional Logics**

According to Friedland et al. (2014), institutional logics are troikas of object-subject-practices. The object in this troika is a metaphysical object, the institutional substance having a non-observable reality. For example ‘love’, ‘justice’, and ‘sustainability’ are institutional objects. These objects (or institutions) are known to exist when subjects believe in their existence as if they are objects and attach their subjectivity to it by invoking its name and defining its various features. These objects are further substantiated through material practices of its practitioners (subjects), as to practice one must believe that “it” exists. In this way institutions are pointed to through names and performed through practices - for example love which one ‘has’, ‘makes’, or ‘inhabits’ as being in ‘love’ (Friedland et al., 2014).

The three elements (object-subject-practice) are mutually constituted; each is defined by and through its relation with the other (Friedland, 2009). Institutional logics are ontological enactments, a “what” done through a “how”. For example “justice” gets its existence through judicial practices which classify actions as legal and illegal. Similarly, “sustainability” gets its existence through sustainability practices which classify activities as sustainable or unsustainable. However, these classifications and resulting material practices are socially constructed. According to Thornton, Ocasio and Lounsbury (2012, p. 51), institutional logics are “*socially constructed, historical patterns of cultural symbols and material practices, including assumptions, values, and beliefs, by which individuals and organisations provide meaning to their daily activity, organize time and space, and reproduce their lives and experiences*”. Institutional logics are more abstract and powerful social structures than are institutions – they make and guide the institutions (Johansen and Waldorff, 2015). In short, institutional logics are a set of material practices (practices), and symbolic constructions (subjectivities) guiding the institution (object – which could be ‘market’, ‘profession’, ‘love’, or ‘sustainability’).

Therefore there is no logic called “market”; instead there are logics (a set of practices and symbols) that make the institution of market.

Institutional logics shape individual interests and preferences, and provide rationality and vocabularies for motives to attain those interests and preferences. In the ILP, material and symbolic elements are considered as the building blocks of each institution. Institutional logics “*co-implicate objects and subjects, domains of objectivity and subjectivity and hence objectification and subjectification*” (Friedland et al., 2014, p. 338). Material aspects of institutions mean structures and practices (Thornton, Ocasio and Lounsbury, 2012). They can be considered as objectified cultural constructions (Delmestri, 2009). Symbolic aspects of institutions mean ideation and meaning. Without the symbolic aspects of institutions, there is hardly opportunity to theorise institutional heterogeneity and change (Friedland and Alford, 1991; Thornton, Ocasio and Lounsbury, 2012). These can be considered as constituent elements of internalised social identities (Delmestri, 2009). Through symbols, meaning of material practices translates and travels. The ILP gives importance to and accounts for the dynamic of both elements and considers them as intertwined and constitutive of one another (Friedland and Alford, 1991). Symbolic constructions are embodied in structures and practices while structures and practices express and affect the meaning of symbols.

Looking from the logics perspective, SR is an institutional substance (object) or an institution which exists out there and has non-observable reality. SR is socially constructed by subjects (practitioners) through constellations of subjective meanings and material practices (known as institutional logics). SR is an institution which one believes to “exist”, which one “prepares”, “publishes”, and “reads” and through which one can “discharge accountability”, “show responsibility” and “obtain benefits”. SR is pointed to, evoked, and known through particular categories (e.g. efficiency, transparency) enacted

through particular sets of material practices (e.g. stakeholder engagement, materiality analysis, publishing standalone reports) which are experienced through a particular form of subjectivity in the form of beliefs about its needs and benefits. Publication of a sustainability report is the tangible form of the belief about its existence and about the need and benefit of SR. These beliefs then shape reporting practices. For example, the need for accountability would result in different forms of reporting while the need for creating value (which depends on how value is socially constructed) would result in other forms of reporting.

The ILP assumes that institutional logics manifest at multiple levels and that individual actors are nested in higher order levels – organisational, field, and societal. At the societal level, the ILP illustrates seven distinct institutional orders and associated logics. The instantiations of logics within the field, organisations and individuals draw from and are nested within these societal level logics (Besharov and Smith, 2014). For example, Thornton (2002), in her study of higher education publishing, describes the industry’s ‘editorial’ and ‘market’ logics as the instantiation of societal level ‘professional’ and ‘market’ logics. In this way, this meta-theoretical principle provides an opportunity to develop theory and research across multiple levels of analysis (Thornton, Ocasio and Lounsbury, 2012, p. 13). In short societal-logics, depending upon their instantiation by organisations and individuals, have implications in the emergence of field-level logics and practices. Field-level logics are both constrained and enabled by societal-logics. These logics include the following.

### **3.2.2.1 Family Logics**

Family logics are based on family norms and values that are developed over a period of time. For social actors embedded in family logics through family membership, the source of legitimacy is unconditional loyalty, the source of authority is patriarchal domination

and the source of identity is the family reputation (Thornton, Ocasio and Lounsbury, 2012, p. 73). Under family logics, an important rationale for practice is to increase family wealth. Here the notion of wealth does not necessarily mean economic wealth and includes non-financial aspects or “affect-related value” of family owners, termed as “socio-emotional wealth” (Berrone, Cruz and Gomez-Mejia, 2012). According to Gomez-Mejia, Cruz and Imperatore (2014) the two dimensions of socio-emotional wealth that constitute family logic include: authority (or control) and identity. Actions that compromise the family control are neglected while actions that improve family identity are given importance under these logics.

#### **3.2.2.2 *Community Logics***

Community logics focus on common values and social fitness and seek authority from local communities and/or community organisations that determine norms and values for community welfare. Social actors become embedded in these norms and values through group membership. For social actors embedded in community logics, the sources of identity are the emotional connection, ego-satisfaction and reputation (Thornton, Ocasio and Lounsbury, 2012, p. 73). Under community logics, an important rationale for practice is to increase collective welfare which is attained through positive impact of that practice on business, society and the environment.

#### **3.2.2.3 *Religious Logics***

According to Friedland and Alford (1991), the central institutional logic of religion is transcendental truth. Religious logics focus on relation to the supernatural. Religious logics are based on norms and values that vary with different religions. By subscribing to these norms, through membership in congregations, social actors become embedded in religious logics. For social actors embedded in religious logics, the source of legitimacy is the importance of faith and sacredness in the society, the source of authority is religious

scholars and the source of identity is association with God. An important aspect of religious practices is to increase religious symbolism (Thornton, Ocasio and Lounsbury, 2012, p. 73).

#### **3.2.2.4 State Logics**

State logics refer to the basic orientation of the state in securing social and political order. (Greenwood et al., 2011, p. 573) specified two key dimensions of state logics: “*the relative tolerance shown towards political representation and plurality of expression and the extent to which state powers and authority are centrally concentrated or devolved to subnational levels*” Under state logics, the source of legitimacy is democratic participation, the source of authority is bureaucratic domination, the source of identity is social and economic class and the basis of strategy is to increase community good (Thornton, Ocasio and Lounsbury, 2012, p. 73).

#### **3.2.2.5 Market Logics**

Market logics focus on economic value that seeks authority from investors (shareholder) and is based on the norms of self-interest. For social actors embedded in market logics, profit-seeking behaviour is an important rationale for any practice. Actions that improve the market position, through cost efficiencies and/or increase in revenue, are valued and justified under these logics (Thornton, Ocasio and Lounsbury, 2012). According to Schneider (2014), market logics are mainly institutionally anchored in business firms and professional associations which represent the (economic) interests of business firms.

#### **3.2.2.6 Professional Logics**

Professional logics focus on relational value, seek authority from professional association and are based on the norms that are determined through professional membership. For social actors embedded in professional logics, the source of legitimacy is personal expertise and the source of identity is the association with the quality of craft and

personal reputation. Under professional logics, an important rationale for practice is to increase personal and professional reputation (Thornton, Ocasio and Lounsbury, 2012, p. 73).

### **3.2.2.7 Corporate Logics**

Corporate logics complement market logics in terms of their focus on economic value. However, corporate logics vary with corporate culture (norms and values that are developed in that particular corporation over a period of time) and focus on managerial prerogatives. Authority lies in top management and an important rationale for any practice is to strengthen the managerial position and to raise the corporate profile (Thornton, Ocasio and Lounsbury, 2012, p. 73). This is generally attained through giving importance to professionalism, planning, and rationality in addition to increasing efficiency and profitability as promoted by the market logics.

### **3.2.3 Institutional Field**

The field is an intertwined constellation of actors (Wooten and Hoffman, 2008) that partake in a common meaning system (Scott, 2008) and represent a recognized area of institutional life (DiMaggio and Powell, 1983). Unlike isomorphic organisational fields, as in the case of neo-institutional theory, the field in the ILP is dynamic that allows for heterogeneity, variation and change. It has the potential to highlight contradictions, conflict, and the autonomy of practices and forms (Thornton, Ocasio and Lounsbury, 2012).

The field in the ILP is the constellation of subjectivities and material practices related to the institution. Here, the field is “*made up of a variety of organisations that have their values anchored in different societal-level institutional orders*” (Thornton,



Ocasio and Lounsbury, 2012, p.44) For example, madrasas<sup>4</sup> (religion), private schools (market and corporation), public schools (state), not-for-profit schools (community), ministry of education (state), teachers (profession), parents (family) and school associations, all have huge stakes in the provision of education. These social actors interact with each other and take one another into account for the development of practices within and across organisations. The fact that these organisations are anchored in different institutional orders means that multiple logics exist at the field-level providing multiple forms of institutionally based rationalities (subjectivities) to the field participants. Therefore in essence, the field serves as the socially constructed space arising from interactions among organisations (Wooten and Hoffman, 2008) where “multiple rationalities” (Thornton and Ocasio, 2008) exist and where “collective rationality” (Scott, 2008) is constructed around specific issues (Hoffman, 1999) through communication, contestation and coordination. Such a conceptualisation of the field allows an institutional analysis that can provide insights into the heterogeneity of the context and its implications for organisational practices (Lounsbury, 2008).

Greenwood et al. (2010) argue that organisational fields are the main source of institutional complexity for organisations. However, the level of complexity varies with the type of organisational field. They differentiate between two types of fields: “mature” and “emerging”. Mature fields are characterised by well-defined institutional infrastructure, identifiable patterns of social interactions among organisations in the field, more stable logics, less contestation, and more clear and predictable institutional demands. These features result in less complexity and less discretion on the part of organisations. Emerging fields are characterised by loosely defined institutional arrangements, unclear institutional rules, ambiguous and highly permeable boundaries

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<sup>4</sup> Madrasa is the name for a school for religious studies.

and sharp contestation between logics (Vican and Pernell-Gallagher, 2013). These features result in more complexity and more discretion on the part of organisations. Proponents of a particular logic contest their opponents to prioritise logics favourable to their material interests or normative beliefs. The emerging field provides more spaces for agency. Actors can easily enter and exit the field's porous boundaries and can influence the field through their baggage of practices rooted in logics from other fields (Maguire, Hardy and Lawrence, 2004).

Sustainability and SR can be characterised as an emerging field, having a loosely defined institutional infrastructure, ambiguous demands, expectations and prescriptions of appropriate activities and contested practices and logics (Greenwood, Hinings and Jennings, 2013).

#### **3.2.4 Social Actors and Social Action**

Social actors are the key for institutional analysis (Thornton, Ocasio and Lounsbury, 2012). Social actors are “carriers” which represent and give voice to institutional logics (Greenwood et al., 2011). In the process, social actors play an important role in shaping and being shaped by institutional logics (Pache and Santos, 2013). A core premise of the ILP is that *“the interests, identities, values, and assumptions of individuals and organisations are embedded within prevailing institutional logics”* (Thornton, Ocasio and Lounsbury, 2012). However, instead of assuming a deterministic view of institutions, the ILP presupposes partial autonomy of individuals and organisations in any explanation of social action (Thornton and Ocasio, 2008). According to this perspective, social action is institutionally constrained but not institutionally determined. Social actors play an important role. The ILP conceptualises social actors as *“situated, embedded, and boundedly intentional”* (Thornton, Ocasio and Lounsbury, 2012, p.89) individuals having

partial autonomy. This conception of actors allows for both taken for granted behavior, as well as agency and reflexivity.

Social actors became embedded in social structures through socialisation processes. This embeddedness can be a source of both constraint and an opportunity for social action, which depends on the reflexive ability of social actors. The ILP assumes differences in the reflexive ability of social actors due to differences in their cultural embeddedness. Those social actors that are aware of more cultural material (due to their experience and knowledge) can exploit the contradictions inherent in the cultural material for creating change (Pache and Santos, 2013). The ILP name these actors as cultural entrepreneurs (details in 3.2.7).

Social actors' identities, goals and cognitive limitations are the three elements of the boundedly intentional individual which guide its cognition and social interaction. According to the ILP, social actors possess culturally defined social identities and goals that that may be conflicting and that guide cognition.

Social actors are also conceptualised as being situated which affects their agency. Situations include the immediate social context and interactions as well as the material properties of the situations. Specific situations affect the salience of different social structures as well as the salience of different social identities and goals.

The concept of partial autonomy is one of the key distinguishing features of the ILP. The perspective not only assumes the partial autonomy of agents but also partial autonomy of institutions. Different elements of the institutional logics can be decomposed, segregated and combined. According to Thornton, Ocasio and Lounsbury (2012), modularity of the inter-institutional system, the contradictory relationship between different institutional orders and the differences in the embeddedness of the social actors allow for partial autonomy of social actors and provide opportunities for

agency and change. In this way, social action is conceptualized as both constrained and enabled by the prevailing institutional logics.

### **3.2.5 Focus of Attention**

Focus of attention is an important theoretical construct which mediates institutional logics and social action (e.g. organisational structures and practices). Focus of attention is a function of both top-down and bottom-up attentional processes (Ocasio, 2011). Top-down processes are shaped by both institutional logics (e.g. market logics) and more localised organisational perspectives (e.g. family-controlled firms) while bottom-up attentional processes are shaped by external stimuli (e.g. regulation). These processes shape the focus of attention through the availability, accessibility and activation of logics. Social interactions, through focus of attention, generate communication and resource flows and interdependencies, resulting in social practices and structures (Thornton, Ocasio and Lounsbury, 2012).

Availability of multiple logics represents the cultural knowledge and information that is learnt by social actors through their socialisation and social interactions. However, not all logics are of equal salience (Pache and Santos, 2013). Their influence depends on accessibility and activation. Knowledge and information that comes to mind due to the cultural embeddedness and situational context refers to accessibility. Particular situations may invoke temporary accessibility of knowledge structures while cultural embeddedness influences the chronic accessibility. For instance, as part of a family-owned company, family logics are readily accessible; however particular situations (e.g. export opportunity) may temporarily invoke market structures.

During social interactions, not all knowledge and information is used by social actors. Activation is the function of both knowledge accessibility and focus of attention. It can be automatic or controlled. In routine situations, accessibility determines activation leading towards automatic 'taken for granted' behavioral responses with limited awareness and agency. In non-routine situations, however, focus of attention results from combined bottom-up and top-down attention. This means that accessibility does not fully determine activation. The situational fit between the logic and the characteristics of the situation will be a factor in which particular identities, goals and schemas are activated (Thornton, Ocasio and Lounsbury, 2012).

Focus of attention, shaped by both institutional embeddedness and situational context, delimits the attention (information processing) of social actors on specific issues, problems and solutions (Lounsbury, 2008). For example market logic focuses managerial attention on particular features of the organisation and their environment (e.g. competitiveness, reputation). As a result, only those problems and their solutions can be considered that affect a firm's competitiveness and reputation. Sustainability reporting in that case only makes sense if managers (guided by market logics) realise that by reporting they can address the issue of firm competitiveness and reputation. This is how institutional logics influence social action. Institutional logics amplify certain problems and their solutions while repressing others through a focus of attention.

### **3.2.6 Cultural Entrepreneurs**

Cultural entrepreneurs, through socialisation and social interaction, are exposed to and are aware of heterogeneous institutional arrangements and the existing opportunities for action in organisational or institutional fields. They usually have experience of working in more organisations and have more intra-organisational mobility. Their experience and awareness of the cultural material gives them reflexive capacity to visualize and reframe

problems and solutions. Through this ability they can be involved in the recombination of existing cultural material by identifying patterns and making connections between unrelated events and trends. Modularity of the institutional system allows them to be involved in this process.

Cultural entrepreneurs possess the capacity to manipulate cultural symbols and use them strategically to obtain resources and to change practices by using stories and rhetorical strategies (Lounsbury and Glynn, 2001). They are also involved in the theorisation process by invoking different vocabularies of practice (discussed in 3.3.3). Change in keywords and their meanings are considered to be an important mechanism through which cultural entrepreneurs change institutions and organisational practices (Nigam and Ocasio, 2010). According to Thornton, Ocasio and Lounsbury (2012), the concept of the cultural entrepreneur with the assumptions of the near decomposability and the exteriority of institutions provides a potential solution to the problem of embedded agency. Through the strategic use of existing cultural material, an individual and organisation can act outside the confines of their immediate institutional environment.

### **3.2.7 Historical Contingency of Institutions**

Historical contingency of institutions is another key meta-theoretical assumption of the ILP. Different institutional orders of the interinstitutional system differ in their development and importance over time (Thornton and Ocasio, 2008). For example, modern societies which were previously under the influence of family and religion are now mainly under the influence of markets, corporations and professions. In traditional societies, the influence of markets and corporations is emerging while family and religion are still dominant institutions. This means that the dominance of different institutional orders vary with time. Also, dominance of one institutional order does not necessarily mean that it completely replaces another (Thornton, Ocasio and Lounsbury, 2012, p. 13).

The historical contingency of institutions implies that the empirical findings which are valid in one time period may not be valid in another time period (Friedland and Alford, 1991). Another important aspect of this historical contingency of institutions is that definitions of the common concepts e.g. ‘profit’ changes with shifts in accounting procedures and tax laws as these concepts are subject to larger varying societal pressures and expectations. Similar changes can be expected in the concept of ‘sustainability’ and ‘sustainability reporting’. The meaning, need and benefit of sustainability and its reporting may change with the change in practices and procedures as a result of varying societal pressures and expectations.

### **3.3 The Emergence and Evolution of the Field**

Thornton, Ocasio and Lounsbury (2012) developed a framework for the emergence of field-level logics. They argue that institutional orders can be combined and instantiated into more specific field-level logics depending on the field’s resource environments, opportunities and constraints. Their framework can be used to understand the field-level dynamics for the emergence of specific practices since both logics and practices are interrelated. The overall process has been explained as:

Field-level institutional logics are shaped by both macro forces – societal-level logics and resource environments – and by field-level processes that link symbolic representations with organizing practices. (Thornton, Ocasio and Lounsbury, 2012, p. 168).

#### **3.3.1 Structural and Cultural Conditions**

Societal logics and material resource environments are two dimensions of the structural and cultural conditions that both constrain and enable field-level logics and practices. Societal logics vary with different societal orders (as explained in 3.2.2) which emerge and evolve over a period of time. Understanding of dominant and emerging institutions is necessary as that explains the dominance of certain logics over others. It also explains the

heterogeneous context that shapes any action in the field. Societal logics provide the cultural material which may constrain or enable symbolic constructions at the field-level. For example, in societies where community logics are strong and there is more cultural awareness and interest in environmental issues, it acts as an enabling environment for the emergence of sustainability logics and practices (Gray, Adams and Owen, 2014).

External forces also play an important role in the evolution of the field in the form of an international influence. The impact of these forces can be direct - by importing logics and practices developed in other countries into the institutional field of study. At the same time, these forces play an important role in shaping societal logics and can have an indirect influence on field-level logics and practices. For example in the field of corporate governance, the logic of shareholder value was developed in western countries and then imported to other countries through various actors. The same can be expected in the field of sustainability reporting where different international actors (e.g. ACCA and GRI) are playing a role in the institutionalisation of practice.

In addition to the societal logics and external forces, the material resource environment shapes the field through opportunities and constraints they provide in the generation of material practices. Resource environments could include financial resources, human resources, energy resources, product demand, supplies of raw material, technologies, competition, cooperation, regulatory frameworks, and government policies (Scott, 2000). Any critical events or changes in the resource environment may lead to changes in practices in institutional fields. An empirical manifestation of this is provided by Sine and David (2003) in the form of the emergence of energy conservation and renewable energy as alternative practices, as a result of the oil crisis and rising electricity prices. The ILP emphasised that, while the resource environment can be culturally



constructed, the material side of the resource environment has partial autonomy and cannot be reduced to culture.

These macro forces (societal logics, international influence and resource environment) set up the context (structural and cultural), which is external (to the field), that shapes the field-level processes. The ILP argues that any action in the field and at the organisational and individual levels makes sense when considered against the backdrop of these external forces.

### **3.3.2 Field-level Processes**

Thornton, Ocasio and Lounsbury (2012, p. 148) note that field-level constructs are embedded in, and shaped by, societal logics: they draw on elements provided by them, but they are equally subject to field-level pressures and processes that generate a distinct form of instantiation and a combination of societal logics. The end result of the process is the constellations of logics and appropriate practices. The process involves an interplay of symbolic representations and material practices shaped by societal logics and the material resource environment. This interplay takes place during field-level social interactions through the processes of sensemaking, sensegiving and collective mobilisation.

Salient events play an important role in initiating such processes and shaping institutional change (e.g. Hoffman, 1999). These events can include: milestones, catastrophes, legal/administrative happenings, private initiatives, government initiatives, and social campaigns (Hoffman, 1999; Higgins and Larrinaga, 2014). These events trigger the sensemaking process and open up spaces for cognitive change as well as transformation in institutional logics. While events initiate the process, field players perform the process and generate new organising principles grounded in exemplars of material practices in the field (Nigam and Ocasio, 2010).

The resource environment both constrains and provides opportunities in the generation of material practices. Changes in technology, products, processes, customer needs, legislation and market forces may bring resource-based opportunities for sustainable development (Porter and Van der Linde, 1995). According to Bansal (2005), scarcity of natural resources and resulting higher prices may provide an opportunity to big firms with good capital management capabilities and slack resources and international experience, in enhancing organisational performance through sustainability practices. This resources-based view of opportunities for sustainability practices is very common in sustainability literature in the form of the eco-efficiency agenda. However, this is an empirical fact that neither all firms are resourceful nor are all resourceful firms involved in sustainability practices.

According to the ILP, effects of the resource environment on institutional logics are shaped not only by material forces, but also by cognitive and cultural factors. Field-level actors, while embedded in higher order societal logics and situated in unique contexts, make sense of changes in the resource environment and frame these changes as opportunities and constraints for the adoption of certain practices (Pache and Santos, 2013). This is why different organisations respond differently with a similar nature of their resource environment. According to Bansal (2005), congruence of sustainability principles with existing cultural norms and values of organisations is an important determinant for true commitment to sustainability practices. Otherwise, firms may be involved in sustainability practices just to reap the benefits (cost savings, reputation) through the opportunities created by their resource environment.

The process of sensemaking and sensegiving during social interactions not only shapes the development of material practices (e.g. energy conservation, community projects, rules, guidelines and standards), but also involves the symbolic representation of

material practices in the form of rationality and rhetoric that accompanies them (Higgins and Larrinaga, 2014). According to Thornton, Ocasio and Lounsbury (2012), theorisation is the process through which these symbolic constructions are created. Theorisation refers to the interpretive work of field actors (mainly regulatory agencies and professional associations) that goes into legitimating a new practice, thereby facilitating the spread of its use and, in the end, its institutionalisation (e.g. Greenwood, Hinings and Suddaby, 2002). According to Lounsbury and Crumley (2007), theorisation is the key element of institutional entrepreneurship. Understanding of the theorisation efforts helps in understanding earlier stages of practice adoption.

### **3.3.3 Vocabularies of Practice**

Thornton, Ocasio and Lounsbury (2012) argue that shared understanding, joint attention and common ground are the keys for the emergence of field-level logics and practices. This common ground is created and shared through narratives, in the form of beliefs and assumptions, for coordination and collective action. These shared narratives, through the process of categorisation, create new vocabularies of practice (hereafter VOP) which according to (Thornton, Ocasio and Lounsbury, 2012, p. 159) are “*systems of labelled categories used by members of a social collective to make sense of and construct organizing practices*”. VOP is part of the common language which field players use and are the critical linchpins that link symbolic representation with field-level practices. For example, shared language of transparency and caring was revealed by Livesey and Kearins (2002), among field members (including companies preparing sustainability reports) which can be considered as VOP. Similarly, empirical research of Ocasio and Joseph (2005) highlight different VOPs (“share price,” “institutional investors,” “S.E.C.,” “auditing,” and “accountability”) related to the field of corporate governance in the United States.

Development of VOP is a social construction process that not only involves creating new category labels and their exemplars, but also involves changing the meaning of existing categories through exemplars. Thornton, Ocasio and Lounsbury (2012) argue that this is the key mechanism and once reified new VOPs achieve the status of field-level logics. Livesey and Kearins (2002) demonstrate how through cross-referencing of VOP, social actors mutually reinforce each other and after a certain time period, these VOP achieve the status of objective reality for others (Livesey and Kearins, 2002).

VOP can provide practitioners with guidance as to what is appropriate and where to focus attention. These can be used as rhetorical devices and to guide attention, decision-making and mobilisation. These provide members of the social group with a sense of their collective identity. In this way, VOP provides a common ground, based on a set of practices participants share and common vocabulary for speech and writing, and link category labels to field-level organising practices.

### **3.4 Dynamics of Organisational Rationality and Action**

Thornton, Ocasio and Lounsbury (2012) note that understanding of the internal organisational dynamics is very important for organisational analysis as it mediates the effect of the institutional environment on organisational practices. Nonetheless, organisational-level analysis shall also consider the wider influences of various institutional logics, pressures and cues stemming from other organisations in the field (Lounsbury, 2008). Collectively these influences, pressures and cues are considered as part of the dynamics external to the organisation and are considered equally important by the ILP (Thornton, Ocasio and Lounsbury, 2012). In this way, the ILP gives due importance to both dynamics in order to provide a complete understanding of the institutional embeddedness and organisational action.

Institutional logics shape organisational behavior by providing the “rules of the game” that influence decision-making (DiMaggio and Powell, 1991; Scott, 2013). Logics amplify or repress the saliency of particular problems, issues or sources of power. At the same time logics determine available and appropriate solutions to the problems in controlling different activities of the organisation (Thornton and Ocasio, 1999). In this way logics influence the very basis for power and authority by making some issues problematic, while others not, in the eyes of decision-makers. At the same time logics shall be considered as the source of power in the form of cultural material which managers may use to rationalise or resist particular actions and practices (Friedland and Alford, 1991; Vican and Pernel-Gallagher, 2013). According to McPherson and Sauder (2013), logics can be used as tools by social actors in the contested environment to influence decisions and justify or advocate for change.

Mentioned below are some of the elements proposed by Thornton, Ocasio and Lounsbury (2012) that combine institutional and organisational dynamics for understanding the organisational rationality and action. These elements will be used in this study for understanding the organisational logics and processes for initiating the practice of sustainability reporting. These elements include institutional embeddedness, situational context, social interactions and organisational attributes. According to the framework, organisations are embedded in fields that constitute the constellation of logics and appropriate practices. Organisations draw upon these logics and practices in order to construct legitimate practices. Depending upon organisational characteristics and experience and how they are situated, some logics are more accessible than others. These accessible logics and the way these are used by organisational actors shape organisational rationality and actions.

#### **3.4.1 Institutional Embeddedness**

Thornton, Ocasio and Lounsbury (2012) argue for the importance of relating organisational dynamics to wider processes at the field-level for better understanding of organisational rationality and action. These processes could relate to the evolutionary dynamics of the field shaped by structural and cultural conditions and include mechanisms of sensemaking and sensegiving by field players (Lounsbury, 2008). An organisation, being situated in organisational fields, can shape and be shaped, by multiple logics and an array of appropriate practices. Similarly, individuals, through their participation in situated organisations and practices, are subject to both field-level and organisational-level logics. This is the first layer of analysis that could reveal a reference system which organisations and individuals can draw upon to make sense of, and justify, their actions. This layer also reveals various sources of pressures, influences and opportunities in the external environment of an organisation (Greenwood et al., 2011). Further to this, more specific sources of institutional pressures can be examined by looking into the situational context of an organisation.

### **3.4.2 Situational Context**

The situational context of the organisation is an important variable as it reveals external stimuli (Ocasio, 2011). The situational context may contain certain features of the organisational environment which catches the attention of managers. Field-level salient events, outcomes and actions are part of the situational context of the organisation that could generate attention. This may include growth opportunities, publication of a report, celebration of Earth Day, award ceremonies, regulatory pronouncements, etc. Situational changes in the organisational context may provide opportunities for cognitive change, which in turn may lead to change in organisational practices (Thornton, Ocasio and Lounsbury, 2012). Situational changes play an important role in invoking the temporal knowledge structures by cueing associations between the situation and available

knowledge structures (Nigam and Ocasio, 2010). Collectively, both institutional embeddedness and situational contexts combine the embedded and situated view of behavior and shape the focus of attention of social actors (already discussed in 3.2.5). Focus of attention, can be automatic or controlled depending upon routine and non-routine situations. Focus of attention delimits the attention (information processing) of social actors on specific issues, problems and solutions (Lounsbury, 2008).

### **3.4.3 Social Interaction**

Social interactions between or within the organisations between different actors are the major avenues for shaping organisational rationality and action. Thornton, Ocasio and Lounsbury (2012) proposed that social interactions can link institutional logics to the dynamics of organisational practices through complimentary mechanisms: decision-making, sensemaking and collective mobilization. Decision-making focuses on the processes by which attention is directed to problems, and how problems are matched with solutions in decision situations. It allows for “*examining actions and behaviors that have consequences beyond the immediate social interaction that led to an organisational decision*” (Thornton, Ocasio and Lounsbury, 2012, p. 95). For example, the decision to go global has consequences throughout the whole organisation. Sensemaking refers to ongoing retrospective processes to rationalise organisational action. The mobilisation perspective allows understanding of the collective efforts to “*acquire symbolic and material resources and motivate people towards the accomplishment of collective goals*” (Thornton, Ocasio and Lounsbury, 2012, p. 357). It also allows understanding of the broader field-level politics which may involve some sort of collective action by actors who see a potential to benefit from a new socially legitimated practice. The collective action may involve both mobilising resources (e.g. sponsoring conferences and award

ceremonies) and meaning in support of new practices and then theorise in a way that is acceptable to incumbents in an established field.

Institutional logics shape these social interactions as social actors rely on them for decision-making, sensemaking and collective mobilisation. Language is the key during these social interactions as use of common language may create shared attention and cooperation. At the same time use of a different language may create competition and opportunity for change. According to Thornton, Ocasio and Lounsbury (2012), social interactions provide key motors that reproduce, alter, or transform organisational practices. However, these outcomes are contingent on how these social interactions are triggered (by either exogenous events or endogenous processes), and how attention is directed, as well as how logics are activated.

#### **3.4.4 Organisational Attributes**

The organisational logics and practices are influenced by the institutional environment and by the view of the rationality that is inherent in the institutional logics prevailing where organisations are situated (Thornton, Ocasio and Lounsbury, 2012). However, as argued by Greenwood et al. (2010), organisations are more than merely instantiations of institutional logics, rather they are places where people and groups make sense of, interpret, and enact institutional prescriptions. Institutional logics are also filtered by various attributes of the organisation itself. These attributes are also part of the organisational dynamics that are deemed important in explaining organisational rationality and actions (Herremans, Herschovis and Bertels, 2009).

According to Greenwood et al. (2011), specific organisational attributes - structure, ownership and governance- can make organisations particularly sensitive to certain logics. Organisational structures are important, as they can themselves be associated with different logics. For example, as illustrated by Glynn and Raffaelli



(2013), in the CSR field, market logics were given importance by those organisations which house their CSR practices in the structural units of marketing, communications or HR (homes to market logics). Community logics were given importance by those organisations which house their CSR practices in corporate foundations (homes to community logics). In addition to this, occupants of structural positions (for instance CEO and functional heads) also play an important role in representing and importing logics into an organisation to which they have been primarily exposed to through their education, training and ties with field-level institutional infrastructure (such as conference attendance, club memberships, and training programmes) (e.g. Lounsbury, 2001).

Ownership and governance are two further aspects of organisational dynamics as they determine sources of power in an organisation. Some groups are more powerful than others; as a result, organisational actions are likely to be reflexive of the interests of the most influential group. This suggests that strategies and decisions in public and private organisations may differ (e.g. Goodrick and Salancik, 1996) Likewise, dominant family owners, driven by family logics, play an influential role in shaping practices of family-owned and managed firms.

The discussion above suggests that understanding of both field-level influences and organisational dynamics is important in explaining organisational rationality and actions. While Greenwood et al. (2011) suggest three important organisational attributes, other organisational characteristics mediating the institutional effect on organisations may include size, geographic context of operations, breadth of operations, listing on multiple stock exchanges, and board committees on environmental issues (e.g. Herremans, Herschovis and Bertels, 2009).

### **3.5 Limitations of the ILP**

The ILP is not without its limitations. These limitations are mainly related to the concept of institutional logics and especially how it is theorised and operationalised. The concept of institutional logics is more or less an abstract theoretical concept which has been operationalised differently in empirical analysis. The definition of institutional logics is too open-ended and does not specify exactly what comprises a logic (Powell and Bromley, 2013). The categorical elements in the form of ideal-types of institutional logics by Thornton, Ocasio and Lounsbury (2012) are also not tightly defined. According to Johansen and Waldorff (2014), we still know very little about the specificities of “logics”. Logics are often either theoretically derived or ambiguously identified in the empirical field of study. Through analysis of studies based on institutional studies, they were able to identify four different methodologies used by researchers to derive institutional logics. However, they still believe that *“our understanding in why a logic is a logics has not been methodically developed”* (Johansen and Waldorff, 2014, p. 27). Also some other issues are not addressed like why there are seven institutional orders or why some orders like science, arts, education or the natural environment have no space in the current framework.

Related to the issue of specificity is another issue of the decomposability of logics and the modularity of the interinstitutional system that has been assumed by the ILP as the necessary condition for enabling agency. According to Thornton, Ocasio and Lounsbury (2012), agents can break up the components of logics, mix and match and apply them to new situations to fit their practical needs. Friedland (2013) believes that logics have limited modularity. According to him, specificity of the logics is the main issue as if specificity is low, then it is impossible to define the logic but if specificity is high then it poses serious limits on the transportability of logics.

Another limitation relates to the “material and symbolic” elements of the institutional logics. First, logic studies have focused more on symbolic elements at the expense of investigating material practices. As a result, methods to explore material practices are not well-developed. At the same time, focus is more on verbal language as according to (Thornton, Ocasio and Lounsbury, 2012, p. 152), “*vocabularies of practice are the critical linchpin through which institutional logics are constructed and meaning and practices are brought together*”. Höllerer et al. (2013) argue that this focus on verbal language leaves the performative power of visuals in the construction process. They coined the concept of “imageries of practice” to address such limitations in the symbolic constructions. Second, the conceptualisation of the materiality element in the institutional logics emphasized organisational structures and practices and not physical objects and technologies through which logics become instantiated (Jones, Boxenbaum and Anthony, 2013). Material elements such as instruments in a concert, computers, and books are ignored in the current conceptualisation of materiality. Friedland (2013) has also recognised this and calls for an institutional logic approach to account for the ‘dynamics of the material’. But then, as identified by Johansen and Waldorff (2015), issues like what kinds of materiality, for instance, constitute each institutional logic – and how-, are underdeveloped.

According to Cloutier and Langley (2013), current conceptualisations of institutional logics have also ignored the moral (value) dimension which is an important explanatory mechanism for deepening our understanding of institutional and organisational dynamics. Values were given importance by Friedland and Alford (1991) in their initial conceptualisation of institutions. The institutional system of Thornton, Ocasio and Lounsbury (2012) represents values in a limited way by considering them as part of legitimacy. However, things are judged to be legitimate on the basis of conformity

to institutions and not on the basis of their being right or wrong in a moral sense. In this way an important dimension is given less importance. Klein (2013) argues that even if social actors endorse one logic over the other, there has to be a moral dimension which pushes them to consider that some aspect of the status quo is “wrong” or “unfair”.

Finally, the most recent critique of institutional logics is in terms of its focus on the process rather than on the phenomena (Greenwood, Hinings and Whetten, 2014). According to (Johansen and Waldorff, 2015), societal impacts of logics are missing from the insights advanced by current studies. Social consequences of the phenomenon become peripheral in these process studies. They call for strong normativity in logic studies and need to know if the existence of certain logic improves societal values and practices. In this way, the ILP shall increase its explanatory potential to inform future developments and challenges.

### **3.6 Usefulness of the ILP:**

Despite of the limitations mentioned in the previous section, the ILP is a useful framework for multi-level analysis of the institutional logics and processual dynamics related to the cultural emergence and evolution of practices. It enables a more detailed account of the institutional, organisational and individual dynamics. It provides a refined perspective and a unique approach to the structure, culture and process. The uniqueness of the comes from its orientation on heterogeneity and practice variation as compared to homogeneity and isomorphism (Thornton and Ocasio, 2008). The conceptualisation of society as an interinstitutional system explains the heterogeneous nature of society in term of different institutional orders and their logics. These logics are played out in the field which is conceptualised as constituent of the “*variety of organisations that have their values anchored in different societal-level institutional orders*”(Thornton, Ocasio and Lounsbury, 2012, p. 44). This conceptualisation of field is useful in providing

insights into heterogeneity of the field that may have implications for practice adoption, non-adoption and variation (Lounsbury, 2008; Ansari, Fiss and Zajac, 2010). Multiple logics exist at the field level either in competing or complementary relationship. These logics are then mediated by internal organisational dynamics which are given due importance by the ILP for understanding organisational rationality and action. In this way, the theoretical framework deals with both the external and internal dynamics on the initiation and institutionalisation of practices. On one hand, by focusing on the societal and field-level, it provided a foundation for the analysis of the external factors affecting practices. On the other hand, the importance of internal factors was also recognised in the form of organisational values, practices and identities.

### **3.7 Conclusions**

This chapter presented the institutional logics perspective as an analytical framework for institutional and organisational analysis. The framework will be used in understanding the field-level and organisational dynamics for the emergence of sustainability reporting in Pakistan. The next chapter presents the research design to operationalise the theoretical framework. Collectively, these two chapters (three and four) provide the foundation for empirical work, the details of which are presented in chapters' five to eight.

**Figure 3-1: Theoretical Framework for Multi-Level Analysis**

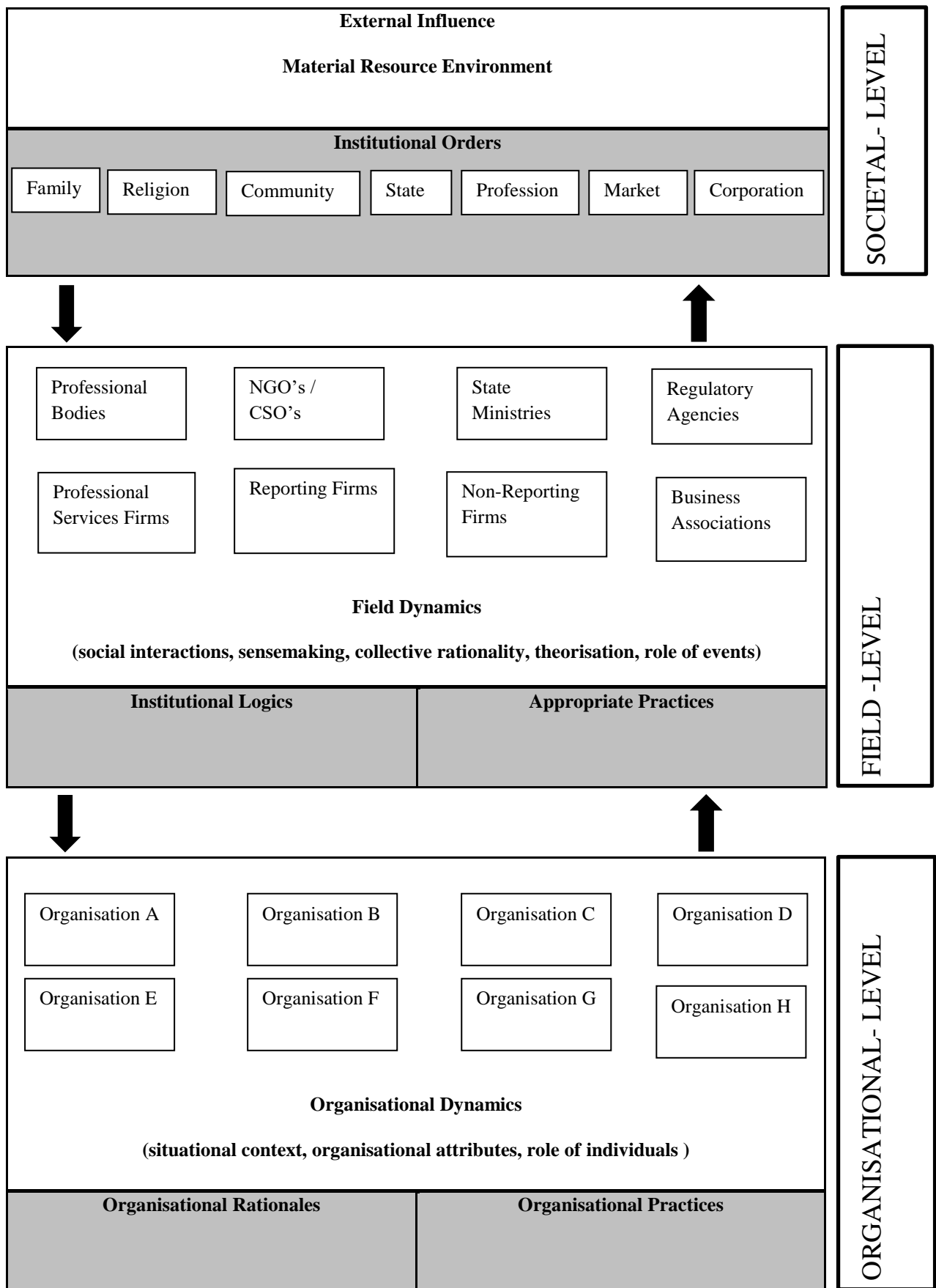


Figure 3-2: The Ideal Type Interinstitutional System

<b>Y-Axis:</b>	<b>X-Axis: Institutional Orders</b>						
<b>Categories</b>	<b>Family 1</b>	<b>Community 2</b>	<b>Religion 3</b>	<b>State 4</b>	<b>Market 5</b>	<b>Profession 6</b>	<b>Corporation 7</b>
<b>Root Metaphor 1</b>	Family as firm	Common boundary	Temple as bank	State as redistribution mechanism	Transaction	Profession as relational network	Corporation as hierarchy
<b>Sources of Legitimacy 2</b>	Unconditional loyalty	Unity of will Belief in trust & reciprocity	Importance of faith & sacredness in economy & society	Democratic participation	Share price	Personal expertise	Market position of firm
<b>Sources of Authority 3</b>	Patriarchal domination	Commitment to community values & ideology	Priesthood charisma	Bureaucratic domination	Shareholder activism	Professional association	Board of directors Top management
<b>Sources of Identity 4</b>	Family reputation	Emotional connection Ego-satisfaction & reputation	Association with deities	Social & economic class	Faceless	Association with quality of craft Personal reputation	Bureaucratic roles
<b>Basis of Norms 5</b>	Membership in household	Group membership	Membership in congregation	Citizenship in nation	Self-interest	Membership in guild & association	Employment in firm
<b>Basis of Attention 6</b>	Status in household	Personal investment in group	Relation to supernatural	Status of interest group	Status in market	Status in profession	Status in hierarchy
<b>Basis of Strategy 7</b>	Increase family honor	Increase status & honor of members & practices	Increase religious symbolism of natural events	Increase community good	Increase efficiency profit	Increase personal reputation	Increase size & diversification of firm
<b>Informal Control Mechanisms 8</b>	Family politics	Visibility of actions	Worship of calling	Backroom politics	Industry analysts	Celebrity professionals	Organization culture
<b>Economic System 9</b>	Family capitalism	Cooperative capitalism	Occidental capitalism	Welfare capitalism	Market capitalism	Personal capitalism	Managerial capitalism

Source: (Thornton, Ocasio and Lounsbury, 2012, p. 73)

## **Chapter 4: Research Philosophy and Design**

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### **4.1 Introduction**

The purpose of this chapter is to describe the methodological approach adopted for this research study and to outline the research methods that were employed to fulfil the aims of the study. The chapter begins with a discussion on different philosophical assumptions that constitute a particular research philosophy, followed by a discussion of the main philosophical perspectives in accounting research. The chapter proceeds with the philosophical stance and core philosophical assumptions used in undertaking this research study. In the following sections, the research design and the details of data collection and analyses are discussed. Finally, a brief section is provided on the issues of validity and reliability of the research before concluding the chapter.

### **4.2 Research Philosophy**

The research philosophy is the most important aspect when deciding a research design. It reflects the way the researcher thinks about the development of knowledge (Saunders et al., 2011). It assists researchers (especially the new ones) in knowledge creation (Malmi, 2010) and is recognised as one of the virtues of true scholarship (Lukka, 2010). The research philosophy constitutes a set of assumptions which a researcher implicitly or explicitly makes before undertaking the research. These assumptions are related to ontology, epistemology, human nature, methodology and the nature of society (Burrell and Morgan, 1979; Chua, 1986; Laughlin, 1995). These assumptions have direct implications for the design and implementation of the research (Creswell, 2009; Collis and Hussey, 2013). According to Creswell (2009), the choice of any particular method of



research depends on the chosen research philosophy that researchers follow when conducting their research.

**Ontological assumptions** revolve around the questions of the nature of reality - What is reality? How is reality conceived and perceived? (Hopper and Powell, 1985; Hallebone and Priest, 2009). The framework of Burrell and Morgan (1979) sketched out two possibilities regarding the ontological assumptions – objective (realist ontology) vs. subjective (constructionist ontology) reality. According to Collis and Hussey (2013, p. 48) as a researcher, one must decide whether “*the world is objective and external to the researcher, or socially constructed and only understood by examining the perceptions of the human actors*”. In *realist* ontology, the researcher assumes that reality is objective, that it exists independently ‘out there’ prior to the cognition of any individual (Hallebone and Priest, 2009). In *constructionist* ontology, the researcher assumes that subjective reality is seen as a product of human cognition and is informed by human experiences and knowledge (Hopper and Powell, 1985; Hallebone and Priest, 2009).

**Epistemological assumptions** revolve around ideas concerning what constitutes acceptable knowledge – How is knowledge about a particular view of reality generated, represented, understood and used? (Hallebone and Priest, 2009; Saunders et al., 2011). According to Crotty (2005, p. 8), epistemology constitutes “*a way of understanding and explaining how we know what we know*”. Epistemology also specifies the relationship between the researcher and what is being researched (Guba and Lincoln, 1994; Bryman and Bell, 2003; Collis and Hussey, 2013). The researcher may be viewed as an objective observer who is disengaged with the process of selection of data, analyses and interpretation. The researcher may also be viewed as an engaged participant who is actively involved in the research process (Hallebone and Priest, 2009).

Social science literature presents a range of epistemological stances which include objectivism, positivism, constructionism and subjectivism (Bryman and Bell, 2003; Crotty, 2005). The framework of Burrell and Morgan (1979) presents two stances regarding epistemological assumptions – positivism and anti-positivism. The epistemology of positivism seeks to explain and predict what happens in the social world by searching for regularities and causal relationships between its constituents. Knowledge may be obtained through observation without subjective involvement of the researcher. On the other hand, the epistemology of anti-positivism is essentially constructivist/interpretivist and can only be understood from the point of view of the individuals who are directly involved in the construction of the construct that is being studied. The two choices also differ in terms of the extent to which generalisations are thought to be possible from the data, with positivists assuming that such generalisations are possible whereas anti-positivists believe that it is not possible because of the irregularities in the real world.

**Assumptions about human nature** explore how human nature is viewed and how the environment affects human behaviour (Hopper and Powell, 1985). Again, the framework of Burrell and Morgan (1979) suggests two opposing possibilities – determinism – where the environment constrains and determines human nature and voluntarism – where human agents are seen as being free from the environment, possessing free will and autonomy of action.

**Assumptions about nature of society** revolve around the stance of the researcher towards the society which they are researching. Again a dichotomy is created with a regulatory (or consensual) understanding of the nature of society contrasted with radical change or conflictual view of society. With the regulatory view, the status quo is accepted as being the appropriate form of social organisation. The radical view reflects a deep

dissatisfaction with the present society because it is seen to stunt individual's development and limits their ability to achieve their potential (Burrell and Morgan, 1979; Hopper and Powell, 1985).

**Methodological assumptions** refer to *“the overall approach to the research process, from the theoretical underpinning to the collection and analysis of the data”* (Collis and Hussey, 2013, p. 55). Philosophical assumptions mentioned above have significant implications on methodological assumptions (Hopper and Powell, 1985). Different ontologies, epistemologies, and models of human nature and society are likely to incline social scientists towards different methodologies.<sup>5</sup> The Burrell and Morgan (1979) framework prescribes and differentiates two main approaches – nomothetic (objective) and ideographic (subjective). The nomothetic approach treats the social world like the natural world as an objective reality and makes use of quantitative methods such as surveys and questionnaires in search for universal laws. The ideographic approach, on the other hand, treats the social world as a subjective reality and attempts to understand the means by which individuals interpret the social world they are in. The main focus is on the creation of the social world by subjective experiences of individuals. This approach requires an involvement with research participants and therefore relies on qualitative methods such as in-depth interviews, participant observation and case studies (Saunders et al., 2011; Collis and Hussey, 2013).

### **4.3 Philosophical Perspectives in Accounting Research**

Based on the five philosophical assumptions (mentioned in the previous section), Burrell and Morgan (1979) categorise social science research into four distinct philosophical

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<sup>5</sup> The term ‘methodology’ is sometimes used interchangeably with the term ‘method’. According to Crotty (2005, p. 3), methodology refers to “the strategy, plan of action, process or design lying behind the choice and use of methods to the desired outcomes” whereas methods are “the techniques or procedures used to gather and analyse data related to some research question or hypothesis”.

perspectives:<sup>6</sup> functionalism, interpretivism, radical structuralism and radical humanism. In the field of accounting, their work has become a foundation for many researchers, such as Hopper and Powell (1985), Chua (1986), Laughlin (1995) and Ryan, Scapens and Theobald (2002) to categorise accounting research into three distinct philosophical perspectives – mainstream,<sup>7</sup> interpretive and critical. Each philosophical perspective is based on different assumptions. These perspectives are discussed in this section which will help in positioning and justifying the philosophy of this research.

#### **4.3.1 Mainstream Accounting Research**

Mainstream accounting research takes the objective view of reality, regards individual behaviour as deterministic, uses empirical research, adopts positivist research methodology and emphasises quantitative methods (Chua, 1986; Ryan, Scapens and Theobald, 2002). This school of thought is known as functionalism in Burrell and Morgan (1979) framework whereas Laughlin (1995) categorises the positivist, realist, instrumentalist and conventionalist approaches in the same group. According to Chua (1986, p. 601) *“this particular world-view with its emphasis on hypothetico-deductivism and technical control possesses certain strengths but has restricted the range of problems studied and the use of research methods”*. In particular, mainstream researchers place emphasis on methodological rigor, validity and objectivity in the development of useful generalisable knowledge, which can be used to predict and control empirical phenomenon (Chua, 1986). However this approach ignores the importance and interplay of contextual factors and the active role of agency. Mainstream researchers develop models based on high levels of prior theorisation and then test them empirically (Baker and Bettner, 1997). To control for variables not captured in their models, they often make implicit or explicit

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<sup>6</sup> The term ‘paradigm’ or ‘approach’ is used to describe what is termed as philosophical perspective in this research.

<sup>7</sup> Also known as positivist

assumptions regarding how the world works (Laughlin, 1995). Also, this approach assumes the process of acquiring knowledge as value-free and that the researcher neither affects nor is affected by the research's subject (Chua, 1986; Guba and Lincoln, 1994). In this way it ignores the active role of both the researcher and the research participants.

#### **4.3.2 Interpretive Accounting Research**

Interpretive accounting research is concerned with understanding of the social world, and includes work that seeks to understand the social nature of accounting practices (Hopper and Powell, 1985). In interpretivism, there is no objective truth and direct observation is impossible. The interpretivist approach believes in the subjective side of both ontological and epistemological positions (Ryan, Scapens and Theobald, 2002). For interpretivists, reality is subjectively created and socially constructed; therefore the researcher is more interested in understanding subjective realities and offering interpretative explanations (Burrell and Morgan, 1979; Chua, 1986). The main aim is making sense of actors' common sense and especially what motivated their action.

For interpretivists, accounting is socially constructed and has subjective reality. Therefore an interpretive methodology attempts to consider social actors as active individuals and interpret the meanings that human actors apply to the symbols and structures within the settings in which they find themselves (Alvesson and Deetz, 2000). Symbolic interactionism, grounded theory and ethnomethodology approaches are within this school of thought (Laughlin, 1995). As this approach emphasises observation and awareness of linguistic cues, norms and values, researchers working from this approach are actively involved in the research process and are considered an important part of the observation process (Guba and Lincoln, 1994; Hallebone and Priest, 2009). Interpretivists believe that a simple fundamental assumption cannot be applied in every social phenomenon. Since social reality is created and influenced by the social actors, it is way

too complicated. Therefore, interpretivists argue that generalisation from a sample is hardly possible. In fact, generalisation is less emphasised in interpretivism research studies.

### **4.3.3 Critical Accounting Research**

The concept of “critical accounting” emerged from the interdisciplinary approaches to accounting research that attempted to incorporate non-functionalist theoretical insights into the exploration of inter-relationships between accounting, organisations and society (Hopwood, 1983; Cooper and Hopper, 1990; Broadbent and Laughlin, 2013). There are many labels for the critical perspectives in accounting research, for example - “critical accounting movement”, “critical accounting literature”, “critical studies”, and “critical theory” (Chua, 1986; Laughlin, 1995; Lodh and Gaffikin, 1997; Ryan, Scapens and Theobald, 2002). These terminological differences mean different things to different accounting researchers. Critical researchers adopted different approaches for accounting research which include: radical structuralist and radical humanist (Hopper and Powell, 1985) and the approach taken by critical theories - such as Marxism, political economy theory, structuration theory, and German and French critical theory (Ryan, Scapens and Theobald, 2002).

Among other approaches include the idea of social constructivism (Berger and Luckmann, 1967), “critical accounting research” framework by (Chua, 1986) and “middle-range thinking” of (Laughlin, 1995). The framework of (Chua, 1995) assumes that empirical reality is objective but it is transformed and reproduced through subjective interpretation, a view consistent with social constructivism (Berger and Luckmann, 1967), which views social reality as produced and reproduced by social actors through their accounts of reality (Hines, 1989, 1991). From the ontological viewpoint it carries the features of both realism and idealism: the world is regarded as existing objectively with

regard to physical existence, but it is seen as having been subjectively created by human beings as far as the social side of existence is concerned. Laughlin (1995, pp. 70, 77-85), however avoid this subjective-objective divide and present a three-dimensional framework of theory, methodology and change in which he placed critical perspectives as taking the middle position (on a high, medium and low continuum) in regards to the dimensions of theory, methodology and change.

Interpretive and critical perspectives are similar in many ways. To a large extent, the epistemological assumptions of interpretivism apply equally well to the critical research (Myers, 2013). Differences, however, exist at the ontological level where interpretive research can be classified as purely subjective while critical accounting research is in-between these two (subjective-objective) extreme positions (Ryan, Scapens and Theobald, 2002). The ontological assumption in critical research is that reality is socially constructed and objectively real (Burrell and Morgan, 1979; Chua, 1986). In other words, critical research does not fully sign up for the ideas of the social constructionist approach. It acknowledges the existence of several understandings (multiple realities) of the world, but emphasises the existence of structures and mechanisms related to these structures beyond constructionists' ideas. Another distinctive feature of critical research is that it assumes that reality is historically constituted and is produced and reproduced by the people. It assumes the role of the individual in changing their social and economic circumstances, however the ability of individuals to do so is constrained by various forms of social, cultural and political domination (Myers, 2013).

In addition to these differences in philosophical assumptions, there are many other features of critical accounting research which make it stand out from other approaches. According to Laughlin (1995), *“the primary distinction between an interpretive perspective and a critical perspective is a willingness on the part of the latter to adopt a specific stance*

*regarding the nature and purpose of the research and its political and social implications”.*

Critical accounting research has a political imperative and aims to provide social critique and to promote radical change (Roslender, 2006). The main concern of critical researchers is to construct understanding of the social and economic world while criticising the status quo (Hopper and Powell, 1985). It is presumed that current social conditions prevent the achievement of enlightenment, justice and freedom. Some of the social constructions of reality favour certain interests and obscure alternative constructions (Alvesson and Deetz, 2000). Therefore, rather than simply describing subject interpretations (as an interpretive researcher might do), the idea is to challenge those interpretations that might be taken for granted by the subject themselves (Myers, 2013).

Critical accounting researchers also recognise the interrelationships between accounting, organisations and society (Berry and Otley, 2004; Broadbent and Laughlin, 2013). Critical researchers are concerned with the need to develop a more self-reflexive and contextualised accounting literature which explicate a theory of interests in understanding accounting practice and theory (Lodh and Gaffikin, 1997). They view accounting practices as favouring positions of power which are unequally distributed in any society. Accounting has an exploitative potential that if not challenged and channelised for betterment, may have negative societal implications (Berry and Otley, 2004). Critical accounting research is committed to the emancipation of humans from the constraints imposed by other humans. For this, critical researchers shall have normative beliefs (e.g. equality, diversity, environmental sustainability) that should motivate and guide their research work (Alvesson and Deetz, 2000; Myers, 2013; Correa and Larrinaga, 2015).



#### **4.4 Chosen Philosophical Perspective and Assumptions**

Broadly, this study aligns itself with the subjective interpretation of the social world. However unlike interpretive studies that take a purely subjective view of reality, this study posits that an objective reality exists independently of our interpretation, but that reality is subjectively constructed, historically constituted and is produced and reproduced by individuals during social interactions. Therefore, within the different perspectives discussed earlier, this study aligns itself with the critical perspective in accounting research (Berger and Luckmann, 1967; Chua, 1986; Laughlin, 1995).

This study posits sustainability accounting and reporting practices as social constructions of corporate managers, stakeholders and those involved (including researchers) with the theory and practice. However these social constructions and actions are both enabled and constrained by existing structures. This study assumes human nature as neither deterministic nor individualistic. It assumes social actors as situated, embedded and boundedly intentional individuals that have the capacity to change, but their ability to do so is both constrained and enabled by existing structures (Thornton, Ocasio and Lounsbury, 2012). This study assumes that knowledge construction is possible through subjective interpretation of social construction processes of sustainability reporting, through interpretive and participatory methodologies that go beyond the observation of (external) reporting practices. However, unlike merely describing subjective interpretations, the researcher aims to develop critical insights by considering the broader (institutional) context and how it both enables and constrains particular social constructions and actions.

The interpretive approach is not suited for this kind of research as it lacks an evaluation dimension. It ignores the complexities that are embedded in the social context and within which individuals are situated (Hopper and Powell, 1985). As a result,

interpretive research falls short of unveiling broader structures that shape actors' interests and actions. This research posits that understanding of the social and historical context is important in identifying structural and cultural conditions as they are linked to the institutionalisation process (Chapman, Cooper and Miller, 2009). The theoretical framework adopted for this study – the institutional logic perspective – also highlight that these conditions are implicated in the emergence and development of particular logics and practices (Thornton, Ocasio and Lounsbury, 2012).

Within the traditions of the critical accounting perspective, this research has a normative agenda. There is a normative belief that SR has a potential to increase the accountability of an organisation for their social and environmental impacts – a view envisaged by earlier academics. This potential is even bigger in the case of emerging and less developed economies which are more vulnerable and exploitable. However, the *unsoundness* of sustainability accounting and reporting, as practiced by organisations in both developed and less developed countries, is an established empirical fact in the literature (Adams and Larrinaga-González, 2007). The normative agenda in this research is to engage with the stakeholders as well as organisations in order to enhance our understanding of the way sustainability accounting and reporting is envisaged and practiced in emerging and less developed economies. This understanding is believed to suggest changes for the enhancement of the social and environmental accountability of organisations. Also, understanding of the structural and cultural conditions will help in identifying potential avenues for change. However unlike radical change envisaged by the pure critical approach, the researcher takes the middle position – “*readiness to change*” (Laughlin, 1995). The change is rather conceived as a “*by-product*” of the research activity where the main product is enhanced understanding through critical insights, and enlightenment, that may lead towards change (Correa and Larrinaga, 2015).

This research is intrigued by the dynamics and context in which SR is practiced and how it is conceived and constructed by institutions, organisations and individuals. This study assumes an active involvement of the researcher in the research process. The study posits that the construction process of logics and practices in the dynamics of SR field and the process of initiation and implementation of SR in the dynamics of organisations is something that can only be apprehended through the active subjective involvement of the researcher in the research setting.

Methodologically, this thesis adopts a qualitative, engagement-based approach which is consistent with both the objectives of this research as well as the chosen philosophical perspective (Easterby-Smith, Thorpe and Jackson, 2008; Creswell, 2009; Saunders et al., 2011; Collis and Hussey, 2013). The qualitative engagement-based approach is most suitable for understanding the dynamics and context in which sustainability accounting and reporting is conceived and constructed by social actors (Adams and Larrinaga-González, 2007; Correa and Larrinaga, 2015). The qualitative approach helps to understand the contemporary phenomenon in depth and within the context (Yin, 2014). It focuses on reflexivity, context and thick description (Tracy, 2012). Qualitative research is deemed best for understanding people's motivations, their logics, their actions, and the institutional context for their beliefs and actions in an in-depth way (Myers, 2013; Reay and Jones, 2015). It argues that only through knowledge of the context and by engaging with people, one can understand their decisions and actions. The main disadvantage of qualitative research is that it is difficult to generalise the findings from one context to another. However, one can generalise the findings from the qualitative study to the theoretical framework – known as theoretical generalisation (Myers, 2013). After clarifying the philosophical position of this research above, the next section presents a discussion of and justification for the research design of this study.

#### **4.5 Research Design – Embedded Case Study**

According to Yin (2014), the research design is the logical sequence that defines the relationship between empirical data and research questions developed for research and its conclusions. This thesis adopts an *embedded case study design* which is consistent with the adopted qualitative approach (Gummesson, 2000). A case study is “...an empirical inquiry that investigates a contemporary phenomenon (the “case”) in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident” (Yin, 2014, p. 16). Similarly Robson (2002, p. 178) defines a case study as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence”. Case studies involve a detailed exploration, typically with information accumulated over a phase of time, of a phenomenon within their context. (O’Gorman and MacIntosh, 2014). The fundamental objective is to generate an analysis of the context and processes which enlightens the theoretical questions being researched.

According to Berry and Otley (2004), strength of the case-based research in accounting lies in complete and detailed understanding of the content and processes of accounting practices in their organisational and societal contexts. At the same time, capacity to draw from different data sources and to allow multiple-levels of analysis are salient features of the case-based research (Lee, Collier and Cullen, 2007; Thomas, 2010). As this research sought to understand the process of the emergence and development of SR in Pakistan at multiple-levels of analysis therefore, an embedded case study design was deemed appropriate for the purpose of this research. The section below provides the rationale for the selection of the case study approach, whereas details about the embedded design will appear later (in 4.5.2), while defining ‘the case’ which is an important component of this approach.

#### **4.5.1 Rationale for the Case Study Approach**

The first rationale for adopting a case study approach is that it is suitable for the nature of research questions asked in this study. A case study is more useful when ‘how’ and ‘why’ questions are asked (Gummesson, 2000; Rowley, 2002; Yin, 2014). The current research is mainly concerned with the ‘how’ and ‘why’ of the emergence of SR.

The second rationale for choosing a qualitative case study is due to its focus on a contemporary topic in a real life setting (Yin, 2014). SR is a contemporary issue in the context of emerging and developing economies. This thesis explores the rationale and process behind the emergence of SR in a contextual setting of Pakistan.

The third rationale is that a case study accommodates the use of a theoretical framework and provides opportunity for theory development through analytic generalisation (O’Gorman and MacIntosh, 2014; Yin, 2014). This research adopts the ILP as a theoretical framework and aims to evaluate its usefulness in explaining empirical insights from the case study.

The fourth rationale is the suitability of the case study approach for engagement research and its strength in accommodating multiple sources of data collection. According to Correa and Larrinaga (2015), a case study, grounded in semi-structured interviews and documentary analysis, is the most suitable approach for engagement research in social and environmental reporting.

#### **4.5.2 Defining the ‘Case’ - Unit of Analysis**

The definition of the ‘case’ (unit of analysis) is an essential component of the case-based research. Typically the case is a bounded entity, for example: an event, a person, an organisation, a country, a process, a reform, a policy or even social interactions (O’Gorman and MacIntosh, 2014). The case is the central object of the study and is a context-specific decision that is contingent on the research question and context of the

investigation. The broader ‘case’ in this research is ‘the emergence of sustainability reporting’ in the contextual setting of Pakistan.

This study adopts an *embedded case study design* which is consistent with the research objectives and the theoretical framework adopted for this thesis. Embedded case studies involve a unit of analysis at more than one level in a case study (Eisenhardt, 1989; Scholz and Tietje, 2002; Yin, 2014). For example a study of Pettigrew, Strategy and Change (1988), looked into competitiveness and strategic change within major U.K. corporations at two levels of analysis: industry and firm. As this study is concerned with the emergence and development of SR in Pakistan at multiple-levels of analysis, embedded design was deemed appropriate. Also the theoretical framework assumes the embeddedness of organisations and individuals in higher (societal and field) levels that set constraints on their actions. Therefore in order to see how organisational practices are shaped by field and societal dynamics, it was necessary to do multiple-levels of analysis.

In this embedded case study design the broader case is the emergence of SR in Pakistan. Two sub-levels that inform this broader case are the field-level and organisational-level. At the field-level, the unit of analysis is the collective rationality of actors (organisations and individuals) shaping the SR field. At the organisational-level, the unit of analysis is those organisations that have initiated the practice of standalone SR (See appendix A for details of organisation).

**Table 4-1: Summary of the Embedded Case Design**

Broader Case	Emergence of SR
Contextual setting	The Institutional Context of Pakistan
Sub Level of Analysis 1 – Field	Social actors shaping SR Field
Sub Level of Analysis 2 - Organisational	Organisations initiating and implementing SR

## **4.6 Data Collection**

The thesis's empirical findings rely on a combination of two data sources: semi-structured interviews and documentary evidence. The two methods are believed to complement each other in obtaining insights about the different aspects of the case study. Use of documents (especially annual reports) is not uncommon in sustainability accounting and reporting research. However, for better understanding of the practice, and for greater engagement with organisations and stakeholders concerning SR, semi-structured interviews is the most preferred method for data collection (De Silva, 2011).

### **4.6.1 Semi-structured Interviews**

Semi-structured interviews are important sources of empirical evidence in this thesis. Interviews have been defined as “conversations with a purpose” (Thorpe and Holt, 2007, p. 118). The interview is the main method to discover the views, perceptions and opinions of individuals, and how they construct them through the language they use (Easterby-Smith, Thorpe and Jackson, 2012). It enables interviewers to gain insight to social and organisational realities. Semi-structured interviews are often seen as an appropriate technique of data collection to explore multi-dimensional and complex phenomenon - such as SR (Myers, 2013). Semi-structured interviews have a predetermined set of themes and questions with flexibility to answer them within given boundaries set by researchers, but also accommodate the views of interviewees (Saunders et al., 2011).

According to Easterby-Smith, Thorpe and Jackson (2012), for semi-structured interviews, researchers should have a topic guide which can be used as a loose structure for the questions. However according to them, researchers should be flexible enough to make choices during the data collection process about which topics to explore further and which lines of inquiry to discard. Also researchers should allow for some deviation from the sequence which may be necessary in order to follow interesting lines of inquiry and to

facilitate an unbroken discussion. In a case study, research interviews are one of the most important sources of evidence where one can ask interviewees about their interpretations and opinions about people and events or their insights, explanations, and meanings related to certain occurrences.

Identifying significant actors as interviewees is very important to obtain relevant insights. As this study adopts an embedded case study design which aims to carry out analysis at two levels of analysis – field and organisational, the major challenge was to identify significant social actors that should be interviewed at both levels. For the organisational level, it was easy to identify firms involved in SR as data was available in the public domain. The challenging part was to identify significant social actors – other than reporting firms, which were playing their role in the emergence and development of SR in Pakistan. In order to identify these actors and to develop a topic guide, the researcher conducted a pilot study in August 2012 when two interviews were conducted - one with the leading SR consultant and the other with the CSR manager of the leading firm reporting on sustainability.

On the basis of insights from the pilot study and further exploration of the documentary evidence (discussed in the next section), a list was developed of all significant actors that were believed to shape the practice of SR in Pakistan. This process of identifying significant actors was simultaneously informed by the literature review and the theoretical framework. The literature review signifies the importance of interviewing both stakeholders, as well as organisations, involved in the practice for a comprehensive understanding. Since the theoretical framework conceptualises society as made up of seven mega institutions (family, community, state, market, profession, corporate, religion) influencing organisations, it was necessary to conduct interviews with a diverse



range of actors that can give insights about the influence of these institutions on the practice of SR.

A letter requesting participation was sent to all significant actors during the period of January - March 2013. The letter (see appendix B) aimed to introduce the research topic and the researcher and to ensure the confidentiality and anonymity of the research participants, which are important ethical issues involving qualitative research (Easterby-Smith, Thorpe and Jackson, 2012). The initial response was not very good and the researcher had to send a number of reminders before some respondents consented for the interview. Realising the need to explore other avenues for obtaining access to the interviews, the researcher had to use informal channels (mainly by engaging the teaching community for their connections in important institutions and organisations). Even in some cases Facebook and LinkedIn were used to send requests for research participation. In addition to this, the researcher had to make telephone calls after reaching Pakistan which proved to be more productive than emails.

A total of 28 interviews were conducted with significant social actors - see appendix C for the list of interviewees). Out of these 28 interviews, 13 interviews were conducted with significant field players whereas 15 interviews were conducted with the senior-level corporate managers of the organisations reporting on sustainability. These interviews followed the topic guide (see appendix D for the topic guide and the interview questions). The interviews ranged between 45 to 90 minutes. A written consent was obtained from the interviewees for conducting the interview (see appendix E). All interviews (except two, in which case notes were taken) were recorded with the interviewee's consent (Collis and Hussey, 2013). Each interviewee (with the exception of two) was interviewed once.

All interviews were conducted during the period of four months (April – July 2013), in three different cities (Karachi, Lahore and Islamabad). As the researcher was stationed in Multan, he had to travel a lot which was simultaneously an interesting and challenging experience. It was interesting as it gave the researcher an opportunity to explore new places and to meet new people. However, the major challenge was to plan for the interviews in three different cities due to the time and cost involved. This challenge was aggravated by the law and order situation in the country which was not good in those days. This was because of the terrorist activities which were on peak due to the general elections in May 2013. On numerous occasions, interviews needed to be cancelled and rescheduled because of the law and order situation in the area in which the interview was scheduled. Despite these challenges and despite the general difficulties attached with obtaining access for the interview, the researcher believes that he was able to obtain enough insights from the 28 interviews held during the main data collection phase.

#### **4.6.2 Documentary Evidence**

Documentary evidence is an important part of data collection in qualitative case-based research. Documentary evidence in this research includes annual reports, sustainability reports, website information, government reports, publications of professional service firms, newspaper articles, magazine articles, academic publications, rules, regulations and guidelines. According to Hesse-Biber and Leavy (2006), a document is a symbolic representation that can be recorded and retrieved for description and analysis. They further suggested that qualitative analysis of documents focuses on ‘tracking discourse’, including words, meanings and themes. Documentation is a great source of evidence because it is ‘stable’ (can be accessed repeatedly), ‘specific’ (contains exact names, references and details of an event) and has a ‘broad coverage’ (covers a longer time

period, many events and many settings) (Yin, 2014, p. 106). However, documentation can be subject to reporting bias which can be due to incomplete information or the general bias of the author (Easterby-Smith, Thorpe and Jackson, 2012).

According to Yin (2014), documentary evidence is relevant to every case study and serves many purposes. Documents can be used to corroborate and augment evidence from other sources. Documents can be helpful in identifying important actors, events and organisations related to a particular phenomenon. One can also make some inferences from the documents; however they shall be treated as clues worth of further investigation rather than definite findings. In this research, documentary evidence served many purposes. It was first used for contextual reading and field familiarisation, then as part of the preparatory process for conducting interviews. For example, annual reports were used to get more technical information about SR in the firm (e.g. information on the different sustainability initiatives taken by the firm). Together with the interview data, documents were used for setting up a database of important events, actors and major developments (explained in the next section). Documents were also used to identify logics. In this way, the use of documents results in both obtaining new information and to corroborate and augment evidence from interviews.

#### **4.7 Data Analysis**

Data analysis in a qualitative research is an ongoing process that can be performed simultaneously with the data collection (Eisenhardt, 1989). In this research, the preliminary analysis started immediately after each interview. A brief summary was written to elaborate the main findings. This allowed the researcher to focus on relevant issues, develop ideas for further inquiry and to capture important insights at an early stage. Once all interviews were transcribed and other data was collected, the researcher started to think about the analytical strategy and techniques to guide the data analysis.

According to Yin (2014), analytical strategy is an important part of the research design that guides researchers how to link empirical data to some concepts of interest where the concept then gives the research a sense of direction in analysing the data. He suggested four general analytical strategies which include: relying on theoretical propositions, working on the data from the ground up, developing case descriptions, and examining rival explanations. Within each strategy, five analytic techniques were proposed which include: pattern matching, explanation building, time-series analysis, logic models and cross-case synthesis.

Considering the embedded design of the case, the nature of research questions, and the use of the ILP as a guiding framework, a combination of strategies was used. It was decided to start working with the data from the ground up and then to rely on the theoretical framework for data analysis. The researcher started with a general ‘playing with the data’ (Miles and Huberman, 1994). Then the process moved towards thematic analysis and finally ended on theoretically informed insights. Not uncommon for qualitative research, the researcher iteratively moved between the empirical material and generating concepts and prior theoretical constructs throughout the analysis (Locke, 2001). The overall process can be described as consisting of four stages as described below.

In the first stage of analysis, the empirical data was organised chronologically and according to the source. The main aim was to develop a database of important events, actors and major developments in the SR field. At the organisational-level the same approach was used to construct a chronological database of events, actors and major developments. This approach helped the researcher to sketch out the process behind the emergence of SR. It gave the researcher much familiarity of the case for further analysis.

In the second stage, a thematic approach to data analysis was adopted. At first data was analysed according to the themes that were discussed as part of the interview protocol (e.g. need for reporting, benefits of reporting, regulation and enforcement, relevance of guidelines, motivation for reporting, important sustainability issues). For this, all empirical data was analysed on a line-by-line basis and all quotes from interview transcripts and/or documents were placed under these themes. At this stage, the researcher was open to more themes that emerged from working with the data ground up. For example, the role of consultants and resistance for mandatory reporting, are some of the themes that emerged at this stage.

In the third stage the main strategy was to rely on the theoretical framework. In this stage empirical data was analysed once again for instances of theoretically informed themes (e.g. market logics, family logics, corporate logics, community logics, professional logics, constraints, opportunities, material resource environment, focus of attention, sensemaking, collective mobilisation, situational context, material practices). The final stage of the analysis was to develop theoretically informed insights for the process behind the initiation and implementation of SR. At this stage, the researcher established links between different themes and developed narratives. In order to achieve this, the empirical data was iteratively compared with the theoretical framework (discussed in chapter 4).

Because of the embedded design, the field-level was analysed first followed by the organisational-level. However, prior to this, the contextual setting of Pakistan was analysed and reported in chapter five. The idea of society as an inter-institutional system was mobilised and the chapter was organised in a way that depicts dominant and emerging institutional orders. This was done to reveal cultural conditions that set

constraints and provide opportunities for emergence of the field and organisational practice for SR.

For understanding of how the SR field has emerged and evolved over the years, the database of salient events, actors and major developments was analysed for looking into the ways different actors were interacting with each other and were involved in the social construction of the field through their impact on material practices and accompanying rationality. Through historical analysis, four periods were recognised that depict the evolution of the SR field. The chronological sequencing of the events and empirical material allowed the researcher to infer the causal links between events, actors, focus of attention, material practices and symbolic representation. The analysis resulted in building an explanation for the emergence and evolution of the Pakistani SR field which was reported in chapter six.

For identifying different institutional logics, the researcher used pattern matching as an analytical technique. Pattern matching is used by previous researchers for capturing institutional logics (Reay and Jones, 2015). This involves analysing the data for looking into the specific instantiation of institutional logics and then comparing/matching it with predetermined elements of institutional logics. The analysis resulted in identifying and examining the institutional logics prevailing in the Pakistani SR field which were reported in chapter seven.

For understanding the organisational dynamics for initiating SR, the researcher developed narratives for each of the eight organisations that have initiated and implemented SR. The narrative was based on input from key informants and further research informed by the theoretical framework by looking into institutional embeddedness, the situational context, social interactions and organisational attributes that shaped the logic and practice of SR. To compare and contrast between the cases,

prior studies and theoretical framework, a separate cross-case synthesis was done. These dynamics are reported in chapter eight.

#### **4.8 Issues of Validity and Reliability**

Issues of validity and reliability are related to the quality of the research design. Inappropriate data collection and analysis methods can compromise the quality of research. Validity is concerned with the ‘accuracy of findings’ while reliability is concerned with the ‘replicability and consistency’ of findings (Thyer, 2001). Although these issues are important for both quantitative and qualitative researchers, there are differences in the way these issues are perceived. According to Parker (2012) since qualitative researchers are involved in seeking context-dependent social reality, the quantitative perception of reliability and validity cannot be applied to the findings of qualitative research.

Despite varying positions on validity in qualitative research, two aspects of validity are considered particularly important: external validity and internal validity. External validity is concerned with the generalisation of findings of an empirical inquiry to other populations and settings (Lillis, 2006). In a qualitative case study like this, empirical generalisation is not possible. However, external validity can still be achieved through analytical generalisation (Yin, 2014). This study does not claim to generalise results to the whole population. The concept of generalisation in this study is ‘analytical’, not ‘empirical’ and the inference of findings are ‘logical’, not ‘statistical’.

Internal validity is concerned with the confidence level in the ‘truth’ of research findings (Lincoln and Guba, 1985). Internal validity can be achieved through effective data collection and analysis techniques. Earlier in this chapter it was explained that the empirical data comes from interviews and documentary evidence. Findings from two sources were corroborated and correlated with established literature in order to enhance

internal validity (Thyer, 2001; Yin, 2014). In case of inconsistencies between the two sources, the researcher tried to contact the interviewee again in an attempt to seek clarity. Internal validity was also achieved through pattern matching which involves comparing empirical data with predetermined theoretical constructs and with prior literature.

Reliability, as mentioned earlier, is concerned with the replicability and consistency of findings. According to Lincoln and Guba (1985), reliability is the necessary condition for validity. Reliability of a research can be increased by documenting the research process and making it transparent (Yin, 2014). For this research, an attempt was made to document as many steps as possible that were taken for conducting the research. The details are already presented in sections 4.6 and 4.7 for data collection and analysis.

#### **4.9 Conclusions:**

This chapter outlined the philosophical assumptions underpinning this research and presented the research design. This research has adopted a qualitative methodology with an embedded case study design informed by semi-structured interviews and documentary analysis. This chapter, combined with the previous (theoretical framework) chapter, provides the foundation for the empirical work which is presented in the following chapters.



## Chapter 5: The Institutional Context of Pakistan

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### 5.1 Introduction

The purpose of this chapter is to put emergence and development of SR in Pakistan into context. Understanding of the context is very important in order to understand individual and organisational behaviour “*as it both regularises behaviour and provides opportunity for agency and change*” (Thornton and Ocasio, 2008, p. 102). This chapter is organised in two sections. The first section provides a brief profile (economic, social and environmental) of Pakistan. The second section provides a detailed account of the Pakistani society as an inter-institutional system so as to get a sense of the unique institutional setting of Pakistan. Overall, this contextual account will be helpful in providing a better understanding of the emergence and development of SR in Pakistan, and, in particular, will help the interpretation of empirical findings reported later in the next chapters.

### 5.2 Profile of Pakistan

Pakistan is a sovereign republic known as the Islamic Republic of Pakistan. Pakistan was part of the Indian sub-continent which gained independence from British rule in 1947 along with the rest of India. Until 1971, Pakistan was comprised of two parts (West Pakistan and East Pakistan) separated by almost 1,000 miles of India’s territory. In 1971, East Pakistan became an independent country called Bangladesh. The territory that now constitutes Pakistan has four provinces (Punjab, Sindh, Balochistan and Khyber Pakhtunkhwa) and four federal territories (Islamabad Capital territory, Azad Kashmir, Gilgit Baltistan and Federally Administered Tribal Areas- FATA). The geography of Pakistan is a profound blend of landscapes varying from plains to deserts, forests, hills, and plateaus ranging from the coastal areas of the Arabian Sea in the south to the

mountains of the Karakoram Range in the north. Pakistan is blessed with abundant natural resources.<sup>8</sup> Pakistan, being located at the junction of powerful countries, has great political significance. While located at the geo-strategic crossroads of South Asia, the Middle East, Central Asia and China, it provides the route for transportation from resource efficient countries to resource deficient countries. Despite all of this, Pakistan is an underdeveloped country mainly because of bad governance and poor management. The next section will throw further light on the main causes of this underperformance by focusing on the features of the main institutions Pakistan is comprised of. This section will continue with the highlights of the economic, social and environmental performance of Pakistan over the years.

### **5.2.1 Economic Profile**

Pakistan's current economic conditions are by no means something to celebrate as a nation. The current economic profile of Pakistan can be characterised by macroeconomic instability, double-digit inflation, a sluggish growth rate, a growing perception of poor economic and fiscal management, widespread corruption, an energy crisis highlighted by prolonged periods of power outages, growing unemployment, deepening poverty, declining foreign investment and unsustainable debt.<sup>9</sup> However, it must be realised that these conditions do not portray the enormous progress the country has made in the first six decades. During this period, Pakistan has achieved an average annual growth rate of over 5 percent and per capita income in constant terms has multiplied fourfold. This is

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<sup>8</sup> Among the world's 200 plus countries, Pakistan has the second largest salt mines, second largest coal reserves, fifth largest copper and gold reserves, and seventh largest wheat and rice production capacity. It is the sixth most populous country in the world having a large share of a young population. It has enormous energy surplus resource potential of both renewable and non-renewable sources, which is greater than that of oil rich countries of the Gulf.

<sup>9</sup> Annual Stocktaking Report on Sustainable Development by Sustainable Development Policy Institute (SDPI) <http://www.uncsd2012.org/content/documents/303stocktaking%20report-2-1%20aug%2023rd.pdf>

quite impressive and an accomplishment that few developing countries can claim.<sup>10</sup> But these achievements fade when looked at against the backdrop of missed opportunities. Pakistan suffered serious setbacks in the 1990s in terms of most economic and social indicators. Economic growth decelerated, inflation rose to peak rates, the debt burden escalated substantially, macroeconomic imbalances widened and worst of all, incidence of poverty almost doubled. Unforeseen exogenous shocks,<sup>11</sup> political instability, misgovernance and lack of political will, can be held responsible for these setbacks and subsequent consequences for the economic performance.

The first decade of the 21<sup>st</sup> century starts with a change of regime from civil to military government. The most significant problem for the new government was the liquidity problem. To meet the gap between external receipts and external payments and to keep the wheels of the economy moving, Pakistan entered into a stand-by agreement with the IMF in 2000 which was heavily loaded with a number of stringent conditionalities to be met within this limited period of time. However for the first time in its history, Pakistan was able to successfully implement the IMF programme and credibility of Pakistan vis-à-vis IFI's was restored. Pakistan became one of the few emerging market economies that were able to make a successful transition from the IMF programme to international financial markets. Also during that period a majority of the macro-economic indicators started showing signs of stabilisation.

For the next five years (2002-2007), Pakistan witnessed growth acceleration marked by an impressive economic performance in terms of per capita income, employment generation and poverty reduction. GDP growth that was 3.1 percent in 2001/02 rose to 7 percent in 2006/07. Per capita income in dollar terms has also risen to about \$1,000. Among other achievements of that phase include an increase in foreign

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<sup>10</sup> Pakistan Economy at 64 by Ishrat Hussain <http://ishrathusain.iba.edu.pk/papers.html>

<sup>11</sup> For example, the nuclear testing in May 1998 which shook investors' confidence, accelerated flight of capital, led to the imposition of economic sanctions and disrupted external economic assistance.

capital inflows, workers' remittances, exports, foreign reserves, investment-to-GDP ratio, share of the manufacturing sector in GDP, and decrease in inflation, unemployment and poverty.<sup>12</sup> This impressive growth was the result of unforeseen exogenous factors<sup>13</sup> and a number of policy reforms, including liberalisation, deregulation and privatisation, by the military government. The main thrust of these policy reforms was to allow greater freedom to the private sector, while redefining the role of the state in Pakistan as a facilitator, enabler, protector and regulator. However, this trajectory of high growth trends was disrupted in 2008 because of political uncertainty, worsening of the law and order situation, macro-economic instability and micro-economic inefficiencies such as energy shortages.

The economy of Pakistan during the last five years grew on average at the rate of 2.9 percent per annum. Real GDP growth for 2012-13 has been estimated at 3.6 percent as compared to 4.4 percent in the previous fiscal year. Deterioration in the power sector is the main constraint on growth. Power outages have shaved off the annual GDP growth at 2 percent. GDP growth has been stuck at a level, which is half of the level of Pakistan's long-term trend potential of about 6.5 percent per annum. The manufacturing sector<sup>14</sup> has also been badly affected by the overall situation. Continuous power breakdowns prevented industries from operating at their capacity level. Also an unstable law and order situation and campaign against terrorism have created an uncertain environment, resulting in a loss of working hours. A large number of industries in the country also closed due to

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<sup>12</sup> Pakistan's Economy 1999/2000 – 2007/2008: An Objective Appraisal  
[http://ishrathusain.iba.edu.pk/speeches/New/Pakistan's\\_Economy%20\\_19992000\\_20072008.An\\_objective\\_Appraisal.pdf](http://ishrathusain.iba.edu.pk/speeches/New/Pakistan's_Economy%20_19992000_20072008.An_objective_Appraisal.pdf)

<sup>13</sup> September 11, 2001 played a highly supportive role in the sub period 2002/03 – 2006/07. Economic sanctions were removed, increased bilateral and multilateral assistance flowed in, bilateral external debt was restructured and re-profiled, workers' remittances multiplied several fold, foreign direct investment poured in large volumes and access to international capital markets was established.

<sup>14</sup> The second largest sector of the economy capturing a 63 percent share of the overall industrial sector.

this situation. All of these factors have caused slower growth in the manufacturing sector and a slight decrease (from 14.4% in 2007-08 to 13.2% in 2012-13) in its share in GDP.<sup>15</sup>

Pakistan's energy sector has become a major drain on the economy and is impeding growth. While 2007-08 is considered the starting point of the ongoing energy crisis, the origins of the crisis can be traced back to the energy policies of the 1990s.<sup>16</sup> After a period of strong economic growth in the 1980s Pakistan was one of the world's fastest growing economies. To sustain high growth and to fulfil the rising consumer demand for energy, it was essential to develop energy resources.<sup>17</sup> The Power Policy of 1994 offered an attractive package of incentives to foreign investors, including a tariff ceiling that resulted in an ROI of 15-18%, a minimum required equity investment of just 20% and a host of fiscal and security incentives. More importantly it has transformed the fuel mix that results in more power generation from imported furnace oil compared to hydropower. This power policy was the result of prevailing political controversies over proposed hydropower projects and a quick fix solution to the problem due to the relative ease with which thermal power plants could be added to the power generation compared to the hydro sources.<sup>18</sup> The net result of fuel mix transformation was an increase in power generation costs as it became ten times more expensive than it had been when hydropower was the key form of generation. Increase in costs leads to increase in tariffs which in turn has given rise to the phenomenon of circular debt in the energy sector, whereby slippages in the payment of bills (particularly on the part of public institutions)

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<sup>15</sup> Highlights of the Pakistan Economic Survey 2012-13

[http://www.finance.gov.pk/survey/chapters\\_13/HGHLIGHTS%202013.pdf](http://www.finance.gov.pk/survey/chapters_13/HGHLIGHTS%202013.pdf)

<sup>16</sup> Pakistan's Energy Crisis: From Conundrum to Catastrophe? By Michael Kugelman

<http://www.nbr.org/research/activity.aspx?id=323>

<sup>17</sup> A similar increase in demand was observed in the 1970s after a period of enormous growth in the 1960s after rapid industrialisation. However at that time the energy crisis was averted through the launch of massive Mangla and Tarbela dams, leading to a short-lived period of robust hydro-driven energy generation that ably responded to demand.

<sup>18</sup> Pakistan's Energy Crisis: Causes, Consequences and possible Remedies

[http://www.peacebuilding.no/var/ezflow\\_site/storage/original/application/ade59fba5daf67a11a1c217434abf440.pdf](http://www.peacebuilding.no/var/ezflow_site/storage/original/application/ade59fba5daf67a11a1c217434abf440.pdf)

trigger a chain of delayed payments. These instances of non-payments resulted in sub-optimal operation of plants, thus precipitating a power crisis. This ultimately resulted in widespread load shedding (interruption of supply) in order to address the shortage of electricity generation.

### 5.2.2 Social Profile

With an estimated population of 180 million people in 2012-2013, Pakistan ranked six in the world for the most populous countries. Also with a current growth rate of 2%, Pakistan is on course to becoming the world's fifth most populous country by 2050.<sup>19</sup> The total population is unevenly distributed in its territory with an overall population density of 231 people per square kilometre.<sup>20</sup> Poverty is one of the long-standing problems of Pakistan. According to an SDPI report<sup>21</sup> on poverty, around one third of the total population (58.7 million people) are living in multidimensional poverty (education, health, living standards, wealth) with 46% of the rural population and 18% of urban households falling below the poverty line. In terms of the Human Development Index (HDI), Pakistan ranks 142<sup>nd</sup> out of 182 countries. HDI focuses on education, health, life expectancy at birth, child mortality, longevity, income, etc.<sup>22</sup> Pakistan ranked 142 out of 200 countries and has the third highest unemployment rate in south Asia, after Nepal and Maldives. In addition to these problems, spiralling crime is another problem facing Pakistan. The instances of human rights violations are noticeable not only at the national level but also at the micro level of business organisations.<sup>23</sup> There is a lack of respect for

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<sup>19</sup> <http://www.pk.undp.org/content/pakistan/en/home/countryinfo/>

<sup>20</sup> Highlights of the Pakistan Economic Survey 2012-13  
[http://www.finance.gov.pk/survey/chapters\\_13/HGHLIGHTS%202013.pdf](http://www.finance.gov.pk/survey/chapters_13/HGHLIGHTS%202013.pdf)

<sup>21</sup> Clustered Deprivation: District Profile of Poverty in Pakistan.  
<https://www.sdpi.org/publications/files/Clustered%20Deprivation-district%20profile%20of%20poverty%20in%20pakistan.pdf>

<sup>22</sup> <http://hdr.undp.org/en/countries/profiles/PAK>

<sup>23</sup> Pakistan 2012 Human Rights Report <http://www.state.gov/documents/organization/204621.pdf>

workers' rights. Workers are denied minimum wages, decent working conditions, minimum working hours and the right to form trade unions.

Although the state constitution promotes the principles of equality and women constitute nearly half of the population of Pakistan, their status in society is generally inferior compared to men. There are numerous laws and institutions for consumer protection but there is no enforcement of those laws which means that consumer's interests are not protected. Overall Pakistan stands poor in the rule of law. This is because of the elitist capture of the state and widespread corruption of those elites that has implications for transparency, accountability and good governance (details in 5.3.4). At the cultural level, the familial context (details in 5.3.1) is dominant in Pakistan and has implications for every sphere of the country's affairs whether it is politics, business or policy making. Religion also plays an important role in the socio-cultural life of Pakistan as a majority of the country's population (around 96%) is Muslim. However, the use and understanding of Islam in Pakistan has always been in flux, evolving in response to time and internal and external events (details in 5.3.3).

### **5.2.3 Environmental Profile**

The environmental profile of the country is characterised by low carbon emissions. Pakistan is a small Green House Gas (GHG) emitter: It contributes only about 0.8% of the total global GHG emissions. On a per capita basis, Pakistan, with 1.9 tonnes per capita of GHG emissions, stands at a level which corresponds to about one-third of the world average, one-fifth of the average for Western Europe and one tenth of the per capita emissions in the U.S., putting it at the 135th place in the world ranking of countries on the basis of their per capita GHG emissions.<sup>24</sup> Despite this, the most pressing issues facing Pakistan are pertaining to the potential vulnerabilities to natural hazards and

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<sup>24</sup> <http://www.pc.gov.pk/usefull%20links/Taskforces/TFCC%20Final%20Report.pdf>

climate change.<sup>25</sup> This is mainly because of the geographic location of Pakistan which is characterised by a diverse range of high mountains, arid plains and low-lying coastal areas, and is extremely vulnerable to a whole diversity of climate change impacts.

The climate of the country is subject to severe natural disasters such as floods, earthquakes, droughts and cyclones. These disasters, due to global warming and climate change, have already affected and could adversely affect millions of peoples of Pakistan. The country is number eight on the list of ten countries that could bear the worst implications of climate change.<sup>26</sup> Climate change in the context of Pakistan is posing three big challenges relating to the water, food and energy security of the country.<sup>27</sup> More noticeable is the fact that all three securities create a nexus of interdependence where climate change results in scarcity of water which in turn influences the country's capacity for food and energy creation. In this way, climate change has an influence on poverty as water resources are a basis for the health and welfare of the poor, as well as necessary for food and energy production (Sayed, 2010).

In addition to these potential vulnerabilities to natural hazards and climate change, pressing environmental concerns facing the country relate broadly to the management/exploitation of scarce natural resources, pollution and waste management. This is because, like most developing countries, Pakistan's efforts to achieve socio-economic development through rapid industrial and agricultural growth were pursued without direct, explicit reference to the protection and conservation of the country's natural resources. Scant attention was paid to environmental issues arising from industrialisation and urbanisation and generation of growing quantities of waste and the resultant pollution. Such a growth also results in loss of biodiversity and an increase in

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<sup>25</sup> Country Environmental Analysis for Pakistan by Asian Development Bank (2008)  
<http://www.adb.org/documents/country-environmental-analysis-pakistan>

<sup>26</sup> <http://www.dawn.com/news/737641/pakistans-sustainable-development-conundrum>

<sup>27</sup> Pakistan Economic Survey 2013/14 Chapter 16: Environment  
[http://finance.gov.pk/survey/chapters\\_14/16\\_Environment.pdf](http://finance.gov.pk/survey/chapters_14/16_Environment.pdf)



deforestation. However, there is a price to pay for such types of development as the Pakistani economy had already bore the heavy cost due to these environmental issues. According to a World Bank Report,<sup>28</sup> collective estimated environmental degradation costs the country at least 6% of its GDP. At the same time, the amount required to deal with these changes is escalating.<sup>29</sup>

### **5.3 The Institutional Context of Pakistan**

#### **5.3.1 Familial Context**

The familial context is dominant in Pakistan. This familial context is characterised by kinship family logics where defence of the honour and the interests of the kinship group usually outweigh loyalty to a party, to the state, or to any code of professional ethics (Lieven, 2012). In the local language this kinship group is known as *biradiri* and extends beyond the immediate family of an individual to include one's own cousins and those of parents as well. Also this is the primary social organisation in the country that is used for sense making and sense giving (Afghan and Wiqar, 2007). This family context is both the source of strength and weakness for the country. Largely because of the strength of the kinship loyalty, Pakistani society is strong enough to prevent any attempt for radical change. This is good if the attempt to change comes with bad intentions. But in cases where reforms are meant for betterment and positive development, this familial context and its underlying logics has the ability to frustrate such attempts. Likewise, much of the corruption in Pakistan is not the result of the lack of values (as is usually seen in the West) but of the positive and ancient value of loyalty to family and clans. Members of

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<sup>28</sup> World Bank. 2006. *Main report*. Vol. 1 of *Pakistan - Strategic country environmental assessment*. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2006/08/7100383/pakistan-strategic-country-environmental-assessment-vol-1-2-main-report>

<sup>29</sup> According to estimates \$5.57 billion is needed to deal with impacts of climate change <http://www.dawn.com/news/689483/the-rising-cost-of-climate-change>

biradiri are mutually obligated to support each other in feuds and conflicts regardless of the justice of issues involved and those in positions of authority are expected to favour those who are not. A high level of trust (bharosa) exists between the biradiri members, which creates further solidarity.

The Kinship group is the most important group in Pakistani society, and the power of kinship is inevitably reflected in every sphere of the country's affairs whether it is politics, business or policy making. Over a period of time proponents of family logics have maintained the status quo. Key factors are the gentry in the countryside and the intertwined clans of business, political and criminal bosses in the towns, all of them maintaining continuity over the years through intermarriage, often within the extended family and almost always within the kinship group (Lieven, 2012). Focusing on politics, we can see the dominance of two main political parties controlled by two families - PPP<sup>30</sup> (Bhutto family) and PML<sup>31</sup> (Sharif family). Apart from these two main political parties and their corresponding families, there are a number of other parties with their corresponding families. Voters also give votes on the basis of kinship. A clear reflection of this can be seen in the recent general elections of 2013 when a non-family based party, PTI<sup>32</sup> – led by Imran Khan, which emerged as a major player against the status quo, lost elections as a result of corrupt practices by the proponents of kinship. A majority of these families, involved in politics, also control the majority of the resources of the country and are involved directly or indirectly in the decision making in the country.

In regards to business, one can find that the vast majority of businesses are concentrated ownerships or closed companies, including family businesses, and are represented by a small number of shareholders, all of whom have the ability to participate

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<sup>30</sup> Pakistan Peoples Party

<sup>31</sup> Pakistan Muslim League

<sup>32</sup> Pakistan Tehreek-e-Insaf

in the management, directions, and operations of the entity.<sup>33</sup> This concentration of control in the hands of few families was first revealed by the Chief Economist of the Planning Commission of Pakistan in 1968, when a list of the 22 wealthiest families of Pakistan was issued. These families were controlling 66% of business conglomerates and corporations. An attempt was made to break this dominance in the proceeding era of Zulfikar Ali Bhutto in 1971 when he nationalised all industries in Pakistan. This, however, does not signify the logical end to these business giants and grouping; most of them survived and sustained their businesses during the nationalisation period and flourished steadily in the later years. This dominance of families is still prevalent in Pakistan and is quite evident in a recent study by the Research Department of ICMAP.<sup>34</sup> The report concluded that around 64 percent (32 companies) of the 44 selected sample companies are controlled by the prominent business groups and families of Pakistan.<sup>35</sup>

This much influence of families in politics and business naturally means that in the policy making domain, these families also play a big role. Bureaucracy is under the direct or indirect influence of families through political influence or business influence and has to make decisions in their favour. Any decision or policy against their culture faces a lot of resistance and that is why any positive attempt towards reforms can be frustrating if such reforms are not in line with their rationality or if enough collective mobilisation is not made before such reforms. While explaining possible reasons of this

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<sup>33</sup> <http://tribune.com.pk/story/605692/corporate-transformation-enhancing-the-success-of-family-run-businesses/>

<sup>34</sup> Shareholding Pattern of Corporate Sector in Pakistan – An Insight on dominance of Business Groups and Families over Corporate ownership structure  
[http://www.icmap.com.pk/News\\_Pdf/Pattern\\_shareholding.pdf](http://www.icmap.com.pk/News_Pdf/Pattern_shareholding.pdf)

<sup>35</sup> These groups of companies include Nishat group, Hasham group, Ghulam Faruque group, Amin Bawany group, Gul Ahmed group, Crescent group, Sapphire group, Din group, Adam group, Dawood group, Younus Brothers group, Dewan group, Rupali group, Dawood Habib group, Ibrahim group, Hashoo group, Attock group, Fatima group, Engro group, Byco group, EFU group etc.

dominance of families, Rashid (1976) explains that these families were clearly having certain structural advantages through their pre-partition trading experience and availability of resources which they use in their favour to negotiate with the government and bureaucracy for further expansions. In addition, these families occupy important positions and establish close associations with some important institutions in Pakistan (e.g. PIDC<sup>36</sup>, PICIC<sup>37</sup> and IDBP<sup>38</sup>). These families subsequently use this close association with important institutions in their favour (Ali and Malik, 2009). Thus, favourable economic conditions and close relationships with government institutions played a crucial role for these families to become established as economic giants who control the economy of Pakistan.

This familial context and its dominance in Pakistan suggest that much of the business practices are influenced by familial culture and its underlying logics. These practices may include corporate governance where family companies are either unaware of the general principles of good corporate governance or work in a relatively less open environment (Gulzar and Wang, 2010). Also in terms of reporting practices, family businesses are less transparent as compared to their counterparts. A study by Ansari and Bell (1991) confirms that much of the accounting and control practices were shaped by family logics in their case study of a Pakistani family business. Following the same line of research, one can expect that much of the practice of sustainability and its reporting should be influenced by family logics of *biradiri* and *bharosa*. The logic of *biradiri* ensures that business practices benefit members of *biradiri* regardless of their implications for the wider society and environment. The logic of *bharosa* ensures unconditional trust between *biradiri* members and a lack of need for openness and transparency.

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<sup>36</sup> Pakistan Industrial Development Corporation

<sup>37</sup> Pakistan Industrial Credit Corporation

<sup>38</sup> Industrial Development Bank of Pakistan

### 5.3.2 Community Context

The community context in Pakistan is dualistic in nature. Traditionally, ancient ties and identities, copied in *biradaries* and clans, are the bases of community organisation in Pakistan. Community organisations represent the norms and ethos of those social structures. In addition, community in Pakistan represents wide-ranging interests, territorial, ethnic, and spiritual or religious identities. These sources provide a sense of belonging that bond people for the purposes of competing with others. Biradiri is the primary source of the sense of belonging for individuals. The sentiments and processes of such groups even permeate bureaucracies and professions. Interest groups are the weakest form of community in Pakistan, be it a professional body or citizen organisation (Qadeer, 2006).

Civil society<sup>39</sup> in Pakistan has been developed on two distinct tracks; traditional versus modern. The traditional track is comprised of indigenous institutions and organisations that are based on an intertwining of organisation interest and goals with norms of personalised relations and kinship-like sentiments. Over a period of time, this track has evolved from a network of clans and welfare associations in the 1950s and 1960s to a constellation of socially fragmented groups and organisations in the 1970s and 1980s. Currently, the denominational organisations have come to dominate civil society, with common goods and public interests being defined by folk-religious and ethnic interests (Qadeer, 1997). On the other hand, there is also the modern track which is comprised of institutions and organisations that are Western in orientation and liberal in ideology. They are manifestly corporate in structure and are formally based on

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<sup>39</sup> Civil society is a collection of groups, communities, associations and organisations that function as the intermediary institutions between state market and society. Collective interest of communities is represented and regulated by institutions and organisations collectively known as civil society.

impersonal dealings and functional relations. Their formal structure is organised around shared interest.

According to Malik (2014), the term civil society in Pakistan now represents this modern track and is comprised of special purpose and interest-based advocacy NGOs<sup>40</sup> that emerged from 1980 onwards as a result of foreign funding. The two tracks differ in terms of their influence over society. Since the traditional track is deeply rooted in tradition, it has a strong influence on civic society and represents a robust civil society. This can be seen in the form of welfare and charity-oriented community actions. This can also be seen in the form of mass protests. In the past governments became the victim of such protests. However, civil society has largely been reactive and only stands in a state of crisis. On the other hand, NGOs and CSOs representing the modern track may not constitute a vigorous civil society. They are not yet evolved as social institutions for mobilising people and organising collective action for promoting market institutions and reducing the role of the state. Their capacity and influence on civic life and the state is very low and from this perspective, civil society in Pakistan can be interpreted as weak.

The historical social development of Pakistan is characterised by inequality and divide. There are great variations that exist in terms of education, health, security and provision of other public services across provinces and across the rural-urban divide. This unequal and divided social development has implications for public awareness, public interest, participation and influence. Overall, society is divided into two extreme social classes. These two classes are embedded in two different socio-economic systems. That is why they perceive social problems and their solutions differently. Pakistan's rich/upper class is privileged in terms of their access to resources. The Pakistani system provides them with entitlement and impunity. For them any social problem can be solved

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<sup>40</sup> NGOs can be broadly categorised as a) welfare and charity-oriented, b) community development-oriented c) sustainable development and advocacy-focused. The first category includes NGOs that are mostly alleviative, the third is mostly transformative, while the second is a bit of both.

with money or power. They can easily circumvent the symptoms of state failure and therefore have little interest in addressing mass social issues that can be rendered invisible. On the other hand, for Pakistan's poor/lower class, the system takes the shape of disenfranchisement. They are being deprived from even the basic necessities. They are especially deprived from education as this is one way of keeping that divide intact and ensuring elite dominance. Because of poverty and lack of education, especially in deprived communities, public awareness of issues leads to even less interest, participation and influence (Cheema and Mohmand, 2007). The logic of *kaam chhalao* (short-termism) prevails among the majority of the decisions made by these two extremes. Under this logic, the principal aim is to get the work done in the short run by any means without considering its long-term consequences. These logics are invariably used by both classes – the rich class uses it for ensuring their dominance while the poor class uses it for their survival.

Lack of community awareness and concern/interest is the major hindrance towards the goal of sustainable development. Social and environmental sustainability of the business is not the primary concern of the majority of the population.<sup>41</sup> Consumer push, which is necessary for the growth of social responsibility and sustainability, is missing. The economic class of the rich and poor are visibly reflected in consumption patterns and lifestyles. Consumers are either price-sensitive or brand-conscious. Not many consumers expect the companies to do anything beyond delivering a semi-normal product or service. Pakistani electronic and print media is often silent on sustainability issues. The almost unhealthy focus on political issues has deterred it from working at its role as corporate watchdog. We hardly see any news about corporate misbehaviour unless it has political undertones.

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<sup>41</sup> The Pakistan Perspective on Sustainability Reporting <http://www.tbl.com.pk/the-pakistani-perspective-on-sustainability-reporting/>

However, in recent years these trends are changing. Emergence of a new Pakistani middle class (Khan and Khan, 2004), which is rooted in modern economic sectors, like banks, insurance companies, telecommunications, academics, the media, the legal system and other sectors, has again modified the dynamics in Pakistan. Its growing self-confidence led to a lively civil society and a NGO community, including an active women's movement, and to increasing demands for transparency, accountability, the rule of law, and strengthening of democracy.<sup>42</sup> Currently, there are a number of organisations in the non-profit sector which are working towards the awareness of social and environmental issues. Among these organisations are some advocacy organisations that are working in the policy domain and some pressure groups that on behalf of society raise a voice for their rights. Also, some associations (business and professional), network-type organisations and the international community are pushing the agenda in the country. CSR has also started catching the attention of the media and academics in Pakistan. This has been offered in some universities as an optional subject, and some research publications can be found. Pakistani media, which emerged as an important player for raising public awareness on different issues, is slowly giving little coverage to issues related to social responsibility and sustainability.

### **5.3.3 Religious Context**

Islam is a fundamental feature of Pakistan's society. Around 96% of the country's population is Muslim while the remaining 4% are equally divided among Hindus and Christians. Created in the name of Islam, religion in an important institutional order and over time it has played a major role in shaping various aspects of Pakistani society. Influence of religion can be seen in the country's politics, foreign and domestic policies,

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<sup>42</sup> The lawyers' movement, which is against General Musharaf and in support for the judiciary, lively Pakistani journalism, and the Insaf and Inqalab movements against the corrupt government, are indicators of the new trend.



regulations, and various other aspects of socio-cultural life of the people of Pakistan (Lieven, 2012). In terms of politics, since the mid-1970s, Pakistani leaders have particularly drawn on Islam as a means to challenge opponents and build electoral support and legitimacy for their regimes. Worth mentioning is the period of General Zia ul-Haq who gives Islamisation a new boost in order to get support from the religious right for neutralising the street power of a mainstream political party (Mezzera and Aftab, 2009). There are political parties in the country which seek votes on the agenda of creating Islamic democracy in Pakistan under the Sharia (Islamic) law. In the legal system of Pakistan, Islam is the major driver among others that include the colonial system, democracy and military.<sup>43</sup>

The Holy Quran<sup>44</sup> and the Sunnah<sup>45</sup> are two fundamental sources of rules and laws in Islam. Islam also plays a major role in other aspects of socio-cultural life as it provides orientation and norms in daily life, defining what is good and bad. As guardians of this earth, Muslims have, in the Sharia<sup>46</sup>, holistic codes of social behaviour. Muslims prove their worth to Allah by upholding Huquq-ul-Ibad (individual rights) and care for society, and sharing wealth with the poor and underprivileged. Actions and decisions are judged to be ethical depending on the intention of the individual. God is omniscient, and knows our intention completely and perfectly. Good intentions followed by good actions are considered as acts of worship.

Islamic practices permeate behaviour and this encourages ethical business, reinforces transparent written contracts, decent working conditions and fair exchanges both for natural resources and human effort (Balkhi, 2010). Islam prohibits interest and reprimands bribery. Teachings of Islam emphasise the importance of charity and care for

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<sup>43</sup> Pakistan Rule of Law Assessment Report, USAID [http://pdf.usaid.gov/pdf\\_docs/PNADO130.pdf](http://pdf.usaid.gov/pdf_docs/PNADO130.pdf)

<sup>44</sup> The Holy Quran (also written as *Koran*) is the eternal and literal word of Almighty Allah (God)

<sup>45</sup> This refers to the way of life prescribed as normative for Muslims on the basis of teachings and practices of the Prophet Muhammad (PBUH).

<sup>46</sup> Islamic Laws based on Quran and Sunnah

the underprivileged and calls for an equitable redistribution of wealth (Zakat) as one of the five pillars of faith. There is a strong religious belief that philanthropy pays back in multifold, in this world and the hereafter. A clear reflection of this belief can be seen in the practice of charitable donations which account for almost 3-5% of GDP.<sup>47</sup> This rate is among one of the highest in the world. According to the World Giving Index 2011,<sup>48</sup> Pakistan ranked 2<sup>nd</sup> in Southern Asia (ranked 37<sup>th</sup> globally).

Islam also contains provisions on how to best handle the environment and ensure sustainable development. It promotes adl (justice) and rejects the idea of any single human being or any particular class of humans having the exclusive right on the available natural resources. It also promotes meezan (balance) and propagates the idea of prosperity without overconsumption by living lightly on earth. According to the fundamental beliefs in Islam, this world is temporary and one should abstain from the life of this world to attain nearness of the creator and to attain pleasures of the hereafter. Islam prohibits wasteful spending and wastage of resources. It calls for taking care of the environment and provides guidance on various environmental matters - like issues of land reclamation, balance of natural resources, biodiversity, waste minimisation, pollution and environmental protection (Al-Jayyousi, 2012).

Despite these codes and guiding principles about social justice and environmental protection, there is so much corruption and exploitation of humans and natural resources in Pakistan. The practice of charitable donations stands in sharp contrast to the payment of tax which accounts for only 0.9% of GDP where Pakistan ranked 155<sup>th</sup> in the list of 180 countries.<sup>49</sup> Also, in terms of corruption, Transparency International ranked Pakistan

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<sup>47</sup> The low end of the estimate is by PCP while the upper end of the estimate is 5% of GDP which comes from Professor Anatol Lieven in his book Pakistan - A Hard Country.

<sup>48</sup> World Giving Index 2011, [https://www.cafonline.org/pdf/World\\_Giving\\_Index\\_2011\\_191211.pdf](https://www.cafonline.org/pdf/World_Giving_Index_2011_191211.pdf)

<sup>49</sup> Paying Taxes 2012 The Global Picture [http://www.doingbusiness.org/reports/thematic-reports/~/\\_media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2012.pdf](http://www.doingbusiness.org/reports/thematic-reports/~/_media/GIAWB/Doing%20Business/Documents/Special-Reports/Paying-Taxes-2012.pdf)

139 of out 177 countries.<sup>50</sup> The contrasting behaviour of more charitable donations and less taxes can be partially explained by religious beliefs of rewards for good deeds in the world hereafter and lack of trust in Pakistani state institutions. There is another dimension that further explains this and other contrasting behaviours (including corruption and exploitation), and that is partial understanding and instrumental use of Islam and its underlying logics. According to Haider (2011), the use and understanding of Islam in Pakistan has always been in flux, evolving in response to time and internal and external events. Despite of this, the role of religion is very important in Pakistan as it can be channelled as a force for progressive change.

#### **5.3.4 State Context**

The state of Pakistan can be characterised as the one with elitist capture of the state, excessive centralisation of power, chronic political instability and conflicting power structures. The Pakistani elites consist of the military and civil bureaucracy, leaders of the political parties, the religious clergy and members of the emerging electronic media. Among these elite structures, the role of the military is distinctive because it has involved in the ‘construction’ of other elites. The army sees itself as morally superior to the political class, and far more modern, progressive and better-educated. Besides the military, civil bureaucracy is another vital element of the state apparatus in Pakistan. These two institutions hold a predominant position in the structure of state power. Politics remained underdeveloped and occupy a weak position in the structure of state power (Hussain and Hussain, 1993). These power structures have remained in conflict throughout the history of Pakistan. Excluding the military and interim governments, the

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<sup>50</sup> Corruptions Perception Index 2012, <http://www.transparency.org/cpi2012/results>

average life span of a politically elected government has been less than two years<sup>51</sup>. The root cause of these conflicting power structures was not due to balancing acts for the larger collective good of the society but the assertion of the authority between these power structures to advance their narrow interests. Because of these conflicting power structures and chronic political instability, institutional capacity has never been developed. Various elected and military governments take adhoc and occasionally popularity measures without putting any effort on the development or strengthening of institutions. That is why in Pakistan we can see a lot of policy making but institutional capacity for implementation either does not exist or is very weak (Husain, 2011).

Patronage and kinship form the basic elements of the Pakistani political system. Clientelism – an exchange of material favours for political support among actors with asymmetric power has been the principal hallmark of Pakistani politics. Huge amounts of state money and jobs were rewarded to politicians and bureaucrats who supported the newly elected government. At the local level, access to this patronage is acquired by people using their position within a kinship network to mobilise support for a politician who, when elected, pays them back in various ways. In the past, both democratic and military governments practiced patronage-based politics and relied on working networks of influential political families, clans or kinship groups (biradaries) to maintain their positions of power (Lodhi, 2011). This makes the state of Pakistan a very weak state. Any group with the slightest power in society uses it among other things to plunder the state for patronage and favours, and to turn the workings of the law and the bureaucracy to their advantage (Lieven, 2012). In terms of policy making, as this political clientelism is oriented towards the narrower interest of elites, it discourages wider mobilisation and focus on larger national issues and long-term development. Politicians appoint their

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<sup>51</sup> At the age of 67, Pakistan has seen twenty-five governments, including fifteen elected or appointed prime ministers, six interim governments and thirty-three years of military rule under four different leaders.

favourite civil servants on the basis of loyalty rather than competence, to occupy key positions that align with the narrow interests of elites.<sup>52</sup> The elitist capture of a weak state and its underlying logics of Clientelism rooted in patronage and kinship suggests that there is little room for the concepts like sustainability and sustainable development which are necessarily long-term concepts and focus on the collective good of the society.

This context of Pakistan, as a weak state, also has implications for good governance. The state of Pakistan stands poor in the central ingredients of good governance, i.e. voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption.<sup>53</sup> In terms of voice and accountability, there is little participation of local people in the decision-making which largely resides in the hands of few people. Dissent with political parties is barely tolerated and the parliament usually rubber-stamps decisions taken by the leader of the party. Pakistani traditions of tolerance of inequality and high power distance inhibit the development of transparency and institutions of accountability. Power is allowed to be concentrated at higher levels, thus bestowing a lot of discretionary power on senior officials and politicians (Islam, 2004).

The Local Government Act was introduced in 2001 to promote broader participation but that has not been fully implemented. Policy making is either the result of actions of few individuals (who are close to the leader of the ruling party – known as the kitchen cabinet) or secret deals of the government with international financial institutions. Transparency of government policy making is very poor. There are a number of institutions that exist in Pakistan in the name of accountability (e.g. National

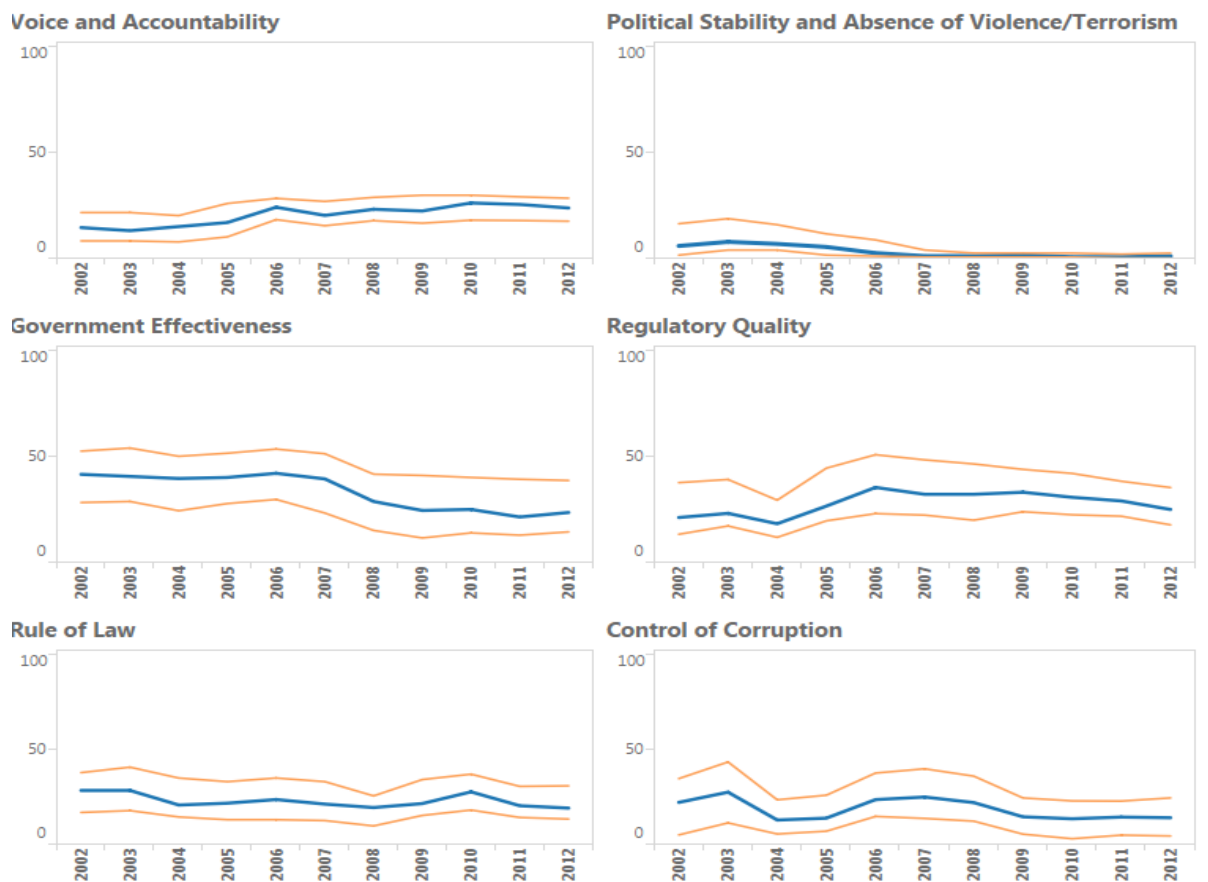
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<sup>52</sup> Bureaucracy needs reforms by Ishrat Husain <http://www.dawn.com/news/1082534/bureaucracy-needs-reforms>

<sup>53</sup> Governance Indicators. The World Bank Group <http://info.worldbank.org/governance/wgi/index.aspx#home>

Accountability Bureau and Public Accounts Committee) but instead of practice of true accountability, the term has been used in Pakistan for settling political scores and as a tool for winning over opponents. However, with the revival of the judiciary and the emergence of electronic media, in recent years, there has been little improvement in the voice and accountability as can be seen from the figure 5-1 below.

**Figure 5-1: Country Data Report for the State of Governance in Pakistan: 2002 – 2012<sup>54</sup>**



The inner, thicker blue line shows the selected country's percentile rank on each of the six aggregate governance indicators. The outer, thinner red lines show the indicate margins of error.

There has been a sharp decrease in government effectiveness over the period of time as governments are failing in delivering even the basic services. This is partially due to the inability of the government and partially due to corruption and lack of institutional capacity. A sharp increase in the regulatory quality can be seen in the era of the military

<sup>54</sup> <http://info.worldbank.org/governance/wgi/index.aspx#reports>

government (2000-2006) but that declined afterwards. In Pakistan, there is a lot of policy making but there is no implementation. Also because most of the policies and reforms were made on the wishes of IFI's in the pursuit of foreign aid, there is no ownership of such policies (Husain, 2012). Rule of law is very weak but since restoration of the judiciary in 2007, this has been the subject of debate with little improvement. But once again the benefit to the common citizen in terms of access to justice is a question mark as the judiciary is emerging as another power structure that is in conflict with other power structures. As usual, this conflict is rooted in the assertion of the authority rather than the collective good of the society (Mahmood, 2007).

### **5.3.5 Market Context**

As highlighted in the previous section, conflicting power structures in Pakistan create political and economic instability. This instability and resulting uncertainty has significantly affected the development of markets and the nature of business and industry. This instability also leads to the involvement of IFI's (such as ADB, WB and IMF) in the policy making of the country. Historical development of the capital markets in Pakistan can be divided into three phases: *the pre-liberalisation phase* (1950-1990), *the liberalisation phase* (1991-2001) and *the post-liberalisation phase* (2002 onwards). The pre-liberalisation phase was characterised by financial repression either in the form of a command-and-control approach or a national pursuit of a form of Islamic socialism. The liberalisation phase marked a shift towards a market-based economy.

The Pakistani market was officially liberalised in 1991 by initiating several reforms that included allowing foreign investors to participate in the market, building up of the financial regulatory framework and institutions, and deregulation of financial markets (Ahmed, Barkley Rosser Jr and Uppal, 2010). For strengthening capital markets, a comprehensive capital market reform was initiated in 1997, by the government of

Pakistan with the financial support of the Asian Development Bank (ADB). As part of these reforms, the Securities and Exchange Commission of Pakistan (SECP) was formed in 1999 as an autonomous regulator to monitor the activities of corporate and capital markets and all related players.

First phase of reforms was completed in 2002 which marks the end of the liberalisation phase, as by that time most of the objectives related to these reforms were achieved. The second phase of reforms was initiated in 2002 when the government agreed to work with ADB under the Financial Markets Governance Programme (FMGP) Loan. This marked the start of the post-liberalisation phase where the focus of policy shifted towards the deepening and broadening of financial markets. This second phase of reforms is largely undertaken on three levels: (i) macro-level: policy; (ii) meso-level: governance, regulation and institutions; (iii) micro-level: instruments and operation. In that sense, these reforms are developmental in nature and are intended to build on earlier improvements through capacity building and private sector participation (Sharif, 2002).

Pakistan's capital market has two important elements; equity market, which is composed of three stock exchanges<sup>55</sup> and a transitional financial system extensively influenced by Non-Banking Financial Institutions. The equity market plays an important role in the development of the economy by mobilising domestic resources and channelling them to productive investment. According to Husain and Mahmood (2001) this implied relationship between the stock market and the real economy is either absent or very weak in Pakistan, where the stock market lags economic activity. There has been a disconnect between the market and real economy in Pakistan. This disconnect is clearly visible by looking at the performance of the KSE-100 index (Pakistan's oldest and

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55 Karachi Stock Exchange (KSE) is Pakistan's first and oldest stock exchange established on 18 September 1947, just two months after Pakistan came into being. Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE) are two other stock exchanges of Pakistan established in 1974 and 1997, respectively. KSE is the biggest and most liquid exchange in Pakistan where approximately 85% of the turnover occurs, with 14% at LSE and 1% at ISE.



benchmarked stock market) and the performance of the country's economy. Over the period of the last five years (2010-2014), the GDP growth rate has been moving around 3-4%,<sup>56</sup> while the KSE 100 index surged from 12,022 points (2010) to 25,261 points (2014); a rise of over 17,693 points – a compounded annual growth rate of an excess of 15% without making any adjustments. A significant growth can also be seen in other indicators including the total of listed capital and total of market capitalisation (see Table 5-1 below).

**Table 5-1: Progress of Karachi Stock Exchange: 2010 - 2013**

	<b>Upto 31-12-2010</b>	<b>Upto 30-12-2011</b>	<b>Upto 31-12-2012</b>	<b>Upto 31-12-2013</b>
Total No. of Listed Companies	644	638	573	560
Total Listed Capital - Rs.	919,161.26	1,048,443.87	1,094,367.40	1,129,787.32
Total Market Capitalisation - Rs.	3,268,948.59	2,945,784.51	4,242,278.04	6,056,506.03
KSE-100 <sup>TM</sup> Index	12022.46	11347.66	16905.33	25261.14
New Companies Listed during the year	6	4	4	3
Listed Capital of New Companies - Rs.	33,438.45	16,010.82	8,161.03	4,545.07
New Debt Instruments Listed during the year	4	6	5	6
Listed Capital of New Debt Instruments - Rs.	5,650.18	14,754.80	5,254.67	9,779.42
Average Daily Turnover - Shares in millions	132.64	96.91	196.68	238.62
Average value of daily turnover - Rs.	4,405.20	3,506.22	4,675.47	7,603.54

Source: Karachi Stock Exchange Data Portal<sup>57</sup>

<sup>56</sup> [http://www.finance.gov.pk/survey/chapters\\_14/01\\_Growth\\_and\\_Investment.pdf](http://www.finance.gov.pk/survey/chapters_14/01_Growth_and_Investment.pdf)

<sup>57</sup> <http://dps.kse.com.pk/>

While explaining the possible reasons for this weak link, Iqbal (2012) suggests that the small size of the Pakistani stock market and excessive volatility seems to be responsible for this. According to him, the Pakistani stock market is small in size and is a relatively insignificant source of capital mobilisation which limits its potential and role in boosting economic activity. The ratio of market capitalisation to GDP is 19.4%<sup>58</sup> which is very low compared to other emerging markets except from some African and Latin American emerging markets. According to Khwaja and Mian (2005), the level of illiteracy in general and financial illiteracy in particular in addition to the investment culture explains this low capitalisation. Pakistani people are more inclined towards investments in the form of cash, gold and landholdings. According to an estimate, only about half a percent of the population invests in the stock market. The stock market is generally not seen as a way of mobilising saving and diversifying risk.

The role of stock markets in raising capital is also limited in Pakistan. In the KSE, there were only 4 listings raising \$81 million in 2013. The current law and order situation of the country may provide a partial explanation for this as no new projects are being set up except in retails where cash requirements are not used as much to approach the capital markets or the real estate projects where the users of land themselves finance the acquisition and development of the property. Another reason resides at the socio-economic and political level where the majority of the businesses are family firms and have political connections which they use to enjoy cheap loans from the state which are often never paid back. Also these family firms usually have higher retained earnings through which future investment is financed (Khwaja and Mian, 2005). In this scenario most of the businesses in Pakistan prefer not to be listed on the stock exchange as they see no direct benefit of being listed. Rather, since 2002, delisting has been a common

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58 The World Bank Market Capitalization of Listed Companies (% of GDP)  
<http://data.worldbank.org/indicator/CM.MKT.LCAP.GD.ZS/countries/PK?display=default>

phenomenon and every year a few companies choose to become delisted as they perceive the cost of listing higher than the benefits.<sup>59</sup>

According to Iqbal (2012), excessive market volatility created by noise traders and speculators may well provide another reason for the weak link of the stock market and real economy. Manipulative logic prevails in the Pakistani stock market where brokers or their close associates are involved in price manipulation. While stock exchanges do receive some oversight from SECP, they are predominantly broker-managed. A large number of these brokers act as principals instead of intermediaries and do price manipulation following a “pump and dump” strategy. In this strategy, brokers’ trade among themselves when volumes are low and spread positive rumours to artificially raise prices in the hope of attracting and eventually making money at the expense of naive outside investors (most of them are illiterate) who just follow the trend and overreact to good and bad news. Special terms, such as *bhatta*, have been coined in Urdu, the local language, to define such behaviour (Khwaja and Mian, 2005). Lack of regulations and weak enforcement of laws suggest that these brokers are rarely prosecuted and fined. As a result of these behaviours, trading activity in the market has been very high relative to the size of the market and this also suggests that the stock market in Pakistan is not driven by economic fundamentals.

To conclude, this context of the Pakistani market is characterised by its emergence in the last two decades, low market capitalisation to GDP and high concentration of stocks suggests that there is a very small segment of business in Pakistan that is subject to these stock market forces and its listing requirements. For that segment

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<sup>59</sup> Before 2002, listed companies were given incentives in the form of lower rates of taxation (35%) as compared to unlisted companies (45%) and also there was little compliance with regulation as capital market reforms were in process. After 2002, not only were these tax benefits withdrawn, but also there was a substantial increase in compliance with regulations (e.g. codes of corporate governance, international accounting standards, and quarterly reports) which raised the cost of compliance for these companies in addition to making them accountable to more stakeholders.

of the business, perceived benefits of listing may be more than the cost. The stock market is not driven by firms' performance; rather it is driven by emotions and is sensitive to both good and bad news. Also it is subject to manipulation by the brokers which makes the market highly volatile. This suggests that corporate disclosures have a limited role in influencing the decision making of ordinary investors, which are more influenced by the trend and rumours.

### **5.3.6 Professional Context**

This section is concerned with exploring the overall development of the accountancy profession in Pakistan and its features, in order to put the practice of sustainability and its reporting in that context. At the time of its existence, Pakistan inherited an agrarian economy with a very narrow industrial base. The backwardness of the economy also meant that accountancy was a relatively young profession in the country. Early attempts for the institutional development of the accounting profession in Pakistan marked the efforts of some practicing accountants that resulted in the development of the Pakistan Institute of Industrial Accountants (PIIA<sup>60</sup>) in 1951 and the Pakistan Institute of Accountants (PIA<sup>61</sup>) in 1952.

With the expansion of the industrial sector and resulting economic development, the accountancy profession has grown in stature and importance. As a result of persistent efforts by PIA, the Institute of Chartered Accountants of Pakistan (ICAP) was formed in 1961 with the prime objective of regulating the profession of accounting in Pakistan. Another major development in the institutional structure was the creation of the Institute

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60 The Pakistan Institute of Industrial Accountants was created by the efforts of seven qualified cost accountants. Mr. M. Shoaib, the founder President of the institute was the fellow member of the British Institute of Cost and Work Accountants.

61 In the year 1950, the government of Pakistan reframed the Auditors' Certificate Rules with necessary modifications to suit the prevalent needs of the profession. Under these Rules, the accountancy profession in Pakistan included practicing and non-practicing Registered Accountants. The Registered Accountants formed a private body known as the Pakistan Institute of Accountants (PIA) to safeguard and promote the interests of the Accountants.

of Cost and Management Accountants of Pakistan (ICMAP) in 1966 (as a successor of PIIA). Originating as a very small community, ICAP is now a professional body of more than 7,000 members<sup>62</sup> while ICMAP is now a professional body of more than 5,000 members.<sup>63</sup> These two professional accountancy bodies (representing two streams of the accountancy profession) enjoyed a monopolistic position in their respective areas until the start of the 21<sup>st</sup> century when two UK-based global professional accountancy bodies establish their offices and started their operation in Pakistan. The Association of Chartered Certified Accountants (ACCA) has been operating in Pakistan since 1997 while the Chartered Institute of Management Accountants (CIMA) made formal inroads in 2009 by establishing its first office in Pakistan. Apart from these local and global professional accounting bodies, there are a number of business schools and universities which are offering degrees in the area of accountancy.

Accountancy, as a profession, in Pakistan is shaped by its colonial past and involvement of IFI's. British rules, regulations and its trained accountants (members of ICAEW, ICAS, and ICAI) have been a major source of influence on early accounting practices (Ashraf and Ghani, 2005). In addition, IFI's through various reforms are also shaping the accountancy profession. Looking at the history of ICAP, one can observe that most of their founding members were educated and trained at British professional accounting institutes. In terms of regulations, after independence Pakistan adopted financial reporting requirements of the Companies Act, 1913 and Auditors' Certificate Rules of 1932. A major indigenous initiative was taken in 1970 when the Securities and Exchange Authority,<sup>64</sup> a semi-autonomous body created by the government, developed

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62 <http://www.icap.org.pk/icap/about-icap/>

63 [http://www.icmap.com.pk/about\\_us.aspx](http://www.icmap.com.pk/about_us.aspx)

64 'Authority' means the Corporate Law Authority of Pakistan.

certain rules to improve financial reporting practices.<sup>65</sup> In the absence of any national accounting standards, Pakistan adopted International Accounting Standards (IAS - now IFRS) immediately after their release in 1974.<sup>66</sup> Initially IFRS implementation was voluntary, through encouragement by ICAP, but immediately after the enactment of the Companies Ordinance 1984, it becomes mandatory for listed companies.<sup>67</sup> After the formation of the SECP in 1999, there was a hike in the process of IFRS adoption and until now all of the standards (except IAS 39, IAS41, IFRS1 and IFRS9) are adopted by SECP on the recommendation of ICAP (Rashid, Amin and Farooqui, 2012).

While explaining the possible reasons for adoption of these international standards, Ashraf and Ghani (2005) associate it with the lack of research culture and limited knowledge base, in terms of international developments, of locally trained accountants. These standards were adopted as quick fix solutions, to acquire credibility for a country's financial reporting among international users, by linking it to a source from where the latest international developments are updated. The logic of wholesale adoption is still prevalent in the accounting profession in Pakistan. In the name of international best practices, new concepts and technologies (prescribed by international donor agencies or international professional associations) are adopted per se without making due consideration to the unique cultural and institutional environment of Pakistan.

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65 These rules were the part of overall rules named as Securities and Exchange Rules of 1971. These rules, for the first time, make mandatory requirement of preparation of annual accounts and their audit.

66 In 1974 Pakistan became a member of the International Accounting Standard Committee (IASC) shortly after its formation.

67 Unlisted companies are still not required to comply with the requirements of the IFRS. Annexed to the Companies Ordinance 1984 were the Fourth and Fifth Schedule, providing disclosure requirements for listed and unlisted companies, respectively. Listed companies were hence required to comply with requirements of the Fourth Schedule as well as IFRS.

### 5.3.7 Corporate Context

Corporatisation is a term used to mean the formal registration of a business as a limited liability company (private or public) as well as the conduct of the business under the structure and system of a limited liability company. Businesses in Pakistan have less inclination towards corporatisation. The overall corporate sector is weak and underdeveloped (Malik, 2014). A large number of businesses are thriving in the informal or non-listed sector. According to an estimate there are around 3 million undocumented businesses, mostly SMEs, which are working as sole proprietorship and partnership firms. Out of these 3 million, only 60,000 are registered corporate entities, which account for only 2 percent of businesses in Pakistan.<sup>68</sup> Among these registered corporate entities, there are only 560 listed companies. The remaining companies are unlisted and the majority of them are family-owned and registered as private limited companies.

In recent years there has been an increasing trend towards corporatisation. However, the majority of the companies is registering as private limited companies and prefers to remain unlisted. In terms of ownership structure, the corporate sector of Pakistan is highly concentrated. According to a study conducted by ICMAP, around 64 percent (32 companies) of the 44 selected sample companies are controlled by the prominent business groups and families of Pakistan.<sup>69</sup> In the majority of cases, the promoters or directors, through the 'associated companies' indirectly own the company shares (see table 5-2). This means that a larger part of Pakistan's corporate shareholding structure resembles a concentrated family ownership structure, in which the majority shareholders not only retain control of a company but are also engaged in managing it.

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<sup>68</sup> Tahir Mahmood, Corporatization – the way forward in ICMAP magazine.

<http://www.brecorder.com/supplements/0/1270441:corporatization-the-way-forward/>

<sup>69</sup> These groups of companies include Nishat group, Hasham group, Ghulam Faruque group, Amin Bawany group, Gul Ahmed group, Crescent group, Sapphire group, Din group, Adam group, Dawood group, Younus Brothers group, Dewan group, Rupali group, Dawood Habib group, Ibrahim group, Hashoo group, Attock group, Fatima group, Engro group, Byco group, and EFU group, etc.

This concentrated ownership results in insider control and determines corporate ideology and culture, which is very much centralised.

**Table 5-2: Shareholding Pattern of Corporate Sector in Pakistan**

Sector	Promoters & Directors	Associated Companies	Institutional Investors	General Public
Textile	42%	7%	16%	31%
Sugar	31%	0%	25%	42%
Fertilizer	15%	34%	36%	10%
Banking	13%	39%	22%	19%
Cement	07%	26%	22%	38%
Automobile	07%	51%	09%	14%
Insurance	06%	29%	14%	48%
Pharmaceuticals	05%	50%	32%	12%
Refinery	0%	59%	17%	16%
Average	14%	33%	21%	26%

Source: ICMAP Research Report<sup>70</sup>

Overall, this weak, traditional and underdeveloped corporate sector operated through centralised and weak management systems has implications for a number of practices including SR. Due to the dominance of family firms there has been little or no transition towards the building of corporatised business structures or towards “managerial capitalism” (Ali, 2001, p. 118). Overall, the corporate sector is unable to institutionalise

<sup>70</sup> Shareholding Pattern of Corporate Sector in Pakistan – An Insight on dominance of Business Groups and Families over Corporate ownership structure  
[http://www.icmap.com.pk/News\\_Pdf/Pattern\\_shareholding.pdf](http://www.icmap.com.pk/News_Pdf/Pattern_shareholding.pdf)



according to modern norms and has failed to innovate. This also insulates the corporate sector against any such reforms which are radical in nature (Malik, 2014). Familial ties and centralised management culture is the norm when making many decisions including corporate giving and CSR initiatives. In this family-based-kinship-oriented management system, awareness of the wider context of society necessitating impersonal contributions is largely missing. This has been discussed in detail in the family context (section 5.3.1) of this chapter.

Due to its magnitude of activities, the corporate sector plays an important role in the development of the country. The benefits of corporatisation of the economy primarily result from improved transparency and accountability. The corporate entities are required under the law to maintain proper records of operations and business affairs. Disclosure requirements are generally set out in the law along with the responsibilities for preparation and circulation of specified statements. The comprehensive legal and organisational framework within which corporate entities operate gives rise to a well-regulated and well-documented economic sector.<sup>71</sup> Realising the importance of a documented economy, in recent years there has been a drive towards corporatisation by the government of Pakistan. Although this drive resulted in growth, there are still a large number of businesses that are reluctant to be corporatised.

From the point of view of the corporatised entity, the potential benefits primarily result from the company's limited liability, ability to raise external capital, domestic and international expansion, growth potential and long-term sustainability of the company.<sup>72</sup> Lack of interest in corporatisation and the delisting phenomenon in Pakistan suggest that either the corporate sector is not very interested in these benefits or these benefits are not

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<sup>71</sup> [http://secp.gov.pk/CS/ChairmanSpeeches/PDF/201103\\_EAC.pdf](http://secp.gov.pk/CS/ChairmanSpeeches/PDF/201103_EAC.pdf)

<sup>72</sup> <http://www.fudda.org/p-p-b/presentations/Issues%20Hampering%20the%20Corporatization%20of%20Businesses%20-%20MPF%20Presentation%202010.pdf>

accruing. Historical dominance of few rich families (and familial context) in Pakistan explains the lack of interest in corporatisation. For these families raising external capital is either not important or they have other means for this. Most of these businesses use their retained earnings and in case they need to raise external capital they use their political connections in order to secure loans from state owned banks which are often never paid back.

According to Ali and Malik (2009) the major motivation to go for public listing was probably to fulfil the requirements of the government in order to acquire highly subsidised project loans from public sector financial institutions rather than opting for corporatised operations. The founding families of large public limited companies have retained their majority equity shares and their transactions in the stock market are largely inactive. Another important phenomenon that explains this lack of interest in corporatisation is the dilution of the concept of limited liability in Pakistan. This dilution is the result of widespread corruption and bad experience of the financial/banking sector with institutional borrowers in terms of defaults. This means that now even in the case of limited liability companies, directors are personally responsible for the loan repayments. This leaves a business indifferent in terms of structure as in both cases directors are responsible for loan payments. While compromising the main benefit of being a limited liability company, getting incorporated means adding more responsibilities (regulatory compliances) and accountabilities. Because of this, most businesses do not want to operate in the form of a limited liability company as perceived benefits are less than the costs. This understanding of the concept of limited liability as applicable in the context of Pakistan is very important as it provides an important explanation of the underdevelopment of the corporate sector of Pakistan.<sup>73</sup>

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<sup>73</sup> [http://www.secp.gov.pk/IACCD/pub\\_iaccd/LegalRegulatoryReport.pdf](http://www.secp.gov.pk/IACCD/pub_iaccd/LegalRegulatoryReport.pdf)

## 5.4 Conclusions

The above analysis suggests that the local societal context of Pakistan is characterised by the dominance of familial context and its underlying logics. Islam and its logics are also dominant but used selectively. The state is very weak, captured by elites, and lacks governance. There is inequality and divide in the social development of various communities and in general there is lack of awareness, participation and influence. The accounting profession is very much developed but subject to Western influence (due to its colonial past) and passive adoption of international best practices. The capital market is emerging under the support package of IFI's but is still very much underdeveloped and subject to manipulative logic. The majority of the businesses in Pakistan are thriving in the informal sector and in the form of sole-proprietorship or partnership. In recent years, the trend towards corporatisation has been increasing but is still very much underdeveloped as is corporate culture. The institutional context of Pakistan suggests some serious implications for the concepts like corporate sustainability and its reporting. The next two chapters (chapters six and seven) will focus more exclusively on the implications of this context and other factors in shaping the emergence of the SR field and its underlying logics.

## **Chapter 6: The Emergence and Evolution of the Pakistani Sustainability Reporting Field**

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### **6.1 Introduction**

The purpose of this chapter is to provide a historical account of the emergence and evolution of the SR field in Pakistan. The chapter is organised into four sections. The first section gives a quick snapshot of SR in Pakistan in terms of the extent of reporting, legislation, regulation, standards and guidelines. The second section defines the Pakistani SR field followed by a third section which provides a historical account of the way it has evolved over the period of the last four decades. In this historical account, an attempt is made to identify various events, actors, their focus of attention, material practices and accompanying rationality that has shaped the evolution of SR. The final section provides a brief summary and conclusions. This chapter mainly draws on secondary data and insights from the interviews. The empirical content in this chapter and the next chapter explains the institutional logics and other dynamics related to the emergence of SR in Pakistan.

### **6.2 Snapshot of Sustainability Reporting**

Reporting on social and environmental responsibility in general and sustainability in particular is an emerging phenomenon. The concept itself has started to attract the attention of regulators in Pakistan as they recognise the importance of the concept in corporate governance and the flow of long-term capital (Balkhi, 2010). There is no specific regulation that governs corporate sustainability and its reporting in Pakistan. In the absence of any mandatory requirement for companies to report on sustainability, SR currently falls under the ambit of voluntary reporting in Pakistan. However there is a

wide variety of laws, regulations and policies that in one way or other emphasise the requirement for corporate sustainability initiatives (social and environmental) including reporting of such initiatives. These are listed below (see appendix F for details).

- The Constitution of the Islamic Republic of Pakistan, 1973
- The Pakistan Standards and Quality Control Act, 1996
- The Pakistan Environment Protection Act, 1997
- The Companies Ordinance, 1984
- The Code of Corporate Governance, 2002
- The Companies (Corporate Social Responsibility) General Order, 2009
- The National Climate Change Policy, 2012
- The Corporate Social Responsibility Voluntary Guidelines, 2013

In addition to this, there are a number of guiding principles and frameworks in the form of multi-stakeholder initiatives that facilitate corporate sustainability and reporting in Pakistan. These are listed below (see appendix G for details).

- Pakistan Compliance Initiative (PCI)
- Responsible Business Initiative (RBI)
- Global Reporting Initiative (GRI)
- International Standards Organisation (ISO)
- United Nations Global Compact (UNGC)
- International Federation of Accountants (IFAC) Sustainability Framework 2.0

SR, as an organisational practice, is still in its infancy in Pakistan. A handful of listed companies are reporting on sustainability related matters in their annual reports. A few companies are also preparing standalone sustainability reports. Deloitte (2012) conducted a study on the state of SR by looking at KSE 100 companies. Their report

revealed that nineteen companies listed on the KSE 100 index were either issuing standalone sustainability reports or presenting certain information on sustainability as part of other information within their annual report. The companies publishing standalone sustainability reports include: ICI Pakistan, Siemens Pakistan, Unilever Pakistan, Security Papers, Lucky Cement, Attock Refinery, Fauji Fertilizer, Engro Corporation, Fatima Fertilizers and Al Ghazi Tractors. The remaining nine companies gave varying degrees of detail on sustainability initiatives and impacts within their annual reports. The report from Deloitte also revealed that the majority of the companies were reporting on social responsibility initiatives, and not on sustainability. Also the report highlighted that mainly companies with previous reporting experience (on social and/or environmental responsibility) were involved in the practice of SR.

Another source revealed the state of SR is Pakistan Environmental Reporting Awards (PERA). The award scheme was jointly launched by ACCA<sup>74</sup> Pakistan and WWF<sup>75</sup> Pakistan in May 2002. The main objectives of the scheme include: raising awareness, building capacity, and recognising efforts of those organisations which report and disclose their environmental, social or sustainability performance.<sup>76</sup> Initially these awards included a best environmental report category, but in 2005 it included a new category of the best sustainability report. Table 6-1 below shows the number of entries in these awards (for both categories) over the period of the last ten years. The table shows that the number of entries has increased from 11 to 109. While the majority of these entries were made in the category of best environmental report, there are a handful of companies (currently around 20 companies) who submitted their information for best SR awards.

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<sup>74</sup> Association of Chartered Certified Accountants

<sup>75</sup> Wild Welfare Fund

<sup>76</sup> ACCA-WWF Pakistan Environmental Reporting Awards 2012, Report of the Judges  
[http://www.accaglobal.com/content/dam/ACCA\\_Global/Technical/envir/report-judges-2012.pdf](http://www.accaglobal.com/content/dam/ACCA_Global/Technical/envir/report-judges-2012.pdf)

**Table 6-1: Number of Entries for Awards: 2002-2013**

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
11	14	10	14	25	40	44	58	63	78	89	109

(Source: Report of the Judges: ACCA-WWF PERA 2013)

The two sources confirmed that the concept of SR is emerging as the next level of reporting for those companies who have some reporting background on social responsibility and the environment. Rather, some companies (for example Engro Corporation) with a background in SR, are moving further ahead to take their reporting to the next level of integrated reporting. However, when considered against the backdrop of the total number of registered companies (around 15,000), and especially the total number of listed companies (around 590), this is a very small number and there is a need to investigate not only the underlying dynamics for the emergence of such reporting so that it can be encouraged further, but also the underlying conditions for the absence of such reporting.

### **6.3 Pakistani Sustainability Reporting Field**

Drawing on the concept of the field as advanced by the ILP (see chapter 3 for details), for the purpose of this research, “Pakistani SR field” means the constellation of all those social actors (organisations and individuals) who have their values anchored in different institutional orders and who take each other into account, for the development of practice and collective rationality of SR, through the processes of communication, contestation and coordination. There are a number of national and international organisations that are playing their role in the emergence and development of sustainability practices in Pakistan. These social actors are performing different roles (e.g. policy makers, regulators, enablers, consultants, practitioners and reporters) and are under the influence

of different institutional orders (e.g. state, family, market, profession, community and corporation).

In this context, one of the main actors is the reporting firm itself. However, rather than considering all reporting firms as a homogenous group, here reporting firms are considered heterogeneous as they might have their values anchored in different societal-level orders. For example, a family-owned and controlled business is more influenced by the institutional order of the family while public-listed companies and multinationals are more influenced by the institutional order of the market and corporations. In addition to reporting firms, other actors of interest are NGOs, CSOs<sup>77</sup> and academics (community), state ministries dealing with social welfare, environment and climate change (state), business associations, stock exchanges and market regulators (market), and professional accounting bodies, professional services firms and consultants (profession). These players shall be considered as part of the SR field in Pakistan as they take each other into account for the development of sustainability practices, including SR.

Involvement of this diverse range of actors in the SR field has been informed by the prior literature, documentary evidence and interviews with key research participants. The literature (e.g. Larrinaga-Gonzalez, 2007; Etzion and Ferraro, 2010; Higgins and Larrinaga, 2014) notes that the SR field has emerged over time with firms, investors, government agencies, standard setters and civil society organisations entering and leaving the field's porous boundaries. According to Higgins and Larrinaga (2014, p. 280), a diverse range of actors were involved in social interactions for shaping "the development of material practices (e.g. standards and guidelines) as well as the rhetoric and the rationality that accompanies them". The SR literature from emerging and developing economies highlighted an important role of foreign institutions in the development of

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<sup>77</sup> Community Service Organisations



sustainability practices. This may be in the form of involvement of IFIs and investors (Rahaman, Lawrence and Roper, 2004), foreign buyers (Islam and Deegan, 2008), international standards organisations (Belal and Owen, 2007), head offices of MNCs (Beddewela and Herzig, 2013; Momin and Parker, 2013) and transnational organisations.

## **6.4 Historical Evolution of the Pakistani SR Field**

The historical account in this section captures the coevolution of sustainability practices and sustainability reporting. The two practices are perceived to be interlinked and it is very difficult to disassociate them. Overall, this section provides an account of the salient events and actors shaping the practice and logics of SR in Pakistan. These events include important milestones, regulatory pronouncements, publications, policies, changes in material resource environments, conferences, award ceremonies, workshops, etc. which are recognised as salient to the evolution of the field. According to the theoretical framework, social interactions between social actors, triggered by events, shapes the development of material practices and accompanying rationality. After arranging the empirical data in chronological order, a list of salient events, actions and developments was made which is provided in Appendix H. The list was analysed further and an explanation was built on a temporal and theoretical basis so as to depict the evolution of the field.

### **6.4.1 1972 – 1992 – Emergence of Sustainable Development**

#### ***6.4.1.1 UN conference and attention towards the environment***

The international debate on the environment has been unfolding since 1972 when the UN conference on human environment took place in Stockholm, Sweden. In the case of Pakistan, its participation in the conference marked the beginning of the attention being

paid to environmental issues.<sup>78</sup> As a result of this attention, for the first time, the word ‘environment’ was added to the list of subjects for concurrent jurisdiction in the 1973 constitution of Pakistan. Also a new division named the Environment and Urban Affairs Division (EUAD), was created in 1975 under the Ministry of Housing and Works. Apart from this, participation in the event did not bring long-lasting effects.

Almost ten years after, in 1983, Pakistan promulgated a national framework law on environmental protection and became one of the first countries in the Asia-Pacific region to do so. The legal framework which was named the Pakistan Environmental Protection Ordinance (PEPO), broke new ground in requiring an environmental impact assessment for development projects. It also established a high-powered Pakistan Environmental Protection Council (PEPC), chaired by the president of Pakistan. The committee was mandated with the development of important policy parameters for environmental protection. Also, mirroring the experience of developed countries, federal and provincial environmental protection agencies (EPAs) were set up under the ordinance.<sup>79</sup> The ordinance, however, remained ineffective until the first meeting of the committee in 1993 which marked the beginning of the next phase in the evolution of the field.

#### **6.4.1.2 *The IUCN<sup>80</sup>, WWF and the Pakistan NCS<sup>81</sup>***

The idea of the Pakistan NCS started to take root during this period. This was the result of initial efforts of the IUCN, WWF and UNEP<sup>82</sup> in the publication of the World Conservation Strategy, in 1980, which was sent to all of the UN member countries. In

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<sup>78</sup> Stock Taking Report on Sustainable Development in Pakistan (Policies, Needs, Gaps, Reforms) <http://www.uncsd2012.org/content/documents/303stocktaking%20report-2-1%20aug%2023rd.pdf>. Shahqat KakaKhel

<sup>79</sup> The Role of Judiciary and Judicial Commission on Sustainable Development Issues in Pakistan. <http://www.supremecourt.gov.pk/ijc/Articles/9/7.pdf> Dr Pervez Hassan

<sup>80</sup> International Union for Conservation of Nature

<sup>81</sup> National Conservation Strategy

<sup>82</sup> United Nations Environment Programme

addition, the CDC<sup>83</sup> was established by the IUCN in order to provide technical assistance to the developing countries in the preparation of their respective NCSs. In 1983, the IGF,<sup>84</sup> Ministry of Food, Agriculture and Cooperatives asked for assistance of the IUCN in the preparation of the Pakistan NCS (Carew-Reid, 2013). According to Kabragi (1997), the role of the IGF was most critical among the circumstances that combined to launch the process of developing the strategy which was both visionary and knew the power dynamics in the government. The IUCN sent a two-man mission to Pakistan in which the Government of Pakistan (GOP) formally asked for assistance in the preparation of the Pakistan NCS.

The establishment of a working group in the WWF Pakistan provided further push to the process of the Pakistan NCS. The working group, comprised of the country's most prominent industrialists, made a case for action on matters related to the environment in general and the Pakistan NCS in particular. WWF Pakistan also assisted the IUCN in establishing an indigenous presence in the country. As a result the IUCN Pakistan was established in 1985 and started working on the preparation of the strategy.<sup>85</sup> The CIDA<sup>86</sup> provided funding for the whole process. The Pakistan NCS, after consultation among a large number of stakeholders over a long period of time, was formally approved in 1992 by the cabinet of Pakistan. As a result, Pakistan effectively joined a small group of nations that plan their development within the context of a national environment plan.<sup>87</sup>

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<sup>83</sup> Conservation for Development Centre

<sup>84</sup> Inspector General of Forests

<sup>85</sup> The Story of Pakistan's NCS: An Analysis of its Evolution.

<https://portals.iucn.org/library/efiles/documents/WCS-PK-029.pdf>

<sup>86</sup> Canadian International Development Agency

<sup>87</sup> The Pakistan National Conservation Strategy [http://www-wds.worldbank.org/servlet/WDSContentServer/IW3P/IB/1991/01/01/000009265\\_3980429110353/Rendere d/PDF/multi\\_page.pdf](http://www-wds.worldbank.org/servlet/WDSContentServer/IW3P/IB/1991/01/01/000009265_3980429110353/Rendere d/PDF/multi_page.pdf)

#### **6.4.1.3 Publication of the Brundtland report**

Among the international developments that further shaped the process of strategy development was the concern of the international community over the relationship between the environment and development. The World Commission on Environment and Development (WCED) was set up in 1984 to work under the guidance of the Norwegian Prime Minister, Gro Harlem Brundtland. The WCED's report in 1987, "Our Common Future" appeared at a felicitous time as it recognised the need for such strategy for developing countries (Carew-Reid, 2013). The Pakistan NCS secretariat was established in 1988 while the international debate over the Brundtland report was at its peak. Also, in 1989, the EUAD was upgraded to a full-fledged Ministry of Environment (MOE).

The publication of the Brundtland report proved to be a salient event as it not only gave the NCS process some further legitimacy but also influenced the thinking of the secretariat. It has shaped their attention on the relationship between the environment and development. It has transformed the strategy from a modest little wildlife and parks strategy into a full-scale analysis of the resource base of the Pakistani economy and its importance for the development of the country.<sup>88</sup> The resulting NCS revolved around three objectives: conservation of natural resources, sustainable development and improved efficiency in the use and management of resources (Kabragi, 1997).

#### **6.4.1.4 Earth summit and approval of the Pakistan NCS**

Another international event which influenced heavily was the UN Conference on Environment and Development (UNCED) in 1992, popularly known as the Earth Summit (Khan, Awan and Khan, 2013). The summit was a global commitment to protect the environment and to promote sustainable development. The summit was held on the recommendation of the Brundtland commission in order to measure the world's progress

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<sup>88</sup> The Story of Pakistan's NCS: An Analysis of its Evolution.  
<https://portals.iucn.org/library/efiles/documents/WCS-PK-029.pdf>

towards sustainable development. Just like the publication of the Brundtland report provided legitimacy to the NCS process and shaped the attention of the secretariat, the Earth Summit also played a similar role. The Earth Summit proved to be salient as it provided political and bureaucratic visibility to the Pakistan NCS, which was formally approved by the cabinet in 1992.

The summit also caught the attention of Pakistani civil service officials towards the concept of sustainable development as they had to prepare briefs and policy papers on a range of sustainable development issues.<sup>89</sup> During the summit, Pakistan was to be the chair of the group of 77 developing countries and Pakistani ministers were expected to coordinate with other developing countries on the issue of sustainable development. The need to carry something to the conference helped the ministers for the environment to win support from the cabinet (Kabragi, 1997). As Pakistan was already working on the sustainable development strategy, which was in draft stage, GOP decided to benefit from the work in the preparation of the Pakistan national report to the UNCED. The International Institute for Environment and Development (IIED), an international NGO based in London, and the IUCN Pakistan helped the GOP in preparation of the national report which was declared as one of the best reports of the conference.

#### ***6.4.1.5 Leadership in the strategy for sustainable development***

Pakistan emerged as a leader in the Earth Summit and gained a lot of recognition in the international arena for its efforts towards developing a strategy for sustainable development. This was a promising start because of the overall political and bureaucratic consensus prevailing at that time on this complex topic. This achievement was the result of a number of processes and interactions both locally and internationally which are

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<sup>89</sup> The Story of Pakistan's NCS: An Analysis of its Evolution.  
<https://portals.iucn.org/library/efiles/documents/WCS-PK-029.pdf>

briefly described above. International events (UN conferences, reports, debates) played a key role as they provided external legitimacy to the indigenous processes. The roles played by international actors including international NGOs (IUCN and WWF), consultants, donors (CIDA) and UN institutions (Carew-Reid, 2013). These actors interact with local actors in creating a demand for a sustainability strategy. They also played a key role in providing technical and financial resources to support these developments. Not only driven by external forces, a demand was also created from the inside, by a few visionary individuals, that initiated indigenous processes and drew support from both within and outside government (Mitchell, 2013). Last, but not the least, the overall process for strategy development was more participative as it involved a large number of stakeholders (Weisbord, 1992). A large number of committee meetings and stakeholder roundtables were conducted to reach a consensus on the NCS strategy which became Pakistan's premier environmental policy document.

## **6.4.2 1993 – 1999 – Institutionalisation of Sustainable Development**

### ***6.4.2.1 Institutional development***

After the development of the Pakistan NCS, the next challenging task was to translate strategy into action. During this period, a number of policies, regulations and mechanisms for environmental management were developed. Also it was decided to improve institutional infrastructure which was perceived as inadequate for the implementation of environmental policies and programmes. Among the major developments include the creation of the SDPI,<sup>90</sup> the NCS Unit of the MOE, the environment section in the planning and development division and the IUCN-Pakistan.<sup>91</sup>

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<sup>90</sup> Sustainable Development Policy Institute

<sup>91</sup> Institutional development for NCS Implementation <http://www.environmental-mainstreaming.org/nssd/country/pakistan/pamtr09.htm>

Pakistan Environmental Programme (PEP) was launched in 1994, which was aimed at building overall capacity for the environment in the country through the activities of the four partner institutions mentioned above.<sup>92</sup> Among all of these institutions, the SDPI was instrumental in a range of sustainability related activities including advisory services, research and analysis, policy advice, public interest advocacy, networking and information management. Since the Pakistan NCS placed responsibility on the NGOs and community organisations for implementation of various programmes,<sup>93</sup> many new NGOs were created during this period. According to Aftab (1994), a majority of these NGOs were concerned with environmental issues and were involved in the institutionalisation of sustainable development practices through research and advocacy.

#### **6.4.2.2 *The NEQS<sup>94</sup> and reaction from industrialists***

In order to guide industrial and other development activities, an important milestone was the development and approval of the NEQS. The PEPC was reactivated after almost 10 years, and gave a mandate to the Pakistan EPA which developed the NEQS. In order to ensure industrial compliance with the NEQS, the SDPI suggested the use of a pollution charge<sup>95</sup> as a market-based mechanism (Luken, 2009). Industrialists reacted very strongly to the NEQS and suggestions for pollution charge. They were of the view that NEQS were too stringent, impractical and irrelevant and that industry representatives were not consulted during the process of setting the standards. The GOP decided to engage with

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<sup>92</sup>CHAPTER 3. NCS IMPACTS 1992 – 2000: PAKISTAN’S NATIONAL CONSERVATION STRATEGY: RENEWING COMMITMENT TO ACTION, Report of the Mid-Term Review. <http://www.environmental-mainstreaming.org/nssd/country/pakistan/mtrch3.html>

<sup>93</sup> Participation in Strategies for Sustainable Development, Environmental Planning Group, International Institute for Environment and Development <http://pubs.iied.org/pdfs/7754IIED.pdf>

<sup>94</sup> National Environmental Quality Standards

<sup>95</sup> This charge was based on the polluter-pay-principle (PPP) formulated in early 1970s and encouraged, for adoption by all countries, by principle 16 in the 1992 declaration on the UNCED

industry representatives over rationalisation of NEQS and to work out the modalities of their implementation. In 1996, the PEPC constituted the ESC<sup>96</sup> and gave a formal mandate to review the NEQS and to recommend modalities for enforcing them. Members of the committee included representatives from the MOE, federal and provincial EPAs, public and private sector corporations, industrial chambers and associations, environmental NGOs, research organisations, and legal experts (Khan, 1998).

#### **6.4.2.3 Linking environment with industrial development**

Pakistan became a signatory to the WTO<sup>97</sup> in 1995 and that brought international pressure on local industries, especially on exporting sectors, in the form of conformance to the international production and management standards. This pressure has made the industrial sector feel a little more conscious of the need to comply with various social and environmental standards. Industry associations (Such as FPCCI<sup>98</sup> and APTMA<sup>99</sup>) played an important role in raising the awareness of industry members and other players of the needs and benefits of showing responsibility and going green. For the first time, the issue of social and environmental sustainability was linked with industrial development and export competitiveness (Sanchez-Triana et al., 2014). According to the representative of FPCCI, the post WTO situation demanded the need to recognise these issues as *“failure and noncompliance could have adverse effects on Pakistan’s trade and business”*.<sup>100</sup>

This pressure, awareness, realisation and the ongoing consultative process over the environmental legislation provided the level playing field to the different players for negotiations over the standards and modalities for their implementation. However, while these consultations and negotiations were in progress, the GOP replaced the 1983

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<sup>96</sup> Environmental Standards Committee

<sup>97</sup> World Trade Organisation

<sup>98</sup> Federation of Pakistan Chamber of Commerce and Industry

<sup>99</sup> All Pakistan Textile Mills Association

<sup>100</sup> <http://www.dawn.com/news/54281/karachi-need-for-environmental-awareness-stressed>



ordinance with the Pakistan Environmental Protection Act (PEPA) in 1997. This Act strengthened the earlier provisions of the ordinance and, additionally, set up provincial sustainable development funds as well as environmental tribunals. It also provided a legal cover to the NEQS and enabled the GOP to levy a pollution charge to the industries exceeding NEQS. This Act brings more pressure on the industry representatives at the negotiating table and among other factors discussed above, helped in building a general consensus among all stakeholders to adopt a market-based mechanism (i.e. a pollution charge or tax combined with fiscal incentives) rather than use of coercive pressures (penal procedures) for ensuring compliance with the NEQS (Luken, 2009). The FPCCI, however, was successful in their demands for relaxing NEQS which were revised and finally approved in 1999 by the PEPC (Khan, 1998).

#### ***6.4.2.4 Monitoring and reporting mechanism***

Another important issue related to the compliance that was discussed and agreed during the negotiations was the monitoring and reporting mechanism. Both the monitoring agencies and industry representatives were favouring a self-monitoring and reporting system. This was because monitoring agencies (for example EPAs) were lacking capacity and resources. Due to this and other cultural factors, industry representatives were also sceptical about the transparency and fairness of the system. Therefore, a system of self-monitoring and reporting was mutually agreed upon so as to accommodate the interests of both parties (Aftab et al., 2000). The system fixed the responsibility of the industrial organisations for the periodic monitoring and reporting of their environmental performance of the provincial EPA's. It was decided that reports would be taken at face value and only a sample would be subject to verification of the validity of data. It was also decided that the data would be placed in the public domain so as to increase transparency and for monitoring and assessment by independent research and environmental NGOs. The

consultative process was also initiated on developing self-monitoring and reporting guidelines.

Despite the apparent consensus over the NEQS, pollution charge and self-monitoring and reporting system, it proved to be a timely compromise made by a small number of industry representatives that agreed on the negotiating table as a result of multiple pressures. Later on, industrialists started to show resentment and resistance over the implementation of these mechanisms. They challenged the possibility of fair enforcement of these mechanism and showed concerns over the fair utilisation of money collected from pollution charges. They also complained about the non-seriousness of the GOP in fulfilling its promise related to various incentives and rebates which were part of the negotiation process. Their efforts became successful in 2001 when NEQS and pollution charges were abandoned by the new government (Luken, 2009).

### **6.4.3 2000 – 2009 – Policy Adjustments – Emergence of Sustainability Reporting**

#### ***6.4.3.1 Change in government and pro-private sector policies***

Towards the end of 1999, a new military-based government was established and it focused on private-sector development. The new government initiated various macroeconomic stabilisation and structural reform programmes through the funding of IFIs.<sup>101</sup> In addition to this, foreign aid and remittances to Pakistan increased after the incidence of September 11 2001, and all these factors have combined to improve the country's economic situation.<sup>102</sup> GDP growth rebounded to 5.1 percent in 2002/03 and then increased to 6.4 percent in 2003/04 and reached a record at 8.4 per cent in 2004-05.

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<sup>101</sup> International Financial Institutions

<sup>102</sup> World Bank Report on Pakistan Strategic Country Environmental Assessment World Bank report <http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/Publications/448813-1188777211460/pakceavolume1.pdf>

This was a remarkable achievement as for the first time after the 1980s, GDP growth of over 6 percent was achieved.

This extraordinary progress on the economic front stood in sharp contrast to the slow progress on social and environmental development. According to the 2004 UNDP<sup>103</sup> human development index, Pakistan ranked 142 out of 177 countries, which makes it last in South Asia. The environmental situation was also getting worse due to the increase in population and private sector development. On the other hand, lack of attention on environmental regulations developed earlier and failure to bring the environment into the policy mainstream further aggravated the environmental degradation.

A major setback to the efforts of previous governments and civil society occurred in 2001 when the GOP, as part of its pro-private sector policy, dropped the requirements of NEQS, pollution charges and the supplementary self-monitoring and reporting system. This was done because the GOP wanted to promote economic growth and development and in that context they do not want to impose another bureaucratic check on the industrial sector.<sup>104</sup> At the same time, the industrial sector showed resentment and resistance over the implementation of the pollution charge as the GOP failed to keep its promises related to incentives and rebates which were promised during the consensus process (Luken, 2009).

#### ***6.4.3.2 Advocacy for social and environmental sustainability***

At times when the GOP was concentrating on economic growth and development, international donor agencies were advocating for ensuring environmental sustainability and poverty reduction in the context of economic growth. This has been the recommendation of the mid-term review of the Pakistan NCS that was carried out by an

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<sup>103</sup> United Nations Development Programme

<sup>104</sup> Asian Development Bank Report on Country Environment Analysis.

<http://www.adb.org/sites/default/files/institutional-document/32193/country-environment-analysis.pdf>

independent review team comprising local and foreign experts. The review report,<sup>105</sup> while acknowledging the positive role of the NCS strategy in creating awareness and building institutions, raised concerns over the scope of the strategy and issues with its implementation. It was pointed out that the Pakistan NCS falls short in the area of social sustainability. The report emphasised improvement in the implementation capacity and to put more emphasis on the development of a national sustainable development strategy that gives due consideration to poverty reduction and economic development in addition to environmental sustainability.

On the basis of the recommendations made by the UNDP, the GOP committed itself to achieve the Millennium Development Goals (MDGs).<sup>106</sup> As a result, for the first time environmental degradation was linked to poverty and the GOP, with the support of UNDP, initiated the National Environment Action Plan (NEAP)<sup>107</sup> in 2001 as an umbrella programme for addressing environmental concerns in a holistic manner. Since the NEAP was based on in depth evaluation of the NCS, it was broad enough to include social and environmental sustainability and at the same time it narrows the government focus on core areas of implementation: clean air, clean water, waste management and ecosystem management. There was a policy focus on four core programmes: capacity building, incentives, monitoring and evaluation. The UNDP provided \$40 million to the MOE for different projects on priority areas under a support programme. However, since the NEAP project approval process was not integrated with the government's budgeting system, it has not succeeded in mobilising additional financial resources for environmental

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<sup>105</sup> Pakistan's National Conservation Strategy: Renewing Commitment to Action. Report of the Mid-Term Review <http://www.environmental-mainstreaming.org/nssd/pdf/ncsmtr.pdf>

<sup>106</sup> These include goals related to poverty, education, equality, child mortality, maternal health, combating diseases, environmental sustainability and global partnerships for development. Each of the goals has a number of targets which are measured by several indicators.

<sup>107</sup> The NEAP was aimed at improving the environmental protection approved in February 2001 in the 9th meeting of the Pakistan Environmental Protection Council (PEPC) and the document was signed between the government of Pakistan and the UNDP in October 2001, making them partners in the programme.

programmes. Therefore, despite the UNDP assistance and some increase in capacity at the federal level, NEAP has not provided a strategic force for improved environmental management at all levels (Naureen, 2009).

#### **6.4.3.3 *The national environmental policy (NEP) of Pakistan***

The NEAP subsequently evolved into the NEP which can be considered as the policy response of the GOP to the recommendations of the UNDP regarding implementation issues. The policy highlighted both major issues for the implementation as well as capacity building of the government agencies and stakeholders at all levels for better implementation. With this renewed focus on implementation and capacity building, among other factors, the NEP advocated for the strict enforcement of the NEQS and a self-monitoring and reporting system. However, it does not endorse the polluter pay principle and in the section on economic and market-based instruments,<sup>108</sup> does not mention pollution charges, perhaps because of the failed effort to implement and industry resistance as described earlier (Luken, 2009).

In order to facilitate the industrial sector to incorporate a reporting system, a Self-Monitoring and Reporting Tool (SMART<sup>109</sup>) was then developed by the Pak-EPA, with technical assistance from the SDPI. A pilot phase programme, which was jointly organised and conducted by the Pak-EPA and SDPI in collaboration with the FPCCI, was conducted for the demonstration and testing of SMART. The programme was formally launched as the green industry programme in 2006 by the MOE with the support of UNDP. The main aim was “to make industries responsible for systematic monitoring and reporting of their environmental performance”. The key attribute of this programme was “the nationwide reductions in the pollution levels by providing the flexibility to the

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<sup>108</sup> <http://environment.gov.pk/NEP/Policy.pdf>

<sup>109</sup> SMART has been used by the industrial units to generate reports on the emissions levels (environmental data) and send the same to EPAs for compilation and analyses.

industries to choose cost-effective environmental solutions and by promoting pollution control measures and assisting in the identification of regulatory and non-regulatory impediments” (Khwaja, 2002).

#### ***6.4.3.4 Environmental management systems and environmental reporting***

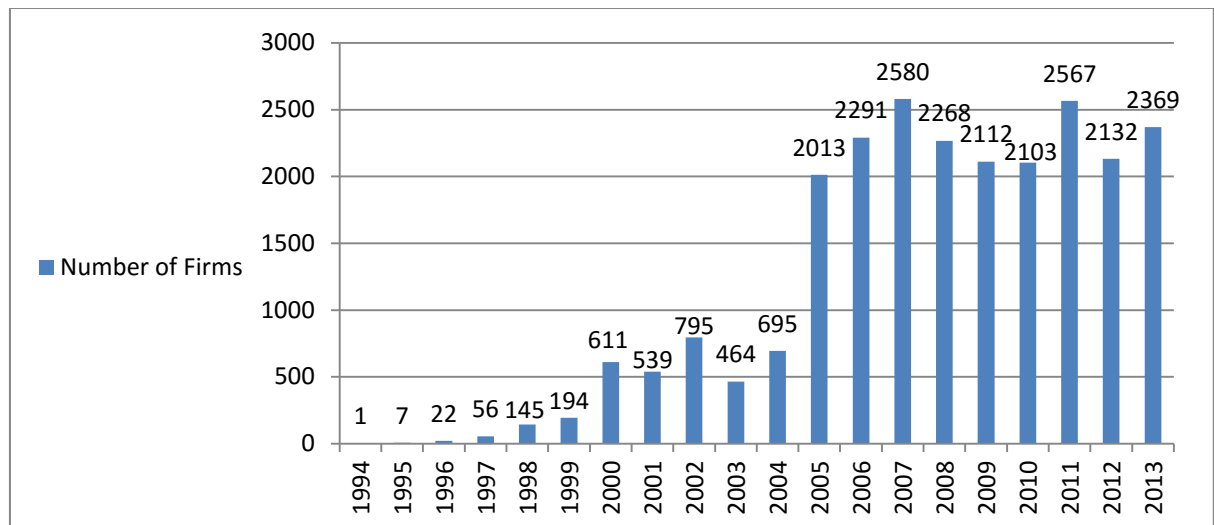
As mentioned above, the NEP required strict enforcement of the NEQs and self-monitoring and reporting systems. However no penalty was mentioned for the non-compliance. Despite all of this, it created enough doubts for the private sector about the possibility of future regulation. Through the green industry programme, the GOP was facilitating the private sector in improving and reporting their environmental performance. Doubts about the future regulation and facilitative role of the government played an important role in driving the green agenda in Pakistan. Also, because of global competitiveness, the private sector, especially large businesses in the export sector, started making substantial investments in cleaner production and effluent treatments.

An increasing number of international businesses were demanding ISO <sup>110</sup> certifications (especially on EMS, e.g. ISO-14001) from their suppliers. Since the progress towards meeting NEQS was an important prerequisite for the ISO-14001 certification, this compelled the private sector to make investments in cleaner technologies so they can meet NEQS. The private sector, ahead of any enforcement, also started reporting voluntarily on NEQS. Pakistan Compliance Initiative (PCI) was launched by the private sector in 2003 to tackle the environment, labour and other issues that exporters could face in the world market. A sharp growth can be witnessed after this initiative in the number of ISO-14001 certified companies (see figure 6-1).

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<sup>110</sup> International Organisation on Standards

**Figure 6-1: Number of Firms Certified to ISO 14001 in Pakistan: 1994-2013**



Source: ISO Survey of Certifications 2013

So it can be observed that, in the absence of enforcement mechanisms, the scant implementation of environmental laws, standards and initiatives was market-led. This has been reflected by one the leading environmental advocate as:

...while there was virtually no compliance with our environmental laws, and particularly its National Environmental Quality Standards, our entrepreneurs and industrialists started implementing these laws voluntarily when it was required for ISO certification which enhanced the marketability of their products.<sup>111</sup>

The GOP also supported the private sector and developed a strategy that was built upon the self-interest of firms to improve their competitive positions and economic development of the country.<sup>112</sup> This was the beginning of a new era of the EMS in large commercial organisations especially in the export sector and energy intensive industries. This trend was complemented by various award schemes for acknowledging best environmental practices that provided further impetus for their development. An

<sup>111</sup> Dr Pervez Hassan: The Role of Judiciary and Judicial Commissions on Sustainable Development Issues in Pakistan <http://www.supremecourt.gov.pk/ijc/Articles/9/7.pdf>

<sup>112</sup> However, the state showed regulatory intent in order to boost investor confidence on the recommendations of financial institutions. SECP conducted a research report that involved local consultants who recommended mandatory SR for better transparency and accountability towards sustainability performance. This is the way the state focuses on regulatory (transparency and accountability) logics.

important initiative in this regard was taken by the national forum for environment and health to introduce the annual environment excellence awards in 2003.

#### **6.4.3.5 *The SECP and the code of corporate governance***

The SECP was created in 1999 as a result of the reform programme initiated by the GOP with the financial support of the ADB for the development of the capital markets in Pakistan. The SECP subsequently emerged as the main player for regulating the corporate sector of Pakistan. The SECP, in an attempt to boost investor confidence in the stock market, introduced the Code of Corporate Governance (COCG) in 2002. The code was made mandatory for all listed companies. The code marked the start of formal efforts towards increasing the transparency and accountability of the corporate sector (Javid and Iqbal, 2010). In terms of disclosure and reporting of information about social and environmental issues, these codes have no provision. However, the code has the following provision on the organisation's environmental impact.

Under 'Responsibilities, Powers and Functions of Board of Directors', Section (viii) sub section (b):

The Board of Directors [should] adopt a vision/mission statement and overall corporate strategy for the listed company and also formulate significant policies having regard to the materiality as may be determined.

'significant policies' for this purpose includes 'Health Safety and Environment (HSE)'.

Under 'significant issues to be placed for decision by the board of directors', Section (xiii):

In order to strengthen and formalize the corporate decision making process, significant issues shall be placed for the information, consideration and decision of the board of directors of listed companies.

Here, 'significant issues' include, among other things:

Any significant accidents, dangerous occurrences and incidents of pollution and environmental problems involving the listed company.

In general, the SECP faced strong resistance from the corporate sector, the vast majority of which comprised family-owned and controlled businesses. The code was perceived as going against local cultural conditions and as an unnecessary burden for the listed



companies. Therefore corporate response was not encouraging, and a few companies decided to delist themselves from the stock exchange, while others comply with the codes as a box-ticking exercise.<sup>113</sup> Subsequently, the codes were revised by the SECP in 2012 for wider acceptance.

#### **6.4.3.6 *Pakistan environmental reporting awards (PERA)***

The most significant event that took place during this phase was the launch of the PERA in 2002 which was organised and sponsored by the ACCA and WWF. These awards introduced international norms and values in the Pakistani SR field in the form of guidelines and criteria for best reporting practices. These awards also provided the basis for recognition, differentiation and a motivation for innovation, through incentives, which was missing from the local context. These awards arguably had influenced and shaped the expectations and practice of SR in Pakistan. The role of ACCA in shaping SR in Pakistan was quite similar to the role played by ACCA in the UK and other countries. According to Bebbington, Kirk and Larrinaga (2012), ACCA, through the socialisation process provided by various award schemes, was instrumental in the diffusion and normalisation of emerging norms by the leading companies. In the case of the UK, role of ACCA was also supplemented by other carriers such as certification schemes, industry associations and business consultancies.

In the case of Pakistan, similar socialisation processes can be observed; however since reporting norms were already developed in the international context, they were just imported into the SR field in Pakistan through launching awards that specified the same criteria for best reporting. A number of interviewees (see chapter 7) confirmed the positive role of these and other awards for raising awareness, setting expectations and

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<sup>113</sup> Impact Assessment of the Code of Corporate Governance 2002  
<http://www.secp.gov.pk/Reports/ImpactStudyCCG.pdf>

providing necessary motivation for SR. Overall, these awards provide marked-based opportunities to the reporting companies through their impact on branding and reputation.

This has been highlighted in the ACCA report of the judges as:

“From Pakistan’s perspective, the SR practices advocated by the Awards will enable Pakistani companies be globally benchmarked in all aspects of their operations and this, in turn, will assist them in meeting the challenges of the current economic conditions and the ensuing competition for markets and capital. Consequently, this will also improve the reputation and branding of Pakistani companies, which can only contribute to greater trade and economic growth for Pakistan”.<sup>114</sup>

#### **6.4.3.7 Attempts for regulating SR**

In addition to the reporting awards, ACCA Pakistan conducted a research study on the extent and perception of sustainability practices in Pakistan that was based on interaction with a number of small, medium and large businesses. On the basis of this study, recommendations were made to the SECP for development of the existing COCG, to include requirements for mandatory SR. Also, recommendations were made to the PICG for the establishment of a unit that should focus on sustainability best practices in Pakistan, and KSE to develop a ‘City Code for Sustainability’.<sup>115</sup> The SECP was also intrigued for improving corporate social responsibility and sustainability practices of the corporate sector. The SECP involved the local NGO to conduct research for the stocktaking of the current practice and to make policy recommendations. The local NGO also recommended “*mandatory reporting for listed companies in order to improve social responsibility and sustainability practices*”.<sup>116</sup> Despite these recommendations, no attempt was made until 2009 when SECP issued a general order that mandated disclosure

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<sup>114</sup> Report of the Judges, ACCA-WWF Pakistan Environmental Reporting Awards 2012  
[http://www.accaglobal.com/content/dam/ACCA\\_Global/Technical/envir/report-judges-2012.pdf](http://www.accaglobal.com/content/dam/ACCA_Global/Technical/envir/report-judges-2012.pdf)

<sup>115</sup> Sustainability: a modern myth or a genuine business case? By ACCA Pakistan  
[http://www.ibrarian.net/navon/paper/sustainability\\_a\\_modern\\_myth\\_or\\_a\\_genuine\\_busin.pdf?paperid=15897807](http://www.ibrarian.net/navon/paper/sustainability_a_modern_myth_or_a_genuine_busin.pdf?paperid=15897807).

<sup>116</sup> Evaluation of the State of Corporate Social Responsibility in Pakistan and a Strategy for Implementation: For SECP by Ambreen Waheed  
[http://www.secp.gov.pk/Reports/CSR\\_Study\\_FinalReport\\_November.pdf](http://www.secp.gov.pk/Reports/CSR_Study_FinalReport_November.pdf)

on CSR in the directors' report that should specify the amount spent on various CSR initiatives.

Issuance of the CSR general order can be considered as an important milestone in the evolution of the SR field as it signalled the intent of SECP in regulating the practice. However, apart from this signalling impact, the order was impotent in terms of shaping the practice as it only required reporting by those companies who were engaged in social and environmental responsibility initiatives. Also, it leaves the company free to develop their own understanding of different terms and to make decisions about material issues. There was no mention of the reporting processes and there were no specific guidelines. While such freedom may be deemed better for the evolution of the concept, it literally leaves an open field for a company to choose from different initiatives and partial reporting of those initiatives (Shekha, 2013). Such openness also enabled the managerial capture of the practice of SR. The SECP later on worked on the development of local guidelines for CSR (including reporting and assurance) with the intention to make them mandatory. The SECP, however, faced strong resistance for mandatory CSR/SR from companies and other stakeholders and eventually decided to make them voluntary (see 6.4.4.5 below and chapter 7 for details).

#### ***6.4.3.8 The UN Global Compact and its influence on SR***

At the international level, the UN Global Compact (UNGC) was established to encourage businesses worldwide to adopt sustainable and socially responsible practices and to report on their implementation. The UNGC is a voluntary and principle-based framework that specifies ten principles related to social and environmental sustainability. At the formal launching ceremony of the UNGC in New York, the president of the Employer Federation of Pakistan (EFP), along with the distinguished group of the CEO's worldwide, was invited. Coming back to Pakistan, the president of EFP initiated efforts to

introduce the UNGC 10 principles to the member organisations. A special committee was constituted by the EFP in 2003 that was given the responsibility to organise awareness and the formal launching of the UNGC. An official request letter was sent to all EFP members for voluntary subscription to the UNGC principles. EFP also organised a pre-launching workshop on the UNGC principles which was largely attended by member organisations, government functionaries, and representatives of the civil society.<sup>117</sup>

The major breakthrough was made in 2005 through the formation of the Global Compact Pakistan Local Network (GCPLN). At the launching ceremony, nearly 50 Pakistani companies signed the UNGC charter in order to document their voluntary subscription. From that point onwards, the UNGC started to influence the Pakistani SR field in various ways. First, the UNGC principles provided reference points for norms and values related to sustainability practices. The UNGC principles, therefore, exerted normative influence by clarifying what is appropriate in a given situation. By keeping membership entry criteria very easy and flexible, it encouraged more and more businesses to join the initiative and get recognised. However, once a company becomes a member, it has to show their progress on the implementation of its principles and communicate it in the form of a communication on progress (COP) report. This requirement for the COP can be considered as a regulative pressure for those companies that signed the UNGC charter. If a company is unable to produce the COP after three years of joining, it has to be delisted. Other than that there is no regulative mechanism as initiative is mainly voluntary. In the case of Pakistan, the UNGC influenced a few big companies who made progress and reported on the ten principles. However, a large

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<sup>117</sup> Global Compact – The Pakistan Experience. Presentation for 5<sup>th</sup> regional JPO Workshop, Hanoi 14-18 June [http://www.jpsc.org/documents/workshop\\_hanoi\\_Global\\_Compact\\_experience\\_Pakistan.ppt](http://www.jpsc.org/documents/workshop_hanoi_Global_Compact_experience_Pakistan.ppt).

number of companies ignored the norms and values, made little progress, failed to provide the COP and eventually were delisted.<sup>118</sup>

The UNGC initiative also impacted the SR field through imitation patterns. Since the majority of the companies that subscribed to the UNGC principles were large and successful companies, other companies felt pressure to copy the behaviour of leading firms so as to gain external legitimacy and in order to reduce external uncertainty (Coscollar, Dolz and Linares-Navarro, 2015). The influence of the UNGC on the emergence and development of SR has been confirmed by a few interviewees (see chapter 9). Currently, the UNGC and the GRI are joining hands to standardise SR. The two initiatives are complementary in nature. The UNGC provides a principles-based framework to guide companies towards better sustainability behaviour while the GRI's broader SR framework provides organisations with a set of reporting principles and standard disclosures on strategy, profile, governance, stakeholder engagement, ethics and integrity.<sup>119</sup>

#### **6.4.3.9 Energy crisis and focus on energy efficiency**

The sharp economic growth that was witnessed after 2002 started to decline in 2008 which marked the start of the economic and energy crisis in the country. The energy crisis, which was rooted in earlier periods, reached its peak during this period and started to negatively impact the economic growth and development.<sup>120</sup> The energy crisis results both in the shortage of energy supplies as well as an increase in the energy prices. A number of initiatives were taken at different levels to tackle this issue. The private sector was encouraged and incentivised by the government to invest in the energy sector,

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<sup>118</sup> <http://www.transparency.org.pk/news/newsdetail.php?nid=106>

<sup>119</sup> Making the Connection: Using the GRI G4 Guidelines to Communicate on the UN Global Compact Principles <https://www.globalreporting.org/resource/library/UNGC-G4-linkage-publication.pdf>

<sup>120</sup> [http://www.finance.gov.pk/survey/chapters\\_14/14\\_Energy.pdf](http://www.finance.gov.pk/survey/chapters_14/14_Energy.pdf)

especially in renewable energy. The GOP signed the Kyoto protocol and an operational strategy for CDM<sup>121</sup> was approved. This strategy was incentive-based and focused on transparency and efficiency related to the use of energy. The MOE declared the year 2009 as the national year of environment and signed an MoU with UNIDO<sup>122</sup> for capacity building of CDM in Pakistan. As a result, of all of these initiatives there was more focus on energy efficiency, conservation and environmental protection.

These changes in the material resource environment were, however, framed differently by businesses. For some large businesses, these changes in the resource environment were considered as opportunities for innovative practices that simultaneously address economic and environmental concerns and ensure sustained growth. Declining energy security (in terms of interruption in supply) and rising electricity prices (due to increase in fuel prices) led to the emergence of energy conservation and renewable energy as alternative practices (Sine and David, 2003). It also helped innovative companies not only to improve their energy security but also to reap the opportunities available in the energy and carbon markets. These practices also created the need for organisational transparency towards energy usage. The resource crisis was however framed differently by small and medium enterprises that were already struggling and facing survival issues. They were of the view that the economic and energy crisis and other structural conditions were major constraints on their ability to be involved in sustainability practices. As they were already struggling for their economic sustainability, issues like social and environmental sustainability were unthinkable to them.<sup>123</sup>

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<sup>121</sup> Clean Development Mechanism

<sup>122</sup> United Nations Industrial Development Organisation

<sup>123</sup> ACCA research Report

## **6.4.4 2010 – 2013 – Fall of Sustainable Development – Rise of Sustainability Reporting**

### ***6.4.4.1 Abolishing, creating, renaming and downgrading ministries***

Two completely contrasting trends were observed from 2010 onwards. Environmental issues started to lose political attention accompanied by the decline in the policy focus and momentum that was developed in 1990 onwards. On the other hand, there was a sharp increase in the number of companies publishing sustainability reports during this period.

In 2010, the 18<sup>th</sup> amendment was created in the 1973 Constitution of Pakistan through which the concurrent legislative list<sup>124</sup> of the constitution was abolished. As a result, the subject of “environmental pollution and ecology” falls exclusively in the legislative domain of the provincial assemblies (Alam, 2013). This devolution was followed by the reordering of the federal government and in 2011, the MOE ceased to exist and its various functions were devolved or relocated to other ministries/divisions. The main aim of the devolution was to improve local services and performance through the transfer, from the federal government to the provinces, of the responsibility for creating and implementing environmental laws and regulations. However this was not realised due to lack of capacity and competency of the provincial governments to deal with the new mandate. Provincial EPAs had rarely been adequately staffed with experts to carry out various important functions including that of monitoring and evaluation. This resulted in limited enforcement of environmental regulation which ultimately had negative consequence for environmental conditions (Sanchez-Triana et al., 2014). According to the former Minister of State for the Environment, because of this, Pakistan has gone into reverse mode on various environmental fronts (Khan, 2013).

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In response to the heavy criticism over the issue of the federal ministry, the new Ministry of National Disaster Management (MONDM)<sup>125</sup> was created in 2011. The newly appointed minister, with the support of the UNDP, initiated Pakistan's National Climate Change Policy (NCCP), which is a new umbrella policy for managing a wide range of issues including disasters, human health, water, agriculture and biodiversity. In 2012, the MONDM was renamed as the Ministry of Climate Change (MOCC), and the NCCP was eventually ratified by the federal cabinet which was launched in 2013. Change of the name of the ministry was a reflection of the fact that current debates on environmental issues in the country invariably turned to climate change which was the hot topic worldwide. Unfortunately, the NCCP has now been shelved by the new government. Also, the new government that was created after the general elections of 2013 has downgraded the MOCC to the division level, slashed its budget by almost 60% and left it headless without an appointed minister.

#### ***6.4.4.2 Shelving of national strategies for sustainable development***

The National Sustainable Development Strategy (NSDS) of Pakistan has been in the pipeline since 2004-05. Two drafts of the NSDS were prepared after consultations in 2006 and then again in 2009 but were not finalised. In 2009, the UN Conference on Sustainable Development (UNCSD), also known as Rio + 20, was announced. This provided another push to the process of Pakistan's preparations for the UNCSD.<sup>126</sup> It

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<sup>124</sup> The concurrent list is an enumeration of areas where both federal and provincial governments may legislate but federal law prevails. Laws governing marriage, contracts, firearms possession, labour, educational curriculums, environmental pollution, bankruptcy, and 40 other diverse areas will now devolve to the provinces with the list eliminated, and each provincial assembly will be responsible for drafting its own laws on the issues.

<sup>125</sup> Creation of the MoNDM was also the extension of earlier efforts and attention towards disaster management after the earthquake of 2005.

<sup>126</sup> The objective of the conference was to secure renewed political commitments for sustainable development, assess the progress to date and the remaining gaps in the implementation of the outcomes of the major summits on sustainable development, and address new and emerging challenges. The UNCSD was aiming to focus on two themes: (a) green economy in the context of sustainable development and poverty eradication, and (b) the institutional framework for sustainable development. [www.uncsd2012.org](http://www.uncsd2012.org)



was decided to conduct multi-stakeholder consultations on the objectives and themes of the UNCSD. These consultations were jointly convened by the UNDP Pakistan and the SDPI in three major cities of Pakistan. The final outcome of these consultations was three reports – stock staking report on sustainable development in Pakistan, report on the outcomes of consultations over objective and themes of UNCSD and a national report to be submitted to the GOP as a contribution to the national delegation in their preparation to attend the RIO+20 Conference (Kakakhel, 2012). Since the theme of the conference was ‘green economy’, focus of these consultations and all related policy documents was on the integration of the conference theme. In this context, the GOP prepared a draft of national strategy titled “National Sustainable Development Strategy Pakistan’s Pathway to a Sustainable & Resilient Future” which was presented on the sidelines of the Rio conference in June 2012. The national strategy put emphasis on definition, adoption and implementation of sustainable development and green economy for Pakistan (Pakistan, 2012). It provided a comprehensive institutional and implementation framework in the form of federal, provincial and local sustainable development councils. However, because of the lack of political interest, especially from the new government, like the NCCP, this was also shelved.

#### ***6.4.4.3 Attempts for mainstreaming SR***

In contrast to these developments at the macro policy level, a sharp growth was witnessed in the practice of SR. This growth can be associated with the opportunities created by the material resource environment and efforts of the different actors for mainstreaming SR. Desire to avoid further regulation by companies and to control the sustainability agenda provided further spaces.

Attempts for mainstreaming SR can be explained at different levels including attempts made by the regulators, professional associations, community organisations and

leading corporates. During this period there was a sharp increase in social interactions among these social actors, for sense-making and collective mobilisation, in driving the SR agenda in Pakistan. The most distinctive feature of this phase was the theorisation of practice by these actors. This theorisation was an ongoing process and can be observed in earlier periods as well but it reached its peak during this period. This was visible in various workshops, conferences, seminars, roundtables and other discussion forums where SR was discussed and debated. These events can be described as field-configuring events (Lampel and Meyer, 2008). One such event that has shaped the practice significantly was the workshop organised in 2010 by the CSRCP on the topic of GRI guidelines. A corporate trainer from the GRI head office conducted the workshop which was attended by a large number of organisations including leading firms, professional and business associations and members from the SECP. This workshop provided the necessary training and skills to the practitioners and played an important role in creating awareness and promoting GRI-based SR. For a large number of business professionals, this was the first reference point for SR related knowledge and requirements (details in chapters 7 and 8).

#### ***6.4.4.4 ICAP-ICMAP joint SR Awards***

In order to encourage best practices in SR and to follow the footsteps of the ACCA, two major national professional accounting bodies (ICAP and ICMAP) joined hands in launching a joint award for the best sustainability report. This provided another platform for discussion, display and recognition of best practices for SR. Not only was the joint award initiated but also the two bodies joined the discourse of SR through their publications. Special themes related to “Corporate Sustainability”, “Social Responsibility”, “Role of Accountants”, “Sustainability value creation”, and “Integrated reporting unwrapped” started featuring in the quarterly magazine of the ICAP (known as The

Pakistan Accountant) and bi-monthly magazine of the ICMAP (known as Management Accountant). These magazines were the major source of logics and vocabularies as promoted by these professional accounting bodies. Also, through continuing professional development (CPD) sessions and special workshops on SR, these bodies ensured that professional accountants would begin to start adding value in this domain. The Big Four accounting firms in Pakistan also started working on this practice. Deloitte and KPMG published a report on the state of SR in Pakistan in 2012 while PWC took the lead in providing consultancy to some of the leading firms in Pakistan, some of which initiated the practice of SR. These developments showed that during this period the accounting profession took the lead role in promoting SR through training their workforce and rewarding best practices.

#### ***6.4.4.5 Voluntary guidelines for social responsibility and sustainability***

In an attempt for mainstreaming SR in corporate practices, the SECP developed and issued a draft version, for stakeholder comments, of corporate social responsibility voluntary guidelines in 2012. These guidelines, however very vague, set an important milestone in creating a vibe among the business community and directing their attention towards the concept. Further, these guidelines provided facilitation in terms of a benchmark for development of different structures and processes that led towards better sustainability performance and SR. After a series of stakeholder roundtables, these guidelines were finally approved and issued in 2013. However, during these roundtables there was tension between the SECP who wanted to make SR mandatory and business associations who wanted to keep these practices in the voluntary domain. This tension was revealed by interviewees (details in chapter 7) including officials from the SECP and managers of different business organisations. After issuing these guidelines, the SECP is now working with different organisations for creating awareness, in the form of

stakeholder sessions, among the business community about the benefits of being involved in responsible business.

#### **6.4.4.6 The PICG<sup>127</sup> conference on SR, CSR and Governance**

Another forum for the joint efforts towards making a case for the spread of SR was the conference on SR, CSR and Governance<sup>128</sup> that was held in 2013. This conference was organised by the PICG in collaboration with the ACCA and other stakeholders. The majority of the leading field players that are identified in this research attended and participated in this conference for collective mobilisation of efforts towards mainstreaming SR. The conference was sponsored by leading corporates reporting on sustainability. During the conference, different field players including leading corporates, professional accounting bodies and regulatory bodies presented their views about sustainability and argued for making a case for SR. For example, a senior official of KSE “*stressed the role of community in green development*” and argued for regulating sustainability and the need for mandatory SR to enforce change.

Some participants highlighted the market-based opportunities for embracing SR. For example, according to one of the leading activists and promoters of sustainability and governance “*great capital markets move to where there is good governance and move away from where there is bad governance. There’s \$3 trillion out there for companies to create business opportunities provided they embrace Integrated Reporting principles*”. Other participants highlighted the role of NGOs, the media and the accounting profession as important to the promotion of sustainability. According to the partner of one of the leading accounting firms “*....sustainability should form an integral part of corporate strategy*”. He stressed the need for embracing sustainable growth by all businesses and

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<sup>127</sup> Pakistan Institute of Corporate Governance

<sup>128</sup> <http://www.picg.org.pk/confs.php>

the importance of SR in achieving that. According to the senior official of the PICG, “*the conference proved to be highly successful in providing a platform for SR awareness and practice in Pakistan*”. Currently, the PICG is working in collaboration with other partners including RBI, SECP and CSRCP in creating awareness about sustainability issues through its director training programme and other awareness sessions.

## **6.5 Summary and Conclusions**

The above analysis of the salient events and actors depict the emergence and evolution of SR field in Pakistan. The analysis highlighted that events played an important role in shaping the SR field in Pakistan. Theoretically events can be described as the situational contingencies that trigger the sense making process between various international and local actors during social interactions. These social interactions result in the social construction of field through their impact on material practices and collective rationality. These social constructions are both constrained and enabled by prevailing institutional logics through shaping focus of attention. In the following paragraphs the major developments of the four periods described earlier are summarised again in terms of theoretical linkages.

Prior to the 1990s, social interactions between international (donors, consultants, NGOs) and local (mainly politicians and bureaucrats) actors through international events (conferences and consultations) brought international participation and influence to the policy domain at the macro-country level. A demand was created during this period for sustainability practices due to the overall attention on environmental issues and on the relationship between the environment and development. Material outcomes of this phase can be seen in the form of environmental legislation, regulatory institutions and the overall strategy for sustainable development. The collective rationality that prevailed

behind these initiatives was conservation of the country's resources and to show leadership in sustainable development. International events in this phase provide external legitimacy and give more visibility to the indigenous processes.

From 1993 to 1999, social actors (mainly state institutions, NGOs and industrial associations) interact with each other to work out modalities for the implementation of the strategy that was developed earlier. The main focus of attention at the government level was on improvements in the institutional infrastructure through legislation, implementation mechanisms and capacity building of institutions. This attention resulted in material outcomes in the form of legislation (PEPA), regulation (NEQS), mechanisms (pollution charge, self-monitoring and reporting) and programmes (PEP) for environmental management. The collective rationality that prevailed between government and non-government institutions was that the issue of environmental sustainability is linked with, and necessary for, industrial development. Industrialists and industrial associations (like FPCCI) however, initially resisted these government initiatives and were involved in collective mobilisation for abandoning NEQS and pollution charges. Then, on account of international pressures on the local industry for social and environmental management, industrial associations realised the need for demonstrating responsibility and going green. The issue of environmental sustainability was then linked to export competitiveness and consensus was made between the government and industrial associations over the implementation of NEQs and payment of a pollution charge.

The practice of environmental management systems (EMS) and voluntary environmental reporting (ER) emerged in 2000, when the local industry started making substantial investments in cleaner technologies and were applying for international certifications on social and environmental responsibility. These practices were mainly

market-led and based on self-interest of the local industry which was facilitated by the new government that shifted focus on economic growth and development. The new government embarked on several structural adjustment programmes under the umbrella of IFIs, reduced the role of the state, stepped back from regulating sustainability and decided to incentivise and facilitate the private sector for the adoption of sustainability practices. Initially, the GOP abandoned the requirement for NEQS, the pollution charge and self-monitoring and reporting. Then on the grounds of pressure from the international community (mainly UN-based institutions), the GOP came up with another policy response in the shape of NEP which reactivated NEQs and the self-monitoring and reporting system but remained silent on the issue of the pollution charge or any other penalty for not meeting the standards. In addition the new policy incentivised the private sector to investigate cleaner technologies.

The practice of ER started to grow and entered the corporate realm when SECP introduced the COCG and made them mandatory for listed companies. Introduction of the code was made on the recommendations of IFIs and were aiming to improve investor confidence in the Pakistani stock market by increasing the transparency and accountability of companies. The most significant influence, however, was made by ACCA in the form of reporting awards. Through these awards, ACCA introduced international norms for best practices in environmental reporting. In 2005, these awards introduced the category of best sustainability report which led to the emergence of SR. Further, UNGC sustainability principles and requirement for the COP shaped the SR field through their influence on regulative, normative and cognitive institutions. The collective rationality that prevailed during this period was that SR has the potential to increase the transparency and accountability of an organisation towards sustainability performance

which can improve firm competitiveness and bring more capital. At the same time SR awards can provide them with opportunities for improving their reputation and branding.

The concept of sustainability and practice of SR was further shaped by the opportunities and constraints that emerged from declining energy supplies and increasing energy prices. At the macro-level, the GOP started to focus on renewable energy and CDM as solutions that both address economic and environmental issues by increasing energy supplies, efficiency, conservation and environmental protection. At the business level, these material changes were threatening the business survival and hindering the business growth. Large businesses, however, framed these changes as business opportunities and took initiatives for the sustained growth of the business. These initiatives include energy conservation projects and renewable energy as alternative practices that not only ensure the security of their energy supplies but also enable them to earn carbon credits. In addition, these initiatives created the need for organisational transparency for business improvements and enhanced the importance of SR as a mechanism to ensure this.

From 2010 onwards, an upwards trend was observed in the efforts for mainstreaming of SR by leading corporates, consultants, regulators, NGOs, professional accounting bodies and service firms which were involved in spreading the discourse through narratives in annual reports, technical articles, magazine articles, presentations, training material, public speeches and other material. In this period there was a sharp increase in the social interactions among these field players, for sensemaking and collective mobilisation, in driving the SR agenda in Pakistan. Through narratives, these field participants were involved in defining various features of SR (e.g. need, benefits, and processes). These narratives were then shared and discussed through field configuring events (workshops, conferences, seminars, roundtables and other discussion



forums). During this phase, a large number of companies published and submitted their reports to various award schemes which signified the recognition of SR as becoming an important business practice. However, it was discovered that at the macro-level, the issue of sustainable development was clearly not on the government agenda as reflected by downgrading ministries, slashing its budget and shelving various strategies and policies for sustainable development.

It can be concluded that at the macro-level, the sustainability agenda was pushed and kept alive by international forces (donor agencies, transnational organisations) through different events and pressures, the impact of which can be seen in the development of various sustainability strategies, policies, rules and regulations. However, the main focus of various governments remained on economic growth and development. As a result, social and environmental responsibility and sustainability started to fade at the macro policy level. On the other hand, while the practice of SR has some roots with the earlier attention being paid to sustainable development and environmental practices, it mainly emerged from market-based opportunities for business growth. Some attempts were made by SECP for regulating SR but these attempts were resisted by the corporate sector who is comfortable with the voluntary nature of reporting and value reporting awards for the development of SR. Recent attempts for mainstreaming SR originates mainly from leading corporates, international and local professional accounting bodies, professional service firms, consultants and a few community organisations that were involved in institutional work by invoking logics for SR. These logics will be further discussed in the next chapter that seeks the view of these actors on various aspects and matches them with pre-determined institutional logics as provided by the theoretical framework.

## **Chapter 7: The Institutional Logics of Sustainability Reporting**

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### **7.1 Introduction**

The main aim of this chapter is to identify and examine the institutional logics prevailing in the Pakistani SR field. This chapter is organised into two sections. The first section provides the interpretive account of the views of field actors on different matters related to the practice of SR in Pakistan. These views are presented in the form of different themes that were discussed as part of the interview protocol and that emerged out of the discussion with research participants. These views also form the basis for identifying institutional logics for SR in Pakistan. The second section aims to provide findings and a discussion related to the institutional logics for SR in Pakistan. This chapter is informed by semi-structured interviews and documentary evidence, details of which can be found in chapter four that explains the research design.

### **7.2 Field Actors' Views on the Practice of SR in Pakistan**

#### **7.2.1 Drivers and Barriers**

Interviewees were asked about their views on the potential drivers and barriers for the emergence of SR in Pakistan. Mentioned below are some of the drivers and barriers of SR that emerged out of interviews with the research participants. Upon closer examination of these, it can be concluded that little sustainability awareness and interest and its implications for low demand for sustainability practices is the main barrier. In the absence of local societal demand, SR is mainly driven by the reporting awards, foreign influence and role played by professional associations.

### *7.2.1.1 Sustainability Awareness*

According to the majority of the interviewees, there is very little awareness of the concept of social responsibility and sustainability among businesses as well as their stakeholders. This has been viewed as a major constraint for the emergence of SR in Pakistan. One of the interviewees who is working on policy and advocacy for sustainability, draws attention towards the lack of awareness among consumers:

“In our country if you keep a product one rupee less in price, the people will buy it and will not notify whether this is a green product. There isn’t awareness in our consumers. Even if you talk to the educated class, you will not hear anybody saying that I have bought this product because it is a green product or because this product is from the factory which is CSR compliant. What you will hear is that they have bought the product because it is an international brand. So there are the two extremes. One of them will say that we’re saving money and the other will say that it’s a better brand obviously. Both extremes don’t bother whether this a green product or not?” (CY4)

The above interviewee also draws attention towards limited awareness of the concept among business professionals. Given the fact that the phenomenon is comparatively new to the business community, many of the businessmen and managers are not familiar with its processes and requirements.

“When you talk to the general managers of those companies who have ISO certifications for environmental responsibility and quality, you will realise that they have no idea about what the certification/standard is actually for. When asked about any particular certification (like quality standards) they will tell you some different standards number from their own side and about the paperwork: it was hilarious at times because in most cases that was not the standard to which they were complying. So, that’s what I found that too much is missing in our... education in business is very less, there are very few who are aware of it and there are very few who are working on it.” (CY4)

Another interviewee, while agreeing with the lack of awareness among business professionals, attributes this to the lack of education and research culture in universities.

“Our universities and business schools do not teach CSR as a subject and there is no research being done in this area” (CY6).

Lack of professionalism is also prevalent in business associations where businessmen with little awareness of the issues become elected members of the committee that is responsible for various tasks related to sustainability issues.

“Business associations (e.g. CCI<sup>129</sup>), while collectively having substantial resources, are paying less attention to social and environmental issues. They usually have a committee (e.g. Environmental Committee) to consider environmental issues and to convince their members (businesses) to take appropriate action. But in practice all members of that committee including [the] chair are businessmen elected by others.... Ideally they should get it professionalised by hiring four to five professional people and allocate [a] substantial budget for its activities. But that is not the case...” (CY3).

However in recent years there has been an increasing trend towards creating awareness of these issues at various levels. In 2012, SECP came up with CSR voluntary guidelines after a series of roundtables with various stakeholders. These guidelines set an important milestone in creating a vibe among the business community and directing their attention towards the concept of CSR. According to the senior official of SECP:

“...when we first put up a draft for stakeholder comments, the immediate response from the market was that they inquire what these guidelines are for and are you going to make these guidelines mandatory?...You see a kind of vibe is being created that there is something which is going on and which is known as CSR and how it can impact their operations. What we are expecting from these guidelines is that vibe, and that structure is created to tell companies that if you choose to take up and want to do CSR activities then do it according to certain parameters.” (SE2)

After issuing those guidelines, SECP is now working with different organisations (for example PICG and RBI) for creating awareness in the form of stakeholder sessions among the business community about the benefits of being involved in responsible business.

#### **7.2.1.2 Sustainability Interest**

While awareness is an issue, there is also lack of interest towards the concept of sustainability at different levels. This is reflected by the number of interviewees, especially from the community organisations and accountancy profession. According to one of the interviewees:

“.....these concepts are not on the political agenda, as mainstream political parties are captured by elites (mainly big businessmen and feudal lords) which are at the worst corrupt and at best see no direct benefits of being socially responsible..... [The] spirit of social and environmental responsibility was totally absent from the manifesto of mainstream political parties in the recent general elections. I found their manifesto very vague regarding responsibility and accountability of the business towards society and

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<sup>129</sup> Chamber of Commerce and Industry

[the] environment.....There is no public demand for these concepts and that could be the reason why political parties ignore them, as talking about these concepts will not give them any popularity since the general public is not aware of these issues.” (CY4)

Another interviewee, while agreeing with the lack of interest at the political level, explains that the same thing can be observed at the socio-cultural level. At this level it can be explained in terms of an overall short-termism approach prevalent in Pakistani society. While sustainability is necessarily a long-term concept, the majority of the people in Pakistan believe in a short-run approach. This short-run approach can be associated with the way people have grown up and also with the economic and political instability and the associated uncertainty.

“The dilemma of our nation is that we are running our affairs on a day-to-day basis. We never think and talk about sustainability. Sustainability is long run but we’re short run. We see today’s profit; we don’t notice tomorrow’s survival..... I think, it’s also because of instability and uncertainty that [the] state provides. We don’t know what is going to happen tomorrow. So, whatever you can catch ... is yours.... you don’t know whether it [there] is going to be a tomorrow to catch anything.” (PN2)

Because of these reasons, concepts like social responsibility and sustainability are not high on the business agenda. This is why these concepts are still in their infancy and very few companies are giving attention to these concepts. Even those who are practicing things like social responsibility and sustainability might have some other reasons for doing so and hence, are driven by other factors.

### **7.2.1.3 Incentives and Awards**

There is a general consensus among a large number of interviewees that incentivising companies, by recognising their efforts towards reporting on sustainability, in the form of reporting awards is one of the main drivers for the emergence and development of SR in Pakistan. This is similar to the findings of a number of other studies in emerging and developing economies (Amran and Haniffa, 2011). According to the corporate manager of a multinational company reporting on sustainability, these awards play an important role

as they “.....specify the criteria for good reporting and provide you with the necessary incentive for reporting.” (CE, D1).

However, some interviewees highlighted that one should be cautious when looking at the influence of these awards on the practice of SR. While increasing the incidence of reporting, these awards were having a negative influence on increasing the transparency and improving the sustainability performance of the organisation which is the real purpose of such reporting. Companies started reporting just in order to be nominated and win these awards. According to an interviewee:

“.....people want that [the] report should be flowery so that they can win awards.... [A] few companies make report[s] just for getting awards... Interestingly many times it happens that when corporate managers approach us to help in reporting and when I explain the process, that spans around six months for deciding on [a] number of indicators, gathering of information and internal verification, so that we can ensure that we are realistic and that something wrong is not mentioned, they say no no we have to publish it earlier so that we can be nominated in awards.” (CY6)

The same interviewee pointed out that this desire for getting awards has created a market for award ceremonies and the current situation is that there are a number of award companies operating in Pakistan which are distributing awards without any criteria for best reporting.

“.....there were some event management companies which started awarding companies for best practices in CSR and [the] environment. But these companies were doing it without any criteria. What they do is that they advertise such awards in which they ask other companies to nominate themselves and for that nomination they were charging 40-50 thousand rupees. So if 40 companies nominate themselves, they arranged a function in which they present awards to all those nominated companies with [the] best CSR and environment awards.” (CY6)

At the cultural level, this desire for getting awards can be attached to the culture of show-off and ego-satisfaction prevailing in Pakistani society.

“In Pakistan people desire personal prestige. Managers feel very proud that they are going to different functions to receive awards. They go and when [the] award is announced they feel very nice and that boost[s] their ego..... This is doubled if some foreigner gives the award.” (CY2)

Apart from reporting awards, some interviewees believed that reporting companies and also the non-reporting companies shall be encouraged towards SR through other incentives.

“...[what] I’ve suggested is that instead of taking a regulator route, the government should allow tax exemptions to the companies who are involved in CSR activities.” (CY4).

“...I think in order to encourage SR, it should be included in the criteria for the selection of KSE TOP 25 or TOP 100 companies.” (SE1)

There is a perception among interviewees that in the absence of any other direct benefits of SR, awards and/or other incentives are the main encouragement for reporting. In the absence of such encouragement and in the presence of more regulation, companies may quit the stock market. This has been elaborated by the senior official of the leading stock exchange in Pakistan.

“The real success will depend when, in addition to regulation[s], we are able to incentivize [the] corporate sector with the benefit of reporting... Otherwise because of more compliance and its associated costs as compared to the benefits, [a] larger number of companies will exit the stock market which means that you are going to encourage the undocumented economy.” (MT1)

Also there is a perception that making such reporting mandatory may lead to unintended consequences in the form of an increase in corruption and symbolic and tick-box compliance.

“Non-reporters shall be encouraged through incentives because force never really works here in this country. Non-reporters will find a way around if they do not really want to do it. It will be all on paper but it will not be in practice.” (CE, D1).

#### **7.2.1.4 Foreign Influence**

Involvement of foreign institutions has implications for creating demand, for sustainability and its reporting, which is missing in the local societal context. Also, these are influencing the supply side in the form of institutional and professional development and by raising awareness. These can be easily categorised as drivers of SR in Pakistan.

Among others, the influence of foreign buyers and investors is considered to be more important for enforcing the realisation among the business community in Pakistan towards environmental management and social responsibility. Foreign buyers and investors are seeking businesses who not only comply with quality standards but also standards related to social responsibility and environmental sustainability.

“SR is the source of competitive advantage in the international marketplace, whether that be Pakistani companies investing overseas, directly selling their products abroad or supplying multinational companies. Customers, particularly those in European markets, increasingly reward companies which disclose their sustainability impacts.” (TBL)

Sustainability is becoming an important business concern especially for businesses in the export sector and those who decided to raise capital through selling their shares in the international market. In this way foreign buyers and investors are potentially the source of market institutions shaping sustainability practices. The following quote from the ACCA research study elaborates this:

“Sustainability is the requirement of foreign brands. As the requirements come, people will have to follow such practices. If you do not follow those practices you will be out of business...I will follow environmental and social laws only because the European Union wants me to. It is an external pressure – a compulsion.”

These regulative pressures are perceived to be even more likely to occur in the future where they would affect the global competitiveness of Pakistani companies. This will further raise the importance of sustainability practices as otherwise Pakistani exporters may lose business.

“I still feel that so far we live in [a] Pakistani context but very soon we have to see things in [the] international context like our exporting industries, after GSP plus status, have to do compliance for social and environment issues. Regional competitors (like India and Bangladesh) will definitely lobby against Pakistani exporters, so buyers will focus more on these issues.” (CY6).

More specific influence on the emergence of SR comes from professional accounting bodies and multinationals. The role of professional associations in driving SR is described in a separate section. However, according to the corporate manager of a multinational firm, they are playing an important role in creating demand for



sustainability and its reporting by showcasing their practices and setting examples for local companies.

“We have always been committed to sustainability. That is part of our corporate philosophy...We try to set an example for other local industries by adopting sustainable business practices.” (CE, E1)

#### **7.2.1.5 Professional Associations**

Overall, professional associations are driving the SR agenda in Pakistan. Professional associations are performing this role in a number of ways which includes consultancy projects, reporting awards, seminars, workshops, conferences and technical articles. In fact the very first sustainability report was prepared by a company on the strong advocacy of RBI that was interested in promoting SR in Pakistan. Among other notable influencers include CSRCP which organized a workshop and PICG which organised the conference on SR. These organisations and events played an important role in providing a platform for SR awareness and practice in Pakistan. During interviews with the corporate managers, influence of these organisations and events was quite evident and they did mention it as one of the major sources of their knowledge and interest. This has been explored in detail in the next chapter.

Among all professional associations, accountancy professional bodies (ACCA, ICAP and ICMAP) are now assuming the lead role in Pakistan in spreading awareness and training their workforce on environment, sustainability and governance matters. These bodies are involved in professionalisation of their existing members through CPD activities and technical articles. Further, these matters are being incorporated into the syllabus so that the next generation of accountants and business professionals are well-informed and can impact the practices of the institutions they work for. This has been revealed by the head of a global professional accounting body operating in Pakistan as:

“I think there is a professionalisation going on around the workforce so that accountants are better educated in the way of sustainability matters.... so they are better trained and are more capable.... At the very least we can do is to have strong advocacy

programs....Through conferences, seminars and symposiums we can add to people's knowledge and I think that adding to that knowledge will change their behaviours which eventually will change the behaviours of the institutions they work for." (PN1)

Overall, professional associations are spreading SR discourse and are an important source of normative pressures for the emergence and development of SR in Pakistan.

### 7.2.2 Regulation and Enforcement

Differences of opinion exist among different field players over whether current regulation is sufficient and whether SR should be made mandatory. Some interviewees believed in mandatory reporting for the sake of public interest especially in the context of a country which is characterised by low stakeholder pressure.

"In our country stakeholder pressure is very low. In the absence of such pressure there is a need of some sort of regulation to protect the interests of various stakeholders." (PN4)

"I think that it should be mandatory, especially where public money is involved, as otherwise it will not get so much importance. Let's start from public sector enterprises. All the government commercial organisations shall have mandatory SR. Then go for public-listed companies and other businesses." (PN2)

Another interviewee described the need for mandatory reporting as otherwise "*it will provide sufficient justification, to managers, for non-disclosure*" (CY1). A large number of businesses perceive it as an unnecessary activity and a costly affair. The prevailing managerial attitude is: we will only comply if we are legally bound to do so. But at the same time they do not want regulators to make it mandatory.

"We are not reporting on CSR/sustainability as it's currently voluntary. We will do it when it becomes mandatory. Why...put extra burden on our shoulder[s]. There is no appreciation of extra work; rather there is criticism." (CE, J1)

Making SR mandatory, however, is not viewed as a panacea by some interviewees. According to them, if SR is made mandatory, it can open new doors for corruption as the state apparatus lacks resources and is very weak in enforcement.

"I think it should be voluntary as if it is made mandatory then we have issues of capacity and corruption. [What] all [of] the companies will do, is that, they will hire someone for writing a report. Whether that report is realistic or not, who will determine this? Because of lack of state interest, relevant government departments (for example EPD<sup>130</sup>) lack

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<sup>130</sup> Environment Protection Department

resources and are very weak. Despite...doing good work with limited resources, officials in these departments are very often involved in corrupt practices. They let businesses do whatever they want to, for monthly<sup>131</sup> returns. This will not help in achieving the objectives of reporting which is to improve sustainability performance.” (CY3)

This is due to patronage-based appointments of bureaucracy by ruling elites, which either protect the interest of these elites or work for their self-interest as they are involved in corrupt practices. In this scenario, these interviewees believed that it should remain voluntary unless some institutional reforms are made.

“When you have a regulation without the regulators with [the] capacity then it is very difficult to impose this kind of conditionality. At the end of the day you have to measure the impact. So suppose if a company is to spend 2.5 million on CSR and that company while spending only half a million disclose it as 2.5 million, who is going to measure it. This will then open another door for corruption as officials can be bribed easily. This will also discourage those businesses which comply honestly as at the end of the day it adds to their cost. So someone who is complying with dishonesty will have an edge over someone who is complying with honesty.” (CY2).

This is a very tricky situation as without mandatory reporting businesses may not take it seriously but it could open up spaces for innovative practices and/or responsible practices in a real sense. Mandatory reporting may result in tick-box compliance but it could stifle innovation. Also because of weak institutions, businesses can easily find a way to go around the regulation without any substantive action. The key therefore lies in the institutional reforms that accompany these administrative reforms if they are to be fruitful (Belal, Cooper and Roberts, 2013). One of the interviewees nicely concluded this debate of mandatory vs. voluntary reporting in these words.

“I think keeping it voluntary is better for evolution, I think it’s better to allow companies to evolve to a degree of open reporting but then at the end of the day for the sake of the public interest if companies are not achieving the overall macro goals then there is a need to introduce legislation.” (PN1)

As far as regulators are concerned, SECP wanted to make SR mandatory for all listed companies. This has been revealed by the senior official in SECP who was of the view that it should be made mandatory as “.....*that is the ultimate solution for raising transparency and accountability of the companies towards sustainability performance.*”

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<sup>131</sup> Monthly in this context is a bribe amount which is fixed per month.

(SE1). However, learning from the experience of mandatory COCG for listed companies, SECP is taking a gradual approach in terms of regulation for SR. In 2009, SECP issued a mandatory CSR General Order that stated listed companies to include monetary and descriptive disclosures of CSR activities in their directors' report. While disclosure was made mandatory, there was no requirement (apart from a tentative list of disclosures) about what to disclose and how to disclose. So effectively, companies were free to choose and spend money voluntarily on any activity without considering the impact on society. As revealed by one of the interviewees, "...*focus of the order was on disclosure of spending rather than the process [behind such spending] and the impact [of such spending].*"(CY6). Also companies were free to choose the content and format of the CSR report. As a result, there was a strong perception among stakeholders that most of these reports were public relation tools and not a form of accountability.

Based on stakeholder inputs and in order to promote CSR culture in the companies and to focus more on wider societal interests, SECP developed CSR voluntary guidelines. The focus of these guidelines was more on processes, committees, policy, goals and achievements, disclosure and reporting, and independent assurance of CSR performance (Shekha, 2013). These guidelines were being proposed as a framework to facilitate sustainable growth, responsible business behaviour and corporate accountability (SECP, 2012). A draft version of these guidelines was released for stakeholder comments and it was decided to conduct stakeholder roundtables before finalisation of these guidelines. During the interviews it was revealed that during these roundtables, there was confusion about whether these guidelines were mandatory or voluntary. While SECP mentioned (in their press release and the draft of the guidelines) about the voluntary nature of guidelines, the number of stakeholders (especially from the corporate sector) raised concerns about the wording of these guidelines. It was revealed by one of the

interviewees that “...*the intention of the SECP was to make this mandatory and wording was intentional.*”(CY4). When this was confirmed from the senior official of the SECP, he acknowledged these concerns but denied that it was intentional. For him “.....*it was a drafting mistake which once identified was corrected.*” (SE1). However he also acknowledged that as a regulator, SECP had intentions to further regulate SR by making it mandatory for all listed companies.

### **7.2.3 Guidelines and Standards**

There is general consensus that reporting on sustainability using international standards is best as:

“...it enables the comparability between organisations both within Pakistan and internationally... Customers can use this information to evaluate the performance of one company against another with respect to certain indicators, such as the total number of employees by age which shows a company is not relying on child labour. They can also use this sustainability information to benchmark organisations’ performance with respect to laws, norms, codes, performance standards and voluntary initiatives.” (TBL)

Using international standards was also perceived as important for increasing the confidence of capital markets and increasing the confidence of investors so as to attract foreign direct investment. For companies, SR can improve access to capital due to the trust that is established through such reporting between the investment community and the companies that present sustainability information.

“.....if you are looking to attract foreign investment, there is no point in inventing your own standards. You have to demonstrate that you have adopted international best practices...India already has a jurisdiction in terms of GRI and other things.... So I think regionally we need to compete for capital then we [have] to demonstrate that we [have] the legal frameworks and regulatory frameworks and the standards in place across our capital markets so that we can showcase to the providers of capital, look, you bring your money in here which [is] protected as we [have] proper regulation.” (PN1)

GRI is the main reporting standard used for the structure and process of standalone SR. As noted above, one of the main reasons for such an international standard is wider acceptance. However, as revealed by one of the interviewees, branding motives also play an important role in the adoption of GRI and for initiating the practice of SR.

“...So far the most important factor is branding... GRI is becoming a brand.... Companies are taking these reports as branded products that add to their prestige, honour and leadership position.” (PN3)

In the contrast, some interviewees feel that there is a need for a local standard or at least there is a need to tailor GRI in order to make it more relevant and understandable to a larger number of businesses. Also, in order to encourage SMEs, there is a need to develop a simple framework which is more relevant to them and which can be easily applied. There is a common perception that GRI is too technical and complex and there is a need for a consultant or a professional to understand its requirements and how it can be applied to the business.

“...we wanted to simplify GRI guidelines as for many of the companies GRI guidelines are very confusing...Until you understand the purpose of indicators, reporting becomes a box-ticking exercise.....For our SMEs it is very difficult to get to the level of GRI application as they get confused, so for them there is a need for simplification....We need to simplify indicators and get rid of unnecessary indicators. There are hundreds of things which are important at [the] international level but [that] has little local significance.” (CY6)

Simplification work is going on and some leading organisations are working on the development of simple, local and uniform guidelines. But lack of cooperation between different interest groups is hindering that process. One such effort is the responsible business guide RBG (2010) which presents a toolkit for companies to implement and disclose sustainability practices.

#### **7.2.4 Perceived Benefits of Reporting**

There is a general consensus among interviewees that SR is beneficial for ensuring the flow of long-term capital and raising competitiveness by increasing the transparency of the economic, social and environmental sustainability of the business. SR was perceived to drive shareholder value through (direct and/or indirect) cost and revenue advantages.

“...the process of producing reports enables businesses to internally identify operational inefficiencies, cut waste and save money for the company. For listed companies this helps deliver shareholder value. Just as an external stakeholder can benchmark company performance from the information disclosed in these reports, this benchmarking

information can also be helpful for the internal management of a company and driving improved performance.” (TBL)

“...good companies report on their sustainability issues and set targets for improvements. For example about energy conservation, water consumption. Then they use different ways to reduce them and this leads to direct costing benefits.” (PN3)

These benefits, however, only accrue for those organisations that are proactive in their approach and are open for all sorts of opportunities for innovation and growth.

“The traditional business strategies are converging with societal issues and these societal issues are becoming new opportunities to achieve differentiation and growth for business. But the benefits will occur to the businesses that [are] proactive.... Determining opportunities in societal issues and converting these opportunities to generate profitable innovation is the most important step on the sustainable value creation.” (PN2)

At the same time, a number of interviewees from the corporate sector mentioned that SR is a costly affair and very difficult to justify as there is no direct benefits and related regulation. This has been a major hindrance as, in the absence of any legal requirements, perceived benefits are more indirect and intangible. Also these benefits are not well-understood.

“Very few companies are realising this, that they have their own business benefits in this reporting. The whole process is learning-based. The general managerial attitude is that unless there is direct financial benefit for something they do not understand the value.” (CY6)

However there are some large progressive organisations that believe that SR is beneficial in the long run. For example, a corporate manager of one such progressive organisation reflected on the benefits of SR.

“...Actually it has a lot of benefits in my viewpoint. It highlights the activities which even are not in the notice of company employees. It helps in building [a] soft image of the company through sharing of information and projection of activities both inside and outside the company..... We made this report because projection of the company is very necessary to make [a] soft image of the company. So if you are going to do or have done a good job it has to be exposed for the information of [the] general public. So for me earning [a] good name of the company is important. In return you get support from the local community and other businesses.” (CE, I1)

### **7.2.5 Stakeholders’ Engagement/Influence**

In theory, stakeholder engagement is described as the main mechanism of SR through which stakeholders can influence companies for better sustainability performance. In a

country where there is lack of sustainability awareness and interest, it is readily understood that the vast majority of stakeholders are either not interested in or are not in a position to influence companies. This is a big question mark on the importance of SR in this context and its ability to make any difference. Some interviewees, especially those involved in the practice, speak on these issues and explained how it is missing in the context of Pakistan.

“There is very little stakeholder engagement in SR. When we do [hold] stakeholder engagement sessions people ask questions about it (like what is this? and why you are doing this?). When we ask people about important issues especially the ones they want to be reported, they often say that report anything/everything. The concept of materiality which should be used to decide...what to report is ignored in practice as stakeholders are unable to attach importance to different issues. ....This is mainly due to lack of awareness and interest on [the] part of both [the] company and the stakeholders towards stakeholders’ engagement. Apart from this in our society we don’t have a strong communication culture and we do have power distance which acts as [a] barrier for such engagement. But slowly awareness is increasing in the form of seminars, training and voluntary guidelines.” (PN4)

Zooming in at the corporate practice of stakeholder engagement, there are very few companies that mention the process of stakeholder engagement in their sustainability reports. Among the companies that did mention it, the method of engagement, selection of different stakeholders, and the level and seriousness of such an engagement differ from one company to another. Overall, the level of engagement was found to be no engagement at the worst and controlled engagement (stakeholder management) at the best. The following quotes reflect these issues:

Stakeholders’ involvement is the main element in sustainability. We are at [a] very initial level in that. In foreign [countries] there are stakeholders’ advisory councils but here we deliberately keep stakeholders out of the process as we want to have everything in our hand. The overall impression of companies is that we know better.....Further, stakeholders are not taken seriously by the companies. Companies are reporting from their own perspective. (PN3)

Meaningful stakeholder engagement depends on the way you do it. Our approach for stakeholder engagement was very professional. First we did internal analysis and then we did external analysis. We engage with around 300 of the stakeholders (bankers, regulators, employees, contractors, suppliers, workers, community) and we had very interesting sessions....[The] community voice was there but it was a controlled voice just like the way NGOs did. They go with their agenda and then they do actions based on their agenda by asking them and taking their consent. (CY6)



Some of the companies reporting of sustainability involved consultants for stakeholder engagement sessions. Very few companies disclosed the process of stakeholder engagement in their sustainability reports, indicating the number of stakeholders they engage with, their comments and mechanism for such engagement.

### **7.2.6 Transparency and Accountability**

Pakistan stands low in transparency and accountability at all levels. At the government level there is very little transparency and accountability. There is a lack of systems that should be in place for ensuring transparency and accountability. For example most of the government departments and public sector enterprises are still keeping financial records on the basis of a single entry system. At the businesses level, there are also a number of businesses (mainly in the SME) that do not involve professional accountants and where the accounting system is very poor. In the absence of financial accountability, where there is strict regulation and benchmarks, how can companies be transparent and held accountable for their sustainability performance, especially when there is no legislation and no public demand? An interviewee describes the state of transparency in the current practice of SR as:

“[The] transparency element is overall lacking in Pakistan and even in other countries. Companies are disclosing whatever they think [is] appropriate to disclose and vice versa. For example take the issue of corruption. According to the latest GRI guidelines a separate management disclosure is required on the issue of corruption. In practice no company talks about this issue and even if some of companies report they usually say that we do have policies towards avoiding corruption. Likewise while reporting on indicators they usually says that there is no incidence of corruption. Now you tell me how this is possible in a country like Pakistan.... I am not saying that no organisation is corruption free but it's very rare, [though] not as rare as [is] found in reports.....Companies don't respond to stakeholders and this shows their approach towards transparency. Being a stakeholder I face many problems in terms of responses from companies. (PN4)

Whether transparency leads to accountability and whether SR results in making corporates accountable for their sustainability performance, there was a difference of opinion among practitioners. While corporate managers believe that SR makes them

accountable by raising the transparency of their sustainability information, other social actors believe that the element of accountability is missing from the equation.

Accountability is one of the most significant things. Publishing a report makes you accountable as every word you write can be challenged. (CE, E1)

When you publish [a] sustainability report, stakeholders become more aware of what is wrong and what is right. So, a person who is working on your environment, he sees something which the company is not doing or according to what is published it isn't doing. He becomes aware of that so he raises an issue. (CE, H2)

Large companies are varying [in] public opinion and the bigger the company is the more sensitive they will be about public opinion. By reporting on sustainability their accountability is increased as they expose themselves and face the risk of their reputation. But that accountability is not like financial accountability as in financial accounting there are [a] number of regulatory frameworks which makes accountability much tighter so in SR there are no such regulations. (CY3).

However, according to one of the interviewee, the accountability element can be present if companies report objectively in the form of quantified targets. Currently, there are very few companies which are reporting against quantified targets.

“When you are required to report publically on economic, social and environmental [issues] then it becomes an obligation for you. In Pakistan most of the reports are not giving targets. If given they are very vague. Unless you don't quantify the targets, how [can] you be accountable for that? When you quantify that you will decrease this by this much percentage and you publically disclose on that then you are accountable. But we are not on this track so far.” (CY1)

### **7.3 Field-level Institutional Logics of Sustainability Reporting**

In this section, an attempt is made to examine the institutional logics that can be identified in the case of the Pakistani SR field. According to the ILP, these logics vary with the sub-systems of a society, termed as institutional orders. In essence, these logics determine what needs to be expected, respected and valued in the field.

#### **7.3.1 SR for Business Survival, Growth, Efficiency and Profitability (Market Logics)**

The majority of the businesses in Pakistan are SMEs and are owned and controlled by families. These businesses represent a traditional view of business and society that

privileges shareholders and family interests. These businesses have little concern for any alternative demands on business practice, except that of philanthropic activities which are made under family and religious logics. These activities are considered as fulfilling social responsibility and sustainability (Sajjad and Eweje, 2014). As a matter of fact, these alternative demands are missing from the local societal context which prioritises economic growth over social and environmental sustainability (Malik, 2014). At the same time, because of the size of SMEs, their impact on the environment is not as visible as it is for larger organisations. Therefore, for these businesses, legitimacy challenges related to environmental performance are fewer in number. These organisations are involved in sustainability initiatives when perceived costs exceed the benefits or when such initiatives are necessary for their business survival.

...sustainability initiatives cost heavily to the business and can only be justified if they provide direct financial benefits to the business or if their business survival is attached with it. These benefits are possible if there is effective regulation and enforcement, incentive from the government or specific requirement of foreign buyers and investors. (ACCA Research Report)

In the absence of external pressures and local societal demands, the majority of the organisations prefer to ignore social and environmental sustainability and remain silent on these issues in order to focus on short-term economic gains (Özen and Küskü, 2009).

“.....businesses are doing very little for sustainability; from their point of view there is no value in becoming transparent as that will be equal to inviting regulators and different interest groups to take notice.” (CY2)

In the case of Pakistan, market logics are found to be invariably used by business firms to justify both reporting and non-reporting on sustainability. Here, the size of the organisation and the extent to which an organisation is exposed to sustainability demands (through international exposure) is an important driver. For large organisations and/or those that are exposed to international markets, SR is perceived as a legitimate practice under market logics as it provides access to foreign markets and capital. For these

organisations, their size and exposure places demands for sustainability and its reporting. For these organisations, sustainability initiatives and SR makes good business sense. Such practices help them in improving their market position through the business opportunities they create. Also, internally, SR results in sustainability management that brings operational efficiencies and cost savings for organisations (for details see section 6.2.4 on perceived benefits of SR) However this business sense is generally limited to the tangible economic benefits (Waheed, 2005).

For the majority of SME's business survival, global competitiveness is an important determinant for sustainability initiatives as illustrated by the following quote from the ACCA research report.

“Globalisation has brought about increased pressure on companies in Pakistan to demonstrate commitment to sustainable business practices if they are to remain in [the] supply chain. In order to stay in the competition these companies are complying with environmental and social responsibility standards prescribed by their foreign buyers as they have realised that if they don't comply their profits will be eroded and their survival will be threatened.”

For organisations which are less exposed to sustainability demands, non-reporting is justified under market logics to avoid unnecessary costs that could decrease profits. Among all organisations there is a general appreciation of indirect benefits in terms of increasing reputation and long-term opportunities for business growth. However these benefits are not taken seriously because of their long-term and intangible impact on profits. This has been considered as one of the major challenges by professionals who invoke market logics in the broader sense to include profitability, efficiency, competitiveness and intangible business advantages.

“As in the rest of the world, businesses in Pakistan are concerned with profit maximization. An important obstacle in the adoption of sustainability business practices is that many of the companies, both large and SMEs cannot appreciate the link between sustainability initiatives and profits. This link needs to be illustrated to convince the business community to adopt sustainable business practices and to report them.” (Source: The Pakistan Accountant special edition on SR)

“I feel there are a lot of intangible benefits when you report in a systematic way according to the guidelines. Just like through financial reporting your finances come

under control [and] through social and environmental reporting you will have better control over these issues. You can track lot of human related and environment related opportunities. These could include opportunities to save cost and to improve business processes.” (CY6).

The most common enactment of the market logic for SR occurred through the sustainability communications of business firms that report on sustainability and professional reports and articles published by professional associations that support such initiatives. Through these reports and articles, reporting firms and professional associations invoked market logics through keywords that include “profitability” “efficiency” “competitiveness” “survival” “growth” and the “business case”.

### **7.3.2 SR for Prestige, Leadership and Corporate Branding (Corporate Logics)**

Businesses in Pakistan have less inclination towards corporatisation. The corporate sector, as well as corporate culture, is weak and underdeveloped. This is due to the dominance of family-owned and controlled businesses which operated through centralised and weak management systems. This has been a major hindrance in the transition towards managerial capitalism (Malik, 2014). Overall, the corporate sector is highly concentrated and there are very few big national and multinational corporations that are driving corporate practices and the stock market in Pakistan.

Among the leading corporates, the pursuit of socially and environmentally responsible strategies and their reporting has increasingly been advocated and justified as *“making good business sense as well as making [a] positive contribution to the society [and] environment”* (CE, H2). According to the communication manager of one of the leading reporting firms, *“sustainability should be related to business strategy.... when business becomes sustainable it automatically leads towards sustainable development of the country”* (CE, G1). SR, as explained by another corporate manager, in that context *“will help [us] to know the impact of initiatives that [the] company takes for the betterment of business and society”* (CE, H1). Unlike SMEs, the business sense of these

big corporates is much wider to include both long-term and intangible benefits of stakeholder management, corporate image, competitive advantages, corporate branding and sustainable value creation (Parker, 2014). This has been reflected by a number of corporate managers during the field interviews as represented by the following quotes.

“Over the period of time we have realised the importance of SR as a communication tool to influence stakeholders and key opinion leaders.” (CE, B1)

“It helps your brand image and we see value in it. We have realised that there are [a] lot of businesses who like to do business with companies who are socially responsible and transparent. So for us it makes good business sense.” (CE, D1)

“These things provide credibility and enhanced image and play their role when we do corporate branding and image management. It adds value to your overall business.” (CE, E1)

“SR brings the organisation into a league of companies where everybody looks at the organisation differently as a more responsible, more ethical organisation. It adds to the corporate brand of the organisation and makes you employers of choice, [the] supplier of choice.” (CE, F2)

In addition to this, there has been the desire, among corporates, to be a leader. This can take the forms of thought leadership: *“one of our sustainability objectives is to emerge as a thought leader....we want to showcase to the community and to the relevant people as to what our company can do in terms of the knowledge base of the economy”* (CE, A1), practice leadership: *“we want to be a leader in the practice of SR in order to educate others in the industry as to how to become transparent and responsible”* (CE, F1), and market leadership: *“our company is driven by the motivation to lead in the market. All decisions are taken to ensure that this position is maintained”* (CE, C2). It was found that among the leaders in SR, an element of prestige exists at both the personal (managerial) and corporate levels. This prestige was enhanced through obtaining reporting awards. The management of the company feels proud when they go to the award ceremonies and receive awards. This prestige was believed to raise managerial as well as corporate profiles and boost their ego (Spence, 2009). Attached to this has been the desire to control the agenda for sustainability and its reporting in Pakistan. Managers

of the leading corporates are now on the panel of judges for various reporting awards, sponsoring various conferences and workshops on SR and are involved with different social actors (government, professional and community) for shaping the future practice of SR.

An important element of corporate logics, that played an important role, is corporate culture and top management support. In a few organisations, the decision to initiate SR was justified on the basis of core values and norms of the company. Some of these norms to which SR was linked during the interviews were related to “responsible employee culture”, “going beyond compliance”, “innovation and learning”, “integrity and ethics”, “social responsibility” and “continuous improvement”. Also it was found that among the leading corporates, top management was driving the sustainability agenda. Interestingly, in the majority of the case organisations, the decision to initiate sustainability practices including SR can be located in the context of change of leadership. The new CEO was found to be actively involved in bringing sustainability concerns into the organisation. In some cases, it was found that the real push came from the corporate communications manager which was supported by the top management. The top management was found to be supportive of individual managerial initiatives and in developing a learning culture. This has played an effective role in both managerial development and corporate practices (Dastgeer and ur Rehman, 2012).

### **7.3.3 SR for Transparency and Value Creation (Professional Logics)**

The Pakistani accounting profession is under the strong influence of the British accounting profession. Historically there has been involvement of British accountants in the accounting practice and institutional development. A lack of local research culture provides further spaces for involvement and influence of British and other international institutions (e.g. IFAC). These institutions are influencing the accounting profession and

practices, directly or indirectly, through their local offices, curriculum, research publications, awards, seminars, conferences, members and students (Briston and Kedslie, 1997).

Analysis revealed that, in the wave of increasing importance to sustainability issues, at the international level, professional expertise, relevance and reputation of the accounting profession was being questioned. There was a perception that "*...unless the accountancy profession embraces sustainability, it will become less and less relevant to society*" (Source: The Pakistan Accountant). As a result of this realisation, the issue of sustainability was given importance by the international professional accounting associations and firms. Efforts were being made to redefine the role of professional accountants to make them more relevant to business, society and the environment. The importance of professional accountants was highlighted as creators, enablers, preserves and reporters, for sustainable value of their organisation (IFAC, 2011). These professional associations, in order to broaden the scope and relevance of the accounting profession, extend their expertise in financial accounting, reporting and auditing to sustainability accounting, reporting and assurance. This was done by problematising various issues related to measurement, disclosure, transparency, credibility, accountability, linkage with business strategies and organisational performance. As a solution to these problems these professional associations worked for the development of performance metrics, standards and frameworks for sustainability accounting, reporting and assurance. Also work was initiated for the inclusion of sustainability issues in professional curriculum and practice.

As these efforts gained recognition, these professional associations began to internationalise their guidelines, frameworks and practices through their influence on their member organisations and individuals. In the case of Pakistan (as well as in most of



the emerging and developing economies), since there is a lack of research culture, indigenous professional associations and firms have to rely on these international professional associations and firms for the latest developments. International standards, norms, guidelines and practices are usually adopted as quick fix solutions for acquiring expertise and reputation of a country's accounting and reporting systems among international users (Ashraf and Ghani, 2005). Such initiatives are usually justified under the umbrella of "*international best practices*" (SE1), and as a "*responsibility for creating value in the profession by adopting [the] latest international developments*" (PN2). In this way, indigenous professional bodies focus on the relational value which was established from their association with international professional institutions. This relational value is deemed important for the legitimacy of the accounting profession and practices in the country and abroad.

As a result of both the global transformation of the accounting profession and international influence, the two leading professional accounting bodies (ICAP and ICMAP) realised the need for making the finance function more strategic, in order to integrate and account for sustainability.

"...at this juncture there is a need to create awareness of how the finance function can get involved in establishing a business case, we as accountants can influence on behaviour and outcomes through incorporating sustainability considerations into strategies and plans, business cases, capital expenditure decisions, and into performance management and costing systems and can be pivotal in creating sustainable values for the organisations." (Source: The Pakistan Accountant)

This realisation focused the attention of indigenous professional accounting bodies towards professionalisation of their members, in order to enhance their capabilities. In order to do so, a number of initiatives were taken by these professional bodies which includes, training workshops, continuing professional development (CPD) sessions, special thematic edition of official magazines, articles from foreign and local experts in the field and special reports. In addition to this, following the footsteps of ACCA, both

ICAP and ICMAP have introduced best SR awards in the recognition of best practices in SR. Through the analysis of published articles, magazines and reports, it was discovered that these professional bodies were using similar vocabularies of practice as invoked by their international counterparts. Keywords such as “measurement”, “transparency”, “disclosure”, “assurance”, “sustainable value creation” and “global standards” are quite dominant in this vocabulary.

“...the accountancy profession has an important role in defining and delivering the means by which sustainable development is measured and reported .....environmental and SR can provide a mechanism for reviewing whether we are keeping our commitments, and can allow us to exchange this information in a transparent manner.” (Source: ACCA report of the judges 2012)

“Stakeholder demands for comprehensive and transparent CSR-related disclosures and accordingly increased organisational accountability raise concerns about completeness, validity, accuracy and reliability of CSR disclosures...The credibility gap characterizing CSR reporting can be bridged by professional auditors providing CSR assurance.” (The Pakistan Accountant 2011)

However this awareness is still in its infancy. Overall it was found that apart from a few active members (those who are involved in trainings and consultancy), there is very little involvement of finance professionals in various processes related to SR. Annual report of the company is used as the main document to extract all the financial details to be fed into the company’s sustainability report.

#### **7.3.4 SR for Societal Impact, Better Behaviour, and Responsible Business (Community Logics)**

Civil society in Pakistan has been developed on two distinct tracks – traditional vs. modern. The traditional track is comprised of organisations that represent the norms and ethos of traditional social structures. The modern track is comprised of special purpose and interest-based advocacy NGOs that represent the norms and ethos of modern organisations and the international community. The traditional track is still powerful while the modern track is still weak in terms of mobilising people and organising

collective action. However, these dynamics are changing which results in increased demands for transparency, accountability, rule of law and strengthening of the democracy.

From the perspective of community logics, the main aim of sustainability initiatives should be the collective welfare of business, society and the environment. Proponents of community logics cast serious doubts over the current practice of SR. They consider it as a *“branding and/or show-off exercise which is driven by personal and internal motivations”* (CY6) in which *“only those companies which see a business case are involved in this practice”* (CY2). According to another interviewee *“companies are taking GRI-based sustainability reports as branded products that add to their prestige, honour and leadership position”* (PN4). Companies put more emphasis on reporting those initiatives that portray a good image of the company instead of a balanced view of their sustainability position. Proponents of community logics are involved in advocacy for ‘responsibility’ as the main basis for ‘sustainability’ (CY5). They did not reject the business case for sustainability. However they do question the dominant market-corporate-business logic, by emphasising ‘responsibility’ (CY1), typically in relation to the powerless stakeholders. According to them, less powerful stakeholders are very often considered as less important and hence are ignored in the materiality analysis. This is due to the lack of knowledge and awareness of these stakeholders and the resultant inability to exert pressure on companies.

Community logics focus on social justice and collective welfare. It directs the focus of attention towards societal impacts, better behaviour, wider interests and stakeholder processes. Community logics are enacted through keywords like “community” “welfare” “responsibility” “responsible business conduct” “impact”, “attitude” “behaviour” and “stakeholder engagement”. SR is justified under community

logics if it serves as the tool for achieving these values. Therefore under community logics, the value of SR lies in “*gauging the impacts of the various sustainability initiatives taken by the organisation on the society as a whole*” (CY6). Sustainability reports should be able to reflect upon these impacts in the form of material societal-impact related information. The information disclosed in sustainability reports should form the basis for analysis and monitoring for the collective benefits. The information disclosed in these reports should be the result of a rigorous process that gives due importance to wider interests of both powerful and less powerful stakeholders. Feedback from stakeholders should be taken seriously. Instead of increasing the number of disclosures and transparency for business improvements, proponents of community logics believe in the value of SR in driving better sustainability behaviour.

“In Pakistan, sustainability behaviour is not good..... SR can trigger better behaviour... So companies should be encouraged to increase their capability to report.... Even if companies acquire the capability to report for superficial branding reasons, it may drive better sustainability behaviour...We should make companies realise that one of the components of [a] good report is putting in targets and then sharing it [with] the public that we are moving towards achieving those targets. There has to be a good behaviour in order to achieve those targets. So I am of the firm belief that good reporting would drive better behaviour.” (PN1).

Therefore from the community’s point of view of responsibility and stakeholder inclusiveness is generally valued and respected, rather than the market value and disclosures of KPIs.

### **7.3.5 SR for Preserving Family (socio-emotional) Wealth (Family Logics)**

The institutional context of Pakistan revealed the dominance of the institutional order of the family in every sphere of the country’s affairs whether it is politics, business or policy making. Loyalty for the kinship group (biradari) and trust (bharosa) between the biradiri members are two important norms that exist in the familial system in Pakistan. Logic of biradari ensures that business practices benefit members of biradari. Members of biradari are mutually obligated to support each other in feuds and conflicts regardless of the

justice of issues involved and those in positions of authority are expected to favour those who are not. Logic of *bharosa* ensures unconditional trust between *biradiri* members which creates further solidarity and the lack of a need/demand for openness and transparency. This has been confirmed by prior research on accounting and control (Ansari and Bell, 1991), corporate reporting, and corporate governance practices (Gulzar and Wang, 2010).

Among the family firms in Pakistan, philanthropic activities are common whereas there is little aspiration for other forms of social responsibility and environmental sustainability practices (Malik, 2014). The family patriarch is the dominant shareholder and manager whereas the immediate and distant family members help operate various business functions. More senior positions are usually occupied by elder family members who, due to their chronic embeddedness in family norms, are generally less open to change. Reporting (financial or non-financial) is perceived as less relevant as the logic of *bharosa* (trust) represses the need for transparency and disclosure. However, it was noted that the current managers (representing the 2<sup>nd</sup> or 3<sup>rd</sup> generation) are more open to change due to their professional education in local and foreign business schools. They are more exposed to, and are aware of, the demands for some changes in order to establish family businesses in modern times.

“Younger generation[s] who have studied outside and seen international standards have a better awareness of what is happening in the world. They have realised that corporate governance and sustainability is now becoming essential if they are dealing with other companies internationally.” (CY5)

Traditionally family firms in Pakistan desire and prefer control<sup>132</sup> over businesses as compared to economic growth and profitability. This can be considered as part of the

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<sup>132</sup> In order to retain control, they rely more on raising finances through internal sources or from the relational networks with other families, politicians, bureaucrats and financial institutions. These networks are usually built by holding different positions on the board of directors of other companies and national institutions. In case there is a need for finances or any other resource requirements (human, technological, material), these networks are activated for cooperation.

socio-emotional wealth (Berrone, Cruz and Gomez-Mejia, 2012) which is most valued in family business in Pakistan. In this context, business practices which may increase economic wealth but result in loss of control are not given too much importance. This is why family firms are more reluctant to be corporatised and to provide disclosure about corporate governance and/or sustainability, since the lack of transparency gives family firms more control. All reforms<sup>133</sup> which may require these family firms to compromise control are usually resisted. According to an interviewee:

“The overall management culture in family business is too much centralized...Due to fear of losing control, there is little involvement of professional managers...dominant family owners/managers frame problems in terms of assessing how actions will impact on business control...This focus on control affects the firm’s capacity to innovate and generate value in the long-term which is necessary for sustainability.” (PN4)

However there are some family firms that take the identity dimension of socio-emotional value (Gomez-Mejia, Cruz and Imperatore, 2014) more seriously and are ready to compromise on family control. These firms focus on business growth, expansions, people development, professional management and good governance. Involvement of professionals in these firms opens spaces for innovative practices. Family owners of these firms take pride in innovative and transparent practices. This phenomenon was observed in one of the case companies (organisation F in chapter 8) in which the new CEO of the company, from the third generation, became a major agent for change. Through his professional education and commercial trainings he was more embedded and exposed to the market-corporate logics. Foreseeing the opportunities for growth and expansion and being aware of the limitations of negative images attached to the transparency and governance of family firms, he focused on increasing the transparency of the

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<sup>133</sup> This can be observed in the practice of corporate governance, where despite these codes being mandatory, family businesses are showing resistance especially to the code related to the involvement of independent directors. These businesses, while acknowledging the potential benefits of independent directors, are reluctant to include them in their boards as their involvement is perceived as interference and loss of corporate control that may result in a decrease in the socio-emotional value.

organisation. These concerns about the corporate identity and actions of the new CEO has been revealed by an interviewee as:

“Local companies, especially family-owned businesses, are not usually considered transparent. In order to get out of this image and to stand in the line of big corporates we make lot[s] of changes in the corporate identity.” (CE, F1)

In order to neutralise the negative images attached to its family-based corporate identity, a number of structural changes were made. Among other changes (see details in chapter 8), these include the establishment of a corporate communication department that was given the responsibility for transparent reporting including reporting on sustainability. These changes were perceived as projecting the image of the company as a responsible and transparent company in order to improve family reputation and wealth. This is consistent with the findings of (Gomez-Mejia, Cruz and Imperatore, 2014) which suggests that those family firms which take identity dimension more seriously engage more in voluntary disclosure to improve family reputation and wealth.

## **7.4 Conclusions**

Institutional logics determine what needs to be expected, respected and valued (Guerreiro, Rodrigues and Craig, 2012) in a specific field. Presence of multiple logics represented the heterogeneous context and institutional complexity that set constraints and provides opportunities for organisational and individual action. These logics can be in competing or complementary relationship. The above analysis suggests that multiple logics coexist in the SR field in Pakistan. These field-level logics have links with, and are both enabled and constrained by, the societal-level institutional orders. The dominant institutional order is that of the family and its underlying logics of loyalty, trust and control which have implications for lack of governance, transparency and disclosure in the overall business environment. Family logics, along with lack of stakeholder awareness, interest and influence is the main hindrance in the emergence of SR. In this

backdrop the little practice that can be observed in Pakistan is mainly driven by emerging institutional orders of market, corporation and profession and their underlying logics. These logics complement each other and create a business case for promoting SR. Also for those family firms which give more importance to the identity dimension of family logics as compared to control dimension, SR is valued.

Community logics stand in sharp contrast to the other logics through their focus on societal impacts and real change in behaviour as compared to improvement in business performance, transparency and disclosure. These can be considered as competing logics but since community organisations have little power, they have little influence on corporate practices. Overall, the presence of these multiple logics represents the heterogeneous context and institutional complexity that poses a constraint as well as provides opportunities for individual agency. An organisation or an individual under the influence of dominant logics, through cultural embeddedness, may automatically behave in the manner as determined by the logic. However an organisation or an individual that are exposed to multiple logics, through cultural embeddedness and situational context, may draw upon a combination of logics to rationalise their action. Therefore these logics represent both constraining and enabling features of the institutional environment which are then elaborated at the organisational and individual levels.



## **Chapter 8: Organisational Dynamics of Initiating the Practice of Sustainability Reporting**

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### **8.1 Introduction**

This chapter is concerned with providing an empirical account of the initiation and development of standalone corporate SR in eight of the case organisations. This analysis is based on documentary evidence (mainly annual reports, company websites and newspapers) and interviews with corporate managers. These eight organisations include both early reporters and late adopters. This mixture is believed to provide some interesting analysis of institutional, organisational and individual dynamics that led to the emergence and development of SR in Pakistan over the period of the last 10 years. In the proceeding section a separate analysis is provided for each of the organisations. In presenting the analysis, the intention is to capture the rationale and process behind the emergence and development of SR in each organisation. In addition this analysis provides the raw data for the collective sensemaking of the eight cases and theoretical discussion at the end of the chapter. Each analysis starts with a brief introduction of the organisation, immediate situational context and explanation for initiating SR. In addition to this an attempt is made to analyse the concept of sustainability in each of the organisations, with an example of the key sustainability initiatives that are reported. Finally, each case presents the developments of SR along with the reporting process including the reporting framework used, involvement of different departments and consultants, as well as their challenges and perceived benefits.

## 8.2 Organisation A

For organisation A, the decision to initiate the practice of standalone SR can be attributed to a number of factors that were pushing the company towards reporting. These include the resource challenges, diversification and internationalisation strategy, new leadership, past activities and involvement of professional associations. The organisation prepared its first GRI compliant standalone sustainability report in 2005 and become the first company to do so. Its report has won the award for best sustainability report in the local listed category. Before initiating this practice, all activities related to social responsibility and sustainability were reported in the annual report. Mostly issues related to health, safety and environment were reported which has been presented as the hallmark of the company. In 2005, the company developed a sustainability strategy/framework in order to chart down the entire scope of key factors that could affect the continuity of the business. While describing the emergence of standalone SR, the corporate communications manager described it in the following words:

“The practice of sustainability and its reporting was basically [a] natural corridor to what we have been doing in the past.... We were doing so many good things which shall be communicated to the general public and shareholders.”

While standalone SR can be a natural extension of past activities, there should still be some driving force behind this. Upon exploring the immediate situational context surrounding the year of publication of the sustainability report, a number of changes were discovered. Due to economic and resource challenges, the focus of the organisation was shifted to diversification and internationalisation. At the local level, the real driver behind this strategy was new leadership in the form of a CEO in 2004 who transformed the company into a diversified industrial conglomerate with interests ranging from fertilisers, food, petrochemicals, energy and commodity trading. Before that, the company was largely a fertiliser manufacturer with a small petrochemical subsidiary. The new CEO

started exploring offshore fertiliser opportunities and diversification options. Even within the core fertiliser business, the new CEO took Organisation A from being a local player to a globally competitive one. In this way he transformed the outlook of the company by taking a global perspective. In order to materialise his vision and to help create organisational strategy, he also engaged a top US consulting firm. This focus on diversification and internationalisation led to number of decisions and resulting activities that can be best viewed as the steps necessary to achieve the newly developed strategy and vision. In 2005, Organisation A changed its corporate structure, created two more subsidiaries for entering the food and energy business, obtained various certifications<sup>134</sup>, joined the UN Global Compact, started 100% compliance with NEQS, initiated self-reporting of NEQS to Sindh EPA, developed a 5-year environmental plan, formulated the occupational health policy, launched a company-wide six-sigma quality initiative, created a sustainability framework/strategy and last but not the least, published its first GRI compliant sustainability report. According to the head of corporate communications, all of these decisions were made to ensure that Organisation A maintains their leadership position for promoting and following international best practices.

“We are proud of the fact that Organisation A has always remained a Pakistani home grown company that takes [the] lead to maintain [an] international level of excellence in all we do including activities related to corporate sustainability and its reporting.”

The leadership instincts of the organisation can also be observed in CEO messages in the annual report as revealed by the following quote:

“[Organisation A] is driven by motivation to lead. Our decision to be the first national company to publish a sustainability report reflects our commitment to openness and accountability just as it does our pursuit of innovative leadership.”

Another factor that drives organisation A to prepare and publish the first GRI-based sustainability report is the role played by RBI which was looking for a pioneering organisation as an exemplar for GRI-based SR. The chief executive of RBI approached

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<sup>134</sup> These certifications included OHSAS – 18001, SA8000, ISA-14001.

the organisation and the idea was introduced to the CEO and other board members. Initially they were reluctant as it was not mandatory and there were no direct benefits for doing this activity. However, after a series of meeting and presentations, the top management agreed to initiate this practice. When asked about the reason as to why they approached the organisation, the chief executive of RBI explained in these words:

“I approached them as our model is that we do collaborate with some businesses and create some pioneering examples which then have trickle-down effects. When Organisation A did this reporting, [a] lot [of] other companies looked at their report and cop[ied] it and initiated it. It gives them encouragement that national companies can also do this reporting. It’s not a big thing.”

In terms of the main convincing argument, the chief executive of RBI revealed that:

“The first starting point to convince [Organisation A] was that they would be [the] first company in Pakistan to have a GRI-based SR. We talked to them that this is an opportunity for you. However that was not the only point. I told them that we will not use it as a branding or marketing documents for you but we will use the reporting as a process for you and your people to understand your own organisation based on best practices..... So basically we convinced [them] through [the] stakeholder process that if you want to be a growing company then you should learn about your company from the eye[s] of stakeholders.”

From 2005 – 2009, the company continued preparing standalone reports under different names. During this time period the company won several awards and also played its role in the development of SR in Pakistan. After winning awards for three consecutive years, company executives are now on the ACCA panel of judges for evaluating awards for best sustainability report and in this way are playing their role in shaping the future practice. Also, the company is sponsoring different conferences on SR and working actively with the SECP and the PICG in sense-making and sense-giving of the new developments in SR.

Another major development took place in 2010 when the company decided to set up a parent company and consolidate all of its CSR activities under one platform. This led to the decision by the board of directors to report on sustainability at the group level rather than at the individual entity level which was done by any organisation for the first

time in Pakistan. The latest developments have been the publication of an integrated report and quantification of reports in the form of sustainability targets. Much of these developments in reporting were driven by focus on thought leadership and the desire to increase the knowledge base of the economy in addition to concerns over the limited use of SR. This has been reflected by the head of corporate communications:

“Sustainability reports were something which were available online but which were not proactively communicated to shareholders at large. So in 2011 we decided that it would be in the best interest of the public and especially for shareholders to inform them that apart from the financial value, we are creating in Pakistan what is the sustainability factor that we are focused on across the businesses’ be it food, petrochemicals or energy.”

Emphasis on leadership is also visible from the narratives in the sustainability report

“One of our sustainability objectives is to emerge as a thought leader as well where we want to showcase to the community and to the relevant people as to what [Organisation A] can do in terms of enhancing the knowledge base of [the] economy.” (Source: Sustainability Report 2012)

While practicing SR and integrated reporting for the first time in Pakistan, the organisation has faced a lot of confusion among their shareholders and stakeholders over the purpose and use of such reporting as it naturally increases the quantum of information. The corporate communication manager relates this challenge to the lack of awareness and the lack of the knowledge base and saw an opportunity for increasing this awareness and knowledge base of the country in the form of thought leadership.

“Much of the confusion is associated to the negligence on the part of the people as well. They don’t understand the concept of sustainability and how it actually affects them or at the end of the day the financial viability of the company.”

In the view of the same manager, this lack of awareness and knowledge base was perceived to exist not only at the level of the general public, but also among practitioners and among those organisations that are facilitating this concept.

“Not even [the] general public [is aware], [but] our regulators are also confused and you will be surprised to listen to the amount of issues we had with SECP because even they are not well aware of the integrated reporting platform and currently we are working with them in terms of development [of] a sustainability framework.”

Currently the organisation is working with SECP and PICG over the development of a sustainability framework and other developments related to SR.

### **8.3 Organisation B**

Organisation B is among those multinationals in Pakistan which took the lead and published its first sustainability report in 2006. The report won the best SR award in the multinational category. Before the publication of the sustainability report, Organisation B was publishing standalone environmental reports from 2003 onwards and has won best environmental report award in multinational categories. The years of 2003 and 2006, in which Organisation B initiated SR, correspond with the years in which ACCA-WWF initiated the respective award schemes. So in the case of Organisation B, much of the reporting on environment and sustainability was driven by the reporting awards. However, internally this was driven by a newly appointed communication manager who took charge in the year 2002. Before joining Organisation B, he was communication manager at the WWF Pakistan office where he was editor of different publications including the annual report of WWF Pakistan. Through this professional engagement and experience with WWF Pakistan, he was well aware of, and intrigued about, the recent developments in the areas of environmental pollution, conservation and sustainability. When he joined Organisation B, he realised that while the company was doing things for environmental conservation (for example recycling used beverage cartons), they were not recording and reporting this. With this realisation, he convinced top management to initiate the practice of organised reporting on sustainability. As told by the communication manager:

“.....initially the top management was reluctant as there was no mechanism for such reporting and secondly they were sceptical about the benefits of such reporting.”

In the meantime, WWF in collaboration with ACCA has initiated Pakistan Environmental Reporting Awards. While these awards raise further interest and desire on the part of the communication manager, for SR, they proved to be convincing and encouraging for the top management to carry on with the practice of SR. So all in all, in the case of Tetra Pak,

the main motivation was a *feel good factor* as explained by the corporate communication manager.

The first report was prepared with the help of a PR agency. It was a very small document (20 pages) and was mainly focusing on highlighting CSR activities of the company. Very soon the management realised the importance of SR as a communication tool to influence stakeholders and key opinion leaders. Focus shifted to perception management by telling positive stories about the company. This was revealed by the corporate communication manager:

“It was established as a channel to engage and influence our stakeholders. We engage with around 300 people representing key opinion leaders including customers, suppliers, regulators, media and generic audiences..... So I thought we should remove the misconception and absolutely better perception management by improving people’s knowledge and perception about us.”

The same manager perceives this PR driven SR as an opportunity for brand building. However this was perceived as an insufficient benefit for reporting as tangible costs are significant and it is very difficult to evaluate the direct benefit of reporting on building a brand.

“There are significant costs involved on preparation, printing and distribution of these reports. I think the whole project costs around one million rupees in one year. Am I gathering the value in terms of brand perception improvement in one year from stakeholders and key opinion leaders which is equivalent to one million?..... This is not easy to justify on the basis of ROI especially when there is no legal requirement.”

The overall process of reporting mirrors this PR driven SR. The process involved meeting the management team and asking them to nominate a contact person from each department for providing relevant data. Based on the available data and shared understanding during the team meetings, the communication manager developed a story with the help of the PR agency. In terms of the reporting structure, there were no set guidelines being followed. The communication manager was relying more on the guidance from his peers at WWF and at the same time was taking inspiration from global companies including the parent company. However, looking at the local report and the

global report, one can clearly see that the global report is more structured as it clearly mentions materiality and stakeholder engagement which is absent from the local report.

The local report is focusing more on sharing the outcomes rather than the process.

“Initially I sought [the] help of WWF; I had some friends there. They shared some GRI standards and showed some indicators and reports they issued in some dimensions. I started copying them and it was just [a] work in progress type [of] document....I just pick it up from best practices. I usually get access to these best practices of different companies and ACCA helps me for that..... I see their format and there are many international sustainability reports available, especially the global sustainability report.”

The influence of the communication manager on the practice of SR can be observed from the fact that in 2007 he was transferred to Saudi Arabia where he served for three years.

In these three years, Organisation B did not publish any sustainability report. In 2010 he rejoined Organisation B and from the very next year, the company once again start preparing sustainability reports. Currently, to overcome this reliance on the communication manager and to give him breathing space, the company is considering outsourcing the content writing part of the reporting process. However, cost-consciousness for an activity which is not giving any direct benefits to the company has become a major hurdle in allocating resources that are required for such activity.

“[Currently] there are no dedicated resources for this. It takes time. I am only [one] person in communication. Sometimes we do not have sufficient time. What happens is if I am spending a lot of time in content creation then I cannot take care of other management, different areas and different things happening in [the] unit? We were thinking we should outsource this. But it is very expensive.”

Finally, in terms of sustainability initiatives, one of the initiatives most cited during the interviews and discussed extensively in the report is the recycling of beverage cartons. This recycling is part of the global drive and targets which are being followed in Pakistan as well. This initiative is mainly taken for environmental preservation as a result of increasing public pressure at the international level. Sustainability initiatives, and the



concept of sustainability, revolve around resource efficiency is the case of Organisation B and this is mentioned in a number of documents.<sup>135</sup>

“[Organisation B] was built upon the sustainable concept that a package should save more than it costs.....Recycling is about efficient use of resources and [Organisation B] works to increase recycling globally.”

“Sustainability for [Organisation B] means using natural resources without using them up – so that future generations can use them too: we emphasise the use of renewable resources.”<sup>136</sup>

“[Organisation B] is driving environmental excellence along the value chain and setting ambitious targets to spur sustainable sourcing and innovation, combat climate change and increase recycling.”

“Improving environmental performance is an essential part of our company’s business strategy, as it improves our overall performance while protecting the environment. A responsible business is an efficient business, and an efficient business is a sustainable business.”<sup>137</sup>

Despite the recycling initiatives, the company has been criticised on the grounds that cartons are more difficult to recycle than tin and glass bottles because of the recycling process. As a result the company started working on joint ventures with local governments and other stakeholders around the world to increase its recycling facilities. In Pakistan the company joined hands with WWF-Pakistan to organise its first environmental advocacy seminar which was aimed at improving the relationship with paper industry stakeholders to drive the recycling rate of beverage cartons in Pakistan.<sup>138</sup>

## 8.4 Organisation C

Organisation C is also among the first few organisations that has initiated the practice of SR. The journey towards SR was started in the year 2006 with the publication of an environmental report and the very next year it published its first sustainability report.

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<sup>135</sup> <http://www.tetrapakrecycling.co.uk/protect-whats-good-environment.asp>

<sup>136</sup> [http://www.tetrapak.com/chde/documents/env\\_report05.pdf](http://www.tetrapak.com/chde/documents/env_report05.pdf)

<sup>137</sup> <http://www.thenewstribe.com/2012/06/29/tetra-pak-joins-hands-with-wwf-pakistan-to-organise-1st-environmental-advocacy-seminar/>

<sup>138</sup> <http://www.thenewstribe.com/2012/06/29/tetra-pak-joins-hands-with-wwf-pakistan-to-organise-1st-environmental-advocacy-seminar/>

Between the years 2007 – 2009, it won the best sustainability report award.<sup>139</sup> After winning awards for the consecutive three years, corporate managers are now on the panel of judges for the respective awards. Now the company is in its seventh year of preparing sustainability reports. In the case of Organisation C, in contrast to other companies, the Health Safety Environment and Quality (HSEQ) department is the main custodian of sustainability reports in terms of its preparation and all other tasks. Another interesting aspect is that all of the people who are involved in the practice of SR in that department are professional engineers. The HR department works very closely with the HSEQ department, specifically in relation to the CSR activities. The involvement of the finance department was observed as mainly being the information provider on financial aspects. So in the case of Organisation C, the practice of SR is mainly driven by the HSEQ department, but how and why that department is created and how they find the necessary motivation for initiating a practice, which is not mandatory, are some of the questions which can throw light on the real drivers behind the emergence of SR. The next section captures these dynamics in the form of important events shaping the organisational attention and motivation towards the concept of social and environmental sustainability.

During the last decade of the 20<sup>th</sup> century, the petroleum industry in Pakistan was experiencing a major strategic shift due to internal and external environmental changes, specifically due to deregulation of the industry and entry of multi-national corporations. Until 1999, the petroleum sector of Pakistan was highly regulated with tight government control. Sales were locked and returns were guaranteed by the government. In 2000, the government initiated market-based reforms in the sector and pricing and regulatory responsibilities were passed on to an independent regulatory authority.<sup>140</sup> The government also allowed the direct import of crude oil by refineries. These changes

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<sup>139</sup> ACCA-WWF Pakistan Environmental Reporting Awards.

<sup>140</sup> <http://www.pide.org.pk/psde23/pdf/Afia%20Malik.pdf>

created a dynamic and competitive environment in the industry which was unprecedented. While the GOP remained a shareholder of Organisation C, the managerial control was with foreign business groups. Now the top management wanted the company to change its traditional work practices and become efficient enough to compete with any international player. As a result, top management took a number of initiatives that can best be described as a strategic fit of the organisation in line with the overall strategic shift in the industry. These initiatives include upgradation and expansion of the refinery, up grading of technology, rationalisation and optimisation of operations, development of appropriate structures and systems, and introduction of value-added products.

“In the coming years it will be survival of the fittest. PARCO is setting up a refinery in Multan with a capacity of 100,000 bpd. Once it opens market competition, our monopoly in the north will not be there anymore. Some of our products would be surplus in the market. So, one option is to focus on value added downstream products.” Source: Published Case study<sup>141</sup>

This was the beginning of a change in the way the company was operating. Corporate culture has been transformed from a comfort zone to a performance-based organisation. The earlier refining practices were modified to reduce the environmental impact. This was also the result of changes in the regulatory requirement in the industry.<sup>142</sup> As a result of these changes, the focus of the organisation shifted towards environmental protection and energy conservation for ensuring long-term sustainability and profitability of refineries. Problems with the domestic oil supply and increase of crude oil prices in the international market provided necessary justification for this focus.<sup>143</sup> Organisation C started making significant growth and achievements. The capacity and profitability of the company increased manifold. HSE management systems have undergone major improvements. In 2002, Organisation C became the first refinery to achieve ISO 14001 certification. In 2005, the company achieved OHSAS 18001 certification. In the same

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<sup>141</sup> Attock Refinery Upgradation Project. *Asian Case Research Journal*, 10, 77-101.

<sup>142</sup> The petroleum policy of 1994 also has the same requirements but in addition it provides the necessary motivation by incentivising upgradation, rationalisation and optimisation projects.

<sup>143</sup> Attock Refinery Upgradation Project. *Asian Case Research Journal*, 10, 77-101.

year the company established a dedicated HSEQ department. This decision was made in order to centralise all related activities. ARL started reporting on the environment in 2006 and has received annual environment excellence awards.

The above analysis suggests that competitive instincts of the organisation, which emerged as a result of the opportunities created by the changes in the business environment, and regulatory compliance was driving much of the activities in case of ARL. This was also confirmed from the interviews with the corporate managers. While talking to the manager of HR and CSR, he was of the view that the company is in a sector where they cannot sustain themselves without attaching importance to regulatory compliance.

“By the core of our business, we are dealing with environmental problems of [a] diverse nature. We are making every effort to minimize the negative impacts of our business on any feature of [the] environment..... Our company is in the sector where it can be on the [regulatory] radar if they ignore these things.”

However, according to the same manager, the organisation believes in the philosophy of beyond-compliance policies and has a long and proud history of beyond-compliance action. This philosophy is driven by the desire to be viewed as a leader and a good corporate citizen. It is achieved through organisational core values. The decision to initiate SR was also described as one of many beyond-compliance initiatives that were taken in line with the core values of the company.

“The main reason for doing it voluntary is that we believe in the philosophy of doing beyond-compliance..... We initiated SR in line with our core value of integrity and ethics, quality, social responsibility, learning and innovation, teamwork and empowerment..... Learning and innovation is at the heart of all such initiatives.....We embrace lifelong learning and believe in continuous improvement.”

Corporate managers were not clear about any tangible benefits of SR; there was a strong perception that it brings intangible benefits. SR was perceived as a mechanism for increasing transparency of the organisation for highlighting areas of improvements. The following quotes from the HSEQ manager and the HR and CSR manager reflect this.

“I think tangible [financial] benefits are unclear. However when the company is working for betterment it had an overall focus. We are focusing on many directions for improvement. If you see our balance sheet you can see the growth in financial terms which can be the result of multiple factors [including SR].”

So basically the purpose is not only to ... benefit from awards..... We are not publishing this report for promotion purposes. Whether we publish or not, our marketability [product demand] is not affected.... SR is something which is beneficial for the company, for the society and for the universe....we try to follow guidelines, to get benefits, whatever level of benefit it might be either mutual or individual ....SR gives you an opportunity to share good work in an open and transparent way with your stakeholders (e.g. nearby community) so they should be aware of it and can give us suggestions for improvements.”

In terms of the process, SR was driven by an outside-in approach. Before initiating SR the organisation was already undertaking various social and environmental initiatives. Since the organisation had an interest and experience in learning and adopting the latest technologies, it started reporting based on a number of guidelines in terms of both the process (e.g. materiality and stakeholder engagement) and contents (disclosure requirements). Some of these guidelines that were mentioned in the sustainability report include: Global Reporting Initiative, Accountability (AA1000), Social Accountability (SA-8000), and UNGC indices, ISO Management Standards (ISO 14001, ISO9001 and OHSAS 18001) for social, environmental and economic performance. According to the HSEQ manager:

“Implementation of guidelines was easy for us because we were already working on different initiatives. All we have to do is to match data with the guidelines.”

Unlike some other companies, organisation C did not involve any consultants for capacity building; rather they make their own effort in understanding and implementing these guidelines. These efforts were the result of social interaction within the organisation which involved sensemaking and ultimately the decision was made to go ahead with implementation. However, after successful implementation, the organisation became involved in sensegiving to other organisations and shaping the future practice. Corporate managers were involved in providing consultancy services to different organisations and advisory services to the different government policies. The overall process is described as

being aligned to their organisational value of learning and innovation which is driving the majority of such initiatives. This process is explained by the HSEQ manager by giving an example from another initiative in the domain of the energy management system.

“When ISO 15001 was launched in 2011, I was interested in implementing it. I went to the CEO and during discussion we planned to form a team. So we developed a team, in which we collected a senior person from every department. We selected one day in a week to sit together for learning and understanding its requirements. It took us two to three months to study and we have searched a lot of websites and looked at different guidelines. After [the] learning phase we made our timeline and implemented it. After implementation we told our CEO that we are ready for any internal or third party audit. Once he said okay, we announced it to the media. When it was on [the] media then people started asking about the process and we explained it to people in different organisations.”

For identification and prioritisation of issues, the organisation performs materiality analysis by reviewing their sustainability impact, short, medium and long-term plans, legal obligations and feedback from stakeholders. Based on this, different social and environmental initiatives are taken. Due to the nature of operations of refinery, environmental issues are salient. The majority of sustainability initiatives are related to environmental protection and conservation. There are some initiatives for uplifting the local community. The organisation is of the view that these initiatives are necessary for the continued growth of the organisation. The concept of sustainability is perceived as something which is necessary to help organisations grow by compensating (out of that growth) society and the environment for the negative impacts related to that growth.

According to the HSEQ manager:

“.....you grow your business but you also grow the environmental impacts. Also the society is affected by your operations... In [the] report we mention our economic performance which shows growth. At the same time we show that [in doing so], if we perform such [an] activity which has a negative impact on society and [the] environment, then [we are] against it, we invest certain amounts of money from our economics to take care of society and [the] environment. For example, we have lot of transportation [around refinery], people were facing difficulties in moving, so to compensate we have made another route for them that if this road is busy with our activities, they may use other roads for travelling means. We haven't harmed people while increasing our economic activities. Another example is our biodiversity park where we preserved all the unique animals which might have been affected when the refinery was built here.”

The HSEQ department is primarily responsible for data collection and report preparation. Three senior managers of this department (mainly engineers and

environmentalists) are part of the reporting team which is responsible for both working in the field and also for generating a report. In addition, people from the finance department and HR are inducted on a required basis. Since the environment is one part of this department, all environmental related initiatives and their data already reside with that department. All social related activities are undertaken under the umbrella of the Foundation which falls under the responsibility of the HR department. Therefore, for all social related information, the HR department keeps HSEQ posted throughout the year. Data related to economic sustainability is drawn from the annual report. Then all this data is compiled in the form of separate chapters on economic, social and environmental sustainability. Finally these chapters are supplemented by the GRI disclosure index where responses to different sustainability indicators are provided.

## **8.5 Organisation D**

Organisation D is a multinational engineering company that started reporting on CSR in the form of a standalone corporate social responsibility report. The scope of this corporate social responsibility report was widened in 2009 when Organisation D published its first standalone sustainability report. The organisation has won several awards for reporting on social responsibility and sustainability. Analysis suggests that for Organisation D, the decision to initiate the practice of standalone SR was more of a compliance activity rather than their own initiative. The major source of influence has been the involvement of the head office. According to the head of corporate communications:

“...here, everything is driven by the head office [and] so is the requirement and process of reporting on sustainability. Every year we get a template for the annual report and for the sustainability report and we just follow that template. [The] corporate communication department fills in that template with our local stories’ information related to different sustainability areas. This information is then formally reviewed by senior officials before being sent to the head office”.

While looking at the situational context surrounding publication of the CSR report, it was observed that the parent company was facing serious accusations of systematic

bribery and was fined heavily. This led to increasing stakeholder demands for information on sustainable company management and social responsibility. Apart from this, the general public lost their trust in corporate structures, leadership, processes and culture. As a response, the company overhauled its structures, leadership, processes and culture. As part of building trust, the parent company launched a global compliance programme containing a set of strict rules and processes on anti-corruption. The programme also requires more transparency, a change in culture and making substantial investments in promoting trustworthiness and ethical practice. Involving more information on social responsibility activities and their reporting can be considered as corporate responses to stakeholder demands by demonstrating trustworthiness and responsibility.<sup>144</sup>

“To deal with increasing stakeholder demands for information on CR issues, reports on questions about sustainable company management and social responsibility at Siemens are being structured and placed on a new basis.” (COP 2007/2008)

“I think one of the reasons for reporting on social responsibility is to highlight the existence and to let shareholders know that [Organisation D] is a responsible company. As the concept of CSR became part of the larger picture of sustainability we embraced the concept and started reporting on sustainability that covers [a] much wider area and includes health, safety, environment and compliance.” (Source: Interview)

The battle against bribery and corruption has also shaped the views of Organisation D about sustainability which is normally more associated with climate change and the environment. For Organisation D, the concept of sustainability is more about clean business. Responsible business is considered as the means to achieve profitability and long-term growth (hence sustainability). By the changing values and culture after a period of struggle, this view of sustainability is now believed to be embedded in the organisation and considered to be the part of the DNA of the organisation. Besides this, sustainability

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<sup>144</sup> The recovery of trust: case studies of organisational failures and trust repair  
[http://www.ibe.org.uk/userfiles/op\\_trustcasestudies.pdf](http://www.ibe.org.uk/userfiles/op_trustcasestudies.pdf)



is perceived to be closely linked to organisational values and management of the supply chain. This has been reflected in the sustainability report.

“Sustainability as we understand is closely linked to our values.....Sustainability forms an important part of the corporate culture and ‘is in the DNA of every employee’..... An important step towards [Organisation D’s] sustainability is that the company is curbing graft and corruption within the organisation and moving towards a rigid compliance system .....the supply chain is a focal part of Siemens’ sustainability plan since it is the supply chain that creates the biggest environmental footprint related to the effective management of raw materials, energy, water and waste.”

Apart from the influence of the head office on the reporting practices of the organisation, there was a belief that issuance of voluntary guidelines for social responsibility by SECP is driving this reporting. In addition, reporting awards are also motivating companies to report and get recognition for their efforts. The organisation rigorously tries to follow these guidelines and criteria for good reporting and has won several awards. The corporate communication manager believes that this should be the way forward for the development of SR in Pakistan rather than making it mandatory, as otherwise it would result in tick-box compliance, just like what companies are doing in the area of corporate governance.

“I think in Pakistan winning awards for the best report is one of the main drivers for the development of this reporting. These awards by ICAP/ICMAP and other regional organisations specify the criteria for good reporting which we try our best to follow. Also good guidelines for disclosures are motivating companies for disclosing and driving this agenda in Pakistan.....We should encourage non-reporters through incentives because force never really works here in this country. Non reporters will find a way around it if they do not really want to do it. It will be all on paper but it will not be in practice as anything which is made mandatory then you just follow it. Right now people are doing much more than what they will mandate us in whatever form they come out with”.

In terms of benefits of reporting on social responsibility and sustainability, the manager is of the view that reporting provides an opportunity to showcase responsibility and sustainability and makes good business sense.

“It helps your brand image and we see value in it. We are a B2B company; we are not selling to ordinary people, so it helps us a lot if we have a good brand image in the country. We have realised that there are lot of businesses (whom we are dealing with) who like to do lot of business with companies who are socially responsible and transparent. SR for us is a compliance activity that has to be done to increase transparency that adds to the good image of the company. So for us it makes good business sense.”

Decisions related to various sustainability and social responsibility initiatives are made both globally and locally. Those sustainability issues that are related to global compliance (e.g. employee and environment related issues) are adopted as such, while for issues related to social responsibility (e.g. community projects) they are decided locally on the basis of community needs and availability of funds. The manager believes that financial constraints restrict the number of sustainability initiatives and only those projects are prioritised that can be sustained and this in turn adds to improving the image of the company as this make good business sense. The manager also believes in reporting only those sustainability issues that have been put into action and tries to be as detailed as possible. In addition to publishing sustainability reports, the organisation also uses other formats (like video documentaries). These other formats were perceived as being more transparent as they provide real insights into sustainability initiatives. Also they can be easily verified.

“You can ask companies to do more and more in areas which are not constrained by finances. Like compliance and good reporting of all figures, but you can’t really force companies to do more in CSR if they don’t have the money because nobody is going to do a loss just to do a CSR. For example now from the past two years we are only sustaining the projects in which we entered earlier. We are not taking any new projects because of the lack of funds. At [Organisation D] we only do those projects for which finances are available and which can be sustained.”

Reporting is also considered as the natural extension of organisational activities. As a multinational company, Organisation D is already capturing lot of information so there is no problem of information content for such reporting. The organisation also frequently exchanges information between 16 countries in the Middle East cluster for which Organisation D is a part. As a result of this frequent exchange of information among the cluster countries, most of the information is readily available in the presentation on CSR or sustainability activity.

## 8.6 Organisation E

Organisation E is involved in the chemical business and is a company listed in Pakistan. It was originally a subsidiary of the British colonial-era company which was acquired by a Dutch paints and chemicals giant in 2008. In 2010, the Dutch company divested the chemical business which was acquired by a leading family-owned and controlled business group. Ownership influence is clearly seen in the emergence and development of SR in Organisation E. Having been part of the multinational company for several years, the organisation has a long-established history of involvement in CSR and its reporting. However, development of SR can be traced back to the acquisition of the organisation by a Dutch company which has taken a keen interest in the expansion of reporting and has influenced the organisation through their sustainability framework. In 2008, Organisation E published, for the first time, a formal sustainability report. According to the head of corporate communications:

“We have been actively involved in community programmes and CSR for decades..... we started CSR reporting a bit when we were [the] Pakistan division of UK PLC but with Dutch PLC there was more reporting..... as they were more interested in SR and have[a] very elaborative SR. In 2008 we decided to launch our first formal sustainability report and have adopted [the] Dutch PLC framework for sustainability.”

This interest of the Dutch parent in the development of SR in its subsidiary can be explained by the immediate situation surrounding the acquisition period. Zooming into the situation, and contextualising the interest and influence of the Dutch parent, it was discovered that the parent company was competing for a leadership position in sustainability indices.<sup>145</sup> This means that the company wants to maintain the same standards for its subsidiary in order to maintain its position. Since they were already practicing it and have devised mechanisms, they influenced their newly acquired subsidiary through the framework they have developed. In 2008, the parent company launched its new corporate identity that includes a revitalised logo and image of the

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<sup>145</sup> In 2006 the company was listed on FTSE4Good Index and in 2007 the company was ranked as number one (means industry leader) on the Dow Jones Sustainability Index.

company as all-embracing and future-oriented. This led to the transition of an identity programme at Organisation E which involves various rebranding projects.

Further developments to the SR were made in 2010 when expansions were made in the corporate communication and public affairs (CCPA) department and efforts were made to develop a local sustainability framework. This was done on the desire of the CEO as was revealed by the head of CCPA.

“Our CEO at that time was very interested. When it comes [to] top-down, it’s very easy. Everything works top-down. If key management is focused on something, if it’s a key strategic priority it gets its due attention.”

SR was put under the responsibility of CCPA which included a team divided into different functions: community, internal communication, external communication, branding, media and external agencies. A few members of the team went through trainings and did a lot of internal awareness sessions. The need of the local framework arises by considering the differences between the nature of local and foreign operations. Development of the framework was the responsibility of a sustainability council which then decides on the parameters and KPI’s of sustainability at Organisation E. While much of these parameters and KPIs were adopted from the foreign parent, some KPIs were dropped and some were added after considering local dynamics. For the structure of the report, Organisation E adopted GRI guidelines and prepared the first GRI compliant sustainability report in 2010. The organisation has won in the category of best sustainability report.<sup>146</sup>

Apart from its long-established history of involvement in CSR activities and revived interest and influence of the foreign company in the emergence and development of SR, other reasons for Organisation E adopting SR can be described as operational integrity, compliance and following global best practices. Organisation E, being a progressive organisation, takes pride in following as many standards as possible and considers

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<sup>146</sup> These include ACCA-WWF and ICAP-ICMAP awards for the best sustainability report.

operational integrity and compliance processes as one of the key reasons which makes them stand out. For Organisation E, initiating SR is just like adopting another global standard which adds to the overall prestige of the organisation as revealed by the head of CCPA

“[A] key reason we [believe] [Organisation E] is iconic [is] only because of its practices and operational integrity. We keep winning the best management practices. There is a prestige element ...we have adopted [this] because globally it’s been done.....”

SR is also perceived as the mechanism for being transparent and being approachable to stakeholders. However there is a belief that the extent to which this transparency adds to the overall accountability of the organisation depends on the way SR is being practiced. Corporate managers believed that there was a need for a formal sustainability process driven by a sustainability council behind SR and a need for more quantified information as compared to qualitative information.

“Our first sustainability report in 2008 was very flimsy and then we realise[d] that we need to [make a] more elaborate programme.....There is a need to have a sustainability programme and then to be involved in sustainability activities and then resulting information has to transmit in the transparent manner to the stakeholders.....Transparency is the key focus... True transparency means making visible both good and bad things. And true accountability means reporting against targets.”

This view of the corporate managers is clearly reflected in the sustainability report which is more quantitative as compared to those of the other organisations which are more qualitative. This is the only report (as per my analysis) with 5 year targets for each performance indicator. Each year performance is then reported against these targets. According to the communications manager this adds to both the transparency and accountability of the organisation and leaves little room for glorification and impression management. The manager also views that the main difference between CSR reporting and SR is a matter of glorification.

“...there is a difference between qualitative and quantitative report[s]; this report is quantitative. When things are quantitative they leave little room for glorification and you are more accountable for whatever you report....SR is not about looking good, it’s about being honest, it’s about being upfront, it’s about being, for us it works very easily as we are reporting against targets so we can’t glorify ourselves. If [the] target is not met, it’s not met,

its ground reality, you see we left when we put systems together we didn't leave ourselves room for glorification, when you put KPIs when you set parameters and you put [a] target then you leave no room for glorification. Glorification can be there in case studies where you put narratives for things you have done well. But for numbers you can't glorify unless you bungle with the number which we don't do".

SR is also believed to be one of the value added activities. It is perceived as something that adds greatly to the external image and for the brand recognition. It provides an element of prestige to the organisation. However, this prestige is established through external verification and endorsements. Also the real prestige is established when SR is backed by a formal sustainability programme. This prestige plays an important role when a company approaches its customers, suppliers, employees and other stakeholders. This prestige enables a company to be the employer of choice, brand of choice and preferred partner. This prestige element is one of the main benefits of SR which the organisation believes they have realised. In the words of the corporate communications manager:

"These things provide credibility and enhanced image and play their role when we do corporate branding and image management.... When we go out to our customers [and] suppliers and even for recruitment, these things play an important role... It adds value to your overall business."

The executive at Organisation E views sustainability and its reporting as a matter of responsibility and sees the business case for that.

"We need to understand that the primary purpose of business is doing a business and making profits. However there is no sense in becoming irresponsible as this is the position one cannot sustain."

Overall the organisation believes that there is a mutually beneficial relationship between business and sustainability. When asked about the issue of analysis of material sustainability issues, the head of CCPA revealed that *"for evaluating different community projects and environmental initiatives, their ultimate benefit is an important consideration and only those initiatives are considered which adds to the value of the company"*.

## **8.7 Organisation F**

Organisation F is one of the largest cement manufacturers and is listed on all three stock exchanges in Pakistan and on the professional securities market of the London Stock Exchange. It was originally created by one of the largest family-based business groups in Pakistan. Over the years, the company has grown substantially, which has brought it face-to-face with increased expectations and a wide variety of needs of the stakeholders. Organisation F is now on the way to become the only multinational Pakistani cement company. For Organisation F, a number of things came together at the same time to trigger the publication of its first standalone GRI compliant sustainability report in 2011. These can be understood as the immediate situational context surrounding organisational action. A discussion of these things is very important as it is pivotal to providing an impetus for the emergence and development of standalone SR in the organisation.

First thing which is important when discussing the situational context is that during the year before the publication of the first standalone sustainability report, the organisation was in the process of applying for carbon credits. The organisation then qualified for the clean development mechanism by investing in projects like waste heat recovery and using tyre derived fuel and refused derived fuel. These projects substantially reduced the carbon emission of the organisation and earned them precious carbon credits (Dawn, 2011). The organisation believes that this innovation not only helps them in preserving the environment but also enables them in curtailing its energy needs and saving costs in a unique way as energy costs account for the bulk of operational expenses. For this purpose, Organisation F, in addition to major technological investments, had to go through the process of collecting a lot of environmental data which they believe could be used for disclosures in the sustainability report. So this becomes one of the factors providing impetus as described by the head of corporate communications.

“...last year we were in the process of applying for carbon credits which we believe was already a feather in the cap ... [as] we ...deserve carbon credits. We decided to take it [further] to the higher level and to disclose why we are getting the carbon credits.”

Also during that time period the organisation was going through restructuring and change of corporate identity in line with the vision to expand in the face of competitive conditions and to neutralise the negative images attached to its family-based corporate identity. Some of the structural changes included the addition of a chief operating officer to the clan, establishing proper channels for supply chain management and brand development, changing the organisational design to a matrix organisation having functional reporting structures and changing the governance body to be in line with the best corporate governance practices. The organisation changes the identity from being a family-based, owner-managed, company to a pro-employee company that is focused on people development, professional management and good governance. This change of identity involves projecting the image of the company as a responsible and transparent company in order to neutralise the negative image associated with family-controlled companies. For symbolic representation of new corporate identity the organisation has introduced a new logo representing its core values including social responsibility and sustainability. Other changes include developments in IT, investment in international projects, investments in energy efficiency projects and developing a smart logistical setup. A quote by the head of corporate communications explains the strategic reason behind restructuring and change of corporate identity.

“Local companies’ especially family-owned businesses are not usually considered transparent. In order to get out of this image and to stand in the line of big corporations we make [a] lot of changes in the corporate identity.”

During that time period, the company, in line with its new vision and change of corporate identity, was also undergoing international expansions and acquisitions. Their recent acquisition includes that of Organisation E. As part of the acquisition process, corporate managers had to answer questions and concerns about the sustainability of



Organisation F. At the individual level, much of these developments can be associated with the vision of the new CEO who took over the position of chief executive of the company in 2005 succeeding his late father. Being more embedded in commercial interests, through his education and trainings, he became the major agent of change. Foreseeing the opportunities for growth and expansion and being aware of the limitations of negative images attached to the transparency and governance of family-controlled companies, he focused more on increasing the transparency of the organisation. With this focus on transparency, he created a corporate communication department after he took over the company. At that time the organisation was just publishing its annual report including just the financial details of the company. The new CEO appointed a manager for the corporate communication department and assigned him with the task of transparent reporting that includes a report on CSR activities and other non-financial aspects that the company was involved with but not reporting. As the organisation expanded, the corporate communication department and its activities also expanded and that included preparation and publication of a standalone sustainability report.

“When I joined the department I was given the task of making reporting transparent that should include reporting on CSR activities as per the vision of CEO for making the organisation transparent and responsible. Since my appointment we did so many things and initiating SR is one such thing we do for which we are proud of.”

In addition to these internal and external drivers pushing the organisation for initiating a sustainability report, one final push seems to be from a training workshop by GRI in 2010 that was organised by one of the leading consultants promoting SR in Pakistan. The head of corporate communications attended that workshop where he was introduced to SR and GRI guidelines. While the company already had the vision of going in that direction, the workshop facilitated this vision and GRI guidelines were adopted. In addition to these events surrounding the publication year, two themes emerged from

interviews exploring the main motivation and expected benefits for initiating standalone SR.

This organisation seems to believe that historically they are doing good things for society and the environment. They always have the vision of being responsible and transparent. For them SR is the mechanism through which they can demonstrate their responsibility and transparency. By disclosing these good things in the form of a sustainability report they want to be a leader in the practice of SR and are interested in educating others in the cement industry and other industries as to how to become responsible and transparent. They are proud of preparing GRI compliant sustainability reports and claim to be the first company in Pakistan who has received an A level check and now aim for an A+. Since the organisation believes that they are a responsible organisation and historically are doing good deeds for society and the environment, by revealing such good things they can reap the benefits of an improved image which would help in strengthening the new corporate identity and branding. Also, the organisation believes that they have cost advantages as transparent reporting on sustainability can reveal utilisation of resources which can be evaluated in terms of their efficiency, and hence, different actions can be taken for efficient utilisation of resources that will ultimately lead to cost advantages.

“Historically we are doing things for society and [the] environment and through SR we want to make them transparent in order to educate others in the cement industry and in other industries....if you are doing something wrong you won't be publishing [a] sustainability report, you only publish when you believe that you are doing things in the right way and when management think so as well.”

In terms of the understanding the concept of corporate sustainability, the organisation seems to have a business view of sustainability and is mainly focusing on the eco-efficiency agenda. They did mention eco-effectiveness but how it is realised is not mentioned in the report. There is no mention about eco-justice issues. This view of sustainability is consistent with the weak view of sustainability. Also, this understanding

of corporate sustainability is understandable given the commercial instincts of the CEO and the sensemaking of the head of corporate communication in the workshop promoting the Global Reporting Initiative which takes the business view of sustainability. According to one of the interviewees:

“...sustainability is doing what you are doing in a more efficient way, in a more effective way, in a way that does not deplete your resources.”

This view of sustainability is quite clear in their understanding of issues related to sustainability and solutions related to those issues. By reading the sustainability report one can find that in line with this view, Organisation F invested in waste heat recovery, tyre derived fuel and refused derived fuel and has managed to substantially reduce carbon emissions which results in preserving the environment, curtailing its energy needs and saving costs in a unique way. While answering a question related to issues and solutions, an interview replied:

“.....main issue associated with the industry is of emissions in the atmosphere and energy consumption and the solution lies in energy efficiency which is a powerful and cost-effective path towards achieving a sustainable future.”

In terms of the reporting process, the organisation was aware of the different frameworks and had chosen the GRI framework which was revealed to the head of corporate communications in the launching workshop of GRI in Pakistan. The organisation believes it to be the best and most widely accepted international framework for SR and takes pride in applying it at the highest level. They also appointed an accountancy firm as their GRI consultant. The consultants were also involved in stakeholder engagement and content writing. The organisation believes stakeholder engagement to be an important mechanism for SR. Most of the information contained in the report is qualitative without any quantifiable targets. The report is externally verified for credibility and the organisation has received various awards for best reporting practices.

## 8.8 Organisation G

The use of the words ‘environment’ and ‘corporate sustainability’ in the annual reports can be traced back to the year 2006 when the company started to disclose some information on social responsibility and the environment. Zooming into the immediate context, a few macro level events provide a partial explanation of the company’s action to talk about society and the environment in its reports. In 2005, Pakistan prepared its first environment policy followed by the publication of a report called National Energy Conservation Policy by the National Energy Conservation Centre and the Ministry of Environment. In 2006, the government of Pakistan created the alternative energy development board which published a policy for development of renewable energy for power generation. Also in that year MOE launched a green industry programme to facilitate industrialists in easy reporting of pollution levels and gradual control over pollutants. This programme was launched, with the support of UNDP, for the promotion of SMART, which was proposed as a more feasible approach for the enforcement of NEQs in the country. The main aim was to make industries responsible for the systematic monitoring of their environmental performance. In addition, there was an expectation that it would result in reductions in the pollution levels, improvements in data collection and open avenues for public pressure on polluters due to visibility.<sup>147</sup>

Organisation G was facing economic challenges and was struggling to grow due to repeated gas curtailment and rationing. This curtailment was due to overall depletion of natural gas reserves in the country. Energy costs were also rising. At the same time, environmental awareness in the country was increasing and policies were being made for energy conservation. One such initiative announced by the GOP was the policy for the

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<sup>147</sup> [http://www.finance.gov.pk/survey/chapters\\_14/16\\_Environment.pdf](http://www.finance.gov.pk/survey/chapters_14/16_Environment.pdf)

development of renewable energy for power generation. The policy provides incentives<sup>148</sup> to the companies who would then generate electricity through alternate energies. While struggling to grow due to the energy crisis and while foreseeing opportunities to overcome these challenges, it was decided to diversify the business by entering into a wind energy project. The following quotes from the annual and sustainability reports reflect these motivations.

“Despite [the] prevailing social and economic challenges, [Organisation F] has continued its journey toward[s] sustainable growth. We envisage these challenges as an opportunity for the company to emanate sustainable value creation through introduction of new products, channels covering new markets based on eco-friendly technologies, cost reduction and increased rewards for stakeholders while maintaining its leadership as a socially responsible citizen, contributing extensively towards economic development of the country.”

“We consider diversification of our product line as a major factor behind corporate sustainability in the ever changing market scenario...The decision to enter into [a] wind energy project was taken primarily on the basis of [the] acute power crisis in the country, energy security and utilisation of untapped tremendous wind resources in the country. Pioneering a landmark project of developing / operating [a] grid connected [a] wind power plant – will reduce dependence on imported fuel thus enhancing our energy security – will mitigate carbon emissions and will contribute towards a greener tomorrow.”

While these developments marked the introduction of green issues in the company practices, there was still no separate reporting on social responsibility and sustainability apart from a few disclosures (mainly on charitable donations) in the annual report. Some important developments were made in the year 2009 when a new CEO joined the company and established a CSR department which was headed by a newly appointed CSR manager. The year 2010 marked a major development in terms of its significance and influence on the organisation towards publication of a first standalone sustainability report. The major influence had been a result of joining the United Nations Global Compact (UNGC) in 2010.<sup>149</sup> Also, Organisation F participated in a workshop on

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<sup>148</sup> These incentives include tax-free revenues, duty-free imports of machinery, guaranteed electricity purchases, protection against political risks, change in law and earning of carbon credits.

<sup>149</sup> The year 2010 was also important for UNGC as it marked a new phase in strengthening the Global Compact and the Local Network in Pakistan. A large number of organisations entered into the network

sustainability reporting that was organised by a local consultant in collaboration with GRI. Later on, the same consultant was hired by FFC to provide consultancy services for preparing its first GRI compliant sustainability report.

It was observed that Organisation F was preparing both COP,<sup>150</sup> which is the requirement of UNGC, and the GRI compliant sustainability report. During interviews, it was revealed that Organisation F was put under the impression (by the consultant) that just like COP, the GRI compliant sustainability report was also the requirement of UNGC. However, UNGC and GRI are both voluntary initiatives that complement each other.<sup>151</sup> So if a company prepared a GRI compliant sustainability report then there is no need to prepare a separate COP. At the same time it is acceptable to prepare a COP only and not publish a GRI compliant sustainability report in order to be a member of UNGC. The following quotes from the interviews with the consultant and CSR manager and extracts from reports highlight the controversy and individual influence.

“..[Organisation D] was being told that it is the requirement of UNGC to report on sustainability according to GRI guidelines and this prompted them to report. You know to the extent companies perceive that this thing is optional they don’t go for it. However the matter of fact is that UNGC has no such requirement. UNGC require[s] COP but they say that if you issue a GRI report and if you link it with ten principles of UNGC then that sustainability report is sufficient.” (Sustainability Consultant).

“As per our agenda we have taken the membership of UNGC but initially nothing was done about it. One of the requirements of UNGC is to report on sustainability and to do it according to GRI guidelines. This requirement helps me in producing the report as it act [s] like a push. You know in routine we do a lot of work but to put it in writing takes a lot of time and effort and need[s] some kind of pressure or a push to do so.” (CSR Manager)

“In line with the requirement of UN Global Compact principles and Millennium Development Goals, [Organisation D] has published [its] first sustainability report in

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including FFC. Another important aspect is that during this year UNGC delisted 37 Pakistani companies due to their failure of providing communication on their progress which is a requirement from UNGC to continue the membership

<http://www.transparency.org.pk/news/newsdetail.php?nid=106>.

<sup>150</sup> Communication on progress

<sup>151</sup> UNGC provides guiding principles through which sustainability can be embedded in business practices while GRI provides the means for measuring progress and communicating organisational performance towards sustainability. UNGC requires COP from its members, which is not necessary according to the GRI framework. However UNGC promotes the GRI framework as the guiding framework for its COP.

company history, enlightening [the] company's commitment to sustainable and responsible business practices." (AR, 2011)

In addition to these events surrounding the publication year, two themes emerged from interviews exploring the motivations and expected benefits for initiating standalone SR. The first is transparency for business improvement and the second is image building for raising competitiveness. In terms of transparency, the corporate manager believes that the process of writing and publishing a report is learning-based through which everyone is allowed to see and go through the data. This transparency of business processes leads to pointing out any important things which the company is missing or has ignored, as well as the possibilities for business improvement. When materialised, this should bring betterment to the business and make it more sustainable.

"When you write and when you do data collection that whole process is learning-based. You will learn something at least. Through the process of reporting everybody is allowed to see and go through your data [which] makes you more transparent. This brings improvement in the business processes, leading towards efficiency, betterment, better sustainability of the business and ultimately/automatically leading towards sustainable development of the country."

In addition to this, SR was perceived as a mechanism for communicating business improvements through SR to stakeholders so as to maintain competitiveness. This organisation seems to believe that historically they are doing genuine work for community development and environmental conservation and protection. The reason they were not disclosing all that good work or disclosing less was their reluctance to show off and to raise the expectation of stakeholders. But then they realised that their competitors were disclosing a lot of information about these issues in their reports and media – even much more than what they are really doing. So this realisation also played an important role in the emergence and development of SR.

"Our management believes that we are working on social responsibility and sustainability for genuine reasons. We are not interested in [being a] show-off. We only want to make a difference. Secondly we don't want to raise the expectations of stakeholders as when you disclose more, stakeholders expect more. This at times becomes problematic and you have to do more. Then we realise that there are some companies who did very little work but their reports are full of colourful and good things. We have now realised that in this

competitive world image building is everything and we should not remain silent for our genuine good work.”

In terms of understanding the concept of corporate sustainability, the organisation seems to have a business view of sustainability and is mainly focusing on sustainable value creation for shareholders while acting in a responsible and transparent manner. This view of sustainability is quite clear in their understanding of issues related to sustainability and solutions related to those issues. For this organisation, sustainability is related to the business strategy and should benefit businesses. This will automatically lead to the benefits for society, the environment and overall sustainable development of the country.

“For us sustainability should be related to [the] business strategy. Sustainability can be anything which supports your business as well. It should not be that you are doing something which doesn't support your business. That is actually not sustaining the business. We develop areas of interest and we do projects in those interested areas. We do projects which are related to our customers (farmers). When business becomes sustainable it automatically leads towards sustainable development of the country.

The initiatives taken by the organisation provide a good example of this view. Challenged by the energy crisis in the country that affects their sustainability and growth, they adopted a diversification strategy and tapped into the energy business and initiated the country's first wind energy power generation plant.

“A project on wind farm is proof of our environmental consciousness. We establish a wind farm by including it in our business strategy. We were facing gas problems in the form of curtailment. Other companies are also facing such gas problems in the industry or will eventually face that. However instead of becoming part of the problem we became part of the solution and diversified our business. So wind farms were established keeping in mind [the] country's needs and limitations and obviously they are environmentally friendly and provide sustainable value creation. Country problems are/become our problems and they are all related. So if we sustain ourselves and we produce sustainable projects, ... it will ultimately benefit the country.”

This way not only do they sustain themselves through energy security and through venturing into profitable business, but they also take care of the community and environment by creating more jobs and conserving the energy thereby playing an active role in the development of the country.



## 8.9 Organisation H

Organisation H is Pakistan's third biggest maker of the farming ingredient. It was incorporated in 2003 as a joint venture between two major business groups in Pakistan. In the first quarter of 2010, the organisation became listed<sup>152</sup> as a "Public Limited Company" on all three stock exchanges and started operations under trial production. In this regard, the company is really young. In terms of social and environmental responsibility activities, some initiatives were taken after the listing of the company on the stock exchange in 2010. Before that year, the business group was involved in CSR and environmental protection through other companies in the group. This means that the company, while quite young, was part of the group which had history of being involved in social and environmental initiatives. After the listing, the new company started taking its own initiatives in a structured way.

In terms of reporting on those initiatives, the company started with reporting them in their annual report as part of the director's report. This was mainly due to the new regulation passed by SECP in 2009 that required all listed companies to disclose the amount of their social responsibility initiatives in their annual report as part of the director's report. In 2012, the company decided to initiate GRI compliant standalone SR but since many of their social and environmental initiatives were in progress they decided to wait for their results and impacts. However, in that year they recruited an external consultant for capacity building of the organisation and worked on developing appropriate systems. Finally in 2013, the organisation prepared and published its first GRI certified standalone sustainability report.

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<sup>152</sup> Through a successful initial public offering (IPO) in February 2010, 200 million ordinary shares were offered to the public bringing the issued Share Capital from 1,800 million to 2,000 million shares.

Since the start of commercial operations, Organisation H was looking towards expanding their operations overseas in order to diversify risks associated with the supply and price of natural gas in the domestic market. The fertiliser sector is the biggest consumer of gas in the country as it is used as feedstock for making fertilisers. Due to chronic shortage of gas in Pakistan, almost all fertiliser makers were getting 50% less gas than they needed to run their factories which curbed their production and profitability. Gas prices for the fertiliser industry had also gone up by 193% due to the removal of the subsidy by the government on feedstock gas and imposition of Gas Infrastructure Development Cess (GIDC).<sup>153</sup> Organisation H was created under the 2001 Fertiliser policy of GOP and was under a legal cover for uninterrupted gas<sup>154</sup> at a fixed price. Because of this cover and preferential treatment, the company was making windfall profits.<sup>155</sup> However, the situation was perceived as unsustainable as despite legal cover, the company was facing situations of repeated gas curtailment. At the same time there was great uncertainty over the availability of feedstock gas at the promised rates. Their competitors started complaining about this preferential gas price treatment to the Competition Commission of Pakistan (CCP) that had issued a ‘policy note’ to the federal government recommending an equal levy of GIDC on all fertiliser plants to eliminate cost disadvantages to pre-2001 plants for a level playing field in the market.<sup>156</sup>

To cut dependence on their home market and to diversity risks associated with the supply of gas at promised rates, Organisation H decided to expand overseas. As a first

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<sup>153</sup> <http://tribune.com.pk/story/299707/infrastructure-development-levy-gas-price-for-fertiliser-industry-to-go-up-by-193/>

<sup>154</sup> <http://nation.com.pk/business/21-May-2014/uninterrupted-gas-to-fatima-fertilizer-under-legal-cover>

<sup>155</sup> Fatima’s fixed feed gas price makes it immune to imposition of GIDC while the company makes windfall gains by matching the industry’s urea price increase. As anticipated, Fatima once again emerged as the primary beneficiary of the recent hike in gas prices. Fatima’s Cy14 profitability is expected to jack up by PKR 0.60/share.

<sup>156</sup> <http://www.brecorder.com/top-stories/0:/1194378:ccp-for-uniform-levy-of-gas-cess-on-fertilizer-plants-policy-note-issued/?date=2014-06-20>

step, the company, in order to raise its profile, registered its American Depository Receipts (ADR) in New York in March 2011 and became the first Pakistani company to do so.<sup>157</sup> Then in 2012, the company decided to set up a new factory in Africa where they were expecting to get the best gas rates and from where they were expected to export anywhere in the world, including Pakistan. These facts were revealed by the CEO in an interview published in a newspaper.

“We are looking at projects internationally for setting up new plants. Depending on the opportunity at hand, Fatima may set up more than one plant in countries including Nigeria, Algeria, Tanzania and Mozambique, where there is enough gas, which means that they will offer us good rates and good terms....The planned factory may have capacity to produce more than 1 million tons of fertilizer and besides local sales, we are looking to export from there to Pakistan and other markets....The listing will build the company’s profile among overseas investors and help it raise funds for expansion.”<sup>158</sup>

Therefore, the internationalisation strategy of the company was one of the drivers pushing the company to be involved in international best practices including SR. A similar strategy was adopted by other companies in the industry which were also involved in the practice of SR. Despite the fact that the group owns and controls a number of companies, the decision to initiate SR was only made for Organisation H. While talking to the corporate communication manager he was of the opinion that this reporting was initiated without any compulsion and because “*the company strongly believes that the interest of its broader stakeholder community, as well as the environment, is as important as the interests of the shareholders*”. However non-reporting for other companies in the group contradicts that belief and the internationalisation strategy of the company better explains the motives of the company behind initiating this reporting.

Apart from the perceived demand for more information on organisational sustainability by international investors, Organisation G wanted a benchmark against

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<sup>157</sup> <http://www.dawn.com/news/611783/first-pakistani-firm-to-list-adrs-on-wall-street>

<sup>158</sup> <http://www.bloomberg.com/news/2012-03-13/fatima-fertilizer-plans-1-billion-africa-plant-to-grow-overseas.html>

other big organisations and global trends. Therefore the main focus of the organisation was on internal and external gap analysis that formed the basis for initiating different sustainability initiatives and their reporting. Also the organisation wanted to differentiate themselves from other organisations. The corporate manager was of the view that lots of companies (including their competitors) were preparing self-proclaimed GRI compliant sustainability reports. The decision was made to initiate the process of GRI compliant reporting that should be GRI certified in order to differentiate from leaders in such reporting. As a first step, an internal team was developed and a consultant was hired to enable it. Special emphasis was given in the selection of consultant, to the point that the consultant should enable the organisation to develop systems rather than to develop a report.

“.....See, we were thinking about the different consultants about the sustainability report and the consultant that we short-listed was the one who was not working on reverse engineering.... Reverse engineering is [where] you first see the index of GRI and then you plan accordingly. So, we selected our consultant who was not working on it”.

The internal team comprised a coordinator from each department: finance, human resources, manufacturing, marketing, procurement, health, safety and environment. The overall responsibility for preparation of SR lies with the corporate communication and CSR department which comprised the head, assistant manager and a trainee officer. This department and its team liaised with the team of consultants and an internal team of departmental coordinators on different matters related to the sustainability report. Initially they all shared their understanding, concerns and what needed to be checked. All the necessary trainings were provided by the consultant not only to the top team but also to other people in the organisation. Training of the top team was deemed necessary in order to increase their commitment. After the training sessions, the internal team conducted a gap analysis based on the templates containing different questions. The purpose of the gap analysis was to see where the organisation was standing relevant to the industry and

international best practices in terms of different functions of the organisation and also in terms of different sustainability initiatives. This analysis then formed the basis of short, medium and long-term plans by the management. After internal analysis, the consultant was asked to conduct an external gap analysis and to help in the process of the report according to the GRI guidelines. The first report was prepared in 2013 which measures and reports the impacts and achievements of different sustainability initiatives undertaken by the organisation as per their plans.

In addition to the drivers and process of reporting, two themes emerged from interviews exploring the motivations and expected benefits for initiating SR. The first is transparency for improvements and the second is reputational benefits. The corporate manager is of the view that reporting helps in measuring the impact of sustainability initiatives on the business, society and environment. By making these impacts transparent, it opens up spaces for improvements. This leads towards betterment for all – a kind of win-win situation. At the same time reporting provides reputational benefits. It helps in addressing concerns of stakeholders and changing their perceptions about the organisation. However the corporate manager believes that the real usefulness of SR lies in the first point, while reputational benefits are secondary.

“...we want to measure the impact that we are creating in the society. The report will help us to know the impact of initiatives that we’re doing or taking up for the betterment of the society... SR will only be useful if you share findings/impacts and come up with areas of improvement. A sustainability report should not be a brochure, with good designing and nice quotes that make you feel good.”

“.....this [SR] brings the organisation into a league (elite) of companies where everybody looks at that organisation differently as a more responsible, more ethical organisation... It adds to the corporate brand of the organisations and makes you employers of choice, supplier of choice.”

In terms of the understanding of the concept of corporate sustainability, the organisation seems to have business view of sustainability and is mainly focusing on the eco-efficiency agenda. An extract from the sustainability report reflects this.

“While pursuing profitable activities, we will continue to identify and implement sustainable ways for growing our businesses. Our strategy revolves around achieving greater eco-efficiency through efficient use of natural resources; stewarding product safety; increasing commitment to climate change with a focus on an environmental management system that continues to lower costs and increase efficiencies.”

This view is understandable especially when the organisation is mainly looking for benchmarking against global trends and practices. Sustainability based on eco-efficiency is dominant in corporate discourse across the globe. The organisation hired a consultant from Big 4 accounting firms, and promotes this discourse. Problems with the material resources, especially energy, created problems for sustained growth. This pushed the company to go global, in search for lower costs, and to also look for opportunities for conservation and increase in efficiency.

## **8.9 Synthesis of Cases and Discussion**

The analysis reported above reflect many of the rationales as well as internal (organisational) and external (field-level) dynamics associated with SR that have already been reported in the literature. These rationales and external as well as internal dynamics are summarised in Tables 8-1, 8-2 and 8-3. This section aims to synthesise case above and to provide a theoretical discussion of empirical findings. Table 8-1 shows considerable diversity among the case companies as to the rationales for initiating SR. It also shows that for each case organisation, not a single rationale but a combination of rationales was used by corporate managers to explain the reporting decision (Buhr, Gray and Milne, 2014). Broadly speaking, all these rationales stem from the business case of SR as opposed to the social and environmental responsibility. In cases where the responsibility argument was used, this was meant to keep the business intact or help it grow, as an irresponsible business may not survive or grow in the long run (Spence and Gray, 2007). There is a general perception among the corporate managers that reporting on sustainability “*makes good business sense*”. However this business sense, to them, is

restricted to intangible/symbolic benefits. Apart from highlighting areas for improving business performance that may end up in some cost advantages in the long run, corporate managers were not convinced about the tangible financial benefits for such reporting. Collectively, lack of regulation, direct material benefits and widespread appreciation of intangible (symbolic) benefits were described by corporate managers as the major hindrance behind low uptake of SR by other companies.

**Table 8-1: Organisational Rationales for SR**

<b>Rationales</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
Managing stakeholders' concerns		✓	✓	✓	✓	✓	✓	✓
Image Management		✓		✓	✓	✓	✓	✓
Brand Building/Differentiation		✓			✓	✓	✓	✓
Transparency for Business Improvements			✓		✓	✓	✓	✓
Showcasing responsibility and Sustainability	✓			✓	✓	✓	✓	
Regulatory Compliance			✓	✓	✓			
Demonstrating Leadership / Competitive Advantage	✓					✓		
Measuring impact of sustainability initiatives								✓

The organisational cases reported above represent two major groups: big national companies and subsidiaries of multinational companies. For subsidiaries of multinationals (B, D, E), the decision to initiate SR was mainly driven by internal dynamics (see Table 8-3). Head office influence is the main driving force and this was reflected in the compliance-based rationales for SR. This influence was shaped by head office interest which in the case of D, was shaped by stakeholder demands for transparency, while for E, it was shaped by the desire to maintain a leadership position in the sustainability indices. This confirms the findings of Beddewela and Herzig (2013) that subsidiaries of

multinationals in developing countries are driven by concerns for internal rather than external legitimacy and accommodate the requirements of their head offices.

In one case (B), instead of any requirement from the head office, reporting was mainly initiated on the special interest of the corporate communication manager which confirms the role of internal champions as found in the literature (Bebbington, Higgins and Frame, 2009). However this special interest was shaped by his professional experience with WWF-Pakistan which was advocating for sustainability initiatives in the country. The idea of initiating SR was floated by the communication manager with the desire to earn a professional reputation. Reporting awards conferred legitimacy (Amran and Haniffa, 2011) and helped the corporate communication manager in winning the support of top management who were not convinced about the material benefits of SR. Reporting awards also specify the criteria of reporting and provide an opportunity to demonstrate responsibility. The winning of awards was perceived as something that will provide economic benefits in the long run through raising company status and this is how such a belief shapes the image of management rationales.

**Table 8-2: External Dynamics Shaping Organisational Decision and Rationale for SR**

<b>External Dynamics</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
Economic and Resource Challenges	✓						✓	✓
Opportunities in the external business environment	✓		✓		✓	✓	✓	
Deregulation of industry			✓					
Stakeholder demands				✓				✓
Competitor influence			✓				✓	✓
ACCA-WWF Reporting awards		✓		✓				
Workshop on SR						✓		
RBI Advocacy	✓							
UNGC Membership							✓	



For big national companies (A, C, F, G, and H), economic and resource challenges as well as opportunities in the external business environment played an important role in shaping sustainability logics of an organisation. All of these national companies represented high-impact energy-intensive industries. Three are in the same fertiliser industry (A, G, H), one represented the cement industry (F) and one represented the petroleum industry (C). For all companies in the fertiliser industry (A, G, and H), business challenges (mainly because of the energy crisis in the country) put a constraint on their ability to grow. These business challenges direct managerial attention to issues and concerns related to sustained growth. In all three cases, these business challenges were framed as opportunities by corporate managers and strategic decisions were made to address them. Such a framing by corporate managers demonstrates their role in dealing with the institutional environment (Pache and Santos, 2013).

Strategic decisions that were made in case organisations include decisions to go global, product and market diversification which changes corporate identity and culture, corporate restructuring and commitment to sustainability practices. These are part of the internal organisational dynamics (see Table 8-3) which significantly shaped the sustainability logics of an organisation. In the majority of the cases, these sustainability logics revolved around greater eco-efficiency through efficient use of natural resources. For case organisations, sustainability is an essential part of overall business strategy. Sustainability practices were perceived as innovative solutions to the current business challenges that simultaneously address societal and environmental concerns. This is the business's view/logics of sustainability which is also referred to as a weak view of sustainability in the literature (Bebbington, 2001).

**Table 8-3: Internal Dynamics Shaping Organisational Decision and Rationale for SR**

<b>Internal Dynamics</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>
Managerial Influence	✓	✓	✓		✓	✓	✓	
Concerns for growth			✓			✓	✓	✓
Corporate Restructuring	✓				✓	✓		
Change of Corporate Identity					✓	✓		
Diversification and Internationalisation	✓						✓	✓
Prior reporting experience	✓		✓	✓	✓			
Corporate culture, norms and values			✓	✓	✓			
Head office influence				✓	✓			
Creation of separate department			✓			✓	✓	✓
Extension of sustainability practices	✓		✓		✓	✓	✓	

The discussion above suggests that the scarcity of natural resources and international exposure provide case organisations with resource-based opportunities and pressures to be involved in sustainability practices for improving organisational performance (Porter and Van der Linde, 1995; Bansal, 2005). However, these opportunities are not available to everyone and only big and resourceful companies may commit to sustainability practices. This provides some explanation for the lack of sustainability practices in Pakistan where there are large numbers of small and medium enterprises. These businesses argue that the lack of resources is the reason for them not being involved in sustainability practices (Herremans, Herschovis and Bertels, 2009) and this is one of the main reason for the absence of sustainability practices in the context of developing countries (Belal and Cooper, 2011). However, at the same time not all big and resourceful firms are involved in sustainability practices which highlight the role of individuals in making sense of changes in the resource environment and framing resulting opportunities and constraints.

According to the ILP (Thornton, Ocasio and Lounsbury, 2012), these individuals are subject to higher order logics and differ in their cultural embeddedness which affects their reflexive ability and capacity to change. Individuals with broader experience are the ones who are more aware of the contradictions between logics of different institutional orders due to their education, training, professional, family and other experiences (Pache and Santos, 2013). These individuals are termed as “cultural entrepreneurs” as they can exploit these contradictions to further their interests. In the case of F, which is a family-owned and controlled company, the successive chairman who foresees opportunities for growth through international expansions was aware of the contradictions for transparency of the organisation as promoted by the institutional order of the family and corporation. He focused more on increasing the transparency of the organisation and changing the corporate identity. A similar influence was found in other cases as well where respective CEOs, as occupants of structural positions, highly influence the company-wide changes (Greenwood et al., 2011). This has been reflected by interviewees as well as can be observed through the number of changes after the change of the CEO in case organisations. The role played by key individuals and their ability to strategically deal with institutional forces is an important aspect of organisational dynamics that explains why different organisations respond differently to the resource and institutional environment (Oliver, 1991). Another aspect of these dynamics that has been confirmed in organisational cases is corporate culture, norms and values which play an important role in the involvement with sustainability practices. This can be observed in the case of C where organisations’ core values of learning and innovation are at the heart of sustainability initiatives.

In almost all cases, SR was described as a natural extension of sustainability practices that emerged as part of the sustainability logic of an organisation (Bouten and

Everaert, 2014). Previous reporting experience (Husillos, González and Gil, 2011), managerial interest and establishment of separate departments are a part of the internal dynamics that create a synergy and facilitate the introduction of standalone SR. However, one major push that drives organisational decision and rationale for SR was observed to be from the field-level “institutional infrastructure” which is made up of “field-configuring events” and “field-level intermediaries” (Greenwood, Hinings and Jennings, 2013). This infrastructure is part of the external (field-level) dynamics (see Table 8-2) and is another source of institutionally-based rationalities/logics pushed by field players/intermediaries. These logics are identified in the previous chapter where they were broadly classified as business and responsibility logics. Business logics are institutionally anchored in the societal order of market, corporation and profession while responsibility logics are institutionally anchored in the societal order of community. Under business logics, SR is justified if it provides business (material and/or symbolic) benefits while under responsibility logics SR is justified if it provides collective societal benefits.

This study confirms business logics for SR among case organisations. In some companies, sustainability was part of the business strategy and these companies were seeking leadership, prestige, image management, competitiveness and differentiation through SR. SR for some of them has symbolic currency as it enables them to display their sustainability credentials (Higgins, Milne and van Gramberg, 2014) and gives them elite status among companies where everyone sees the organisation as a transparent and responsible organisation. There was a belief that these symbolic benefits in the long run may result in material benefits.

Some important elements of the institutional infrastructure that have been identified in organisational cases include ACCA-WWF SR awards, ICAP-ICMAP SR

awards, SECP CSR Voluntary guidelines, RBI advocacy, UNGC Membership, and a CSRCP workshop on SR. Leading reporting firms are also part of this institutional infrastructure. Apart from SECP which is the regulator of capital markets and the corporate sector, all other players mainly represent professional accounting bodies, consultants and other non-governmental organisations that are shaping the logics and practice of SR in Pakistan.

Social interactions between the actors in the SR field seem to be strongly influenced by professional accounting bodies and sustainability consultants who are more inclined to propagate the market agenda in order to advance their professional reputation and commercial interests (Lodhia and Jacobs, 2013; Bommel, 2014). This shows professional capture of SR practice in Pakistan which is complemented by managerial capture by leading corporates through their focus on those aspects of sustainability that are deemed financially material and support their business case rather than demands for responsibility and accountability (O'Dwyer, 2003). Reporting leaders are playing an important role in shaping future practices by being involved in sense-giving and collective mobilisation in the form of advisory services to commercial and government organisations and sponsoring various events and award ceremonies.

At face value, the decision to initiate the practice of SR seems to be part (the second or third order outcome) of the strategic decisions taken by corporate managers with the motivation to attain business benefits. However, looking from the institutional logic perspective, behind these strategic decisions and practices are institutional logics which shape the focus of managerial attention on certain aspects of the business environment and provide them with cultural resources to rationalise their decisions (Thornton, Ocasio and Lounsbury, 2012). All of the case organisations reporting on sustainability are big (public listed) companies and are deeply embedded in the

institutional orders of market and corporation. This is quite natural that corporate managers are expected to work in the best interest of shareholders and are guided by dominant market-corporate logics of profitability, growth and shareholder wealth maximisation. Under these logics organisations are only expected to be involved in responsibility and sustainability practices if this adds to their main mandate (Adams and Whelan, 2009) or if corporate managers believe that without such practices they are unlikely to maximize shareholder wealth (O'Dwyer, 2003).

As an explanation for this, the ILP suggests that the situational context of an organisation exerts pressure or provides opportunities for change and collectively with institutional embeddedness shapes the focus of managerial attention towards new concepts and practices (Thornton, Ocasio and Lounsbury, 2012). In the case of D, this situational context include accusations of systematic bribery and stakeholder demands for transparency and responsibility which together with the desire to maximise shareholder wealth, led to the development of structures and practices to demonstrate transparency and responsibility. In the case of local companies (e.g. A, H, and G), focus on sustainability practices was observed under situations of resource scarcity. Problems with resource scarcity were interpreted as problems with organisational sustainability, profitability and growth. As an innovative solution, different initiatives were taken which among others include initiatives related to energy conservation. These initiatives were also justified using responsibility logics which shows how institutional logics can be used as cultural resources to rationalise sustainability practices strategically according to the organisational circumstances (Lounsbury, 2008). However, according to the ILP, there are limits to this strategic behaviour that have to be within the limits of institutional-based rationalities (Thornton and Ocasio, 1999)

Under market-corporate logics, practice of standalone SR makes sense if under particular situations corporate managers, proactively or reactively, realised that doing so will either create, enhance or sustain shareholder value. In some cases, initially corporate managers were reluctant to initiate standalone SR as for them such practice may not add to the bottom line in the short-run. Then on account of external institutional pressures stemming from the institutional infrastructure and resulting social interaction, ambiguity related to benefits was resolved and corporate managers realised the need for such reporting for sustainable value creation. Such realisation focuses their attention on realising long-term, symbolic benefits of such reporting. Corporate managers subsequently rationalise their decisions on account of these symbolic benefits and this is how such beliefs shape their rationales for SR.

This discussion above suggests that the decision regarding the initiation of SR was not purely the result of strategic drivers nor entirely structurally determined by institutional logics. The decision to initiate SR, however, was driven by institutional logics which were mediated by organisational dynamics and situational contingencies. Situational contingencies play an important role as particular situations increase the salience of different cultural embeddedness as well as salience of different social identities and goals (Thornton, Ocasio and Lounsbury, 2012). For example in the case of F, in situations of international expansions, family identity was perceived as a barrier which led to the transformation and change of identity. This confirms that the situational context is an important determinant for the organisational decision and subsequent processes of reporting (Gray, Adams and Owen, 2014). Although all case organisations embarked upon the practice of SR under some sort of business logic, there are large numbers of organisations which do not recognise this business case and do not report on it. Also the fact that even organisations in the same industry report at different times

reflect the importance of situational contingencies and other organisational dynamics that mediate between institutional logics and organisational action.

Legitimacy and stakeholder perspectives, as discussed in the literature review, assume strategic agency and instrumental logic in initiating SR. Neo-institutional theory on the other hand assumes the decision to initiate SR as an automatic process of a-rational isomorphic adaptation to the institutional conditions. However looking from the institutional logic perspective, the decision to initiate SR is the result of a rational decision-making process. Such a rational decision is driven by institutional logics and organisational dynamics (Herremans, Herschovis and Bertels, 2009; Vican and Pernell-Gallagher, 2013) on the basis of which managers act in dealing with existing institutional pressures and expectations, which both constrain and enable their strategic agency. Institutional logics provide managers with cultural resources which they draw upon to rationalise their fit through the use of keywords and this represents strategic agency. While managers may not even be aware that their actions, and the rationale for undertaking, them are institutionally shaped (Friedland and Alford, 1991; Higgins et al., 2014), the situational context and cultural embeddedness shape their focus of attention towards new concepts and practices.

According to the ILP, in routine situations, the situational fit between the logic and the characteristic of the situation results in automatic and taken for granted mindless behaviour. However in non-routine situations, this fit is controlled and understood as strategic agency. As per my analysis, non-routine situations shape the rationale and decision to initiate SR in case organisations. Therefore the rationality that exists was based less on the idea of automatic and taken for granted “fitting in”, as suggested by (Bebbington, Higgins and Frame, 2009, p.612), and was more grounded on the idea of controlled, strategic and situational “fit-in”, in initiating SR and related practices in such



a way that was congruent with the organisational norms, values, practices goals and strategies (Adams, 2008). Even in the case of G where mimetic mechanism (DiMaggio and Powell, 1991) was observed, looking from the ILP it was not blind, mindless and structurally determined, rather it resembled a rational and “effortful accomplishment” (Lounsbury, 2008) driven by institutional and organisational contingencies in which the company operated. This provides the explanation of why different organisations initiated reporting at different times and why there are a number of organisations which are not reporting as the assemblage of these forces may be different at different times for different organisations.

## **Chapter 9: Summary and Conclusions**

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### **9.1 Introduction**

This PhD research study explored the emergence of SR in Pakistan at multiple (field as well as organisational) levels of analysis. In doing so, the study sought to understand the logics and processual dynamics related to the emergence of SR through the lens of the ILP. The researcher utilised the ILP as the broad conceptual framework for understanding the institutional and organisational dynamics behind the emergence of SR. In this way, this study fulfilled another objective of exploring the usefulness of the ILP in explaining the phenomenon under study. The theoretical perspective which was largely unexplored in the field of SAR proved to be a promising alternative to the other institutional perspectives as it provides a systematic approach for multi-level analysis and emphasised the role of both social structures and social actors in the explanation of any social action.

The preceding three chapters focused on the findings and discussion about how the research aims were achieved and how the research questions were answered. This chapter provides an overview of the research, along with a summary of the key findings, presents conclusions, emphasises the contribution that this study has made both empirically and theoretically and identifies implications for policy and practice. The final section of this chapter points out the limitations of the present research as well as potential avenues for future research, before concluding the thesis.

### **9.2 Research Overview**

SR is an emerging phenomenon that has evolved from social and environmental reporting. Sustainability reports aim at providing information relating to an organisation's economic social and environmental performance in a balanced way. The history of SR practice in Pakistan can be traced back to the last decade of the 20<sup>th</sup> century in the form of

disclosures on social and environmental information either as part of the annual report or in the form of separate reports on corporate social and/or environmental responsibility. However the practice of SR using a standardised framework did not emerge until 2005 when one of the leading companies prepared a GRI compliant sustainability report, independent of its annual report. In the following years, the number of organisations issuing standalone reports started to grow as indicated by the database of various award schemes. Despite this growing trend of the publication of SR, it is still voluntary. The limited regulation that exists relates either to the disclosure on meeting NEQS, under the environmental laws, or to the disclosure of social responsibility initiatives by the listed companies in their directors report. Most recent regulation is in the form of voluntary guidelines by the SECP which recommends, and specify processes for, CSR reporting and assurance. In the absence of mandatory requirements for SR, the reasons underlying this phenomenon were unclear and no comprehensive study to date, is known to exist that has investigated the underlying reasons and processual dynamics behind the emergence of SR in a Pakistani context.

This research, therefore, is an attempt to provide empirical evidence for and a theoretical explanation of the emergence and development of SR in Pakistan, especially in terms of its logics and process. It has sought to investigate the emergence and evolution of the Pakistani SR field and in particular, why and how the practice of SR has been initiated by Pakistani organisations. The overall analysis was carried out at two levels. At the field-level, this research sought to explore the evolution of the field in an attempt to identify and explain institutional logics. At this level, the main emphasis has been on the role of salient events and actors in shaping the SR field in terms of its logics and practices. At the organisational-level, this research sought to explore the emergence of SR in the organisational context in an attempt to identify and explain the process and

logics for initiating SR. At this level, the main emphasis has been on the external (institutional) and internal (organisational and individual) dynamics that combine together to shape organisational logics and practice of SR.

This study adopted a qualitative, embedded case study approach using multiple sources for data collection. The data collection process involved interviews with key individuals from organisations that had direct involvement in the process of shaping the practice of SR in Pakistan. A total of 28 semi-structured interviews were carried out which were supplemented by analysis of the secondary data including reports, newspapers, books and articles. The data was then interpreted and analysed through the lens of the ILP in order to explore how various factors, at multiple levels, have influenced the emergence of SR in the context of Pakistan. Overall, this research revealed diversity in terms of organisational logics for SR, however they can be grouped together and form the business case for SR which was driven by the institutional logics of the market, profession and corporation. In terms of the process, different events and actors set things in motion and shaped the SR field. At the organisational-level, corporate managers dealt with institutional logics according to the situation and initiated SR in a fashion that suited organisational goals, norms, values and expectations.

### **9.3 Summary of Key Findings**

SR is still in its infancy in the corporate sector of Pakistan. Only a few multinationals and big national companies are involved in the practice of standalone SR. Few others are providing a limited disclosure, as part of their annual reports, on various social and environmental issues. This research study, through analysis of the interviews and secondary data, revealed the dynamics shaping the emergence of the SR field and corporate decisions, to report or not, on sustainability matters. This section intends to summarise the findings from chapters five, six, seven and eight concerning the

institutional context of Pakistan, the emergence of the SR field and initiation of the organisational practice for SR. Also an attempt is made to position these findings within extant literature and to add personal reflections on such positioning.

The institutional context of Pakistan (as explained in chapter five) provided some explanation of the institutional orders behind the presence and absence of concepts like corporate sustainability and SR in Pakistan. Traditionally, family and religion are two dominant institutional orders of Pakistani society. Under the influence of these societal orders, the concept and practice of sustainability is broadly linked with philanthropic activities (Sajjad and Eweje, 2014). However reporting on these matters is not considered appropriate as Islamic logics of *riya* (show off) and family logics of *bharosa* (trust) contradict the need for disclosure of such practices. State institutions are weak, captured by elites and lack interest in sustainability matters. Although a number of regulations exist for social responsibility and environmental protection, nothing gets implemented. Against this backdrop, the emergence and development of SR in Pakistan has been mainly driven by the institutional orders of market, corporation, profession and community.

Historical research in chapter six provided further substance to the findings mentioned above. The longitudinal historical research revealed external influence in driving the agenda of sustainability and SR in Pakistan. International donor agencies and financial institutions (such as CIDA, WB, IMF, ADB), through their involvement in macro sustainable development strategies and structural adjustment programmes, shaped the development of the sustainability field. International NGOs (for instance IUCN, WWF, UNEP, UNDP and UNGC) raised awareness and interest for sustainability practices at both the policy and business levels. Foreign buyers (e.g. EU) and investors (e.g. IFC) also played an important role in shaping the sustainability field through

market-based regulatory pressures. Pakistani companies had to comply with these pressures related to sustainability practices if they were to remain in the supply chain or to attract foreign capital. More specific influence that led to the emergence of SR was observed in the form of involvement of professional associations (e.g. ACCA), standard-setting organisations (e.g. GRI and ISO) and MNCs. Collectively these actors were involved in spreading the discourse of sustainability and in particular the business logics for sustainability and its reporting.

These findings correspond with the previous research on SR practices in the context of emerging and developing economies. Prior research confirmed external influence in the form of involvement of IFIs and investors (Rahaman, Lawrence and Roper, 2004), foreign buyers (Islam and Deegan, 2008), international standards organisations (Belal and Owen, 2007), head offices of MNCs (Beddewela and Herzig, 2013; Momin and Parker, 2013), professional associations and transnational organisations. However, prior research did not recognise the impact of this external influence on the evolution of societal (institutional) orders. In addition to the direct impact of external influence on a specific field or practice (such as SR), this research also highlighted the impact of such influence on the evolution of societal orders which in turn shaped logics of a specific field or practice (Thornton, Ocasio and Lounsbury, 2012). In the case of Pakistan, this external influence is implicated in the emergence of modern institutions of market, profession, corporation and modern track of the community which then influenced the logics and practice of SR.

This research indicated that overall, because of certain structural conditions, there is a lack of sustainability awareness and interest among different stakeholders. Some of these structural conditions revealed by the research study include: dependence on foreign aid, lack of education, lack of political will, lack of resources, lack of enforcement

capabilities and weak government structures. While some of these structural conditions act as a constraint for the spread of sustainability practices in Pakistan, this study argued that these conditions also provide margins of agency to some organisations in pursuit of the sustainability agenda. The majority of these conditions were already identified in the literature of emerging and developing economies (e.g. Belal, 2008; Ahmad, 2010; Belal and Cooper, 2011; Mahadeo, Oogarah-Hanuman and Soobaroyen, 2011; Momin and Parker, 2013). However, previous research highlighted that structural conditions led to the over-exploitation of resources in developing countries (e.g. Belal, Cooper and Roberts, 2013) and constrained the emergence of sustainability practices. While this holds true, this research highlighted that these conditions exposed a particular society to the logics and practices of external institutions which penetrated and influenced the local societal context. Through such exposure, sustainability practices were introduced in the form of a requirement of the foreign buyers, investors, donors, professional bodies or other organisations. This showed how structural conditions, while acting as a constraint, also provide opportunities for the development of sustainability practices. This was observed, for example, in the form of the involvement of donor agencies and transnational organisations in the development of various sustainability strategies, policies, rules and regulations.

Events played a major role in the emergence and evolution of the SR field in Pakistan. Overall this research has identified various events that shaped the evolution of the SR field. The most important event has been the launch of the ACCA reporting awards as it sets the norms for such reporting and provides opportunities to the organisations for earning prestige. Among other events included the launch of the UNGC Pakistan, the ICAP-ICMAP awards, regulatory pronouncements by the SECP, the CSRCP workshop and the PICG conference on SR. However, unlike events of a critical

nature (e.g. a major accident or social movement) that have been described in the literature behind the emergence of such reporting in developed countries (e.g. Hoffman, 1999), here events showed the characteristics of field-configuring events (Lampel and Meyer, 2008) such as conferences, workshops and award ceremonies that provided impetus for the development of SR.

This study concludes that these events were designed with the intention to create awareness and to trigger sensemaking processes among field participants. In the view of the researcher, these events acts like display centres and avenues for shaping the logics and practices. Multiple actors (professional associations, consultants, and large corporations, governmental and non-governmental organisations) were involved in organising and sponsoring these events. The majority of these actors through the use of keywords were highlighting the importance of SR for sustainable business growth. Some other actors were advocating for the importance of SR for better societal impact and sustainability behaviour. While previous research highlighted the involvement of multiple actors (e.g. Beddewela and Herzig, 2013; Higgins and Larrinaga, 2014) in creating a network and imposing their views (Livesey and Kearins, 2002), this research suggested that field-configuring events can be a critical mechanism in shaping logics and practices in a particular field. It also demonstrated a sort of capturing of the field by sustainability professionals, consultants and large organisations (e.g. O'Dwyer, 2003; Bommel, 2014). Interestingly, companies participated in the award ceremonies sponsored by them and organised by professional bodies. They submitted their sustainability reports prepared by consultants and ultimately received awards. After receiving an award for three consecutive years, executives of the winning company became members of the panel of judges and shaped further practice.



In chapter seven, it was shown how this research study identified multiple co-existing logics that exist in the Pakistani SR field. These logics are very much linked with the overall development of societal orders. These logics determine what needs to be expected, respected and valued (Guerreiro, Rodrigues and Craig, 2012) in the SR field in Pakistan. Overall, market, corporate and professional logics were driving the emergence of SR. Under market logics, SR is required for business survival, efficiency and profitability. Corporate logics complemented them and added elements of prestige, leadership and corporate branding whereas as professional logics focused on transparency and value creation. These logics complemented each other and created a business case for SR which was propagated through various field-configuring events mainly by professional organisations and consultants. Community logics, while not rejecting the business case, questioned the dominant market-corporate logics and focused on societal welfare, societal impact, better behaviour and responsibility as the normative basis for SR. Community organisations doubted the current practice of SR as focusing on business as compared to ethical responsibility. Family logics focused on preserving socio-emotional wealth and those family firms which placed more emphasis on the identity dimension have seen benefits in such reporting as compared to firms which focused on authority and control. Overall, the presence of multiple logics represented the heterogeneous context and institutional complexity that posed as a constraint as well as opportunities for organisational and individual action. In the presence of this heterogeneous context, very few organisations decided to report while the vast majority of organisations preferred to remain silent on these issues.

Chapter eight illustrated that those organisations that decided to initiate SR were mainly driven by the concerns for business growth rather than the concerns for society and the environment. There was a firm belief among corporate managers of case

organisations that sustainability practices and SR make good business sense. Also for corporate managers, sustaining the business meant sustaining the society and environment. It was observed that corporate managers were using a combination of rationales to explain their reporting decision. More specifically, according to them, through SR, companies were seeking stakeholder management, image management, brand building, transparency for business improvements, regulatory compliance, leadership, competitiveness and differentiation. SR, for reporting firms, had symbolic currency as it enabled them to display their sustainability credentials and make them stand as elite of companies where stakeholders perceived the organisation as a transparent and responsible organisation (Lodhia and Jacobs, 2013). There was a belief that SR may also bring some material benefits in the form of cost saving in the long run. SR in that case was perceived as a mechanism that highlighted areas for business improvements through transparency of sustainability information. Also there was a belief that symbolic benefits will be translated into material benefits in the long run. Managers of the reporting firms were trying to create an impression that SR helps in sustaining the business and that sustainable business is a responsible business that automatically leads to sustainable development of the country. If this argument is accepted then it has serious implications for realising the true potential of SR as only those issues will become material which affects the sustainability of the business rather than the sustainability of the society and environment.

Among the case organisations, head office influence was the main driving force for subsidiaries of multinational companies to initiate the practice of standalone SR. In some cases special interest of internal champions played an important role. While previous research highlighted both factors (e.g. Spence and Gray, 2007; Bebbington, Higgins and Frame, 2009; Momin and Parker, 2013; Bouten and Everaert, 2014), this

research supported the argument of Higgins, Milne and van Gramberg (2014) that both head office influence and interest of internal champions were shaped by external (institutional) pressures and expectations. Stakeholder demands for transparency and concerns for leadership in sustainability indices were found to be driving head office interest in SR. The interest of internal champions was found to be driven by previous professional experience and the desire to earn a professional reputation.

In the case of large domestic companies, economic and resource challenges as well as opportunities in the business environment shaped sustainability logics and practices. More specifically scarcity of natural resources and international exposure provided case organisations with resource-based opportunities to be involved in sustainability practices. This confirmed the resource-based view of the adoption of sustainability practices (e.g. Bansal, 2005). Sustainability practices were mainly perceived as innovative solutions to the current business challenges that simultaneously address societal and environmental concerns. Reporting on sustainability practices was considered logical as it enabled companies to demonstrate leadership in sustainability and responsibility practices. With previous reporting experience, top-management interest and corporate culture were considered as important dynamics, and the major push came from the field-level institutional infrastructure which drives the decision making process by shaping managers' beliefs about the importance of SR as a practice that makes good business sense.

Overall, the case studies highlighted that the decision to initiate SR was part of the strategic decisions taken by corporate managers' concerns over growth and sustainability. These corporate managers, through cultural embeddedness, were subject to institutional forces which both enabled and constrained their strategic agency. Findings suggested that behind the strategic decision to initiate SR were institutional logics of market, profession

and corporation which focused managerial attention on certain aspects of the business environment and provided managers with cultural resources to rationalise their decisions. Under dominant market-corporate logics it was obvious that managers were working in the best interest of shareholders and were guided by the dominant logics of profitability, efficiency, growth and shareholder wealth maximisation. SR made sense to these managers when they realised that initiating SR would bring business advantages. The situational context opened up spaces for such realisation and change in the form of pressures and/or opportunities. The situational context together with emerging institutional infrastructure in Pakistan focused managerial attention on sustainability practices and their reporting. Corporate managers dealt with institutional forces according to the situation and initiated SR in a fashion that suits corporate goals, norms, values and expectations.

#### **9.4 Research Conclusions**

Using the ILP, the study examined the emergence of SR in Pakistan. The overall analysis was carried out at two levels. At the field-level it examined the emergence of the SR field and its underlying logics. At the organisational-level it examined the initiation and implementation of SR and its underlying logics in case organisations. The following paragraphs in this section provide conclusions related to both levels which overall answers the main questions of “how” and “why” sustainability reporting emerged in the context of Pakistan.

This study concluded that the Pakistani SR field has evolved as a result of external influence through their impact on local institutional environments. Structural and cultural conditions that prevail in Pakistani society provide margins of agency to multiple actors (international and local) to further their interest and promote SR through field-configuring events. During these events various actors were involved in shaping the SR

field through the narratives they use to justify their reporting practice. Multiple logics co-exist in the SR field in Pakistan. However the emergence of SR is mainly driven by the constellation of market, corporate, and professional logics which complement each other in making the business case for SR in Pakistan.

Unlike previous studies that emphasised strategic motivations or institutional forces, this study confirmed that the decision to initiate SR was driven by institutional forces that were mediated by organisational dynamics and situational contingencies. Corporate managers were using a mix of rationales for justifying their reporting decision. More specifically, through SR, companies were seeking stakeholder management, image management, brand building, transparency for business improvements, regulatory compliance, leadership, competitiveness and differentiation. Collectively, all these rationales stem from the business logics that exist at the field-level compared to the community logics. The overall conclusion that can be drawn for this research study is that the combination of market, corporate and professional logics was implicated in the emergence of SR in Pakistan.

## **9.5 Research Contributions**

This research study makes some empirical and theoretical contributions to the literature which is outlined in detail in this section.

### **9.5.1 Empirical Contributions**

This research adds to the relatively small but emerging empirical body of research studies which adopts an emerging and developing country perspective (e.g. Belal and Owen, 2007; Islam and Deegan, 2008; Belal and Roberts, 2010; Islam, 2010; Amran and Haniffa, 2011; Belal and Cooper, 2011; Beddewela and Herzig, 2013; Belal, Cooper and Roberts, 2013; Momin, 2013; Momin and Parker, 2013). As far as the researcher is

aware, to date, no prior research study has been carried out within the SAR discipline in the context of Pakistan. There are a few professional reports, magazine articles and white papers that are available on this topic in the context of Pakistan. Therefore, this is the first comprehensive study on the practice of SR in Pakistan. It provides a detailed analysis of the logics and process underpinning the emergence of SR in Pakistan. Such an analysis contributes to the literature by providing empirical insights from a developing country perspective which can be used for comparative studies.

Empirical studies that look into the reasons for the presence of SR are very common in the literature. Studies that explored reasons for the absence of such reporting are relatively underdeveloped in the literature of both developed and developing countries (Belal and Cooper, 2011; Stubbs, Higgins and Milne, 2013). Similarly research studies which explored the processual dynamics, rather than reasons only, are scarce in the literature of both developed and developing countries. This research adds to the empirical domain that focuses on processual dynamics behind the emergence and development of SR (e.g. Adams, 2002; Buhr, 2002; Adams and Larrinaga-González, 2007; Adams and McNicholas, 2007; Adams and Frost, 2008; Bebbington, Higgins and Frame, 2009; Lodhia and Jacobs, 2013; Contrafatto, 2014; Higgins and Larrinaga, 2014; Stubbs, Higgins and Rinaldi, 2014). Although the focus of this study is on the emergence of SR, by elaborating the institutional dynamics, this study also gave some empirical insights into the reasons for the absence of such reporting in the context of Pakistan.

Another empirical contribution which this research study made to the SAR literature is that it provides a rich historical as well as interpretive account of the emergence and evolution of the SR field. These studies have been surprisingly absent to date, as observed by various scholars commenting on the general lack of qualitative work in the SR field (e.g. Gray, 2002; Parker, 2005; Owen, 2007). Also there are some recent

calls by researchers to engage with the field and to investigate field-level dynamics (Correa and Larrinaga, 2015), especially the initiating events (Higgins and Larrinaga, 2014, p. 279). This study demonstrates the researcher's engagement with the field and contributes towards a more dynamic understanding of the field in terms of the events and other driving forces, and also the challenges ahead, in developing the practice.

### **9.5.2 Theoretical Contributions**

Most prior research has investigated SR practices from a stakeholder or legitimacy perspective. In recent years scholars have paid attention towards investigating the phenomenon using institutional perspectives (e.g. Larrinaga-Gonzalez, 2007; Bebbington, Higgins and Frame, 2009; Higgins and Larrinaga, 2014). Neo-institutional theory and the institutional entrepreneur perspective are the two variants of the institutional perspectives that have been employed in extant SAR studies. Details of these theoretical perspectives and what sort of theoretical insights they bring to the literature can be found in the literature review chapter. The ILP as developed by Thornton, Ocasio and Lounsbury (2012) is another variant that can address the limitations of both the neo-institutional theory and the institutional entrepreneur perspective. As far as researcher is aware, no prior research exists in the SAR literature that has employed the ILP. At the same time research studies adopting the ILP in the context of emerging and developing economies are scarce (Sarma, 2013).

By adopting the ILP in studying SR in the context of Pakistan, this study has made contributions to the extant literature on sustainability reporting and institutional logics. This study contributes to Higgins and Larrinaga (2014) call for exploring the usefulness of the institutional perspectives in SR as well as Sarma (2013) call for exploring the usefulness of the ILP in the context of emerging and developing economies. This study also contributes to the calls for multi-level analysis that should take account of

societal, institutional and organisational factors in explanations of SR practices (Parker, 2005; Aguilera et al., 2007). Overall, this study argued that given the embeddedness of organisations and individuals, practicing SR in the institutional context that varies in different societies, understanding of institutional and organisational dynamics is important to examine the logics and practice of SR.

This research demonstrated the usefulness of the ILP through which to view logics and processual dynamics that have influenced the emergence of SR in Pakistan. This study argued that the ILP provides a more refined perspective compared to the other theoretical perspectives used in the literature: legitimacy theory, stakeholder theory, neo-institutional theory and the institutional entrepreneur perspective. The ILP differs from the outset in terms of its orientation on heterogeneity and practice variation as compared to other institutional perspectives which focus on homogeneity and isomorphism (Thornton and Ocasio, 2008). However, there are some elements in the ILP that overlap with, and complement, elements of other theoretical perspectives. Compared with the legitimacy theory, stakeholder theory and the other institutional theories reviewed in chapter two, the ILP provided an excellent basis to account for and helped explain the emergence of a complex phenomenon. It paid special attention to the multiple levels (macro, meso and micro) and enables a more detailed account of institutional, organisational and individual dynamics. More specifically, the usefulness of the ILP was observed in the following ways.

First, looking from the ILP perspective, SR can be viewed as an institution that is socially constructed by subjects through the subjective meanings and material practices which collectively constitute the logics of this institution. However, both the subjective meanings and material practices are both enabled and constrained by the higher level (societal and field) institutional beliefs which need to be explored in order to understand



the social construction process of SR. The ILP then provides the conceptual tools for such exploration.

The conceptualisation of society as an interinstitutional system is a useful concept for understanding the higher level institutional beliefs that both enabled and constrained the symbolic constructions at lower levels. It helped in illuminating the heterogeneous nature of Pakistani society in terms of the evolution of different societal orders and their implications for different practices. This conceptualisation differs from legitimacy theory which considers society as a homogenous group and disregard important forces behind shaping practices in a particular field. On the other hand, while stakeholder theory considers the heterogeneous nature of society in the form of different stakeholders having heterogeneous demands, it falls short of revealing the macro forces behind heterogeneity of such stakeholder demands. For instance, the institutional order of the community and its underlying logics play an important role in shaping the demands of non-governmental and/or other community organisations. This study, therefore, argued that such an understanding of the societal context is necessary to reveal the complexity of drivers for both the presence and absence of SR.

The conceptualisation of the field as a constituent of the “*variety of organisations that have their values anchored in different societal-level institutional orders*”(Thornton, Ocasio and Lounsbury, 2012, p. 44) provided insights into heterogeneity of the field that showed implications for practice adoption, non-adoption and variation (Lounsbury, 2008; Ansari, Fiss and Zajac, 2010). The perspective assumes that different logics may be associated with different actors due to their embeddedness in different institutional orders (Reay and Hinings, 2009). For example, accountants and environmentalists may be guided by different competing logics under the influence of the professional and community order. Such a conceptualisation helped in exposing competing and

complementary logics that exist at the field-level and the role of actors in advancing them through communication, coordination and contestation. In this way, this lens is quite useful in answering questions being raised in recent institutional studies in the field of SR in terms of the role of actors in shaping the SR field and its influence on organisations.

The framework is also useful for revealing internal organisational dynamics (for instance organisational culture) in order to understand how these dynamics interplay with external dynamics and influence reporting practices. In this way, the theoretical framework deals with both the external and internal dynamics on the initiation of SR practices. On one hand, by focusing on the societal and field-level, it provided a foundation for the analysis of the external factors affecting SR practices. On the other hand, the importance of internal factors was also recognised in the form of organisational values, practices and identities.

This study, therefore, concludes that the ILP provides interesting and valuable theoretical constructs and processes to explore the question of why and how SR has emerged in a particular society. Using the ILP, this study offered some theoretical contributions to the literature on SAR. This study confirmed that SR in developing countries is mainly driven by external forces. However this study takes the argument one step further and explored how structural and cultural conditions provided spaces for such forces and how these external forces influence different societal orders which have implications for the emergence of practices like SR. This study demonstrated how modern institutions of market, corporation and profession are emerging under strong external influence and enabled SR, whereas traditional dominant institutions of family and religion are acting as constraints. An important contribution of this study is the strategic agency of multiple actors through field-configuring events that set things in motion and develop the SR field. In the view of researchers, these events act like display

centres for the different institutional logics of SR. These events were captured by a few actors, mainly large corporations, professional bodies, and consultants. Therefore, these events were promoting corporate-market and professional logics more as opposed to community, family and religious logics.

At the organisational-level this study contributes to the literature by showing that initiating the practice of standalone SR is the result of a rational decision making process which is driven by institutional logics and organisational dynamics. Unlike neo-institutional theory which assumes a binary view of rationality (technical vs. institutional), this study argues for multiple institutional-based rationalities that enable strategic agency. Corporate managers deal with institutional pressures and expectations by drawing upon a combination of logics which demonstrates their strategic agency. Non-routine situations exposed case organisations to institutional pressures and expectations and shaped their decision to initiate SR. Therefore the rationality that exists was less based on the idea of automatic and taken for granted “fitting in”, as suggested by Bebbington, Higgins and Frame (2009, p. 612), and more grounded on the idea of controlled, strategic and situational “fit-in”, in initiating SR and related practices in such a way that was congruent with the organisational norms, values, practices goals and strategies (Adams, 2008).

This research developed the ILP by recognising business logics and responsibility logics as two logics that exists in the sustainability reporting field in Pakistan. Business logics are the combination of market, corporation and professional logics while responsibility logics are instantiation of community logics. In this way by employing the ILP in the empirical context of Pakistan, this research not only confirmed the presence of multiple logics but also demonstrated the relationship between these logics which is a recent work in the institutional logics studies (e.g. Goodrick and Reay, 2011; Waldorff,

Reay and Goodrick, 2013). This research demonstrated that multiple logics co-existed in the cooperative relationship to make the business case for SR in Pakistan. This research has also paid attention to and further developed the institutional logics of family which is very much underdeveloped and under-researched in the literature on institutional logics (Fairclough and Micelotta, 2013).

## **9.6 Practical Implications**

The practice of SR has the potential to bring positive changes to the business, society and environment. In Pakistan very little practice that has emerged was found to be driven by the concerns for, and perceived benefits of, SR in achieving business growth. While this study has recognised the efforts of a number of organisations in promoting SR by highlighting the benefits it can accrue for the business, there is still very little appreciation of these benefits among the business community in Pakistan. This suggests that current trends in promoting SR must be continued. The current work of local and international organisations needs to be expanded and more widely supported.

From a practical point of view, understanding the conditions that influence the logics of corporate decision makers will improve our understanding of what motivates firms to engage in the practice of SR. In a societal context where there is lack of sustainability awareness and interest at the socio-political level, promoting SR through business logics seems essential as it motivates firms to initiate SR. However it is necessary to understand the limitations of the business case for wider societal impacts. In the view of the researcher, business logics delimit managerial attention only on those sustainability issues and their disclosures which enhances organisational, instead of social and environmental, sustainability. Also an organisation may be involved in the practice of SR in a symbolic manner. They may provide disclosure of selective and partial social and environmental information. SR, if developed or applied more extensively in this way will

lead towards its use for advertising, branding, public relations and image construction rather than its intended use for increasing transparency, accountability and sustainability performance. Therefore wider engagement especially with non-business actors (such as community organisations, environmentalist and academics) is required to hold more informed debates about the role of the business logics, and, of course, its limits. At the same time there is a need to improve stakeholder awareness for social and environmental sustainability issues so that they can influence reporting practices.

Being an Islamic country, religious beliefs played an important role in shaping various aspects of Pakistani society. However, there was a very little reflection of Islamic beliefs as the motivating force for sustainability practices. Only the practice of charitable donations, which was perceived as fulfilling responsibility and sustainability, was found to be driven by religious beliefs. Islam has a number of codes and guiding principles about social justice and environmental protection that needs to be propagated in order to encourage sustainability behaviour among individuals and organisations. While Islam discourages disclosure of good deeds and acts of social responsibility, for show-off purposes, such disclosure can be justified if made with the intention to encourage others to work for the betterment of society and the environment. Islam teaches us to focus attention on substantive actions. Therefore in the view of the researcher, if Islamic logics permeate the practice of social and environmental sustainability, it will result in better sustainability behaviour and substantive actions. This is better than mandating SR through regulation as in a country where there is lack of an enforcement capability, regulation will not work. This study therefore does not recommend mandatory SR unless some changes are induced in the structural and cultural conditions. More emphasis is needed on the institutions and capacity building, such as establishing the rule of law, empowering civil society organisations, and promoting community and Islamic logics, in

the relative absence of which these initiatives are worthless. This research therefore calls for non-business actors to engage with the field which is mainly captured by business actors.

Analysing an accounting practice such as SR through the lens of the ILP has implications for managerial practice as well. The theoretical framework highlights the role of corporate managers in dealing with the institutional environment and to construct rationales for sustainability practices which should be appealing to stakeholders so that legitimacy can be maintained. In the case of an institutional environment where there is plurality of stakeholder demands for sustainability practices driven by different logics the theoretical framework stipulates the need to employ the language which combines the elements of multiple logics. However, linking practice through language with plurality of logics remains a challenging task that may require more specific managerial training and skills. Therefore, there is a need to educate and train current and future managers in understanding the plurality of institutional demands and how, through language, SR can be used to address these demands.

## **9.7 Research Limitations**

This research attempted to study the process of initiation and implementation of SR in organisations using the institutional logics perspective. In exploring organisational dynamics, this research relied on the empirical data from eight organisations that have initiated standalone sustainability reports in recent years. Although the narratives gathered from these eight case studies have provided explanations for their decision to report, yet there is a possibility that some of the insights may turn out to be deeply localised and specific to that particular organisations and particular time period. There is a possibility that other Pakistani organisations may be driven by a different set of institutional and organisational dynamics not captured by this research study. Due to the

nature of research study covering multiple levels, organisational cases were analysed and discussed as mini case studies. There is a possibility that more in-depth studies instead of eight mini case studies would have provided additional or different insights. Also the use of a different theoretical perspective would have told us different stories about the organisations involved in the initiation and implementation of SR.

In exploring the field-dynamics, this research study targeted significant social actors who have a background and were involved in SR, such as corporate communication managers of listed firms, regulatory authority officials, accounting bodies' representatives, some environmental NGOs, consultants and academics, so as to gain their perception of issues pertinent to the research study, its themes and research questions. Since the influential institutional orders in Pakistani society are family and religion, different social actors from these institutions can be interviewed to gain more insights about the impact of these institutions on SR. For example, religious people can be interviewed to gain their perception on the role and influence of religious institutions on SR. In this study these insights are obtained indirectly by seeking views from significant social actors which explain family and religion as social constraints for the emergence of SR. More direct views from family businesses and religious people may provide additional or different insights.

This research study focused on the initiation of SR by taking into account the perceptions of organisations that have already adopted SR practices. It may be argued that in order to develop a fuller and richer understanding of competing organisational logics, it would be important to critically examine organisations currently abstaining from SR practices and the organisational logics behind their abstinence. Also it would be interesting to know how these competing organisational logics related to the institutional logics that prevail at the field-level and/or at the societal level. This would help in a

comprehensive understanding of both the presence and absence of SR in a particular context.

## **9.8 Potential Avenues for Future Research**

Due to the lack of research into SAR practices in the context of developing countries in general, and of Pakistan in particular, there are many potential avenues for future research. Given the limitations identified in the previous section, one avenue for future research could be a detailed case study for investigating more than one aspect of the SR practices within a single organisation. Particularly, future research should focus more on intra-organisational dynamics and how logics are used on the ground. Research could explore how social actors translate logics into action as they engage in different SR processes - for instance stakeholder management and materiality analysis. Such kinds of research can involve multiple participants within one company. In this way, future research should aim to capture the complexity of organisational approaches to SR through detailed case studies which could adopt an action research approach (Adams and Larrinaga-González, 2007) or a naturalistic interpretive and ethnographic approach.

More research shall be encouraged to enhance the theoretical understandings of the dynamics, contingencies and complexities of the organisational behaviour related to the initiation of SR. Also a more in-depth study is required to investigate the effects of the attempts to institutionalise SR on actual organising practices. Similar research could be carried out in other contexts to investigate the influence of different institutional forces and organisational responses across contexts to extend the findings of this study.

Lastly, future research can extend the findings of this research related to the role of field-configuring events as display centres for logics and practices related to SR. During the research it was discovered that one of the case organisations was selected for the pilot programme for integrated reporting (IR). Future research in Pakistan may



consider the call by Higgins et al. (2014) for understanding whether the field forming around IR is an extension of the SR field, or whether it is entirely a new one.

## **9.9 Final Remarks**

This chapter has concluded the summary of the key findings in this study and has suggested some practical implications. The chapter also outlined the overall contributions the research makes to the extant literature as well as suggestions for future research. Although this thesis is subject to the limitations mentioned above, the researcher believes that the present study has addressed its objectives and has contributed to the literature by adding rich empirical insights, from a developing country perspective, and theoretical insights from the institutional logics perspective.

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## Appendices

### Appendix A: Profile of Case Organisations

S.No	Organisation	Core Business	Diversified Portfolio	Head Office	Ownership & Control	Reporting Year
1	A	Fertilisers	Food, Energy, Chemicals	Karachi	Local Business Group	2005
2	B	Packaging	Nil	Lahore	Multinational	2006
3	C	Petroleum	Energy, Cement	Islamabad	Foreign Business Group	2007
4	D	Engineering	Nil	Karachi	Multinational	2009
5	E	Chemicals	Nil	Karachi	MNC recently acquired by family group	2009
6	F	Cement	Energy, Chemicals	Karachi	Family group	2011
7	G	Fertilisers	Energy, Food, Financial Services	Islamabad	Fauji (Army) group	2011
8	H	Fertilisers	Textiles, Sugar, Energy	Lahore	Family Group	2013

## Appendix B: Letter for Research Participation

Date: xxxxxxx

Name of Participant: xxxxx

Designation and Organisation: xxxxx

Subject: Request for Research Participation

Dear xxxxxxx,

I am writing to request you for participation in a research study for exploring the practice of corporate sustainability reporting in Pakistan. Main objective is to understand the rationale and process of initiation and development of such reporting in Pakistan. The project is undertaken by me, Mr. Zeeshan Mahmood, under the supervision of my research supervisor Prof. Shahzad Uddin from the University of Essex, United Kingdom.

In order to provide insightful input to our research, I would like to have a skype interview, lasting no longer than 60 minutes, with you. During the meeting I would like to explore few themes related to the emergence and development of corporate sustainability reporting in Pakistan. A draft list of those themes is attached with this letter just to give you an idea of the discussion which will be mainly open to your valuable insights.

I would like to assure you that **all the information provided will be kept strictly confidential**. Although the results of this research may be published and/or presented at academic conferences, no mention will be made of the individual persons participating in the research project.

Academic researchers rely upon the co-operation of practitioners in completing these types of studies to advance knowledge. In return for your support, we intend to provide you a summary of our findings. Your contribution is vital to the success of this study and is greatly appreciated

I am looking forward to hearing from you soon!

Yours sincerely,

**Zeeshan Mahmood**

Ph.D. Candidate in Accounting

Essex Business School

University of Essex

Wivenhoe Park, Colchester,

United Kingdom, CO4 3SQ

E-mail: [mzeesh@essex.ac.uk](mailto:mzeesh@essex.ac.uk)

Cell: +44(0)7816587956; +92(0)3008631005;

## Appendix C: List of Research Participants

S.No	Code	Interviewee Designation	Organisation
1	SE1	Commissioner	Securities and Exchange Commission of Pakistan
2	SE2	Director Enforcement	Securities and Exchange Commission of Pakistan
3	MT1	CEO	Karachi Stock Exchange
4	PN1	Country Head	Association of Chartered Certified Accountants
5	PN2	President	Institute of Cost and Management Accountants of Pakistan
6	PN3	Partner	Muhammad Imran Associates – Management Consultants
7	PN4	Director	Corporate Social Responsibility Centre of Pakistan
8	CY1	Professor	Syed Zulfiqar Ali Bhutto Institute of Science and Technology
9	CY2	Project Manager	Leadership for Environment and Development
10	CY3	Country Head	Wildlife Welfare Fund
11	CY4	Research Associate	Sustainable Development Policy Institute
12	CY5	CEO	Pakistan Institute of Corporate Governance
13	CY6	Founder	Responsible Business Initiative
14	CE, A1	Head of Corporate Communication	Organisation A, Fertilisers
15	CE, A2	Executive Corporate Communication and PR	Organisation A, Fertilisers
16	CE, B1	Communication Manager	Organisation B, Packaging
17	CE, C1	Manager HR and CSR	Organisation C, Petroleum
18	CE, C2	Manager HSEQ	Organisation C, Petroleum
19	CE, D1	Head of Corporate Communication	Organisation D, Engineering
20	CE, E1	Manager Corporate Communication and Public Affairs	Organisation E, Chemicals
21	CE, F1	Head of Corporate Communication	Organisation F, Cement
22	CE, F2	Manager Brand and Corporate Communication	Organisation F, Cement
23	CE, G1	Deputy Manager CSR	Organisation G, Fertilisers
24	CE, G2	Executive CSR	Organisation G, Fertilisers
25	CE, H1	Executive Corporate Communication and CSR	Organisation H, Fertilisers
26	CE, H2	Executive Finance	Organisation H, Fertilisers
27	CE, I1	Managing Director	Organisation I, Oil and Gas
28	CE, J1	Executive Finance	Organisation J, Tobacco

## **Appendix D: Interview Guide**

1. Introduction of the research project
2. What is the role of you/your organisation for the development of sustainability reporting?
3. What have been important developments over time in the development of sustainability field in general and reporting on sustainability in particular?
4. What are important sustainability issues facing Pakistan and how to address them?
5. What is the need for sustainability reporting in the context of Pakistan?
6. What benefits can accrue to the organisation and society pursuing sustainability reporting?
7. How do you see corporate involvement in sustainability reporting? Why they are doing so?
8. How do you see current practice of sustainability reporting in terms of current challenges and future prospects? What are the main drivers and barriers of sustainability reporting?
9. What are your views about current regulation for sustainability practices in general and sustainability reporting in particular?
10. Do you think there is a need and relevance of international standards and guidelines in sustainability reporting?
11. Which other actors in the sustainability reporting field has been involved in its development? What is their role in the development of sustainability reporting?
12. Any important event that in your view has played an important role in the development of sustainability reporting.
13. Do you know other important players in the field who would be useful participants?

In addition to some of the questions above, following questions were explored from corporate managers of organisations that have initiated sustainability reporting.

14. What does term “sustainability” and sustainability reporting” means to you and your organisation?
15. In the absence of any mandatory requirement, why you make disclosures on sustainability issues in the form of a separate report.
16. What are important developments over time that led to the publication of sustainability report?
17. Who took this initiative? Why?
18. How do you prioritise sustainability issues in your business strategy?
19. How many people are involved into the process of sustainability reporting? What are their professional qualifications and professional associations?
20. What is the extent of involvement of other departments in the reporting process?
21. How organisation has built its capacity for sustainability reporting? What are organizational arrangements for creating awareness of such reporting within the organisation?
22. Is there any system in place for collecting the information required for preparing sustainability report? Did you manage to get all the information? How? Any issues?
23. How you decide what to disclose and what not to disclose?
24. Which stakeholder groups do you consider most important for your company and why? Do you consult them in your reporting process? How? If not why?
25. To what extent do you think stakeholders should have a say in the way you do your business? In case of conflict of interest how you resolve that conflict?
26. How good news and bad news are dealt with and whether or not report showed a “full picture” of SD impacts?

## Appendix E: Consent Form

**Mr. Zeeshan Mahmood**  
Ph.D. Candidate in Accounting  
Essex Business School,  
University of Essex, UK  
Email: [mzeesh@essex.ac.uk](mailto:mzeesh@essex.ac.uk)  
Cell: +44(0)7503086962  
+92(0)3008631005

### To Whom It May Concern

I am currently conducting interviews on the emergence and development of corporate sustainability reporting in Pakistan.

This research is being carried out for strictly non-commercial purposes as part of a Ph.D. project at Essex Business School, University of Essex under the supervision of Dr. Shahzad Uddin and Dr. Kelum Jayasinghe. Interview respondents are assured that their personal details will not be used in any way, that the data gathered will be treated confidentially, and that interview material will not be quoted out of context.

I would also like to assure you that this study has been reviewed and has received ethics clearance through the Office of Research Ethics at the University of Essex. I will be happy to provide more details of this work should this be required. In case you are not happy with the way this research is being conducted, you can contact my research supervisor Dr. Shahzad Uddin at [snuddin@essex.ac.uk](mailto:snuddin@essex.ac.uk).

### Participant's Agreement:

I am aware that my participation in this interview is voluntary. If, for any reason, at any time, I wish to stop the interview, I may do so without having to give an explanation. I understand the intent and purpose of this research and how information shared would be used and I consent to participate in today's interview.

\_\_\_\_\_  
Participant's signature

\_\_\_\_\_  
Participant's Name

\_\_\_\_\_  
Interviewer's signature

\_\_\_\_\_  
Date

## Appendix F: Salient Laws and Regulations for Corporate Sustainability and Reporting

The Constitution of the Islamic Republic of Pakistan, 1973	Various articles of the constitution prescribe essential human rights based principles. The state, for example, is responsible for ensuring full participation of women in all spheres of national life (article 34); just and humane conditions at work (article 37); wellbeing and basic necessities of life such as food, clothing, housing, education and medical relief for all persons while reducing income disparity (article 38)
The Pakistan Standards and Quality Control Act, 1996	Under this Act, Pakistan Standards and Quality Control Authority was established as national standardisation body. The Authority started functioning on 1 December 2000, comprising three integrated components, namely Standards Development Centre (SDC), Quality Control Centre (QCC), and Technical Services Centre (TSC). All ISO Standards (About 14000) have been directly adopted as Pakistan standards. The authority also works for the enforcement and implementation of ISO standards and assistance to local industries to obtain certifications for these systems <sup>159</sup> .
The Pakistan Environment Protection Act, 1997	The Act provides the framework for the implementation of the 1992 National Conservation Strategy including sustainable development funds, protection and conservation of all species, conservation of renewable resources, establishment of environment tribunals, appointment of environmental magistrates and assessment of environmental impacts. It also includes the requirement for industries to report voluntarily on National Environmental Quality Standards.
The Companies Ordinance, 1984	The Ordinance is the principal legislation through which the conduct of for-profit business in Pakistan is regulated.
The Code of Corporate Governance, 2002	The code, which was made mandatory for all listed companies, makes board of directors responsible to formulate significant policies having regard to materiality, where ‘significant policies’ for this purpose includes ‘Health Safety and Environment (HSE)’. These codes also identify significant issues to be placed for decision by the board of directors and include, among other things: any significant accidents, dangerous occurrences and incidents of pollution and environmental problems involving the listed company. These sections only require compliance by listed companies, and only relate to the environment and the environmental effects an organization may have on society. The code, however does not have anything specific to say about the

<sup>159</sup> <http://www.psqca.com.pk/about/index.html>

	other non-financial impacts and obligations of a business, for example those related to social responsibility.
The Companies (Corporate Social Responsibility) General Order, 2009	The order prescribes disclosure of activities undertaken by companies that impact sustainability. According to General Order these disclosures, wherever required, shall include, but shall not be limited to the following: corporate philanthropy , energy conservation, environmental protection measures , community investment and welfare schemes , consumer protection measures, welfare spending for under-privileged classes, industrial relations, employment of special persons , occupational safety and health, business ethics and anti-corruption measures, national-cause donations, contribution to national exchequer, rural development programmes.
The National Climate Change Policy, 2012	The Policy was issued by Ministry of Climate Change, Government of Pakistan and is promoting Clean Development Mechanism (CDM), for energy efficiency and energy conservation, in Pakistan. The policy made recommendation for the preparation of voluntary CSR guidelines and to encourage the corporate sector to create a CSR fund to cover carbon emission reduction efforts in industrial sector. The policy also made recommendation to promote disclosure of energy efficiency / fuel consumption rates and to gradually make such disclosure mandatory.
The Corporate Social Responsibility Voluntary Guidelines, 2013	The guidelines were issued by the Securities and Exchange Commission of Pakistan. The guidelines, focus on promoting a CSR culture in the company by identifying key aspects of establishing CSR processes in the company – placing emphasis on various stages of how CSR should be integrated in business practice, mainly focusing on identifying a CSR consultative committee, on developing a CSR Policy, identifying goals and achievements, and related disclosure and reporting, and independent assurance of CSR performance.



## Appendix G: Multi-Stakeholder Initiatives for Corporate Sustainability and Reporting.

Pakistan Compliance Initiative (PCI)	PCI was launched, by private sector, in 2003 to tackle the environment, labor and other such issues that exporters could face in the world market. As a result of this initiative government set up a Pakistan Compliance Initiative Board (PCIB) to facilitate exporters, in meeting such international social and environmental compliance standards as ISO-9000, ISO-14000, and SA-800. Although compliance was declared a priority in the national trade policy, little progress was seen at the practical level.
Responsible Business Initiative (RBI)	RBI is the Pakistan's first enabler of socially responsible business. It offers a neutral forum for business-stakeholder dialogue towards shared goals of sustainable development and responsible business in the region. RBI is directly involved with appraisal, active research benchmarking, and capacity-building interventions on Responsible Business since 1997. Emerging from almost a decade of direct and intensive engagement with its diverse stakeholder universe is RBI's Responsible Business Guide, a conceptual and process framework to help businesses and their assessors determine the direction of CSR and its impact on the bottom-line.
Global Reporting Initiative (GRI)	GRI is a multi-stakeholder, network-based organisation which promotes the use of SR as a way for organisations to become more sustainable and contribute to sustainable development. GRI has developed a comprehensive SR Guidelines, first version of which was launched in 2000 and known as G1 guidelines. Second (G2) and Third (G3) generation of guidelines were launched in 2002 and 2006 respectively. The uptake of GRI's guidelines was boosted in 2006 after launch of G3 guidelines. Latest version of guidelines was launched in 2013 and known as G4 guidelines. GRI enjoys strategic partnerships with the UNEP, UNGC, OECD, ISO and many others. GRI also provide other services for its users which involves coaching, training and certification. In Pakistan, GRI is working in collaboration with CSRCP (official GRI data partners) for the development of GRI compliant SR.
International Standards Organisation (ISO)	ISO is an independent, non-governmental membership organisation and the world's largest developer of voluntary international standards. Members of ISO are the national standards bodies of 163 member countries around the world. ISO has publishes more than 19,500 international standards covering almost every industry, from technology, to food safety, to agriculture and healthcare. ISO has been instrumental in international trade. PQCSA is the member body of ISO in Pakistan which has adopted all ISO standards as national standards. <sup>160</sup> Among the most relevant standards in the context of sustainability include ISO14000:2004 which require certified

<sup>160</sup> <http://www.iso.org/iso/home/about.htm>

	companies to communicate / report on significant environmental aspects. The trend towards ISO 14000 registration is increasing among the corporate world of Pakistan at a very fast pace.
United Nations Global Compact (UNGC)	UNGC is part of the United Nations Environment Programme (UNEP), which provides guidance on sustainability issues through its principles based framework. The principles of the Global Compact broadly address the issues of: human rights, labour standards, the environment and anti-corruption. Organisations that commit to the Global Compact are expected to report their progress, in the form of Communication on Progress (COP), on an annual basis. Pakistan chapter (Local Network) of UNGC was launched in 2005 when nearly 50 Pakistani companies signed a GC charter to document the voluntary subscription to GC. Currently there are 82 active members on the local network of UNGC. In recognition of business enterprises showing tangible progress towards mainstreaming responsible business practices in line with the UNGC 10 principles, Local Network in partnership with RBI confer Global Compact Responsible Business Awards in different categories.
The International Federation of Accountants (IFAC) Sustainability Framework 2.0	The framework is developed by the Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC). This framework highlights the important roles that professional accountants play in facilitating the sustainable development of their organisations, along with the importance of adopting an integrated approach to business reporting. The Framework pushes organisations to make sustainability an integral part of their business model. The IFAC Sustainability Framework provides guidance on embedding sustainability into an organisations strategy, and can be applied to entities of all sizes and complexities. The reporting perspective is to provide guidance on how to improve stakeholder communications, based on SR and providing an integrated view of environmental, social and financial performance.

## Appendix H: Salient Events, Actions and Developments in the Pakistani SR Field

Year	Description of salient events, actions and developments
1972	Pakistan participated in the UN conference on human environment.
1973	The word 'environment' was added to the list of subjects for concurrent jurisdiction in the 1973 constitution of Pakistan.
1973	A new division named Environment and Urban Affairs Division (EUAD) was created under the Ministry of Housing.
1983	Pakistan's first environmental protection ordinance (PEPO) was enacted.
1987	The Brundtland report, "Our Common Future", was published.
1988	A secretariat for the Pakistan National Conservation Strategy (NCS) was established.
1989	The EUAD was upgraded to a full-fledged Ministry of Environment, local government and rural development (MOELGRD).
1991	Start of the liberalisation phase and market-based reforms.
1992	Pakistan participated in the UN Conference on Environment and Development (UNCED), also known as Earth Summit.
1992	The Pakistan NCS was approved and published
1992	Sustainable Development Policy Institute (SDPI) was established on the recommendation of the Pakistan NCS.
1993	The National Environmental Quality Standards (NEQS) were announced by the Pakistan Environmental Protection Council (PEPC)
1993	The environment section in the planning and development division was created.
1994	Pakistan Environmental Programme (PEP) was initiated for capacity building.
1995	The NEQS were revised.
1996	The Pakistan Standards and Quality Control Act (PSQCA) was enacted
1997	The capital market development programme was initiated by the GOP with the financial support of the Asian Development Bank (ADB).
1997	Pakistan Environment Protection Act (PEPA) was enacted.
1998	Responsible business initiative (RBI) emerged as Pakistan's first enabler of CSR and sustainability.
1999	The Securities and Exchange Commission of Pakistan (SECP) was formed as an autonomous regulator.
1999	The NEQS were revised.
1999	Formal launching of the UN Global Compact (UNGC).
2000	The GOP committed itself to achieve the Millennium Development Goals (MDGs).
2000	The Pakistan Standards and Quality Control Authority (PCQCA) was established
2000	First version (known as G1 guidelines for SR) was launched by Global Reporting

	Initiative (GRI).
2002	The Code of Corporate Governance was issued by the SECP and made mandatory for all listed companies.
2002	Second phase of the market-based reforms started by the GOP with the financial support of the ADB.
2002	Second version (known as G2 guidelines for SR) was issued by the GRI.
2002	The Association of Chartered Certified Accountants (ACCA) launched Pakistan Environmental Reporting Awards (PERA).
2002	First ISO 14001 certification obtained by a Pakistani company.
	World Summit on Sustainable Development.
2002	Economic growth started to incline.
2003	The Pakistan Compliance Initiative (PCI) was launched by the private sector.
2005	Pakistan has prepared its first environment policy and national energy conservation policy.
2005	Pakistan became a signatory to the Kyoto protocol.
2005	A Clean Development Mechanism (CDM) cell was created in the Ministry of Environment (MOE).
2005	The Global Compact Pakistan Local Network (GCPLN) was formed.
2005	SECP published a report on the state of CSR in Pakistan.
2005	First GRI compliant sustainability report was published.
2006	The GOP published a policy for the development of renewable energy.
2006	Pakistan green industry programme was launched by the GOP with support of the UN Development Programme (UNDP).
2006	New category of best sustainability report was added to the PERA.
2006	Gas curtailment.
2006	Pakistan national operational strategy for CDM was approved.
2006	First CDM project in Pakistan was approved.
2007	Starting point of the ongoing energy crisis. Origins of this crisis can be traced back to the power policy of 1994.
2007	Working group was created to develop local guidelines for responsible business.
2008	Economic growth started to decline.
2009	Declared as 'The National Year of Environment' in Pakistan by the MOE.
2009	The UN Industrial Development Organisation (UNIDO) signed an MoU with MOE for capacity building of the CDM in Pakistan.
2009	SECP issued an order named as Companies (Corporate Social Responsibility) General Order.
2010	Workshop organised by the Corporate Social Responsibility Centre of Pakistan (CSRCP) on global reporting initiatives for SR.
2010	The Centre for International Private Enterprises (CIPE), in collaboration with ACCA and RBI launched a responsible business guide in Pakistan.

2010	The Institute of Cost and Management Accountants of Pakistan (ICMAP) published a special issue (titled “Corporate Sustainability”) of its bimonthly journal (Management Accountant).
2011	The Institute of Chartered Accountants of Pakistan (ICAP) published a special issue (titled “Accountants and Social Responsibility”) of its quarterly magazine (The Pakistan Accountant).
2011	The ICAP & the ICMAP joined hands for rewarding best practices in SR and launched the ‘best sustainability report award’.
2012	The ICAP published a special issue (titled “Sustaining value creation, beating competition”) of its quarterly magazine (The Pakistan Accountant).
2012	Draft version of the CSR voluntary guidelines was issued by the SECP for a roundtable discussion.
2012	Conference on SR, CSR and governance was organised by the Pakistan Institute of Corporate Governance (PICG) in collaboration with the ACCA and other stakeholders.
2012	National Sustainable Development Strategy (NSDS) was revealed in the RIO conference on sustainable development.
2012	National Climate Change Policy (NCCP) issued by the ministry of climate change (MOCC). This policy promoted CDM, for energy efficiency and energy conservation, in Pakistan. Also includes recommendation to promote disclosure of energy efficiency and to gradually make such disclosure mandatory.
2013	Final version of CSR voluntary guidelines was issued by the SECP.
2013	Continuous Professional Development (CPD) sessions on SR by the ICAP and ICMAP for training of their members.
2013	Director training programmes (including training of corporate governance and SR) organised by the PICG.