

# CORPORATE SOCIAL RESPONSIBILITY, BUSINESS ETHICS, AND LABOR LAWS: A QUALITATIVE STUDY ON SMES IN SIALKOT

Muzaffar Asad, University of Central Punjab, Lahore  
Syed Hussain Haider, Institutional Development Expert

## ABSTRACT

*The exports of Pakistani SMEs have decline significantly in the last few years. The main reason behind this decline is lack of implementation of labour laws and inhumane practices. This study is an attempt to understand the differences between the laws and the practices by the SMEs in Sialkot, Punjab Pakistan. The study identified that the major consequences of lack of implementation of labour laws are extreme long working hours, insufficient compensation for overtime, occupational safety and health issues, punishments, hurdles in resigning or leaves, and weak union representation. The findings of the study are helpful for the policy makers especially because all these illegal or unethical practices are being followed due to ignorance of the labour force and the owners. The study suggested legislation and creation of awareness among the labour force.*

**Keywords:** Corporate Social Responsibility, Labour Laws, Unethical Practices.

## INTRODUCTION

Globalization has empowered worldwide funding to stream more openly and quickly crosswise over national borders, especially to under develop and developing countries to get more noteworthy benefits (Adres et al., 2016). In any case employees, particularly working in labour intensive industries, progressively encounter a noteworthy decline of work standards (Hitt et al., 2012). Broad media exposures of infamous work practice at international plants have revamped the working conditions (Lee et al., 2013).

Uncovering a wide social resistance to detrimental impacts of globalization on working conditions, recent years have witnessed several administrative changes to control the unethical and illegal practices (Haider et al., 2016). This has happened because of understanding and importance of Corporate Social Responsibility (CSR). Several brand-names have faced severe challenges from the customers of European markets because of non-compliance with proper working conditions (Juščius & Snieška, 2008). Despite the facts that corporations have developed their rules considering labour laws but still the practices, especially in the SMEs operating in Sialkot Pakistan are far below the standards and practically they are involved in several illegal and unethical activities (Asad et al., 2011).

Investigation of SMEs involved in sportswear and sports goods manufacturing showed that they are not only following illegal practices but also not abiding the code of conduct of several labour laws (Haroon & Shariff, 2016). Despite the fact that the substance and

configuration of these codes shift significantly, the greater part of existing codes look to construct themselves in light of centre traditions of International Labour Organization (ILO) (Dhaliwal et al., 2011). Fundamental standards in regards to the insurance of wellbeing and security, wages and hours, and treatment of ladies, and especially child labour are ignored (Richards et al., 2015).

Effects of CSR strategies or corporate sets of principles have moved toward becoming objects of investigations of various orders (Min & Smyth, 2014). Perceptibly, larger part of existing investigations is contributed by business and administration researchers, who frequently direct research on relationship between organization social responsibility and enterprises' money related activities, expecting to give hypothetical and reasonable introductions to companies on the most proficient method to seek after long haul benefit capacity with a CSR agenda (Hitt et al., 2012). As asserted by numerous CSR scholars, a constructive outcome of key CSR exercises on benefit could be acknowledged through different upper hands: improved brand esteem and notoriety; nearer interfaces with clients and more prominent familiarity with their requirements; higher representative assurance, and subsequently higher profitability; great relations with government and groups; better hazard and emergency administration (Dhaliwal et al., 2011; Dhaliwal et al., 2012; Min & Smyth, 2014; Adres et al., 2016).

Due to the abovementioned issues, international market especially the European market has stopped purchasing the products that are made in Pakistan due to non-compliance of labour laws (Haroon & Shariff, 2016). The exports of Pakistani SMEs are continuously declining due to unethical practices. The top most issue is child labour and lack of CSR. Thus, the basic purpose of the study is to identify the main un-ethical and illegal practices of SMEs who are not practicing CSR despite the fact that they are claiming the same. The study is significant especially for the law making bodies so that they may ensure the actual implications of CSR in the SMEs to restrict labour abuse and child labour.

## LITERATURE REVIEW

For implementing CSR in SMEs the most important thing is to understand the structure of these business setups. It is also important to understand the hurdles that they face economically while implementing these practices. A major issue while determining SMEs is that these are the organizations with heterogeneous structures (Haider et al., 2017). They vary in terms of size of operations, management, employees, and market coverage (Asad et al., 2016; Rao et al., 2017). Thus, deriving a policy that may be suitable for all is not an easy task. In case of SMEs especially in Pakistan the distinction between management and the ownership is very minimal in almost all cases owners are the managers and there is no difference between management and ownership (Lahiri, 2014).

In SMEs the owners are involved in managing day to day issues. The relationship between employees and the owners are informal and there are no standard operating procedures. Due to the informal relations majority of the labour laws are being violated in the organizations (Asad et al., 2011). These SMEs have a high degree of interrelation with their environment or communities in which they often act as benefactors or local activists; and finally, they are subject to the market dynamics determined by large enterprises, which in many cases they supply (Orlitzky et al., 2011).

There is no doubt that there are so many varieties in the sizes and the issues that these SMEs face, several authors have identified that there is a need to determine the definition of SMEs which is different in different countries and even different in same country with different departments (Asad et al., 2016; Singh & Islam, 2017). Several authors have identified to understand the subcultures of these SMEs in order to promote CSR in these SMEs (Hsu & Cheng, 2011). The major difference between formal and informal enterprises is that the formal enterprises have systems and rules and they follow rules and regulations especially prescribed by the government departments (Haroon & Shariff, 2016).

On the other hand, informal SMEs do not have rules and regulations and even do not follow any prescribed rule of the organizations (Garriga & Melé, 2012). The main inspiration behind this study is to identify the major issues that are being failed or the major problems that arises due to non-compliance of the labour laws, so that rather than making the generic policies the government may develop the policies to avoid those issues (Mahoney et al., 2013). Thus, this study is going to identify the main issues caused by the noncompliance of labour laws and mainly because of the absence of CSR.

Among the objectives of CSR practices in SMEs, there are significant differences between large enterprises and SMEs (Asad & Javaid, 2010; Lin, 2016). SMEs mainly depend on the personal network of the owners, and they know the importance of social capital (Cheng et al., 2013; Asad et al., 2016). It is obvious that businesses if focus only on the earnings will lose social capital. Similarly, enterprises that focus on CSR and social capital perform better. Another reason due to which, SMEs hardly follow CSR practices is that they are unaware of the importance of CSR (Orlitzky et al., 2011). Furthermore, they lack resources to run the business properly and consider CSR as a liability only. They are also unaware of the importance of relationship between CSR and financial results.

From a macro-perspective on the development of CSR in SMEs, it has been observed that in the last few years the discussion on CSR has replaced previously predominant business ethics with legal requirements, to the address issues of no compliance of CSR and labour laws (Pflugrath et al., 2011). Now countries even including Pakistan are making it mandatory for the enterprises to follow labour laws and CSR practices but these are not actually being practiced.

## METHODOLOGY

As the issue under discussion is a very critical and the data collection for the said topic is not so easy because none of the participant was willing to share their information (Fatima & Asad, 2018). Therefore, conducting quantitative research was very difficult. In order to dig out the issue that what are the main mal practices adopted by the SMEs, Sialkot region was chosen as it's the hub of SMEs in Pakistan, and mainly the exports of the same region have been affected. Considering the sensitivity of the issue observation technique was used as it seems to be the best approach for conducting such kind of a study (Creswell, 2012). Observation technique was most efficient in the situation under discussion. For the purpose of collecting data different SMEs were visited from an academic point of view, and practices were observed in those SMEs. All the owners were assured that the name of their enterprise will not be disclosed in any case because as per the research ethics there should be no harm to the participant, thus, whatever

information employees revealed was not communicated to the owners and the name of the companies or the owners are not communicated or disclosed (Creswell, 2012).

## **FINDINGS**

On the basis of the observations and informal interviews that were conducted while observing the SMEs in Sialkot following main findings were observed, which are mentioned below:

### **Extremely Long Working**

Pakistan Labour Law expresses that standard working hour ought to be 48 hours for a week and extra minutes must be deliberate and can add up to close to 3 hours in a day, 36 hours a month. It likewise requires that specialists ought to be given no less than one rest day for every week. However, Sialkot sports industry does not follow this law and several SMEs were operating seven days a week.

### **Insufficiently Compensation for Overtime**

In Pakistan Labour Law stipulates that business should pay 150% of the typical rate as extra time pay amid weekdays, 200% on Saturday or Sunday, and 300% on statutory occasions. But in actual this is not being followed a few are observed SMEs were paying 150% rate but only for the Saturdays and Sundays and there was no concept of 300% payment especially when the time period for the delivery of order is short the employees were supposed to come even during gusseted holidays for which they were paid only 150%.

### **Arbitrary Punishments and Abuses Imposed by Management**

Workers who work moderate, commit errors, or irritate administration were abused and even some cases force is used to get the work done especially from children. The use of abusive language is very common. Similarly, if they make any mistake then their wages are deducted, they were not provided with proper remuneration for the extra work that they do, and even some were expelled by the administration without notice.

### **Difficulties in Taking Leave**

Pakistan Labour Law stipulates female worker to work during pregnancy, but it has been observed that several females work even during pregnancy. If they have to seek leaves they are permitted to take leave without remuneration. Even the issue becomes worse when the labours were denied flexibility of acquiescence and those surrendered the activity without administration endorsement would not get their regular salary or even have to lose the job.

### **Difficulties in Resigning**

Resigning is also a big issue if labourer wants to leave the organization; it is very difficult for them to leave. The labour that is productive, management keeps their salary of a month or two unpaid due to which it becomes difficult for them to leave the organization and face sever issue while resigning.

### **Occupational Safety**

The production line needed fundamental types of measures to secure employees and labours from being suffered. Like ventilation framework was introduced in 1990s, but even till today not being properly followed.

### **Health Problems**

Labourers were not provided with gloves or masks where ever needed. Every now and then, labour had skin aggravations, ceaseless queasiness, respiratory issues, and other manifestations were identified because of dangerous chemicals and lack of preventive measures.

### **Insufficient State Protection and Weak Union Representation**

As per the Pakistani law any organization having more than 50 employees should have a labour union. These practices is in actual absent and even in few cases where the practice is being followed employees are unaware of the fact that labour unions work for the owners and ultimately support them to get their policies implemented. There is hardly any protection to the whistle blower by the law. Anyone who raises voice is usually terminated by the owners and there is no remedy.

## **CONCLUSIONS AND RESEARCH IMPLICATIONS**

This research highlighted the consequences of lack of CSR practices in the organizations. Mainly the SMEs operating in Sialkot Punjab Pakistan were observed as Sialkot is considered as the main hub of SMEs and this region has faced severe decline in exports and revenues due to these mal practices and the consequences which have been mentioned above. The main findings of the study revealed that laws are developed, but the enforcement is missing. The main reason behind absence of enforcement or mal practices is lack of awareness of the labour force. Labour is unaware of the labour laws and the worst thing is that even the owners of SMEs are unaware of these laws. They even do not know that they are not following the practices which they are bound to follow. The labour unions should be established in all the organizations.

In the light of the findings of the study, policy makers are strongly recommended to develop mechanism to communicate labour laws to the labourers working in the SMEs. Furthermore, labour unions must be established and their leaders should be trained regarding the wage rates, their rights in case when they are not provided with proper rates or especially the extra payments.

Furthermore, future researchers are guided to conduct empirical quantitative research so that the findings may be authenticated but conducting such a research is not an easy task as none of the SMEs would allow collecting such kind of data. Future researchers are also recommended to conduct qualitative research by conducting interviews from the government officials especially from the people who are from planning and development and from the labour department.

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