

**THE TITLE HOW DO SRI LANKAN COMPANIES PERCEIVE CORPORATE SOCIAL RESPONSIBILITY? AN EMPIRICAL STUDY OF THE MOTIVATIONS UNDERLYING CSR PROJECTS AND REPORTING BY SRI LANKAN COMPANIES**

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**ABSTRACT**

This study investigates about the matters on which Sri Lankan companies base and carry out their Corporate Social Responsibilities and up to what extend those activities are based on good intentions. The study also looks into the fact as to what motivates the Sri Lankan companies to issue CSR reports. The study documents the motivations of modern corporations in issuing corporate social responsibility (CSR) reports to their stakeholders. It further demonstrates why these entities have suddenly become more moral or ethical. It identifies how Sri Lankan companies perceive Corporate Social Responsibility and their motivations of undertaking CSR projects and reporting to stakeholders of the same. An empirical methodology was used to gather and analyze the required information from 20 Sri Lankan companies listed in the Colombo Stock exchange. Study results suggest that Sri Lankan companies have different reasons for issuing CSR reports, for instance; in response to an increasing number of stakeholders requesting information on CSR, companies believe that doing so is good for business, to derive positive public relations benefits, to comply with the government's request for them to issue information on CSR, etc. Information on corporate entities' CSR activities is considered to be valuable by both academic researchers and business managers as it provides a working framework on which future studies can be based. In addition, it improves understanding of the social obligations which corporate entities owe to their stakeholders and society in general.

Keywords: Corporate social responsibility, Sri Lanka

**1. INTRODUCTION**

Corporate Social Responsibility (CSR) has become the mainstream prescription by business and governments for dealing with social and environmental ills. It is a voluntary form of self-regulation that aims to tackle everything from human rights and labor standards to limiting carbon dioxide emissions that lead to climate change. But because CSR ultimately lies within the framework of markets, and requires market-based incentives for companies to invest in such programs, it ultimately falls prey to the vagaries of the market.

Social responsibility refers to the obligation of a firm, beyond that required by law or economics, to pursue long-term goals that are beneficial to the society (see for example Buchholz, 1990; Robbins and Decenzo, 2001). The definitions of CSR are many. Definitions may refer to ethical behavior, sustainable development, the environment, and to philanthropic ideas. Social responsibility is a synonym for good citizenship. It is important that organizations are committed to fulfilling expectations and moral obligations at the level of society. This means that right conduct takes into account the welfare of the larger society.

The industry in which a company operates plays a significant role vis-à-vis how its stakeholders, including pressure groups, perceive it. Failure to disclose the contributions that entity makes to the “common good” leaves it exposed to criticisms and other sanctions.

The myths of CSR include that voluntary reporting improves performance; that codes and management systems change corporate behavior; the consumer will drive change and that the investment community will provide the best incentive for business to perform in a more sustainable manner. Re-envisioning ethical business requires us to look at opportunities below the radar screen: not at minimizing the impacts of big business. Understanding and providing the institutions to support the ‘ethical minnows’: those businesses that operate on a sustainable platform and provide a social return on investment, beyond mere financial profit.

Ultimately, the need is to transform markets in such a way as to see an end to the larger corporate winner-takes-all approach if we are to see a sustainable future.

The intention of this study was to investigate the underlying motivations on which Sri Lankan companies base and carry out their Corporate Social Responsibilities. The study has also looked into the fact as to what motivates the Sri Lankan companies to issue CSR reports.

This paper is structured as follows: it explains CSR as seen by others, looks at some of the factors which have contributed to recent interests in the field, discusses some of the actions corporations around the world are taking to demonstrate responsibility – this section also answers the key question of the genuineness of corporate intentions and finally the information received from Sri Lankan companies is provided followed by the authors’ concluding remarks.

## **2. EXPLAINING CORPORATE SOCIAL RESPONSIBILITY**

### **2.1 SOCIAL THEORIES OF CSR**

To place CSR in a theoretical context, several broad, overlapping groups of theories concerning information flows between organizations and society have been used (Gray et al., 1995).

Social and political theories that focus on the role of information and disclosure in the relationships between organizations, the state, individuals and groups are most appropriate in explaining CSR. Political economy theory places an emphasis on the interrelationships between political and economic forces in society and recognizes the effects of accounting reports on the distribution of income, power and wealth (Cooper and Sherer, 1984). This perspective also “accepts that society, politics, and economics are inseparable so that issues, such as economic issues, cannot be considered in isolation from social and environmental issues” (Blomquist and Deegan, 2000). It recognizes a pluralistic set of recipients of CSR information, who are considered to be in constant conflict, reflecting the amount of power they wield in society (Puxty, 1986).

Social accounting can be considered a reflection of social conflicts occurring “between capital and other social interests (e.g. environmentalists, workers, consumers, women, minorities)” (Tinker et al., 1991). A power elite that emerges sets the agenda for maintaining control through the accounting process (Buhr, 1998). Accounting systems, of which CSR is part, act to “create, distribute and mystify power” (Buhr, 1998). This “radical paradigm suggests that society reflects the basic organizing principles and institutional structures within it (i.e. the capitalist structure)” (Tilt, 1994). Yet, the paradigm does not necessarily subscribe to the view that this nature of society and its structures are socially desirable (Hopper and Powell, 1985).

From social and political theories, stakeholder theory and legitimacy theory have developed. These theories are similar and essentially derived from the broader political economy theory (Gray et al., 1996; Deegan, 2002). While there are differences between stakeholder and legitimacy theory, they both focus attention on the nexus between the organization and its operating environment (Neu et al., 1998). This environment at the micro-level is engagement with identified stakeholders, suggesting a stakeholder approach. At the micro-level legitimacy theory also deals with stakeholders, and acknowledges heterogeneity and conflict, but it also operates at a macro or conceptual level, presenting stakeholders in the broader social context. At this conceptual or abstract level, legitimacy theory deals with perceptions and the processes involved in redefining or sustaining those perceptions and can

accommodate notions of power relationships and discourses at a global level.

Stakeholder theory recognizes the dynamic and complex relationships between organizations and their stakeholders and that these relationships involve responsibility and accountability (Gray et al., 1996). "Stakeholder analysis enables identification of those societal interest groups to whom the business might be considered accountable, and therefore to whom an adequate account of its activities would be deemed necessary" (Woodward and Woodward, 2001). Therefore, CSR could be considered as part of a "contractual" relationship between organizational stakeholders (Cooper and Sherer, 1984).

Legitimacy theory posits that organizations are continually seeking to ensure that they operate within the bounds and norms of their respective societies (Blomquist and Deegan, 2000). To this end, they attempt to establish congruence between "the social values associated with or implied by their activities and the norms of acceptable behavior in the larger social system of which they are part" (Dowling and Pfeffer, 1975). Consistent with that, Richardson (1987) asserts accounting is a legitimating institution and provides a "means by which social values are linked to economic actions". It is perceived that an organization may employ "legitimation" strategies when faced with a threat to its legitimacy (Lindblom, 1993). Organizational legitimacy can thus be constructed through the use of symbols or symbolic action communicating a "public image" (Dowling and Pfeffer, 1975). This image may be in line with the primary goals, methods of operation or output of the organization (Neu et al., 1998). Issues concerning legitimacy, raised in society, are addressed in the public policy arena as it is not restricted to the realm of the market system. Thus, social disclosures influence the public policy process directly and indirectly through the communication of corporate or industry information.

## **2.2 MODERN APPROACHES TO CSR**

### **2.2.1 CARROLL'S APPROACH**

Carroll (2000) states that organizations are expected to practice "social responsibility" or be a good "corporate citizens". Carroll (1979) argues that corporations should not only be

judged on their economic success but also on non-economic criteria.

To fulfill the good corporate citizen role a corporation should fulfill the following responsibilities (Carroll):

- Economic: earn a fair return on capital to satisfy the shareholders, deliver value for money products/services to satisfy customers, create new jobs and new wealth for the business, and promote innovation.
- Legal: comply with the law.
- Ethical: be moral, fair, just, respect people's rights, avoid harm or social injury and prevent harm caused by others.
- Philanthropic: perform beneficial activities for society. Lantos (2001, 2002) labels this type of philanthropic CSR as "humanitarian" or "altruistic", and suggests that the organizations use it as a marketing tool to enhance their image.

### **2.2.2 FREDERICK'S CSR1, 2 AND 3**

The literature on CSR has been marked by developments that have enhanced people's understanding of the field with regard to its nature, concept and business practice.

Frederick (1986, 1994) describes CSR as practiced up to 1970 as an examination of corporations' obligation to work for social betterment.

From about 1970 he indicates that there was a move towards corporate social responsiveness, which he describes as "the capacity of a corporation to respond to social pressures.

This change in focus highlights a move from a philosophical (CSR1) to a more managerial approach (CSR2) that concentrates on whether corporations will respond to social pressures and how they would handle such pressures.

In 1986, Frederick posits that there is a need to impose an ethical anchor on the study of business and society to "permit a systematic critique of business's impact upon human consciousness, human community and human continuity". This new stand was termed CSR3.

### **2.2.3 HARRISON'S THREE LEVEL CSR**

The impact that corporations have on society has been likened to the effect of a stone dropping into a pond (Harrison, 1997) that goes through three levels during the drop process. The first two levels refer to what respectable firms believe their responsibilities to society are and level three refers to a more rare type of organization, one that accepts a responsibility for a healthy society and contributes to removing problems in the society (as below):

*Level one: basic*

- Pay taxes.
- Observe the law.
- Deal fairly.

*Level two: organizational*

- Minimize negative effects.
- Act in the spirit of the law.

*Level three: societal*

- Responsibility for a healthy society.
- Help remove/alleviate societal ills.

### **2.3 FACTORS CONTRIBUTING TO RECENT INTERESTS IN CSR ACTIVITIES (FIVE PERSPECTIVES)**

Accounting researchers in an attempt to understand what factors have contributed to the recent interests in CSR as we know it in the twenty-first century have classified the reasons under five perspectives. These are:

Agency theory (which views the relationship that subsists between the managers and owners of a corporate entity as that of agents and principals);

Legitimacy theory, (which postulates that corporate actions are legitimate, desirable and proper with some connotation of social benefits);

Political economy of accounting theory (which describes society as operating under a series of social contracts between members of society and society itself;

Stakeholder theory (which assumes that in order for corporate entities in a society to survive and prosper over a period of time; those entities must have good relationships with its critical stakeholders); and

Self-justification and advancement of corporate interest theory(which states that corporate actions are self-focused) (Gray et al., 1995, 1996; Guthrie and Parker, 1990; Patten, 1992;

Roberts, 1992, Tilt and Symes, 1999; Maltby, 2004). Studies reveal that all the five perspectives are capable of being used to classify the factors which have heightened interests in the area in recent times.

Vogl (2003) has also argued that four factors can be identified as contributing to the recent trends in corporate entities around the world embarking on socially responsible behaviors.

The four factors are:

- tightening regulatory pressures,
- changing demographics,
- pressure from non-governmental organizations (NGOs) and
- the increased necessity for greater transparency.

This therefore explains why the following are happening in the world around us today.

Stock Exchanges and other financial institutions around the world are compelling listed companies to provide information on their CSR activities. For example, in France all companies listed on the Paris Stock Exchange are required to include information about their social and environmental performance with their financial statements. In South Africa, the Johannesburg Stock Exchange requires that all listed companies must comply with a CSR based code of conduct. In the UK, several important organizations are requiring information about corporate entities' CSR activities. The Association of British Insurers (ABI) has issued guidelines which set out information on social, environmental and ethical matters which institutional investors now expect to see disclosed in the annual reports of listed companies.

The Business in the Community's Corporate Responsibility Index needs information on what corporate entities are doing in CSR. In addition, the FTSE4Good Index is increasingly becoming a major index used when screening for good corporate citizenship. Lately, the London Stock Exchange's Corporate Responsibility Exchange (CRE) – a data platform which requires information on corporate responsibility – is another factor which compels listed companies in the UK to be active in CSR. A further compelling factor on UK corporations that are not currently active in CSR is the Operating and Financial Review (OFR) requirement which comes into force in 2005. OFR requires all listed

companies to report on their significant environmental and social impacts and how they are dealing with them. In the USA, the Dow Jones Sustainability World Indexes are used by investors and lenders around the world to screen for social and environmental performance of corporations. Stakeholders of the twenty-first century are more sophisticated, well educated and better informed. They now demand that those companies they do business with in their various capacities as members of society (consumers, suppliers, investors, employees, etc.) conform to a very high standard in all respects including good citizenship. Some stakeholders, when making their decisions on where to invest their “hard-earned” cash, consider how socially responsible or otherwise a company is. Equity investors are therefore more likely to want to ensure that their companies are behaving responsibly in this area.

There has been a massive increase in the number of non-governmental organizations

(NGOs) which are interested in different aspects of our lives, for example Friends of the Earth (FoE), Green Peace, Amnesty International, the World Wildlife Fund and the Council on Economic Priorities, just to mention a few of such organizations. They represent a range of interests (human rights, child labor, forced labor, trade, environment, and social) and consider CSR as part of the broader context of sustainable development. They favor the need to identify what is expected of corporations based on international agreements.

### **3. ANALYSIS AND FINDINGS**

#### **3.1 WHAT MOTIVATES THEM**

According to the research the following are the main motivations in companies undertaking CSR activities.

- To enhance business reputation
- To improve ability to attract and retain high-quality recruits
- For greater employee health and productivity
- To improve risk management
- To increase profitability

#### **3.2 WHY THEY REPORT**

The following are reasons why companies report on their CSR activities

- To inform stakeholders
- To provide a more rounded picture of the company
- To meet best practice in company reporting
- To derive CSR’s positive public relations benefits
- To satisfy disclosure requirements of major shareholders
- To ensure that employees are aligned to the company’s targets
- To demonstrate an open management style
- To reflect the importance attached to CSR by the company
- To demonstrate to stakeholders that non-financial issues are also important

### **3.3 WHAT THEY HAD TO SAY**

The researcher was able to deduce from the replies received from companies that they are aware that part of their social responsibilities include helping society to solve some of its social problems, regardless of whether or not they have helped to create those problems in the first place. Summarized reasons under different classes are:

#### **3.3.1 CORPORATE REPUTATION**

- To provide a more rounded picture of the company.
- To meet best practice in company reporting.
- To derive CSR’s positive public relations benefits.
- To reflect the importance attached to CSR by the company.
- To demonstrate to stakeholders that non-financial issues are also important.
- To strengthen corporate reputation.

#### **3.3.2 STAKEHOLDER PRESSURE**

- To inform stakeholders.
- To provide a more rounded picture of the company.
- To satisfy disclosure requirements of major shareholders.
- To align with the request of the current Sri Lankan government.

#### **3.3.3 ECONOMIC PERFORMANCE**

- To meet best practice in company reporting to derive CSR's positive public relations benefits.
- To satisfy disclosure requirements of major shareholders.
- To ensure that employees are aligned to company's targets In response to questionnaires to be completed for tenders and government departments.

### 3.3.4 GENUINE CONCERN

- To ensure that employees are aligned to company's targets.
- To demonstrate an open management style.
- To reflect the importance attached to CSR by the company.
- To demonstrate to stake holders that non-financial issues are also important.
- To act as an impetus to challenge its existing practices.

### 3.3.5 BROAD SOCIAL/CULTURAL

- To demonstrate an open management style.
- To reflect the importance attached to CSR by the company.
- To uphold its core values, to act as corporate conscience.
- To continue the culture which its founder started at the inception of the company.
- To demonstrate that its senior managers are from a culture which strives to strike a balance between the needs of its shareholders and that of other stakeholders.

### 3.3.6 STAKEHOLDERS' REQUESTS FOR INFORMATION

As noted above, stakeholders' quest for information on CSR has led to the formal issue of CSR reports in Sri Lanka. Companies did not provide the author with the sort of information different stakeholders were asking to see; the author was only told of the different groups of stakeholders that were asking for information on CSR. One can only guess from each stakeholder's interests the sort of information they need and why they need it.

Institutional investors would wish to see what information their companies have disclosed about the positive steps they have taken with

regard to protecting the environment and sustainability.

Customers would be interested to ensure that,..

- the organization with whom they do business are not engaged in actions that are socially irresponsible,
- the products they buy are not made by children in the less developed nations,
- fair wages are paid to employees,
- products are safe for use and a series of other related issues.

NGOs are concerned about fairness, human rights, equality, clean and safe environment. Modern corporations are aware of all these issues which stakeholders are genuinely interested in and are also aware of the sanctions which are at the disposal of these stakeholders.

## 3.4 THE RELEVANCE OF FREDERICK'S CSR1-CSR3 TO FINDINGS

As noted earlier, Frederick classifies CSR into three categories the first he calls CSR1 – which basically deals with the social responsibility of corporate entities in working towards the socio-economic welfare of society, which he terms as social betterment. It is evident that these companies are aware that their stakeholders expect them to satisfy this objective and would like to see a document which explains to them the activities they undertake to ensure the continued existence of social betterment. In terms of CSR2 which deals with “response to social pressures” which Frederick calls corporate social responsiveness. The respondent companies are aware of the existence of NGOs which exert pressure on corporations to ensure that their standards of behavior do not fall below what they consider acceptable. This appears to be an important motive enough for these companies to warrant their involvement in CSR. Finally CSR3, which covers a “systematic critique of business impact on human consciousness, human community and human continuity”. Companies in the construction industry in this study stated that one of their motivations for issuing CSR reports was to use it as a vehicle for providing a more rounded picture of what they are doing, as a result of the criticisms their industry receives from some of their stakeholders.

### **3.5 HARRISON'S THREE LEVELS IMPACT AND FINDINGS OF THIS STUDY**

The results of this study indicate that Sri Lankan companies do not consider level 1 of Harrison's three levels impact as relevant to CSR. These are perceived by business managers as legal obligations which all corporations must meet, regardless as to what they feel about paying corporate taxes, observing the law and dealing fairly with business contacts etc. Level 2 is also similar to level 1 but minimizing the negative effects of their actions has some CSR connotation. Level 3 encompasses aspects covered by CSR. All respondent companies consider that employees are stakeholders; they contribute immensely to the prosperity and survival of these companies. These entities believe that they owe employees a duty of care when they are at work. Legally, employers are required to provide their staff and the general public a safe environment. In today's world, an organization which fails to ensure that its operations do not cause environmental nightmares or health risks to society will not get away with it for long.

### **4. BLESSING OR BURDEN?**

CSR is not only about providing a safe workplace or meeting environmental regulations. Neither is CSR about altruism – managers are not doing more than what the law requires of them because they are saints but because it is in the long-term best interest of their corporations. CSR as a concept refers to the corporate behavior that is over and above legal requirements and it is voluntarily adopted to achieve sustainable development.

Corporations have realized that they need to integrate the economic, social, and environmental impacts of their operations and form an appropriate corporate policy which, in the long-term, benefits all stakeholders.

The author can confirm from the findings of this research that the respondent companies genuinely believe that to be socially responsible is good for business. Any resources companies devote to undertaking CSR programmes, they believe will sooner or later be recouped through the positive reactions that would be generated to what they do and what they stand for by these stakeholders.

A company that intends to remain competitive in its industry must be seen to be socially responsible. It must also make a "loud noise" about all its CSR activities by issuing reports which must be easily accessible to stakeholders, either on paper or electronically through its web site. Companies listed in the Colombo Stock Exchange are being encouraged by the government to be actively involved in the field of CSR.

Unfortunately, in Sri Lanka the issuing of the CSR report is voluntary and unregulated. There is no standard or specified format for it; this could make it impossible for readers to identify what to look for in a "normal" CSR report. The report is equally not subject to an independent external examination before it goes out to stakeholders. An un-audited CSR report leaves room for companies to make exaggerated claims that may be unverifiable. Does this limit its usefulness? Should the accountancy profession take a leading stance in addressing this anomaly?

### **5. CONCLUSIONS**

Stakeholders of the twenty-first century are better educated, well informed and know what is best for them. Their constant requests for information from companies on their CSR activities appear to be the main driving force behind the issuing of CSR reports by Sri Lankan companies.

These companies have also realized that providing information to "all and sundry" on CSR is good for positive public relations, as they will be perceived as "caring" organizations by stakeholders. Consequentially, customers will continue to be loyal, equity investors will be happy to invest, loan creditors and suppliers would happily take credit risks, environmentalists will have nothing to protest about and a host of other stakeholders' requirements would have been met.

The present Government in Sri Lanka is currently doing a lot in encouraging Sri Lankan companies to take a serious view of CSR. The Government vision requires that Sri Lankan businesses take account of their economic, social and environmental impacts and act to address key challenges in this area wherever they operate – locally, regionally and internationally.

By taking a serious action in this area, the government leads by example. This will

encourage corporate entities to put their houses in order so that there will be less need for the government to make use of legislations to bring them to order. Most Sri Lankan companies recognize that they cannot be complacent in CSR; they will need to continue to improve on their performance in it year on year. Some are setting key performance indicators (KPIs) which they need to meet in CSR during a forthcoming accounting period. This is a step in the right direction! All will benefit from it – the entity and its stakeholders and people’s quality of life will be greatly improved.

Being a third world developing country, we look upon multinationals and NGOs to address most of our social issues since the government or local firms fail to address the social issues on their own. With increasing globalization the power of the institutions attached to the nation state are declining.

Many organizations recognize the importance of having an ethical culture, yet they still often fail to manage their ethical performance. Almost every industry has been touched by scandal. Most recently, banks have been denounced for pursuing high-risk trading strategies, global companies have been implicated in corruption and western retailers have been accused of allowing their suppliers to use child labor. A number of companies, eager to show their corporate social responsibility credentials, have responded by publicly embracing ethical and green agendas, but is it all mere rhetoric – a fancy PR exercise to show that they are tackling global concerns alongside the pursuit of profit? In some cases at least, the answer is yes. Companies are only superficially addressing the impact of their activities on the environment, local communities and other stakeholders.

The concept of business ethics, social responsibility and corporate citizenship arise because of a serious lack of regulation. It is left to companies and ultimately consumers to decide whether a certain product or service is ethical, because there are no other rules to decide for them. In the Sri Lankan context, our consumers are not critical or demanding enough to force companies to produce or provide services to high ethical standards. This is due to the lack of consumer sovereignty that exists in developed countries and mature markets.

Due to this not all companies are playing the game to the same rules. Businesses in country X can gain an advantage by exploiting the fact its

legislation allows them to do something that is forbidden in country Y. Businesses in country Y must decide therefore whether to maintain operations in their home nation and thereby lose out, or to move to country X and take advantage of its more favorable legislation. This leaves the choice of whether the move is ethical to the consumers of country Y.

Therefore the business game should be regulated like an international sport – i.e. all players compete under the same rules. If a player fails to follow them, it should be disqualified. The use of certain business practices should be a matter not of ethical or unethical, but of legal or illegal.

CSR should be embedded in the culture of organizations. Each and every employee in an organization should behave in a socially responsible manner at all times. It should not be refined to a few individuals or a separate division within the company. Top management should ensure they lead by example so that the rest will ultimately follow with the help of a strong Human Resource team.

When undertaking CSR projects, a company should take on projects that majority of employees can identify themselves with so that they will support the philosophy behind them and contribute tremendously to drive the projects.

Hence, CSR is not about winning awards or just a corporate catchphrase. It is about being a part of peoples’ lives and making a difference within the communities in which the businesses operate. It should be in a businesses’ DNA and define who they are.

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