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SUSTAINABILITY IN AN EMERGING MARKET – IN THE CONTEXT OF THE TOP MANAGEMENT

LA SOSTENIBILIDAD EN UN MERCADO EMERGENTE - EN EL CONTEXTO DE LA ALTA DIRECCIÓN

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ABSTRACT

The concept of CSR is still novel to Sri Lanka and firms in the country, and the adoption of the concept is in the initial phase. Scholars in developing countries are conducting studies based on CSR. This study aims to explore how and to what extent firms in emerging countries can conduct CSR activities; the types of benefits the firms can enjoy from CSR-driven activities; and the types of benefits that society can gain from CSR. This study provides insights into identifying existing CSR practices and analyze the benefits that they can generate. The study was conducted using 50 of the highest market capitalized firms listed on the Colombo Stock Exchange, Sri Lanka. The target group comprised 70 board of directors of the selected firms. A structured questionnaire was used for collecting data. The board of directors who responded believed that the most vital criteria in the CSR pyramid are economic responsibility. This response indicates that firms need to prioritise generating profits and then use their earnings for the wellbeing of society.

KEYWORDS

Corporate Social Responsibility, Developing Country, Board of Directors

RESUMEN

El concepto de RSC es todavía novedoso en Sri Lanka y en las empresas del país, y su adopción está en la fase inicial. Los especialistas de los países en desarrollo están realizando estudios basados en la RSE. Este estudio pretende explorar cómo y en qué medida las empresas de los países emergentes pueden llevar a cabo actividades de RSE; los tipos de beneficios que las empresas pueden obtener de las actividades impulsadas por la RSE; y los tipos de beneficios que la sociedad puede obtener de la RSE. Este estudio permite identificar las prácticas de RSE existentes y analizar los beneficios que pueden generar. El estudio se realizó con 50 de las empresas de mayor capitalización bursátil que cotizan en la Bolsa de Colombo, Sri Lanka. El grupo objetivo estaba formado por 70 consejos de administración de las empresas seleccionadas. Se utilizó un cuestionario estructurado para la recogida de datos. Los consejos de administración que respondieron creen que el criterio más importante en la pirámide de la RSE es la responsabilidad económica. Esta respuesta indica que las empresas deben dar prioridad a la generación de beneficios y luego utilizar sus ganancias para el bienestar de la sociedad.

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PALABRAS CLAVE
Responsabilidad social de las empresas, país en desarrollo, consejo de administración

1. INTRODUCTION

Corporate Social Responsibility (CSR) has become a mainstream focus for firms and society (Adams & Frost, 2006; Young & Thyil, 2009; Kuldeep & Madhvendra, 2021). Earlier firms focused their attention on developing their business operations strategies (diversification, differentiation etc.) to generate profits and globalization. Today the focus has shifted to conducting activities that will benefit both the firms and society. Activities like donations, society improvement, protection, reduction of pollution, disaster reliefs, etc., are recognized as CSR activities by scholars (Carroll, 1979; Jose, 2016). Business strategy (Dentchev, 2004), stakeholder pressure (McWilliams & Siegel, 2001) and popularity are some of the motives which have driven firms to engage in CSR activities.

Most CSR research studies are focused on developed countries (Bayoud et al., 2012; Belal & Cooper, 2011; Muthuri & Gilbert, 2011; Khuong et al., 2021). Some scholars have highlighted how vital it is to discover, understand and examine CSR practices in emerging countries (Frynas, 2006; Jamali & Mirshak, 2007; Reed, 2002; Visser, 2008; Shirodkar & Shete, 2021). Similarly, it is argued that companies need to take greater social responsibility when operating their business in developing countries (Reed, 2002). Most of the studies conducted in examining the concept of CSR in an emerging country are focused on whether and to what extent (Dobers & Halme, 2009) the possibility of implementing the notions of CSR from Western countries to developing countries (Jamali, 2007) can help identify the positive benefits of CSR (Dutta & Durgamohan, 2008). Irrespective of the pressure generated from stakeholders to implement CSR in emerging countries, most firms lack knowledge in implementing CSR in developing countries (Fernando, 2007). Additionally, emerging countries do not have acceptable rules, which can be enforced by stakeholders (Chambers et al., 2003; Blowfield, 2004; Chapple & Moon, 2005; Prakash-Mami et al., 2002). It has been noted that in developing countries, the impact of stakeholders is diverse when compared to developed countries. Mainly firm's ownership structures in emerging economies may result in various responses, while multinational owners may have great expectations from local owners. Moreover, the response to various stakeholders may be mitigated by other factors, namely, the generation of external pressure from international firms or the impact of other firms' characteristics.

Scholars in the management field have shown that the behaviour of corporate managers and the top managers in some countries are greatly influenced by the local cultures, organizational cultures and professions to which they belong (Schein, 1992; Sirmon & Lane, 2004). The values of management as well as their attitudes towards CSR from an organizational, industrial or national perspective, can lead to a powerful influence on the practices of CSR (Aguilera et al., 2007; Hay & Gray, 1974; Hemingway, 2005; Hemingway & Maclagan, 2004; Vitell & Paolillo, 2004; Waldman

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

et al., 2006). This shows how essential it is to examine and understand how emerging countries' idiosyncrasies affect CSR practices. Therefore, this study addresses the local gaps in CSR literature, particularly for countries that are lacking evidence of CSR; as *"the tendency towards socially responsible corporate behaviour varies across countries and much more research is required to understand why"* (Campbell, 2007) and *"CSR practice develops within a specific social context"* (Frynas, 2006). There is limited information about these practices in former colonial and small emerging countries (Jamali & Mirshak, 2007). The need to focus on CSR research in emerging economies has become vital (Muthuri & Gilbert, 2011) as non-western developing countries do not have the same socio-cultural norms and values as western developed countries (Frynas, 2006; Jamali & Mirshak, 2007).

Additionally, in Sri Lanka a majority of companies still believe that CSR is merely engaging in some philanthropic activities irrespective of its long-term benefit to the society or relevance to the nature of the operations of the company (Fernando, 2007a). Most of these companies fail to understand the meaning of concepts like sustainability, triple bottom line approach and strategic CSR and the importance of disclosing them to their stakeholders in a standardized method. Therefore, many companies chose to engage in CSR activities, which are mostly philanthropic, rather than conducting strategically important and relevant social/environmental and employee-friendly activities. This may be due to the prevailing myth in the society that CSR is always only philanthropic (charities/community development-based activities) (Tilakasiri, 2013). Due to this lack of evidence in CSR practices in an emerging country such as Sri Lanka, this study seeks to fill the gap by examining and understanding the perspectives of CSR in Sri Lanka (Khan & Beddewela, 2008).

The main objective of the study is to understand how the board of directors (BODs) perceive sustainability in the context of Sri Lanka, an emerging country in an emerging market. It can be said that BODs' role is to ensure that a particular firm's business is well run and is headed in the right direction (Krechovska & Prochazkova, 2014). As the primary internal governance mechanism, the board has the power to decide the firm's mission the policy and to maintain the interest of the company stakeholders (Wijethilake et al., 2015). Hence, the involvement of a board with respect to all strategic directions, including sustainability disclosure, is vital, particularly for a one-tier board structure, which is common to Sri Lankan firms (Shamil et al., 2014; Rathnayaka, 2018). Single-tier board structures govern the listed firms of Sri Lanka. Due to this, the boards of these firms have a more substantial impact on the corporate strategic decision compared to other listed firms operating in other countries. When the board of directors (BOD) is involved with the choice of sustainability, it is vital to pay adequate attention to the board's composition. This is important since it is the directors who will decide whether the firm will embrace policies on sustainability. This study further hopes to motivate and encourage CSR practice in Sri Lanka. The scope of the study is based on Sri Lanka and was conducted by selecting 50 of the highest market capitalized firms listed on the Colombo Stock Exchange (CSE), Sri

Lanka. The target group comprises 70 BODs. Structured questionnaires were used to collect data from the BODs.

2. LITERATURE REVIEW

2.1 Sustainability in Developing Countries

Many empirical studies have stated that developed countries like the US, UK and other European countries have substantial focus, frameworks, principles, standards, and indices on CSR compared to emerging countries (Crane et al., 2008). By analyzing seven different Asian countries and their CSR practices, Chapple and Moon (2005) show that the practices of CSR vary from country to country. Their findings revealed that there is no single outline of CSR within Asia (Chapple & Moon, 2005). Moreover, CSR is dependent on national factors, which differ from nation to nation. The findings also showed that international firms conduct CSR practices according to the corporate structure of firms within the country.

Additionally, when conducting studies of developing countries, most of the researchers choose Asian countries (Chambers et al., 2003; Chapple & Moon, 2005; Visser, 2008). Among Asian countries, China, India, Malaysia, Thailand, and Indonesia are considered to be the most vitally selected countries (Blowfield, 2004; Balasubramanian et al., 2005). Since these Asian countries differ in norms, values, and economic development levels, it is necessary to understand these differences that prevail in the developing countries (Rock, 2002).

CSR practices vary from country to country due to the metamorphoses in their cultural traditions (Matten & Moon, 2004). Cultural implications have a robust effect on the implementation of CSR in firms (Visser, 2008). It is said that there is a strong bond between CSR and philanthropy in emerging countries due to the effect of culture. The cultural differences in these countries as opposed to developed countries makes it challenging to adopt the international standards, frameworks, and principles of CSR (Chambers et al., 2003; Welford, 2005; Baughn et al., 2007). Much empirical research can be found on CSR in developing countries and the role of culture in illustrating the CSR framework for emerging countries (Clarkson, 1995; Visser, 2008). However, although CSR varies in Asian countries, the variation is not explained by development but by the factors in the respective national business stream (political, financial, education, labor and cultural systems) (Chapple & Moon, 2005). As most developing countries in Asia follow the Buddhist philosophy, donation and ethical practices are the main principles of many businesses (Abeydeera et al., 2016). Therefore, most of the philanthropic engagements of many firms are considered as being part of their CSR activities. The challenges of CSR in emerging countries are different from those in developed countries. Some of the differences are environmental, creating employment against high labor standards, strategic philanthropy against political governance etc. (Visser, 2008). Hence, developing countries tend to prioritize these issues under the concept of

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

CSR. Likewise, the variation on the emphasis on CSR fallouts both from internal and external drivers, mainly, local issues and cultural traditions of the emerging world (Welford, 2005; Visser, 2008). American firms try to arrange CSR activities by creating rules, while Asian firms rely more on cultural mechanisms like philosophy. Scholars have conducted studies to find the various definitions of CSR in emerging countries as opposed to what CSR means in developed countries to aid appropriate CSR frameworks and models (Khan & Atkinson, 1987; Visser, 2008). Granted, several studies have elaborated that CSR is based on the foundation of philanthropy (Visser, 2008), while other studies have shown that CSR is more than purely philanthropic in nature, and it thus goes beyond charitable activities (Arora & Puranik, 2004; Fernando, 2007; Kumar et al., 2001).

One of the motivating factors for the firms in developing countries to adopt this concept is the benefits they can derive by adopting CSR-driven activities (Porter & Kramer, 2002). It was said that CSR has the potential to boost corporate image and reputation, increase sales, enhance customer loyalty, increase production, reduce cost, manage risk, and retain employees (Schwaiger, 2004). These benefits enable firms in emerging countries to adopt CSR and thereby enhance their performance in the long term (Rais & Goedegebuure, 2009). Studies conducted by Dutta & Durgamohan (2008) have suggested that there is a positive impact on CSR on the environment and on the general public. They have conducted their studies based on the context of India by analyzing various firms, including Tata Group. Their findings further stated that firms that practiced CSR activities have been profitable, generating a modest aid over other firms due to pollution prevention, energy efficiency, environmentally oriented design, supply chain management, health, and sustainable agricultural initiatives (Dutta & Durgamohan, 2008).

The pyramid of CSR developed by Carroll (1991) was designed to replicate the practice of CSR in developed countries (Matten & Crane, 2005; Visser, 2008). Therefore, Visser (2008) designed the same pyramid to show how CSR levels could be replicated in an emerging country. The pyramid was developed after examining CSR in Africa. Carrol's CSR pyramid shows the levels of responsibilities, namely philanthropic responsibility, economic responsibility, legal responsibility and ethical responsibility. On a priority ranking scale, philanthropic responsibility was second, coming after economic responsibility, followed by legal and ethical responsibilities.

Further findings state that since Africa is still in the early stage of CSR practices and due to its socio-economic conditions and dependency on foreign support, philanthropic responsibilities need to be given second priority. Similar studies have stated that philanthropic responsibility is the prime focus following economic responsibilities when considering CSR in developing countries (Matten & Crane, 2005; Visser, 2008). However, various empirical studies have been conducted in developed as well as emerging countries which helps to identify how these categories are placed in corporations.

Ibrahim & Angelidis (1995) conducted a study to compare the similarities and dissimilarities between outside and inside directors concerning their attitude about CSR. They conducted the study by surveying 270 outside directors and 159 inside directors. The results show that outside directors are more likely to be found in economically successful firms. This is because firms with outside directors have more potential to invest in philanthropic-driven activities. Regarding inside directors, they are more concerned about the firm's economic situation as they are intimately involved with the firm's regular business operations. They also argue that when a firm has more outsiders on their BODs, then the probability that the firms engage in more CSR driven activities tends to be high in comparison to firms with more inside directors. Based on the result of the study, board composition seems to play a vital role in firms' involvement in CSR activities.

O'Neill et al. (1989) conducted a study of the involvement of CEOs and BODs. They found that both groups have significant concerns about their firm's profits, which is the economic component instead of legal, ethical, and discretionary issues. They have further explained that the study was conducted using some of the world's best firms. The sample was selected from various industries listed in *Fortune Magazine*, indicating the best-managed firms. Nevertheless, they also argue that BODs depict a low tendency in comparison to the managers with a negative association among the economic and ethical issues.

Furthermore, they stated that since BODs are less involved in business operations, they do not separate generating profits and CSR. Similarly, Pinkston & Carroll (1996), using the results of a mail survey of 591 to the top managers of multinational chemical industries in the US, wanted to examine whether the priorities of CSR have changed or shifted over time. Their findings showed that top managers prefer achieving economic goals, followed by legal responsibilities. The results of their findings have indicated that managers must follow legal obligations irrespective of the profits that they make. On the other hand, for a firm to follow the law's legal obligations, they need to generate profits. Hence, economic and legal responsibilities go hand in hand.

Furthermore, not meeting government regulations will lead to incurring additional costs for the firm. Irrespective of the penalties and forfeitures that companies could face if they did not follow government and other obligations, they would not operate using unethical business practices due to harm to their reputation. Nevertheless, some firms do not focus on philanthropic responsibility because when the firm wants to spend on society-driven activities, the funds to do so are not available as it was already used for other activities.

2.2 Perception of CSR

As the findings of Fernando (2007, 2010) have shown, Sri Lanka has an extensive history of charitable giving. Private sector companies have noticed the results of CSR programs only after the Tsunami in 2004. The findings were from case studies

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

conducted on the CSR activities of Unilever Sri Lanka and Brandix pre and post-tsunami periods. The study reveals that publicity played a crucial role in firms implementing CSR initiatives in Sri Lanka post-tsunami. It further expounds on how companies tried to balance economic, legal and ethical responsibilities while reacting indifferently. At the same time, one firm focused on community-driven projects.

In contrast, another firm was focused on environment projects. Scholars have stated that CSR has become a key component in business operations in Sri Lanka. The dominant players in the market in Sri Lanka are the firms that operate in the private sector with the support of local and foreign investors (Kuruppu & Suraweera, 2020). Stakeholders, mainly employees, consumers and other interested parties, place immense pressure on the government to improve the livelihood of people who are facing hardships due to the unethical economic condition of the country (Kuruppu & Suraweera, 2020). This has led private companies to engage in more activities for the improvement of the public apart from the others. The involvement of the country's private sector has become the primary driver of the development of the country's economic, financial, and human resources. This has directed an awareness to generate the link and recognition of the business.

Rathnasiri (2003) stated that Sri Lanka has two broad perspectives on CSR initiatives, that is, externally and internally at the policy level (Rathnasiri, 2003; Wijethilake et al. 2021). Externally focused approaches are where the firms focus on the public at large, conducting activities to enhance public awareness. One such firm is Union Assurance (an insurance company), which conducts public awareness programs on safety (educating people about precautions to take when lighting fireworks in festive seasons). The said program also provides information on preventing accidents resulting in burns, which is aimed at children. On the other hand, the internal policy-driven focus is where the firms develop CSR activities for the betterment of the company itself. These will include activities like providing a better working environment for the employees, creating equal opportunities, and initiating policies to manage waste. Moreover, the author has acknowledged that it is necessary to create more awareness of CSR activities and the benefits they can provide in the longer term by being better corporate citizens.

The findings of Ariyabandu & Hulangamuwa (2002) stated that there are four categories of CSR in Sri Lanka, namely, charitable activities (donations), environmental conservation, public awareness, and corporate sponsorship. Their study revealed that these are the categorizations that are initiated by private sector companies in Sri Lanka. With respect to donations, companies support the community by contributing food, clothes, and shelter for the poor. Environmental protection activities consist of anti-pollution programs (river and air pollution), eco-friendly business (producing industrial safely equipment, solar water heaters), methods of conserving soil and creating awareness programs to the general public on environmental conservation activities. Corporate sponsorship consists of activities like

sponsoring education for young children, offering scholarships for higher education, assisting disabled people and public awareness. The firms also establish health and safety programs and educate the public about natural disasters. Additionally, private firms benefit from these social activities, as it helps to build employees' self-esteem and thereby increase worker productivity, improve the firm's corporate image and in turn improve the image of the firm's products. Also, it assists in maintaining relationships with all sectors of the community and encourages the development of new relationships with the government and other private sector firms.

Another study conducted by Pirithiviraj & Kajendra (2010) analyzed the financial sector in Sri Lanka and the use of CSR within the sector. The study results show that market orientation, customer orientation, competitor orientation and inert-functional coordination are positively linked to CSR. The findings have further shown that when the needs and wants of consumers increase, the corporation tends to satisfy such needs by enhancing social expectations. For firms to improve the wellbeing of society, they have to increase their market orientation activities, namely, consumer, competitor and inter-functional coordination. Findings of Sheham (2016) stated that most firms in Sri Lanka are focused on supporting local community projects, helping employees obtain tertiary education, creating job opportunities and engaging in charity-driven activities. These findings were derived from the survey conducted to determine whether Sri Lankan owned firms conduct more CSR activities in comparison to foreign-owned firms. The study also found that the practice of CSR by firms in Sri Lanka seems to be limited. The findings are similar to the study conducted by Fernando et al. (2015). Their survey also revealed that foreign firms engaged in more environmental activities as opposed to Sri Lankan owned firms. This may be due to a lack of knowledge of implementing CSR and the benefits that they can get from these practices. Most firms are generally focused on the short-term benefits that can be achieved, namely, an enhanced corporate image, motivating employees, instead of long-term benefits such as a more skilled workforce, improving social accord and encouraging growth in environmental protection activities (Sheham, 2016).

Some scholars also have contradictory views on the impact of firms' engagement in CSR-driven activities in Sri Lanka. While some studies have indicated that the critical focus of firms is maximizing profits (Wijesinghe, 2012), other studies show that firms are currently focusing on sustainability and the wellbeing of society (Balagobei & Anandasayanan, 2018). From some studies, it seems that some Sri Lankan firms are more interested in satisfying the needs of their shareholders and give less attention towards fulfilling the interest of the whole stakeholders (Wijesinghe, 2012). In line with this viewpoint, most of the annual reports reviewed consisted of information about FP, and only a few firms have given sufficient information on the types of CSR activities that they have conducted. However, there is now a shift with firms becoming corporate philanthropic and being socially responsible (Balagobei & Anandasayanan, 2018). The increased focus on

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

sustainability activities by Sri Lankan firms is a result of them becoming aware that an important goal of firms should not only be to generate profits but also to enhance trust and build relationships with society. Firms tend to disclose their sustainability activities in annual reports, along with the integration of CSR activities into their business operations. In doing so, firms expect to strike a balance between stakeholder interest and the wellbeing of society.

As firms are represented by people, commitments to corporate social activities are maintained and managed by them. Managers are treated as agents to make a change within firms; the awareness and commitment towards CSR are commonly recognized as the critical success factors for implementing social and environmental initiatives (Jenkins, 2006). Further evidence shows that the management of a firm has a significant effect on the procedures and the results of CSR (Mamic, 2005; Waddock et al., 2002). Managerial perceptions and management's efforts in taking actions to shape the firms and their activities have provided for accessible research for years (Pedersen & Neergaard, 2009). Since the practice of CSR activities is not a mandatory requirement for companies, most firms conduct CSR activities on a voluntary basis (Abeysekera & Guthrie, 2004; Bebbington et al., 2009; Thayaraj & Karunarathne, 2021). The reason for conducting CSR in Sri Lanka varies in many ways; in some cases, it is charitable motivation. For others, it is due to the direct and indirect motives of the business operation (Ariyabandu & Hulangamuwa, 2002). The aims of improving CSR activities can be due to the desire to create a positive image and build good relationships within the community, government, and other institutions and to cover up negative impressions created by the firms. There is no agreement as to what is socially responsible behavior in Sri Lanka. In fact, socially responsible behavior is seen as a bundle of procedures and guidelines, which needs to be adhered to irrespective of being seen as a set of values and behaviors (Rathnasiri, 2003). Hence, voluntary contributions and behaviors towards social activities are still to be established in Sri Lanka. As such, CSR behavior in the corporate sector needs to be understood within this context.

2.3 Agency and Stakeholder Theory

It was argued that firms are motivated to conduct CSR activities based on the domain of stakeholder theory (Argandona, 1998; Harvey & Schaefer, 2001; Post, 2003; Ashrafi et al., 2020). With respect to stakeholder theory, CSR is believed to intensify the issues of capitalism and ethics once it is added to the responsibilities and commitments of finance of the firm (Parmar et al., 2010). The theorists of stakeholder accept a combination of financial and ethical concerns are essential in CSR as it is based on the value that is created and traded through the relationships of the stakeholders. The practicality of stakeholder theory and CSR remains within the instrumentalist approach to stakeholder theory as it shows that CSR activities will result in financial benefits (Jones, 1995). Similarly, CSR assimilates economic and ethical components through a more comprehensive analysis of the firm's

connectedness towards discourses of the society by encouraging CSR practices, which respond to political co-responsibility (Scherer & Palazzo, 2007). With this approach, the ethical components of CSR are considered to be political. In relation to corporate citizenship, it is about taking responsibility for activities that affect others by being accountability as well as transparency.

In comparison to stakeholder theory, agency theory shows how owners (principals) delegate respective authority to managers (agents) to manage the firm on their behalf so that the welfare of the owners depends on the managers (Jensen & Meckling, 1976). Agency theory emphasizes the possible conflict of interests between owners and managers. The various interest of managers may cause them to opportunistically utilize the resources of the firm to satisfy their interests (Brammer & Millington, 2008). Firms tend to maximize the wealth of their shareholders, which will be different from the interest of the managers. The agents, i.e., managers, might have important information instead of shareholders. The availability of information will raise the possibility that the agents can behave in ways that help them pursue their interests (Jo & Harjoto, 2011). Hence, when the agents act based on their benefits without maximizing shareholders' wealth, problems will arise.

In respect to agency theory, the active involvement of BODs is vital to monitor the opportunistic behavior of the managers. It will be possible to reduce the cost of the agency and enhance information symmetry (Jensen & Meckling, 1976; Fama & Jensen, 1983; Chintrakarn et al., 2016). It is also defined as the dissatisfaction of the principals with an outcome of an agent's performance (Anwar, 2016). The disparity of the available information between the principal and the agent is known to be the asymmetry of information, which encumbers the monitoring ability of the principal over the manager's self-interest activities. Sustainability disclosure is treated as a vital part of a firm's voluntary disclosure activities, which becomes a vital part of addressing any asymmetric informational issues (Fuhrmann et al., 2016).

Further arguments concerning agency theory suggest that the dual leadership structure encourages managers to publish more corporate information because CEO duality compromises board independence (Shamil et al., 2014; Omer et al., 2020). The duality of the CEO tends to raise issues of asymmetric information as it supports the suppression of vital information from others, especially from independent directors. This tends to drive more opportunistic manager behaviors, inefficient corporate governance mechanisms, issues of leadership and less corporate disclosure (Said et al., 2009). Hence, a dual leadership structure is considered acceptable for the adequate function and independence of the board.

3. METHODOLOGY

Among 296 total listed firms in the Colombo Stock Exchange (CSE), 50 firms with the highest market capitalization amount as of 12 September 2016 were selected for the study. From the total of 486 BODs (appendix 1) of the selected firms (selected from the annual reports of each company for the year ended 2015/2016), 70 BODs

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

responded to the questionnaires. The questionnaire method is used as the primary data collection instrument (Saunders et al., 2009). It is reflected as one of the extensively adopted data collection methods. The questionnaire was constructed with the adoption of empirical studies by incorporating some changes to suit the Sri Lankan context (deVaus, 2002). These modifications were made because the questions that functioned well in one context may be inappropriate to use as it is in another sample and environmental context. The questionnaire comprises both open-ended and close-ended questions (deVaus, 2002; Babbie, 2013).

The selection of the questionnaire items is depicted in Appendix 2. Varied data collection methods are described in Table 1. As depicted below, the highest number of data collection methods was through telephone, followed by face-to-face interviews. There were four questionnaires received by email, and five questionnaires were received through the postal service. Online survey filling was also received, amounting to eight questionnaires.

Table 1

Data Collection

Types of Data Collection	BODs
Telephone	32
Face-to-face interview	21
Emails	4
Post	5
Online	-
Others (self-filling)	8
Total	70

4. RESULTS

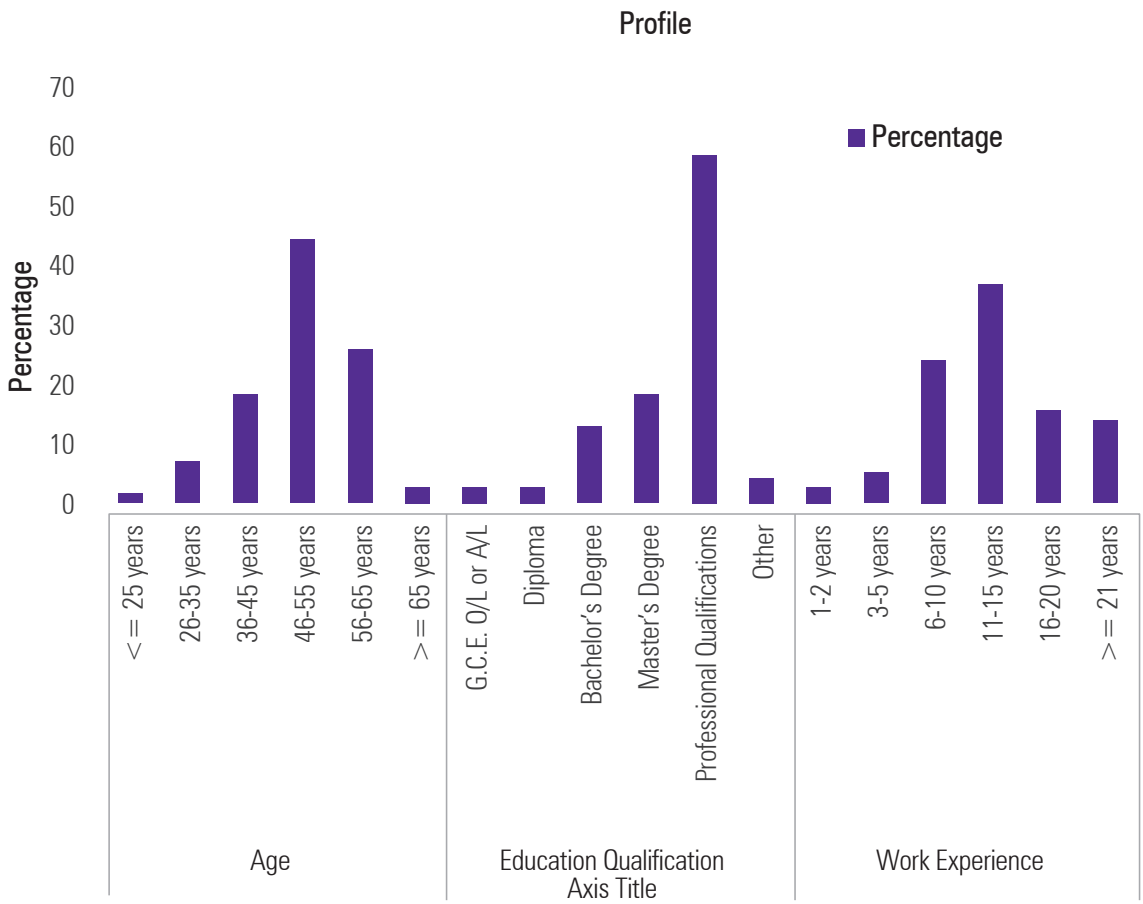
4.1 Respondents Profile

Among the respondents (Figure 1), a majority have between 11-15 years of work experience, comprising 37.1% following the second-highest range of 6-10 years of work experience (24.3%) servicing to the firms as directors. With respect to the range of age, the highest range of age was with 46-55 years amounting to 44.3%,

followed by the age range of 56-65 years amounting to 25.7% which signifies that level of experience and maturity in the corporate field. Similarly, when considering the education levels, the majority of the respondents are professionally qualified (58.6%), while the balance representatives have a bachelor's degree (12.9%) or a master's degree (18.6%).

Figure 1

Respondents Profile



AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

4.2 Descriptive Statistics

Based on 18 items, the average mean value of six dimensions ranges from 4.2524 to 4.6429 (Table 2). This indicated that moderate CSR practices were undertaken by the respondents. Moreover, perceived practices of ethical CSR, legal CSR and economic CSR have scored the highest mean value of 4.6429, 4.5321 and 4.4238, respectively with a standard deviation of 0.38507, 0.49804 and 0.42816. However, philanthropic CSR had scored the lowest mean value of 4.2524 with a standard deviation of 0.55149. Therefore, it depicts that the respondents demonstrate ethical, legal, and economic CSR initiatives over philanthropic CSR.

Table 2

Descriptive Statistics

Dimensions	Mean	SD
Economic CSR (3 items)	4.4238	0.42816
Legal CSR (4 items)	4.5321	0.49804
Ethical CSR (5 items)	4.6429	0.38507
Philanthropic CSR (6 items)	4.2524	0.55149

4.3 Reliability Test and Validity Test

With respect to the respondents, Cronbach's alpha values for CSR, where, economic CSR (3 item scale α=0.751), ethical CSR (5 item scale α=0.804), legal CSR (4 item scale α=0.844), philanthropic CSR (6 item scale α=0.860) all are above 0.7. Thus, all the questionnaire items are considered to have an acceptable, reliable scale (Table 3).

Table 3

Reliability Test

	Variables	Cronbach's Alpha
CSR	Economic Responsibility	0.751
	Legal Responsibility	0.844
	Ethical Responsibility	0.804
	Philanthropic Responsibility	0.860

Validity measures the extent to which how far the portion really quantify the concept that it signifies to measure (Bryman & Cramer, 2005; Bryman, 2012). This refers to the extent to which an empirical measure adequately reflects the real meaning of the concepts under consideration (Babbie, 2013). It ensures that the actual measurement criteria are measured. Subsequently conducting the necessary amendments as above, the final study for the respondents, the significance of all the questionnaire items are less than 0.05. Therefore, all the questionnaire items are considered to be accepted (Table 4).

Table 4

Validity Test

CSR	Pearson Correlation	P-value
Economic Responsibility		
…monitor employee productivity	0.367	0.002
…strive to lower the operating costs	0.385	0.001
…allocates organizational resources efficiently and effectively	0.315	0.008
Legal Responsibility		
…comply with laws regulating hiring & employee benefits	0.621	0.000
…form internal policies to prevent any discrimination in employee compensation & promotion	0.778	0.000
…is serious about considering and abiding by law and regulation aspects when taking any business opportunity	0.641	0.000
…perform in a manner consistent with expectations of government and law	0.545	0.000
Ethical Responsibility		
…is recognized as a trustworthy company	0.334	0.005
…has a comprehensive code of conduct	0.504	0.000
…acts fairly towards co-workers & considers it as an integral part of the employee evaluation process	0.611	0.000
…provide full & accurate information relating to products and services of the firm to all the customers	0.457	0.000
…has a confidential procedure in place for employees to report any misconduct at work	0.298	0.012

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

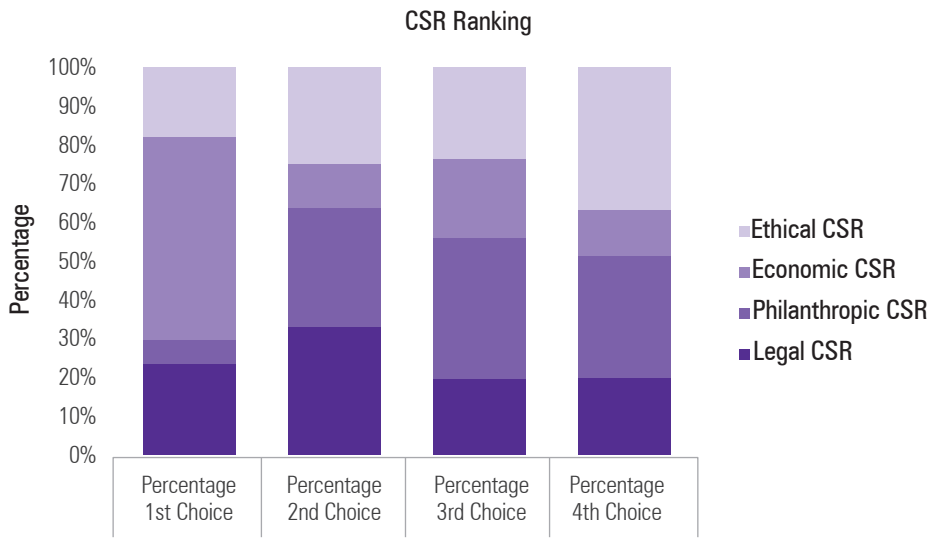
CSR	Pearson Correlation	P-value
Philanthropic Responsibility		
….encourage partnerships with local businesses & schools	0.596	0.000
…has flexible company policies to enable employees to better coordinate work & personal life	0.688	0.000
…has programs that encourage the diversity of the workforce (in terms of age, gender, religion etc.)	0.668	0.000
…provide contributions to charities	0.637	0.000
…has programs in place to reduce the amount of energy & materials wasted in the business	0.724	0.000
…supports employee education	0.530	0.000

4.4 Perception of CSR

The ranking of CSR dimensions among BODs (Figure 2) was computed by requesting the respondents to rank the most preferred dimension by including the indirectly worded questions. This will allow the researcher to not directly ask the most preferred CSR dimension and reduce biases. With respect to the respondents, economic CSR (Question: Tries to improve its financial performances) was ranked as the first choice among the respondents, amounting to 58.6%. The second choice was ranked by the legal CSR (Question: Tries to comply with the laws and regulations), amounting to 37.1%. Whereas the third choice was the philanthropic CSR amounting to (Question: Participate in various voluntary activities) amounting to 32.9%. The fourth rank was ethical CSR (Question: Pays attention to ethical business practices), amounting to 31.4%.

Figure 2

Ranking of CSR



4.5 Firms CSR Practice

In order to understand whether the selected firms practice CSR or not, for both of the questionnaires, a question item was included in asking the respondents to state whether their firms conduct CSR activities or not. All of the respondents have specified that their firms practice CSR.

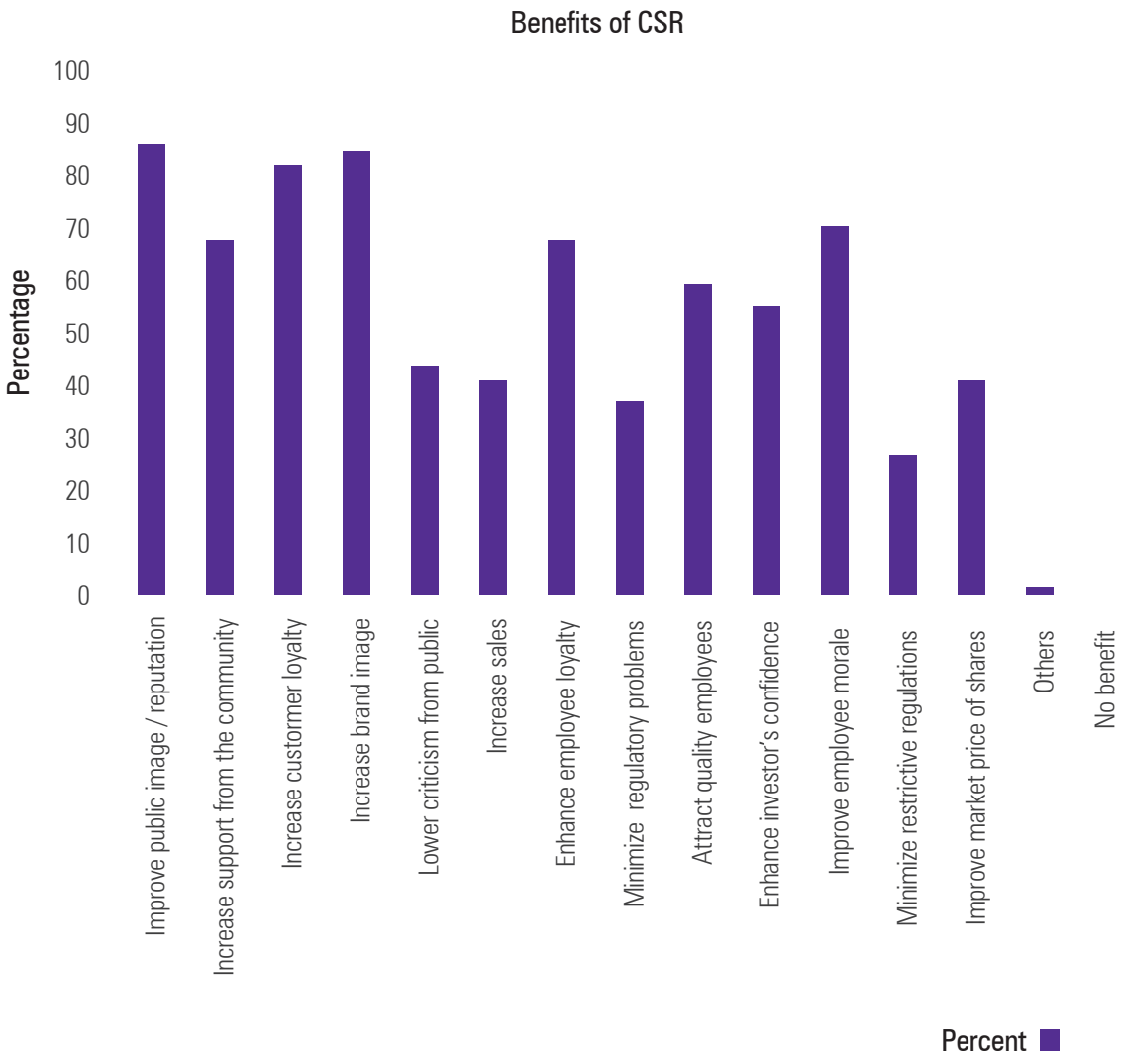
4.6 Analysis of CSR Benefits

Based on the respondents' answers about whether their firms conduct any CSR activity or program, a list of benefits (Tan & Komaran, 2006) is stated in both questionnaires requesting the respondents to mark if they said 'yes' (Figure 3). With respect to the respondents, the most frequently cited CSR benefits are 'Improve public image/ reputation' (87.1%), 'Increase brand image' (85.7%) and 'Increase customer loyalty (82.9%). 'Enhance employee loyalty' and 'Increase support from the community (68.6%) are equally cited. However, none of the respondents has cited that there is 'No benefit' derived from CSR.

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

Figure 3

Benefits of CSR



5. DISCUSSION

5.1 Discussion of Findings

The findings have depicted that Sri Lankan firms conduct some forms of charitable activities, conducting either religious or educational activities (Heenetigala, 2016). The activities are mainly focused on improving education facilities, health and safety facilities, waste management, facilitating infrastructure development, anti-pollution activities, disaster management etc. (Heenetigala, 2016). Hence, BODs have accepted that their firms practice CSR activities amounting to 100% consent. This denotes that firms are willing to support society and the environment by conducting social investments. In addition, this reveals that Sri Lankan owned firms are more connected with the society and the community in which they operate their businesses than the foreign-owned firms. It may be because these firms are impacted by the influences and inspirations driven by the culture, religion, and awareness of the wishes of both employees and management (Jamali & Mirshak, 2007; Frynas, 2006). It should also be noted that most firms have only a general understanding of CSR. However, they are eager in engaging in sustainability-driven activities. BODs are under the impression that CSR will enhance a firm's image.

These findings are compatible with the empirical studies where scholars have identified that by engaging in CSR-driven activities, firms can enhance the firm's image (Ali & Ali, 2011; Susanto, 2012). Firms also consider that by conducting CSR activities, they have the possibility of obtaining more exceptional support from the community which also may lead to enhanced consumer loyalty. This illustrates that they are not concerned with the long-term aspect. Due to the limited history of CSR in Sri Lanka, it is required to have shared learning and understanding of CSR for firms to evolve their practices. BODs and managers need support to understand the long-term benefits of CSR that can be achieved, and their potential in supporting such activities.

Similarly, the findings denoted that the BODs have ranked economic CSR as the main priority of CSR among all the other components, namely, legal, ethical, philanthropic CSR. Hence, similar to the empirical findings, most emerging countries focus more on the economic aspect when considering CSR as opposed to other elements (Visser, 2008; Pinkston & Carroll, 1996; O'Neill et al., 1989; Ibrahim & Angelidis, 1995). One such reason for the priority on economic responsibility would indicate that senior management is more concerned with achieving the key motive of the firm, which is to generate profits. Also, when the firm decides to spend on any CSR driven activity, all of their funds may have been utilized in satisfying other responsibilities (Pinkston & Carroll, 1996). Likewise, society also expects firms to behave ethically without disruptive and unethical business practices. Hence, the firms are more concerned with ensuring that ethical responsibilities are fulfilled over

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

philanthropic responsibilities. It is said that ethical responsibilities are expected by the community, whereas philanthropic responsibilities are the desires of the firm. On the other hand, economic and legal responsibilities are the requirements of the firm by the community. All in all, it can be said that the expectation of the society from the firm has diminished over time.

5.2 Theoretical and Managerial Implications

The study findings should contribute toward signaling to BODs in Sri Lanka that conducting CSR activities achieves benefits to firms by initiating varied CSR activities. Top managers in other similar cultural, emerging markets and social norms may consider these results beneficial, while considering a process for the expansion of their CSR strategies and initiatives. Due to the rapid growth in the emerging economy, the firm's policies in Sri Lanka are increasingly driven by social and environmental concerns. While assimilating into the world economy, Sri Lanka as well as other emerging markets, have rising appeal and density to encounter the global principles of commercial ethics and socially accountable practices. Hence, Sri Lankan firms must strengthen their level of awareness of CSR and actively meet social responsibilities. Additionally, BODs of the Sri Lankan firms need to exercise their ethical duties as well as responsibilities by taking stakeholder interest into account, which in the long term will aid their firms to gain and sustain competitive advantage.

Moreover, BODs' involvement in the daily operations appears to be less, and as such, they do not tend to consider much separation between generating profits and engaging in CSR. Given this dispute, it can be said that the BODs act as the agents for CSR while considering the share of ownership for investors (O'Neill et al.,1989). Managers are concerned with many forms of business performance, including technical, economic as well as humanitarian and social factors. A firm needs to drive focus on productivity and performance as these are the essential criteria for a successful business. Hence, when managers take their own decisions, they need to drive attention towards varied factors irrespective of being given equal attention. This may be one such cause for managers to select economic responsibility as the priority. Survival of the firm is essential for it to consider achieving other responsibilities such as legal, ethical, and philanthropic.

Similarly, top management focus is attuned more towards achieving business goals, increasing market share and growth of the business. Moreover, a business is set up to generate profit which is the fundamental motive of a business (Friedman, 1970). For a firm to fulfil its responsibilities towards the community, it needs first to generate profits. Managers need to perform their duty by properly managing and controlling their business while generating profits. In failing to fulfil such responsibility, they tend to fail to fulfil their obligations to serve society. Hence, ultimately focusing on profit motive is the fundamental aspect to fulfilling other responsibilities.

If a firm intends to follow and provide priority towards other responsibility factors apart from those which are economic, then it is the decision of the firm's top managers, and its subordinates to follow. Hence, top management can change business priorities accordingly by focusing more on engaging in CSR-driven activities irrespective of giving much focus on profit-driven activities. When drawing greater attention towards generating firm profits and business growth, managers may deviate attention away from being ethical. Henceforth, with the involvement of strategic focus from management, there is a greater likelihood of providing for explicit acknowledgement as to the importance of ethics and social activities and other key corporate aspects. Firms can communicate change in strategic focus to their subordinates, thereby giving prominence to optional activities.

All in all, the argument is not to diminish the prominence concerning economic responsibility but to enhance important legal, ethical, and philanthropic obligations (O'Neill et al., 1989). Also, managers need to view both financial and ethical concerns, not as two separate constraints, where satisfying one would lead to diminishing the importance of others. Hence, managers should look for other alternatives which can help them to overcome the constraints of economic and ethical responsibilities.

Moreover, this may be due to the fact that there is no crucial engagement and involvement on the part of the society and government. This means that there is minimal coordination of effort, and less exposure is given to implementing best practices for change. Therefore, firms in Sri Lanka and their concern for serving society and the environment requires an awareness toward the possibility of converting informal practices towards more organized and cohesive initiatives. Firms should consider practicing CSR not as a barrier but rather the lack of conducting sustainability activities may be due to insufficient funds. It is required that both BODs and managers realize how long-term benefits are connected with the overall enhancement of the community around them. This type of engagement will ultimately lead to sustainable CSR activities. It is rare for firms to discourse encounters outside their core business activities.

CSR is considered an essential element of a firm's strategic direction and providing leadership to achieve these responsibilities is one of the board's primary responsibilities (Amran et al., 2014). It is acknowledged that the range of disclosure, degree of transparency and issues relating to assurance depends on the discretion of the CEOs because a board's decision must be communicated through the CEO (Amran et al., 2014). Agency theory states that large boards with unique expertise possess board independence. Ownership will tend to exercise effective monitoring of the firms in order to restrict the self-serving behaviors of managers. That, in turn, will lead to enhanced environmental performance (Hillman & Dalziel 2003). Within this context, board involvement is vital with regards to sustainability disclosure whose elimination cannot be taken lightly. Hence, there is a persuasive necessity to create

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

more extensive and elaborate boards for an active set of sustainability disclosure, where a one-tier board structure is currently prevalent.

It can be said that BODs ensure that a particular firm continues its business efficiently and is headed in the right direction (Krechovska & Prochazkova, 2014). As the primary internal governance mechanism, the board has the power to decide on the firm's mission, its policies and to maintain and protect the interest of the company's stakeholders (Wijethilake et al., 2015). Therefore, the involvement of the board concerning all strategic directions, including sustainability disclosure, is vital, particularly for a one-tier board structure, in which most Sri Lankan firms are engaged (Rathnayaka, 2018). Single-tier board structures govern the listed firms of Sri Lanka. Due to this structure, boards of these firms have a more substantial impact on corporate strategic decision making than other listed firms operating in other countries. When the board elects to become engaged in sustainability, it is essential to pay adequate attention to the composition of the board as well. Consequently, directors are the ones who will decide whether the firm chooses to embrace policies regarding sustainability. In Sri Lanka, most firms are in the initial stage of implementing CSR practices as a matter of principle. This move will help them to stay competitive in both local and global markets by improving public image at large (Amiri et al., 2017).

The findings of this study also contribute empirically by noting that managers and BODs of Sri Lankan firms should not engage in CSR activities solely to show the public that the firm is performing better. It is vital that they first ensure that the additional information concerning their pro-environmental or social engagement programs are deemed as essential and appreciated by the general public. If it is, it can positively signal unobservable attributes and thereby overcome the asymmetry of information as intended. Hence, it could lead to a reliable signal to the public with whom they are conversant, which can be easily observed and verified. Nevertheless, when the demand for firms to engage in environmental and social activities further enhances the signaling of its strategy, it will likely become more vital. The lack of knowledge of firms in Sri Lanka regarding the benefits that can be gleaned from CSR practices needs to be mitigated. Firms need to be educated regarding the long-term benefits that can be achieved through CSR (Sheham, 2016). Focusing solely on short-term goals to enhance the image or recognition of the brand can lead to planned activities which may not be adequately linked to the firm's overall business strategy. Such implementations of CSR will be either ineffective or unable to lead to future business profitability and growth.

If a firm's management can improve its reputation and mitigate other risks sufficiently, corrective actions can be taken before any crisis situation can occur. BODs can enable this by providing for appropriate vision, values and risk appetite that impact the firm's decision-making, while suggesting the appropriate respective

behaviors within the firm and its supply chain (Stein & Wiedemann, 2016). Further, BODs can use their experiences to address the firm's risk profile by scrutinizing whether it has identified the respective risks, whether the respective stakeholders have been consulted, and whether the effect on its reputation is being correctly addressed. Management has the ability of identifying the types of threats and opportunities that may have a reputational effect on the respective working departments. Further, upon identifying these risks, they can continuously monitor their impact, and by taking appropriate action, help to mitigate them while reporting the effect to the BOD. In the meantime, the risk manager and the risk management team can safeguard the risk management system of the firm by ensuring that data related to risks are up-to-date and accurate so that BODs can make those decisions which are needed. Additionally, it is the task of the BODs to ensure that they have adequately managed the resources allocated to risk management, and that the firm understands the benefit of risk management (Stein & Wiedemann, 2016).

CONCLUSION

The aim of this study is to examine the perception of CSR in Sri Lanka according to BODs. The study was conducted using data collected from the Sri Lankan Stock Exchange, an emerging market context, by selecting 50 firms with the highest market capitalization on CSE. The BODs of these firms were chosen to be administered structured questionnaires, which were developed to collect the data. The total sample size was 70 respondents. Multiple data collection methods, namely, telephone, face-to-face, email as well as online interaction, were adopted in collecting the data through questionnaires used in the study.

Economic CSR is ranked as the highest perception. In contrast, legal and ethical CSR was ranked as the lowest perception among the BODs and middle and lower-level managers in Sri Lanka. The results of the study further denote that firms conduct CSR activities to enhance public image and reputation. By enhancing firm reputation, companies can sustain their market position. Alternatively, CSR practices can be used as a marketing tool to attract and retain customers. All in all, it can be stated that the empirical findings of the study contribute, not only to BODs in the country context of Sri Lanka, but also to firms in other emerging countries, inspiring them to conduct varied CSR driven activities. It is suggested that future research may be further extended by conducting in-depth interviews with CSR managers as well as those top managers who are directly involved in CSR strategy development and implementation. Similarly, in order to better understand the varied perceptions in other emerging countries, future studies may be extended to other developing countries similar to Sri Lanka. This study represents part of the main doctoral thesis, which has analyzed a combination of BODs and senior managers. The sample size

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

of the BODs can be extended by adding senior managers and owners of Small and Medium Scale firms in the county and thereby better understanding the perception as well as the obstacles faced in conducting varied CSR-driven activities.

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APPENDIX 1
Boards of Directors as per each company

	Company	BODs
1	Access Engineering PLC	10
2	Aitken Spence Hotel Holdings PLC	9
3	Aitken Spence PLC	9
4	Asian Hotels & Properties PLC	9
5	Asiri Hospital Holdings PLC	8
6	Bukit Darah PLC	9
7	C T Holdings PLC	10
8	Cargills (Ceylon) PLC	11
9	Carson Cumberbatch PLC	12
10	Central Finance Company PLC	10
11	Ceylinco Insurance PLC	15
12	Ceylon Beverage Holdings PLC	7

	Company	BODs
13	Ceylon Cold Stores PLC	7
14	Ceylon Tea Services PLC	8
15	Ceylon Tobacco Company PLC	7
16	Chevron Lubricants Lanka PLC	6
17	Commercial Bank of Ceylon PLC	9
18	Commercial Credit and Finance PLC	9
19	Commercial Leasing & Finance PLC	5
20	DFCC Bank PLC	12
21	Dialog Axiata PLC	8
22	Distilleries Company of Sri Lanka PLC	9
23	Expolanka Holdings PLC	9
24	Hatton National Bank PLC	13
25	Hayley's PLC	11
26	Hemas Holdings PLC	11
27	John Keells Holdings PLC	10
28	John Keells Hotels PLC	9
29	L B Finance PLC	12
30	Lanka IOC PLC	7
31	Lanka Orix Leasing Company PLC	8
32	Lion Brewery Ceylon PLC	11
33	National Development Bank PLC	11
34	Nations Trust Bank PLC	12
35	Nestle Lanka PLC	8
36	Overseas Realty (Ceylon) PLC	11
37	People's Leasing & Finance PLC	9
38	Richard Pieris And Company PLC	8
39	Royal Ceramics Lanka PLC	9
40	Sampath Bank PLC	12
41	Seylan Bank PLC	10
42	Shalimar (Malay) PLC	8
43	Singer Sri Lanka PLC	12
44	Sri Lanka Telecom PLC	10

AD-minister Nº. 41 july - december 2022 pp. 57 - 90 · ISSN 1692-0279 · eISSN 2256-4322

	Company	BODs
45	Textured Jersey Lanka PLC	8
46	The Lanka Hospital Corporation PLC	17
47	Tokyo Cement Company (Lanka) PLC	11
48	Trans Asia Hotels PLC	9
49	Union Bank of Colombo PLC	15
50	Vallibel One PLC	6
	Total	**486**

APPENDIX 2
Questionnaire items

Variable Item	Question Number	Source
Ethical CSR	Q 1.1	Maignan & Ferrell (2000)
	Q 1.2	Maignan & Ferrell (2000)
	Q 1.3	Maignan & Ferrell (2000)
	Q 1.4	Maignan & Ferrell (2000)
	Q 1.5	Maignan & Ferrell (2000)
Economic CSR	Q 2.1	Maignan & Ferrell (2000)
	Q 2.2	Maignan & Ferrell (2000)
	Q 2.3	Tai et al (2013)

Variable Item	Question Number	Source
Philanthropic CSR	Q 3.1	Tai et al (2013)
	Q 3.2	Maignan & Ferrell (2000)
	Q 3.3	Maignan & Ferrell (2000)
	Q 3.4	Fadun (2014)
	Q 3.5	Maignan & Ferrell (2000)
	Q 3.6	Maignan & Ferrell (2000)
Legal CSR	Q 4.1	Maignan & Ferrell (2000))
	Q 4.2	Maignan & Ferrell (2000)
	Q 4.3	Maignan & Ferrell (2000)
	Q 4.4	Maignan & Ferrell (2000)