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## SPECIAL ISSUE:
Building a Sustainability-Oriented Corporate Governance in Emerging Markets Under a Risk Environment

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FOREWORD FOR SPECIAL ISSUE OF AD-MINISTER ON BUILDING A SUSTAINABILITY-ORIENTED CORPORATE GOVERNANCE IN EMERGING MARKETS UNDER A RISK ENVIRONMENT[1]

# GOVERNING BOARDS CAN MAKE THE DIFFERENCE

MICHAEL USEEM, WHARTON SCHOOL,
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Corporate boards have undergone a quiet but profound transformation in many countries over the past several decades. Before the turn of the century, boards had been more ceremonial than practical, more signalling than substantive. But with intensifying demands from investors, owners, and regulators worldwide, directors have increasingly come to engage directly with their executives, not just monitor their practices. They now serve as personal mentors, sounding boards, and strategic partners, going well beyond their traditional fiduciary duties.[2]

For two reasons, this governance revolution behind closed doors could not come at a more opportune moment. First, government policies and business risks confronting companies have been on the rise for years, and when uncertainty grows, executive decisions are more consequential for firm performance. As enterprise risk management has increasingly come to occupy management attention, companies are better served if their executives now work arm-in-arm with their directors.

Second, a widespread commitment to corporate sustainability – the company practice of achieving short-term business goals without compromising longer-term environmental and social agendas – has come of age in most markets. When directors respond to the era's calling for all to exercise greater company responsibility in collaboration with top management for both near and distant times, they can make a positive mark.

Yet that outcome still hangs in the balance, with companies more or less able to manage risk and promote sustainability depending on how company directors are

1 This Special Issue was led by Dr. Miguel Cordova (Pontificia Universidad Católica del Perú), Dr. Maria Ilieva (University of Leeds), and Dr. Joan Lilian Ogendo (The Technical University of Kenya) as Guest Editors. Thanks to the authors that submitted their research papers and thanks to the reviewers that diligently have backed up its development. Many thanks to Dr. Maria Alejandra Gonzalez-Perez as Editor-in-Chief of AD-minister, and to Natalia Gonzalez Salazar as Managing Editor of AD-minister, for their full support during the process. Special thanks to Dr. Michael Useem, who was gently willing to write this foreword.

2 Ram Charan, Dennis Carey, and Michael Useem, *Boards That Leas: When to Take Charge, When to Partner, and When to Stay Out of the Way*, Harvard Business School Publishing Corporation, 2014; National Association of Corporate Directors, "The Future of the American Board: A Framework for Governing into the Future," 2022.

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organized and connected with top management. If well-conceived, the architecture and culture at the top can help create the sustainable world that the public has come to expect. If not, business leaders will miss the moment's opportunity to do so, an unforced error that generations ahead will come to condemn. And here is where this Special Issue fills a vexing void, gathering six studies addressing this question. Their answers are sure to be instructive for scholars, managers, and directors alike.

In "Sustainability and Corporate Governance in Mexican Beef Production," Miguel Angel Jaimes-Valdez, Carlos Armando Jacobo-Hernández, and Sergio Ochoa-Jiménez study whether governance mechanisms affect economic, environmental and social sustainability. They focus on the livestock industry and confirm that better governance practices correlate with more sustainability. The authors also report that company practices are most impactful when the enterprise is most proactive, pressing commercial partners for more sustainable practices and providing them with the technical know-how.

Gathering existing studies on sustainability in "Mergers and Acquisitions for Business Sustainability in Emerging Markets during a Vague Era," Joan Lilian Ogendo and Jared Ariemba offer a reassuring analysis of the value of business combinations during an era of uncertainty. Some studies have reported that M&A value declines during high-risk. Still, searching through the extensive research literature, the authors find that acquisitions under uncertainty are less common but more valuable. If aggressive acquirers committed to sustainability move forward with the board's backing, they can produce immediate returns and long-term value.

By studying fifty of the most prominent publicly-traded companies in Sir Lanka, Eshari Withanage and Andreas Dutzi document in their study titled "Sustainability in an Emerging Market – In the Context of the Top Management" all of the studied big enterprises are committed to corporate social responsibility (CSR). These firms mainly focus on the dimensions of ESG (environment, sustainability, and governance). However, it is essential to appreciate that much of the directors' commitment to CSR is a product of their belief that it enhances their firm's financial performance, and they are not financially disinterested parties. Therefore, advocating more sustainably oriented governing boards is an essential first stake in the ground: serving society begins by serving the company.

We appreciate from "A Cracked Public Administration in Peru: How 'Vacunagate' Has Shaken the Foundations of an Already Damaged Society" by Carlos Briolo and Miguel Cordova, just how vital the unspoken sinews of good governance, whether in business or government. In their case study of government officials' self-dealing and corrupt access to Covid-19 immunizations and the destruction of public confidence, we are reminded how vital the unwritten rules of trust and fairness among public and private leaders are to a company and country's governance.

In "Strategic Opportunities Aspect of CSR For Improving Location Advantages in Developed and Emerging Markets," Maria Ilieva focuses on Japan's Olympus

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Corporation, a century-old maker of optical and reprographic products that controls nearly three-quarters of the world's market in endoscopy. In documenting the company's vast array of social programs, customized to where it operates, they find that when its CSR strategy is disciplined around the firm's business plan, it benefits both the company's global expansion and those targeted.

We learn from Khaled Salmen Aljaaidi, author of "Economic Value of Energy and Petrochemical Companies and Multiple Directorships: Evidence from Saudi Arabia," that the architecture of governance can have a favourable or pernicious impact on company performance. When a company's directors serve on several boards of other companies, they are less effective in helping the financial interests of the home firm. The exact impact may prevail for sustainability when directors are over the board.

This special issue thus advances ou finer appreciation for how boards operate and how directors affect their firm's financial results and social engagements. Moreover, in an era of even more significant uncertainty and change, corporate board members and the top corporate executive impact are likely to be even greater. For both companies and their societies, directors and executives need to ensure that their governing boards are optimally designed for company impact and sustainability.

September 28, 2022

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# SUSTAINABILITY AND CORPORATE GOVERNANCE MECHANISMS IN MEXICAN BEEF PRODUCTION

## SUSTENTABILIDAD Y MECANISMOS DE GOBERNANZA CORPORATIVA EN LA PRODUCCIÓN DE CARNE DE RES EN MÉXICO

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### ABSTRACT

Sustainability is a topic that has experienced a growing interest in recent years within the academic world, and at the same time, it manifests itself as a particular inconsistency of the business sector, who use it as a means to improve their image, setting aside its vision of great significance. In order to achieve the fundamental purpose of sustainability, the corporate governance model has been an evolving subject in recent years. This is due to the fact that even though the mechanism still endures, it has little to do with the balance of social and environmental benefits. In Mexico, cattle ranchers have faced several problems, such as the difficulty of marketing with intermediaries. In response, this quantitative study has been carried out in order to identify a possible relationship between sustainability and corporate governance, through the testing of six hypotheses. The findings show a positive correlation between corporate governance mechanisms (formal and efficiency) and sustainability dimensions (economic, social, and environmental). This provides further evidence of the complexity of sustainability and corporate governance issues.

### KEYWORDS:

Sustainability, Corporate governance. Livestock

### RESUMEN

La sostenibilidad es un tema que ha experimentado un creciente interés en los últimos años dentro del mundo académico, y al mismo tiempo, se manifiesta como una inconsistencia particular del sector empresarial, que la utiliza como medio para mejorar su imagen, dejando de lado su visión de gran trascendencia. Para lograr el propósito fundamental de la sostenibilidad, el modelo de gobierno corporativo ha sido un tema en evolución en los últimos años. Esto se debe a que, aunque el mecanismo aún perdura, poco tiene que ver con el equilibrio de los beneficios sociales y ambientales. En México, los ganaderos se han enfrentado a varios problemas, como la dificultad de comercializar con intermediarios. En respuesta, se ha realizado este estudio cuantitativo para identificar una posible relación entre la sostenibilidad y el gobierno corporativo, a través de la comprobación de seis hipótesis. Los resultados muestran una correlación positiva entre los mecanismos de gobierno corporativo (formales y de

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eficiencia) y las dimensiones de sostenibilidad (económica, social y medioambiental). Esto proporciona una prueba más de la complejidad de los temas de sostenibilidad y gobierno corporativo.

PALABRAS CLAVE
Sostenibilidad, Gobierno corporativo. Ganadería

## 1. INTRODUCTION

Livestock farming in Mexico faces several difficulties, such as the high cost of inputs and services, animal mortality, lack of training and technical assistance, low prices for its products, difficulty in marketing due to intermediaries, insecurity, and so on. In addition, it should be added that only 9.9% have access to credit (National Institute of Statistics and Geography [INEGI], 2018).

The rural area of Mexico is important to the national economy, but it has problems associated with poverty, social exclusion, lack of access to public services, and an ageing population. To this end, the issue of sustainability is important because it is associated with economic growth and prosperity (Bosworth, McElwee, & Smith, 2015). However, this concept is theoretically unstable due to the differences in interpretation that exist across organizations (Wilkinson, 2013). Another obstacle is the incongruity that is caused by business leaders who only use politically correct language regarding sustainability (Tregidga, Milne, & Kearins, 2014). This incongruity excludes the possibility that sustainable economic development will promote social welfare (Haavisto & Kovács, 2014).

Studies on sustainability have identified different benefits, as it is related to innovation and cooperation with stakeholders (Arenas, Fosse, & Murphy, 2011). This is considered extremely important as the stakeholders are decisive in the success or failure of an organization (Pedersen, 2013); sustainability promotes transparency and consensus among stakeholders, which can result in constructive and effective dialogue (Perego & Kolk, 2012) and awards, that improve corporate image and legitimacy (Dhanda, 2013; Gomes-Trujillo, et al. 2021) However, the benefits are seen mainly as internal, i.e., as producing better economic performance when it is included in a business model (Maffini-Gomes, Marques-Kneipp, Kruglianskas, Barbieri-da-Rosaa, & Schoproni-Bichuetia, 2015; Aldowaish, et al. 2022). In contrast, sustainability as a strategy leads to exploiting external opportunities (Strand, 2014), which encourages the support of high-level management and structural and social alignment (Parisi, 2013). Because the implementation of sustainability supports employees in expressing their needs, concerns, and possible solutions (Haapasaari & Kerosuo, 2014), it is a useful tool in the generation of change and improvements in both the value chain and the institutional context (Pesonen & Horn, 2013; Rodriguez-Guevara, 2018). Moreover, production systems could be improved if knowledge was available to evaluate the risks and benefits of sustainability (Speiser et al., 2013).

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In addition, participatory management initiatives to improve the environment in regions with high levels of poverty are often inadequate (Hamelin & Nwankwo, 2013), specifically operational and tactical strategies that put more emphasis on ecology (Rossing, Jansma, De Ruijter, & Schans, 1997), while sustainability can improve product quality and encourage product consumption (Schacht, 2010). Finally, sustainability has a relationship link with corporate governance when managers consider sustainability as a means to increase the value of the organization (Klettner, Clarke, & Boersma 2014), which satisfies stakeholders (Gnan, Hinna, Monteduro, & Scarozza 2013) and reduces costs to increase profits (Lacy & Hayward, 2011).

Currently, there is an increased pressure from government (local and regional) and non-governmental organizations (NGOS) to develop new and improved sustainability practices; therefore, policy change is demanded by both groups to ensure sustainability in the future (Dadhich, 2015; Mohieldin & Shehata, 2021). Sustainability has gained increasing attention from academics and practitioners (Hasan, 2013). However, the dominant remaining drivers are cost reduction and profit maximization (Glover, 2014). Management practices such as flexible transportation, flexible sourcing, ISO 14001 certification and reverse logistics do not have a significant impact on sustainability (Govindan, 2014). Consequently, it is essential to begin with high-level managers which includes all of the actors in the supply chain (Dey, 2011) to transfer the necessary knowledge and skills so that they can become leaders (Cheung & Rowlinson, 2011), as such sustainable practices contribute to business success (Zailani, 2012). The priorities of corporations in the future will include greater collaboration and education, as well as the measurement of performance and monitoring of suppliers (Morali, 2013). Sustainability will likely be proposed to management to improve corporate image and increase sales (Zhang, Shah, Wassick, Helling, & Egerschot, 2014). In addition, sustainability and governance should be addressed, given that there is a knowledge gap due to few studies having been carried out on the impact of its mechanisms. Finally, there is a growing interest within the scientific and professional community to contribute to the theory and practice of sustainability (Formentini & Taticchi, 2015; Li, Zhao, Shi, & Li, 2014).

This document is integrated by a literature review that compiles the main theoretical foundations and hypotheses to undertake the research work. Consequently, it establishes the methodology developed that integrates the information from the participants and the measurement instrument. The results of the hypothesis tests are provided, and their statistical basis are then shown, followed by a discussion that analyzes the results and establishes their repercussions. Finally, the document concludes with a reflection by the authors with the aim of highlighting the contributions and limitations of the research.

# 2. THEORETICAL FRAMEWORK

## 2.1 Sustainability

Thomas Malthus was a visionary who first prognosticated global overpopulation and the increasing scarcity of resources during 1826, similar to the Club of Rome's recognition (1972) two centuries later. Subsequently, the Brundtland Commission in 1987 and the Rio Declaration in 1992 called for sustainable development (Morris, 2012). Latin America has been influenced by these declarations because of the close relationship of this region with the United States of America (USA), a commercial partner that buys a substantial portion of its exports. Importantly, this region seeks to comply with the international mandates of the United Nations (UN) through the inclusion of sustainability in public policies to ensure the competitiveness of the region in a globalized world (Gutierrez-Garza, 2008).

The Brundtland Commission or report of the World Commission on Environment and Development (WCED), called Our Common Future, defines sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their needs (WCED, 1987). This concept is multifaceted and is the subject of research around the world. The Brundtland Commission notes that sustainable economic growth reduces poverty, promotes social equity and improves the environment.

There are several definitions of sustainability, such as "conducting a practice derived from the combination of economic, social and environmental results corresponding to a holistic approach designed to indicate the integration of types of performance" (Chardine-Baumann & Botta-Genoulaz, 2014, p. 139). Sustainability "as the ability to conduct business with a long-term goal of maintaining the well-being of the economy, environment and society" (Hassini, Surti & Searcy, 2012, p. 70). A "sustainable economy is the product of sustainable development, including the conservation of the production base of natural resources, and a sustainable society is one that can continue to develop by adapting and increasing knowledge, organization, technical efficiency and wisdom" (United Nations, quoted by Fava and Thomé, 2008, p. 50). For practical purposes and in order to address this research, sustainability is considered as the management aimed at conserving natural resources, meeting the material needs of the population in general and achieving the economic benefit that allows it to remain in the market.

Sustainability goes beyond being a scientific concept in its concern about the future. According to Dunphy and Benveniste (2012), sustainability is the result of activities such as ensuring that the planet is maintained and that its biosphere is renewed. Additionally, sustainability protects species, improves the ability of society to solve its greatest problems, maintains an acceptable level of well-being for present and future generations, and extends the productive life of organizations and allows them to maintain high levels of organizational performance.

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Globalization has increased the volume of trade, which increases corporate power. Moreover, the Keynesian benefactor model has been replaced with a neoliberal paradigm that has prospered with the development of privatization and liberalization policies (Crouch, 2009, quoted by Kudlak & Low, 2015). Since the end of the twentieth century, companies have used corporate sustainability as a justification for projects that could provide a commercial benefit (Salzmann, Ionescu, & Steger, 2005). Corporate sustainability, for many industry leaders, is a valuable tool that reduces costs, manages risk, creates new products, and promotes change (Azapagic, 2003).

The concept of sustainability is related to the term Corporate Social Responsibility (CSR), which was addressed by Freeman (1984), giving relevance to the Stakeholders as actors that should be considered in the management of companies, so that not only the Shareholders are considered in the benefits that they can generate in society. Carroll (2004) defines CSR as those company activities that include economic and legal aspects that society expects at a given point in time. McWilliams and Siegel (2001) consider that in essence CSR are those actions that bring companies closer to society beyond the legal aspects to which they are obliged. CSR is also a concept that can be connected with corporate governance, especially with those elements that are related to managers making important decisions that affects society (Khan, et al., 2022). Although these two concepts (Sustainability and CSR) have similarities in terms of their practical application by focusing on not privileging economic profits as the sole objective of companies, both concepts have been developed in the literature, each in its own field of study, with diverse practical applications.

The topic of sustainability becomes more relevant when it is related to other concepts, which allows for a broader understanding of the phenomenon and also the scope of its practical implications. For this reason, the analysis of governance mechanisms and their relationship with the dimensions of sustainability represents an effort to better understand the dynamics present in the livestock industry.

### 2.2 Corporate Governance

Corporate governance refers to an environment of trust, ethics, moral values, and confidence created by the synergic efforts of all stakeholders, including the government, the public, professional/service providers and the corporate sector (Aras & Crowther, 2009). Corporate governance is a necessary form of financial regulation and establishes organizational behaviour when there are imperfect relationships between market forces and institutional factors in relation to ethical responsibilities (Choudhury and Harahap, 2007). Additionally, corporate governance represents a system in which companies are directed and controlled to organize the relationships among high-level managers, shareholders, and interest groups within the framework of corporate transparency and to protect the rights of stakeholders (Arslantas & Findikli, 2013, Lee, 2022). Corporate governance manifests as a system that includes laws, rules, and factors that control the operations of a company (Gillan & Starks, 1998).

Corporate governance has different definitions, "the term comprises all international and national values and principles aimed at the good and responsible management of a company" (Rosen, 2007, p. 30). Additionally, "corporate governance, under the stakeholder theory model, is a 'balancing act' that takes place because all stakeholders, including advocacy groups, are considered to have the right to be heard. Thus, the connotative meaning of 'corporate governance' is the nexus of the stakeholder agreement" (L'Huillier, 2014, p. 311). It is also defined as "leadership systems, managerial control protocols, property rights, decision rights, and other practices that give organizations their authority and mandates for action" (Tihanyi, Graffin, & George, 2015, p. 1). According to the above definitions and in terms of this research paper, corporate governance is considered as the management of an organization that takes into account stakeholders in decision making in order to maintain a balance in the achievement of objectives under the principles of justice, honesty, trust and professional ethics for the prosperity and continuity of both parties. Governance in relation to the management of sustainability in the supply chain has gained increasing attention. There are economic patterns that do not contribute to the achievement of environmental and social goals (Formentini & Taticchi, 2015). The Organization for Economic Cooperation and Development (OECD) disseminates best practices for corporate governance to discipline the behaviour of its actors, including owners, directors, and executive management (Guo, Smallman, & Radford, 2013). The study of corporate governance has resulted in several academic perspectives. Interest has come from researchers in the areas of economics, finance, law, administration, and accounting (Bebchuk & Weisback, 2012). Although the corporate governance literature is characterized by an economic and financial emphasis and a consideration of mostly large companies (Ciampi, 2015), recently, some pioneers have analyzed the mechanisms of corporate governance and have defined the relationship between organizational management and stakeholders (Gnan et al., 2013).

Corporate governance includes multiple elements at the global level. Importantly, Anglo-Saxon economies are based on and operate according to market dynamics through dispersed shareholders and a board of directors that aligns with the interests of the majority of shareholders. Additionally, financial information is crucial. Asian corporations are characterized by family ties or financial alliances that develop in capital markets and an aversion to public procurement. In Latin America, there is a lower use of investments, in contrast to the majority of Europe and the USA, and there is pressure for the transparency of the information that is provided to shareholders, which is generated by laws or codes of good practice (Yeoh, 2007).

In Latin America, the ownership structure is highly concentrated, and lies mainly in the hands of family shareholders who control the firm, while the civil-law origin of their institutional frameworks provides relatively little legal protection of investors' rights (Jara et al., 2019). In addition, in 2006, representatives of UN member countries contributed to the publication of a guide to good corporate governance practices to

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promote corporate transparency and accountability, which could ultimately improve investor confidence. Despite the above, the national corporate governance codes of Chile and Mexico are not congruent with the UN guidelines; however, Argentina, Brazil and Colombia are (Santos, Crispim, Oliva, & Dornelles, 2020), which means that there is no homologation between the international guide and the national codes of Latin America, but rather differences among the member countries.

On the other hand, Jara et al. (2019) argue that in countries such as Argentina, Chile, Colombia and Mexico, corporate governance of companies has particular aspects due to the role played by the distribution of power among a large number of shareholders (contestability), which is even more evident in family businesses from these countries. Another important element is the role played by the regulation and legal framework of these countries, which in general can be considered as not very strict.

In the case of the livestock industry in Latin America, there are several challenges for its main actors, mainly regarding the improvement of processes that promote sustainability, as well as the care of animal health, as the basis for improving the quality of their products (FAO, 2021). These challenges can be better addressed if corporate governance schemes are in place to help direct the actions of livestock companies towards the resolution of specific problems affecting the sector in general.

### 2.3 Hypotheses

According to the growing number of studies on the governance models that are based on participatory approaches, collaborative governance is a strategic key to increase sustainable development (Tencati & Zsolnai, 2008, quoted by Vurro, Russo, & Perrini, 2009). De Marchi, Di Maria and Ponte (2013) identify the mechanisms of governance that contribute to environmental sustainability. Moreover, Formentini and Taticchi (2015) included economic and social dimensions and created three profiles of sustainability with four mechanisms of governance: collaboration and non-collaboration and formal and informal mechanisms. Additionally, Li et al. (2014) propose two mechanisms of governance, namely, efficiency and legitimacy, to achieve sustainability.

#### *Formal Mechanisms and Sustainability*

Formal mechanisms are present when there are established procedures that help resolve conflicts and overcome obstacles in the operation and administration of a company, so that interaction with other organizations such as its suppliers or customers can be improved (Formentini & Taticchi, 2015).

In this regard, Lu and Xu (2018) in a study involving 117 Chinese manufacturing companies through structural equation analysis found that, contractual, relational and equity governance mechanisms are mediators between Extended Producer Responsibility practices and the impact they have on market performance, achieving a better social image, expanding the market and increasing sales. They suggest, in turn, that the increase in environmental performance is mediated by the contractual governance mechanism, i.e., for companies seeking to reduce environmental impact, cooperation through formal mechanisms such as specific contracts is desirable. The authors argue that the objectives of the organizations will delimit the type of governance mechanism to choose for the adjustment of their operations.

On the other hand, Awan, Kraslawski and Huiskonen (2018) developed their research of 239 manufacturing companies in Pakistan to analyze the relationship between contract governance and collaboration, taking cultural intelligence as a moderating variable. The findings demonstrate a relationship between contract governance as both a formal mechanism and form of collaboration, and as such, finds this relationship impacting social sustainability. This proposes that companies which maintain stipulated obligations and rights for the achievement of their objectives are strengthening collaboration among stakeholders and impacting social sustainability for the benefit of workers' health and safety as well as social welfare.

Additionally, Morcillo-Bellido and Duran-Heras (2020), taking into consideration the existing gap between the sustainability governance mechanisms identified in the literature and those used in the current practical situation of companies, conducted a case study with retail companies in Spain. The results indicate that in the companies, formal governance mechanisms are present, which are related to the actual achievement of integral sustainability, in two groups; the first group was called enablers, that is, their presence allows achieving sustainability without generating an impact on competitive advantage, while the second group called differentiators, has the potential to generate competitive advantage. Finally, they emphasize that companies that develop in both groups with internal and external cooperation skills, achieve sustainable processes.

Accordingly, the research hypotheses are as follows.

$H_{1a}$: The formal mechanisms of corporate governance have a positive relationship with the social dimension of sustainability.

$H_{1b}$: The formal mechanisms of corporate governance have a positive relationship with the environmental dimension of sustainability.

$H_{1c}$: The formal mechanisms of corporate governance have a positive relationship with the economic dimension of sustainability.

*Efficiency Mechanisms and Sustainability*

Efficiency mechanisms occur when a company collaborates with one or more partners with technical support for the management or operation, in addition to the exchange of information that represents a mutual benefit (Li et al., 2014).

In this regard, Yang and Lien (2018) in a study with 969 manufacturing firms in 17 countries, addressed contractual and relational governance mechanisms as mediators between asset specificity and environmental uncertainty for environmental performance improvement. The results show that contractual governance and the two levels of efficiency-oriented relational governance (problem-solving cooperation and information sharing) positively impact environmental

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performance when it mediates the relationship between asset specificity and environmental uncertainty. Therefore, delimiting responsibilities, rules, and norms through contracts, together with cooperation and good communication, is a fundamental condition for achieving environmental development.

Meanwhile, Hussain, Rigoni, and Orij (2018) concluded that efficiency-oriented governance mechanisms are related to environmental and social sustainability performance, mainly a board with greater independence, presence of women on the board, and a committee assigned to social responsibility.

Vazquez-Brust, Souza, Sousa, Trotta, and Carvalho (2020) identified three dimensions of corporate governance: hierarchical, formalization and centrality. The first deals with two main arrangements: captive, where the dominant partner monitors and establishes the processes and rules; and relational, where rules and processes are defined jointly between partners through interactions and trust. The formalization dimension consists of formal and informal contracts that stipulate collaboration between stakeholders and, as a last dimension, centrality refers to whether there is centralized coordination between stakeholders to achieve common goals.

Accordingly, the research hypotheses are as follows.

$H_{2a}$: The efficiency mechanisms of corporate governance have a positive relationship with the social dimension of sustainability.

$H_{2b}$: The efficiency mechanisms of corporate governance have a positive relationship with the environmental dimension of sustainability.

$H_{2c}$: The efficiency mechanisms of corporate governance have a positive relationship with the economic dimension of sustainability.

The testing of the hypotheses raised contributes to being ablet to clarify the role played by governance mechanisms in companies and how these mechanisms connect with the sustainability actions that companies can undertake in a given region.

Although there are studies that demonstrate the positive relationship between corporate governance and sustainability, it is necessary to identify which governance mechanisms are most related to each of the dimensions of sustainability in the context of emerging countries and particularly in Latin America.

## 3. METHOD

### 3.1 Participants

The research is quantitative and was carried out through a non-experimental design; moreover, it is cross-sectional, since data were only collected at a single point in time, and it uses a probabilistic sample in order to carry out a hypothesis test.

The study population was selected considering the companies in the southern region of the state of Sonora that are dedicated to livestock activity. For this purpose, information was obtained from the last agricultural, livestock and forestry census held in 2007, which reveals that there are 7,961 companies producing cattle in the municipalities of Alamos, Bacum, Cajeme, Etchojoa, Guaymas, Huatabampo, Navojoa, Quiriego, Rosario Tesopaco and San Ignacio Rio Muerto in the Mexican State of Sonora (National Institute of Statistic and Geography [INEGI], 2007). The information was collected directly from primary sources, since the people to whom the questionnaire was applied were owners and general managers of these types of companies. It was carried out through a personal visit to the work facilities so that they could answer each of the questions raised.

To construct the probability sample of livestock producers, who are the object of this study, a statistical formula was used (Castañeda-Jimenez, 2011) that resulted in 366 subjects being interviewed.

$$n = \frac{Z^2 pqN}{e^2 + Z^2 pq}$$

Where:

n = Size of the sample

Z2 = Confidence level.

p = Positive variability.

q = Negative variability.

N = Population size.

e2 = Accuracy or error.

$$n = \frac{(1.96)^2\ (0.5)\ (0.5)\ (7961)}{(7961)\ (0.05)^2 + (1.96)^2\ (0.5)\ (0.5)} = 366$$

Nevertheless, due to time constraints and availability of the respondents, a total of 113 surveys were completed (See Table 1), which, according to Ho (2006), is sufficient for an exploratory analysis. The sample was simple random, considering that the participants have the same probability of being selected for the questionnaires´ response.

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Table 1

Demographic characteristics of the participants (n=113)

| Characteristic | Number | % | Characteristic | Number | % |
|---|---|---|---|---|---|
| Experience (years) | | | Education | | |
| 1-10 | 24 | 21 | Elementary school | 21 | 19 |
| 11-20 | 42 | 37 | Middle school | 27 | 24 |
| 21-30 | 24 | 21 | High school | 39 | 35 |
| 31- or more | 23 | 21 | Bachelor's degree | 26 | 23 |
| Municipality | | | Cattle purchaser type | | |
| Cajeme | 48 | 43 | Cattle producer | 11 | 10 |
| Huatabampo | 35 | 31 | Intermediary | 21 | 19 |
| San Ignacio Rio Muerto | 12 | 11 | Wholesale distributor | 30 | 26 |
| Other municipalities * | 18 | 15 | Butcher | 48 | 42 |
| | | | Other | 3 | 3 |
| Number of family members who are supported by livestock | | | Another activity in addition to Livestock | | |
| 0 | 10 | 9 | | | |
| 1-5 | 93 | 82 | No | 76 | 67 |
| 6-10 | 10 | 9 | Yes | 37 | 33 |

*Note*. Own elaboration

* Alamos, Bacum, Etchojoa, Guaymas, Navojoa, Quiriego and Tesopaco

### 3.2 Measuring Instrument

The questionnaires included the sustainability dimensions: economic, social, and environmental; also, the governance and its mechanisms: formal and efficient. The instrument contained a list of statements that were scored using a five-point Likert scale as follows: 1 (*never*); 2 (*most of the time no*); 3 (*sometimes yes, sometimes no*); 4 (*most of the time yes*); and 5 (*always*). Additionally, the options included 1 (*strongly disagree*), 2 (*disagree*), 3 (*neither*), 4 (*agree*) and 5 (*strongly agree*).

The instrument used was developed based on a review of the literature considering experts in the topics of sustainability and corporate governance. To develop the concept of and questions regarding the three dimensions of sustainability, the work of several authors was consulted (Azapagic, 2003; Cetinkaya, Cuthbertson, Ewer, Klaas-Wissing, Piotrowicz, & Tyssen 2011; Closs, Speier, & Meacham, 2011. To develop the questions regarding corporate governance, the research from other authors were consulted (Formentini & Taticchi, 2015; Li et al., 2014).

The definitions of the dimensions of sustainability and governance mechanisms have been modified by using an exploratory factor analysis, and some items were removed. Therefore, new concepts were created based on the survey, with internal and external validity, as well as sufficient reliability (see Table 2).

Table 2

Theoretical construction of the study variables

| Variable | Definition |
|---|---|
| Economic | The economic mechanism contributes to the economic system through greater investments that result in increased sales, which increases profits from commercial activities. Additionally, it includes the efficiency and innovation that is necessary for a level of quality that results in customers who remain satisfied with the product and service (Azapagic, 2003; Cetinkaya et al., 2011; SNZ, 2008). |
| Environmental | The environmental mechanism contributes to the ecosystem and diversity through actions that improve the environment and attempts to increase recycling and reduce water consumption, the exploitation of land and the use of transportation (Azapagic, 2003; Cetinkaya et al., 2011; Closs et al., 2011; SNZ, 2008). |
| Social | The social mechanism provides sufficient training to ensure that workers have the knowledge and skills that are necessary for optimal performance. Additionally, it attempts to provide beneficial services and an adequate standard of living to workers through salaries that are greater than the minimum that is dictated by labour laws (Azapagic, 2003; SNZ, 2008). |
| Formal | The formal mechanism results in the establishment of procedures that increase the positive influence of a company on the operations of its business partners to improve their production processes, as well as procedures that aim to overcome obstacles and resolve conflicts through continued feedback (Formentini & Taticchi, 2015). |
| Efficiency | The efficiency mechanism occurs when an organization contributes to a commercial relationship with a partner through technical support and sharing information of mutual interest, particularly information concerning the economic sector to which they both belong. Additionally, to create solidarity, the organization improves the earnings of its trading partners (Li et al., 2014). |

*Note.* Own elaboration

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### 3.2.1 Validity and reliability

The present research used an exploratory factorial analysis to identify and replace the lost values, test the normality of the items, determine the suitability of the sample and calculate the internal validity and reliability. The determinant is equal to 2.80E-005 and a test of normality of each of the items found that asymmetry is from -1.96 to 1.96. The four factors (the mechanisms of governance, i.e., formal, and efficiency, and the dimensions of sustainability, i.e., environmental, social, and economic) explained 67% of the variance, which is acceptable because it is greater than 50%. The Kaiser-Meyer-Olkin statistical test is applied for sampling adequacy, which resulted in a value of .772. The following matrix shows the grouping of the variances of the items for the six factors (see Table 3).

Table 3

Rotated component matrix

| | Factor Loading | | | | | |
|---|---|---|---|---|---|---|
| Item | 1 | 2 | 3 | 4 | 5 | 6 |
| S-ECO-1 | 0,762 | | | | | |
| S-ECO-2 | 0,881 | | | | | |
| S-ECO-3 | 0,800 | | | | | |
| S-ECO-5 | 0,547 | | | | | |
| G-FOR-5 | | 0,707 | | | | |
| G-FOR-6 | | 0,793 | | | | |
| G-FOR-7 | | 0,723 | | | | |
| G-FOR-9 | | 0,684 | | | | |
| S-AMB-1 | | | 0,588 | | | |
| S-AMB-2 | | | 0,619 | | | |
| S-AMB-3 | | | 0,652 | | | |
| S-AMB-5 | | | 0,805 | | | |
| S-AMB-8 | | | 0,658 | | | |
| G-EFIC-2 | | | | 0,850 | | |
| G-EFIC-3 | | | | 0,783 | | |
| G-EFIC-4 | | | | 0,661 | | |
| G-EFIC-5 | | | | 0,717 | | |
| S-SOC-1 | | | | | 0,776 | |
| S-SOC-4 | | | | | 0,847 | |
| S-SOC-5 | | | | | 0,909 | |

*Note.* Own elaboration. The most representative factor loads are in bold. The method of extraction was a principal components analysis and a varimax rotation with Kaiser normalization.

Finally, the Cronbach's alpha was calculated for each factor, resulting in a coefficient above 0,70 for all factors. The value of 0,70 is regarded as the minimum for reliability according to Ho (2006). The survey has a reliability of 0,827 (see Table 4).

Table 4

Cronbach's alpha (n=113)

| Variable | Cronbach's alpha | Number of items |
|---|---|---|
| Environmental | 0,760 | 5 |
| Social | 0,856 | 3 |
| Economic | 0,824 | 4 |
| Formal | 0,772 | 4 |
| Efficiency | 0,776 | 4 |

*Note.* Own elaboration

## 4. RESULTS

### 4.1 Hypothesis Test

The standard deviation was within the range of normality (-1,96 to 1,96), and the average was approximately three (see Table 5).

Table 5

Means and standard deviations of the variables (n=113)

| Variable | M | SD |
|---|---|---|
| Economic | 3,9204 | 0,7260 |
| Social | 3,3156 | 1,2455 |
| Environmental | 3,4142 | 0,8391 |
| Formal | 3,5907 | 0,8087 |
| Efficiency | 3,0332 | 0,9935 |

*Note.* Own elaboration

Importantly, the formal mechanisms have a positive relationship with the economic and environmental sustainability dimensions, while the mechanism of efficiency has a positive relationship with the social dimension. The following table shows the Pearson correlations (see Table 6).

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Table 6

Pearson correlations of the study variables

| Variable | n | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| 1. Economic | - | - | | | | |
| 2. Social | 113 | 0,191* | - | | | |
| 3. Environmental | 113 | 0,442** | 0,186* | - | | |
| 4. Formal | 113 | 0,414** | 0,114 | 0,403** | - | |
| 5. Efficiency | 113 | 0,124 | 0,316** | 0,075 | 0,134 | - |

*Note.* Own elaboration. The coefficients are significant to * $p$ <0,05, **$p$<0,01.

These positive relationships are low because they fall in the range from 0,30 to 0,49 (weak 0,00-0,29; low 0,30-0,49; moderate 0,50-0,69; strong 0,70-0,89; and very strong 0,90-1,00). However, the exploratory nature of this study and the maturity of the theoretical variables of sustainability and corporate governance mean that the concepts and correlations are significant because they contribute to existing knowledge (Pett, Lackey, & Sullivan, 2003).

## 5. DISCUSSION

The mechanisms of governance that are conceptualized in the present study are analyzed from the perspective of stakeholders considering the viewpoint of Letza, et al. (2008) and Choudhury and Harahap (2007). The formal mechanisms lead to a positive influence on trading partners through the continuing improvement of production processes and the development of long-term, close relationships. Moreover, the mechanism of efficiency results in technical support, shared information, and an increase in the profits of the partner of a company. This mechanism corresponds to the concept of the circle of stakeholders proposed by Bourne (2005), which emphasizes the importance of power and influence, direct communication, and the monitoring of effectiveness.

The inclusion of the protection of stakeholder rights in the definition of corporate governance (Arslantas & Findikli, 2013) is essential to overcoming obstacles in negotiations as an indicator of the formal mechanism of governance, and the role of suppliers (livestock producers) must invariably be reconsidered when making agreements. In addition, corporations must have leadership (Tihanyi et al., 2015) and direct and indirect influence (Dignam & Lowry 2006, cited by Mostovicz, E.I., Kakabadse, N.K. & Kakabadse, E., 2011) through formal mechanisms, such as through intervention in the production processes of suppliers. Another dimension is responsibility (Rosen, 2007) that uses the mechanism of efficiency to provide technical assistance and inform suppliers. Additionally, the mechanism of efficiency increases profits and through solidarity, increases trust (Aras & Growther, 2008) and results in mutual agreement (L'Huillier, 2014). Finally, the ability to make fundamental changes (Gillan & Starks, 1998) and influence suppliers because of the formal mechanism and the role of stakeholders in corporate governance (Organization for Economic Co-operation and Development [OECD] 2004, cited by Guo, 2013) accords with the mechanism of efficiency and provides continuous feedback between providers and organizations.

Additionally, Formentini and Taticchi (2015) propose a series of mechanisms of governance for a sustainable supply chain. These mechanisms were used to develop a quantitative instrument that showed that formal mechanisms contribute to the environmental dimension and to economic sustainability but do not contribute to the social dimension. Other collaborative and non-collaborative mechanisms were not included because they would have resulted in too many items on the survey.

Furthermore, building on the contributions of Li et al. (2014), this study found a positive relationship between the governance mechanism of efficiency and the social dimension of sustainability. The legitimacy mechanism was not included because it involved other actors in the chain, such as the government, NGOS and customers. Therefore, it was necessary to include only the mechanism of efficiency, which focuses on the relationship between the organization and its suppliers. Thus, formal and efficiency mechanisms contribute positively to the three dimensions of sustainability.

Previous studies have analyzed the correlation between corporate governance and sustainability but have not been able to demonstrate it (Aras & Crowther, 2008). It has also been demonstrated that sustainability is not integrated into individual business processes, especially by small and medium-sized enterprises (Krechovska & Prochazkova, 2013) and there is no significant correlation between corporate governance and sustainability (Sharma, 2014). On the other hand, corporate governance has been found to play a relevant role in the dissemination of sustainability reports (Michelon & Parbonetti, 2012) and low stakeholder engagement will negatively affect the achievement of sustainability objectives (Konadu, Ahinful & Owusu-Agyei, 2021). Additionally, it has been pointed out that sustainability can be achieved from the outside through pressure from government institutions on corporate governance mechanisms (Ortiz-de-Mandojana, Aguilera-Caracuel, & Morales-Raya, 2014) and within, as the larger a company's governing board, the greater the attention to sustainability issues (Janggu, Darus, Zain, Yussri, & Sawani, 2014). These results provide a diversity of evidence that is difficult to reconcile with each other, which prevents us from reaching a particular idea regarding the aforementioned issues but paves the way for further research to resolve the complexity between the two (see Table 7).

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Table 7

Studies on the relationship between sustainability and corporate governance

| Author | Region | Subject of the study | Results |
|---|---|---|---|
| Aras & Crowther (2008) | United Kingdom | Corporate governance policies of companies listed on the Financial Times Stock Exchange (FTSE100) were investigated. | It was not possible to demonstrate a relationship between sustainability and governance. |
| Michelon & Parbonetti (2012) | United States and Europe | 57 U.S. and European organizations listed in the Dow Jones Sustainability Index (DJSI) were investigated. | Corporate governance plays a role in orienting the heterogeneity of sustainability disclosures |
| Krechovska & Prochazkova (2013) | Czech Republic | 193 small, medium, and large companies | Sustainability is not integrated into individual business processes (especially by small and medium-sized enterprises) |
| Janggu et al., (2014) | Malaysia | 100 public companies | The results imply that the larger the board the greater the influence it has on sustainability issues |
| Ortiz-de-Mandojana et al., (2014) | North America and Europe | 210 companies from 14 countries in North America and Europe listed by Bloomberg | National institutional context influences the effectiveness of corporate governance mechanisms in encouraging environmental sustainability |
| Sharma (2014) | India | 46 companies listed on the S&P CNX Nifty (Index from National Stock Exchange of India - NSE) | There is no significant correlation between corporate governance and sustainability |
| Konadu et al., (2021) | Unites States | Companies listed in the S&P 500 firms. | Low stakeholder engagement adversely impacts companies' bottom-line performance |

*Note.* Own elaboration.

The corporate governance mechanisms that have been studied empirically lack concrete actions that would result in gaining the benefits of the three dimensions of sustainability, namely, the social, environmental, and economic dimensions. Therefore, new mechanisms are required to obtain these benefits. Moreover, experts in the field have created new concepts that are based on validity (external and internal) and reliability. In this way, researchers could contribute to meeting the objective of Aras and Crowther (2008), which is to better understand sustainability and governance to be better able to implement them. This objective is similar to the aim of Jorgensen and Knudsen (2006), that is to complete a study on the sustainable management of companies that explores opportunities for buyers to encourage providers to achieve sustainability. Finally, sustainability and corporate governance address the inadequacy of participatory management initiatives to improve the environment in regions characterized by poverty (Hamelin & Nwankwo, 2013).

Gnan et al. (2013) noted that there are organizations that fail to improve their corporate governance performance despite the implementation of OECD principles. The present study found that it is insufficient to only listen to stakeholders. Sustainability requires positively influencing the processes of commercial partners, providing feedback and having empathy for their situation. Additionally, organizations must provide technical support, share information and work to increase profits through governance by using formal and efficiency mechanisms to improve the three dimensions of sustainability. This corresponds to the suggestion by Turker and Altuntas (2014) to monitor suppliers in developing countries to increase both the performance inside the chain and the criteria for sustainability. Additionally, this finding fits within the framework of the cooperation that is required for the management of the life cycle of multiple stakeholders, which is also indispensable to the prioritization of sustainability issues (Balkau & Sonnemann, 2010) and organizational commitment, as indicated by Cheung and Rowlinson (2011). Moreover, this study supported the suggested mechanisms for the evaluation of suppliers and collaboration, which have positive and synergistic effects on environmental performance (Gimenez & Sierra, 2013). Additionally, this study found that the formal mechanism, which is characterized by its positive influence and the creation of agreements, has a positive relationship with the environmental dimension. This finding accords with the work of De Marchi et al. (2013) that delineates the two mechanisms of norm- and mentoring-driven mechanisms to improve both the environmental dimension of the production process and the final product. The formal mechanism has a positive relationship not only with the environmental dimension but also with the economic dimension, as stated by Klettner et al. (2014).

The primary topic of discussion between organizations and suppliers is price, as asserted by Krechovska and Prochazkova (2013), who emphasize that corporations concentrate on financial outcomes when they discuss sustainability and corporate governance. As suggested by Glover (2014), the dominant logic at the supply chain level is the reduction of costs and the maximization of profit.

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There is evidence that sustainability is related to food quality (Bekele, Bosona, Nordmark, Gebresenbet, & Ljungberg 2012) and promotes transparency and consensus among the parties concerned (Perego & Kolk, 2012). Sustainability also maintains relationships of trust (Haywood, Hartley-Trotter, Faccer, & Colin-Brent, 2013) and the innovation and the cooperation of the organization with stakeholders (Arenas et al., 2011). This study created a conceptualization of sustainability and its corresponding dimensions and items, in addition to a conceptualization of corporate governance, including its formal mechanisms and efficiency. Finally, this study confirms the assertion of Morali and Searcy (2013) that organizations will prioritize greater collaboration and education, as well as the measurement of performance and monitoring of suppliers.

Finally, it is important to mention that the main practical implication of the results of this research is related to the fact that the strongest correlation between the variables studied is the one related to the environmental sustainability and the formal governance mechanisms. This implies that to the extent that companies establish these types of mechanisms in the management of their operations, this can promote sustainability through actions oriented to the care of the environment in each region.

## 6. CONCLUSION

This study found a low and positive correlation between the formal mechanisms of corporate governance and the economic and environmental dimensions of sustainability while showing that the mechanism of efficiency has a low and positive correlation with the social dimension.

The main contribution of this research is the identification of the role formal mechanisms play related to efficiency in sustainability dimensions in Latin American companies, which may have important implications on the practice of management, especially with decisions that may lead companies to contribute to sustainability in business.

This research used a quantitative paradigm, which found a positive relationship between the above variables. However, the results have limitations that could be addressed by increasing the sample size and surveying other regions of the world to test the reliability and internal validity of the survey. Additionally, other items could be added to the survey to gather new information regarding the studied variables. In addition, future studies could use a qualitative approach to aid in the creation of theories concerning the nature of the relationships between organizations and suppliers, as well as their roles and purpose. Finally, future studies could include other actors that have not been considered in the present study, such as the government, NGOS, customers and other stakeholders.

Sustainability is emerging as an essential goal for new organizations and for the continued operation of existing organizations. Sustainability not only involves benefits that result in improved company image which increases the sales of goods and services, but also addresses the very survival of the human race. In this regard, it is essential to devise new forms of interaction among organizations, including corporate governance, which provides opportunities for solidarity, monitoring, training, the development of procedures, and the application of incentives and technical support to balance sustainability. Finally, sustainability and corporate governance have the potential to create productive actions that result in economic, social, and environmental benefits through the mutual commitment of organizations and their stakeholders under a framework of trust.

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# MERGERS AND ACQUISITIONS FOR BUSINESS SUSTAINABILITY IN EMERGING MARKETS DURING A VAGUE ERA: A LITERATURE ANALYSIS

## FUSIONES Y ADQUISICIONES PARA LA SOSTENIBILIDAD DE LAS EMPRESAS EN LOS MERCADOS EMERGENTES EN UNA ÉPOCA DE VICISITUDES: UN ANÁLISIS DE LA LITERATURA

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## ABSTRACT

Mergers and acquisitions are the most popular modes of external corporate growth. Business sustainability, which seeks present returns without compromising the ability to earn returns in the future, has come under serious challenges in an environment of uncertainty. While academic literature suggests that in periods of fundamental uncertainty, there is a decline of mergers and acquisitions, this paper analyses an emerging body of research that suggests that merger and acquisition deals in a vague era actually deliver more value compared to those made in normal economic conditions, which most empirical studies do not deliver much value for the acquirer. This paper therefore suggests that firms in emerging markets can use mergers and acquisitions during a downturn to deliver superior value to shareholders. It also argues that mergers and acquisitions are a corporate governance issue, because it is at the board level that the overall strategy of the firm is implemented, including the various growth options of the firm. However, further research on merger and acquisitions during a vague era need to be conducted in various regions of emerging markets.

## KEY WORDS:

Mergers and acquisitions, vague era, business sustainability, emerging markets, corporate governance.

## RESUMEN

Las fusiones y adquisiciones son los modos más populares de crecimiento empresarial externo. La sostenibilidad de las empresas, que busca la rentabilidad presente sin comprometer la capacidad de obtener beneficios en el futuro, se ha visto sometida a serios desafíos en un entorno de incertidumbre. Mientras que la literatura académica sugiere que en periodos de incertidumbre fundamental se produce un declive de las fusiones y adquisiciones, este documento analiza un cuerpo de investigación emergente que sugiere que las operaciones de fusión y adquisición en una era de incertidumbre realmente aportan más valor en comparación con las realizadas en condiciones económicas normales, que en la mayoría de los estudios empíricos no aportan mucho valor para el adquirente. Por lo tanto, este documento sugiere que las empresas de los mercados emergentes pueden utilizar las fusiones y adquisiciones en una época de recesión para ofrecer un valor superior a los accionistas. También sostiene que las fusiones y adquisiciones son una cuestión de gobierno corporativo, porque es en el consejo de administración donde se aplica la estrategia global de la empresa, incluidas las diversas opciones de crecimiento de la misma. Sin embargo, es necesario seguir investigando sobre las fusiones y adquisiciones en una época de indefinición en varias regiones de los mercados emergentes.

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PALABRAS CLAVE:
Fusiones y adquisiciones, era vaga, sostenibilidad empresarial, mercados emergentes, gobierno corporativo.

## INTRODUCTION

Ashfaq, Usman, Hanif, & Yousaf (2014) define a merger as any activity where a firm is combined with another firm to form an entirely new business entity through the loss of their respective legal entities. Peng (2006) sees a merger as involving the combining of operations, management and assets of two separate firms to establish a legal entity which is completely new. Wright, Kroll and Elenkoy (2002) define an acquisition as involving the transfer and control of assets, management and operations of one company to another.

DePamphilis ( 2008) defines an acquisition as a situation where the ownership and control of a firm or a subsidiary of it or particular assets of one firm become vested in another. Mergers and Acquisitions (M&A) are one of the most-used strategies for the external growth and development of companies. Al-Sharkas, Hassan, and Lawrence (2008) argue that through M&A, firms can grow their product lines, penetrate new markets and expand geographical distribution among other benefits.

Merger and acquisitions are a corporate governance decision. Corporate governance is normally used as a means to minimize the agency problem between the shareholder and management in a company. Hermalin and Weisbach (2003) argue that the board of directors, a key cog in corporate governance, determines the quality of decision making of the firm, including merger and acquisition decisions and takeover defenses. According to Luke (2011), good corporate governance ensures management makes optimal strategic policies which can lead to sustainable competitive advantage.

One area that needs to be explored is the use of M&A as a strategy for sustainability, especially during periods of uncertainty. Elkington (1997) views sustainability as one that aims at meeting short and medium term goals without compromising the ability to achieve long-term goals. Businesses have been exposed to various challenges during the pandemic, and their response to this disruption has impacted their resilience as well as their chances to overcome this crisis. The concept of sustainability is built on three pillars: economic, social, and environmental. Alhaddi, (2015) suggests that in order to be sustainable, companies need to address economic issues, as well as social issues, business ethics, and environmental justice. According to Alba-Hidalgo, Benayas del Álamo, and Gutiérrez-Pérez, (2018), the environmental pillar aims to preserve resources for future generations; through economic sustainability, firms should contribute to the external context in terms of prosperity and the social pillar refers to the provision of value to society. The COVID-19 era is an example of such an uncertain or vague environment. Jose (2016), suggests that sustainability issues will, going forward, be core issues that influence corporate strategy and therefore returns. This is especially important because the world is becoming resource-constrained

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and there is a possibility of sustainability issues turning into an industrial crisis in the long run. Although there is an ample body of literature on mergers and acquisitions, this analysis seeks to address a gap as to whether M&A can be an appropriate strategic move for sustainability during periods of uncertainty.

Sustainability of businesses becomes very important during periods characterized by vagueness and uncertainty. Pandemics, natural disasters, terrorist attacks, and recessions are some of the factors that pose both an uncertain and severe threat to the sustainability of an organization. Rabin and Thaler (2001) define vague as 'uncertain, indefinite, or unclear character or meaning.' A vague era is taken as one characterized by uncertainty such that the associated probabilities for the future cannot be estimated. Decision theory identifies between risky environment as where probabilities associated with the possible outcomes are assumed to be known and uncertain environment as where these probabilities are not assumed to be known. Therefore, under an uncertain environment, the broad range of possible outcomes and complexity makes it impossible to define a set of probabilities. Firms have always been faced with uncertainty on issues such as technological disruption, demographic shifts, trade barriers, and arbitrary regulations among others.

Bordia, Hobman, Jones, Gallois, and Callan (2004) defined uncertainty as a lack of knowledge about current or future events. Cocco (2014) contended uncertainty resulted from insufficient information to inform judgments about the future. Challenging markets create turbulence impacting demand, confidence, the competitive landscape and access to resources and capital. Uncertain economic times have downward pressure on consumer expenditure and confidence, with implications for business performance, while at the same time influencing asset prices downwards, which is enabling for resource acquisition. Geroski and Gregg (1997) argue that declining aggregate demand may lead to business exits, especially among new firms thereby enabling higher market shares for surviving firms.

Initially, the COVID-19 pandemic created significant uncertainty in the economy because it was largely not understood by medical experts and it was not clear when vaccines would be developed (Caggiano, Castelnuovo, & Kima , 2021 and Fauci, Lane, and Redfield 2020). With time, several vaccines were developed and approved followed by emerging countries ramping up vaccination drives. However, key concerns on 'vaccine apartheid,' the capacity of many countries to vaccinate large portions of their populations within a short time period and the constant emergence of new variants on which the efficacy of the approved vaccines meant that the environment of uncertainty persisted for some time. Under such conditions of vagueness, traditional strategic planning and implementation by both governments and businesses becomes inherently difficult.

Kooli and Lock (2021) argued that the COVID-19 pandemic created a 'new normal' which pundits suggest will be the new order of doing business. Initially, businesses largely relied on physical contact like face-to-face meetings to make deals. Due to the pandemic, governments discouraged physical interactions among people, while such processes shifted to the virtual space through various online platforms. The online platforms however do not allow the parties to read the non-spoken communication and discuss other topics that could easily be discussed in a physical interaction. (Rahul, Neena & Abhipsa. P., 2020).

Uncertainty may even cause more harm in emerging markets due to factors like lower incomes, lack of government support, and incomplete markets, among other factors. The United Nations Conference on Trade and Development (UNCTAD, 2020) projected that, due to the pandemic, developing countries (excluding China) were to lose USD 800 billion in export revenue in 2020. An emerging markets refers to an economy in the middle, i.e. neither advanced nor low-income. Khanna and Palepu (2010) define it as a market that isn't there yet but is on its way to getting there. Such emerging market economies are characterized by significant and rapid economic growth evidenced by rising gross domestic product (GDP) in an aggregate and per capita basis, increased trade volumes, as well as increased foreign reserves (Carrasco and Williams, 2012). While GDP may not be the sole factor that determines whether an economy is emerging, GDP growth does indicate where the economy would be in the near future.

The International Finance Corporation (2021) summarizes the impact of COVID-19 in emerging markets as disruption of value chains, limited and shrinking financing opportunities, and contraction of business due to the pandemic. Businesses requiring face-to-face interaction such as tourism and travel have been affected more. The initial response of many countries in controlling the rapid infection was enforcement of restrictions of movement and other measures like shorter working hours as many organizations encouraged their staff to work from home. Local and international travel restrictions had an adverse effect on businesses and led to increased risk of corporate bankruptcy. Hevia & Neumeyer (2020) argues that many emerging economies have weaker healthcare systems, high public debt hence limited fiscal space, and lower levels of development, among others. Therefore, governments do not have many options in dealing with the pandemic and its consequences on businesses. This creates the need for proper strategies to ensure business sustainability beyond the COVID-19 era. (Michie, 2020).

Uncertainty, like the one presented by the COVID-19 pandemic is an opportunity to break away from the past and rebuild an organization better. Shehata & Mohieldin (2021) argue that crises and breakdowns can be a source of transformation as they remove barriers and institutional rigidities that previously stood in the way of sustainability. They further suggest that responding effectively to "a crisis should permit the change of mentality required to address the cracks in the system and the root causes of vulnerabilities, thus allowing for building back better in the context of implementing longer-term policies that can bring about meaningful structural changes." Addas, Kibsey, Ng, Walker (2016) argue that

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some disasters can be mitigated but others cannot be avoided but only managed to reduce their impact if they happen.

The objective of this paper is to explore the use of M&A as a strategy for sustainability, especially during periods of uncertainty. Building on the academic literature that suggests that M&A decline in periods of uncertainty, this paper analyses an emerging body of research that suggests that merger and acquisition deals in a vague era actually deliver more value to shareholders as compared to those made in normal economic conditions, which most empirical studies do not deliver much value for the acquirer. The paper therefore examines if M&A can be an appropriate strategy for sustainability of firms in emerging markets in vague times.

## LITERATURE ANALYSIS METHODOLOGY

Galvan (2013) argues that sources of literature need to be considered credible to support a proposed literature review. Such credible sources include peer reviewed journal articles, edited academic books, articles in professional journals and publications from international agencies and governments. For this paper, peer reviewed articles, academic books, international financial reporting standards and publications by governments agencies and international organizations were reviewed. The papers were obtained from the Social Science Research Network (SSRN), Elsevier, ScienceDirect, Jstor, Sage, ScienceGate and Wiley Online Library databases, as these contain a large collection of research papers in social sciences with high impact factors.

We searched for papers in corporate governance, investment management, risk management, strategy, emerging markets, corporate mergers and take overs, corporate ownership and management during change. The search was done using phrases containing key words like mergers, acquisitions, risk, uncertainty, vague, emerging markets and developed markets. Thus research systematically reviewed seventy-seven papers on the various issues that are the subject of this paper.

Of these, seven papers (7) related to the theoretical review while forty-six (46) of them related to M&A in cross border markets, in developed markets and in other markers. Other markets in this case were either the emerging markets or the low-income markets. Of these forty six papers (46), eleven (11) were cross-border studies, twenty four (24) focused on the developed markets and another eleven (11) were focused on other markets. A further fifteen (15) papers focused on the various conceptual and cross-cutting issues and a further eight (8) material like books and standards like accounting standards were reviewed. The review of literature therefore sought to examine the cross-cutting issues of M&A with a special focus on the theoretical underpinnings of M&A, M&A in developed markets and in emerging markets, and on conceptual and cross-cutting issues relating to vague times.

The papers are presented in the Table 1: Literature Review below:

Table 1: Literature Review

| Theoretical Review papers | Empirical Review Papers | | | Conceptual and Cross-Cutting Issues papers | Books and other material |
|---|---|---|---|---|---|
| | Cross-border Studies | Developed Markets | Other Markets | | |
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| Theoretical Review papers | Empirical Review Papers | | | Conceptual and Cross-Cutting Issues papers | Books and other material |
|---|---|---|---|---|---|
| | Cross-border Studies | Developed Markets | Other Markets | | |
| | Banerjee, A., & Eckard, E. W. (1998) | Bhagwat, V., Dam, R., & Harford, J. (2016) - USA | Michail, P., Manthos, V., Andreas, K. & George, D. (2021)<br>Greece | Alba-Hidalgo, D., Benayas del Alamo, J., & Gutierrez-Perez, J. (2018). | Navarro, P. (2005) |
| | Leon-Gonzales, R., & Tole, L. (2015). | Deng, Q. (2008) | Khanna & Palepu, (2010) | Rabin, M., & Thaler, R. H. (2001). | |
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| | Nguyen, N. H., & Phan, H. V. (2017) | Rosen, R. J. (2006)- USA | | Porter, M. E. (1985). | |
| | | Hasbrouck, J. (1985) - USA | | Coase, R. (1937) | |
| | | Palepu, K. G. (1986)- USA | | Meyer, A. D. (1982). | |
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| | | Bonaime, A., Gulen, H., & Ion, M. (2018) - USA | | Bernanke, B. (1983). | |
| | | Chattopadhyay, P., Glick, W. H., & Huber, G. P. (2001) - USA | | | |
| | | Moeller, S., Schlingemann, F., & Stulz, R. (2005)-USA | | | |

| Theoretical Review papers | Empirical Review Papers | | | Conceptual and Cross-Cutting Issues papers | Books and other material |
|---|---|---|---|---|---|
| | Cross-border Studies | Developed Markets | Other Markets | | |
| | | Hotchkiss, E. S., & Mooradian, R. M. (1997). | | | |
| | | Hotchkiss, E. S., & Mooradian, R. M. (1998). | | | |
| | | Ang, J., & Mauck, N. (2011). | | | |
| | | Jeurissen, R., & Elkington, J. (2000). | | | |
| | | Duchin, R., & Schmidt, B. (2013) | | | |
| | | Cocco, J. J. (2014). | | | |
| | | Capron, L., & Pistre, N. (2002) | | | |

Source: Authors (2022)

## THEORETICAL REVIEW

Why do firms engage in M&A? Why should M&A be a probable strategy for sustainability in vague times? To answer these questions, various theories have explained the key motives behind M&A. Some of these theories include the empire-building theory, the efficiency theory, the valuation theory, and the theory of corporate control among others.

## THEORY OF CORPORATE CONTROL

The thrust of this paper is the theory of corporate control, because in a merger or acquisition, there is change of controlling rights. Control rights are necessary to restructure and run firm efficiently so as to extract maximum value for the shareholders. Manne (1965) suggested that the need for control rights so as to restructure the firm is at the heart of mergers and acquisitions. Accordingly, "the lower the stock price, relative to what it could be with more efficient management, the more attractive the takeover becomes to those who believe that they can manage the company more efficiently. And, the potential return from the successful takeover and revitalization of a poorly run company can be enormous." Therefore, an investment that allows buyers to exert control over decisions made by the company will allow

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for restructuring for maximum benefit of the shareholders. Control over this decision can occur if the buyer buys more than 50% of the shares or less than 50%, but the voting threshold allows the buyer to make decisions in almost all aspects.

Therefore, when stock prices fall, it creates an incentive for outsiders to accumulate control rights and restructure the firm to create value for themselves. Corporate control therefore explains well the rationale for mergers and acquisitions. Accordingly, when the acquirer firm acquires a prey, the acquirer board of directors get the control rights over the target firm. An acquisition is about control of the assets of the firm being acquired or the combination of the assets in the case of a merger, on the understanding that the consolidated entity firm can use the assets to generate synergies by either gains in operational efficiency and/or increased capabilities.

According to the theory of corporate control, if the merger market is efficient, there is always another firm or management team willing to acquire an underperforming firm so as to remove those managers who have failed to capitalize on the opportunities to create synergies, and thus to improve the performance of its assets (Weston, Mitchell, & Mulherin, 2004). Therefore, managers who offer the highest value to the owners will take over the right to manage the firm until they themselves are replaced by another team that discovers an even higher value for its assets. This means managers that do not maximize profits will not survive, even if the competitive forces on their product and input markets fail to eliminate them. Hostile takeovers should, as a result, be observed amongst poorly performing firms, amongst those whose internal corporate governance mechanisms have failed to discipline their managers. Once again, the empirical evidence (Hasbrouck, 1985; Palepu, 1986; Martynova & Renneboog, 2008) again seems to support this conclusion.

A comprehensive study by Philip, B., et., al (2012) argued for the benefits of acquisitons and mergers during turbulent economic times. They found that mergers and acqusitions during bad economic times delivered superior returns as compared to similar deals during economic upturns. Michail, P., Vogiatzoglou, M., Koutoupis, A. and Drogalas., G. (2021)

examined the accounting performance of Greek listed companies after mergers in 2009–2015, the economic crisis period in Greece. The study found that mergers that took place during the crisis period were positively correlated with several performance measures and the results were statistically significant.

Michail et al., (2021) however found that conglomerate mergers had more positive impact on the improvement on the companies' profitability than non-conglomerate mergers and the farther the mergers were from the climax of the economic crisis, the more the profitability of merged companies were increased. Therefore, acquisitions made during periods when most firms are shunning deals may actually provide the best long-term returns for shareholders. Successful companies recognize that recessions, or any crises, provide as many opportunities as they do dangers. These firms will also recognize that well-timed downturn deals present opportunities that are unlikely to be found in better economies.

Tough times present openings to pick up businesses and assets that may be overleveraged or undermanaged, or that are simply no longer core operations for the seller. It is a chance to change the competitive dynamic in the acquirer's favor. For acquirers, the increased availability of assets and distressed companies has created a buyer's market, especially for buyers who have cash and/or still have access to debt funding. Therefore, in a vague environment, it is possible that managers may identify underperforming firms and initiate M&A so as to improve the performance of their assets. This will be a method of sustainability for businesses in a vague and uncertain era.

Kooli and Lock (2021) found that the volume of merger and acquisition deals around the world declined by around 50% as of mid-February 2020 after the World Health Organization announced a pandemic. The uncertain business environment due to government restrictions coupled with lack of understanding of the virus led to such a massive decline. However, with the relaxation of lockdown measures in many countries, reduction in the virus-inflicted uncertainty and the vaccine announcements, merger and acquisition deals began experiencing a recovery.

## RESULTS

A review of the literature shows that the whole area of investment decision under risk and uncertainty has received plenty of academic attention. There seems to be no agreement in theoretical and empirical literature on how a company invests in periods of uncertainty so as to not only survive the uncertainty but to also deliver sustainable value to the shareholders in emerging markets. While Caballero (1991) and Hartman (1972) found a positive relationship between uncertainty and corporate investment, McDonald and Siegel (1986) and Abel and Eberly (1994) found a negative relationship. Vermeulen (2002) and Kunc and Bandahari (2011) argue that firms with greater financing restrictions and operating in imperfect markets are more affected by periods of uncertainty. Liu, (2009) and Buca & Vermeulen (2012) examined the 2008-2009 economic crisis and how it affected the investment decisions by small and medium enterprises, and found that the crisis negatively affected investment by SMEs. On the other hand, Bartlett (2008) finds that an economic crisis provides good opportunities for businesses.

In some cases, for the sake of ensuring business continuity, it may be tempting to reduce investment, freeze hiring, or avoid entering new markets and such other short-term strategies. But if not carefully thought through, these short-term tactics may be harmful on long-term strategy. Business leaders therefore need to use a broad lens and have a balanced perspective in the choice of strategy for sustainability.

This paper suggests that M&A can be an appropriate strategic choice for sustainability when firms are facing vague times. Capron and Pistre (2002) argue that merger and acquisition processes can foster the transfer of important intangible assets between prey and predator such as technical know-how and also enable firms to pursue efficiency in terms of costs. This is possible through the achievement of

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economies of scope and scale as well as generation of new revenues (Laamanen and Keil, 2008). Gaughan (2002) argues that M&A have an important effect on firms' results and sustainable competitive advantage. This paper argues that in times of uncertainty firms can use M&A to buy into the latest innovations, to disrupt the competition, or seek to prevent being disrupted by the competition because markets are constrained and every firm is at risk.

For predators, the increased availability of assets and distressed companies has created a buyer's market, especially for buyers who have cash and/or still have access to debt funding. This paper argues that in vague times, probably best shown by the COVID-19 era, M&A can be an important strategy for business sustainability in emerging markets. Difficult economic conditions can be seen as periods of creative destruction, when some businesses may decline while new ideas, technologies, products and industries emerge and become the drivers of subsequent economic activity and growth. Vague periods can contribute to this economic restructuring by stimulating entry and exit of firms, and by motivating incumbent firms to adapt products and business processes. M&A during uncertain periods can create greater value because the cost is much lower due to reduced market capitalization of companies. Due to the lower values, predators can go after targets that were initially out of reach and this allows them to make a bolder strategic ploy which can lead to market leadership.

Empirical studies (Komlenovic, Mamun, and Mishra 2011), show that M&A vary in proportion to the economic condition. They will increase in a boom and reduce during depression. Depression or even recession in an economy suppresses demand leading to idle capacity. Jensen (1993) argues that M&A can eliminate this idle capacity by unifying the existing companies. However, during the depression the firms have a challenge raising capital and cannot afford to pay the value of a merger or acquisition (Schleifer and Vishny, 1992). As a result, M&A are postponed until the economy is out of recession or depression. Nelson (1959) argues that stock market boom has been connected with increase in merger and acquisition activity. This is because during economic boom, there is not only a willingness of stock markets to allow firms to issue new shares to raise capital but also, many firms report higher corporate profitability. Conversely, companies and stock markets might adopt a conservative approach during an economic downturn. Thus, authors have suggested a close relationship between general economic performance and takeover activity.

Many empirical studies (Bernanke, 1983; Abel, 1983; McDonald & Siegel, 1986; Dixit and Pindyck, 1994; Bloom, 2009) on merger and acquisition have focused on economic and policy uncertainty and their effect on merger and acquisition activity. Using national elections from 48 countries as a proxy for uncertainty in policy, and data covering the period 1980-2005, Julio and Yook (2012) examined the impact of uncertainty on 13 investments. Their research argues that firms prefer to wait when elections can have a negative outcome to receive additional information about the future prospects of an investment. They found that uncertainty during elections leads to decline in investments during the period leading up to elections. The literature seems to have consensus that uncertainty of any nature has a negative association with investment as people delay making decisions as they wait for more information.

Several researchers have examined M&A in the context of an uncertain environment. Bhagwat, Dam, and Harford (2016) examined the effect of uncertainty on M&A. They focused on the delay between deal announcement and completion. They found that increased uncertainty as measured through market volatility had a negative effect on willingness to complete the deal. Analysis by Gaughan (2002) of merger and acquisition activity during a financial crisis in USA found a decline due to lack of access to credit. The study further argues that the difficult economic conditions reduced profits further leading to a further decline in the attractiveness of M&A.

Other researchers have examined whether mergers and acquisition deals closed in a period of uncertainty created more value for shareholders compared to those closed during normal economic conditions. Eisenbarth and Mecki (2014) investigated market for corporate control in Germany and analyzed, whether companies take advantages of periods with low asset prices to buy out other companies. Their study has shown that merger and acquisitions tend to be initiated during periods of high asset prices. While in terms of returns, transactions initiated during low asset prices are more successful and deliver higher merger benefits. Rosen (2006) examined the interrelation between the broad market conditions and the stock returns of bidding firms. The study found that falling stock prices during economic crises had a large effect on M&A returns.

Nguyen and Phan (2017) found that during period of high uncertainty, the predator gets more value from merger and acquisition deals. They explained that this is due to the acquirer being more prudent and doing proper due diligence such that they only pursue investments with better outcomes during periods of uncertainty. They found that policy uncertainty has a negative correlation with M&A but a positive correlation with the time to complete merger and acquisition deals. They also found that predators will most likely use share payments during periods of high uncertainty. Lee (2018) used national elections as a proxy for uncertainty to examine the effect of uncertainty on cross-border M&A. The study found that in periods of uncertainty, firms in the target country have lower bargaining power hence the acquirer being able to negotiate better terms. On the other hand, Bonaime, Gulen, and Ion (2018) found that policy uncertainty is negatively associated with M&A activities.

Ang and Mauck (2011) examined whether severely financially distressed firms during uncertain times would sell at low prices. The thrust of the argument was that the distressed firms do not have much choice but to sell their assets at discount. Therefore, the predator is in a stronger position in the negotiation and this may lead to high abnormal returns as compared to the normal economic period. However, the study found that financially distressed firms actually sell at a premium, sometimes as much as 30% as compared to the normal economic period. According to Rao-

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Nicholson and Salaber (2014) firms in financial distress wish to restructure and redeploy assets as soon as possible during financial crises. As a result, the period of negotiation will be shorter and returns will be higher for the predator. They investigated the returns to firms during the pre and post 2007-2008 financial crisis and reported higher returns to shareholders as compared to acquisitions announced in the pre-crisis period.

Hotchkiss and Mooradian (1997) found positive abnormal returns for both acquirers and targets upon a merger and acquisition announcement. They argue that when firms are in related industries, there is higher post-merger performance because of a more efficient reallocation of assets. They also find that mergers with healthy non-bankrupt firms do not lead to significant improvements in terms of performance. The process also induces abnormal positive stock returns for both bidder and target at the moment of announcement. Gatti and Chiarella (2013) researched how M&A can be a useful tool during periods of high volatility. They concluded that M&A can be a powerful and value- creating strategic tool in such periods. Garfinkel and Hankins (2011) found that increase in cash flow uncertainty encourage firms to make vertical acquisitions. Duchin and Schmidt (2013) found a positive correlation between economic uncertainty and M&A. They suggest that this is due to the empire-building action of the managers.

Some researchers have examined the motivations and how specific aspects of M&A have been managed in emerging markets. Man, et., al. (2021), examined the how country-specific uncertainty affects the payment method in international acquisitions. The study found a negative association between country-specific uncertainty and cash transactions, such that when the host country experiences a high level of country uncertainty, acquirers were more likely to choose non-cash transactions. The study also found that that the negative relation between target country-specific uncertainty and cash payment weakened with larger differences in power distance between host and home countries. Alhanhanah, Akbalik, and Akosile, (2019) examined the trends of M&A in Turkey covering the period 2014-2018. They found that the election transition year of 2014 affected the volume and value of M&A. Political conflicts with neighboring countries, and the sanctions due to tensions between Ankara and Washington affected merger activity during the period. Mody and Gegishi (2000) argue that the Asian financial crisis led to the increase in merger and acquisition activities in the period after the crisis.

For management of risks in emerging countries with weak minority investor protection, La Porta, Lopez-deSilanes, Schleifer and Vishny (1999) found that foreign acquirers will prefer to acquire majority control in the local firms. Goddard, Molyneux & Zhou (2012), examined the period 1998-2009 and found that bank M&A in Latin America and The Caribbean were largely driven by financial restructuring, privatization, and the deregulation in the respective regions. Pérez (2013) found that M&A in the Mexican banking sector were motivated by elimination of restrictions on foreign capital which led to 80% of the banking sector being under foreign control.

## DISCUSSION

While there is plenty of academic literature on M&A and creation of shareholder value, not much research seems to have been devoted to M&A as a downturn strategy for uncertain times, especially in emerging markets. Besides the works of Yezhou, Chenlei, and Zilong (2020) and Deng (2008) in China, other works have generally addressed the generic areas of M&A and if any associated synergies create value for shareholders. Yezhou, Chenlei, and Zilong (2020) examine the relationship between economic policy uncertainty and M&A in China. They used all listed Chinese companies on the Shanghai and Shenzhen Stock Exchanges and 4,188 merger and acquisition deals from the period of 2001–2018. They found that Chinese firms are more likely to make acquisitions during periods of high economic policy uncertainty.

Deng (2008) argues that more Chinese firms engage in cross-border M&A in order to access strategic assets and address their own competitive disadvantages. The researcher further suggests that because markets are highly competitive, the firms need the assets so as to have an advantage in a global market. Because such assets are not available at home, acquisition of foreign firms helps overcome the institutional constraints.

Kale (2004) argues that there are differences in mergers in emerging markets and developed markets due to the traditional business environments in these markets and how they have changed gradually due to liberalization. According to Lebedev et al. (2015) M&A in emerging markets will be affected by local institutional and market imperfections compared to M&A in developed economies that have mature markets and stronger institutional frameworks. Developed markets have a well-developed legal and regulatory system to protect the interests of shareholders and the welfare of consumers. On the other hand, as pointed out by La Porta, Lopez-De-Silanes, & Shleifer (1999), emerging economies may suffer from a poor legal and regulatory environment as well as weak enforcement of existing laws. Besides, the corporate governance, cultural differences and disclosure systems are different.

## CONCLUSION

While M&A in periods of uncertainty have not been extensively studied in emerging markets, the trend from the developed markets suggests that such M&A deliver more value to shareholders. Therefore, vague times provide an opportunity for firms to use M&A to fully transform their operations through acquisition of latest technologies and new supply chain capabilities, and achievement of cost synergies, among others. Others are exiting businesses with lower growth and profitability prospects while focusing on cost reductions to maintain profitability. This paper will prepare the businesses well for not only survival but also a rebound at the end of the vague era. The lower valuations work to the advantage of the predators, and will thus increase in size and scope through M&A and hence significantly benefit after economic recovery. When the oil sector faced a decline in oil prices in 1990's that was severe and extended, they turned to consolidations leading to the multinationals of today.

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A vague era leads to many company valuations to be lower across all sectors and industries, making some acquisitions very attractive and opportunistic. Even the earliest theoretical work on merger activity such as Coase (1937), Schumpeter (1950), and Gort (1969) suggested that merger activity was a response to technological shock. Chattopadhyay, Glick, & Huber (2001) and Meyer (1982) argue that firms can generate synergies during turbulent economic times by adopting new resources and using new opportunities through M&A at low costs. Therefore, future research should involve M&A during a vague era in emerging markets, especially in the African, Middle East, Latin American and Asian regions. This is because while such markets are a huge opportunity for businesses, they need to be approached carefully due to inherent risks such as political risks, weak corporate governance, foreign exchange risk, and legal protection for investors, among others (Tarun, Krishna and Kjell, 2007).

However, mergers and acquisitions are largely a corporate governance issue. It is at the board level that the overall strategy of the firm is designed and implemented. This strategy addresses among many issues, the various growth options of the firm and whether mergers and acquisitions are part of the growth options. Therefore, the board must be satisfied that the acquisitions are an appropriate strategy at that time. However, analysis by Refakar &o Ravaonorohanta (2020) found that corporate governance in emerging markets is sometimes ineffective due to weak rule of law, weak transparency, and inefficient financial markets. Sometimes, ownership is concentrated, institutions are less developed, financial markets are not sophisticated, there is more corruption, and competition is restricted. All these lead to inefficient boards, which may therefore lead to sub-optimal merger and acquisition decisions.

A key managerial implication of this literature analysis is that external growth through M&A can be a successful strategic move during vague times. Low valuations of firms provide favorable conditions for making deals that can be beneficial to shareholders in the long run. While uncertainty is ordinarily expected to make managers less confident about the future, hence leading to shelving of investment decisions and decline in M&A, uncertainty may also create opportunities that can deliver superior value to shareholders. Firms in emerging markets can therefore be on the lookout for opportunities in terms of undervalued firms during times of uncertainty that can offer good returns at the end of the uncertainty.

Similarly, firms in emerging markets, if undervalued as a result of the uncertainty, may also become candidates for mergers and acquisitions, especially by firms from mature markets. It may therefore offer an opportunity for them to either negotiate acceptable deals for their shareholders, especially given that the literature shows that the shareholders of target firms gaining in the event of mergers and acquisitions. They may also need to put in place strategies to protect themselves from hostile takeovers. The managerial and theoretical contribution of this paper is the challenge it presents to the traditional thinking of being conservative towards risk during times of uncertainty.

It challenges managers to adopt a contrarian approach during uncertainty and to scout for undervalued assets which may deliver superior value to shareholders.

On a methodological level, the paper presents a review of how M&A have worked in developed countries during vague times, and the implications of those results in emerging markets. This is important because emerging markets have different characteristics compared to developed markets and therefore what works in developed markets may not necessarily work in emerging markets. A key implication for future empirical research is the common thread that M&A during uncertainty create value for the acquirers. Much of the previous literature shows that M&A mostly created value for the targets. It will therefore be useful to empirically examine whether this reverses during uncertainty, especially in emerging economies.

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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

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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

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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

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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

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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

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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 |

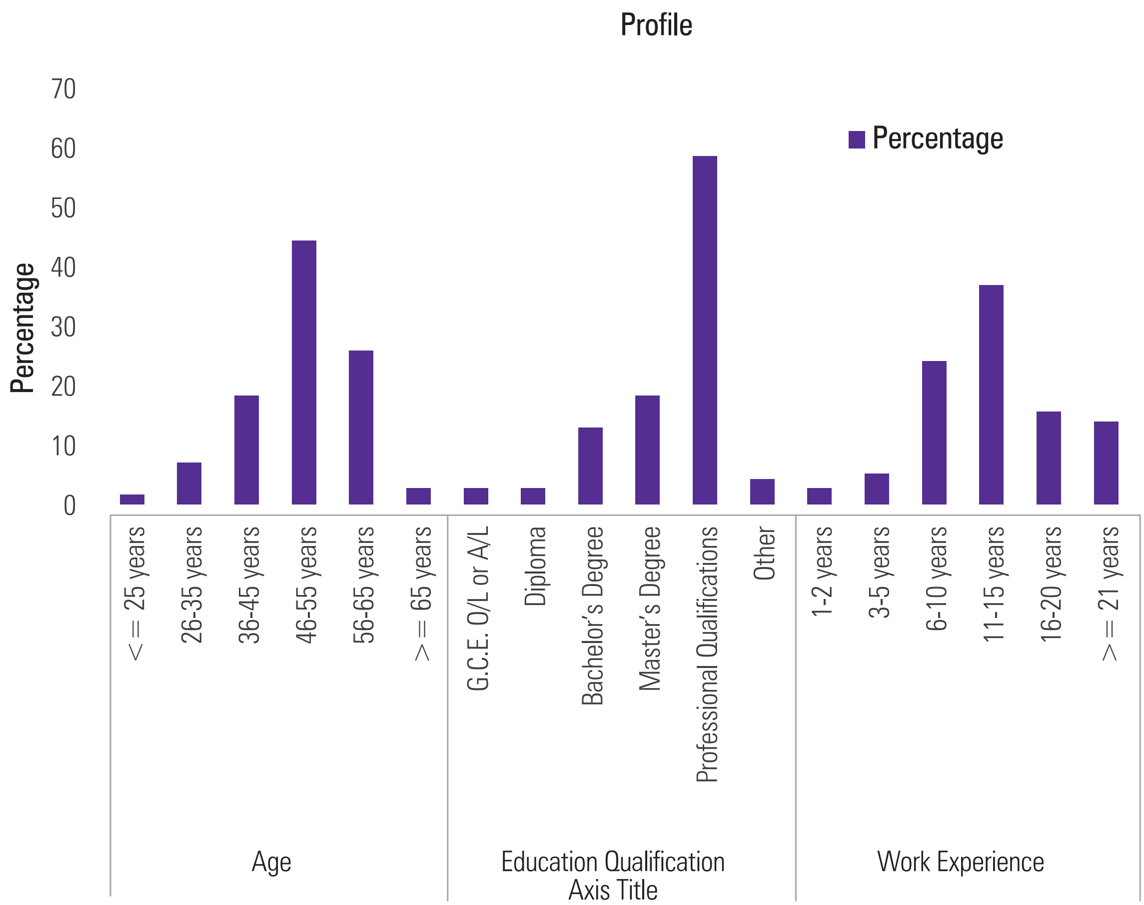
## 4. RESULTS

### 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



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### 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 $\alpha$=0.751), ethical CSR (5 item scale $\alpha$=0.804), legal CSR (4 item scale $\alpha$=0.844), philanthropic CSR (6 item scale $\alpha$=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 |

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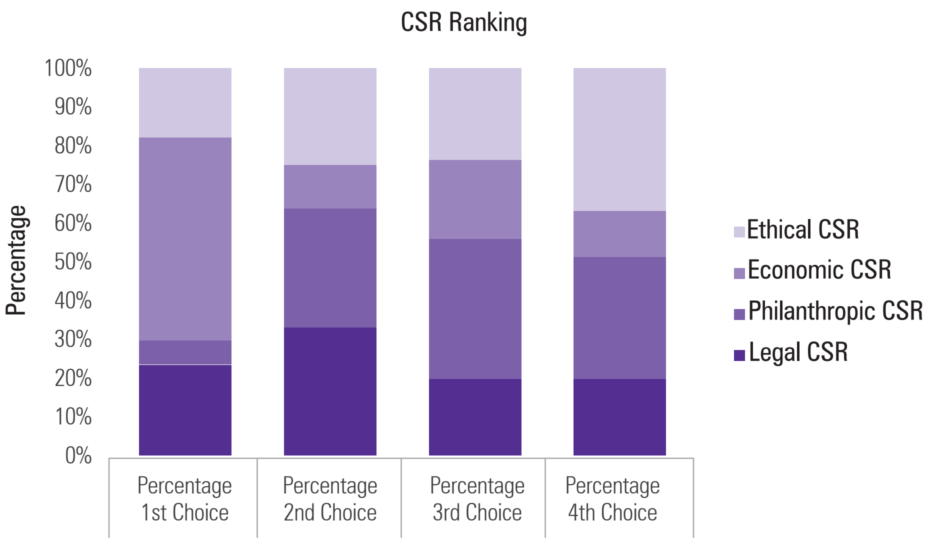
| CSR | Pearson Correlation | P-value |
|---|---|---|
| Philanthropic Responsibility | | |
| *....encourage partnerships with local businesses & schools* | 0.596 | 0.000 |
| *...has flexible company policies to enable employees to better coordinate work & personal life* | 0.688 | 0.000 |
| *...has programs 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.

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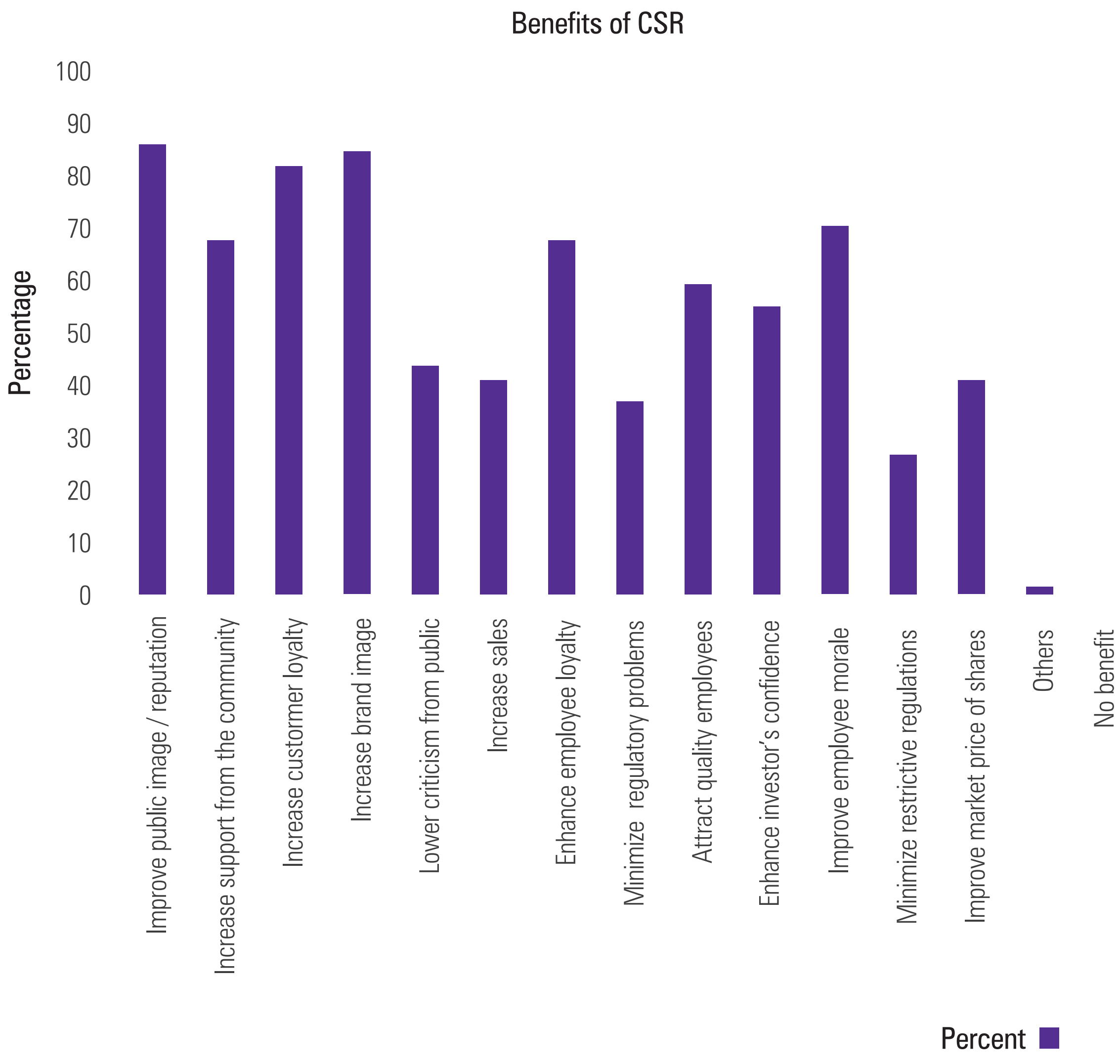
Figure 3

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

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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

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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

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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 |

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| | 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) |

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# A CRACKED PUBLIC ADMINISTRATION IN PERU: HOW "VACUNAGATE" HAS SHAKEN THE FOUNDATIONS OF AN ALREADY DAMAGED SOCIETY

## UNA ADMINISTRACIÓN PÚBLICA RESQUEBRAJADA EN PERÚ: CÓMO EL "VACUNAGATE" HA SACUDIDO LOS CIMIENTOS DE UNA SOCIEDAD YA DAÑADA

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JEL: H10, H12, M14, M19, O16

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### ABSTRACT

While crises are ubiquitous in Latin America, due to its geographical characteristics as well as its turbulent business environment, countries such as Peru have also extreme rates of corruption and deep institutional weakness. These factors, taken together, undermine any attempt of national governments or society's collective efforts towards achieving sustainability. This paper aims to analyze the "Vacunagate" scandal that occurred in Peru during the first negotiations of the vaccination process against COVID-19, using a case study method, and focusing our discussion from the Agency Theory as well as from leadership and institutional perspectives. The results of the analysis emphasize how the "Vacunagate" event generated relevant constraints towards the achievement of the SDG 16, and its specific targets related to provide justice for all, deal with organized crime, reduce corruption, and create accountable institutions. In addition, the study provides insights and implications for organizations in Peru that would have to operate under a turbulent business environment, considering a business-as-usual corruption and a weak institutional context.

### KEYWORDS

Vacunagate, Peru, Corruption, Leadership, Institutions, Corporate Governance, Ethics, Public Administration, Agency Theory

### RESUMEN

Si bien las crisis son omnipresentes en América Latina, tanto por sus características geográficas como por su turbulento entorno empresarial, países como Perú presentan además índices extremos de corrupción y una profunda debilidad institucional. Estos factores, en conjunto, socavan cualquier intento de los gobiernos nacionales o de los esfuerzos colectivos de la sociedad para lograr la sostenibilidad. Este trabajo pretende analizar el escándalo del "Vacunagate" ocurrido en Perú durante las primeras negociaciones del proceso de vacunación contra el COVID-19, utilizando un método de estudio de caso, y enfocando nuestra discusión desde la Teoría de la Agencia así como desde las perspectivas de

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liderazgo e institucional. Los resultados del análisis enfatizan cómo el evento "Vacunagate" generó limitaciones relevantes para el logro del ODS 16, y sus metas específicas relacionadas con proveer justicia para todos, enfrentar el crimen organizado, reducir la corrupción y crear instituciones responsables. Además, el estudio proporciona ideas e implicaciones para las organizaciones en el Perú que tendrían que operar bajo un ambiente de negocios turbulento, considerando una corrupción como de costumbre y un contexto institucional débil.

## PALABRAS CLAVE
Vacunagate, Perú, Corrupción, Liderazgo, Instituciones, Gobierno Corporativo, Ética, Administración Pública, Teoría de la Agencia

## INTRODUCTION

Albert Einstein said once, "innovation follows big crises," but it seems innovation is not the only result, as room for corruption often follows as well. On one hand, crises are ubiquitous in Latin America (Azevedo *et al.*, 2020), leaving a trail of chaos that results in job losses, business bankruptcies, wider social and economic inequalities, interrupted supply chains, poverty, and so on. On the other hand, unfair distribution of resources as well as corruption drive Latin American countries into social unrest, unless good political governance emerges (Saxton, 2021). Moreover, crises are contextually emphasized due to the existence of local previous constraints, such as an already corrupted institutional and governmental environment (Yakovlev, 2021). Corruption is indeed a global major concern, since diverse scandals have appeared all through the world under different circumstances (Venard, 2018).

The COVID-19 pandemic is not an exception for such crises. According to the United Nations (2021), the damage caused to the global economy was devastating. Specifically for Latin America, it represented a drop of 8% of the regional GDP along with a severe export reduction of 6% in the first eight months of 2020 compared to 2019. Those dramatic effects resulted in increased unemployment, social unrest, poverty, and deep economic and social inequalities. The serious damage in Latin America and the Caribbean region will have to be overcome in the long run, being able to return to a pre pandemic economic activity level in no less than two years (United Nations, 2021), and reinforcing the sustainable development efforts in the region (Vargas *et al.*, 2022).

In addition, business opportunities, innovation efforts, and local advantages for organizations in Latin America are constantly undermined due to the institutional weakness of the organizational environment (Vassolo *et al.*, 2012; Vergara, 2018; Young *et al.*, 2014). As a result, institutional weakness in Latin America does not only result in fewer development opportunities for firms, but also in the reinforcement of an informal and a selfish culture in the region. Corruption is a common issue in Latin American countries that organizations and individuals have needed to face for many years (Mohieldin *et al.*, 2022). Corruption together with selfish behavior

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in economic activities have been driving nations into unstable and uncertain environments. Furthermore, according to Ugaz (2020), the "great corruption," which is lead by high level government officers and involves systematic operations and big scale frauds, derive into an extended damage to society and human rights violations. Moreover, the health crisis has also opened debates and created profound concerns about how ethics and solidarity are involved in organizations' decision-making processes and their governance structures all over the world (Gonzalez-Perez *et al*., 2021; Wright, 2020).

Regional scandals such as the political corruption in the Odebrecht case led by businesses' elites in Brazil (Durand, 2018; Gillespie & Brocchetto, 2017), the presidential bribes in Peru (Aquino, 2020), severe political turmoil in Argentina and Bolivia, and social unrest in Chile and Colombia (Viscidi, 2019), has led to a loss of trust of regional governance structures and leaders by citizens and organizations in Latin America. According to Malanski and Póvoa (2021), Latin American countries that develop economic freedom systems are more willing to suffer the effects of corruption scenarios in terms of their economic growth. Thus, the scandal related to the unfair COVID-19 vaccine distribution in Peru, called the "Vacunagate" case added to this list of unpleasant and undesirable events, which had business and political leaders in the country secretly vaccinated before the most exposed people such as doctors, nurses, or police officers, and most vulnerable, such as the elderly. However, these leaders would have originally been considered as agents for positive change. According to the Agency Theory, agents have to address the tasks that the principals (in this case the society) assigns to them (Eisenhardt, 1989). Principals are expecting specific results and behaviors and the Agency Theory deals with problems generated when the agents could tend to prioritize individual interests for their own benefit. Also, transformative and integrative leadership emerges from society in times of crisis (Useem, 2020; Walker, 2016). In addition, these leaders are able to shape the rules and common behavior in the business environment (Hambrick, 2007), developing strategic organizational activities such as control and management through the corporate governance structures they design and lead (Shleifer & Vishny, 1997; Osedo *et al*., 2020). Thus, good leaders are expected to guide society through uncertainty, providing trust and security, as well as encouraging teams and prompting well-being scenarios. Nevertheless, ethical leadership has been studied mostly considering the leaders and the relationship with their followers, while studies about leaders at an individual, organizational, or contextual level are scarce (Correa Meneses *et al*., 2018).

Peruvian society is characterized by a lack of the State's presence and efficiency as well as an inadequate business environment which negatively affects the outcomes and opportunities of organizations and citizens (Cordova *et al*., 2022;

Vergara, 2018). Hence, using a case study analysis, the main objective of this paper is to discuss how the recent COVID-19 scandal in Peru named "Vacunagate" reflected the struggles of Peruvian society at different levels, and how business and political leadership was involved in this event, cracking an already fragmented public administration's governance structure. Moreover, this study aims to discuss how public administration's decisions could endanger the achievement of the Sustainable Development Goals (SDGs) of the United Nations (2015), specifically the SDG 16 (Peace, Justice, and Strong Institutions), analyzing how the institutional context and corruption could enhance and allow top political leaders' selfish behavior in the country, evidencing deep agency problems between these leaders and the society. Likewise, the study focuses on the discussion of some specific targets of the SDG 16 such as 16.3 (rule of law and justice for all), 16.4 (combat against organized crime), 16.5 (reduce corruption), and 16.6 (accountable and transparent institutions).

Previous research about the "Vacunagate" event or issues surrounding the availability and uncertainty of the vaccination processes in Peru is scarce. Other studies are focused on the scandals but are using a health system framework. To the best of the authors' knowledge, this is the first study that analyzes this scandal in Peru using an Agency Theory approach and an institutional perspective, discussing how leadership as well as governance structures are affected in the short-term, undermining the country's expectations for SDG 16 achievement in the long run. Hence, the authors expect that this analysis could be useful for understanding how relevant agency conflicts may appear while leadership and governance structures could be influenced by corruption events, constraining opportunities for development towards the SDG 16.

This paper is organized as follows. The first section provides an overall introduction as well as the objectives of the study. Then, the study presents the Peruvian institutional context and a brief background in order to properly understand what the "Vacunagate" scandal has represented in Peru. After that, the paper presents a theoretical background based on the literature on leadership, institutions, Agency Theory, and governance structures. The fifth section briefly presents the method for the analysis. Next, the study provides the discussion of the results, emphasizing how society's actors could understand the "Vacunagate" crisis as a changemaker event in the Peruvian socioeconomic landscape. Furthermore, it discusses how the achievement of specific SDG 16's targets 16.3, 16.4, 16.5, and 16.6 could be severely constrained due to this crisis. Finally, the seventh section concludes the study and opens a wider forum for current and future implications for organizations and governance structures under corruption scenarios in emerging markets such as Peru.

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## CONTEXT AND BACKGROUND

### Peruvian Institutional Context

Adequate opportunities for organizations in Peru are constantly undermined by several institutional constraints that keep the business context as well as the trust in government institutions in an underdeveloped condition. According to Vergara (2018), Peru largely lacks institutional strength, which prevents the economy from growing and compels individuals as well as organizations to rely heavily on informal mechanisms to conduct their local activities. Furthermore, the Peruvian judicial system exhibits dramatic delays in processing disputes, as well as a multi-level corruption that hinders the government from achieving proper execution of the population's demands (Romero Santos, 2019). According to International Transparency (2019), countries in Latin America and the Caribbean suffer from a generalized mistrust in their institutions as well as their governments. In addition, Durand (2019) has emphasized how governments' agencies and some institutions in Latin America have been taken hostage by the corruption practices of upper classes and business elites in their societies. This has resulted in serious social and economic inequality gaps in the country, which have been dramatically emphasized by the absence and inefficiency of the State, provoking social unrest scenarios (Degregori, 2004; Grompone & Tanaka, 2009; Ugaz, 2020).

Deep inequalities in Peruvian society have prompted privileged access as well as better benefits for upper-class elites that have held the networks, influence, and the financial resources to use these advantages for their own individual interests (Durand, 2018; Matos *et al*., 1969; Reátegui *et al*., 2022). This phenomenon was also exhibited in the past in developed economies that operate under similar capitalist systems, such as the United States and the United Kingdom (Useem, 1984). This cultural pattern in Peru's background, having a few being benefited at the expense of others, has been a usual mindset of the Peruvian society for decades (Klarén, 2019; Ugaz, 2020). According to Vergara (2018), Peruvian society has lost its old republican values that make it resilient to important social threats such as conflicts of interests, corruption, frauds, influencing traffic, bad financial practices, and so on. Moreover, corruption in Peru seems to be an accepted phenomenon from voters and a prevalence feature of the Peruvian society (Vera, 2020), which, through the years, has legitimized some illegal practices (Webb *et al*., 2009), and introduced a sense of corruption into its common culture of how to make things happen (Szymanski *et al*., 2021).

## Health Crisis Background and the "Vacunagate" Scandal

The entire world went through one of the largest health crises in history, a pandemic that devastated the world's health systems, leaving millions dead and infected. All countries in the world concentrated efforts to face this infectious disease, applying health protocols and closing their borders. The World Health Organization (WHO) declared COVID-19 as a pandemic on March 11, 2020 (WHO, 2020), while the first case in Latin America was detected in Sao Paulo on February 26, 2020, and the first confirmed case in Peru was on March 6, 2020 (Gonzalez *et al*., 2021). Peru has been greatly affected by the COVID-19 crisis since then, further aggravating its already precarious health system and causing a huge downturn in the country's economic growth. Also, these effects on the economic system joined an expectant population that perceived vaccination in Peru as a process with several constraints as well as guided by a government that resulted from a political crisis left by Martín Vizcarra. The former president had many struggles with the legislature and faced serious complaints of corruption. In this context, a journalistic effort announced that in September 2020 the president Martín Vizcarra secretly received the Sinopharm vaccine against COVID-19, along with his relatives and other officials of the government (LPDerecho, 2021).

Fernando Carbone, president of the Investigative Commission on irregular vaccination carried out outside the clinical trials of the Sinopharm laboratory, a case known as "Vacunagate", pointed out that, in total, about 470 people received the doses. Also, besides the inoculation outside the clinical trials, there was no reason to send the vaccines to unauthorized buildings, such as happened with the doses that were illegally received by the Chinese Embassy in Peru (Mayta-Tristán & Aparco, 2021). Another issue that aggravated the situation was that 369 people from the staff that developed the clinical trial received the Sinopharm doses. Then, those responsible for the research teams and the management and sponsorship of the clinical trials included another 101 relatives of public officers from the Ministry of Health and the Foreign Affairs Ministry. (Gestión, 2021a). In addition to this, research staff of a Peruvian private university, which was also responsible for medical trials, secretly got doses of the vaccine too, resulting in the resignation of the university's chair and two deans (Chauvin, 2021).

The Health Minister and the Foreign Affairs Minister were secretly vaccinated as well. Using their positions in the government, both took part in the negotiations for the additional vaccines, and both resigned after this was made public (Chauvin, 2021; Mayta-Tovalino *et al*., 2021). The former Health Minister justified her actions by indicating that she gave into her insecurities and fears. As such, fear of COVID-19 could trigger questionable and erratic individual behavior. Nevertheless, the magnitude of the events reveals a truly deep Peruvian institutional crisis, recalling that in the hardest moment of the country's history, the elites and leaders put the

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country on pause to protect themselves (Klarén, 2019; Vergara, 2018), probably because they distrusted their own ability to carry out an efficient immunization process or just emphasizing the traditional corruption mindset. A phrase used to describe this situation was stated by Germán Málaga, the doctor in charge of the investigation, namely, "It's not about privileges; it's about how things work."(Washington Post, 2021).

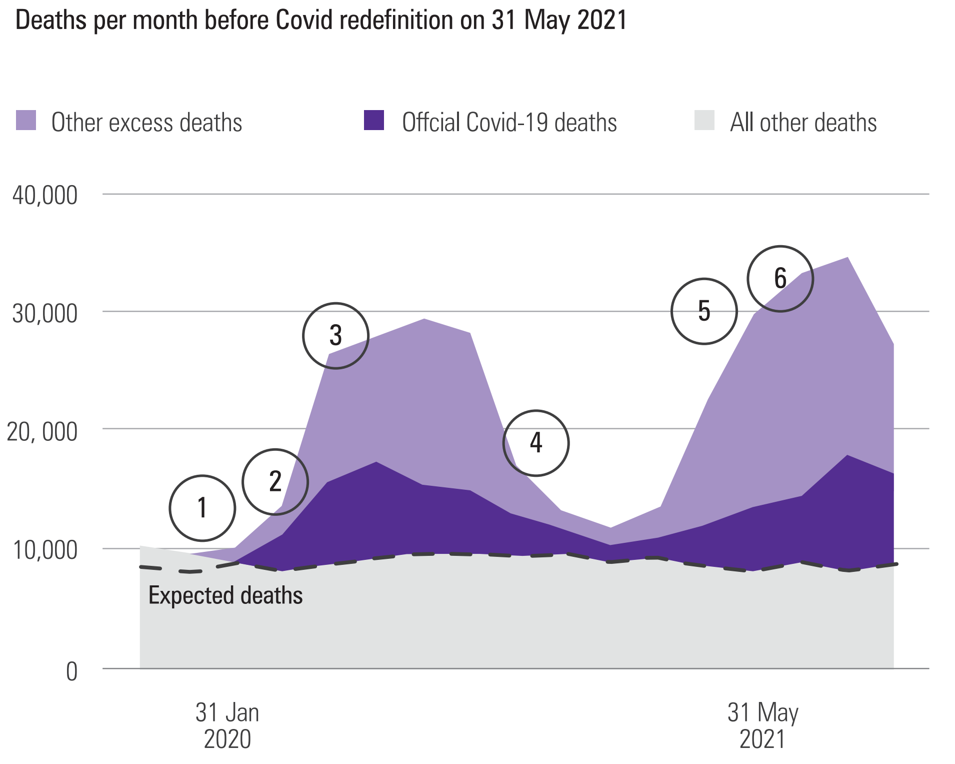
The possible crimes committed could be considered as acts of public servants' corruption, and that sanction the official or public servant who, abusing his position, forces or induces a person to give or promise unduly, for himself or for another, an asset or patrimonial benefit. The second crime investigated was the irregular negotiation or improper use of office, which typifies the conduct of the official or public servant who unduly, directly or indirectly, is interested in any contract or operation in which he intervenes by reason of his or her position, in order to obtain either an individual or a third party's profit. Still another, is the crime of collusion, where the official or public servant who intervenes directly or indirectly, using his or her position, at any stage of the acquisition or public contracting of goods, works or services, concessions, or any operational charge is punished. In sum, government officials agree with other interested parties to defraud the State or a State entity or body. (LP Derecho, 2021). Finally, the former ministers of Health and Foreign Affairs, together with the former president Martín Vizcarra, will be constitutionally charged by the Peruvian Government (Palacios, 2022).

Unfortunately, the former president, Martín Vizcarra, the very same individual who had previously claimed himself to represent the anti-corruption fight, was the one who triggered the "Vacunagate" scandal. His secret vaccination, which was produced before his vacancy in November 2020, was publicly known by a journalistic disclosure rather than by his own declarations. Although medical ethics may question the application of a vaccine that began to be inoculated before it was approved, the population probably would have understood the need to protect the main decision-makers during the pandemic if this was done publicly and transparently (Hearit, 2005; Maldonado *et al*., 2022); and the largest amount of first vaccines would have been used to protect front-line doctors. (Washington Post, 2021).

Many Peruvians said they were outraged, but not surprised, that government officials and their intimate circles, including family members, allegedly took advantage of their positions to access a vaccine for which they were not entitled. José Ugaz, a Peruvian human rights lawyer, and former president of International Transparency, referred to the "Vacunagate" crisis as an upcoming as well as foreseeable event. "I had already asked, and several organizations had done the same, that great care be taken in how vaccines should be handled," he argued. "By now, many Peruvians are used to disappointment after disappointment from their elected leaders." He also added that, "we have seen governments deeply rooted in corruption, with weak government capacities, permanently and systematically lying to the people, and putting the interests of themselves and those of their parties and internal circles before the country, which has also happened during the pandemic" (CNN, 2021).

Figure 1 exhibits the number of deaths in the country due to the COVID-19 crisis. According to this, both the secret vaccination and uncovering of the "Vacunagate" were during dramatic moments of the health emergency for the population in Peru. These moments are explicitly explained in Table 1, pointing their location in time by numbers from 1 to 6, following the timeline proposed by Figure 1.

Figure 1. Total deaths in Peru compared with average




Source: BBC, https://www.bbc.com/news/world-latin-america-53150808

Furthermore, Table 1 shows specific and relevant dates in order to provide insights into the background against which the secret vaccination took place, and how after presidential and parliamentary elections, the management of the former President Martin Vizcarra was legitimated by the population, electing him as part of the Peruvian Parliament (Gestión, 2021b).

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Table 1. Relevant dates regarding "Vacunagate" related events in Peru

| Moments | Dates | Actors | Events |
|---|---|---|---|
| 1 | March 6, 2020 | Man 25 years who came from Europe. Level of analysis: individuals-society. | First COVID-19 confirmed case in Peru. |
| 2 | March 16, 2020 | President Vizcarra decrees general quarantine for 15 days. Level of analysis: institutions-government. | Total lockdown and border closure. |
| 3 | September 9, 2020 | President Vizcarra secretly receives Sinopharm Vaccine. Level of analysis: institutions-government. | Secret vaccination of President Martin Vizcarra, his relatives, and others. |
| 4 | February 10, 2021 | The journalist Beto Ortiz revealed that president Vizcarra and several officials would have been secretly vaccinated. Level of analysis: individuals-society. | "Vacunagate" scandal discovered by the press. |
| 5 | April 9, 2021 | Martin Vizcarra became the most voted candidate for congress 2021-2026. Level of analysis: institutions-government. | Former President Martin Vizcarra is elected to the Peruvian Parliament. |
| 6 | April 16, 2021 | Former president Vizcarra is disqualified from exercising any public function for a period of 10 years. Level of analysis: institutions-government. | Peruvian Parliament disables Martin Vizcarra due to lack of moral capacity. |

Source: Authors.

## LITERATURE REVIEW

Institutions are fundamental to analyzing organizational behavior, as they are key players in the context where they develop their activities and are responsible for shaping their responses (Peng *et al.*, 2009). Also, the presence of good quality institutions is related to proper levels of human development in countries (Leon Quillas *et al.*, 2020). Henceforth, how organizations are able to manage their institutional context is a main factor towards achieving competitive advantage as well as long run survival (Oliver, 1997), even more in emerging market environments where business agents as well as public organizations have developed unique coping strategies (Hoskisson *et al.*, 2000).

Hence, organizations within the same context tend to have a similar behavior as well as the same reactions in order to adapt to the business environment and culture, following what DiMaggio and Powell (1983) called the organizational isomorphism phenomenon. Individuals as well as organizations tend to follow some social norms produced by that local context, which are usually developed as a regular behavior and complied with, even though it is not part of the law (Posner, 1997). In other cases, both design their own paths and strategies to grow and survive the institutional constraints of the context (Gao *et al.*, 2017).

As the context shifts and evolves, so too does the organizations' governance structure, providing more attention to some stakeholders rather than others in order to adapt their responses to the new conditions of the environment (Gonzalez-Perez *et al.*, 2021). Nevertheless, even though the aforementioned changes, proper governance structures promote transparency, trust, as well as long-term commitment to values and norms (Aguilera *et al.*, 2019). According to Pearson and Clair (1998), stakeholders' expectations towards organizational leadership under crisis situations may erode if they are dissatisfied with its responses and behavior. Hence, trust is the key to achieve compliance towards measures and regulations enforced by organizations as well as governments (Wynen *et al.*, 2022).

In fact, positive leaders guide those proper governance structures. Leadership is one of the main roles of institutions and the lack of integrity of certain leaders affects the decision logic. Even though leadership could find several opportunities for influence and communication while going through a crisis (Hart, 1993) and leaders could take part in key roles within these uncertain scenarios (Rosenthal & Kouzmin, 1997), leadership corruption degenerates into pseudo-leadership, which benefits from the principle of hierarchy that exists in all organizations. The lack of integrity of the leaders affects the decision-making and governance structures (Abellan & Pardo-Beneyto, 2021), using some governance mechanisms to lead organizations into collusive arrangements (Cordova, 2018). The presence of the pseudo leaders propels the question whether the people who are and have been in command of the

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executive decisions meet the requirements of a leader. According to Robbin and Coulter (2005), the main component of credibility is honesty. Polls indicate it as the main characteristic of admired leaders. Hence, honesty is essential for leadership.

How much really can these pseudo leaders influence their team and how can they make them make decisions outside of their ethics? According to Blanchard (1997), organizations that are led by servant leaders are careful with unethical leadership. When vision and values are clearly defined, ethical and moral dilemmas are less likely to arise. Thus, it is important to have well-defined values, since the emotional or individual mood could influence, generating changes. An emotionally intelligent leader can monitor their mood through self-awareness, improve it through self-control, understand its impact through empathy and act in a way that stimulates the mood of others through social skill (Goleman, 2017; Maldonado *et al*., 2022).

Every person can then be influenced by a pseudo leader, to the point of corrupting their values or being carried away by bad decisions. Is the leader capable of having that influence on them? According to Maxwell (1998), true leadership cannot be granted, named, or assigned. It only comes from influence, and it cannot be imposed, it must be won. However, once a proper reputation is built, it could often be used as a shield under crisis scenarios (Timothy Coombs & Holladay, 2006).

Pseudo-leadership is exercised by individuals interested exclusively in their purposes, in the manipulation of the truth and the people in their charge to obtain their own interests at all costs and above any consideration. When these individuals occupy roles of authority and hold positions in the top of the hierarchy, the risk of corruption is very high because they use their power for their own benefit, in addition to plundering the organization and discrediting it (Abellan & Pardo-Beneyto, 2021).

Would the leader be the only cause of the discredit of an institution? Alternatively, would the organizational culture be the one that influences the personnel who work in it? Culture is a magnetic field that brings together the entire being of the organization and all those who work in it, what people do in their organizational activities, it contains information about the values, principles, rituals, ceremonies, and the leaders of the organization themselves (Gonzáles *et al*., 2021).

Hence, we could highlight that there are different variables that could play as triggers of the so-called "Vacunagate" scandal: the pseudo leaders, the organizational culture, the values of each person, and the emotional state that each public official faces in the different State institutions, and the governance structure of the country. Moreover, according to the Agency Theory, these variables are agency problems and emerge in principal - agent relationships (Dalton *et al*., 2007; Eisenhardt, 1989). Agency problems are mainly focused on (i) conflicts of interest between the principal and the agent, and (ii) difficulties for the principal to supervise the behavior of the agent (Eisenhardt, 1989). These problems would be solved using an ideal contract between both parties involved, and implementing proper controls during the decision-making processes (Fama & Jensen, 1983).

## METHOD

The study focuses on a qualitative and exploratory method, using a descriptive approach, and analyzing an event of recent interest through extended data collection of a specific governance case (Hernández *et al.*, 2018). The data gathered allow for an in-depth analysis of the phenomenon, employing an inductive perspective to state some conclusions from the analyzed case.

Furthermore, this paper uses a case study method that allows a detailed explanation and broad discussion of a specific event in order to analyze the phenomenon under study (Yin, 1994, 2014). The case study method explores the singularity and exclusivity of the previously mentioned event (Simons, 2011). The present research takes advantage of this methodology to build upon developed literature (Rialp *et al.*, 2005) of Agency Theory, leadership and institutions.

The Peruvian event called "Vacunagate" shows how some politicians and businesspeople in Peru had an anticipated vaccination against COVID-19, without considering the most vulnerable or who urgently needed it, generating deep agency problems that negatively affected the Peruvian society as well as its commitment to sustainable development. Secondary data was collected from high circulation, free access public news and media, from both national and international sources. This paper analyzes this event under the case study method, delving into its main details and characteristics in order to shed light on insights and new perspectives considering the statements of Agency Theory, leadership, and institutional literature, and how the progress of the SDG 16 could be deterred in the country. Even though this case study draws evidence of how leadership and institutional context are involved in governance structure's decisions towards national concerns, its results cannot be generalized to other similar phenomena or government's decision-making process.

## ANALYSIS OF THE RESULTS AND DISCUSSION

According to the analysis of the case study, the characteristics of the "Vacunagate" scandal are explained within the framework of four specific targets of the SDG 16: 16.3, 16.4, 16.5, and 16.6. In addition, this section explains how the research findings build upon the leadership and institutional literature.

### *Rule of law at the national and international levels and ensure equal access to justice for all (SDG 16.3)*

The president of Peru, together with his relatives and other governmental officials received an anticipated dose of COVID-19 vaccine (LPDerecho, 2021), despite the traditional spirit of leadership that considers taking care of strategic team members first (Useem, 2020). This behavior lacked honesty and was different from society's expectations and demands (Eisenhardt, 1989), affecting the government's credibility (Robbin & Coulter, 2005), as well as the organizational structure of government agencies (Abellan & Pardo-Beneyto, 2021). The traditional

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mindset of "skip the line" promotes an unfair context for people as well as for organizations, emphasizing the lack of trust among citizens towards their leaders in the government. In addition, this encourages mistrust about how policies and regulations apply equally to everyone, as the rule of law must be. Hence, informal mechanisms for resolution of disputes could be reinforced, as individuals perceive unequal treatment and dishonesty from the authorities.

*By 2030, significantly reduce illicit financial and arms flow, strengthen the recovery and return of stolen assets and combat all forms of organized crime (SDG 16.4)*

Following a traditional thought that says, "It takes two to tango," government officers, civil society groups, and private sector elites can collude amongst themselves to commit fraud within the system. In this case, the two Peruvian Ministries in charge of the acquisition negotiations for the first vaccines for Peru (Health and Foreign Affairs) colluded with each other, asking in secret for extra vaccines (Chauvin, 2021). In addition, this followed with Chauvin (2021), a private university that was in charge of the medical trials, also informally inoculated at least 40 people. In this case, overseeing the agents' behavior during the decision-making of the vaccination process was completely unable for the principals (Eisenhardt, 1989).

According to LP Derecho (2021), there was a clear conflict of interest of how the government used the State's resources and how it manipulated contracts and relationships in order to favor a specific group. In addition, what lead investigators stated about how things usually work (Washington Post, 2021) reveals a state of business-as-usual that was already legitimated by governmental officers as well as managerial leaders (Webb *et al*., 2009). In addition, Maxwell (1998) stated that the parties under situations of conflict of interest are capable of negatively influencing each other, acting together through a mutual support for crime, and committing fraud against public funds, such as happened in "Vacunagate."

*Substantially reduce corruption and bribery in all their forms (SDG 16.5)*

Vaccination process in Peru has involved systematic and generalized corruption in several institutions and government agents, who prefer their individual benefit instead of vulnerable public servants' needs (CNN, 2021). Since institutions are key players for many other organizations as well as the entire business ecosystem in the society (Peng *et al*., 2009), their corruption turns into a major problem for social and economic development in the country (Ugaz, 2020). Furthermore, considering that organizations tend to follow or imitate the social and common operation rules of others (Posner, 1997), it would generate a negative cycle of negative isomorphism among society's stakeholders. Moreover, according to Blanchard (1997), leaders have to address difficult decisions, such as corruption threats or bribery risks, where their ethical behavior is tested. Hence, they have to act following their personal as well as organizations' values in order to properly drive their actions (Goleman, 2017). This corrupted leadership turns into a false image of a leader (Abellan & Pardo-Beneyto, 2021), which results in harm for society's stakeholders.

*Develop effective, accountable, and transparent institutions at all levels (SDG 16.6)*
The Washington Post (2021) has mentioned that transparency would be enough to prevent such public scandal, since the population could understand the reasons why some strategic decision-makers would need to be vaccinated before others. However, lack of transparency raises doubts and mistrust towards the process and its leaders. Hence, an accountable organization would declare with transparency what it is doing, following an ethical organizational culture formed by values and principles for good practices (Gonzáles *et al*., 2021). Thus, institutions' accountability would regain trust from the society, facilitating the entire flow of economic and social transactions in the country.

Table 2 summarizes the analysis for each of the four SDG 16's targets and indicators that this paper has discussed, highlighting the specific effects of the "Vacunagate" scandal on the achievement of sustainable development in the country.

Table 2. SDG 16's targets/indicators and "Vacunagate" effects in the Peruvian society

| Targets/Indicators of the SDG 16 | "Vacunagate" effects |
|---|---|
| 16.3: Rule of law at the national and international levels and ensure equal access to justice for all.<br><br>Indicator potentially involved: 16.3.3. Population who accessed a formal or informal dispute resolution mechanism. | Peruvians feel a society of constant unequal decisions among citizens, where some elites have access to better opportunities and benefits, creating potential disputes between society's factions. Lack of trust and leaders' dishonesty are main drivers to institutional weakness, which is reinforced with every new controversial event. Levels of analysis: individuals-society. |
| 16.4: By 2030, significantly reduce illicit financial and arms flow, strengthen the recovery and return of stolen assets and combat all forms of organized crime.<br><br>Indicator potentially involved: 16.4.1. Value of illicit financial flows. | Government and society's elites create joint structures for crime, supporting each other while breaking the law and misusing public funds. Both factions acted under social license since some illegal practices have been legitimated by the society. Levels of analysis: institutions-government. |

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| Targets/Indicators of the SDG 16 | "Vacunagate" effects |
|---|---|
| 16.5: Substantially reduce corruption and bribery in all their forms.<br>Indicator potentially involved: 16.5.1. Persons who contacted a public official and paid a bribe or were asked for a bribe. | Corruption practices tend to create a negative cycle reinforced by the imitation process among people. Peruvian public officers receive and/or ask for bribes as a usual practice. Leadership corrupts and loses its core values, degrading individuals and society. Levels of analysis: individuals-society. |
| 16.6: Develop effective, accountable and transparent institutions at all levels.<br>Indicator potentially involved: 16.6.2. Population satisfied with public services. | Peruvian institutions lack transparency, undermining trust, and constraining decision-making processes as well as strategies and implementation. Transparency would also foster institutions' accountability to face society's demands and expectations. Levels of analysis: institutions-government. |

Source: Authors based on the SDGs

The "Vacunagate" event shows us the lack of good leadership and the deep corruption running through the political, is neglecting the interests of the population, especially the most vulnerable ones. In this case, following Eisenhardt (1989), the objectives of the agents were far distant from the principal ones, which were expecting an honest and transparent behavior regarding the vaccination process. Furthermore, the results of the 2021 presidential elections in Peru reflected the feeling of the majority of voters towards a change of direction, asking for a better distribution of resources among the different society's groups (Cordova *et al*., 2022).

The analysis of this study concludes that some specific groups within the society such as academe, business, and government officers were involved and, at some point, colluded in order to commit crime against the State and the Peruvian population in a moment of big crisis for the country. These negative actions reinforce the lack of confidence in the State as well as the mistrust between primary society's actors, increasing the instability and the institutional weakness in Peru. This finding builds upon Pearson and Claire (1998) as well as Rosenthal and Kouzmin (1997), providing evidence of how crises' victims lose their shared assumptions towards their governance structures and leaders, and how these leaders could become part of the problem in the middle of a crisis heightening the issues to be solved. The latter is important since without proper structures of collaborative networks in the society as well as mutual benefit, collaborative efforts between stakeholders, current and future crises will not be surpassed (Gonzalez-Perez *et al*., 2021).

Furthermore, business-as-usual corruption, destructive pseudo-leadership, agency problems, lack of collaboration, mistrust of the governance structures, and a profound institutional weakening, harm country's commitment to the Paris Agreement and the SDGs of the United Nations, specifically the SDG 16. The results of the study suggest that mistrust towards government's leaders could shake the wellbeing of the Peruvian society, constraining the enforcement of public policies due to less citizens' goodwill to accomplish them (Wynen *et al.*, 2022). In addition, following Boin and 'T Hart (2003), public leadership could be overwhelmed by a crisis rather than being able to maneuver towards strategic reforms. Thus, contrary to Boin and 'T Hart (2003) and Hart (1993), crises are not always a source of opportunities for government officers, since their involvement or not within the crisis would define this.

## CONCLUSIONS

The pandemic has exposed and brought to the surface the great problems that Latin America and especially Peru is going through: social inequalities, institutional weaknesses, high informality, a precarious health system, lack of values, among other important issues that governments have not previously nor properly addressed. Rather, instead of diminishing them, they have taken root.

This study emphasizes how countries such as Peru may exhibit deep agency problems and unethical governance situations where there is no justice for all, poor interest of leaders and institutions to banish corruption and fight against existing crime, and there is an increasing lack of commitment in ordinary citizens who see their demands without response, and who feel a lack of transparency and honesty from their leaders. A new contract between principals and agents are needed, in order to properly supervise the decision-making process.

Organizations in Peru would have to consider the institutional constraints and the lack of trust within the business environment in order to drive their economic activities in the country through investment decisions, market strategies, expansion interests, participation in State tenders, and so on. In addition, Peruvian organizations should be ready to solve their disputes using informal mechanisms already developed in the country's society, since formal ones seem to be overwhelmed by conflicts of interest.

Both governance by negative leaders and contextual constraints will retrench the opportunities in Peru to provide a rule of law and the same justice for all, deal with criminal organizations and collusion scenarios, reduce corruption from the decisions as well as from the mindset, and build accountable and transparent institutions. Hence, governance structures in Peru must thrive through potential risks related to fraud, bribery, and misuse of public funds.

Therefore, according to the analysis and discussion developed in this case, the managerial contribution of the study is that firms in emerging economies would have

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to pay extra attention to how varied external events could possibly undermine the institutional context as well as societies' trust. Negative leaders in key organizations must be identified in order to scan the business environment to enhance decision-making processes towards investment, mergers and acquisitions, alliances and partnerships, and so on. Other important implications for policymakers include the design and the enforcement of regulation properly adapted to strategic institutions and crises situations. Following Mohieldin and Shehata (2021), adequate policies would lead the way to sustainable recovery and to the SDGs accomplishment. Hence, regulation in emerging markets would need to be narrowed and accurate, if it aims to secure specific groups' rights in the society and prevent a general loss of population confidence. In addition, the methodological contribution of this paper relies on the possibility to extend research through case studies in emerging markets, which allow to observe unusual dynamics between institutions, governance structures, and leaders. Understanding the behavior of leaders and the decision-making process of organizations would provide a framework for analyzing cases in emerging markets and to identify how any upcoming crisis would constrain the sustainable development achievement and the socio-economic situation in countries, as well as provide other contributions to the literature.

Further research could develop which factors would transform Peruvian society's basis towards a more collaborative environment for its citizens and organizations. The analysis of this case study supports Vargas *et al.* (2022), arguing that collaborative as well as multi-actor action must underpin any attempt for business recovery and social progress in Latin America, emphasizing the key role of public institutions and leaders from the government. Also, additional research through leadership and corporate governance fields could shed light on how leaders' strategies and governance structures may shift in order to fit properly into turbulent contexts. Regarding the latter, this study contributes to shedding light on answering how prior reputation could block some crisis outcomes due to the halo effect (Timothy Coombs & Holladay, 2006), by focusing on individual leadership. Furthermore, further research could highlight how different governance structures tend to commit crime, regarding its hierarchical system, composition, and business strategy. Moreover, since similar corruption cases during the vaccination process emerged in other countries, a cross-cultural analysis may allow for some understanding of specific contextual factors related to the leaders' behavior as well as to the organizational governance strategies.

Peru has been experiencing great challenges throughout its history, trying to reverse the critical economic and social situation in the midst of a pandemic context, while fighting against corruption events and the perceived lack of values from leaders and institutions. Future research could extend the results of this study, identifying how leadership and the institutional context could moderate the key national decisions in the country, possibly following a deinstitutionalization trend (Oliver, 1992). Finally, proper and honest governance structures in Peru would still struggle to arise, due to individual interests and biases of key decision-makers towards some strategic decisions, while the Peruvian society faces one crisis after the other.

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# STRATEGIC OPPORTUNITIES ASPECT OF CSR FOR IMPROVING LOCATION ADVANTAGES IN DEVELOPED AND EMERGING MARKETS[1]

## ASPECTO DE LAS OPORTUNIDADES ESTRATÉGICAS DE LA RSE PARA MEJORAR LAS VENTAJAS DE LOCALIZACIÓN EN LOS MERCADOS DESARROLLADOS Y EMERGENTES

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## ABSTRACT

This case study examines how a Japanese company uses CSR and ESG activities to incorporate a new global expansion strategy and strengthen its stakeholders' relations in different locations around the world. The author uses a case study method with a single setting, and multiple units of analysis and pattern matching among 39 regions and countries, divided into home and host countries. The host countries are additionally divided into 'developed', 'emerging', and 'least developed'. This study contributes to the extant literature by showing that both developed and emerging markets create strategic assets for the company. It also proved MNE's stakeholders in emerging and developed markets determined the CSR practices because many developed countries need CSR activities to support vulnerable groups within their societies. This study explores the under-researched area of MNEs' CSR activities regarding poverty and development in least-developed countries.

## KEYWORDS

stakeholder theory, CSR, stakeholder relations, developed countries, emerging countries, least developed countries

## RESUMEN

Este estudio de caso examina cómo una empresa japonesa utiliza las actividades de RSE y ASG para incorporar una nueva estrategia de expansión global y reforzar las relaciones con sus grupos de interés en diferentes lugares del mundo. El autor utiliza un método de estudio de casos con un único escenario, y múltiples unidades de análisis y correspondencia de patrones entre 39 regiones y países, divididos en países de origen y de acogida. Los países de acogida se dividen además en "desarrollados", "emergentes" y "menos desarrollados". Este estudio contribuye a la literatura existente al demostrar que

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tanto los mercados desarrollados como los emergentes crean activos estratégicos para la empresa. También demuestra que los grupos de interés de las EMN en los mercados emergentes y desarrollados determinan las prácticas de RSE, ya que muchos países desarrollados necesitan actividades de RSE para apoyar a los grupos vulnerables de sus sociedades. Este estudio explora el área poco investigada de las actividades de RSC de las EMN en relación con la pobreza y el desarrollo en los países menos desarrollados.

## PALABRAS CLAVE
teoría de las partes interesadas, RSE, relaciones con las partes interesadas, países desarrollados, países emergentes, países menos desarrollados

## INTRODUCTION

This case study examines how a Japanese company uses CSR and ESG activities to incorporate a new global expansion strategy and strengthen its stakeholders' relationships in different locations around the world. Olympus Corporation is famous for its CSR and ESG activities worldwide, and their strategy implementation is incorporated in the social citizenship behaviour of the company – they are 'doing well' while 'doing good'.

The Japanese giant with a major – 70%, global market share in gastrointestinal endoscopic equipment, is a $6 Billion company with a 100-year-long history. They have a global footprint with a mix of upstream and downstream operations in Medical, Endoscopic, and Imaging (camera) business across 39 regions and countries, and 35,000 employees worldwide. Olympus has been awarded one of the top 100 most innovative companies in the world from 2012 to 2020, and it has won many awards for its ESG initiatives. Olympus Corporation uses CSR initiatives to popularize their new strategy of transformation into global expansion, which was started on their 100th anniversary in 2019. They proactively carry out the activities that benefit global and local communities, while at the same time fulfilling their responsibilities to society and all of their stakeholders.

The author examined the case through the perspective of stakeholder theory which concerns organizational management and ethics (Phillips et al., 2005), or value and trade (Parmar et al., 2010). Accordingly, the primary role of business is to build relationships and create value for all of the organization's stakeholders (Phillips et al., 2005; Parmar et al., 2010; Fernando & Lawrence, 2014). Stakeholder theory underlines not only the rights of stakeholders but also the organisation's accountability (Fernando & Lawrence, 2014). Friedman & Miles (2002), point out that certain stakeholders have stronger influence on organizations than others. Stakeholders are also interdependent – when a company creates value for one particular stakeholder, it leads to creating value for others too (Phillips et al., 2005). Stakeholder theory and CSR have common features – they highlight the importance of taking into consideration the societal interests when executing business operations (Phillips et al., 2005).

This study contributes to the extant literature by showing that both developed and emerging markets create strategic assets for the company. It also demonstrated MNE's stakeholders in emerging and developed markets determined the CSR

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practices because many developed countries need CSR activities to support vulnerable groups within their societies. This study explores the under-researched area of MNEs' CSR activities regarding poverty and development in least-developed countries. The study contributes in its methodology by using multiple units of analysis in different locations around the world, and involvement of a variety of stakeholders as both recipients and providers of CSR activities.

The shown examples of CSR initiatives in different locations around the world can be used as ideas for best practices for other companies.

This study follows a simple structure. First, the author clarifies the extant literature on the topic and shows the connection between stakeholder theory with CSR. Second, it explains the case study methodology used. Third, it shows the Olympus case, followed by an analysis of CSR activities in different types of countries. Finally, the discussion and conclusion sections clarify the contribution to theory and methodology, limitations of the study, and directions for future research.

## THEORY

Stakeholder theory concerns organizational management and ethics (Phillips et al., 2005), or value and trade (Parmar et al., 2010). As such, it is the primary role of business is to build relationships and create value for all the organization's stakeholders (Phillips et al., 2005; Parmar et al., 2010; Fernando & Lawrence, 2014). Stakeholder theory underlines not only the rights of stakeholders but also the organisation's accountability (Fernando & Lawrence, 2014). Friedman & Miles (2002), point out that certain stakeholders have stronger influence on organizations than others. Stakeholders are also interdependent – when a company creates value for one particular stakeholder, it leads to creating value for others too (Phillips et al., 2005). Stakeholder theory and CSR have common features – they highlight the importance of taking into consideration the societal interests when executing business operations (Phillips et al., 2005). At the same time CSR is also a key aspect of corporate responsibilities (and business ethics) for all the organization's stakeholders (Freeman & Dmytriyev, 2017). International CSR practices are driven by management commitment to ethics (Pisani et al., 2017). CSR focuses on one stream of business responsibilities – responsibility to local communities and society at large: better access to education, health care, or environmental conditions (Phillips et al., 2005). The rise of public awareness of environmental issues in general, has led to corporations' greater consideration for the topic (Friedman & Miles, 2002). "Sustainability is a multi-dimensional construct that involves all of the key stakeholders, as well as the environment and society at large" (Parmar et al., 2010). Organizations often perceive CSR practices as an obligation to correct past harm (Brown & Forster, 2012).

The strategic management field considers stakeholder theory to be "non-economic" or "social" but dealing effectively with communities and other secondary stakeholders is actually an economic aspect (Parmar et al., 2010). Zyglidopoulos et al., (2016) show that CSP creates a strategic asset and "entry into developed markets leads to a greater improvement in MNEs' CSP than expansion into emerging markets." The authors explain that MNEs which use corporate initiatives to achieve a high level of CSP in a host country, can influence stakeholders' perception in other parts of the world. This creates differences between MNEs which have built a reputation for their CSR activities, and those who have not (Muller & Kolk, 2015). MNEs can gain a competitive advantage in the sustainability area, but they can also play a role in sustainable development (Kolk and van Tulder, 2010) in a host country. Kolk (2016), explains that exploring MNEs' pro-poor activities in least-developed countries is needed because poverty and development have been under-researched.

The adoption of advanced management practices (Perego & Kolk, 2012) regarding environment and company interactions with stakeholders (Kolk, 2016) are facilitated by additional resources and capabilities in the company (Perego & Kolk, 2012). MNEs experience greater CSR pressures by numerous stakeholders in their home country or other stronger-enforcement contexts, and they transfer some of those good practices to other locations, even if the contexts are with weaker enforcement, in order to avoid reputational risks (Muller and Kolk, 2015). Stakeholders at multiple levels determine international CSR and voluntary environmental management practices by foreign subsidiaries in emerging countries (Pisani et al., 2017).

Gainet (2013) in her book chapter explains that companies usually engage in environmental and corporate social responsibility activities because they follow some regulation requirements, or they are trying to avoid reputational risk. Less often, they get involved in CSR because it offers strategic opportunity to them (Gainet, 2013). Some companies use CSR practices in a superficial way, while others implement them into their core company strategy (Weaver et al., 1999; Aguilera et al., 2007), or even as strategic investments (Gardberg and Fombrun, 2006; Zhao,2012). Companies invest in CSR in order to increase their financial performance (Mcwilliams and Siegel, 2001). "The strategic view of CSR emphasizes the company's voluntary and explicit pursuit of doing well by doing good" (Zhao, 2012).

MNEs truly can 'do well' and 'do good' at the same time" (Dunn and Yamashita, 2003; Verbeke and Lee, 2021). When the firm's strategies and practices affect the society, the firm, on its side as a good citizen, has obligations to society which are fulfilled by its CSR activities (Vachani and Smith, 2004). It is possible for firms to apply profitable business models and at the same time to achieve positive CSR outcomes (Dunn and Yamashita, 2003). "When expanding abroad, MNEs are expected to act as good local citizens in all the locations where they are active" (Verbeke and Lee, 2021). Vachani and Smith, (2004) explain that in order for the CSR activity to be successful the MNE should engage and partner with multiple stakeholders. Locke and Romis, (2007) suggest that MNEs should collaborate with their suppliers to overcome poor working conditions and improve labour standards via CSR actions. An essential part of these CSR activities is to develop

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local communities in areas such as employment, education, and training of the locally recruited staff (Li, Newenham-Kahindi, Shapiro & Chen, 2013).

MNEs incorporate global standards and at the same time comply with home country social norms, while they implement their worldwide CSR activities (Sambharya & Goll, 2019). Global clients combine their sourcing with CSR strategies (Manning, Kannothra & Wissman-Weber, 2017). Both home and host countries influence MNEs' CSR activities (Sambharya & Goll, 2019), while increasing legitimacy in different locations "may also require going beyond the basic standards and expectations" (Rana & Sørensen, 2020).

MNEs need to provide substantial investment in CSR initiatives in emerging economies, and at the same time business opportunities might take a long time to realize a return on this investment (Verbeke and Lee, 2021). The authors explain that CSR initiatives along with firm specific advantages and other resources are usually transferred from the MNE's home country to the host country. There are many cases when new firm specific advantages are created in the host country; additionally, the "CSR initiatives can remain location-bound or they may become non-location-bound and transferred as best practices (routines) to other operations in the MNE network" (Verbeke and Lee, 2021). All participants involved in the projects should receive economic and social benefits from these projects, so that they can be 'doing well' and 'doing good' at the same time (Kaplan et al., 2018). "It should be noted that the balance between 'doing good' and 'doing well' is a dynamic one" (Verbeke and Lee, 2021). Zhao, (2012) argues that CSR activities can "facilitate the business in various ways if handled right" and continues that "the relationship between corporate social performance and financial performance remain mixed (Margolis and Walsh 2003)".

Sustainability actions in emerging market MNEs are used as a mechanism to obtain legitimacy when these companies operate in foreign markets (Gomez-Trujillo et al., 2021). The authors explain that it is also an opportunity to create more sustainable production models by reporting corporate metrics (most often direct and indirect greenhouse gas emissions) to measure their impact on specific SDGs. In Latin America's business context it is difficult to establish clear boundaries between internal (top and middle managers and employees) and external (consultants, policy makers, media, business schools and gurus) participants in the value cycle (Reyes-Sarmiento and Rivas-Montoya, 2019). Mohieldin and Shehata, (2021) explore the roles of and interactions among different critical actors, as national governments; local and regional governments and local communities; and the business sector, that facilitate the implementation of the SDGs. Dziubaniuk et al., (2022) discussed the interaction and interrelation of international stakeholder networks between actors from developed and emerging countries in a water supply and sanitation project in Nepal. The authors showed that "aiming to achieve one specific goal can stimulate the implementation of other sustainable goals" and "engaging in a dialogue with local communities during the conceptualisation stages of both sustainability and

SDG implementation because of diverging worldviews and practices" was very important (Dziubaniuk et al., 2022, p. 546). Corporate environmental good practices in the tourist sector in Latin America and the Caribbean, Spain, and Portugal, with a focus on analysis of sustainable consumption, has a well-established relationship with innovation – the use of eco-technologies, for example (Velázquez Castro, et al. ,2020). There is a tendency of MNEs in emerging markets to choose social innovation as their strategy to materialize their corporate purpose and generate shared value (Franco-Arango and Álvarez-Mesa, 2022). Giraldo and Nuñez, (2020) interviewed top managers at large Colombian private companies and found the importance of an integrated strategic and risk management approach for mitigating the impact of negative events, and taking advantage of identifying opportunities on time. Mesa-Jurado et al., (2020) found that Colombian companies which applied CSR practices and publicized them through their corporate reports reduced their cost of capital. The study showed that both the length of the corporate report, and how unbiased it was, reduced the cost of equity. The strategies that MNEs from emerging markets, as Mexico, implement for entering and positioning in international markets depend on multifactors such as reputation, prestige, and trust (Munoz Alvarado and Mata-Sánchez, 2022). MNEs possess the power of action and the possibilities to work towards the SDGs achievement, although the problem is complex and wicked, and the interest in reaching some of the SDGs is most likely to be achieved at the expense of profit and low foresight (Celone et al., 2022).

## METHODOLOGY

### Research Design:

This study uses a single case method (Yin, 2002) with multiple units of analysis. The main case is the organization itself – Olympus Corporation, the multiple units of analysis are home and host countries divided into 'developed', 'emerging', and 'least developed'. This research article used full pattern matching (Sinkovics, 2018) between the theory and the data, and replication logic among the different units.

The strengths of the case study method consists of the ability to explain complex and dynamic problems from multiple perspectives for real-life events and processes which lead to particular results (Vissak, 2010). The findings or results from a single case study are to follow analytic generalization (Yin, 2010, p. 20-21 in Tsang, 2013). The author chose Olympus organization because it is a unique case and allows us to gain certain insights that other organizations would not be able to provide, it can be used as an illustration, and helps us understand similar processes in other firms (Siggelkow, 2007).

The Olympus corporation is a single research site and "a single site does not necessarily mean a single case study" (Park, 2013). It is a multiple case study with 58 different cases in 39 locations around the world. The author tried to find a balance between the depth and breadth (Vissak, 2010) of the case by using a single case which

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provides the opportunity to explore a phenomenon in depth and used multiple units of analysis to broaden the scope of coverage. A case study is suitable for asking "how" and "why" questions (Yin, 2003; Vissak, 2010). The author chose the case study method because it provides better examination and understanding of different cultural processes in diverse contexts which would otherwise remain unrevealed by big data analysis used in quantitative methods (Kathleen Park, 2013). The case study provides the opportunity to explore causal relationships by isolating them from the broader context of the case (Welch et al, 2011). It is possible to generalize from a single case (Vissak, 2010). It builds theoretical contribution by providing rival explanations and exploratory theory-building (Yin, 2009; Welch et al., 2011). The author developed an open theoretical framework that described what is known and what is still not known on the topic in order to establish credibility and underline potential theoretical contribution (Cuervo-Cazurra et al., 2016).

Data Collection:

The author chose the data resources, following "the selection criteria of free accessibility to external stakeholders" (Matejek & Gossling, 2014: 576).

The case study is based on multiple sources of evidence (Sinkovics et al., 2008; Vissak, 2010; Kathleen Park, 2013; Cuervo-Cazurra et al., 2016), situated in diverse contexts (Kathleen Park, 2013), and chain of evidence was preserved to guarantee construct validity (Yin 2003; Sinkovics et al., 2008; Cuervo-Cazurra et al., 2016). Following Yin, (1994); Vissak, (2010); Grogaard et al. (2019), the author collected archival data by company annual reports, presentations, shareholder meeting recordings, strategy documents, journals, the company's homepage, press-releases, and newspaper articles. These sources provided information about the company's global expansion strategy and helped the author to establish the timeline of the events (Grogaard et al., 2019). The diverse sources also allowed the author to use pattern matching for the multiple units of analysis by country and/or region, and by type of CSR activities.

The data were collected by a variety of sources:

- the Olympus Corporation CSR data book (2018 – 2020) which presents the policies and priority areas of the company.
- Olympus Official Report (2019 – 2020) with financial data, location advantages provided by interviews with the CEOs of the particular region, interviews with board directors, and Compliance activity.
- around 50 News releases (2015 – 2021) presenting different CSR activities around the world.
- a company presentation (2020), a corporate strategy presentation (2019 – 2020), and a transformation plan (2019), providing details about the direction of development of the company.
- Investor events, consisting of Olympus president's presentation in front of shareholders and potential investors; followed by Q&A session (2019 – 2020).

- Olympus Integrated Report (2017 – 2020).
- "Table for Two" official global website.

All the sources are provided on the official Olympus website or the official YouTube channel. They were organized in a database (an excel table with description and links to the sources, and folders with the exported PDF files). The sources consisted of textual files, except for the investor events which were videos in combination with PowerPoint slides for the presentations and a transcript of the discussions. The videos were in Japanese with English simultaneous translation; the transcript, and the presentations were written in English.

### Data Analysis:

Following Pisani et al. (2017), this study followed the World Bank country classification for developed, emerging, and least developed countries. Additionally, the collected company sources provided a more refined classification of emerging countries into 3 sub-groups.

This research article uses empty shells structure for organizing and analysing the data. The empty shells structure is used to provide a better understanding of the different aspects of the data, and to clearly present the patterns among the multiple units of analysis. On one side, the units of analysis are divided and organized in a table (columns) to 'home' country, 'host' countries, which consists of three different types: 'developed', 'emerging', and 'least developed'. Additionally, the units of analysis are organized in more detail in 39 locations and regions, according to Olympus Corporation locations in: Japan, China, Asia Pacific, Europe, and the Americas.

On the other side, the units of analysis are organized in the same table (rows) around the CSR activities following the priority areas of corporate citizenship of Olympus: 'Healthcare', 'Science and Technology' in a combination with 'Youth Education support', and 'Environment'. And Charitable Donations and Grants in the areas of 'Humanitarian Aid and Others; and Grants for Medicine and Health, Culture and the Arts, Global Environment, Science and Technology'. The last part of the empty shells is dedicated to 'Miscellaneous'.

## OLYMPUS CASE

Olympus Corporation is a $6 Billion company with a 100-year-long history. The company has achieved a major – 70%, global market share in gastrointestinal endoscopic equipment. They have a global footprint with a mix of upstream and downstream operations in Medical, Endoscopic, and Imaging (camera) business across 39 regions and countries, and 35,000 employees worldwide. Olympus is famous for its CSR activities worldwide and it has been awarded one of the top 100 most innovative companies in the world from 2012 to 2020. The company has been

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selected for inclusion in ESG Indexes[3]; received an external evaluation regarding ESG[4]; and received Kurumin accreditation, and Eruboshi certification, both awarded by the Minister of Health, Labour and Welfare, Japan[5].

The company's purpose is: "Making people's lives healthier, safer, and more fulfilling."Their understanding of the purpose "Being True to Life" is centered around "creating new solutions, making a positive impact on society, and enhancing the way people live". Olympus tries to achieve their purpose in the long-term by implementing a variety of corporate citizenship activities. They proactively carry out the activities that benefit global and local communities, while at the same time they fulfil their responsibilities to society and all of their stakeholders.

Olympus executes their CSR policy in three Priority Areas: 'Healthcare', 'Science and Technology', and 'Environment'. In the area of 'Healthcare' they can take advantage of the insights they have gained from their Medical business. In the 'Science and Technology' area they take advantage of the insights they have gained from their Scientific solutions business. And in the area of 'Environment': they carry out activities which ensure that future generations would be able to enjoy a rich natural environment. Additionally, they are engaged in 'humanitarian and charitable activities' which fulfil the purpose "to nourish the world, to combat poverty, provide emergency disaster relief assistance as well as involvement in local community programs" (see Appendix 1).

They have 4 specific approaches to activities: respect for local cultures and customs, meaningful partnership, developing the next generation of leaders, and enhancing employee participation (Olympus CSR data book, 2020).

3 Dow Jones Sustainability Asia Pacific Indices; FTSE4Good Index Series; and FTSE Blossom Japan Index
4 Olympus Corporation obtained an A- rating in the climate change survey and the water security survey by CDP Worldwide; Listed in the Certified Health & Productivity Management Organization Recognition Program (White 500) for four consecutive years.
5 They received Kurumin accreditation as a company well-equipped with supports for raising children, and Eruboshi certification as a company that actively promotes female workers, both awarded by the Minister of Health, Labor and Welfare, Japan.

Table 1. Olympus strategy per type of business

| | Type of business | | |
|---|---|---|---|
| | Medical | Endoscopic | Camera |
| Strategy per business | Focus the corporate portfolio | | |
| | Focus and scale prioritized therapeutic areas | | |
| | | Maintain leadership in reusable endoscopy | |
| | Develop a leading position in next-generation minimally invasive surgery | | |
| | High growth in underpenetrated markets | | |

In 2019 Olympus Corporation celebrated their 100-year anniversary and started a transformation to a global expansion strategy (Table 1). According to their strategy presentation at the shareholders meeting, their CSR practices help them to achieve and popularize the goals for the new transformational program:

- "Improving their operating and financial performance through a major transformational program across the whole business over the next 3 years
- Building capabilities fit for growth including strengthening their QA/RA function and driving efficiency in their R&D operations
- Evolving their corporate culture focusing on building a competitive and performance-oriented culture with customer and stakeholder centricity
- A focus on customer and value will underpin all activities in their business to ensure they address their customers' unmet needs and clearly communicate with them the value of Olympus's products" (Olympus Strategy, Presentation for shareholders meeting 2019)

## ANALYSIS

### Home Country – Japan

In 2019 Olympus started a transformation to a global expansion strategy. They use a variety of CSR activities to popularize their new strategy and implement different approaches. The first approach "meaningful partnership" can be illustrated by events like the Environmental Festa organized by the City of Aizuwakamatsu, or by Tokyo Health Walk 2019 (*see Table 1*), organized by the Tokyo Metropolitan

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Government, NPO BRAVE CIRCLE Committee. They also partner with a high number of schools around the country, organizing visits to the Olympus Museum or sessions in the schools themselves. This overlaps with the approach "developing the next generation of leaders."

Olympus activities during the Days of Olympus are dedicated to employees and their families, and this is just one of the examples of the approach "enhancing employee participation". Other options are employees volunteering in various CSR activities like donation for "Table for Two," blood donation; environment – cleaning around their offices, protection of the coral reef in Okinawa, teaching children to create frames from cardboard boxes; and global photo competition (Table 2).

Host Country

**Olympus CSR and ESG Practices in Developed Countries.** In Developed and Mature markets like Europe, the Americas, and part of Asia Pacific (Hong Kong, Singapore, Australia, New Zealand, and Malaysia) Olympus concentrates on single-use products, systems, and service operations in all fields (Olympus integrated report, 2017).

In Singapore, USA, Germany and other developed countries, just like in Japan, Olympus holds "Health Day" for employees and their families which incorporates both approaches for "enhancing employee participation," and "developing the next generation of leaders." The event emphases on the company's youth education support and cancer awareness activities. The event in Singapore, for example, was warmly received by the participants, who provided positive feedback of the event: "It was fun operating devices that are otherwise unavailable to the average person;" "My family was finally able to learn about the specifics of my job;" "A great opportunity to show my workplace to my elderly father;" and "Learning about the products and technologies of other departments will help me perform my own job better." (Olympus Singapore HEALTH DAY, Olympus official website).

"Enhancing employee participation" is used in other developed countries like Australia where an initiative called, "Time for Tea" collects donations for a colleague who is fighting cancer. Every year, they also organize "A red apple day" for raising awareness and explaining the importance of prevention of colon cancer (Table 2).

Olympus also facilitates the life of their own employees in vulnerable positions – they provided treatment with special equipment and the opportunity to work from home for an employee in the US with diminished lung function for a year, until she recovered completely and managed to return to work.

Table 2. Strategic location advantages and CSR activities

| Type of countries | Strategic location advantages | CSR activities | | | | |
|---|---|---|---|---|---|---|
| | | Healthcare | Education | Environment | Charitable Donations and grants | Miscellaneous |
| Home country - Japan | - increasing medical needs in conjunction with rapid population aging;<br>- rising pressure to limit medical costs;<br>- higher use of endoscopes in comparison with emerging countries;<br>- well-developed medical infrastructure;<br>- high level of medical techniques; | - information about prevention (regular exercise)<br>- increasing awareness<br>- health check-ups for colon cancer | - education of students<br>- increasing awareness<br>- information and practical exercise with the equipment<br>- company received feedback by the students which gave them new ideas for innovation | - environment preservation<br>- trying the equipment (industrial endoscope used for non-destructive testing of wind power generators) | - employer donates an amount equivalent to the total amount donated by employees | - festivity day<br>- information about prevention<br>- increasing awareness<br>- importance of early cancer detection and treatment |
| Developed countries in Europe and the USA | - increasing medical needs in conjunction with rapid population aging;<br>- rising pressure to limit medical costs;<br>- higher use of endoscopes in comparison with emerging countries<br>- well-developed medical infrastructure;<br>- high level of medical techniques; | - increasing awareness<br>- providing food (apple) | - information about operating rooms<br>- try the equipment | - reducing polluting by employees (eco-bags, bicycle servicing - for greener commute, beach cleanup) | - helping areas affected by hurricane<br>- developed country but some of the areas are vulnerable<br>- Company (Olympus Group and Olympus Americas) donates to the American Red Cross | - festivity day<br>- future career paths<br>- Japanese culture (Japanese language and origami workshops) |

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| Type of countries | Strategic location advantages | CSR activities | | | | |
|---|---|---|---|---|---|---|
| | | Healthcare | Education | Environment | Charitable Donations and grants | Miscellaneous |
| Emerging (developing) countries in Asia | - increasing medical needs in conjunction with rapid population aging;<br>- rising pressure to limit medical costs;<br>- large populations, numerous patients, lack of physicians in comparison with patients;<br>- lower use of endoscopes in comparison with Japan, Europe, and the United States;<br>- massive latent demand;<br>medical infrastructure under development;<br>- significant room to improve upon medical techniques; | - developed (home) country (Japan) donating to emerging country (India)<br>- education for children for hygiene habits<br>- training for teachers<br>- basic health check-ups<br>- materials to use (health kits)<br>- information materials (awareness posters) | - introducing the company and the equipment to medical students<br>- future specialists/ customers<br>- it is for future profit<br>- try the products<br>- career course<br>- attracting future employees | - greening the area (planting trees)<br>- educational benefit (biology class) | - protective equipment and materials | - career opportunities<br>- sharing professional experience<br>- the importance of education and commitment to have a better future<br>- future career paths |

| Type of countries | Strategic location advantages | CSR activities | | | | |
|---|---|---|---|---|---|---|
| | | Healthcare | Education | Environment | Charitable Donations and grants | Miscellaneous |
| Least developed countries | - distant locations<br>- lack of physicians in comparison with patients;<br>- lower use of endoscopes in comparison with Japan, Europe, and the United States;<br>- significant room to improve upon medical techniques and infrastructure | - developed (Australia and New Zealand) donating to least developed (East Timor)<br>- donated medical equipment<br>- educating the local staff how to use existing and recently donated equipment | N/A | N/A | - donating food (Table for Two) | N/A |

A good example of the CSR approach "meaningful partnership" is the Back-to-School Drive and Family Giving Tree initiative in the USA (San Hose, California), where Olympus employees donate essential school supplies to Bay Area students. Olympus in Germany also partners with the Family Giving Tree, and they donate Christmas presents to the children of refugees and food packages to homeless people in the cold winter months. In this way, "employee participation" is used as a support for less fortunate groups for the society in which they operate (*for Olympus employees' participation in donations to countries different of their own, see Least developed countries*).

"Developing the next generation of leaders" is executed in many developed countries, for example in Spain, junior high school students perform surgery on fruits with special Olympus equipment. In Germany "Boys and girls day"; and "Girls day" is executed along with some activities for employees' families.

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**Olympus CSR and ESG Practices in Emerging Countries.** Olympus divides emerging countries in Asia into three groups. The first group is Early Stage of Rapid Growth (China, Thailand, South Korea) where medical market growth is in conjunction with economic growth. Olympus reinforces Gastrointestinal (GI) field foundations while establishing surgical device foundations by focusing efforts on the surgical device and urology fields. The second group consists of countries with High- and Accelerating-Growth (Vietnam, Indonesia, The Philippines, India, Sri Lanka), where there is an emergence of government-spearheaded medical initiatives driving rapid medical market growth. Olympus steps up initiatives in all areas of the surgical device field (maximize console installations). And the third group consists of Future Growth Markets (Pakistan, Bangladesh, Myanmar, Cambodia, Nepal, and Afghanistan) where Olympus accelerates development of GI field foundations and to stabilize quality, cost, and delivery (QCD) aspects of service operations (Olympus integrated report, 2017). "Spreading the use of endoscopic procedures and training physicians in emerging countries are key success factors for market growth" (Takaharu Yamada, Head of GIR Business, Asia Pacific Medical Sales Division, Olympus integrated report, 2017: 35).

The location advantages in the emerging countries in Asia consists of multiple features (Table 2) (Olympus integrated report, 2017).

> In emerging countries, economic growth is bringing about changes in lifestyle patterns, resulting in a shift in the leading cause of death from infectious diseases due to cancer. Endoscopes are absolutely essential to the early diagnosis and treatment of cancer, but there is a severe lack of endoscopists in emerging countries. As minimally invasive therapies using endoscopes are of high demand among patients, an increase in endoscopists would directly contribute to the growth of the market. Looking at colorectal cancer, for example, roughly 60% of patients in Japan receive treatment via endoscopic surgery procedures, but this figure is only around 6% in Thailand (Masafumi Inomata, Medical Department Professor, Oita University; Olympus integrated report, 2017: 37).

Olympus Corporation pays special attention in their strategy to high growth in underpenetrated markets such as India and China. China is their fastest-growing market. It is a key region that will support growth in endoscopy and the number of endoscopic procedures is expected to double by 2021, providing an ongoing source of growth and value. They provided training programs for 20,000 physicians over the last 5 years. In this way they continue to grow the pool of qualified healthcare professionals and conduct technical research to better understand customers' needs. This aligns with their strategy to promote national policies to enhance local stakeholder relationships. Also, to further strengthen the commercial platform, especially to cover Tier 2 hospitals and below; proactively pursue local innovation activities to accelerate the introduction of China-specific products e.g., collaborate with local hospitals/academia, acquire start-ups; and engage with governing bodies to jointly shape the local healthcare landscape (Olympus strategy presentation, 2020). Olympus China is a very good example of the approach "developing the next generation of leaders." As part of the CSR activities, 54 medical students from Capital Medical University were invited to receive information about Olympus brand history and product knowledge. They also get a chance to get hands-on experience of surgical products and other medical products like the endoscope and bronchoscope.

Olympus citizenship behaviour is closely aligned with its business strategy in India too. In India, there are only 6 endoscopists per million people compared to 254 in Japan, indicating significant room for market penetration. Olympus engaged in different activities which made the company's visibility in the local market higher. The CSR approaches of "meaningful partnership" and "developing the next generation of leaders" are used in many locations in India (see Table 1). They partner with different levels of the educational system and at the same time they provide work to doctors, who conduct the medical examinations to students, and to local construction workers who built the washing facilities.

In Sao Paulo, Brazil Olympus employees presented career opportunities and their professional experience. The goal is to show the teenage participants the importance of education and commitment to have a better future. This is one more example of "developing the next generation of leaders" and also "enhancing employee participation."

The approach "respect for local cultures and customs" is shown in emerging countries like Mexico, where the company held a culture day and local customs, costumes, and food were exhibited. This aligns with Olympus' corporate culture, focusing on building a competitive and performance-oriented culture with customer and stakeholder centricity.

**Olympus CSR and ESG Practices in Least Developed Countries.** In the least developed countries, Olympus doesn't have a direct business interest but engages in donations following the approach of "meaningful partnership" for the Japanese offices with "Table for Two" in East Africa where they donate funds for school meals; and the offices in Australia and New Zealand with different hospitals in East Timor where they donate medical equipment. In these locations there is not financial return to Olympus, they don't expect neither profit, nor investment with future eventual profit from these areas. In this case, they focus only on the 'doing good' part – they generate enough resources in developed and emerging countries, and after that they transfer these resources to locations around the world where the population is less fortunate (Table 2). These initiatives are also based on the "enhancing employee participation" approach because in the case of "Table for Two," employees donate from their own lunch and drinks which they buy from the company cafeteria; or in the second example the employees from Australia and New Zealand visit in person the hospitals in East Timor to ensure that the donation went smoothly.

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## DISCUSSION

This case study examined how a Japanese company uses CSR and ESG activities to incorporate a new global expansion strategy and strengthen its stakeholders' relations in different locations around the world. Olympus Corporation uses CSR initiatives to popularize their new strategy of transformation to global expansion, which was started on their 100$^{th}$ anniversary in 2019. This aligns with the extant literature of the strategic view of CSR (McWilliams and Siegel 2001; Zhao, 2012; Gainet, 2013). Most of the activities they organize around the world have the aim to increase the profits of the Corporation but also to develop new endoscopic specialists and future employees. They invest in the future of the development of the particular country, its population, and the company itself. In this way, they achieve their strategic goals to 'do well' by 'doing good' for the society (Dunn and Yamashita, 2003; Verbeke and Lee, 2021).

Zyglidopoulos et al., (2016) show that CSP creates a strategic asset and "entry into developed markets leads to a greater improvement in MNEs' CSP than expansion into developing markets." This case study contrasts this by showing that both developed and emerging markets create strategic assets. The findings align with stakeholder theory's explanation that building relationships and creating value for all the stakeholders is the business' primary role (Phillips et al., 2005; Parmar et al., 2010; Fernando & Lawrence, 2014). MNEs use sustainability actions in emerging markets as a mechanism to obtain legitimacy (Gomez-Trujillo et al., 2021). The roles of and interactions among different stakeholders and business facilitate the implementation of the SDGs (Mohieldin and Shehata, 2021). It also confirms that stakeholders are also interdependent, and stakeholder theory and CSR have common features for taking into consideration the societal interests when executing business operations (Phillips et al., 2005). The CSR activities provided examples of the company's responsibility to local communities and society at large: better access to education, health care, or environmental conditions (Phillips et al., 2005); also, water supply and sanitation (Dziubaniuk et al., 2022). Organizations often perceive CSR practices as an obligation to correct past harm (Brown & Forster, 2012), usually to the environment, but in this case the company had hidden huge financial losses – many shareholders and employees had lost everything. The present study follows the call by Kolk (2016), for exploring the under-researched MNEs' pro-poor activities about poverty and development in least-developed countries. Olympus Corporation donates medical equipment and supplies, executes basic health checks, invests in increasing awareness of the importance of education, and good hygiene for better health in least-developed countries without expecting any profit from these locations.

Verbeke and Lee (2021), explain how with time the CSR best practices get transferred to other locations and they turn from location specific to firm specific, which aligns with the findings of this study. The authors also note that a CSR initiative might improve much more the location advantages of an emerging economy, compared to the improvement it can achieve for the location advantages of a developed economy. Another contribution to theory showed in the findings of the Olympus case where we observe a completely different phenomenon, to that mentioned above, because CSR initiatives for young people, which present future opportunities for them in the medical profession, are conducted in both developed (Japan [*home country*], Singapore, the USA, Germany, Spain, Italy, etc.) and emerging countries (China, Korea, India, Vietnam, Thailand, Indonesia, Brazil, etc.). These initiatives provide opportunities for future endoscopic specialists on one side, and future business profit by an increased number of endoscopic equipment purchased in this country on the other side. Additionally, the case showed that many developed countries need CSR activities to support vulnerable groups within their societies, such as providing school supplies to students from less fortunate families in the US, or donating Christmas presents to children refugees in Germany, or gifting food supplies for two months to homes for elderly people in Singapore during the COVID-19 pandemic. The countries themselves might be developed but there are groups at high risk in particular layers of their societies as well.

The contribution to theory with this case study is demonstrated by showing that the MNE's stakeholders in emerging and developed markets determined the CSR practices. Up to now the literature showed that stakeholders at multiple levels determine international CSR in emerging countries only (Pisani et al., 2017). MNEs experience greater CSR pressures by numerous stakeholders in their home country, and they transfer some of the good practices to other locations, in order to avoid reputational risks (Muller and Kolk, 2015). The study confirms that the company transferred the good practices to all locations they have around the world, in order to improve their strategic advantages.

The management and theoretical contribution of this study shows that the company also aims to 'do good' for all of its stakeholders, for example, patients who are "consumers" of the product – endoscopic equipment, during the CSR program "I am camera", benefit from another Olympus product – cameras. This contrasts with the extant literature which shows the tendency of MNEs in emerging markets to choose social innovation as their strategy to materialize their corporate purpose and generate shared value (Franco-Arango and Álvarez-Mesa, 2022). MNEs from emerging markets, implement strategies for entering, and positioning in international markets depends on reputation, prestige, and trust (Munoz Alvarado and Mata- Sánchez, 2022). Olympus gained these three by implementing their CSR and ESG activities.

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## CONCLUSION

This study contributes to the extant literature on management of MNEs in emerging markets in several ways. First, it showed that both developed and emerging markets create strategic assets for the company. CSR activities involve company employees and other stakeholders at events organised for the sake of the local community. They also provide paths for future development of the population of emerging markets and at the same time potential for future growth of the company's profits. It proved MNE's stakeholders in emerging and developed markets determined the CSR practices. Olympus corporation organized CSR initiatives for young people, which present future opportunities for them in the medical profession and are conducted in both developed and emerging countries. Many developed countries need CSR activities to support vulnerable groups within their societies. A second contribution is that the present study explored the under-researched area of MNEs' pro-poor activities regarding poverty and development in least-developed countries. Third, the management and theoretical contribution of this study shows that the company aims to 'do good' for all of its stakeholders. This contrasts with the extant literature which shows the tendency of MNEs in emerging markets to choose social innovation as their strategy to materialize their corporate purpose and generate shared value (Franco-Arango and Álvarez-Mesa, 2022). The study provides contribution to methodology as well, by using multiple units of analysis in different locations around the world, most of which are emerging markets, and involvement of a variety of stakeholders as both recipients and providers of CSR activities.

This study has its limitations. First, it is conducted as a case study with a single setting – one organization. In the future it could be done as a multiple case study in the sense of using multiple MNEs as settings. Japanese business culture and ethics in general support stakeholder orientation. A study with several MNEs based in different home countries can show completely different cultural perceptions about the role of CSR in host countries. A second limitation is that the study was based on archival data, although the author used diverse sources, the study shows one perspective of the case. This could be avoided by including interviews from a variety of stakeholders and their perceptions; or conducting direct observation on the spot.

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**APPENDIX 1.**
CSR and ESG activities and types of countries

| CSR and ESG activities | | | Types of countries | | | |
|---|---|---|---|---|---|---|
| | | | Home country | Host country | | |
| | | | | Developed | Emerging | Least developed |
| Priority Areas Corporate Citizenship | Healthcare | Country | Japan | Australia; New Zealand | India | East Timor |
| | | Name of activity | TOKYO HEALTH WALK 2019 | Red Apple Day | Olympus Arogya Bachpan Program | East Timor Trip |
| | | Number of participants | 1800 | 380 employees | 281 students and 8 teachers | 2 Olympus employees |
| | | Type of activity (description) | The participants from the general public gained a greater understanding of the importance of cancer screening through a series of quizzes and discussions. Participants over the age of 40 also received a free colorectal cancer screening (fecal occult blood test) if they so wished. Over 50 Olympus employees participated in this year's event, either as volunteers or general participants. | Every year, Olympus Australia and New Zealand get behind Bowel Cancer awareness month of which a highlight is Red Apple Day. To sponsor the event, every year we offer our staff red apples, Bowel Cancer Awareness Ribbons, access to free Bowel Cancer Screening kits and information packs on the disease and lifestyle improvements to prevent it. | Olympus with its commitment for the service of society and under the program name Olympus Arogya Bachpan Program, has conducted health and Hygiene program at Government Primary school, Badshahpur, Gurugram, India where total 281 kids have participated in this activities. | In July 2019, Olympus Australia and New Zealand (OAZ) donated medical equipment to ANZGITA and as part of the donation, sent over OAZ staff members Sharon Kirk and Tomas Kral to East Timor to help with the installation and the education of local hospital staff, with the team focusing their training on the effective use of the existing and recently donated Olympus equipment. |

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| CSR and ESG activities | | | Types of countries | | | |
|---|---|---|---|---|---|---|
| | | | Home country | Host country | | |
| | | | | Developed | Emerging | Least developed |
| Priority Areas Corporate Citizenship | Science and Technology / Youth Education support | Country | Japan | Spain | China | |
| | | Name of activity | “Understanding Cancer through Endoscopes” at Yoshida Junior High School in Yokohama | Operating Room Workshop | Education Creates the Future-2019 Olympus C-TEC Student Visit Project (Beijing) | |
| | | Number of participants | 1st: 40 seventh grade students and 1 teacher, 2nd: 40 seventh grade students and 1 teacher | 10 children, 7 volunteers | 54 students from Capital Medical University | |
| | | Type of activity (description) | Olympus conducted a session at Yoshida Junior High School in Yokohama titled “Understanding Cancer through Endoscopes.” Offered as part of the school’s technology curriculum, the session on endoscopes and cancer was conducted by an Olympus team following an introductory lecture on digitalization by the school’s faculty. The students were then asked to manoeuvre endoscopes through training models, leading to a lot of wows and cheers as they successfully spotted polyps. | The Operating Room workshop was organized for the children by the Olympus CSR Committee in Spain, employees from medical systems division as well helping volunteers. The event started with an introduction to operating rooms, how they evolved over time and the children got to know every detail one should know about operating rooms. | This project was held in Olympus China Medical Training & Education Center (C-TEC) Beijing. Medical students from Capital Medical University were invited to C-TEC to get information about Olympus brand history, product knowledge and structure of C-TEC. | |

| CSR and ESG activities | | | Types of countries | | | |
|---|---|---|---|---|---|---|
| | | | Home country | Host country | | |
| | | | | Developed | Emerging | Least developed |
| Priority Areas Corporate Citizenship | Science and Technology / Youth Education support | Outcome | The students were amazed by the endoscope tips, which can move both laterally and vertically. After their hands-on experience, the students were divided into smaller groups to discuss the topics introduced during the lecture, and then present their discussion outcomes. Interesting ideas emerged, including see-through (fluoroscopic) endoscopes as an answer to the discussion topic: "What technology should be developed to enhance endoscopic technology?" | After the introduction all children had the opportunity to simulate an endoscopy with the Pelvi Trainer (training simulator). They used fruits as test objects to have an impression of how an endoscopy is conducted in a real operating room. On a respective screen the group could check the picture provided by the endoscope in 3D as well as while using the optical technology Narrow Band Imaging (NBI). | Students also get a chance to get hands-on experience of surgical products. Other medical products, such as endoscope and bronchoscope are also shown to students. Besides brand and product information, HR manager from Olympus also gave a career course to students, which concluded both career planning and office manner. | |

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| CSR and ESG activities | | | Types of countries | | | |
|---|---|---|---|---|---|---|
| | | | Home country | Host country | | |
| | | | | Developed | Emerging | Least developed |
| Priority Areas Corporate Citizenship | Environment | Country | Japan | Germany / United Kingdom | Check republic | |
| | | Name of activity | The 27th Environment Festa (Aizuwakamatsu) | Free of charge bicycle check / Beach cleanup activity | Tree Planting at Elementary School | |
| | | Number of participants | About 2,500 visitors | 30 employees | Voluntary participation of 22 employees | |
| | | Type of activity (description) | The Environmental Festa attracts many attendees every year. In addition to panels showing the actions taken by Olympus to preserve the environment, the Olympus booth offered activities that included a hands-on experience operating an industrial endoscope used for non-destructive testing of wind power generators. Young visitors also had fun creating photo frames out of recycled cardboard. | Eco-bags were distributed to employees at multiple sites to reduce the use of plastic bags. In order to reduce the environmental impact of employees commuting, free of charge bicycle servicing events for employees were conducted at multiple sites. A beach cleanup activity was also conducted in cooperation with an environmental protection organization. | All participants met at elementary school area and all together planted trees which will serve as education material for biological class. | |
| | | Outcome | These activities made the booth a popular spot for visitors, especially families. | | About 22 employees participated, they planted 13 trees and 18 bushes. A Japanese garden was planted there. | |

| CSR and ESG activities | | | Types of countries | | | |
|---|---|---|---|---|---|---|
| | | | Home country | Host country | | |
| | | | | Developed | Emerging | Least developed |
| Priority Areas Corporate Citizenship | Healthcare | Outcome | TOKYO HEALTH WALK is an opportunity for people to learn about colorectal cancer while enjoying a walk along specified routes in Tokyo. Based on the belief that regular exercise can help prevent colorectal cancer, the event uses walking as an opportunity to communicate the importance of colorectal cancer screening to the residents of Tokyo. Olympus supports this initiative every year. | The campaign encourages Australians and New Zealanders to support the vital work of Bowel Cancer Australia and Bowel Cancer New Zealand through the purchase of a Bowel Cancer Awareness Ribbon and apple themed fundraising activities. | Below are the activities which we did in 2 days in-campus:<br>1. Health and Hygiene education including good and bad habits and good touch and bad touch<br>2. Basic health check-ups like dental, eyes, etc. and support for future treatment<br>3. Provided health Kits to all the kids<br>4. Training of teachers, school management committee and administrator towards creating the skills to keep the soup warm<br>5. Awareness posters across school for future reminders and reference | ANZGITA aims to improve health for the people of the emerging Asian-Pacific nations, and from time to time, OAZ provide donatable equipment to help support the organization with their mission. The local staff were extremely appreciative of both the equipment and additional support provided by OAZ, and noted they had never experienced such high quality service from a medical device company. |

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| CSR and ESG activities | | | Types of countries | | | |
|---|---|---|---|---|---|---|
| | | | Home country | Host country | | |
| | | | | Developed | Emerging | Least developed |
| Charitable Donations and Grants | Humanitarian aid and others; and Grants | Country | Japan | USA | Russia, Ukraine | East Africa |
| | | Name of activity | Emergency Assistance for Children Impacted by the Spread of COVID-19 | Olympus to Support Victims of Hurricane Harvey Relief in the United States | Olympus Companies in Russia, Italy and Singapore Support Local Healthcare Systems (COVID-19 Response) | Support for School Meals in Emerging Countries by Employees through TABLE FOR TWO Program |
| | | Number of participants | Olympus employees | Olympus employees | Olympus Moscow Limited Liability Company | Olympus employees in Japan |
| | | Type of activity (description) | In July 2020, Olympus Corporation (Japan) supports the work of Save the Children Japan, an international NGO. The company and its employees worked together through a matching gift* system to raise funds for donations to Save the Children Japan in an effort to provide assistance to children seriously impacted by the expanding COVID-19 pandemic. *In a matching gift program, the employer donates an amount equivalent to the total amount donated by employees. | The Olympus Group has pledged to donate funds to the American Red Cross in support of the many victims and areas affected by Hurricane Harvey, which made landfall in the state of Texas in the United States on August 25, 2017. | **Russia** (May, 2020): Protective masks, gloves, disinfectant, humidifiers for oxygen therapy, and non-contact thermometers worth 37,000 EUR were donated to hospitals in 12 regions across Russia through the Together Against Cancer Fund. Food and other items were also donated. **Ukraine** (June, 2020): Funds totalling 2,998 EUR were donated through Europa Colon Ukraine to support measures to protect doctors from COVID-19 and enable them to continue screening people for colorectal cancer.<br>Protective masks, gloves, disinfectant, humidifiers for oxygen therapy, and non-contact thermometers. | Olympus has been participating in the TABLE FOR TWO program since 2010. If employees of a company or organization purchase healthy menu meals at the cafeteria, a donation of 20 yen per meal will be used for school meals for children in emerging countries through the NPO TABLE FOR TWO International. In addition to the healthy menu, in Olympus, employees also donate 10 yen to the program every time they purchase healthy drinks such as mineral water. |

| CSR and ESG activities | | | Types of countries | | | |
|---|---|---|---|---|---|---|
| | | | Home country | Host country | | |
| | | | | Developed | Emerging | Least developed |
| Charitable Donations and Grants | Humanitarian aid and others; and Grants | Outcome | Employees used the company's internal email system to specify the amounts they wished to have deducted from their paycheck as donations. In this way employees in Japan who are currently working remotely to prevent the spread of COVID-19 could easily participate. This was reflected in the collection of a total of 1,495,500 JPY in donations. The company matched employee donations on a 1:1 basis, and an additional one million JPY was donated by the Olympus Labor Union. | To date (September 7th, 2017), contributions include $100,000 from Olympus Group companies, including Olympus Corporation of the Americas, and more than $40,000 in record-breaking employee donations. Olympus expresses its heartfelt support for all of those impacted by Hurricane Harvey and has confidence that the American Red Cross will use contributions to help those impacted by this disaster. | 37,000 EUR were donated to hospitals in 12 regions across Russia.<br><br>Funds totalling 2,998 EUR were donated through Europa Colon Ukraine. | Through purchasing healthy menus and healthy drinks, Olympus employees made a donation of JY1,128,220 during the year (from Apr. 1, 2019 to Mar. 31, 2020), and supported approximately 56,411 school meals for children in emerging countries. |

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| CSR and ESG activities | | Types of countries | | | |
|---|---|---|---|---|---|
| | | Home country | Host country | | |
| | | | Developed | Emerging | Least developed |
| Miscellaneous | Country | Japan | Singapore | Brazil | |
| | Name of activity | Summer Festival in Shirakawa Site | Olympus Singapore HEALTH DAY | Career Professions Day | |
| | Number of participants | About 1,000 employees and their families (incl. children), about 100 participants of COLON CAVE hands-on experience | About 500 participants (about 200 employees and their families) | 15 teenagers assisted by the Institution (12-14 years old), 10 Olympus employees | |
| | | The summer festival held by Olympus' Shirakawa site every August is a social event for its employees and families (including children). As part of the company's cancer awareness and youth education support campaigns, the "COLON CAVE", a large model of the colon, was on display at the venue, allowing visitors to walk through a gigantic colon made of balloons. There was also a competition that encouraged participants to look for lesions as they traveled through the Cave. | Olympus Singapore hosted a special event called "HEALTH DAY" for Olympus employees and their families, holding activities with a unique Olympus CSR twist and an emphasis on the company's youth education support and cancer awareness activities. The families of employees were invited to the office for hands-on experiences with Olympus products used in the medical, scientific, and imaging fields, and also toured the R&D Department and the Repair Center. | Olympus hosted 14 teenagers with Instituição Criança Brasil that have been part of the lecture series during 2018 fiscal year. Employees presented career opportunities and their professional experience. The goal is to show them the importance of education and commitment to have a better future. | |

| CSR and ESG activities | | Types of countries | | | |
|---|---|---|---|---|---|
| | | Home country | Host country | | |
| | | | Developed | Emerging | Least developed |
| Miscellaneous | Outcome | Employees and their families, including children, had fun as they learned the importance of early cancer detection and treatment. | Olympus' youth education support campaign, special programs were designed for the children, including enjoyable activities designed to familiarize them with the company's products and technology, a job-matching booth to encourage them to think about possible future career paths based on their aptitudes, and Japanese language and origami workshops. To boost awareness about cancer, the COLON CAVE, a gigantic model of the colon, was set up on site. | After round table discussion, students have a tour and see Olympus' facilities. Teenagers did a tour at Olympus' office and the Olympus employees' volunteers presented different departments in the company with a brief explanation of what function occurs in each. | |

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# ECONOMIC VALUE OF ENERGY AND PETROCHEMICAL COMPANIES AND MULTIPLE DIRECTORSHIPS: EVIDENCE FROM SAUDI ARABIA

## VALOR ECONÓMICO DE LAS EMPRESAS DE ENERGÍA Y PETROQUÍMICA Y DIRECTORIOS MÚLTIPLES: EVIDENCIA DE ARABIA SAUDITA

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## ABSTRACT

The existence of multiple directorships is the case when a board member is serving on two or more boards or a number of other external appointments. This study aims to examine the impact of multiple directorships on a firm's economic values among Saudi listed companies using the busyness hypothesis. As for the methodology, this study collected secondary data from the annual reports of the listed companies that include corporate governance and firm-specific characteristics. In addition, this study reviewed the extant research related to the multiple directorships and firms' economic values. Using a sample of 140 Energy and Petrochemical companies for the period 2012-2019, the Ordinary-Least Square (OLS) results show that busy directors negatively influence the firm's economic value, measured as ROA and ROE. The findings of this study have theoretical implications in a manner that gives support to the busyness hypothesis in the Saudi context, which is considered a different setting from other studies conducted in other developed and developing countries in terms of politics, economic factors, and culture. This study adds additional empirical evidence in the unique setting of Saudi Arabia. In addition, the findings of this study could have practical implications to policymakers, shareholders, management, auditors, and other stakeholders in gaining a deeper understanding of how multiple directorships negatively influence the firm's economic value.

## KEYWORDS

Corporate governance, multiple directorships, economic value, emerging markets, Saudi Arabia.

## RESUMEN

La existencia de dirección múltiple es el caso cuando un miembro de la junta se desempeña en dos o más juntas o una serie de otros nombramientos externos. Este estudio tiene como objetivo examinar el impacto de la dirección múltiple en los valores económicos de la empresa entre las empresas saudíes que cotizan en bolsa utilizando la hipótesis de actividad. En cuanto a la metodología, este estudio recopiló los datos secundarios de los informes anuales de las empresas cotizadas que incluyen el gobierno corporativo y las características específicas de la empresa. Además, este estudio revisó la investigación existente relacionada con los múltiples directorios y los valores económicos de las empresas. Utilizando una muestra de 140 empresas de energía y petroquímica para el período 2012-2019, los resultados de los mínimos cuadrados ordinarios (OLS) muestran que los directores ocupados influyen negativamente en el valor económico de la empresa, medido como ROA y ROE. Los

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hallazgos de este estudio tienen implicaciones teóricas en el sentido de que respalda la hipótesis del ajetreo en el contexto saudí, que se considera un escenario diferente de otros estudios realizados en otros países desarrollados y en desarrollo en términos de política, economía y cultura. Este estudio agrega una evidencia empírica adicional en el entorno único de Arabia Saudita. Además, los hallazgos de este estudio podrían tener implicaciones prácticas para los formuladores de políticas, los accionistas, la gerencia, los auditores y otras partes interesadas para obtener una comprensión más profunda de cómo la dirección múltiple influye negativamente en el valor económico de la empresa.

## PALABRAS CLAVE

Gobierno corporativo, directorio múltiple, desempeño de la empresa, mercados emergentes, Arabia Saudita.

## 1. BACKGROUND OF THE STUDY

A corporation's board of directors should undertake the essential tasks of monitoring the company and giving advice to senior managers (Aljaaidi et al., 2021; Hassan et al., 2020; Mace 1971). A board of directors is regarded as a crucial mechanism for internal governance, both to monitor the company and to control managerial performance whilst protecting the interests of shareholders. The board of directors is authorized to carry out monitoring of a company's strategy, ensuring that company management is endeavoring to realize organizational targets (Kamardin et al., 2014; Chou et al., 2014).

One of the most important issues influencing the board of directors' monitoring and advising functions is multiple directorships. This practice arises when a board member at one company holds external executive/non-executive directorships at another company. Most researchers offer a definition of a director as "busy" if the number of external directorships held by him or her is more than three (Fich, Shivdasani, 2006; Cashman, Gillan, Jun, 2012; Benson et al., 2014). In other words, multiple directorship exists when a board member is serving on two or more boards or a number of other external appointments (Kamardin et al., 2014; Chou et al., 2014). On the basis of the "busyness hypothesis" that is rooted from agency theory, the busier a corporate director is, the more negative the impact that he/she will have on the company (Méndez et al., 2015). Further, company owners should be able to have expectations that directors will always be dedicated to acting in the best interests of the company and its ownership (Jensen & Meckling, 1976). Board of directors holding multiple directorships may not have sufficient time to implement close scrutiny of internal control systems, which in turn can mean that they are not as effective in their monitoring of management. Having to share their attention and time over multiple directorships can make them less efficient in their duties (Fich & Shivdasani, 2006; Cashman, Gillan, & Jun, 2012; Falato, Kadyrzhanova, & Lel, 2014; Latif, Kamardin, Mohd, & Adam, 2013).

Pye et al. (2012) state that if directors hold numerous external board posts, they can become excessively busy, and this will prevent them undertaking their monitoring duties effectively by only focusing on the company board. Morck, Shleifer, and Vishny (1988) have stated that providing management with advice and overseeing company

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performance demands considerable work and time allocation; if directors begin to take on multiple directorships then the work and time they can offer to fulfil these responsibilities at any company will be adversely affected. Davis (1993) contends that multiple directorships can adversely impact both board independence and company performance. Sarkar and Sarkar (2009) find that as internal directors became busier with other directorships, negative reactions may arise, while impacting the stock market. Sarkar, & Sarkar (2009) reported a significantly negative relationship between the multiple executive directorships and firm performance measured as Tobin's Q. Additionally, directors who hold multiple directorships frequently do not attend board meetings (Chiranga and Chiwira, 2014; Jiraporn, Davidson, DaDalt, & Ning, 2009; Min & Chizema, 2018). Saleh, Shurafa, Shukeri, Nour, & Maigosh (2020) found that multiple directorships, particularly for independent directors, make companies less effective while impacting performance negatively. Lin et al. (2022) reported a positive relationship between multiple directorship and optimal incentives (pay-performance sensitivity).

Fich and Shivdasani (2006) revealed that companies with busy boards of directors where most external directors had more than three directorships have associations with weaknesses in corporate governance. Beasley (1996) found in his research that there is a higher likelihood of fraud if an external director holds more than two directorships. Kamardin and Haron (2011) found a negative correlation between the effectiveness of directors in terms of overseeing management if they had additional strategic roles. Mohd et al. (2016) showed that it was a recommendation of publicly listed companies that directors not pursue multiple directorships so that they remain highly engaged with their board duties for a single company. These companies have decreased market-to-book ratios, are less profitable, and have less sensitivity to CEO turnover in terms of company performance (Haniffa & Hudaib, 2006; Jackling & Johl, 2009).

Lee and Isa (2015) demonstrated that directors who do not have total commitment to their organization tend to have a negative impact on financial performance as they do not carry out effective cost monitoring duties. Latif, Voordeckers, Lambrechts and Hendriks (2020) reported a negative correlation between directors holding multiple directorships and the performance of Pakistani companies. Core, Holthausen, and Larcker (1999) concluded that when outside directors sit on multiple boards, CEOs are able to extract excess compensation. Shivdasani and Yermack (1999) showed a positive correlation between CEOs being involved in the selection of directors and busy directors being appointed. CEO involvement makes it more likely that extra board seats will be filled by directors holding multiple directorships. Shamsudin et al. (2018) found that directors who have a background in a number of industries due to holding multiple directorships may not follow management advice, and this can have an adverse impact on company performance. O'Sullivan (2009) further argues that executive directors holding multiple directorships will have a negative impact on company financial performance. Baatour, Ben Othman, and Hussainey (2017) revealed a positive correlation between multiple directorships and management of real earnings in Saudi Arabia. Liu et al. (2022) found that audit committee members sitting on multiple boardrooms unequally distribute their efforts based on the firm risks and not to firm size. In specific, multiple directorships and how they affect company performance is still a central question in research into corporate financing and governance. Berezints and Ilina (2016) have stressed that concepts of "busyness" have some ambiguity and may not be the same across institutions, cultures, and different national corporate law systems.

In Saudi Arabia, as the fifth-largest country in Asia, the second largest in the Arab world, and the largest in Western Asia, the room of board of directors is dominated by controlling shareholders, while friends and relatives constitute the board of directors. This may be indicative of member experience or it could possibly indicate time pressure encountered by the member. In addition, this situation may reveal potential conflicts of interest (Saidi, 2004). In particular, a paucity of research concerning multiple directorships is the case in the Saudi setting. The majority of the abovementioned extant research investigating multiple directorships were conducted in developed and developing countries, likely because they have comparable audit environments and advanced capital markets. As such, their results were conflicting and inconclusive. There are not enough empirical investigations that have been focused on the Arab countries, especially Saudi Arabia. Adding to this complication, it is difficult to conclude from the prior studies conducted on multiple directorships, their impact on a firm's economic value. Notably, there is no general agreement among the extant research on how multiple directorships influence firm value.

In particular, little is known, and many questions remain unanswered, about the impact of multiple directorships on economic value in the Saudi context. In addition, this study strives to answer the calls made by Healy and Palepu (2001) and Meyer (2006) who highlight that management research should consider the differences in the cultures, legal frameworks, geographies, and industry structures in predicting the relationships between certain factors. Otherwise, management theories explaining phenomena in Western countries may fail to predict the same phenomena in other countries. As a result, previous studies' findings might be unsuitable and irrelevant to the setting of Saudi Arabia. In light of these deficiencies, multiple directorship issues seem to require further empirical investigations. Yet, to the best of the researcher's knowledge, no empirical evidence exists that allows conclusive determinations to be made of how economic value is influenced by multiple directorships in Arab countries in general and in Saudi Arabia in particular. Alqahtani et al. (2022) find that multiple directors negatively influence the firm performance because this causes an increase in cash holdings, a decrease in capital expenditure, and an increase in SG & A expenses. The study conducted by Baatour, Ben Othman and Hussainey (2017) examined the effect of multiple directorships on accrual-based earnings management and real earnings management. In specific, what differentiates the

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Saudi Arabia market from the rest of the world may, in turn, lead to a different underlying correlation and analysis of multiple directorships with firm's economic value, and provide one more piece of evidence in the debate.

The rest of the paper is organized as follows. Section two highlights the data and methodology. Section three depicts the findings and discussions and section four details the conclusion and implication of the study.

## 2. DATA AND METHODOLOGY

### 2.1 Sample Selection

The population of the study is energy and petrochemical listed companies on the Saudi Stock Exchange (Tadawul) for the period 2012-2019. The final sample of the study consists of 140 year-observations. This selection is the most recent test period for which data were available. A cross-sectional review of annual reports for the sample of companies was undertaken. The selection of energy and petrochemical companies is due to the importance of these industries in Saudi Arabia. The energy sector is the backbone of the Saudi economy in which one quarter of the world's oil reserves is owned by Saudi Arabia which, in turn, gives Saudi Arabia the distinction as the largest oil producer and exporter. In addition, the Saudi petrochemical industry is an important sector for the non-oil economy. The chemical and plastic exports comprise a substantial 60 percent share of total non-oil exports.

Table 1: Sample Selection Procedure

| Sample attributes | Number of observations |
|---|---|
| Total energy and petrochemical firms in Saudi Arabia, from 2021 to 2019 | 176 |
| Observations discarded (Missing data and outliers) | (36) |
| Final sample | 140 |

The corporate governance and firm characteristics data were collected by hand from the companies annul reports.

### 2.2. Data Analysis

This study uses the descriptive statistics to describe multiple directorships, board size, board meetings, firm growth, firm size, and leverage. The following models are estimated:

$$EV (ROA) = \beta 0 + \beta_1 \text{ MDIR} + \beta_2 \text{ BDSIZE} + + \beta_3 \text{ BDMEET} + + \beta_4 \text{ FGRWOTH} + \beta_5 \text{ FSIZE} + \beta_6 \text{ LEV} + e\ldots\ldots (1)$$

$$EV (ROE) = \beta 0 + \beta_1 \text{ MDIR} + \beta_2 \text{ BDSIZE} + + \beta_3 \text{ BDMEET} + + \beta_4 \text{ FGRWOTH} + \beta_5 \text{ FSIZE} + \beta_6 \text{ LEV} + e\ldots\ldots (2)$$

Where:

| | | |
|---|---|---|
| **Dependent variables** | | |
| ROA | = | Return on assets |
| ROE | = | Return on equity |
| **Test variable** | | |
| MDIR | = | The proportion of directors on the board of the company having at least one additional directorship in another company to total number of directors on the board |
| **Control variables** | | |
| BDSIZE | = | Total number of directors on the board of the company |
| BMEET | = | The number of board meetings during the year |
| FGROWTH | = | The sales to total assets ratio |
| FSIZE | = | $Log_{10}$ of total assets |
| LEV | = | Debt to total assets ratio |
| E | = | error term |

This study controls for the effect of several variables that were reported by previous research for their potential confounding effect on the economic value. The expected sign for the association between the board size and economic value is positive (Omer & Aljaaidi, 2021; Omer, Aljaaidi & Habtoor, 2020a; Aljaaidi & Hassan, 2020; Al-Abbas, 2008; Al-Ghamdi, 2012; (Pearce & Zahra, 1992; Dalton et al., 1999; Kiel & Nicholson, 2003; Dwivedi & Jain, 2005; Coles et al., 2008; Jackling & Johl, 2009; Sheikh et al., 2012). The expected sign for the relationship between the board meeting and economic value is negative (Aljaaidi & Hassan, 2020;

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Omer, Aljaaidi & Habtoor, 2020a; Palaniappan, 2017). The expected sign for the relationship of the firm growth with economic value is positive (Coles et al., 2014; Reguera-Alvarado & Bravo, 2017). The expected sign for the relationship between firm size and economic value is negative (Omer & Aljaaidi, 2021; Omer, Aljaaidi & Habtoor, 2020a; Aljaaidi & Hassan, 2020; Omer, Aljaaidi & Habtoor, 2020b). As for the association between the firm leverage and economic value, the expected sign is negative (Omer & Aljaaidi, 2021; Omer, Aljaaidi & Habtoor, 2020a; Aljaaidi & Hassan, 2020; Omer, Aljaaidi & Habtoor, 2020b; Weir et al., 2002; Haniffa & Hudaib, 2006; Aljifri & Moustafa, 2007; Palaniappan, 2017).

## 3. FINDINGS AND DISCUSSION

Table 1 illustrates the descriptive statistics for the sample. Based on the final sample of 140 firm-year observations, the average number of directors sitting on more than one boardroom is 6 with a minimum of 0.00 and a maximum of 11.00.

Table 1: Descriptive Statistics

| Variables | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| ROA | -.05 | .90 | .2068 | .29435 |
| ROE | -.10 | 8.80 | .9929 | 2.12147 |
| No. Multiple Directors | .00 | 11.00 | 5.8540 | 2.36562 |
| MDIR | .00 | 1.00 | .6849 | .26079 |
| BDSIZE | 6.00 | 11.00 | 8.5255 | 1.15096 |
| BDMEET | 2.00 | 10.00 | 5.0073 | 1.44760 |
| ASSETS | 155992568.00 | 340041000000.00 | 30948759882.1000 | 74823531813.29596 |
| SALES | 25871000.00 | 189032000000.00 | 15654662531.0758 | 39348862667.34155 |
| FGROWTH | .02 | 2.72 | .5218 | .44871 |
| LEV | .01 | .86 | .4007 | .23474 |

The average proportion of the multiple directorships is 0.68 with a minimum of 0.00 and a maximum of 1.00. This indicates that there are Saudi companies where all directors do not sit on any other boardroom and there are companies where all directors sit on more than one boardroom. As for the number of multiple directors, the average is about 6 with a minimum of 0.00 and a maximum of 11. This indicates that the multiple directorships in Saudi Arabia are high among listed energy and petrochemical companies, which influences negatively the firm's performance based on the busyness hypothesis.

Table 2: Pearson Correlation Analysis

| | MDIR | FGROWTH | LEV | BDSIZE | BDMEET | FSIZE |
|---|---|---|---|---|---|---|
| MDIR | 1 | | | | | |
| FGROWTH | .047 | 1 | | | | |
| LEV | .020 | .229** | 1 | | | |
| BDSIZE | .051 | -.356** | .257** | 1 | | |
| BDMEET | -.014 | -.038 | -.190* | -.113 | 1 | |
| FSIZE | .140 | -.231** | .518** | .439** | -.065 | 1 |

The correlation test in Table 2 shows that multicollinearity does not exist among the independent variables, as none of the variables correlates above 0.90. All the variables have a correlation of equal to or less than .518.

Table 3: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .801[a] | .642 | .624 | .18534 |

Tables from 3 to 8 depict the OLS regression results and the VIF for the tested variable. Table 3 indicates that the adjusted $R^2$ for the ROA model is 0.624, indicating that the ROA model has explained 62.4% of the variance of the total variance in the economic value.

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Table 4: ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 7.505 | 6 | 1.251 | 36.410 | .000[b] |
| | Residual | 4.191 | 122 | .034 | | |
| | Total | 11.695 | 128 | | | |

Table 4 shows that the F-value for the ROA model is statistically significant at 1% level.

Table 5: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .717[a] | .514 | .490 | 1.56825 |

Table 5 demonstrates that the adjusted $R^2$ for the ROE model is 0.490, indicating that the ROE model has explained 49% of the variance of the total variance in the economic value.

Table 6: ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 316.921 | 6 | 52.820 | 21.477 | .000[b] |
| | Residual | 300.048 | 122 | 2.459 | | |
| | Total | 616.969 | 128 | | | |

Table 6 shows that the F-value for the ROE model is statistically significant at 1% level.

Table 7: OLS Regression (ROA Model)

| Model | | B | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|
| | | | | | Tolerance | VIF |
| 1 | (Constant) | 2.062 | 7.858 | .000 | | |
| | Test variable | | | | | |
| | MDIR | -.136 | -2.170 | .032 | .961 | 1.040 |
| | Control variables | | | | | |
| | BDSIZE | -.008 | -.474 | .636 | .711 | 1.406 |
| | BDMEET | -.031 | -2.669 | .009 | .960 | 1.042 |
| | FGROWTH | .024 | .567 | .572 | .714 | 1.401 |
| | FSIZE | -.123 | -4.498 | .000 | .616 | 1.623 |
| | LEV | -.794 | -8.667 | .000 | .635 | 1.574 |

Table 7 indicates that the multiple directorship *MDIR* is negatively and significantly associated with economic value, measured by *ROA* ($\beta$ = -0.136, $t$ = -2.170, $P$ = 0.032, one-tailed significance).

Table 8: OLS Regression (ROE Model)

| Model | | B | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|
| | | | | | Tolerance | VIF |
| 1 | (Constant) | 13.060 | 5.882 | .000 | | |
| | Test variable | | | | | |
| | MDIR | -1.553 | -2.927 | .004 | .961 | 1.040 |
| | Control variables | | | | | |
| | BDSIZE | -.007 | -.051 | .959 | .711 | 1.406 |
| | BDMEET | -.142 | -1.443 | .152 | .960 | 1.042 |
| | FGROWTH | -.116 | -.319 | .750 | .714 | 1.401 |
| | FSIZE | -.813 | -3.527 | .001 | .616 | 1.623 |
| | LEV | -4.916 | -6.344 | .000 | .635 | 1.574 |

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Table 8 demonstrates that multiple directorship *MDIR* is negatively and significantly related to economic value, measured by *ROE* ($\beta$ = -1.553, $t$ = -2.927, $P$ = 0.004, one-tailed significance).

The results depicted by Tables 7 and 8 indicate that the sign of the multiple directorships is not sensitive to the change in the measurement of the economic values for either *ROA* or *ROE*. These results are also consistent with the prediction of the busyness hypothesis that stems from the agency theory. In addition, these findings are in line with the extant research (e.g., Kamardin and Haron, 2011; Fich and Shivdasani, 2006; Haniffa & Hudaib, 2006; Jackling & Johl, 2009; Lee and Isa, 2015; Latif, Voordeckers, Lambrechts and Hendriks, 2020; Core, Holthausen, and Larcker, 1999; Shivdasani and Yermack, 1999; Shamsudin et al., 2018; O'Sullivan, 2009).

It is hoped that this research furthers answering the call made by Berezints and Ilina (2016) who indicated that concepts of "busyness" have some ambiguity and may not be the same across institutions, cultures, and different national corporate law systems. In the same line, Healy and Palepu (2001) and Meyer (2006) indicated that management research should consider the differences in the cultures, legal frameworks, geographies, and industry structures in predicting the relationships between certain factors. Otherwise, management theories explaining phenomena in Western countries may fail to predict the same phenomena in other countries. As a result, previous studies' findings might be unsuitable and irrelevant to the setting of Saudi Arabia. In light of these calls, this study adds additional empirical evidence of the relationship between multiple directorship and firm performance. The findings of this study confirm what has been reported by previous studies using the busyness theory.

Multiple directorships among Saudi companies is common. Referring back to the descriptive statistics in Table 1, it turns out that more than half of the boardroom is busy with other companies' boards. This practice may influence the performance of companies, and specifically, the growth of the Saudi economy in general. It is more likely to find the same situation reported by Baatour, Ben Othman, and Hussainey (2017) in the setting of Saudi Arabia, where multiple directorships are related to management real earnings.

The phenomenon of board multiple directorships weakens corporate governance at the Saudi company level which, as a result, could expose Saudi companies to cases of fraud. In addition, busy directors may not have sufficient time to carry out their duties in terms of monitoring and advising. This, in turn, allows for less concentration on evaluating companies' internal control systems. This possibly results in board members being less independent as they become busier. In addition, busy board directors are more likely to be absent at board meetings. In summary, since multiple directorship practice has a negative impact on economic values for Saudi companies, action should be taken to limit this practice and engage board members to better prioritize their duties.

## 4. CONCLUSIONS AND IMPLICATIONS

### 4.1 Conclusion

The objective of this study was to examine the impact of multiple directorships on economic value in Saudi Arabia among Energy and Petrochemical listed companies for the period 2012-2019. This study finds that busy directors in more than one boardroom negatively influence economic value, measured as ROE and ROA. This result supports the busyness hypothesis that is derived from agency theory. This result is consistent with the findings of previous studies which reported that for various reasons multiple directors, in the context of Saudi Arabia, influences negatively on economic value. Busy board members may not have sufficient time to carry out their duties, neglecting close scrutiny of internal controls, which in turn, negatively effects their oversight and advising roles. Further, the busyness of directors affects their independence, meeting attendance, and weakens corporate governance. This study contributes to corporate governance and economic value issues in the literature by providing an initial negative empirical association between multiple directorship and economic value. It extends the line of previous literature providing for a different economic, political and cultural setting in the context of Saudi Arabia. Further, this study supports the predictions of agency theory in a new context that is different from others from developed and developing countries, given the lack of studies linking multiple directorships with economic value using the busyness hypothesis in the context of Saudi Arabia.

This study is still subject to several limitations. One limitation is that the study's model does not include other board of directors' characteristics such as financial expertise, CEO duality, and academic qualifications. A future line of research may consider including these characteristics in the context of examining multiple directorships with economic value. Additionally, audit committee characteristics and ownership structure are not included in the model for this study. Therefore, there is still an opportunity for future studies to examine these determinants. Finally, this study investigated the Energy and Petrochemical companies in the setting of Saudi Arabia. A future line of research may consider other industries in Saudi Arabia and/ or replicate the same model in other Gulf cooperation countries or other emerging

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contexts. This potentially may be applicable to these countries due to the similarities in political, economic, and cultural conditions. Additionally, this study includes data for the period ranging from 2012 to 2019 in which the political and economic conditions are stable. During a time when a pandemic hits or there is a change in political or economic conditions, the link of multiple directorship and economic value may not remain the same.

### 4.2 Implications for Management and Stakeholders

The findings of this study may serve to enhance the practices of corporate governance in the setting of Saudi Arabia. The significance of having good corporate governance practices would be reflected positively by enhancing economic value. In particular, the results of this study could benefit banks in a manner that would assess the creditworthiness of Saudi firms where directors sit on multiple boards. In addition, this study could benefit either current or prospective investors by allowing them to be able to assess the quality of board of directors which may influence the firm's profitability. Further, Capital Market Authority (CMA) might also benefit by assessing the board quality of listed companies whose members sit on more than one board.

All types of audit firms incorporating in Saudi Arabia would benefit from this study by gaining a deeper understanding of their boardrooms by assessing policy regarding staying with current clients or attracting new ones. Both Saudi and emerging economies in general might further assess the busyness of their board rooms and determine how this practice influences a company's economic value. This may provide management with an opportunity to establish policies as to the number of boards the member can sit on. Furthermore, this study may provide may assist financial analysts with corporate governance best practices on behalf of their clients. Finally, students and researchers may benefit from this study by providing for further avenues of research focused on corporate governance and economic value.

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