Corporate Social Responsibility and Company Performance: Evidence from Sri Lanka

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Declaration

"I, Kamal Tilakasiri, declare that the PhD thesis entitled *Corporate Social Responsibility and Company Performance: Evidence from Sri Lanka* is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work".

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Abstract

The concept of corporate social responsibility (CSR) developed in the Western world since the 1950s, is novel to developing countries. Various CSR principles, standards, frameworks and indices have grown significantly as researchers to expand the concept in business and academic worlds. The practice of the concept and its behaviour is similar in both the developed and developing worlds. However, there are significant differences between the two worlds in implementing CSR activities. Researchers have identified these differences—of culture, management perspectives, and geographical and natural business systems—and concluded that existing CSR in the developed world cannot be employed in developing countries. Therefore, researchers are now turning their attention to investigating CSR from the point of view of developing countries.

The CSR literature was divided into two areas: development studies, including definitions, theories, standards and frameworks, and relationship studies, including the relationships between CSR and company performance (CP), and CSR and share market performance. However, the relationship between CSR and CP is still not fully understood. In developing countries, this issue is under-researched, even though some research has been conducted on the development of the CSR concept. Therefore, this study's main purpose was to explore the relationship between CSR and CP in a developing country—Sri Lanka.

To investigate this relationship, a CSR framework was developed because there is currently no such framework in Sri Lanka to identify CSR practices in companies; this was one sub-aim of this study. In developing a CSR framework, the researcher made use of the iterative Delphi method, in the first round interviewing and in the second surveying expert and knowledgeable people about CSR practices. The survey was developed to confirm and refine the important identification information from the interview data. These qualitative data were then analysed using a content analysis research technique, which identified 28 activities for the potential CSR framework. Using this framework, six CSR constructs were identified in the pilot study of this research. As far as the researcher is aware, this was the first time CSR research had been used to collect data in Sri Lanka.

The second sub-aim of this study was to develop an index to measure CSR performance in selected companies. A dichotomous process was used to develop an index based on the six CSR constructs, which were developed under the CSR framework.

The third sub-aim of the study was to select 50 companies listed in the Colombo Stock Exchange in Sri Lanka and to examine the long-term relationship between CSR and CP according to the above framework. All these companies disclosed their CSR practices and CP data in either their annual reports, sustainability reports or on their company website. The period of the study has been the past five years - from 2004 to 2009. From 2004 CSR data were identified; company financial data were identified using a lag time of one year (2005).

The independent variable was the disclosed CSR data, which were qualitative. These data needed to be transformed to quantitative data for the statistical tests, which is a common and difficult task for CSR relationship studies. Although various CSR measures have been adopted in previous research, this study made an original contribution in two ways, first by using Delphi methodology and second by developing CSR index and measures of relevance to developing countries such as Sri Lanka. In addition, CP, a dependent variable, was measured by using three accounting indictors: ROS, ROE and ROA. Consequently, these quantitative data were employed in the panel data regression model using E-Views software to scientifically analyse the data to identify the significant relationship between these two variables. The control variable was company size, to be consistent with the previous studies in the literature review.

The results indicated that there is a significant relationship between CSR and CP.

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List of Abbreviations

AMR	Academy of Management Review
APEC	Asia–Pacific Economic Cooperation
BE100	Business Ethics 100
BITC	business in the community
BSR	business for social responsibility
CAA	Consumer Affairs Authority
CAC	Consumer Affairs Council
CC	corporate citizenship
CCC	Ceylon Chamber of Commerce
CEA	Central Environment Authority
CFP	company financial performance
Com	community
CP	company performance
CSE	Colombo Stock Exchange
CSID	Canadian Social Investment Database
CSP	Corporate Social Performance
CSR2	Corporate Social Responsiveness
Cus	customer
DJSI	Dow Jones Sustainability Index
Edu	education
Emp	employees
Env	environment
EU	European Union
FEM	Fixed Effects Models
FP	financial performance
FTSE	Financial Times Stock Exchange
GDP	Gross Domestic Product
GRI	global reporting initiatives
Hlth	health
HREC	Human Research Ethic Committee

ICASL	Institute of Chartered Accountants of Sri Lanka
IFRS	International Financial Reporting Standards
ILO	International Labour Organisation
IMF	International Monetary Fund
KLD	Kinder, Lidenberg and Domini Index
LM	Lagrange Multiplier
LSDV	Least Squares Dummy Variable Model
MDGs	Millennium Development Goals
ME&NR	Ministry of Environment and Natural Resources
NBS	National Business Systems
NFRI	Non-food Relief Items
NGO	non-government organisation
NHMRC	National Health and Medical Research Council
OCE	Organisation Commitment of Employees
OECD	Organization for Economic Co-operation and Development
POLS	Pooled Ordinary Lease Squares
R&D	Research and Development
REM	Random Effect Model
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
ROS	Return on Sales
SBEs	Specified Business Enterprises
SCAI	STING Corporate Accountability Index
SEC	Securities and Exchange Commission
SLAASMB	Sri Lanka Accounting and Auditing Standards Monitoring Board
SLAuS	Sri Lanka Auditing Standards
SLRCS	Sri Lanka Red Cross Society
TRI	Toxics Release Inventory
UNDP	United Nation Development Programme
VUHREC	Victoria University Human Research Ethics Committee
WBCSD	World Business Council for Sustainable Development

List of Publications

International Conferences

1. Tilakasiri, K.K., Armstrong, A. and Heenatigala, K. (2012), 'Development of a Corporate Social Responsibility Framework in Sri Lanka', 2nd International Conference on Applied Social Science (ICASS 2012), 1–2 February, Kuala Lumpur, Malaysia.

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5. Tilakasiri, K.K. and McCarthy, G. (2008), 'The Boundaries of Social Responsibility in Sri Lankan Universities', International Conference on Social Sciences: Sri Lanka (July), University of Kelaniya, Sri Lanka.

6. Tilakasiri, K.K., McCarthy, G. and Glynn, J. (2008), 'The corporate social responsibility of Sri Lankan universities', International Conference on Social Sciences: Sri Lanka (July), University of Kelaniya, Sri Lanka.

Chapter 1: Introduction

1.1 Introduction

Corporate social responsibility (CSR) has been present in the Management and Accounting literature for about 45 years (Wood, 2010). Both organisations and societies have significantly increased their focus on CSR in recent years (Adams and Frost 2006; Gulyás 2009; Young and Thyil 2009). Traditionally, companies have to focus on strategies for their business operations and profit such as differentiation, diversification, turnaround, concentration and globalisation. However, recent developments in strategic thinking support the need to add activities that expand out from the company into society. Scholars have identified these activities as corporate social responsibility (CSR) activities (Carroll 1979; Margolis and Walsh 2001). Further, CSR scholars, managers and authors have recognised the actions of cause marketing, donation, society improvement, disaster relief, protection, peace initiatives and pollution reduction as companies' social responsibility activities. Among the many reasons identified to persuade companies to implement CSR are popularity (Fernando, 2007), business strategy (Dentchev, 2004) and stakeholder pressures (McWilliams and Siegel (2001). However, there are some direct benefits (discussed in Chapter 2) that have been recognised by many scholars of implementing CSR from the companies' point of view (Margolis and Walsh 2001; Porter and Kramer 2002). As a result, studies are used to examine the relationship between CSR performance and company performance to identify the above benefits.

The practice of CSR has been dominated by developments in Western developed countries, such as the United States of America (USA) and the United Kingdom (UK) (Chambers et al. 2003) and it is unclear whether it translates easily into developing and non-Western countries. These specific circumstances have been discussed by several scholars who have identified the gaps between developed and developing countries when CSR is implemented (Chambers et al. 2003; Matten and Moon 2004; Chapple and Moon 2005; Visser 2007). Writers such as Edmondson and Carroll (1999), Burton et al. (2000) and Khan (2005), have suggested that different cultural models and traditional

customs may mean that a great deal of what is currently understood about CSR may not be applicable in developing countries such as Sri Lanka.

However, the present research focuses on identifying the relationship between CSR and the company performance (CP) of listed companies in Sri Lanka. This was a difficult task, because there was no mandatory evidence of whether CSR has been implemented in Sri Lanka; therefore, the inherent limitation of the present CSR study was the measurement of CSR actions. In order to overcome this, evidence of CSR was collected through a pilot study, with the result that many companies in Sri Lanka have implemented CSR which has been disclosed in their annual reports.

The present study performed the following steps to address the research aims. First, actual CSR practices in Sri Lankan companies were identified. To this end, in discussion with experts in the field of stakeholder relations, a common CSR framework was developed for the organisations in Sri Lanka. Secondly, the research variables, such as CSR and company performance (CP) indicators, had to be recognised. Thus, a new CSR index was developed based on the framework created in the first step. Thirdly, the data was analysed to identify the significant relationship—a panel data regression analysis of the impact of CSR performance on financial performance was used to do this.

To provide a foundation for this study, this chapter is organised as follows: Section 1.2 presents an introduction to the study's context, Section 1.3 details the research aims, Section 1.4 outlines the study's contribution to the literature, Section 1.5 discusses the study's significance, Section 1.6 explains the conceptual framework employed, Section 1.7 outlines the study's approach and methodology, Section 1.8 describes the study's limitations, Section 1.9 presents the data availability, and Section 1.10 outlines the structure of this thesis.

1.2 Context

The important of CSR in developing countries has been discussed by several authors. One study of Asian companies (Belal 2001) argued that developing countries are concerned about foreign investment bringing potential dangers, industrial development

showing adverse environmental impacts and social ills. Rais and Goedegebuure (2009) and Chappel and Moon (2003) in their research in developing countries have highlighted that globalization encourages CSR in developing countries and The National Business Systems Structure in particular, the political, financial, educational and cultural backgrounds of CSR in multinational companies. Furthermore, developing countries have societal and environmental problems such as human rights, environmental pollution and labour issues. However, people in developing countries believe that multinational companies (MNCs) can solve these problems engaging with CSR initiatives under sustainable development and co-operation with civil society (Ite, 2004). Business organisations are always thinking to increase their financial performance. If they engage with socially responsible activities, they can solve the societal and environmental problems (Henderson, 2001). Because the above problems are common to developing countries, researchers also suggested to overcome those issues implementing CSR practices. The issues outlined above are directly relevant to Sri Lanka, a developing country in the third world. Therefore, the current study will firstly identify existing CSR practices and confirm their benefits through investigating CSR and company performance.

By the late 1980s, CSR had attracted worldwide attention and several scholars had determined that socially responsible companies enjoy a number of benefits. These include profitability factors, such as achieving a competitive advantage (Smith 1994; Porter and Kramer 2002); generating a positive corporate image (Smith and Stodghill 1994); attracting and retaining the best employees (Turban and Greening 1997); and enhancing customers' loyalty by increasing their general estimation of the company (Brown and Dacin 1997). However, some have acknowledged that socially responsible initiatives could create additional costs (Agarwal 2008; Sharma & Talwar 2005) and companies could experience some economic disadvantages from implementing CSR (Ullmann 1985; Turban and Greening 1997).

Developed economies have addressed the main issues of CSR in different ways (Friedman 1984; Carroll 1991; Freeman 1984). Theories such as stakeholder theory (Freeman 1984) and profit maximisation theory (Friedman 1984) are logical theories which have been developed by those scholars researching CSR concepts.

Freeman's (1984) stakeholder theory suggests that a company's obligation is not only to maximise profit but also to increase stakeholder satisfaction. Carroll (1991) criticised profit maximisation responsibility and stated that "there is a natural fit between the idea of corporate social responsibility and an organization's stakeholders" (p. 43), further clarifying that stakeholders should be satisfied with the company's objectives. Carroll (1991) stated that 'this win-win outcome is not always possible' but suggested that, should this be achieved, the long-term protection of the company with the company's interest increases (p. 43).

In response to this, Friedman (1982) suggested that CSR maximises shareholder wealth. Carroll (1991) supported Friedman's argument to disclose the economic and official mechanism of CSR of the organisation. Friedman's argument showed that organisations should address five economic responsibilities (see Chapter 2) as well as profit maximisation. Carroll added that those five economic responsibilities were based on the legal responsibilities of the companies because there is a societal agreement between the companies and society. However, he further clarified that the social responsibility of the organisation should increase the interested parties' satisfaction. This is supported by Freeman's (1984) stakeholder theory on CSR.

Recently, researchers have considered further research for CSR investigation such as the relationship between CSR and company performance, and CSR in developing countries. These research areas have allowed company win-win situations to be identified by accepting that 'profits and principles reinforce each other' (Graafland 2002, p. 294). However, a company's long-term targets should have positive social and environmental effects (Daviss 1999, p. 33), and responsible interactions (Wheeler and Elkington 2001). The main objective of the organisations is to maximise profits; therefore, to be sustainable, organisations 'must be able to both secure the right to operate and make a profit' (Yongvanich and Guthrie 2006, p. 310). Conversely, Carroll (1991) has suggested that an organisation's responsibility is to act in a socially responsible way, doing this not only to be profitable but also to 'obey the law, be ethical, and be a good corporate citizen' (Carroll 1991, p. 48). It is generally acknowledged that CSR is more often implemented and studied in developed countries such as the USA, Canada, Australia and the UK. For this reason, the theory and practice of CSR in developing

countries such as Asia, Africa and Latin America still needs to be discussed and debated at length.

Researchers in developing countries are now beginning to examine the concept of CSR in more depth. Of particular interest is whether, and to what extent (Dober and Halme 2009), prevailing Western notions of CSR can be implemented in developing countries (Jamali 2007), and whether CSR has positive business benefits (Dutta and Durgamohan 2008). Although various stakeholders have pushed companies to implement CSR in developing countries, it seems many firms do not have sufficient knowledge to actualise it (Fernando 2007). Moreover, there are no accepted rules in developing countries to enforce stakeholder demands (Chambers et al. 2003; Blowfield 2004; Chapple and Moon 2005; Thorpe and Prakash-Mani 2006; Visser 2008). Others suggest that managers' lack of understanding about the benefits of CSR inhibits its implementation (Fernando 2007; Agarwal 2008). Consequently, stakeholders and organisations have poor information about the applicability of many aspects of CSR in developing countries. Furthermore, this information comes from global institutions such as UN Global Compact, and Global Reporting Initiative (GRI), which have supported the development of many CSR plans. For example, UN Global compact has introduced ten principles, which are used in both developed and developing countries as a foundation for applying CSR in their organisations. Table 1.1 below shows those ten principles.

Table 1.1:   The 10 Principles of UN Global Compact

Substantive Area	Principle
Human Rights	1.Business should support and respect the protection of internationally proclaimed human rights; and 2. Make sure that they are not complicit in human rights abuses.
Labour Standards	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; 4. The elimination of all forms of forced and compulsory labour; 5. The effective abolition of child labour; and 6. The elimination of discrimination in respect of employment and occupation.
Environment	7. Businesses should support a precautionary approach to environmental challenges; 8. Undertake initiatives to promote greater environmental responsibility; and 9. Encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	10.Businesses should work against corruption in all its forms, including extortion and bribery.

Source: Adapted from the UN global Compact
 (http://www.unglobalcompact.org/aboutthegc/thetenprinciples/index.html)

However, the study of the relationship between CSR and company performance is significant because if it is found that the relationship is positive, then this will provide support for the win-win argument. Indeed, the literature has reported contrasting results because 'many of the studies suffer from model misspecification and/or limited data' (Elsayed and Paton 2005, p. 396). Elsayed and Paton identified a considerable gap in the literature 'very few studies have controlled for firm heterogeneity or considered dynamic effects in the financed and social and environmental performance relationship' (p. 396).

Sri Lanka is a country with a long history, dating back more than 2500 years. The majority of people are Buddhist and they believe that they are responsible for each other and that this is important in the development of their lives. This responsibility extends to business as well. Therefore, the term 'social responsibility' is not new to Sri Lankans. However, as described in Chapter 4, the concept of CSR is new to business organisations and the real meaning of the concept is combined with the idea of 'social giving' (Ariyabandu and Hulangamuwa 2002; Rathnasiri 2003; Fernando 2010). Some companies in Sri Lanka already implement a variety of CSR practices and many report their initiatives via company websites, sustainability reports and annual reports. Further, organisations have used international CSR practices, and many philanthropic works have been conducted with different stakeholders for the various reasons including stakeholders' pressure, and managerial attitudes (see Chapter 2).

Despite this, researchers have not yet identified exactly what CSR means in the Sri Lankan context and whether any business benefits exist (Fernando 2007). As previously mentioned there is a dearth of CSR research on the Sri Lankan context and some studies have proposed framework development and emphasised the importance of the concept of CSR (Rathnasiri 2003; Fernando 2010). Thus, the main aims of the present study are to identify following: the existence of CSR in companies in Sri Lanka, to develop a new CSR framework and a CSR index, and investigating the relationship between the CSR and CP in the listed companied of Colombo Stock Exchange (CSE). Developing countries are presently ready to identify the benefits of investing in the CSR. In addition, the   present study try to identify the return and/or benefits of investing money for CSR activities. The return of the investment can measures using financial data such as net profit, net assets, and overall sales. However, the total return of the firm may increase under different internal and external reasons, such as managerial efficiency, employment morale, new technology, and other investments. The question being posed is what would happen to a company's performance when increasing and/or implementing CSR opportunities under the stakeholder relations? Here, CP is identified as financial performance and non-financial performance. The present study looked at only the company's financial performance such as return on assets, sales and equity of the selected listed companies on the CSE.

The purpose of developing a framework for CSR in Sri Lanka was to answer the following research question: 'Is corporate social responsibility performance related to CP in the Sri Lankan corporate sector?' To explore possible answers to this question, three subsidiary questions were addressed:

1. What does CSR mean in the Sri Lankan context?
2. To what extent are Sri Lankan companies socially responsible?
3. Is there a relationship between CSR and the CP of Sri Lankan companies listed on CSE?

1.3 Aims

The definitions of CSR vary among studies, even though there is considerable common ground among them (Carroll 1979; Welford 2004). Davis and Frederick (1984) stated that CSR is an organisation's obligation to engage in activities that protect and contribute to the welfare of society, including general communities, customers, shareholders, the environment and employees. Their point is that these groups have come to expect something more from businesses than products and services. Along similar lines, Freeman (1983) referred to an organisation's corporate responsibility in terms of its stakeholders. The World Business Council for Sustainable Development (WBCSD) (1999) has incorporated many of these perspectives and defined CSR as 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' (p.3). Some scholars have expanded understandings of CSR by developing corporate social performance (CSP) frameworks (Carroll 1979; Wood 1991) that incorporate CSR principles, theoretical frameworks and indices. Wood's (1991) conceptualisation of CSP involves 'a business organisation's configuration of principles of social responsibility, process of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships' (p. 693).

Despite considerable research into CSR, little agreement exists about exactly what CSR involves and the frameworks, standards and indices that should guide its practice

(Carroll 1991; Maignan and Ralston 2002; Crane and Matten 2007; Matten and Moon 2008; Visser 2008; Azmat and Samaratunge 2009). This lack of agreement generates a number of measurement difficulties (Clarkson 1988; Wood 1991; Davenport 2000), providing one of the major limitations of carrying out CSR research. Ruf et al. (2001) stated that the construction of a composite measure of corporate social performance was crucial for the development of a CSR theory. A poorly understood definition of CSR and the measurement difficulties associated with this concept create challenges for assessing whether CSR activities contribute to business objectives.

The practice of CSR has been dominated by developments in Western developed countries (such as the USA and the UK) and it is unclear whether it can be applied easily to developing and non-Western countries. Writers such as Edmondson and Carroll (1999), Burton et al. (2000) and Khan (2005) have suggested that different cultural models and traditional customs might mean that a great deal of what is currently understood about CSR may not be applicable in developing countries such as Sri Lanka.

However, researchers have emphasised that developing world needs special attention to develop CSR concepts because these economies have many differentiates with developed ones (Blofield and Frynas, 2005). Furthermore, CSR can be identified as 'a bridge connecting the arena of business and development, and increasingly discusses CSR programmes in terms of their contribution to development' (Blofield and Frynas, 2005, p.499). Policy makers believe business develops the economy, but some areas should be developed such as health, poverty allegation programmes and building human capital. These developments can be done by increasing CSR programmes.

In the present study, CSR implies six stakeholder characteristics: such as employees, customers, social, environmental, education and health, and CP includes three financial performance indicators such as return on assets (ROA), return on equity (ROE) and return on sales (ROS). These terms are briefly clarified later in Chapter 5.

In response to the lack of clarity regarding CSR and CP, and debate about CSR's applicability in non-Western countries, one purpose of this study was to construct an index for quantifying CSR in Sri Lankan companies. In exploring the quantity of CSR

in these companies, the relationship between CSR and CP could then be assessed. More specifically, this study aimed to:

- develop a framework for identifying the CSR practices of companies operating in Sri Lanka
- develop an index for measuring the CSR performance of Sri Lankan companies listed on the CSE
- investigate the relationship between CSR and CP in Sri Lankan companies.

1.4 Contribution to the literature

This study has made several original contributions to the literature. It is the first comprehensive investigation of the relationship between the CSR and CP of the companies listed in the CSE in Sri Lanka. Further, the aim of this study does not generalise the overall CSR of Sri Lanka through its findings; rather, it has attempted to develop a CSR framework and an index for measuring the CSR, supportive to the main study objective. Past researchers have studied CSR in both the developed and developing worlds and the relationship between the CSR and CP in developed countries, but few have studied this in developing countries such as Sri Lanka. Therefore, this study represents an important contribution to the CSR literature in Sri Lanka.

Secondly, this research examined the relevance of different management theories in explaining CSR and identifying the relationships among the variables. In particular, the theoretical contribution of this study that it confirms the relevance of stakeholder theory. Thirdly, the research methodology used for this study has made an important contribution to CSR research in Sri Lanka. To collect the primary data of this study, the researcher used the Delphi method, which is a useful research technique in building a new model such as a CSR framework. To the researcher's knowledge, this was the first time the Delphi method had been applied to CSR research in Sri Lanka. Further, to create the index, the study used a dichotomous process, also new to Sri Lankan studies for this purpose. A third technique applied was a new econometric method to analyse

the data for investigation of the relationship between CSR and CP, also novel in Sri Lankan studies.

Finally, this study used a mixed-method research design, incorporating both quantitative and qualitative methods, which made an important contribution to the research in Sri Lanka since researchers in this country have used mainly quantitative methods.

1.5 Significance

The present study has made a significant practical contribution to the field of CSR because it contains econometric outcome supports as well as the application of appropriate CSR strategies and policies. The econometric outcome was obtained from the panel data regression analysis, and the CSR strategies and policies were identified from the development of framework and the CSR index. Much of the existing research on the relationship between CSR and CP has focused on the point of view of Western countries, particularly those of the USA, UK and Australia. The literature has emphasised that an appropriate CSR framework is an important factor in ensuring CSR policies and principles in the developing countries (Rathnasiri 2003; Fernando 2008; Moon 2002). Present CSR researchers such as, McWilliams et al.(2006) and Rodríguez, et al.(2006) have criticised research in CSR as poor claiming there has no accepted definition, lack of operationalisation and accepted measurement.

The present study attempts to overcome the above issues by developing a CSR framework and index specifically tailored to the context in Sri Lanka. The CSR framework is an essential management tool   and the index is   valuable for management decision making. In addition, the framework can be used as a model to continue CSR research and decision making for future researchers. Further, the process of developing a CSR framework can be useful for management as well as stakeholders to help them understand the concept of CSR (Carroll 2004; Maon et al. 2009).

Recently, CSR studies have focused on the contexts of different countries, specially, contexts such as developing countries, but as previously mentioned in this section, the main issue has been the lack of consistency of CSR definitions, measurements and CSR information.

As mentioned earlier, the most difficult task for CSR research is the measurement of CSR performance. Wood (2010) stated that there are a number of CSR studies used the measures but that they cannot be differentiated into principles, processes or outcomes. Wood (2010) argued for the appropriateness and power of measures based on the quality of relevant theory, the observability of relevant phenomena and the accuracy and reliability of observers. Wood (2010) discussed the tension-ridden debates around the literature and concluded with a moral imperative stance rather than one of measurement.

Such measurement helps researchers to investigate the relationships by quantifying CSR and allows transparency between management and stakeholders. Abbott (1979) stated the two main CSR measuring issues for research in the CSR field as follows: first, the lack of quantitative social activities data and the second, difficulty of the methodology used by scholars to recognise the full effect of the society. Therefore, utilising the quantified figure that can recognise the firm's CSR performance. As a result, management can make decisions that will reduce conflicts between the organisation and its employees, and the community and its customers. Therefore, the present study significantly adds to the body of knowledge by expanding CSR research area in the Sri Lankan context.

The literature revealed that the CSR concept is a voluntary participation and internationally recognised concept. Implementing this concept companies get the advantages and investors can make the benefits. Thus, introducing a CSR framework makes sense to both an organisation and its stakeholders as it helps them to understand CSR practices. Finally, as already outlined, the main objective of this study was to examine the relationship between CSR and CP to illustrate the specific relationships among the variables. This provides support for the win-win argument, which will encourage companies to increase investment in CSR practices. Thus, this study has made a good contribution to CSR practices.

1.6 Conceptual framework

The present study examined the relationship between CSR and CP in the context of companies publicly listed on the CSE in Sri Lanka. Based on the literature review, a

conceptual framework was developed, as described in Chapter five of this study. Figure 5.1 shows the conceptual framework of the study which presents CSR as the independent variable and includes the following six social relations: employees, communities, environmental, customers, educations and health. The company performance shows as the dependent variable which is a profit function of companies— for example, ROE, ROA and ROS. Furthermore, the conceptual framework was designed to focus on the three research questions which have been described earlier in section 1.2. The main CSR theory in this study was based on stakeholder theory. In addition, profit-maximising theory and social contract theory were also considered.

To achieve the research objectives of the study, two main hypotheses were developed (see Chapter 5), in order to examine the nature of the relationship between CSR and CP. The determinants of CSR, that is, the measures of social performance, have not been developed formally. Therefore, the present study represents an attempt to fill this gap by developing a CSR measurement index appropriate for Sri Lankan organisations. Using this index, the study measured CSR then identified the relationship between the two variables. The CSR measures were correlated with measures of CP, implying that CSR performance is linked to CP, such that CP is caused by CSR performance (Simpson and Kohers 2002).

A host of CSR studies have endeavoured to identify evidence of a positive relationship between corporate financial performance (CP) and CSR performance (Cochran and Wood 1985; McGuire, Sundgren and Schneeweis 1988; Waddock and Graves 1997), but those studies have not let to any concrete conclusions. Prior studies have suggested that research and development (R&D), firm size and industry affect the relationship between CP and CSR (Ullman 1985; Fombrun and Shanley 1990; Waddock and Graves 1997; Waddock et al. 1998). Therefore, this study used firm size as the control variable. The firm size of an organisation is determined by its annual sales and total assets (Cowen and Scott 1987; Waddock and Graves 1997; Stanwick and Stanwick 1998; McWilliams and Siegel 2000).

1.7 Approach and methodology

The three research questions are outlined in Section 1.2 (Firstly, what does CSR mean in the Sri Lankan context? Secondly, to what extent are Sri Lankan companies socially responsible? and thirdly, is there a relationship between CSR and the CP of Sri Lankan companies listed on the CSE, were answered by developing a framework based on interviews, surveys and the relevant literature. This framework was then used to formulate a CSR index and subsequently investigate the relationship between CSR and CP in Sri Lanka. The study used both qualitative and quantitative research methods for achieving the research objectives.

The present qualitative study used the Delphi method, also adopted by Davenport (2000) to investigate the principles of corporate citizenship in 2000. The detailed information of the Delphi is described Section 6.3.1 at Chapter 6 on this thesis. The Delphi method used for data collection in this study was made up of two rounds. In the first round, the 20 participants were involved in semi-structured face-to-face interviews to identify the social and environmental expectations of business organisations in Sri Lanka. The data were analysed using content analysis.

Another qualitative approach of the study has been to formulate the CSR index. Lopes and Rodrigues (2007) used the disclosure index which the current study followed. The details of the index are described the Section 6.3.2 in Chapter 6 of this thesis.

The quantitative approach of the study involved identifying the relationship between CSR and CP, adopting the econometric model panel data regression analysis. This model was determined as the most appropriate methodology for this study because it uses both cross-sectional and time-series data for a five-year period. A detailed description appears in Section 6.3.3 of Chapter 6.

1.8 Limitations of the existing literature

There are two main limitations in the existing literature on CSR in developing countries. First, there are fewer research studies of CSR in the developing world than in developed

nations. Secondly, the majority of studies have been cross-sectional and conducted only to review CSR within the companies, not to examine the development of CSR practices in the country overall (Gray et al. 1995; Tsang 1998). CSR practices in developing countries are implemented by individual company management styles, adopting UN Global compact principles as described in Table 1.1 above. CSR reporting is not a compulsory requirement; however, the firms disclose their CSR plans and activity in the annual reports under the Sri Lanka Accounting and Auditing Standards Monitoring Board. Researchers have identified theoretical frameworks for the companies implement their own CSR under issues such as employee relations, human rights, corporate ethics, community relations and the environment (Moir 2001). Moir stated that companies need to understand CSR and the areas of responsibility, and that CSR depends on the economic perspective adopted by the firm..

Behavioural theorists, such as Cyert and March, (1963 cited in Wartick and Wood 1998), stated that " corporate social activity from a standpoint that examines the political aspects and non-economic influences on managerial behaviour" (Moir, 2001, p.17). This might also be extended to examine personal motivations, such as the Chairman's personal preferences or alternatively some of the critical perspectives associated with the exercise of power. In addition, the existing literature has identified different limitations in exploring the relationship between CSR and CP studies. Those limitations are related to CSR frameworks, indices, principles and analysing techniques. McWilliams and Siegel (2001) claimed that even though there are more theoretical frameworks developed for CSR, the major research studies such as Preston (1978); Carroll (1979 and Waddock and Graves (1997), have only discussed this terms of utilising stakeholder theory.

Many CSR studies have been undertaken from the points of view of developed countries. For example, CSR principles, elements , frameworks and indices have been developed for the USA. However, these principles and frameworks cannot be accepted in the developing world (Matten and Moon 2004; Chapple and Moon 2005; Matten and Moon 2008) for a variety of reasons such as cultural differences, management attitudes and different business plans. Therefore, the expected results from the concept are inconsistent when applying the present CSR concepts and principles directly to the

developing countries. Along these lines, the following limitation, which this study was designed to overcome, were identified:

1. As CSR is a multidimensional construct, it is not easy to measure its variables. This is one of the limitations identified in the present CSR study.

2. As previously mentioned, Elsayed and Paton (2005) have pointed out that many CSR studies suffer from model misspecification and/or limited data.

3. CSR studies need to control the company heterogeneity and consider dynamic effects in the financial and CSR performance relationship.

4. The framework development undertaken by the present study was based on the CSR activities that the sample companies were engaged in as well as and the literature review. The sample companies identified only six stakeholders and categorised the companies' activities accordingly. Many activities of a philanthropic nature were presently performed by the companies in Sri Lanka. Therefore, this framework is open to philanthropic and non-philanthropic activities.

5. When calculating the CSR index, activities that were reported in the annual reports that were not listed among the 28 in the framework were excluded. Only the 28 activities recognised in the framework have been used.

6. The study sample was selected from eight industries in the CSE and the sample size was 50. At the time this study was undertaken, the CSE listed 240 companies and categorised those into 20 industry sectors. However, as the information disclosed by most of the listed companies was limited, companies were selected only if they disclosed all CSR information for the past five years.

1.9 Availability of data

Availability of company data relating to CSR was confirmed by a pilot study that analysed the annual and sustainability reports of ten companies listed on the CSE over the previous five years. All listed companies must document their CSR contributions and activities in separate sections of their annual reports according to the policy of the Sri Lanka Accounting and Auditing Standards Monitoring Board adopted in 2004. However, Khan (2006) stated that the companies in Sri Lanka use International Financial Reporting Standards (IFRS) to prepare their financial statements. Further, the voluntary Code of Best Practice on Corporate Governance has been developed by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission (SEC) in consultation with the CSE to strengthen the corporate governance framework in Sri Lanka. According to these external governance policies, CSR practices are disclosed in the annual reports as a communication system. If firms will not communicate their CSR activities, they have no disclosure environment and CSR performance cannot be measured. Therefore, the communication of CSR is being used as a proxy for corporate social performance by Sri Lankan firms.

To develop a framework for social responsibility in Sri Lankan companies, a literature review relating to CSR in Sri Lanka was undertaken, a group of selected stakeholders was interviewed and a questionnaire was administered. The framework developed from the collected data was then used to produce an index of socially responsible performance against which the relationship with CP could be assessed.

1.10 Research outline

This thesis comprises nine chapters. The present chapter introduces the topic and provides background to the study. It includes an outline of the three objectives and three methodologies used in the study.

Chapter 2 provides a review of the literature on CSR practices in developed countries since the 1950s. This chapter considers the concepts, principles and reasons why CSR is implemented by company management, taking examples from the studies of CSR in

developed countries. In addition, the definitions and theories of CSR as well as the evolution of CSR in the developed world are discussed. Further, the relationship between CSR and CP is explored, again with reference to examples from the developed world.

Chapter 3 reviews the literature on the development of CSR in developing countries, considering why CSR is practised in these countries, how the concept of CSR differs in different in developing compared with developed countries, and the theoretical perspectives of developing countries as well as other key considerations.

Chapter 4 explores the development of CSR in Sri Lanka and incorporates an historical review of the country as well as consideration of the social and economic environment of the country and development of the capital market. In addition, it highlights the challenges for sustainable development in Sri Lanka. The remaining sections of the chapter include a discussion of CSR in Sri Lanka and related regulations and guidelines.

Chapter 5 explains the conceptual framework and hypothesis of the study, describing the development of the conceptual framework used to understand the effects of the variables on CP and the identification of the hypotheses regarding the relationship between corporate social elements and CP.

Chapter 6 discusses the study methodology. To achieve the main objective of the study three steps had to be undertaken. This chapter discusses the methods used in the pilot study, which was conducted to identify data availability in Sri Lanka, and the methodologies used in developing the conceptual framework, developing the CSR index and exploring the relationship between CSR and CP. Further, it explains the research model used in the study.

Chapter 7 discusses the analysis and results of the study. This study used three methods to achieve the research objectives. First, the content analysis and descriptive statistics results are used for the framework development process. Secondly, the chapter describes the dichotomous process used to calculate the CSR index and thirdly it explains the panel data regression analysis and results used for exploring the significant relationship between CSR and CP.

Chapter 8 discusses the integrated results of all analysis techniques discussed in Chapter 7, using the developed hypotheses outlined in Chapter 5. The discussion incorporates theoretical and empirical evidence along with the literature reviewed considered in Chapters 3 and 4. A summary of the implications of the statistical analysis is also presented.

Chapter 9 summarises the study and draws conclusions. In particular, this Chapter provides an overview of the conclusions drawn about the relationship between CSR and CP. Finally, it also discusses the findings, implications and limitations of the study and suggests directions for future research.

Chapter 2: Corporate Social Responsibility and Company Performance in developed countries

2.1 Introduction

The purpose of this chapter is to analyse the theory of CSR and its application in developed countries, in particular, the UK, the USA and Australia. The degree of CSR and environmental concern among business communities has increased in recent years (Chapple and Moon 2005; Lindgreen et al. 2009). The main theoretical contributions pertaining to CSR have been developed in Europe and USA and the cultural background of countries' is reflected in the studies (Matten et al. 2003; Cochran 2007). However, CSR studies are still in their infancy.

Campbell (2007) stated that corporations normally engage with CSR activities for two reasons. First, because organisations 'must not knowingly do anything that could harm their [interested parties]—notably, their stakeholders such as investors, employees, customers, suppliers or the local community within which they operate. Second, if corporations do cause harm to their stakeholders, they must then rectify it whenever the harm is discovered and brought to their attention' (p.951). Prior CSR studies have focussed to the two broad approaches.

While some studies examined the extent of CSR (Matten and Moon, 2005; David et al. 2005; Tsang et al. 1998), others have examined the identification of key CSR drivers, its benefits and theoretical developments (Hemingway & Maclagan 2004; Porter & Kramer 2006; Welford & Frost 2006; McWilliams and Siegel 2000; Aupperle et al.1985; Carroll 1991; 1999; 2010; Friedman 1984; Freeman 1984; Clarkson 1995). These different CSR studies have focused further attention on the development of the CSR concept. This chapter will identify the different CSR paradigms presented by researchers and then determine the CSR concepts, standards, theories and future research areas. Also discussed, is CSR development, its benefits, previous relationship studies and as well practices in the developed world.

Many CSR studies have aimed to identify the mechanisms of CSR and how it relates to increasing competitive advantages. For example, researchers have tried to identify the impact of social responsibility on various stakeholders, such as employees, customers and society. Some studies have investigated how a company's CSR activities affect its profits (e.g. Waddock and Graves 1997; Luo and Bhattacharya 2006) have argued that CSR increases sales and reduces costs (Cruz & Wakolbinger 2008; Maloni & Brown 2006). Other researchers (Ruf et al. 2001; Griffin & Mahon 1997) have pointed out that improving CSR should lead to higher company performance, whether this is due to reduced costs or increased revenue. Friedman (1970) stated that a company's major responsibility is to maximise its shareholders' wealth. Garriga and Melé (2004), who have stated that shareholder value maximization is suitable with satisfying certain interests of people of the organisation, readily accept Friedman's argument today, for example. They stated that companies receive many benefits by investing in social demands and that 'investing in philanthropic activities might be the only way to improve the context of competitive advantage of a firm' (p.54). In addition, from the perspective of stakeholder theory, CSR can be assessed in terms of a company meeting the demands of multiple stakeholders. Ruf et al. (2001) suggested that there were different approaches to 'satisfying stakeholder demands, ranging from cost minimising to societal maximising. By strategically investing in stakeholders' demands, companies gain a competitive advantage by developing additional complementary skills that competitors find nearly impossible to imitate' (p.143).

The sections of Chapter 2 are organised in the following manner. Section 2.2 presents the history and evolution of the CSR concept. Section 2.3 presents the theoretical perspective of the study which discusses CSR related theories and their relevancy to the study. Section 2.4 reviews CSR concepts and definitions, describing various definitions developed by the literature including a definition of the present study. Section 2.5 presents CSR and terms. Section 2.6 discusses why firms invest in CSR. Section 2.7 presents the benefits of CSR. Section 2.8 discusses the literature on the relationship between CSR and CP studies. Finally, Section 2.9 summarises the chapter.

2.2 Corporate social responsibility—history and evolution

The purpose of this section is to identify the different CSR themes, which have been developed in the business and academic world time to time. Carroll (1999) organised a evolution of a definitional constructs which have been mentioned from 1950s to 1990s representing six decades CSR developments. He stated that the evolution included the CSR definitions, more empirical research, and alternative themes described as social performance (CSP), stakeholder theory, and business ethics theory. Further, Carroll (1999) described these themes from perspective of developed countries.

In order to understand CSR history the present study looked at CSR origins that began many centuries ago, as far back as 1700BC in Mesopotamia. For example, in ancient Mesopotamia, in about 1700 BC, King Hammurabi decreed that builders, innkeepers and farmers should be put to death if their negligence caused deaths or major problems for local people (Brass 2007). Numerous CSR studies have noted the history of CSR since 1776 AD and believe that the modern conception of CSR was begun in the 1950s.

In 1953 a publication on CSR by Bowen reported the *Social responsibilities of the businessman*. According to Bowen (1953, cited in Maignan and Ferrell 2000), CSR was defined as the 'businessmen's obligation to pursue those policies, to make those decisions or to follow those lines of action that are desirable in terms of the objectives and values of society' (p. 4). Because of Bowen's early seminal work, some scholars, such as Carroll (1999) and Windsor (2001), credited Bowen with being the 'father of CSR'. Windsor (2001) stated that Bowen took a broad approach to business responsibilities, as well as social responsiveness, social stewardship, social audit, corporate citizenship and fundamental stakeholder theory (p.23).

Many CSR studies have discussed social activities as being the major responsibility of CSR. According to McGuire (1963) social responsibility is more important than the company's economic responsibility and legal responsibility. He argued that the 'corporation must take interest in politics, community welfare, education and the happiness of its employees' (p.144). McGuire first introduced the social activities of the organisation and showed that business organisations should act as corporate citizens

(p.144). Carroll (1999) described McGuire's (1963) corporate citizenship concept, which has been opened first to business ethics and corporate citizenship areas.

After the introduction to CSR by Bowen, a number of studies played a role in developing the concept of social responsibility (Carroll 1979; Jones 1980; Wartick and Cochran 1985; Carroll 1991; Wood 1991; Waddock and Graves 1997; Carroll 1999). An important contribution was the development of a CSR model suitable for practice in the USA, Europe and the rest of the Western world. Major CSR changes happened in 1990s a concept for treatment of CSR, such as the corporate social performance (CSP) model by Wood. Using this model development, previous CSR dimensions (legal, economic, philanthropic and discretionary responsibilities) became principles, policies and processes (Carroll 1999).

In 1991, Carroll revisited his former four-part CSR definition and suggested the discretionary component as corporate citizenship. Also for the millennium century, he suggested measurement initiatives and theoretical developments, that '[t]he CSR concept will remain as an essential part of business language and practice, because it is a vital underpinning to many of the other theories and is continually consistent with what the public expects of the business community today' (Carroll 1991 p.292).

Matten and Moon (2008) explained why CSR is different for countries using the national business system, which was developed by Whitley in 1997. Further, Matten and Moon (2008) identified two distinct elements of CSR as explicit and the implicit, to address the above issue. Recently, Lockett et al. (2006) and (Visser 2006) identified CSR themes which have been developed from time to time mainly focusing on the social and economic areas. In addition, the CSR standards, principles, and codes have developed and are being developed in this moment in both developed and developing countries.

2.3 Theoretical perspectives of corporate social responsibility

The basic idea of CSR is that business and society are interwoven rather than separate entities (Wood 1991). As discussed, a number of theories have been identified in the

literature to explain CSR. For example, stakeholder theory explains how CSR is important, and the social contract and legitimacy theories explain why CSR is important (Moir 2001).

CSR includes a number of theories and many studies have discussed agency, stakeholder and social contract, that are behind the concept of CSR; these theories and CSR approaches under the themes of economics, politics, social integration and ethics (Parsons and Sociales 1961; Garriga and Melé 2004; Jamali and Mirshak 2007).

Garriga and Melé (2004) described four groups of theories consistent with Parson in 1961: instrumental, political, integrative and ethical theories. According to these scholars, instrumental theory relates to the economic features of the interactions between businesses and society. This is consistent with the wealth creation of the shareholders. Political theory relates to the social power of the company and emphasises the relationship between society and its responsibility in the political arena associated with this power. This theory leads organisations to accept social duties and rights or to participate in certain social co-operations. The third theory discussed by Garriga and Melé (2004) was integrative theory which suggests that the business ought to integrate social demands. Under this theory, Garriga and Melé argue that an organisation depends on society for its continuity and growth as well as for the existence of business itself. The fourth theory they identified as ethical theory, which is defined as the relationship between business and organisation that is embedded with ethical values. This leads to a vision of CSR from an ethical perspective and, consequently, companies ought to accept social responsibilities as an ethical obligation above any other consideration.

Further, Brummer (1991) described four approaches to CSR in his book corporate responsibility and legitimacy. He considered the classical, stakeholder, social demandingness and the social activist models in relation to CSR. Under the classical model, Brummer explained, companies should act in society as economically responsible rather than socially responsible. Therefore, the primary goal of the corporation should be to maximise profit and the primary obligation of managers is to act in the interests of shareholders while not breaking the law. The stakeholder model suggests that a company's responsibility is to satisfy stakeholders, rather than stockholders alone (Freeman 1984). In contrast, the social demandingness model states

that companies exist to answer the demands of the public. Unlike stakeholder theory, this model maintains that management is directly responsible to the public. Finally, the social activism model assumes that corporations are responsible to society and that social activism sets a universal standard for determining society's responsibilities.

Accordingly, the next section describes stakeholder and social contract theories in understanding the theoretical framework of the CSR concept. These two theories include strategies for achieving competitive advantages. Further, stakeholder theory is an important theory to discuss in this literature review section because the aim of this is to develop a CSR framework using stakeholders. The CSR in those developing countries directly relates with its stakeholders and therefore, it is needed to discuss more details to understanding the various scholars' descriptive ideas and real practices.

2.3.1 Stakeholder theory

Stakeholder theory is a theory of organisational management and business ethics that deals with principles and values in managing an organisation (Freeman and Phillips 2002; 2003). According to this theory, stakeholders are recognised as the group of people interested in the company's activities (Freeman 1984; Friedman 2007). Table 2.1 shows what stakeholders expect from their organisations.

Table 2. 1: Stakeholders and their expectations

Stakeholders	Primary expectations	Secondary expectations
Owners	Financial	Added value
Employees	Pay	Work satisfaction, training
Customers	Supply of goods and services	Quality
Creditors	Credit worthiness	Security
Suppliers	Payment	Long-term relationships
Community	Safety and security	Contribution to community
Government	Compliance	Improved competitiveness

Source: Adapted from Cannon (1994).

The originator of the stakeholder concept, Freeman, defined stakeholders as 'any group or individual who can affect or is affected by the achievement of the organisation's objectives' (1984). Recently, Freeman et al. (2004) redefined the term as 'those groups who are vital to the survival and success of the corporation'. The WBCSD (1999) identified stakeholders as representatives from labour organisations, academia, churches, indigenous people, human rights groups, government and NGOs, shareholders, employees, customers/consumers, suppliers, communities and legislators. Further, Friedman (2006) identified stakeholders as customers, employees, local communities, suppliers and distributors as well as shareholders. Other groups and individuals are also considered stakeholders, including, the media, the public, business partners, future generations, past generations (founders of organisations), academics, competitors, NGOs or activists, stakeholder representatives such as trade unions or trade associations of suppliers or distributors, financiers other than stockholders (debt holders, bondholders and creditors), competitors and government, regulators and policymakers.

According to stakeholder theory, the company's major objective is to balance the expectations of all stakeholders through their operating activities (Ansoff 1965). The way businesses involve shareholders, employees, customers, suppliers, governments, NGOs, international organisations and other stakeholders is usually a key feature of the CSR concept (Fontaine et al. 2006). Clarkson (1995) stated that the fundamental aspect of stakeholder theory is determined the stakeholders of an organisation and reveal the organisation's responsibility for them. In addition, they are important to the organisation because their investment is subject to risk due to the activities of the organisation.

Three stakeholders affected by companies were identified by the present study: employees, customers and communities. In addition, an environmental factor was identified, which was of more concern to organisations than the impact of their social responsibility, which also affected stakeholders.

As well, stakeholder theory can be considered a CSR theory, because it gives a normative framework for responsible business towards society (Melé 2008). However, Donaldson and Preston (1995) have stated that 'the stakeholder theory could be or/and would have been presented and used in a number of ways that are quite distinct and

involve very different methodologies, types of evidence, and criteria of appraisal' (p.70). Accordingly, they categorised three branches of stakeholder literature: descriptive, instrumental and normative approaches. Each branch is discussed in the following sections and the common features of the various conceptions of stakeholder theory are identified.

2.3.1.1 Descriptive stakeholder theory

This theory aims to understand how managers deal with stakeholders, how they represent their interests and the impact the stakeholder approach has on the achievement of various corporate goals. Donaldson and Preston (1995) identified that descriptive stakeholder theory has been used to describe the following: the nature of the company (Brenner and Cochran 1991), the way managers think about managing (Brenner and Molander 1977), how board members think about the interests of corporate constituencies (Wang and Dewhirst 1992) and how some corporations are actually managed (Halal 1990; Clarkson 1991; Kreiner and Bhambri 1991).

2.3.1.2 Instrumental stakeholder theory

This theory has been used to determine whether there is a link between stakeholder management and different corporate objectives such as profitability and growth. Donaldson and Preston (1995) explained that all research on CSR makes explicit or implicit reference to stakeholder perspectives using conventional statistical methodologies. Further, some studies have used direct observations and interviews to generate 'implications', suggesting that adherence to stakeholder principles and practices achieves conventional corporate performance objectives as well or better than rival approaches.

2.3.1.3 Normative stakeholder theory

Normative stakeholder theory identifies the theoretical procedure linked to the activities or the management of corporations (Donaldson and Preston 1995). Donaldson and Preston considered this the core of stakeholder theory and identified the main objectives of normative theory as determination of 'the responsibilities of the company in respect

of stakeholders' and the reasons 'why companies should take care of the stakeholders interest than shareholder interest'.

2.3.1.4 Limitations of the stakeholder theory

The limitations of the stakeholder theory have been discussed by a number of authors. Capron (2003, cited in Branco and Rodrigues 2006) pointed out that stakeholder theory has not addressed the 'mute' stakeholders (the natural environment) and 'absent' stakeholders (future generations or potential victims). Phillips and Reichart (2000) also pointed out that the natural environment should be considered a stakeholder. However, this viewpoint has been criticised since the natural environment cannot be considered a stakeholder. The term stakeholders usually refers to groups or individuals and therefore, cannot be considered a stakeholder (Buchholz 1991) "only humans can be considered as organizational stakeholders" (Branco and Rodrigues 2007, p. 7).

Another criticism is that the power of stakeholder groups is weakened by stakeholder theory because the theory says that corporations should treat all equally. Thus, labour unions could be avoided, damaged or even eliminated (Weiss 2008). In addition, corporations will become weak, because they will attempt to serve all stakeholders' interests. Corporations cannot cater to all stakeholders and protect their owners at the same time.

To summarise, stakeholder theory argues that corporations should treat all its stakeholders fairly and by doing so can improve their performance in the marketplace (Weiss 2008) and thereby secure their future. Freeman (1999) stated that 'if organisations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organisation's purposes' (p. 193). This view suggests some advantages for organisations. For example, if organisations treat their stakeholders fairly, then the power of stakeholder groups could be weakened—for example, labour unions, which cannot be powerful when eliminated. However, organisations could be weakened when trying to maximise stockholders' wealth. Stakeholder theory has changed the long-term character of capitalism; organisations have no legal responsibility to their stakeholders other than to their stockholders.

2.3.1.5 Strengths of stakeholder theory

Melé (2008) has recently outlined several strengths of stakeholder theory. First, "the theory seems ethically superior to maximizing shareholder value because it takes into consideration stakeholder rights and their legitimate interests, and not only what is strictly required by law in manager-stakeholder relations" (p. 66).

Secondly, stakeholder theory has dated the theoretical imprecision of CSR by addressing concrete interests and practices and visualising specific responsibilities to specific groups of people affected by business activity (Clarkson 1995; Melé 2008). In addition, Melé (2008) pointed out that stakeholder theory is a managerial theory that is related to the organisational goals and does not come within reach of business management. Melé further stated that the theory ensures long-term rather than short-term success. Berman et al. (1999) supported Melé, but acknowledged that further research will be required to establish sound conclusions about the relationship between stakeholder theory and CP.

2.3.1.6 Friedman (1984) Vs Freeman (1984)

The responsibility of corporations has divided the literature in two ways. The first is the historical/traditional view, as identified by Friedman (1984), and the second is the Freeman's (1984) modern (stakeholder) view. Companies are more interested in seeing whether stakeholder or shareholders, have been discussed in studies from the perspective of stakeholder theory.

2.3.1.7 Neo-classical view of corporate social responsibility

If businessmen do have a social responsibility other than making maximum profits for their shareholders, how are they to know what CSR is? Can self-selected private individuals decide what the social interest is? (Friedman 1962). Before Milton Friedman, classical economists, with Adam Smith as their pioneer, also assumed that if the government would mind its own business, markets could still be 'perfect' and self-correcting, and the gross national product (GNP) could be the proper barometer of societal

wealth. Friedman defines the social responsibility of business in a strictly limited neo-classical economic sense.

The neo-classical profit maximisation view is that managers should increase the company's wealth, rather than the stakeholders' interest. The stakeholders' interest is defined in addition to shareholders' interest. The modern company has developed from the traditional industrial capitalist company that emerged following the industrial revolution of the late nineteenth century, which had the sole objective of maximising shareholders' wealth (Lashgari 2004).

Moreover, Friedman's (1970) framework showed companies as owned by shareholders, are the principals of the company. In this framework, managers are the agents with a duty to serve the interests of their principals. If shareholders as principals wished to support social goals, they could do so with the returns from their shareholdings rather than through CSR. Principals prefer to maximise their financial returns and then allocate those returns to consumption or social giving. Friedman called this the 'separation theorem'.

Although these companies worked within the law, they were expected to behave as ruthlessly as possible in pursuit of profit, which was in the name of social welfare as per Smith's (1796) model of the market economy (Luthans et al. 1984). Within the traditional model, Friedman's (1982) view was that, in a capitalist economy, the only responsibility of business is to use its resources to engage in activities designed to increase its profits, as long as these activities are undertaken without deception or fraud.

Neo-classical economic arguments suggest that managers should make decisions that maximise the wealth of the company's equity holders (Friedman 1962). Conversely, some scholars have argued that companies have a duty to society that goes well beyond simply maximising the wealth of equity holders (Freeman 1984: Swanson 1999). These studies have stated that such a narrow focus can lead management to ignore other important stakeholders—including employees, suppliers, customers and society. Further, they note that sometimes the interests of these other stakeholders should achieve something in the interests of a company's equity holders in managerial decision-making, even if this reduces the present value of the company's cash flow

(Freeman 1984; Clarkson 1991; Donaldson and Preston 1995; Wood and Jones 1995). Managers do this by making decisions that maximise the present value of a company's future cash flow (Copeland et al. 2010).

Hence, a number of authors have argued, businesses should not run solely for the interests of stockholders (Donaldson 1982; Miller and Ahrens 1993). Rather, businesses have a social responsibility that requires them to consider the interests of all parties affected by the actions of that business. Management should not only consider its stockholders (shareholders) in their decision-making process, but consider also anyone who holds a stake in the outcomes.

Many organisations use natural resources as raw materials to produce goods and services. Those resources are gradually diminishing and future generations will not be able to utilise them. Social pressures are placed on organisations by various pressure groups. Hence, social and environmental activities need to be implemented for both present and future generations (Agarwal 2008). If organisations are run in a socially irresponsible manner, then many internal and external conflicts can arise between organisations and stakeholders—for example, regarding employee strikes, the government imposing regulations and environmental problems. Therefore, the company's defensiveness is directly affected by the CSR concept. Despite this, debates continue about whether companies should engage in socially responsible behaviour.

2.3.1.8 Stakeholder-view of corporate social responsibility

When a firm makes a profit, this means that productive factors of the earth are used to satisfy human needs and are at the service of the whole society (Pope John Paul II 1991).

According to the modern view of CSR and stakeholder theory, companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. Not only should shareholders be considered in decision-making processes, but also any individuals affected by business decisions. Business should make decisions ethically; if not, organisations will pay large penalties (Weiss 2008). In addition to these costs, there are many other disadvantages reported (Weiss 2008), such as 'deterioration

of relationships, damage to reputation, declining employee productivity, creativity, loyalty, ineffective information flow throughout the organisation and absenteeism'. Therefore, businesses act in line with the moral and legal rights of the individuals and groups that comprise their stakeholders. This ethical principle is considered social responsibility to the stakeholders.

Moreover, Weiss (2008) has advised that moral rights—the freedom of an individual to pursue their interests as long as those interests do not violate others' rights—are connected to duties. This principle of rights is useful in 'stakeholder analysis' (the analysis that companies undertake in dealing with their stakeholders, in which strategies, actions and policies and stockholders are identified) when the conflicting legal or moral rights of individuals occur or when rights may be violated if certain courses of action are pursued (Weiss 2008, p. 110).

2.3.1.9 Disagreement between the two views.

This information about stakeholder theory and its behaviours relate to the essential development of the organisation. However, it is more important to consider why companies follow-up stakeholder theory in relation to CSR. Profit maximisation is controlled by legal justice because organisations should not earn profits in a socially irresponsible manner and without regard for individual rights (legal and human), which should be extended to all stakeholders (Weiss 2008). Organisations should act in socially responsible ways to ensure their legitimacy. In addition, their decision-makers should make decisions in an ethical manner—a manner that has been described as Kant's principle of the categorical imperative (Shaw et al. 2010). This principle consists of two parts. The first part is that 'a person should choose to act if and only if she or he would be willing to have every person on earth, in that same situation, act exactly that way' (Weiss 2008, p. 107). The second part is that, in an ethical dilemma, 'a person should act in a way that respects and treats all others involved as ends as well as means to an end' (Weiss 2008, p. 107; Shaw et al. 2010). These three ethical principles (justice, rights and Kant's categorical imperative) can be applied in socially responsible ways to their stakeholders; the decisions are taken by the authority, equal to everybody in an organisation.

Weiss (2008) identified four levels of ethical issues: individual, organisational, societal and international. Each issue level should be addressed by organisations for managerial decision-making purposes according to five ethical principles: utilitarianism (actions and plans judged by consequences), universalism, rights (people have the fundamental right to be respected in all decisions), justice (distribution of costs and benefits to be equitable, fair and impartial) and ethical virtue. As ethical problems arise from the various levels of business ethics, business leaders and professionals need to manage a wide range of stakeholders inside and outside of the organisation.

2.3.1.10 Development of basic stakeholder relations

Another way to consider the social responsibilities of business is to examine those affected by business decisions, namely, the stakeholders (Jones 1980). Stakeholder theory shows stakeholders as basically internal and external (Mitchell et al. 1997). Clarkson (1994) defined stakeholders as voluntary or involuntary risk-bearers. According to Freeman (1984) 'stakeholders' are 'any group or individual who can affect or is affected by the achievement of the organisation's objectives' (p. 46). Further, he argued that stakeholders are "groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions" (Freeman 1998, p. 174). He went on to note that the decision-makers in companies (managers) should consider the shareholders as well as the stakeholders who are affected by business decisions (1998). In addition to shareholders, stakeholders include creditors, employees, customers, suppliers and communities at large. In contrast to the classical view, the stakeholder view holds that "the goal of any company is or should be the flourishing of the company and all its principal stakeholders" (Werhane and Freeman 1999, p. 7).

Mitchell et al. (1997) described stakeholders as "primary and secondary stakeholders; as owners and non-owners of the firm; as owners of capital or owners of less tangible assets; as actors or those acted upon; as those existing in a voluntary or an involuntary relationship with the firm; as rights-holders, contractors, or moral claimants; as resource providers to or dependents of the firm; as risk-takers or influences; and as legal principals to whom agent-managers bear a fiduciary duty"(p.854). On the other hand, Clarkson (1994) believes that "Voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a

firm. Involuntary stakeholders are placed at risk as a result of a firm's activities. But without the element of risk there is no stake" (p. 5).

Branco and Rodrigues (2007) pointed out that 'stakeholder theory, asserts that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions' (http://ejbo.jyu.fi/pdf/ejbo_vol12_no1_pages_5-15.pdf). In addition, Hay and Gray (1977) described the early twentieth century CSR developed as a form of trusteeship, whereby the corporation recognised that multiple groups such as employees, customers, stockholders and creditors held competing claims. A corporate manager became a trustee for more than just the owner's concerns when making decisions for the corporation. Diffusion of corporate ownership through stock contributed to this situation, as no single owner or even small group of owners controlled the corporation. Multiple stakeholders, such as unions and government had an impact on corporations and influenced the corporation to address demands of multiple groups. This was partly influenced by the Christian notion of brotherhood in society.

In the 1960s and 1970s, US organisations were concerned about consumer and environmental protection activities. This led to a period of increasing efforts to regulate corporate activity. Prior to this, organisations had listened only to their shareholders' views and ignored any criticism of their corporate activities—that is, the organisations attended only to shareholders' responsibilities. However, this changed in the 1960s, which was a period of enlightenment for many stakeholders, especially consumers, when people began to consider the quality of products, human rights and natural resources; thus, they argued with organisations about their rights (Andriof 2002). In 1970s, US corporations as a business form of organisation developed rapidly, taken a commercial viewpoint that spelled out CSR duties and responsibilities of the top management to their shareholders.

Kuhn and Shriver (1991) examined some managerial metaphors in their book *Beyond success*, pointing out that in early 1900s CSR came to the organisation from outside the corporation in the form of employees' unions. They stated that managers and courts considered these unions third party outsiders that endangered corporate property. However, employees are now viewed as the internal voices of the corporation. Unions

use rational efforts and the withdrawal of employees to criticise and change corporate policy. Therefore, even in its earliest form, CSR had the dual character of originating both from inside and outside the corporation.

Freeman (1984) stated that there are many stakeholders whose needs are ignored. However, Clarkson (1995) put forward that stakeholders can categorised as primary and secondary. The primary stakeholders are the internal stakeholder of the firms such as employees, customers, and stockholders. On the other hand, the secondary stakeholders are the external stakeholders of the company such as people in society, encouragement groups, religious organizations, and other non-governmental organizations (Clarkson, 1995).

Eesley and Lenox (2006) provide further explanations about secondary stakeholders. In their view, stakeholders cannot be ignored by the firms because they are looking at the company from the outside. Also, "these stakeholder actions may have important consequences for a firm's reputation and its subsequent ability to attract customers and employees and appease regulators and shareholders" (p.765).

According to Wood (2008, cited in Agel et al. 2008) "business and society research and theory—including stakeholder theorizing—has typically been focused on community, nurturance, opportunities, and avoiding harms; its finest articulations emphasize human rights, dignity, and justice, and the need for corporations to contribute to such desirable outcomes"(p.161). Wood suggested that firms should realise their responsibilities, avoid stakeholder harm and contribute to social responsibility that should be beyond the law and economic mission. Wood (2008, cited in Agel 2008) also challenged the neoclassical models of business. She offers valuable insights around the relationship between CSR and stakeholder theory, both concepts being used to point to the need for social control to encourage the beneficial effects of stakeholder theory.

Ethics and strategic management are the main discussion in stakeholder theory. Noland and Phillips (2010) stated "two important aspects of stakeholder theory. The first distinguishes between moral and strategic action and is called Habermasian. They explained that strategic actions pursue the individual and business ends whereas moral actions show good   understanding through the communication. Secondly 'strategists',

deny the viability of the Habermasian distinction and the insistence of ethics and strategy necessarily constituting each other" (cited in Lindgreen and Swaen, 2010, p.4).

Moreover, Lindgreen and Swaen, (2010) conclude that "Noland and Phillips generally prefer the Habermasian emphasis on legitimate, good-faith communication with stakeholders and recognition of the implications of power imbalances; they argue that distinguishing between moral and strategic action tends to undermine rather than enhance arguments for the just engagement of stakeholders" (p.4).

In the present study the researcher attempted to identify a CSR model including stakeholder relations. Theoretically, Mitchell et al.'s (1997) stakeholder identification and salience framework is one of the few theoretical models to provide guidance to the conditions under which firms are likely to positively respond to the requests of secondary stakeholders. According to this framework, three attributes of stakeholders determine salience to managers. The three attributes deemed most important by Mitchell and colleagues are stakeholder power, legitimacy, and urgency. The greater the power, legitimacy, and urgency of the stakeholder group, the greater the stakeholder group's saliency will be in the eyes of managers. The appraisal of stakeholder and CSR theory might include a more holistic and dynamic perspective on the centrality of stakeholder theory to that of CSR, particularly as it claims that stakeholder approach is central to its methodology

- Economic relations

Some argue that CSR began with economics. According to Branco and Rodrigues (2007), 'the classical view of CSR, based on neoclassical economic theory, defines it in purely economic profit making terms, focusing on the profit of the shareholders' (http:/ejbo.jyu.fi/pdf/ejbo). For example, Adam Smith, an eighteenth-century Scottish moral philosopher and pioneer of political economics, wrote *An inquiry into the nature and causes of the wealth of nations* in 1776. In this book, he claimed that the needs and desires of society could best be met by the free interaction of individuals and organisations in the marketplace, but he did not address CSR (Smith 1986). This concept developed, and by the mid-1900s it had become generalised throughout the business world (Mohammed 2007).

Friedman (1984), an American economist, wrote a famous article in 1970 '*The social responsibility of business is to increase its profits'* in the *New York Times Magazine*. In this article, he claimed that 'the one and only social responsibility of business, is to increase profits for shareholders'. By this time, the concept of CSR had been completely subverted to this economic notion (Carroll 1979). Friedman (1970) and Smith (1776) laid the foundations for business responsibility. At this time, consideration was given to the actions taken by organisations and not by their individual leaders (Pohle and Hittner 2008).

The accepted example of economic development in CSR is Friedman; in 1970 he presented his view of CSR as the management's fundamental goal is to increase value for its shareholders. However, shareholders thought the concept was a cost concept in the short term but the benefits go to both the company and wider society in the long-term (Friedman 1970; Young and O'Byrne 2000). Under these circumstances, investors do not like to continue CSR, because the organisation makes losses in the short term (Bilson 2010). As a result, this has affected managers' view of maximise profits while theoretically being socially responsible.

Johnson (1971) defined CSR as relating to the economic perspective of profit maximisation. Accordingly, social responsibility states that "businesses carry out social programs to add profits to their organisation" (Johnson 1971, p. 54). Agreeing with Johnson, Visser (2006) pointed out that the first responsibility of developing countries was economic. This was based on Carroll's (1979) four-part pyramid of CSR responsibilities. Visser (2006) further revealed that the positions of Carroll's three other responsibilities—legal, ethical and discretionary—are changed in his pyramid but economic responsibility is still in the same place in CSR.

The economic perspective of CSR progressed in the 1980s, approaching CSR studies by identifying the relationship between CSR and CP (Aupperle et al. 1985; Cochran and Wood 1985). These studies have shown that a company's profit might be increased or decreased when they implement CSR (Cochran and Wood 1985; Ruf et al. 2001; Stanwick & Stanwick 1998). Researchers have pointed out how the economic responsibilities translate into discretionary responsibilities. Carroll's conceptualisation

is the best presentation for this claim (Carroll, 1991, 1994, 1998; Pinkston and Carroll, 1994).

In addition, some researchers have made claims about CSR-economic relations, providing opposing points. Wood (2010) considered Carroll's argument for measuring his CSR principles and responsiveness process. Again, this idea was reinforced by scholars that managers make philanthropic activities to measure CSR performance (Jamali and Mirshak, 2010). Also, Vogel (2005) stated that the direction of CSR research is moving, arguing that if Friedman were to revisit the subject today, 'he would find much less to concern him' (Vogel 2005).

- Social relations

Adam Smith (1790-1796) completed two major works—*The Theory of Moral Sentiments and The Wealth of Nations*, as mentioned earlier. Smith's analysis of the evolution of liberal market systems, positive law and civic ethics is not segmented among these presentations. Smith envisioned these dimensions of humankind as a simultaneous system within which progress along any one dimension requires complementary progress in the other two (Evensky, 2005, chapters 3 and 4).

The Theory of Moral Sentiments, suggested that business should conduct itself ethically. Firms have a broader sense of responsibility them merely to owners of capital. During the 1920s, American companies started reaching out to the community and facilitating benefits to their employees. In the 1930s, organisations established some activities of benefit to their employees such as pension plans, employee stock ownership, life insurance schemes, unemployment funds, limitations on hours and high wages. Further, those organisations started to build houses, churches, schools, and libraries; provide medical facilities and consulting services for legal affairs; and donate to their communities (Mitchell 1989, cited in Mohammed 2007). These activities are described in US organisations as philanthropic.

In 1975, Preston and Post devised a more suitable term for social responsibility- 'public responsibility', as it stresses 'the importance of the public policy process, rather than individual opinion and conscience, as the source of goals and appraisal criteria' (p. 102).

They stated that the scope of managerial public responsibility is limited under the CSR concept. However, their view is not thoroughly recognised in CSR literature, because it has unlimited scope. Preston and Post's (1975) argument that public responsibility should be more developed because of the CSR is unclear according to Jones (1980). Furthermore, Preston and Post (1975) failed to address all the issues related to CSR.

During the same period, Fitch (1976) suggested that CSR attempted to solve the social problems caused wholly or partly by the organisation (p. 38). According to this problem-solving perspective, initially the social problems of the organisation need to be determined then systematically ordered to ascertain which should be addressed first. problems and deciding on the problem solving process.

On this social theme, Carroll (1979) suggested that ethical and discretionary responsibilities are social responsibilities, contending that these two responsibilities extend beyond obedience to the law: ethical responsibility means 'the kinds of behaviours and ethical norms that society expects business to follow. These extend to behaviours and practices that are beyond what is required by the law' (Carroll 1979, p.500). However, he explained that the organisations accept these ethical and discretionary responsibilities on a voluntary basis. The specific activities are decided by the organisation according to the ethical sense in its' business strategies. Carroll's (1991) examples of voluntary activities included 'philanthropic contributions, conducting in house programs for drug abusers, training the hard-core unemployed, facilitating day care centres for the employees children, in-house program for drug users [and] training the hard-core unemployed' (p. 284).

2.3.2 Social contract theory

According to Weiss (2008) "a social contract' is a set of rules and assumptions about behavioural patterns among the various elements of society' (p.161). This theory combines organisational attention with stakeholder management. Much of the social contract is rooted in the traditions of society. The theory says that the social contract is formulated between people and organisations when exchanging something. Weiss stated that basic social contract theory is mutual trust and relationship between the organisation and the stakeholders (Weiss 2008).

Weiss (2008) argued that firms can succeed only by formulating contracts with the customers and public. He further stated, that a social contract can be considered actioned in an ethical manner. This can be addressed by following questions: "What is the nature of the contact, and are all parties satisfied with it? Are customers satisfied with the products and services and how they are treated by a company's representatives? Are suppliers, distributors and vendors all satisfied by the contractual agreements with the corporations? Do members of the communities in which the company is located believe the company is a responsible and responsive citizen? Does the company pay its fair share of taxes? Do employees believe they are paid a fair wage, have adequate working conditions and are being developed?" (p. 162).

Donaldson and Preston (1995) explained that social contract theory establishes the general legitimacy of business and further restrictions and changes should not be part of the contract. However, they argued that the changes should be made within the limitations of the contract. Social contract theory focuses on the relationship between the business customers and stakeholders. The long-term economic benefits for organisations, shareholders and other stakeholders arise from the contracts with them, which should balance the external and internal regulations of the corporations. Therefore, the stakeholder management approach of the corporation is grounded in the concept of the social contract.

2.3.3 Legitimacy theory

Legitimacy theory is based upon the notion that the firm activates a social contract, where it agrees to perform various socially desired actions in return for approval of its objectives, other rewards and its ultimate survival. Legitimacy theory posits that corporate disclosures react to environmental factors (economic, social and political) and that disclosures legitimise actions (Preston and Post 1975; Hogner 1982; Lehman 1983; Lindblom 1983). It therefore needs to disclose enough social information for society to assess whether it is a good corporate citizen. In legitimising its actions via disclosure, the corporation hopes ultimately to justify its continued existence (Lehman 1983). This theory is largely reactive in that it suggests that organisations aim to produce congruence between the social values inherent (or implied) in their activities and

societal norms (Lindblom 1983). Corporate social disclosures may then be conceived as reacting to the environment where they are employed to legitimise corporate actions.

2.3.4 Resource dependence theory

Resource dependence theory (RDT) is the study of how the external resources of organizations affect the behaviour of the organization. The procurement of external resources is an important tenet of both the strategic and tactical management of any company. Nevertheless, a theory of the consequences of this importance was not formalized until the 1970s, with the publication of *The External Control of Organizations: A Resource Dependence Perspective* (Pfeffer and Salancik 1978). Resource dependence theory has implications regarding the optimal divisional structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links, and many other aspects of organizational strategy.

However, this theory includes three core ideas (Davis & Cobb 2009): social context matters, strategies to enhance autonomy and pursue interest power for understanding internal and external actions of organisations. Resource dependence theory is one of many theories of organizational studies that characterize organizational behaviour. In many ways, resource dependence theory predictions are similar to those of transaction cost economics, but it also shares some aspects with institutional theory.

2.3.5 Coase's Theory of the Firm

Ronald Coase set out theory of his transaction cost of the firm in 1937.This was one of the first arguments to define the firm theoretically in relation to the market. He explained the need for the firm to be consistent with constant returns to scale, rather than relying on increasing returns to scale. Another is in defining a firm in a manner which is both realistic and compatible with the idea of substitution at the margin, so instruments of conventional economic analysis apply. He notes that a firm's interactions with the market may not be under its control, but that its internal allocation of resources. Coase concludes by saying that the size of the firm is dependent on the costs of using the price mechanism, and on the costs of organisation of other entrepreneurs. These two factors together determine how many products a firm produces and how much of each.

2.3.6 Agency Theory

Agency theory is a separation of ownership and control of the company that explains the relationship between principals and agents. In this relationship the principal hires an agent to perform work. The theory attempts to deal with two specific problems: first, that the goals of the principal and agent are not in conflict (agency problem), and second, that the principal and agent reconcile different tolerances for risk. However, this problem appears to be new and current, this is considered in Adam Smith's work called *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), which expresses doubts about the value of joint-stock companies, which reduce the financial incentives to managers in relation to the performance, if the capital is provided by the owners rather than by managers (Adams, 2008).

The theories discussed above deal with the social responsibility of business and the role of business in society. Stakeholder and legitimacy theories, both derived from political economy literature, provide overlapping perspectives on the relationship between organizations and society (Gray, Kouhy, & Lavers, 1995). Legitimacy theories are informed by other perspectives, two of which contribute to this analysis of reporting. Resource dependency theories (Pfeffer & Salancik, 1978) focus on the role of legitimacy in an organization's ability to acquire resources. Through this perspective, organizations pursue strategies to ensure they can access the resources they require. Institutional theory, on the other hand, considers the constraints on organizations to conform to external expectations (DiMaggio & Powell, 1983). As will be seen later in this thesis, both organizational strategies to gain legitimacy and social demands on organizations to conform to expectations of legitimacy underpin the study of social responsibility reporting.

2.4 Corporate social responsibility: concepts and the definitions

This section discusses the basic theory of CSR developed by famous scholar A.B. Carroll. This is followed by identification of the different CSR perspectives developed by various scholars such as Lantos (2001), Wood (1991) and Visser (2007). After describing CSR concepts, the section highlights CSR definitions in order to the uniform

theme for the present study. Finally in this section a CSR definition, related to the study's objectives is developed.

CSR is a concept that encourages certain activities or social responsibilities on voluntary basis. Although such social activities are not directly related to business, there is an indirect positive impact on the business undertaking them (Ariyabandu and Hulangamuwa 2002; Justice 2002; Hopkins 2007). For example, as a result, the public may have a positive image of the company and employee morale may be boosted, which in turn may have a positive effect on the productivity of the company (Ariyabandu and Hulangamuwa 2002).

Further, CSR can be conceptualised differently by individuals (Griffin 2000). CSR is now a well-known expression for what, in the past, has been a collection of various terms such as 'corporate philanthropy, corporate citizenship, business ethics, stake holding, community involvement, corporate responsibility, socially responsible investment, sustainability, triple bottom line, corporate accountability and CSP' (Silberhorn & Warren 2007, p.353). However, the meaning of these terms are differ from country-to-country (Hopkins 2004).

Carroll (1979) identified four aspects of CSR: economic, legal, ethical and discretionary. Based on these components, a socially responsible company 'should strive to make a profit, obey the law, be ethical, and be a good corporate citizen' (Carroll 1979, p. 43). Many scholars have built on Carroll's (1979) work and developed these components further (Wood 1991; Lantos 2001). Moreover, Visser (2007) and Jamali (2008) have extended it to developing countries. Carroll (1979) revisited his four-part definition of CSR in 1991 and depicted the notion of multiple corporate social responsibilities in a pyramid construct. In this pyramid, economic responsibility forms 'the base, while legal, ethical and philanthropic responsibilities make up the subsequent levels of the pyramid' (p. 42).

Building upon Carroll's (1991) model, Lantos (2001) proposed three types of CSR: ethical, altruistic and strategic. Ethical CSR is grounded in the concepts of ethical duties and responsibilities and is morally mandatory. 'Ethical CSR goes beyond fulfilling a firm's economic and legal obligations' to avoiding harm and social injury, even when

the business does not directly benefit (p. 605). Altruistic CSR is humanitarian and philanthropic; it involves "contributing to the good of various societal stakeholders, even if this scarifies part of the business's profitability' (Lantos 2001, p. 605). Philanthropic activities include looking after society's welfare and helping to improve quality of life. Lantos' third type of CSR, strategic CSR, refers to 'philanthropy aimed at achieving strategic business goals while also promoting societal welfare" (p.605). Further, Lantos (2001) stated that altruistic CSR is not mandatory for businesses. However, it is unclear whether Lantos' model relates to the developed or the developing world. Although the concept of CSR is widely discussed in theory and practice, a generally accepted definition of CSR is yet to be confirmed (Turker 2009).

The present study integrated three CSR definitions, which were developed by the WBCSD (2000), Business for Social Responsibility (BSR) and the European Union (EU). The WBCSD (2000) definition incorporated many of the perspectives already mentioned, defining CSR as 'the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large' (p.3). The European Commission (2002) defined CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis". In addition, BSR has defined CSR as being 'about companies achieving commercial success in ways that honour ethical values and respect people, communities and the natural environment' (www.bsr.org/AdvisoryServices/CSR.cfm).

The above three definitions articulate two common forms of CSR (Prayukvong and Olsen 2009). Accordingly, the organisations need to explain their investments in terms of socially responsible actions to people and environment, and they must incorporate environmental and social suggestions into their normal business practice. In this way CSR is combined into three different areas (triple bottom line), such as people (society), planet (environment) and profit (economics) (Agarwal 2008; Prayukvong and Olsen 2009). Researchers have focussed on the above three areas to identify CSR activities under dissimilar categories such as employees, customers, environmental, social, health, education and shareholders. The present study considered only six CSR relations such as employees, education, social, environmental, education and health, on its pilot study

and the above three different areas such as people (society) planet (environment) and profit (economics) were included.

2.4.1 Definition of CSR used in this study

Hopkins (2011) criticised the CSR definitions provided by many scholars. According to Hopkins, CSR is the concept which can encourage firms to make profits while subjecting the process to responsible manner, the many more definitions use for the different CSR studies. As this study is based on the perspective of developing countries finding a suitable definition a not easy task because CSR is still in infancy stage and developing countries and there is no accepted method for CSR. Hopkins aimed that the CSR "is to create higher and higher standards of living, while preserving the profitability of the corporation or the integrity of the institution, for peoples both within and outside these entities" (http://mhcinternational.com/articles/definition-of-csr). However, firms, people, living standards, also the profit are the basic terms indicate in the CSR definitions. Yet a huge amount of the literature sees this concept as characterised by evolutionary stages, dependent on disciplinary orientations, heavily critiqued from the perspective of different 'political' and ethical views about the role of business in society.

As previously mentioned, it is voluntary to participate in CSR and there are no rules or regulations related to its implementation. However, as described in this chapter, different scholars and organisations have developed a number of CSR standards and principles. The CSR principles used by developed countries cannot be applied to developing world (Chapple and Moon 2005). Therefore, care and attention is needed when using the term 'CSR,' especially when discussed in the context of developing nations.

New dimensions are added to the definition of CSR from time to time. For example, newer definitions consider the environmental dimension whereas previous definitions have not (Dahlsrud 2008). Environmental issues are basic problems in the developing world at present because countries have larger populations and more industries that pollute the environment than countries in the developed world. Dahlsrud (2008) stated

that 97 per cent of CSR definitions have been shown the different CSR dimensions. Companies should use these dimensions when they define CSR.

The present study identified six dimensions in the pilot study. One of the objectives of the pilot study was to develop a CSR index for quantifying purposes. This index was then used to identify the relationship between CSR and company performance (CP) in companies in Sri Lanka, which was the main aim of this study. Therefore, the term 'CSR' is defined from developing country's point of view, with particular reference to the Sri Lankan context. Activities are carried out by the company on a voluntary basis to satisfy the expectations of its employees, customers, environmental, communities, educational and health with a view to increasing CP. The company expects to increase its CP by investing in CSR projects to satisfy its employees and customers; by the same token the interested parties' expect that they will receive something from the company other than normal products and services. Although CSR is voluntary, the motivation of the company for implementing it is to increase sales, profit and popularity (Chapple and Moon 2005; Fernando, 2007: Rathnasiri 2003).

2.5 Corporate social responsibility and related terms

Researchers and scholars use a number of different CSR terms and concepts in their studies and investigations. These terms have been clarified below.

2.5.1 Corporate social performance

Corporate social performance has developed from several studies and approaches. One well-known scholar, Wood (1991), defined CSP as 'the configuration in the business organisation of principles of social responsibility, processes of response to social requirements, and policies, programs and tangible results that reflect the company's relations with society' (p. 693). The term CSP has been utilised as a synonym for CSR or any other interaction between society and business (Cochran and Wood 1985). The CSP model was first described by Carroll (1979) as a three-dimensional integration of CSR, corporate social responsiveness and social issues.

Another model by Wartick and Cochran (1985) addresses three facets of CSP: motivating principles, behavioural processes and observable outcomes of corporate and managerial actions related to the company's relationships with its external environment. These three facets are briefly outlined in Table 2.2.

Table 2.2: Corporate social performance model of Wartick and Cochran

Principles	Processes	Policies
CSR	CSR	Social issues management
Economic, legal	• Reactive	• Issues identification
ethical, discretionary	• Defensive	• Issues analysis
	• Accommodative	• Response development
	• Proactive	
Directed at:	Directed at:	Directed at:
The social contract of business	The capacity to respond to changing social conditions	Minimising surprises
Business as a moral agent	Managerial approaches to developing responses	Determining effective corporate social policies
Philosophical orientation		
		Organisational orientation
	Institutional orientation	

Source: Adapted from Wartick and Cochran (1985).
Abbreviation: CSR, corporate social responsibility.

Wood also discussed the importance of CSP by publishing 'Corporate social performance revisited' in 1991. She stated that although many authors have paid attention to this concept (Ullmann 1985; Clarkson 1988; Reed et al. 1990), the theoretical framework and impact has not moved significantly beyond Wartick and Cochran's (1985) articulation. Wood's (1991) article reformulated and made several conceptual advances to Wartick and Cochran's (1985) CSP model.

Accordingly, Wood argued that Carroll's categories of CSR (economic, legal, ethical and discretionary) could be identified as domains within which principles could be enacted. In addition, she pointed out how those categories of CSR related to Wartick and Cochran's (1985) three principles of social responsibility at the institutional (social legitimacy), organisational (public responsibility) and individual levels (managerial

discretion). These levels have clarified the long-standing debate over social responsibility and emphasise that those principles motivate human and organisational behaviour.

Wood (1991) also identified the process of social responsiveness as environmental assessment, stakeholder management and issues management, revealing the channels through which companies act out their involvements with the external environment. This goes beyond Carroll's social responsiveness categories (reactive, defensive, accommodative and proactive) that Wartick and Cochran (1985) formulated as policies. Wood (1991) utilised these policies, which were elaborated in Carroll's social issues category, and reorganised them as a new concept, which is the outcomes of corporate behaviour. Wood (1991) concluded, 'The CSP model now gives management researchers a more useful framework or template, for organizing their research and theory on corporate social performance'. Carroll (1999) stated that Wood's CSP model is more comprehensive than his own CSP model, developed in 1979, and Wartick and Cochran's model of 1985. Further, the most important aspect of Wood's (1991) CSP model was outcome or performance, which was not discussed by Carroll or Wartick and Cochran in their models (Carroll 1999).

2.5.2 Corporate social responsibility

Carroll (1991) designed a CSR pyramid that included four specific CSR responsibilities. The economic responsibilities are the foundation upon which all other responsibilities are predicated and without which they cannot be achieved and the discretionary responsibilities are the peak (see Figure 2.1).
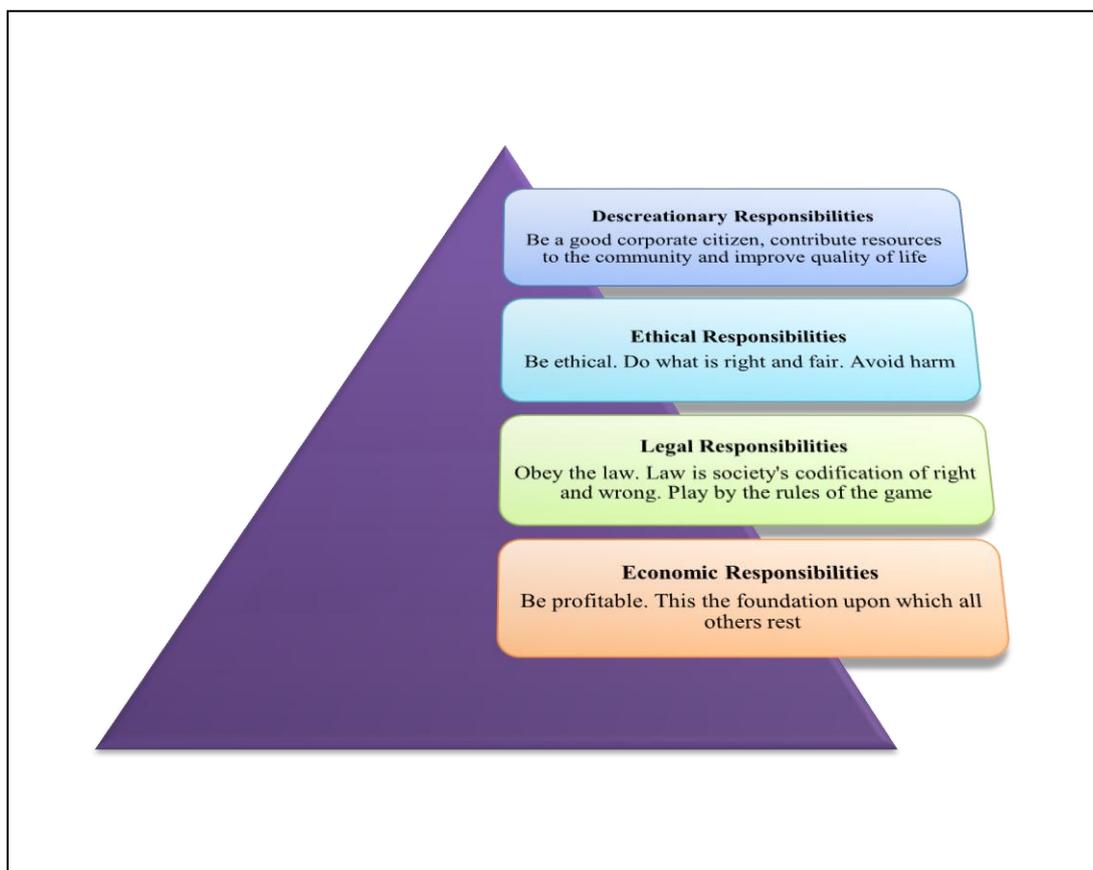
Figure 2.1: Corporate social responsibility pyramid for the developed world
Source: Adapted from Carroll (1991).

Carroll (1991) argued that these four responsibilities should be fulfilled by the companies simultaneously. In addition Carroll suggested that the ethical and philanthropic responsibilities are the social responsibilities of the company. In addition, the CSR debate focused on the ethical and philanthropic responsibilities, giving little attention to economic and legal responsibilities. Table 2.3 shows Carroll's ethical and philanthropic responsibilities identified in CSR according to his model.

Table 2.3: Ethical and philanthropic components of corporate social responsibility

Ethical components (responsibilities)	Philanthropic components (responsibilities)
1. It is important to perform in a manner consistent with expectations of societal mores and ethical norms.	1. It is important to perform in a manner consistent with the philanthropic and charitable expectations of society.
2. It is important to recognise and respect new or evolving ethical moral norms adopted by society.	2. It is important to assist the fine and performing arts.
3. It is important to prevent ethical norms from being compromised to achieve corporate goals.	3. It is important that managers and employees participate in voluntary and charitable activities within their local communities.
4. It is important that good corporate citizenship be defined as doing what is expected morally or ethically.	4. It is important to provide assistance to private and public educational institutions.
5. It is important to recognise that corporate integrity and ethical behaviour go beyond mere compliance with laws and regulations.	5. It is important to assist voluntarily those projects that enhance a community's quality of life.

Source: Adapted from Carroll (1979).

Carroll described the distinguishing features of philanthropic and ethical responsibilities of companies, and explained that philanthropy is not expected in an ethical sense. For example, people expect companies to contribute their money, facilities and employee time to humanitarian programs or purposes. However, they do not regard companies as unethical when they cannot provide the expected responsibilities. Therefore, philanthropy is more discretionary or voluntary on the part of a company.

2.5.3 Corporate citizenship

Corporate citizenship (CC) is defined as charitable giving and other social works. Carroll (1991) explained a good corporate citizen, with philanthropic responsibility, in the fourth level of CSR model. In principle, CC is therefore a discretionary responsibility, beyond what is expected of business, making it a choice to 'put

something back' into society. He concluded that to be a good corporate citizen, a company should aim "*...* to comply with law, to engage in ethical behaviour, and to exercise philanthropy by giving back to the community and stakeholders" (p. 6). Carroll and Buchholtz (2008) have stated that the CC concept includes the concepts of social responsibility, responsiveness and performance. Crane and Matten (2007) pointed out that the term 'CC' addresses the social role of the organisation. The literature on CC is relatively new; on this field and the widely accepted definition yet to be studied. However, Carroll and Buchholtz (2008) defined CC as the 'serving a variety of stakeholders well'.

In 2000, Davenport provided a broad definition of CC, which includes a commitment to ethical business behaviour and balancing the needs of stakeholders, while working to protect the environment. Waddock (2008) stated the CC 'as a metaphor and underlines the membership of corporation in society'. Under multi-national corporations, global CC indicates as the organisational duties to their various societies. Many research studies (Logsdon and Wood 2002, 2005) have concluded the concept of CSR appears to be transforming into a more readily accepted concept of CC. They emphasised that CC is viewed as 'a narrow, voluntaristic concept of community relations and philanthropy' (Logsdon and Wood 2002, p. 158).

However, CC typically focuses on philanthropic contributions and corporate community relations, including employee voluntarism and corporate good deeds. Thus, CC tends to be observed as voluntaristic and informal, with responsibility related to the company's duties to others virtually non-existent (Logsdon and Wood 2002). Finally, there are many arguments and debate about CC and human citizenship. Wood and Logsdon (2002) explained that organisations can act as human citizenship, but it can be observed as CC. They further explained that the corporations can be thought of as citizens of the world.

2.5.4 Social responsiveness

Corporate social responsiveness has been defined as 'the capacity of a corporation to respond to social pressures' Frederick (1978, cited in Wood 1991, p. 703). Frederick labelled social responsiveness as CSR2, a term that was a challenged as early as the

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1970s. Other scholars have stated that CSR2 and CSR are not different terms (Sethi 1972). However, differences have been identified between CSR and CSR2. As the concept of CSR2 suggests, what is important is not how a company responds to social pressures, but what their long-term role should in a dynamic social system. This concept has been accepted by several CSR scholars (Carroll 1979; Wartick and Cochran 1985; Wood 1991) and modified over time. Carroll (1979) explained that social responsiveness is not an alternative to CSR but rather 'the action phase of management responding in the social sphere' (p. 502). Wartick and Cochran (1985) suggested that CSR and CSR2 are important and both are valid concepts and should be included with individual dimensions of corporate social involvement.

2.5.5 Sustainable development

Scholars have used both CSR and sustainability development to refer to social and environmental management issues, but there is no clear distinction between the two terms (Monitel, 2008). Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs (World Commission on Environment and Development 1987, cited in Brundtland 1987). The terms CSR and Sustainability are used vaguely and interchangeably, which affects their meaning and relationship (Moon 2007). CSR or sustainability is not simply following the law. It is not philanthropy, being much more than that. It implies that business organisations should be considered to be partners in their communities, not simply profit-centric operations promoting the interest of their shareholders. Rather, businesses must be seen to have obligations towards their various stakeholders.

Matten and Moon (2004) stated that CSR and sustainable development have a close relationship, and have highlighted a generic label for CSR programmes and business ethics research in various studies. However, Gallie (1956, cited in Moon 2002) suggested that CSR and sustainable development are both contested concepts; in addition, Moon (2002) argued the application of these two terms is always debatable. In the firms' CSR outline which often shows its sustainability. The sustainability for the company, the environment, and the society. This is confirmed by European business education showed their 'sustainable development' (24%) was the popular generic label

(24%) of CSR programmes (Matten and Moon, 2004). Organisations constantly seek elements to differentiate them from their competitors, since these elements could become resources that generate long-term sustainable competitive advantages (Porras and Collins 1994; Rothman and Scott 2004). These advantages may enable organisations to survive as well as to obtain an acceptable profitability rate and economic equilibrium.

CSR and sustainable development have value, in that they are both considered important and not simply empirical concepts. No business desires a reputation for being 'socially irresponsible' or 'unsustainable' (Moon 2002). CSR and sustainable development programs also differ due to national, social, economic, governance and environmental systems in which they are located. Moon (2007) highlighted "What is deemed a business responsibility in one country may be regarded as a governmental, societal or individual responsibility in another. This is true even when comparing such relatively similar national business as the USA and Western Europe (Matten and Moon, in press) and is even more so when comparing Asian and other business system (Chapple and Moon, 2005, p.297).

2.6 Why firms invest for CSR?

CSR concepts are evolving constantly due to interaction with internal and external influences. Silberhorn and Warren (2007) suggested that the concept of CSR developed in response to the interactions between organisational values and external influences. The key values of an organisation can be described as its resources, culture and structures (Wheelen and Hunger 2002).

Several studies have proposed that despite the internal factors discussed above, organisations are primarily reactive with respect to CSR, responding to external pressures rather than proactively defining CSR (L'Etang 1994; Vogel 2005). For instance, in the current social and business environment, there is an increasing public demand for business leaders to include social issues as part of their strategies (Lantos 2001). Managers are frequently subjected to pressures from various stakeholder groups to allocate financial resources to CSR activities. These pressures come from

stakeholders such as employees, consumers, communities and environmental groups (McWilliams and Siegel 2001) as discussed below.

2.6.1 Employee pressure

The pressures from employees cited by Musah (2008) include the increasing public recognition of certain employee rights in the workplace, including non-discrimination in hiring, firing and promotion. Matten and Moon (2008) stated that CSR has clearly addressed issues such as fair wages, working hours and conditions, health care, redundancy and protection against unfair dismissal. The other important example of employee pressure is that a reputable CSR index, the Kinder, Lydenberg and Domini (KLD), included four dimensions of CSP based on dimensions rated by KLD. These cover workplace and employee issues as union relations, employee benefits and employee participation. KLD uses these employee issues for CSR measurement purposes (Graves and Waddock 1994; Sharfman 1996; Turban and Greening 1997).

In addition, developed countries such as the UK and Germany are more concerned about their employees' health or social security and contributing to their National Health Services through taxation (Matten and Moon 2008). In some countries, for example, Germany, membership in a health insurance plan is mandatory for every employee, and the legal framework defines the value of the monthly insurance premium paid by the employer and the employee, usually a 50/50 split. The analysis by Aguilera et al. (2007) highlighted that how employees might push corporations to engage in CSR initiatives, suggest that the perception of CSR shapes employee attitudes and behaviours towards companies. In fact, the perceived fairness of any working environment does have an impact on employee wellbeing (i.e., job satisfaction, stress and emotion) in addition to other organisational considerations such as absenteeism and employee commitment (Colquitt 2001). In effect, when an organisation is seen to be acting fairly, employees are happy and hardworking.

When they happy it is not difficult to persuade employees to participate as volunteers for the firm's CSR activities. This is called employee voluntarism. The Centre for Corporate Citizenship at Boston College, 1999 concluded that employee voluntarism provides benefits in three ways firstly for the companies, secondly for the employees

and finally the community. According to Hahn (2003) the company benefits from voluntarism as it "improves relationships with surrounding community, improves public image, builds a cohesive, motivated workforce, increases employee performance and productivity, helps establish and enhance corporate or brand reputation in new or existing markets" (http://www.serviceleader.org/instructors/studentpaper1).

Here it is important to discuss the need for organisations to work in a more socially responsible manner to avoid strikes or high rates of labour turnover, to improve labour relations and to retain their consumer markets. Collier and Esteban (2007), in their explanation of the role of CSR in improving employee motivation and commitment, stated 'the effective delivery of corporate social and environmental responsibility initiatives is dependent on employee responsiveness. For employees to deliver on CSR requirements, they have to be motivated and committed to surmounting the challenges and attaining the goals of responsible corporate behaviour. Motivation comes first; commitment reinforces and embeds it' (p. 22).

2.6.2 Customer/consumer pressure

Similarly, consumer and customer pressures include the expectation that companies will produce safe products and provide more consumer information (Musah 2008). Organisations need to be aware of these consumer demands and act on them rapidly as a part of their business strategy, for example, after sales services, and customer protection services. This section contains a discussion about firms not involving those marketing strategies under the consumer protection concept, and consumers showing their power to the firms.

Generally, customers expect a warranty period for products they purchase, value adding services and ability to return any item purchased if it does not meet their expectations (Maignan et al. 2005). If the organisation does not consider its customers' needs, it will lose it market share. Therefore, customer pressures affect an organisation's market risk. Interestingly, the academic and managerial literature has provided little guidance to help marketers integrate various initiatives into a sound program that can cover a wide range of corporate responsibilities. For example, it has been suggested that meeting the needs of customers and motivating employees to provide the companies' expectations (George

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2003). Stakeholder research indicates the treatment of customers and employees has the most influence on CP (Berman et al. 1999). Therefore, a better way to improve the treatment of the customer is to apply CSR as a marketing strategy (Maignan et al. 2005).

Smith and Langford (2009) pointed out that the 'possible business benefits CSR entails, specifically the commercial benefits resulting from the impact of CSR on consumer behaviour and attitudes' (p.100). Bhattacharya and Sen (2004) concluded that consumers are willing to pay more for products from socially responsible organisations. However, if companies ignore their consumers' needs, boycotts may result and become a major problem. This is one expression of consumer pressure. Smith (2003) stated that product boycott messages are associated with large negative stock market reactions. For example, as a result of the European boycott of Royal Dutch/Shell in 1995 over its plan to dump the British Spar oil platform at sea, Shell suffered widespread adverse publicity, as well as a 5 per cent decline in sales in their different markets. Smith (2003) explained that 'boycotts may be only the most manifest example of a broader phenomenon of consumer behaviour influenced by perceived CSR lapses' (p. 62).

2.6.3 Community pressure

In addition to the production of goods and services, society expects that organisations will provide safety, improved lifestyle, employment, infrastructure, and environmental protection, without affecting cultural practices and benefits (Agarwal 2008). Social expectations for the improvement of lifestyles include the development of education, health, religion, political and modern technology. Idemudia and Ite (2006) stated that company CSR practices mainly target poverty alleviation, the prevention of human rights violations and environmental protection. These expectations differ from culture to culture. Social and organisational expectations are quite different; organisations expect profit maximisation, while consumers expect good quality, low prices and a range of services. This mismatch places pressure on organisations, since if these consumer expectations are not fulfilled communities may ban their products and enforce many restrictions. However, Idemudia and Ite (2006) stated that even when companies engage in good CSR practices such as philanthropy and social investment, allocating more

funds for community development, people may engage in conflicts with organisations. Newell (2005) showed that in the case of the mining industry, the reason for these conflicts was a lack of community representation in the establishment of rules and regulations. These are geographical isolators, and are not linked to globalisation.

2.6.4 Environmental pressure

Company activities cause environmental pollution and even crises; for example, the environmental catastrophes caused by sudden events such as the Chernobyl nuclear power plant accident, the Exxon Valdez oil spill and the Union Carbide pesticide plant accident in Bhopal (Shrivastava 1995). Also pointed out by Shrivastava was that 'slow emergent crises are exemplified by the Love Canal toxic waste crisis, and the Minamata Mercury poisoning in Japan. This notion of industrial/environmental crises encompasses other chronic global environmental crises' (p. 211). Other researchers (e.g., Brown et al. 1989; Clark 1989; Pryde 1992) discussed environmental damage such as ozone depletion caused by chlorofluorocarbons, global warming caused by industrial atmospheric pollution, acid rain, urban air pollution, toxic and nuclear wastes, the extinction of natural resources and the decline in biodiversity (Shrivastava 1995).

Conversely, organisations use diminishing natural resources such as oil, water and gas in their production processes. Shrivastava (1995) stated that maintaining a clean environment is a major responsibility for organisations. Due to global environmental policy, protection rather than pollution of the environment is essential. For example, certain countries have implemented rules for the protection of their environmental resources. These include the prohibition of the use of mechanical equipment for exploration, mining and extraction of sand and gems; the prohibition of cultivation of annual crops in high gradient areas; the manufacture of polythene or any polythene product of 20 microns or below; and various emission and noise control regulations. If companies violate these laws, the government and their communities may take legal action against them. For example, a ban was imposed on the Indian Coca Cola Company because their production activities caused decreased water levels in farmers' wells. This section covered all the stakeholder pressures which is discussed in this study. The section addressed because of the stakeholders pressure the firms act their CSR policies.

2.7 Benefits of CSR

Companies need to identify the costs and benefits of CSR. Companies invest their owner's funds in CSR activities, expecting the maximum return for minimum risk. Tsoutsoura (2004) highlighted this, stating that 'being socially responsible should have bottom-line benefits in order to be sustainable' (p. 6). The evolution of the CSR concept will only be discussed from economic and social perspectives. There are a number of benefits which have been identified by researchers as tangible and intangible from CSR (Jenkins, 2006; Grayson and Hodges, 2004; Greening and Turban, 2000; Orlitzky et al., 2003). In addition, they mentioned that benefits of different types and that employee motivation and improved image can be highlighted.

Many benefits of CSR have been identified. First, brand image and reputation is higher in companies that implement CSR practices than in those that do not, or in socially irresponsible companies (Jenkins 2006). Tsoutsoura (2004) pointed out that some CSR plans may reduce a company's operating costs. For example, one CSR aim is to reduce environmental pollution; this may be achieved by implementing simple measures such as reducing wrapping material and planning optimal routes for delivery trucks. This is a strong motivation for companies to increase their CSR activities. Secondly, socially responsible companies have a lesser risk of negative rare events. As a result, Turban and Greening (1997) stated that strong CSR commitment increases a company's ability to attract and retain employees. Thirdly, CSR practices result in increased productivity and reduced error rates (Tsoutsoura 2004). As mentioned earlier, these advantages relate to CSR practices for stakeholders such as employees, customers and communities. Stakeholder pressure is the main reason for implementing CSR; therefore, these benefits are associated with stakeholder satisfaction. For example, increased productivity results from improved working conditions and labour practices (Tsoutsoura 2004). Brand image and reputation is an advantage to firms that allows them to increase their capital and trading partners. A further advantage of implementing CSR practices is that employees are first attracted to, and then retained by, the company, and hence the costs of labour turnover, recruitment, and training and development are reduced.

These benefits have been identified in many studies, and have been used in the development of different CSR concepts since 1950s. They demonstrate the advantage of improving CSR concepts. CSR has a long history and different countries have used it under different names and in various situations.

The above benefits have been highlighted by the researchers as increasing market values (Aupperle et al. 1985; McWilliams and Siegel 2000), reducing risk (Moore 2001), employee motivation (Turban and Greening 1997), and increasing loyalty and improving corporate reputation (Maignan et al. 1999). The following section will outline the history and evolution of the concept of CSR from both the economic and the social perspectives.

2.8 Corporate social performance and corporate performance

Research into the relationship between CSP and CP began many years ago, and continues today. Over the past 40 years, many studies (e.g., Griffin and Mahon 1997; Preston and O'Bannon 1997; Waddock and Graves 1997; Ruf et al. 2001) have examined the nature of this relationship and identified various relationships. CSR studies are open to criticism of their conceptual base and/or on methodological grounds because there is no reliable, conventional and effective definition for CSR. Elsayed and Paton (2005) and Griffin and Mahon (1997) stated that this situation makes it extremely difficult to generalise the results of studies on CSR. Many studies (Davidson III and Worrell 1988; Wright and Ferris 1997; McWilliams et al. 1999) have used event study methodology to explore the impact of new information on CP. The use of this method has been criticised by several authors (Waddock and Graves 1997; McWilliams et al. 1999; McWilliams and Siegel 2000). These authors argued that following limitations, such as 'differences in defining the event, difficulty identifying the correct event date, differences in the length of the event window, differences in methods of controlling for confounding events and differences in methods of controlling for industry effects' (McWilliams et al. 1999, p. 360) were responsible for the conflicting results.

It is valuable to identify the reasons why researchers have looked for relationships between the CSR and CP studies. A company's success depends on its long-term benefits, growth and survival. The factors important for the long-term success of a company may be identified by testing the long-term relationships between CSR and CP, CSR and stock market performance, and CSR and non-financial performances. Friedman (1980) expected the introduction of the profit maximising view. In addition, Freeman (1982) pointed out that CSR is directly affected by company stakeholders such as employees, customers, and communities, as well as by the organisation itself. Therefore, it is vital to identify the nature of the relationship between CSR and CP. Griffin and Mahon (1997) summarised three key issues identified in the literature on this topic. The first issue was the industry; some studies used multiple industries and others used a single industry for their analyses. The second issue was the multiple dimensions used for measuring CP. The third issue was the CSP measures used. This section will further discuss these three issues as they relate to the current study.

A detailed review by Margolis and Walsh (2003) of the empirical literature published between 1972 and 2003 found 127 studies examining the business profitability and environmental/social performance relationship. Thus, as Margolis and Walsh (2003) point out, the entirety of empirical research on the economic performance– social performance link, and indeed all of the conceptual research on stakeholder theory. Margolis and Walsh (2003, p. 277) also note "A simple compilation of the findings suggested there is a positive association, and certainly very little evidence of a negative association between a company's social performance and its financial performance. Benn & Bolton 2011) concluded that "they conclude that a useful starting point for researchers might be to get a better idea of how organisations actually benefit society, before pursuing a scientific analysis of the relationship between CP and CSP (p.11)

Griffin and Mahon (1997) and Margolis and Walsh (2001) analysed 147 research articles on the relationship between CSR and CP. Since then, a number of other studies relating to this area have been added to the literature (Tsoutsoura 2004; Coombs and Gilley 2005; Brine et al. 2006). However, the main dilemma involved in these studies is that of the measurement of CSR and CP. Different results have been obtained in different studies of the relationship between CSR and CP. Research has revealed that the sample size, study period, methodology and scope are the major factors responsible

for these differences. In addition, the measures of CSR and CP measurement used were crucial factors for these differences in results. The calculation of CP is not a major problem since there are several accounting measures, such as ROE, ROS and ROA, that may be used for measuring results. The most important problem is the calculation of CSR. Therefore, in this section particular attention will be devoted to the various CSR measurements that have been utilised in previous studies.

2.8.1 Corporate social responsibility measurements

Abbott and Monsen (1979) have pointed out that measurements of CSR in organisational research are undeveloped by comparison with measurement in other areas. They also stated that there are two basic difficulties in measuring CSR involvement for research purposes. The first of these is the lack of quantitative information on social activities. To remedy this, they suggested that for research purposes these activities should be measured and reported consistently by a large number of companies to enable statistical analyses to be performed. The second difficulty is that of developing a relevant methodology to measure the full impact of corporate social activities on society more broadly.

Many scholars have measured CSR, it in different ways. Griffin and Mahon (1997) examined the link between CSR and CP using a single measurement of social performance; environmental pollution. Other examples of different measures include the KLD index developed by Kinder, Lydenberg, Domini and Co (Waddock and Graves 1997), which investigates a range of sources and uses quantitative criteria to determine the appropriate rating; the Toxics Release Inventory (TRI), which focuses on only a few industries; and Best Corporate Citizens. Saleh et al. (2008) explained that these evaluations are 'based on equal weighting of seven criteria. The seven criteria include the three-year average shareholder return and average scores on six social measures reported by a reliable social investment research firm' (Murphy and Poist 2002, p. 6).

Currently, many social responsibility measurement systems are used by researchers. These are known as subjective indicators. The first indicators were surveys of business students (Heinz 1976), business faculty members (Moskowitz 1972) or even the fortune rankings (McGuire et al. 1988). Other studies have used forced-choice survey

instruments (Aupperle et al. 1985; Aupperle 1991), corporate reputation indices (McGuire et al. 1988) and content analysis of documents (Wolfe 1991) as measurement tools in CSR studies. In addition, a number of different CSR indices are available (Hopkins 2005), such as the Business in the Community (BITC) index, the FTSE4Good Index, the Dow Jones Sustainability Index (DJSI), Business Ethics 100, Accountability Ratings (AA), the Global Reporting Initiative (GRI) and the KLD index (Graves and Waddock 1994). Unfortunately, these commonly-used CSR measurements cannot be directly employed in studies of developing countries (Hopkins 2005) because these measures are based on the developed countries' companies (for example, Fortune 500 companies) and international CSR standards (for example, International Labor Law). Therefore, the current study uses a dichotomous process for quantifying corporate social index, developing an index by using company annual reports and sustainability reports.

2.8.2 Company performance measurements

Measuring CP is common in CSR studies, however, there is little consensus regarding the measurement instrument to apply. A number of studies have used market measures (Vance 1975; Alexander and Buchholz 1978), while other studies have used accounting measures (Ruf et al. 2001; Elsayed and Paton 2005). For example, Waddock and Graves (1997) used three accounting measures; ROA, ROE and ROS. Cochran and Wood (1984) measured CP using three accounting returns including the ratio of operating earnings to assets, the ratio of operating earnings to sales, and excess market valuation. Tsoutsoura (2004) used ROA, ROE and ROS to measure CP, while Simpson and Kohers (2002) utilised ROA and loan losses and Berman et al. (1999) only applied ROA. In addition, some studies have used both accounting data and non-accounting data (e.g., Han and Suk 1998; Saleh et al. 2008) with three variables such as ROA, stock market return and Tobin's q ratio (Q). Moreover, Han and Suk (1998) used stock returns as a dependent variable to measure CP.

These two methods show different perspectives on the evaluation of a company's CP and have different theoretical implications (Hillman et al. 2001). McGuire et al. (1986) stated that each method is subject to certain biases. The use of these two different methods of measuring CP means that it is difficult to compare the results of the different studies directly (Tsoutsoura 2004). A number of accounting measures have been used to

evaluate CP, including ROE, ROS and ROA (Cochran and Wood 1984; Aupperle et al. 1985; Waddock and Graves 1997; Stanwick and Stanwick 1998; Tsoutsoura 2004). The reason for using these three variables to measure CP is that these data are less likely to have been manipulated, and are also the most widely used measurements of a company's performance (Yoshikawa and Phan 2003). The inherent limitation of these financial accounting measures is that they only capture historical aspects of CP. Secondly, these data may be biased by managerial perceptions and the different accounting procedures adopted by different companies (Branch 1983; McGuire et al. 1986). However, market-based CP avoids certain of the limitations associated with accounting limitations since it shows forward-looking factors and focuses on market performance (McGuire et al. 1986). These measures are less subject to accounting procedures and are the investors' index of choice for evaluating a company's ability to generate future returns. However, the use of stock market-based measures of CP also has limitations. For example, Ullmann (1985) stated that the use of market measures suggests that an investor's valuation of CP is an appropriate performance measures (McGuire et al. 1988; Tsoutsoura 2004).

2.8.3 CSR measurement methodologies

Elsayed and Paton (2005) and Griffin and Mahon (1997) identified two reasons why these studies cannot be used to formulate generalised results. The first reason was that there is no recognised reliable definition of CSR, and the second factor was the different methodologies used. These methodological limitations are a major issue, and have been discussed by several authors (Ruf et al. 2001; Stanwick & Stanwick 1998) who mention factors such as sample size, the nature of the data, the use of control variables, analysis techniques, and CSR and CP measurements as the crucial methodological issues for CSR studies.

The use of the event study method has shown a short-term relationship only with shareholders, rather than the other stakeholders (McWilliams et al. 1999). Some studies have not considered control variables (Waddock and Graves 1997; McWilliams and Siegel 2000), while others have used very small sample sizes, which means that they cannot be generalised to other populations (Spicer 1978). Elsayed and Paton (2005)

suggested that for studies conducted in the 1970s and 1980s, CSR performance was in its infancy and therefore their performance results cannot be understood in terms of today's expectations. As mentioned earlier, the analytical tool chosen is very important in CSR studies. Several analytical techniques have been utilised in previous CSR studies and have yielded diverse outcomes. However, these studies suggested on cross-sectional or pooled data sets. The use of pooled data has many benefits, including the control of unobservable company-specific effects. Further, it has the potential to provide a significant and powerful evidence base (Russo and Fouts 1997; Elsayed and Paton 2005).

Saleh et al. (2008) used a panel data regression model and descriptive statistics to test bivariate relationships. Their study demonstrated a solid relationship between CSR and CP. Elsayed and Paton (2005) used a panel data analysis method to test the effect of environmental performance on CP. They found a neutral relationship between these two variables. Ruf et al. (2001) presented two sets of results; descriptive statistics on the financial variables used in their model, followed by the demonstration of a positive relationship between changes in ROS and changes in CP. Changes in ROE were not related to changes in company social performance. Conversely, the results of their regression analysis showed a positive relationship between changes in social responsibility with ROE and ROS only for a one-year sample, with a negative relationship for a three-year sample. Tsoutsoura (2004) used regression analysis for her study of the relationship between CSR and CP, and demonstrated a positive and statistically significant relationship between them.

2.8.4 Results of the empirical research on the relationship between CSR and CP

The study of CSR and CP commenced over three decades ago in the Western countries. In addition to the methodological differences discussed above, there are two types of empirical studies of the relationship between CSR and CP (Saleh et al. 2008). One involved the use of event study methodology to gauge the short-run financial impact (abnormal returns) on companies who engage in socially responsible or irresponsible acts. A number of studies of this type have been conducted (Posnikoff 1997; Wright and Ferris 1997; McWilliams and Siegel 2001). The second set of studies examined the

relationship between CSR and long-term CP (Aupperle et al. 1985; Mahoney and Roberts 2007).

The results of those two types of empirical studies have been mixed. For example, the long-term financial impacts showed a positive relationship with CSR in Waddock and Graves' (1997) study, no relationship in Aupperle et al.'s study (1985) and a negative relationship in the study by Waddock et al. (1998). Similarly, studies of the relationships between CSP and CP have shown mixed results, with some short-term results being positive, others were mixed (Posnikoff 1997), or negative (Wright and Ferris 1997), while yet others found a neutral relationship (Teoh et al. 1999). A similar pattern emerged from studies of long-term CP. Some researchers identified a positive relationship (Cochran and Wood 1985; Waddock and Graves 1997; Stanwick and Stanwick 1998; Tsoutsoura 2004), some found a non-significant relationship (e.g., Aupperle 1985) and others contradicted showing a negative relationship (Waddock et al. 1998).

Griffin and Mahon (1997) extended the earlier literature by adopting a more direct approach with a particular emphasis on methodological inconsistencies. They criticised three aspects of the existing literature: focus on particular industries, and the multiple dimensions employed to measure CP and CSP. Their research explored the relationship between CSP and CP in a sample of seven companies from the chemical industry. They employed five financial measures, including ROE, ROS, asset age and 5-year ROS, and four corporate sources of CSP including a fortune reputation survey, the TRI index, the KLD index and corporate philanthropy. Interestingly, their results suggested that the a priori use of measures may actually predetermine the outcome of CSP and CP relationship analyses. Unexpectedly, the fortune and KLD indices track one another very closely, whereas the TRI and corporate philanthropy measures differentiate between high and low social performances and do not correlate with CP.

The majority of studies, however, have shown that that CSR exhibits a positive relationship with organisational performance (Ruf et al. 2001). The main problematic issue in these studies is wide range of different variables and approaches used to measure CSR and CP. An overview of CSR and CP in the developed world was presented by Waddock and Graves (1997) in their study was underpinned by study of

the link between these two variables. Their study focused two theories to develop the following hypothesis: slack resources and good management. The most significant finding from their study was that CSP appears to be positively associated with prior CP, supporting the theory that slack resource availability and CSP are positively related. In addition, they demonstrated that CSP is positively associated with future CP, supporting the theory that good management and CSP are positively related.

In criticism of these two studies, while Griffin and Mahon (1997) used four CSP measurements in their sample, Waddock and Graves (1997) utilised only one, the KLD. Both studies arrived at the same conclusion when they used KLD as a measurement of CSP. Griffin and Mahon (1997) tested their model in only seven companies in the chemical industry; Waddock and Graves's (1997) on the other hand investigated several industries, including the chemical industry with a sample of 500 companies.

McWilliams and Siegel (2000) used event study methodology to assess the short-run financial impact (abnormal returns) on companies who engage in either socially responsible or irresponsible acts. They utilised the Domini 400 Social Index as a measure of CSP. In addition, they employed average of annual values for 1991–1996 for 524 US companies to obtain a measure of CP as the dependent variable. Two dummy variables were included as independent variables: industry and research and development. Their results showed that inclusion of the variables caused the CSR variable to become insignificant, leading them to the conclusion that if the regression model is correctly specified there may not be a relationship between CSR and CP.

An augmented study was conducted by Stanwick and Stanwick (1998) utilising three independent variables; organisation size, CP and environmental performance, with one independent variable; CSP. Their study supported Waddock and Graves (1997) study, in that they found that large, profitable companies have a strong relationship with CSP. In addition, Stanwick and Stanwick (1998) showed that CSP is a multi-faceted construct that is affected by various organisational variables. They concluded that there was a strong relationship between CSP and the profitability, size and amount of pollution released by a company.

Tsoutsoura (2004) studied the relationship between CSR and CP using the S&P 500 company data over a five-year period. He integrated prior disclosure studies in two ways: short-term financial effects and long-term financial effects. This classification used the same methodology utilised in previously published studies. He employed two sources of measures for CSP, the KLD rating data and the Domini 400 social index, as well as ROA, ROE and ROS as accounting variables as indicators of CP. His findings were similar to the studies of Griffin and Mahon (1997), Stanwick and Stanwick (1998) and Waddock and Graves (1997) discussed above. Like these scholars, he argued that either market-based or accounting-based financial measurements can be used, emphasising that the accounting based measures captured only historical aspects of company performance, while market measures are forward-looking and focus on market performance.

Simpson and Kohers (2002) investigated the link between CSR and CP using the banking industry as their sample companies. They used the community reinvestment act rating as a social performance measure, and concluded that there was a significant positive relationship between CSR and CP. A recent study undertaken by Mahoney and Roberts (2007) used panel data for Canadian publicly held companies over a 4-year period. Their results showed significant relationships between CP and individual measures of CSP, in particular, company environmental and international activities. Elsayed and Paton (2005) used panel data analysis to identify the impact of environmental performance on CP. Their study investigated a sample of 227 UK companies using data from 1994–2000 with Tobin's q, ROA and ROS as CP measures in order to minimise the limitations identified in earlier published studies. The results of their analysis revealed a neutral impact of these two variables.

The studies described above were all conducted in the UK, USA and Canadian market settings. Empirical studies of CSR and CP outside of these markets are very rare, although small studies have been conducted on emerging markets by Subroto (2002) and Saleh et al. (2008). Subroto (2002) used a descriptive survey and multivariable correlations of cross-sectional data and critical part analyses, to analyse the correlation between CSR and CP and ethical business practices in Indonesia. According to Subroto, the interests of stakeholders showed a significant correlation with CSR, CP and ethical

business practices. Secondly, his research relationship is still positive. Thirdly, he indicated that the correlation between social responsibility and CP was quite low.

Another recent study by Saleh et al. (2008) concluded that there was limited evidence for significant effects of CSR on CP over the long-term. Their study utilised five years of data from company annual reports, and measured four key CSR indicators; employee relations, employment, community involvement and products, using the fortune reputation survey, the KLD index, the Toxics Release Inventory and the Best Corporate Citizens index. They also included the average shareholder return and average scores on social measures. The CP indicators they used included ROS, stock market returns and Tobin's q ratio. This study also employed panel data analyses using the cross-sectional and time-series data and used three CP indicators, ROE, ROA and ROS, and six CSR indicators covering employees, customers, community, education, health and environmental. In addition, they used an index for measuring the CSR performance of the 50 listed companies of the CSE in Sri Lanka.

2.9 Literature for the methodology on the study

The literature relating to this chapter was accessed through the databases of Victoria University and Google Scholar. Victoria University's electronic book collection was proved useful for accessing rare books. This section discusses the literature relating to the methodology used to achieve the three objectives of the study: developing a framework, constructing an index and identifying the relationship between CSR and CP.

Salzmann et al. (2005) concluded that there are limitations in the present CSR studies such as methodologies, poor measurements of CSR and CP, no accepted definitions and concepts, and inadequate sample size, and with the few comparative studies taken at an organisational level. On the other hand, Benn and Bolto (2011) explained that " the basic understanding of rationales, practices and impacts of CSP is required before other research methodologies are employed to assess the financial returns of a variety of CSR initiatives that are by their very nature contextually specific", p.11). The present study looks at the literature in order to understand the basic frameworks, measuring systems and the scientific analysis method used in CSR research.

2.9.1 Developing a corporate social responsibility framework

Many scholars (Donaldson and Preston 1995; Davenport 2000; Ruf et al. 2001) have argued for CSR frameworks to be based on stakeholder theory. Some of these studies have used Carroll's model (discussed in Chapter 2) to guide their research (Wartick and Cochran 1985; Clarkson 1991; Wood 1991). For example, Wood (1991) suggested a CSR model comprising three levels of principles, three processes of corporate social responsiveness and three outcomes of corporate behaviour. The three principals include the institutional, organisational and individual levels. The process of corporate social responsiveness includes environmental assessment and analysis, stakeholder management and issues management. Finally, Wood showed the outcomes of corporate behaviour including societal impacts, corporate social programs and policies.

Specific problems for each of the main stakeholder categories were identified by Clarkson (1995), who developed a CSR framework which distinguishes company owners, human resources, customers, suppliers, government and competitors. The aim of this framework was to facilitate the management of stakeholder issues, rather than to establish or implement the principles of CSR Another CSR framework was discussed by Davenport (2000) based on the stakeholder approach and containing 20 principles categorised into three groups; ethical business behaviour, stakeholder commitment and environmental commitment. She describes the stakeholder commitments, including commitments to communities, employees, investors and suppliers, as a major component of her CSR model, which was developed using the Delphi method.

Recently, some theories advanced in prior studies were combined by Rais and Goedegebuure (2009) into a research model suited to the context of developing countries. Their CSR construct showed that CSP has five stakeholder relationship domains, including employees, customers, shareholders, suppliers and communities.

Using stakeholder theory, the pilot study for this research project identified six major stakeholder practices CSR in Sri Lankan companies. These fitted with those identified in Rais and Goedegebuure's (2009) study, and provide good evidence for the

development of a CSR framework for developing countries. The current study used the Delphi method for the development of the CSR framework, as did Davenport (2000).

The framework development process involved the following steps:

- Identification of the CSR practices in Sri Lanka and related issues, by examining the annual reports of 10 selected companies a pilot study.
- Development of an interview questionnaire and selection of 10 organisations and 20 experts for collecting data using the Delphi method.
- Interviewing the 20 selected experts.
- Content analysis of the qualitative data.
- Circulation of the results of the content analysis between the respondents to fine-tune the first round data of the Delphi process using a questionnaire, followed by rating the responses on a 5-point Likert scale.
- Analysis of the final data using a descriptive statistics technique.

These steps are discussed in more detail in this study in Section 6.4.

2.9.2 Developing a social responsibility index

Many CSR studies have suggested the importance of the measurement of CSR. Velde and Corten (2005) reported the activities of CSR as including environmental relations, human resources, customers and suppliers, community and society and corporate governance. Different researchers have used different methods to measure CSR in their studies. For example, Chatterji et al. (2009) showed that recent studies have largely used the Kinder, Lydenberg, Domini Research & Analytics (KLD) ratings to measure social and environmental performance. In addition, Chatterji et al. (2009) pointed out that social and environmental rating reveal a company's performance and reputation. Again, they stated that these social ratings provide the transparency that allows interested parties to recognise environmental friendly companies. In addition, investors can take advantage of this transparency to examine the company's past performance and current managerial actions likely to influence potential environmental performance. The current study required a CSR measurement index for identifying and quantifying the social and environmental data disclosed by the sample companies.

Research aimed at identifying the relationships between CSR and CP has used a range of methods for measuring CSR. Griffin and Mahon (1997) identified four data sources including a fortune reputation survey (McGuire, Sundgren and Schneeweis 1988; Preston and O'Bannon 1997), the KLD index (Graves and Waddock 1994; Mahoney and Roberts 2007; Scholtens 2008; Nelling and Webb 2009), the Toxics Release Inventory (Griffin 1997) and corporate philanthropy (Brine et al. 2007). In addition, Waddock and Graves (1997) pointed out that many more methods of measuring CSR are available, including content analysis of documents (Wolfe 1991), behavioural and perceptual measures (Wokutch and McKinney 1991) and case study methods resembling social audits (Clarkson 1991). However, all of these measures have limitations. Chapter 2 discusses the reasons why these measures are not directly applicable in developing countries.

A number of CSR measures have been developed by researchers to suit the needs of their own countries. For example, the KLD index was specifically designed for the US market (Graves and Waddock 1994), the Canadian Social Investment Database (CSID) for Canadian companies (Mahoney and Roberts 2007), the Corporate Monitor CSP data set for Australian companies (Kristoffersen et al. 2005) and the Vigeo CSR scores for Eurozone companies (Vermeir et al. 2005). Recently, STRING Consultants has developed a CSR rating for Sri Lankan companies (Anthonisz 2011).

Indices have been developed for measuring the CSR practises of particular companies. McGuire er al. (1988) stated that there are three common methods of measuring CSR measurements in research studies. The first is an assessment of the experts' knowledge of corporate policies, the second is an index from the Council of Concerned Businessmen and Business and Society, and the third is content analysis of the annual reports and sustainability reports of companies. These authors criticised the validity of all three of these methodologies, stating that the experts' knowledge depends on their skills and qualifications, and that indices are developed based on their own evaluation, while published documents may not accurately reflect real corporate social action.

The study used the qualitative data to calculate the CSR index from the company's annual reports, sustainability reports and the companies' websites. Consequently, this

study has developed a CSR index using the annual reports and the sustainability reports (Ruf et al. 2001). To develop this index, a dichotomous process was used, which included three steps: dichotomous, unweighted and adjusted for non-applicable items. This methodology is described in detail in Section 6.4.2.

2.9.3 Studies on the relationship of corporate social responsibility and company performance

The present study explores the relationship between CSR and CP within the context of a specific country, Sri Lanka. A number of studies have identified a variety of methodologies relating CSR to CP (Griffin and Mahon 1997; Orlitzky et al. 2003; Margolis and Walsh 2003). This section provides a literature review on the relationship between CSR and CP. A number of studies have used regression analysis to test the multivariate relationships between CSR and CP (Cochran and Wood 1985; McGuire et al. 1988). In addition, researchers investigating the CSR and CP relationship used meta analysis to identify, contrast and combine results (Morgolis and Walsh, 2003; Griffin and Mahon 1997; Orlitzky et al. 2003: Allouche and Laroche 2005).

Recent studies on the relationship between CSR and CP have utilised panel regression econometrics models. The panel regression econometrics model gives an accurate result using longitudinal and cross-sectional data. For example, Nelling and Webb (2009) examined the relationship between CSR and CP using a panel fixed effects model and concluded that there is no relationship between CSR activities and CP. Further, Elsayed and Paton (2005) explored the impact of environmental performance on CP using static and dynamic panel data evidence. They concluded that CP has a neutral impact on environmental performance. In addition, Mahoney and Roberts (2007) investigated the relationship of CSR to CP and institutional ownership in Canadian companies utilising four years of panel data and panel regression models. They found that there was no relationship between companies' CSR and CP. As a result of this, the current study introduced a panel data regression analysis to identify the relationship between CSR and CP in Sri Lankan companies over the past five years. This is the first study to examine this relationship in the Sri Lankan context, will make a significant contribution to body of knowledge, and will be of interest to the Sri Lankan business community. The study

methodology is discussed in Section 6.4.3, and the process of the analysis is discussed in Chapter 7.

2.10 Summary

This chapter discussed the literature relating to studies on CSR. The first section presented the development of the concept of CSR and outlined the WBCSD, EU and BSR definitions of CSR. These definitions included both organisations and their stakeholders.

The second section discussed the importance of the CSR concepts of organisations. In this part the responsibilities of organisations were highlighted in four divisions: the economic, legal, ethical and discretionary domains (Carroll 1979). Other factors important for CSR have been identified by (Lantos 2002) as the ethical, altruistic and strategic approaches. This chapter then further highlighted the history and evolution of the study of CSR based on the different CSR themes (Visser 2007). These themes include the economic, social, ethical, stakeholder and mandatory perspectives.

The next section described business organisations and CSR, and identified two influences on the organisational social responsibilities: internal and external value factors. These internal factors comprise three organisationally determined values, such as resources, structure and culture (Wheelen and Hunger 2002). The external factors are influenced by stakeholder pressures (L'Etang 1994; Vogel 2005), which originate from customers, employees, communities and environmental rules and regulations. After consideration of these factors, the chapter defined CSR based on the various academic and organisational views.

The fourth section discussed the theoretical perspectives of CSR, primarily considering stakeholder theory, social contract theory, Resource dependency, legitimacy theory, Coase's theory of the firms and the Agency theory were discussed in the chapter. As well as traditional profit maximisation theory and modern stakeholder theory and the strengths and limitations of stakeholder theory were also discussed. Finally, the

relationships between CSR performance and CP revealed in the existing literature were outlined, accompanied by a discussion of the limitations of the existing studies.

Chapter 3: Corporate Social Responsibility in Developing Countries

3.1 Introduction

This chapter reviews the literature on the development of CSR in developing countries. The concept of CSR has been developed primarily in Western countries. Kemp (2001) demonstrated that "there are numerous obstacles to achieving corporate responsibility, particularly in many developing countries where the institutions, standards and appeals system, which give life to CSR in North America and Europe, are relatively weak. (p. 1). Recent studies by Jamali (2007) have highlighted the observation that there are various CSR plans developed in Western countries that can be modified to fit the context of developing countries.

Among the benefits arising from being socially responsible, one important argument for addressing CSR is its business case, or more precisely, the relationship between CSR and corporate competitiveness (Porter and Kramer 2002). The implementation of CSR practices may increase the possibilities for profitability, reduce risks, and improve financial investing and commercial benefits. However, currently available studies have focused on CSR in the developed countries rather than the developing countries (Dobers and Halme 2009; Belal 2008).

According to Visser (2008) and the UNDP (2006), developing countries can defined as the less industrialised nations with a relatively low per capita income. Many African, Asian and Latin American countries fall into this category and are trying to overcome these problems by improving their political, financial, education, labour and cultural systems (Whitley 1999). Accordingly, the focus of most CSR studies in developing countries has been the Asian, African, Middle Eastern and Latin American regions (Belal and Momin 2009). Since the concept of CSR was initiated in the developed world it cannot be directly adopted by the developing world. To understand the application of CSR in developing countries a review of the literature on CSR implementation in both developed and developing countries is required. This will also

address the question of why CSR concepts applied in developed countries cannot be adopted by developing countries.

This chapter organised as follows: Section 3.2 describes CSR in developing countries. Section 3.3 presents the role of business organisations, Section 3.4 discusses the alternative practices of CSR from different perspectives and Section 3.5 addresses the theoretical view of CSR in developing countries. Section 3.6 identifies the different views on CSR, while Section 3.7 outlines CSR as practiced in Asia. Finally Section 3.8 discusses the research gaps present in the literature.

3.2 Corporate social responsibility in developing countries

Many studies have highlighted that the developed countries like the US, UK and many European countries have strong concepts of CSR (Crane and Matten 2007). These countries have developed CSR frameworks, standards, indices and principles, both locally and internationally, to be used by their organisations. These standards and principles, which are based on CSR practices of developed countries and biased towards the US context, have been criticised due to their limited international applicability (Lindgreen et al. 2009). It has been argued that the accepted practice of CSR varies considerably between different countries. Chapple and Moon (2005) supported this argument by describing the variations in CSR practices among seven Asian countries. Their analysis of website reporting of CSR in these countries confirmed that 'there is no single pattern of CSR in Asia' (p. 436). Therefore, they suggest that CSR is dependent on national factors for each country. They also found that international companies adapt their CSR practices to the specific national contexts of their host business systems.

Matten and Moon (2004) showed that CSR practices differ from nation to nation due to differences in their cultural traditions. In a subsequent study, Matten and Moon (2008) showed that these variations in CSR across countries occur according to Whitley's (1999) national business systems framework. In particular, they state that CSR in US companies has largely been explicit, whereas in Europe, at least until recently, it has largely been implicit. They conclude their analysis by assessing the nature of the political, financial, education, labour and cultural systems in the UK and Europe and

explain how difference in these key institutional arenas influence CSR on either side of the Atlantic. Further, Visser (2007) stated that cultural traditions strongly affect CSR implementation in organisations. CSR and philanthropy are closely related in developing countries, largely due to their cultural traditions. Culture is heavily dependent on the religion followed, and in many Asian countries people practice Hinduism, Buddhism, Islam and Christianity.

Nelson (2004) showed that Buddhist traditions are aligned with CSR in Asian countries. In addition, Chapple and Moon (2005) have highlighted that 'CSR does vary considerably among Asian countries but that this variation is not explained by [levels of] development but by factors in the respective national business systems' (p. 15). These factors include their political, financial, education, labour, and cultural systems. Donations and ethical practices are a major theme of Buddhist philosophy; therefore, in the developing countries in Asia many philanthropic actions are considered as CSR.

Burton et al. (2000) found differences in the relative importance of the types of CSR responsibilities between Hong Kong and US students. Küskü and Fraser (2004) reported significant variations in CC practices among Australian and Turkish organisations. These differences included the lack of legal regulations and legal application of environmental and anti-discrimination laws, differences in the level of top management interest in CSR, strong organisational commitment and internal corporate culture, as well as in customer loyalty. Other authors have stated that cultural differences are the major factor behind these variations, while the level of development of a country may be a key indicator (Burton et al. 2000; Chapple and Moon 2005).

A considerable amount of CSR literature has been published on cross-national CSR variations (Küskü and Fraser 2004; Chapple and Moon 2005), CSR applications (Carroll 1979; Wood and Jones 1995; Whitley 1999) and the development of CSR frameworks for developed countries (Clarkson 1995; Davenport 2000). However, there is little evidence related to CSR frameworks, indices and standards for developing countries. Conversely, researchers have pointed out that CSR provides many intangible advantages such as market reputation, employee satisfaction, customer satisfaction, government support and growth and survival. It can be argued that companies implement CSR programmes to obtain business benefits (Porter and Kramer 2002) such

as enhanced enterprise image and reputation (Schwaiger 2004), increased sales and customer loyalty, increased productivity and quality, reduced complexity and costs; better control and management of risks, a better capacity to attract and retain employees, and higher employee motivation. These benefits have been seen in the companies in developing countries that have applied CSR concepts, and in the long term this may enhance company CP (Ruf et al. 2001; Rais and Goedegebuure 2009). However, no direct evidence is available to prove that companies can benefit from implementing CSR plans in developing countries.

In addition to proving the benefits of CSR, countries in developing countries face a major problem for the implementation of CSR plans, in that they lack a reasonable framework to assess their effectiveness. There is little evidence to show that the organisations in these countries have employed CSR plans based on international CSR standards, policies and principles. However, scholars are reluctant to directly adopt CSR principles, standards and policies in the developing world for many reasons. Several studies (Chambers et al. 2003; Welford 2005; Baughn et al. 2007) have found that cultural differences are the major limitation to adopting international CSR standards in the developing world. In addition, these authors have argued that there are many differences among the developing countries themselves, and hence framework development is a major issue. Despite this, Visser (2007) has introduced a common CSR framework for Asian and African countries based on Carroll's CSR pyramid concept. Accordingly, the organisation's first obligation is economic responsibility, the second is philanthropic, the third is legal and the fourth is discretionary responsibility. The aim of the present study is to develop a CSR framework for a specific country such as Sri Lanka, to identify extent of CSR practices, and examine the link between CSR and company profitability using financial accounting ratios, using the data available for the companies listed by the Colombo Stock Exchange (CSE).

3.3 The role of business

Every businesses enterprise has a role within society. Businesses are run by people to produce goods and services for their society which they then sell to customers in order to make a profit. This profit is then used as a return to investors, to invest in new

technologies and new products, meet the wage and career expectations of employees and pay taxes and make other contributions to government, as specified by legislation. In brief, without profit there is no business, and without business there is no wealth creation in society.

Business organisations have many responsibilities to their societies. These include increasing societal expectations of business, reducing the power and scope of government, globalisation, heightened media reach and the spread of democracy. A series of corporate scandals have undermined confidence in the integrity of corporations, financial institutions and markets (Smith 2003; OECD 2004). As a result, management may choose to implement CSR concepts even if they do not improve financial performance. In addition, global organisations such as the United Nations expects to implement the goals of Millennium Development 'a world with less poverty, hunger and disease, greater survival prospects for mothers and their infants, better educated children, equal opportunities for women, and a healthier environment' (United Nations 2006, p. 3). The UN expects to achieve these goals via contributing global organisations and the key role of business in accepting their responsibilities towards the critical issues of human development and environmental sustainability (Visser 2007). However, in many developing regions such as Latin America, the Middle East, and North Africa, organisations are not concerned about these global aspirations and only 50 per cent of Asian countries are concerned with achieving these goals (Sachs and McArthur, 2005). Sri Lanka on the other hand, stands out as one developing country that is trying to achieve millennium development goals at a national level (Millennium Development Goals in Sri Lanka, http://unic.un.org/imucms/colombo/25/568/mdgs-in-sri-lanka.aspx).

Businesses have always played a key role in the economic and social development of the communities in which they operate. As outlined above, they generate employment opportunities and profits and thereby contribute substantially to improving the quality of life for their stakeholders. The issues they face in their operations are predominantly local, requiring local solutions with local actors. They do not consider this social interaction as CSR; rather, it is just part of normal business operations within society.

Business firms try to develop their business using the business and corporate strategies such as product differentiation, cost focus and cost leadership. Moreover, they are interested in establishing CSR programs as business strategy Mohr et al. (2001). Many companies in developing countries such as India, Bangladesh, Pakistan and Sri Lanka have now established CSR programs as a response to their dissatisfaction with the existing social arrangements. Nevertheless, Sood and Arora (2006) argue that the motivation for social responsibility activities depends on the company's leadership and the orientation of the organisation's senior management. Therefore, CSR is becoming a more important means of increasing the relationships between stakeholders and business organisations in the developing world, and should be adopted more widely within it.

3.4 The practice of CSR

As described above, Visser's (2006) discussed four grounds for adopting CSR in the developing countries. Firstly, developing countries' economies are changing rapidly. Their organisations have profit-making growth market for their operational activities (IMF 2006). Secondly, these countries have significant social and environmental problems that may include civil wars, disasters and political instability (WRI 2005; UNDP 2006). Thirdly, the World Bank (2005) has stated that developing nations will be forced to adopt CSR practices in response to environmental and social factors such as globalisation, economic growth, investment and business activity. In developing countries, CSR programmes and challenges are different from those in the developed world. Visser (2007) outlined these differences, describing the many CSR issues facing by the developing world such as infrastructure development versus environment, employment creation versus high labour standards, and strategic philanthropy versus political governance. As a result, developing countries prioritise these issues under the label of CSR. Critical examples related to the developing world, especially Africa and Asia, are tackling HIV/AIDS, improving working conditions and the provision of basic services, supply chain integrity and the alleviation of poverty (Visser 2007). Building on prior research, Welford (2005) and Visser (2007) pointed out that this difference in the focus of CSR results from both internal and external drivers, such as local issues and cultural traditions, in developing countries.

3.4.1 Alternative practices of corporate social responsibility

In response to the particular social issues of the developing countries, Schwabenland (2006) introduced another three options for CSR practices in these countries; namely, alternatives to the state, alternatives to the community and alternatives to the market. These options attempt to address the question of why CSR is necessary in developing countries and explained briefly below to provide a better understanding of the different CSR practices employed in developing countries.

3.4.1.1 Role of the government

1. The role of the government is to create an enabling environment for CSR, to provide incentives to aid companies, to provide minimum legal standards and to ensure that companies' policy frameworks become more responsible and accountable. For example, governments could provide tax benefits in exchange for CSR involvement.

2. Private sector involvement in social responsibility is an important characteristic in the developing world (Schwabenland 2006). Companies adopt CSR programmes because the government fails or is unable to fulfil its role. Companies may play a part in filling this gap through voluntary CSR initiatives. Many governments in developing countries are facing major problems with poverty and so they use the private sector to carry out certain social and environmental activities that they are unable to provide. In other words, the authorities have promoted the adoption of CSR without imposing a mandate. Thus, the private sector engages in CSR activities as a partner with government rather than in competition with it. Therefore, the government's role is to create an appropriate environment for implementing and promoting CSR practices.

3. Researchers such as Aaronson and Reeves (2002), Fox et al. (2002) and Nidasio (2004) have identified different key roles for governments in the promotion CSR. One of the most useful classifications of governmental roles was developed by Fox et al. (2002), where they present the four key roles that could be adopted by governments: mandating (legislative), facilitating (guidelines on

content, fiscal and funding mechanisms, creating framework conditions), partnering (engagement with multi stakeholder processes, stimulating dialogue) and endorsing (tools and publicity), as shown in Table 3.1.

Table 3.1: Public Sector Roles

Role	Enabling	Implementation	Penalty/Reward
Mandating	Command and control legislation	Regulators and inspectorates	Legal and fiscal penalties and rewards
Facilitating	Enabling legislation Funding support	Creating incentives Raising awareness	Capacity building Stimulating markets
Partnering	Combining resources	Stakeholder engagement	Dialogue
Endorsing	Political support		Publicity and praise

Source: Adapted from Fox et al. (2002) Corporate Social Responsibility Practice

3.4.1.2 Common social problems

The second alternative CSR practise is responding to social problems in the community (Schwabenland 2006). This includes the development of infrastructure such as roads, clean water supply, drainage, garbage disposal, power and open spaces to improve the local environment. Visser (2006) developed a CSR model based on Carroll's (1991) CSR pyramid model for the developing countries in Africa. Like Carroll, Visser (2006) argued that the economic responsibilities are the most importance. Philanthropic responsibility was named as the second important priority. Legal and ethical responsibilities show as third and fourth priorities. Visserr's model still in its tentative stage, and would benefit from empirical research. His argument is explained in the Section 3.5 of this Chapter.

Accordingly, many companies in developing countries are now implementing environmental protection activities, whether they have engaged in environmental pollution or not. For example, in 2004, the UN selected Tata Steel Company as one of six examples of urban planning excellence in India (Lee 2008). The Tata Steel Company started a welfare programme for its workers in 1902 when the son of the

group founder, Jamsetji Nusserwanji Tata, wrote a letter to his son about building a workers' city around the Tata Steel works: 'Be sure to lay wide streets planted with shady trees, every other of a quick-growing variety. Be sure that there is plenty of space for lawns and gardens'. After his death in 1904, the city took his name, becoming Jamshedpur. Today Jamshedpur, with its free housing, hospitals and schools, sports stadiums and clean streets, remains the envy of the country. In 2004, the UN chose it—along with Melbourne and San Francisco—as one of six examples of urban planning excellence worldwide (Lee 2009).

Carroll's (1991) pyramid model explains the firms' more interested to do the legal and ethical responsibility rather than the discretionary.

The final alternative CSR practise identified was alternative markets. Social business enterprises are based on market principles, but are dedicated to improving the lives of the poor. Developing countries are concerned about these types of organisations. Some of the well-known organisations have established their CSR programmes within social enterprises, for example, the Micro Finance and Amul companies in India. However, Arora and Puranik (2004) pointed out that many foundations have established structures for company charitable giving. India is notable in this regard, having over 100 corporate foundations involved in CSR activities.

3.5 Theoretical view of corporate social responsibility

Carroll's CSR model was designed for the developed world (Matten and Crane 2005; Visser 2006). Visser (2006) examined the state of CSR in Africa, utilising Carroll's (1979) CSR pyramid in his analysis and has suggested that the order of the pyramid does not apply in Africa. He revised Carroll's (1999) CSR pyramid, as shown in Figure 3.1, and replaced discretionary responsibilities with philanthropic responsibilities. The basis of this revised pyramid was the economic category, forming the foundation on which the other three categories rest.
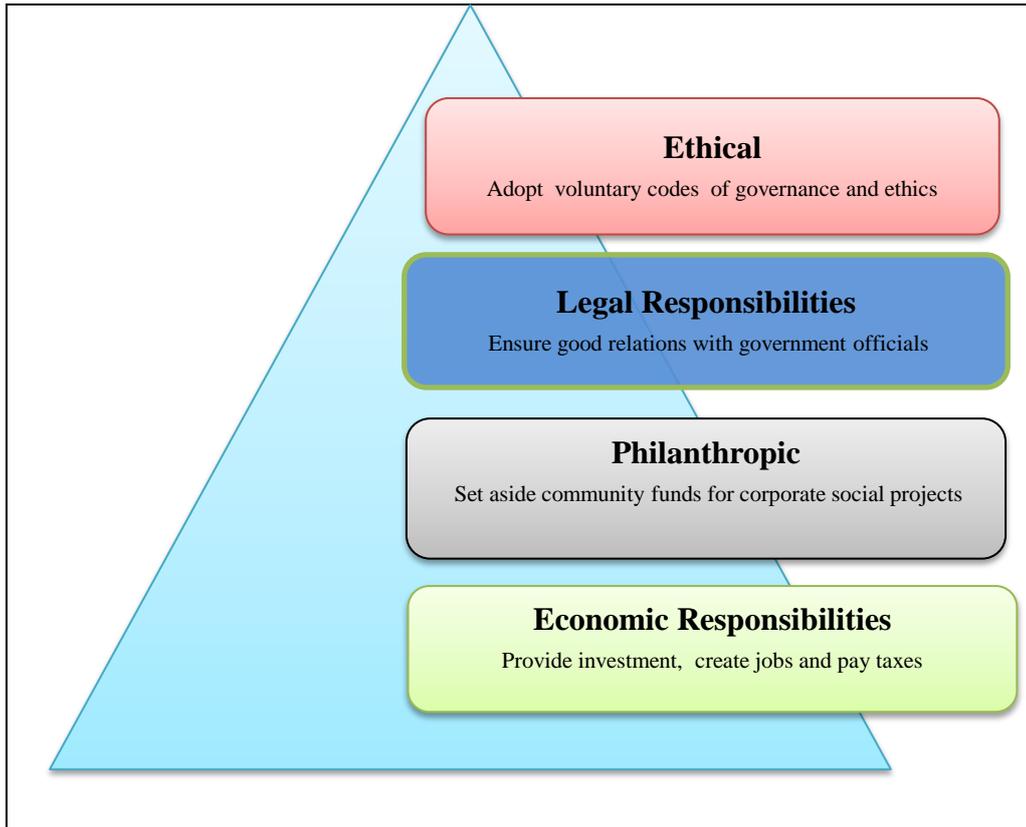
Figure 3.1: CSR pyramid for developing countries

Source: Adapted from Visser (2007)

Visser saw philanthropic responsibilities as following basic economic responsibility; only then could legal and ethical responsibilities follow and he proposed several reasons why philanthropy should take precedence: Africa's socio-economic conditions, the dependence on foreign aid, and the fact that CSR in Africa is still at an early stage. Legal infrastructure is poorly developed in Africa, hence it is a less demanding driver of CSR. Visser concluded that CSR could not be generalised to different countries according to the order originally proposed in Carroll's pyramid model, and that the relative priorities of the different types of CSR depend very much on the local cultural context. A growing body of evidence suggests that in developing countries CSR practice is focusing on philanthropic responsibilities (Jamali and Mirshak 2007; Visser 2007, 2008).

Visser (2007) suggested ten major drivers that characterise CSR in these contexts and divided these drivers into two groups: internal and external, as shown in Figure 3.2. He

considered that internal drivers represent pressures from within a country, such as cultural traditions, political reform, socio-economic priorities, governance gaps, crisis responses and market access. Conversely, external drivers represent the international standards, investment incentives, stakeholder activism and supply chains, which tend to have a global origin.
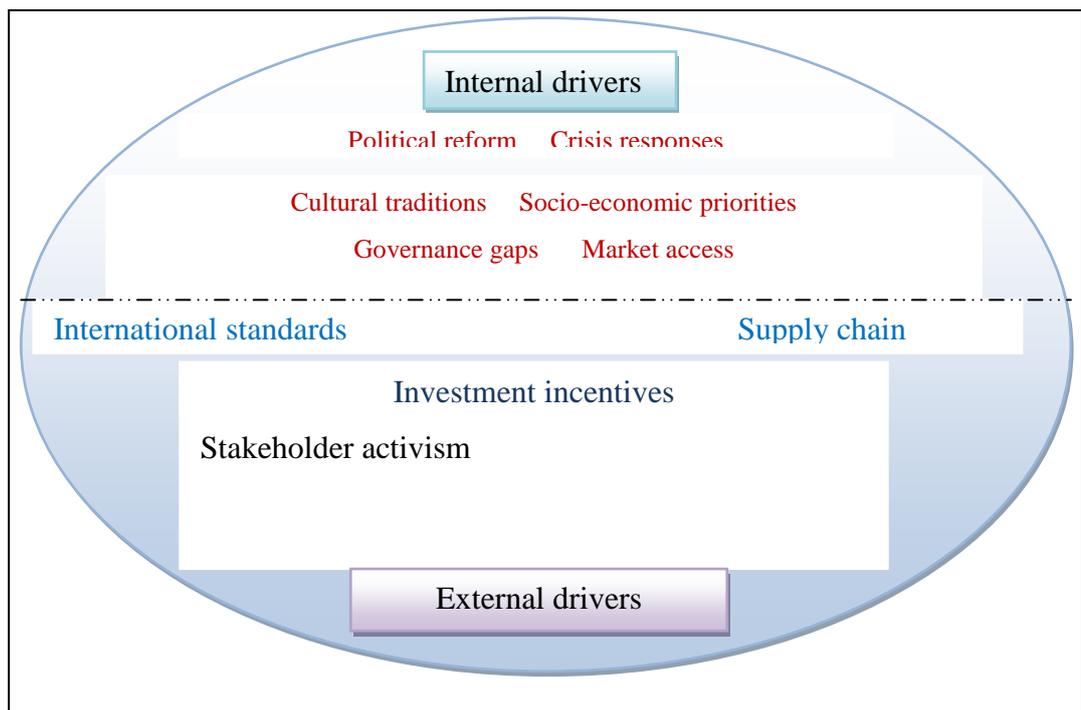
Figure 3.2: Drivers of CSR in developing countries
Source: Adapted from Visser (2007)

Even in an African context CSR is framed by socio-cultural influences such as communalism, ethnic religious beliefs and charitable traditions (Burton, et al. 2000). Accordingly, Visser (2007) suggested that the value-based traditional philosophy of African humanism is what underpins much of the modern inclusive approaches to CSR in the African continent.

3.6 Common CSR practices

As previously mentioned it is widely acknowledged that the study and practice of CSR is more advanced in the developed countries than in the developing countries. Academically, very little is known on the practice of CSR in developing countries (Jamali and Mirshak 2007). However, in developing countries CSR plays an equal role, such as philanthropy, which is identified by CSR scholars (Uriarte 2008). Conversely, Matten and Moon (2004) stated that within the countries the CSR is difference in developing world because of the cultural differences. Uriarte (2008) exemplified that using the data of 14 Asia-Pacific countries, which included the five South-East Asian countries of Indonesia, Malaysia, the Philippines, Singapore and Thailand, the developing countries CSR is similar. According to the Asia-Pacific Economic Cooperation (APEC 2006) report 'Corporate Social Responsibility in the APEC Region', the following similarities have been noted in CSR practices and activities in the countries of the Asia-Pacific region:

a) The origins and conceptualisation of CSR are rooted in the historical and cultural traditions of each country and deeply influenced by ethical concepts and religious practice.

b) CSR is gradually moving from its historical focus on business philanthropy to a broader set of activities that engage business with the full range of its stakeholders and integrate the practice of CSR into the core strategy of the organisation.

c) Efforts at measurement and reporting are growing rapidly in the belief that formal monitoring and evaluation of outcomes will enhance the credibility of CSR and make it easier to substantiate.

d) CSR is evolving in response to profound external forces, including meeting legal and regulatory obligations and responding to the elite and broader public opinions that demand higher standards of accountability, for example, meeting environmental requirements and assuring appropriate labour standards throughout the supply chain.

e) Companies are increasingly turning to partnerships with other stakeholders including both governments and non-government organisations in implementing CSR activities.

Despite the overall similarities, there are notable differences between the experiences of the developed countries and those of the developing countries. Maignan and Ralston (2002) found that organisations in different nations varied in the extent to which they reported CSR activities on their websites, as well as their managerial practices and the stakeholder issues that were emphasised. CSR activities in developed countries tend to demonstrate the patterns described in the following section.

3.6.1 Strong environmental responsibility

When compared with developing countries developed countries are more concerned with environmental responsibility and the improvement of environmental management practices (Mazurkiewicz 2004). Further, many citizens consider corporate environmental responsibility as their duty to compensate for the environmental implications of the company's operations, products and facilities. Therefore, the elimination of waste and emissions, maximisation of the efficiency and productivity of resources and the minimisation of practices that might adversely affect the enjoyment of the country's resources by future generations are obligatory duties for all companies (Mazurkiewicz 2004). Developing countries should be concerned with the environmental issues because environmental problems are not exclusively the problems caused by industrialization and riches, but the environmental problems are very much caused by poverty" (Kurvey 2004).

3.6.1.1 Strong and active civil society involvement

Civil society includes NGOs such as Greenpeace, Amnesty International, Community Aid Abroad and the Councils of Social Service (Johns 2002). The tools that NGOs use to regulate businesses are very different to those of the market and government. They are, in the first instance, neither price nor law. Often they are simply ideas expressed in a strange new language, the language of CSR such as CC, the Triple Bottom Line and the Stakeholder Corporation. The language and ideas are seductive and appear benign (John 2002). In addition to the above differences, developing countries have followed CSR characteristics (Visser 2007). Large, high-profile national and international companies are now using CSR practices (Crane et al. 2008; Abboud and AbdulRazek

2010). These practices have been adopted as needed for each country's own issues, such as fair trade, supply chain, HIV/AIDS and/or sector-led demands (agriculture, textiles, mining) (Crane et al. 2008; Abboud and AbdulRazek 2010). Common CSR practices are philanthropic activities such as education, health, sports, development, the environment and other community services (Lantos 2001; Jamali 2007; Crane et al. 2008). Economic contributions are the most important CSR activity, since these provide an effective way for businesses to make a social impact (Porter and Kramer 2002; Berniak-Wozny 2011). Lastly, the cultural values and spiritual perceptions are strongly associated with CSR practices adopted in developing countries (Welford 2005).

Bodie et al. (2007) compared CSR policies and practices in Asia with those of the US, Europe and Australia. Their study based on Welford's (2005) study, pointed out there are fewer policies and practices implemented in the developing world. His conclusion was the policy differences between European and Asian companies include those relating to fair wages, freedom of association and equal opportunities for employees. Further, Bodie et al. (2007) stated that philanthropy policies are common in North America, less popular in Europe and lowest in the Asia region. Ramasamy and Ting (2004) argued that CSR is less popular in the developing world than the developed countries. They also reported that the level of CSR awareness in Malaysia is generally lower than in Singapore. Rathnasiri (2003) noted that many companies in Sri Lanka do not understand CSR but that philanthropic and community development are widely known and implemented in Sri Lankan organisations. Bodie et al. (2007) pointed out that the philanthropic and community development are not new to Asia and such CSR activities are conducted under a variety of names, including donations and social giving.

Researches (e.g., Baughn et al. 2007; Visser 2008; Dobers and Halme 2009; Lindgreen et al. 2009) have discussed the CSR practices of Africa and the Middle East, Central and Eastern Europe, South and Latin America, and the Asian countries. The governments of these countries expect to reduce their social and environmental issues especially where they are in weak positions, for example with health issues such as HIV/AIDs and lower life expectancy at birth (Lindgreen et al. 2009).

3.7 Corporate social responsibility in Asia

Many studies of CSR in developing countries have been conducted in Asian countries. Chambers et al. (2003) studied CSR in Asia by reviewing the websites of companies operating in India, South Korea, Thailand, Singapore, Malaysia, Philippines and Indonesia. They found three primary factors that characterised CSR in Asia. Here, CSR lags behind the Western world; different national systems of business/society relationships influence CSR and thus there is no uniformity among the Asian countries; and CSR in Asia is enhanced by globalisation. However, two major limitations were identified in their study. First, websites are not widely used for business communications in Asia, because information technology facilities are still at a rudimentary stage and internet usage is low (Rotchanakitumnuai and Speece 2003; Chapple and Moon 2005). Secondly, the top 50 companies are the largest companies in these countries, which adopt more strategies to implement CSR. However, in developing countries the larger companies implement more CSR plans than smaller companies do (Lepoutre and Heene 2006; Perrini et al. 2007).

Websites offer a valuable way for researchers to access information about companies (Perkowitz and Etzioni 2000; Babbie 2007) and this is especially the case in Sri Lanka where many companies disclose information about their socially responsible activities in this way (Rathnasiri 2003; Weerasinghe 2004; Wijayasiri and Jayaratne 2009).

Visser (2008) stated that Asia is the developing region that is most often covered in the CSR literature, with a significant focus on China, India, Malaysia, Thailand and Indonesia (Blowfield 2004; Balasubramanian et al. 2005). However, while Asian countries share similar concerns regarding environmental management, social responsibility and sustainable development, each country has very different priorities, norms and values and is at a different stage of economic development (Rock 2002; Ruud 2002). Therefore, it is necessary to consider in depth the concerns, norms and priorities of each country.

Dutta and Durgamohan (2008) investigated CSR in India, studying a variety of organisations including the Tata Group. They found that CSR positively impacted the

environment and the general Indian public at large. They also found that CSR was profitable for the organisations that practised it. A competitive advantage arises from pollution prevention, energy efficiency, environmentally-oriented design, supply chain management, health and sustainable agricultural initiatives. Sanford (2007) who stated that 'environmental management reduces energy costs, increases sales and allows companies to gain a competitive edge over their competitors' (p. 5). Ramasamy and Ting (2004) argue that a better understanding of the way that CSR impacts the CP of companies in developing countries is needed.

Many researchers have investigated the meaning of CSR in Asian, African and Latin American organisations to develop suitable CSR principles and models (Khan and Atkinson 1987; Khan 2005; Visser 2008). Some have suggested that CSR in developing countries is purely philanthropic (Mohan 2001; Visser 2008), but others maintain CSR activities go beyond this (Belal 2001; Kemp and Unies 2001; Kumar et al. 2001; Arora and Puranik 2004; Thompson and Zakaria 2004; Welford 2004; Khan 2005; Ratanajongkol et al. 2006; Fernando 2007; Haslam 2007; Visser 2008). In order to understand CSR practices in different countries in the developing world, the present study has explored the global literature related to CSR, with the view to develop a CSR framework for Sri Lanka.

Baughn et al. (2001) stated that comparing CSR policies and principles between the developed and developing countries is problematic. These authors outlined specific problems using examples from the US and Asia. Americans tend to codify CSR practice, creating rules, while Asian companies rely on cultural mechanisms such as philosophy and guiding principles (Baughn et al. 2007, p. 192). As described earlier, the economic, cultural and political contexts differ between Asian countries. Like the developed world, some Asian countries have current CSR policies and sustainable development reporting. For example, Welford (2005) noted that 62 per cent of companies in Japan and 50 per cent in Korea have CSR policies. These figures are substantially higher than in other Asian countries.

As discussed in Chapter 2, scholars have researched the relationship between CSR and CP (Ullmann 1985; Griffin and Mahon 1997; Waddock and Graves 1997; Tsoutsoura 2004). These studies were based on CSR and CP in the developed countries.

Nevertheless, this relationship has been studied less in developing countries due to problems such as the measurement of CSR, poor reporting and no experience of the concept of CSR. However, some developing countries including Malaysia, Thailand, China and India have tried to identify the relationship between CSR and financial and non-financial variables (Fauzi et al. 2007; Rais and Goedegebuure 2009; Mishra and Suar 2010).

3.8 Corporate social responsibility and company performance

CSR is predominantly considered a Western phenomenon due to the strong institutions, standards and appeal systems of the developed nations, which are weak in the developing countries of Asia (Chapple and Moon 2005). Such weak standards pose a considerable challenge to companies practising CSR in developing countries, including Sri Lanka. The relation between CSR and CP has provoked much interest among researchers. However, there are few empirical research studies (e.g., Rais and Goedegebuure 2009; Mishra and Suar 2010) which have considered the relationship between CSR and CP in the context of the developing country.

Mishra and Suar (2010) mentioned that the main problem of CSR studies in developing countries is due to a lack of appropriate measures of CSR. They stated that in the past studies have used various proxy measures to access CSR, including one-dimensional surrogate measures such as reputation rating of companies on pollution control performance (Chen and Metcalf 1980; Freedman and Jaggi 1986), Moskowitz's social responsibility ratings (Cochran and Wood 1985) and fortune corporate reputation index (McGuire et al.1988). All these measurement systems have been criticised for their inability to incorporate stakeholders' issues (Aupperle et al. 1985; Ullmann 1985). To overcome such inadequacies, the study by Waddock and Graves (1997) used CSR data developed by various agencies to evaluate CSR from a stakeholders' perspective with instruments such as the KLD database of Kinder, Lydenberg, Domini and Co., Inc. These data can be used for studies of countries which have organised CSR databases. However, there is no CSR database for companies in Sri Lanka, and no mandatory requirement for companies to implement CSR programmes. Therefore, the current study aimed to develop a comprehensive measure of CSR towards each primary stakeholder

group (employees, customers, society, the environment and shareholders) and incorporate the reporting of their CSR activities as disclosed in their annual reports according to the local and global (ISO 14000, Social Accountability 8000, UN global compact) standards.

Mishra and Suar (2010) have examined the influence of CSR on the financial and non-financial performances of Indian companies. Perceptual data on CSR and non-financial performance were collected from 150 senior-level Indian managers, including CEOs, using a survey questionnaire. They developed their questionnaire with respect to six stakeholder groups including employees, customers, investors, the community, the natural environment and suppliers. A composite measure of CSR can be obtained by aggregating the six stakeholder dimensions. They examined 13 items of CSR issues in relation to employees such as equal opportunity action plans, anti-discrimination policies and provisions covering health and safety at work. They also examined seven items of CSR in relation to customers, covering issues such as commitment to provide quality products and services, pricing products as per quality and voluntary codes for advertising. Further, they evaluated seven CSR issues relating to investors, including investor grievance handling policies, rules to strengthen auditors' independence and policies towards prohibiting insider trading. CSR in relation to the community was evaluated with 12 items covering issues such as supporting third party social and sustainable development initiatives and community partnerships. Issues such as systems for measuring environmental performance, end-of-pipe controls and environmental training for managers were included in the 17 items assessing CSR towards the natural environment. CSR towards suppliers was evaluated with five items, including issues such as safety and environmental aspects and policies on the restrictions of human rights violations at suppliers' locations. To measure the CP of the 150 companies, they employed the industry-adjusted ROA using the CMIE Prowess database for three years from 2003–2004 to 2005–2006.

A recent study by Rais and Goedegebuure (2009) examined CSP and CP in 101 Indonesian companies in the manufacturing industry. They examined stakeholder relations as a solid measure of CSP (Clarkson 1995) and its impact on CP. They found that the stakeholder relationship is a meaningful measure of social performance. Using the Structural Equation Model they measured CSP as a single attribute of the company,

which was derived from primary stakeholder issues as defined by Clarkson (1995), Davenport (2000) and Moore (2001). They concluded that CSP strongly and significantly affects both a company's competitive position and its CP. They also demonstrated that the relationship between CSP and CP is not mediated by company strategy, but by the company's strategic position in the market place.

Wickramasinghe (2006) explored the impact and relationship of CSR on the success of selected manufacturing companies in Sri Lanka. He considered six CSR issues: economic, employee, product, environment, discrimination and community factors and measured company success using the Return on Investment (ROI). He concluded that there is a significant positive relationship between the success of the selected companies and the level of social responsibility in Sri Lankan companies. Further analysis revealed that economic (shareholders) and employee issues are the major social issues that affect a company's performance. As a result, environmental, discrimination and community involvement are neglected.

3.9 Identifying gaps in the research literature

Based on the literature reviewed above, it is evident that CSR in developing countries is related to three major areas: the extent and level of CSR implementation, managerial perspectives and stakeholders' perspectives. Research has identified CSR as a win-win strategy for business and society. These benefits have been identified by the developed world, and while the benefits of CSR are being promoted in the developing world, many of these countries still lack a clear understanding of CSR. For example, many Asian companies do not understand the concept of CSR. Therefore, this study aims to propose a CSR framework for developing countries such as Sri Lanka, so that it can experience the benefits of CSR and further develop this practice in the local context, and increase stakeholders living and social standards.

Researchers have identified the characteristics of CSR in developing countries are different from those in the developed countries (Visser 2007). In addition, Chapple and Moon (2005) reported that each developing country, even within the same region, tends to have different CSR patterns Therefore, before identifying the extent of CSR

programme implementation and their levels in a particular country, it is worthwhile to recognise CSR activities by developing a country-specific CSR model.

Based on these gaps in the literature, the following themes were considered in the development of the main research question and sub-questions for this study, to provide an original contribution to the CSR literature.

1. Developing a CSR framework that is suitable for Sri Lanka;
2. Developing an index for measuring CSR in the Sri Lankan context, which may also be suitable for adaptation to other developing countries;
3. Examining the relationships between the CSR and CP to illustrate the specific relationship between these variables; and
4. Overcoming the limitations of the time-series analysis used by traditional researchers of CSR by analysing panel data.

3.10 Implications for the current study

The main objective of this study is to identify the relationship between CSR and CP in Sri Lankan companies. However, the major difficulty associated with this type of study is the measurement of CSR. The literature on CSR in developing countries has highlighted that each stakeholder effect can be measured separately when stakeholder framework is used (Rais and Goedegebuure 2009; Mishra and Suar 2010). Current research on CSR in Sri Lanka is mostly limited to its nature and characteristics (Rathnasiri 2003; Tilakasiri et al. 2008; Tilakasiri and Higgins 2010) and the policies and practices of CSR in some Sri Lankan companies (Fernando 2010), without linking them to CP. Therefore, the intention of this study is to fill that gap. It replicates and extends past findings on CSR and CP of Western and other developing countries (Cochran and Wood 1985; Ullmann 1985; Waddock and Graves 1997; Wickramasinghe 2006; Rais and Goedegebuure 2009; Mishra and Suar 2010). This research will be carried out in a country that has been seriously affected by political and economic instability in the recent past, at different periods and in different industries, using different measures. Mishra and Suar (2010) stated that these replications are warranted in order to establish the external validity of the results and to rebuild the confidence of earlier researchers and practitioners with respect to their findings (p.571).

3.11 Conclusion

The literature has shown that in   developing countries CSR implementation is different from that in developed countries, largely due to cultural differences and the government participation. The government is a major player in the economies of these countries, and thus the rules and regulations for the welfare of their societies need to be developed with government support. An example of this is the education and health sector CSR activities seen in many developing countries.

Several studies have noted that cultural factors are a main driver behind the different CSR practices in different countries. CSR practices that have been developed in first-world countries cannot be implemented in the developing world due to cultural differences between these countries. However, companies in the developing world implement their CSR activities (welfare) according to their own experience, as an integral part of their business strategies.

Chapter 4: Social, Economic and Environmental Development and Corporate Social Responsibility in Sri Lanka

4.1 Introduction

CSR is a new concept in Sri Lanka. Research into this area relatively scarce in Sri Lanka compared with other Asian developing countries like India, Pakistan, Bangladesh, Indonesia, Malaysia and China. However, some researchers have identified a number of CSR practices in Sri Lankan organisations (Rathnasiri 2003; Wickramasinghe 2006; Fernando 2007). According to them, the concept of CSR is used in Sri Lanka, although it is considered as only philanthropic. Sri Lankan companies, like the majority of companies in other Asian countries, regard CSR simply as being about charitable activities and providing financial assistance to various altruistic causes. However, the 'true' concept of CSR is accepted as that stated in the recently released ISO 26000 Standard on Social Responsibility, 'as organisational governance, human rights, labour practices, the environment, fair operating practices, and also given consumer issues, with some attention to community involvement and development aspects'.

Even though CSR practices in South Asian countries such as India, Thailand, Malaysia and China have been extensively investigated, in Sri Lanka, few such studies have been conducted. However, the concept of CSR is novel to Sri Lanka and its themes are compatible with the Buddhism practised there, in which the major theme is philanthropic giving.

This chapter describes the impetus for the development of CSR in Sri Lanka, with Section 4.2 presenting an historical review of the country and Sections 4.3 and 4.4 describing the social and economic environment of the country, and capital market development. Section 4.5 highlights the challenges for sustainable development in Sri Lanka while the remaining sections include a discussion of CSR in Sri Lanka and its

regulations and guidelines. Section 4.6 points out why CSR is useful to Sri Lanka, Section 4.7 presents corporate structure in Sri Lanka, Section 4.8 describes the development of CSR in Sri Lanka and Section 4.9 outlines the CSR-related regulations and guidelines in Sri Lanka. Finally, Section 4.10 describes the contribution of community and non-government organisations to the concept of CSR in Sri Lanka.

4.2 History of the country

Sri Lanka has more than 2,500 years of recorded history. For much of this time, Sri Lankan cultural, social, political, economic and technological life has been subject to dynamic changes. Before colonisation by the Portuguese, the country was an independent state with agriculture as the predominant economic activity. Before 1505, organisations that engaged in business were considered less socially acceptable (Chandraprema 1989). Merchants from India, Arabia and China were the main travellers engaging in trade. However, during the period of colonisation from 1505 until 1948, the Portuguese, Dutch and British colonial rulers established a solid base for industry in Sri Lanka with the establishment of the Dutch–East India Company (Rathnasiri 2003). Later, the British followed the Dutch system, which significantly influenced Sri Lanka as it is today. They restructured the Sri Lankan economy by shifting it from a subsistence agricultural economy to a trading economy based on tea, natural rubber and spices. Meanwhile private companies incorporated from the early to late 1800s started the first Sri Lankan stock market (Rathnasiri 2003). Since then, the number of companies listed by the Sri Lankan stock market has grown to include local and foreign companies including the John Keells Group, Aitken Spence, Browns and Company and Hayleys Group. Rathnasiri (2003) stated that 'with these developments, a dual economy began to emerge in the well-developed corporate export based sector and the mass agricultural based subsistence sector (based in rural areas). Yet, in Sri Lanka taken as a whole, the public attitude towards doing business has not significantly changed' (Rathnasiri 2003).

Jayawardena (1974) stated that goods manufactured in Sri Lanka in the 1930s were mostly owned by the British and conformed to typical colonial patterns (e.g., tobacco, soap, candles, ice and soft drinks). Other industrial developments were directly geared

to economic activity in the plantations, largely in the public sector and consisting of workshops in the railways and public works departments. In the private sector, there were engineering workshops, which handled plantation machinery (Jayawardena 1974).

In 1948, the British announced full total responsible status for Sri Lanka within the British Commonwealth. Since then, private sector ownership has been transferred to the government and Sri Lanka has experienced an era of socialist-based, inward-looking development policies in which the government's ultimate responsibility was the welfare of the people. In the 1960s, all privately owned companies, including international companies (i.e. tea plantations), were nationalised due to people having lost faith in private enterprises (Rathnasiri 2003). In 1972 a new constitution was adopted; as a result, Sri Lanka became a republic.

In 1977, the new government established an open economy policy, allowing new opportunities for potential investors. Under the new political and economic policies the Sri Lankan government promised to refresh the agricultural sector, through developing local industrial production, growing self-employment, rising local investments and savings and increased the balance of payments in the medium term (Embuldeniya 2000). This new package of reforms has been as a 'sweeping departure from tightly controlled, inward-looking, welfare-oriented economic strategy to a more liberalised, outward-looking and growth-oriented one' (Central Bank 1978, cited in Herring 1987). Since this time the majority of the rural population in Sri Lanka has failed to receive the advantages anticipated by the change in government. Basic human needs, such as security, food, electricity and infrastructure (roads and telecommunications) are significantly underdeveloped. However, this is now changing due to the ongoing development programs initiated in 2003 by the present government.

Another interesting observation is that there does not seem to be cohesiveness in the corporate sector as a whole, and the income distribution of the country is wide. Companies have been established in various ways due to competition and the people's interests. Conversely, people believe that companies engage in responsible business practices and if not, they campaign against them (CCC 2005). Evidence shows that many Sri Lankan companies include CSR in their business strategies and that it has now become an integral part of local business for a range of reasons (CCC 2005, p. 9). There

is no agreement, as such, on what is socially responsible behaviour in Sri Lanka. Rathnasiri (2003) argued that 'this is looked upon more as a set of rules and regulations to be adhered to rather than from a "values and behaviour" point of view' (p. 197). Voluntary adherence to a common set of norms in corporate behaviour is yet to be developed. Therefore, the CSR behaviour of the corporate sector in Sri Lanka should be understood within this context (Rathnasiri 2003).

The recent budget speech for the year 2012 proposed many programs for the social, environmental and economic development of the country. Considerable funds were granted to increase the activities of these three sectors. For example, under social integration, funds have been provided for the welfare of the elderly, support for low-income families, the protection of women and children, conservation of wildlife and coastal preservation. This is the latest evidence that the government will encourage the development of CSR concepts.

4.3 The social and economic environment

Sri Lanka is a developing country with a population of approximately 20 million. Over 40 per cent of people engage in activities that depend directly on the environment, and around 25 per cent of the population live in urban or semi-urban areas. Sri Lanka has made considerable progress towards attaining a number of its Millennium Development Goals, such as access to education, gender equality and safe water and hygiene facilities. With a human development index in which the summary measure of human development is 0.658 (2010), Sri Lanka is ranked 91 among 177 countries. This indicates success in three basic elements of individual development; a long and strong life, ways to knowledge and a decent standard of living.

Sri Lanka's gross domestic product (GDP) was approximately US$50 billion in 2009. It has low levels of infant mortality and a life expectancy of 75 years. With a 93 per cent literacy rate in local languages, it also has high levels of English communication, which assists in globalisation. The granting of free education facilities to the entire population has made the literacy increase to 93 per cent levels possible and provided opportunity for both the rich and the poor to pursue higher education. Furthermore, the midday meal

programme and the supply of free books and uniforms for schoolchildren are the most popular programmes launched by the Government to further enhance the welfare package, which was implemented to improve the quality of education in the country. As a result, Sri Lanka is now ranked 91 out of 169 on the Human Development Index, and is one of the few low and middle-income countries that is achieving their millennium development goals (MDGs) at a national level.

Sri Lanka's economy has grown at an average of 5 per cent over the past five years (Central Bank of Sri Lanka 2010). In 2001 the country suffered its first ever recession, resulting in shortages of electricity, budgetary problems, international delay and ongoing civil conflicts. However, these problems were resolved after the ceasefire in 2002. In addition, since the end of the terrorism problem in 2009, the Sri Lankan capital market has risen and is now among the three best-performing markets in the world. In addition the per capita income rose from US $841 to US $2,250 over the same period. However, the government has now launched its economic development and poverty alleviation programmes in which the development of small and medium businesses has been prioritised. As a result, the government expects the country to retain macroeconomic steadiness and a regionally balanced economic growth rate. Siriwardena (2008) stated that over the next ten years, the country's per capita income level can be expected to rise to US $3,000 and the growth rate of the economy to about 6–8 per cent. Since Sri Lanka's economy has shifted to an agricultural export-orientated one relying on agricultural exports to fund the service and manufacturing sectors, the service sector accounts for more than 55 per cent of GDP, with only one third of the workforce being engaged in agriculture (AusAid 2011).

4.4 Sri Lanka's capital market

Since liberalisation in 1977, Sri Lanka has been implementing open market orientated procedures and in the late 1980s introduced a plan to grow private sector investments and develop capital market, resulting in the incorporation of the CSE in 1985. This was a major development in the history of share trading in the capital market of Sri Lanka. Heenetigala (2010) stated that this has grown from Rs 263 billion to Rs 824 billion from 2003 to 2007, representing approximately 30 per cent of the country's gross domestic

product. The current key players in the Sri Lankan capital market are the CSE, local broker companies, Unit Trust Management Companies, market intermediaries, the Central Bank of Sri Lanka and some of the top listed local companies. As of June 2010, the CSE has 241 listed companies representing 20 business sectors. Santhush (2010) reported that as a result of this, in 2010, the CSE was one of the best performing markets in the world.

Sri Lanka's capital market has developed more rapidly and extensively in the past two years than any other period in history (Sri Lanka Market Review 2011). In a relatively short time-span, the capital market's role in funding and mobilising savings has become comparable to that of the highly performing Sri Lankan banking sector, firmly establishing its profile as an indicator and facilitator of growth within the Sri Lankan economy. This promising growth in the stock market has mainly been due to the stability of peace prevailing across the country after 26 years of conflict. This unique development is an optimistic sign that shows Sri Lanka`s commercial background is shifting for the better, overflowing into the national economy. Government stability has now given investors a positive outlook, which has resulted in a strong growth momentum, which has been an important factor in the capital market with continued gains in the CSR indices.

4.5 Challenges to sustainable development in Sri Lanka

Since the 2004 tsunami disaster, Sri Lanka made impressive gains in providing access to basic social services (Fernando 2010), resulting in significantly higher human development, in comparison to other developing countries. The human suffering experienced from the many years of armed conflict includes lost lives, disappearances, repeated displacement and dependencies on relief handouts, insecurity, fear, harassment, fragmented families and disrupted education. These circumstances have had a major negative effect on Sri Lankan society and the foundations of the social welfare of the country.

These situations are no longer present as a result of the end of the war and the country is now working towards new development. However, the following social challenges also need to be overcome to better the lives of the people.

4.5.1 Poverty

Despite the rapid development over recent years, Sri Lanka's income distribution intensity still shows an unacceptably large difference between rural and urban areas; about 15 per cent of the country's population remains in poverty. The official reasons for this have been identified as the 26 years of civil conflict, declining rural and agricultural labour output, high inflation and poor infrastructure outside of the capital cities (Colombo, Gampaha and Kalutara), particularly in the Western Province where there is a severe shortage of infrastructure. Accordingly, the Media Centre For National Development of Sri Lanka (2011) stated that the Sri Lanka government is aiming to increase its per capita income up to US $4,000 within the next six years.

In Sri Lanka, the Northern, Eastern, Central, Uva and Sabaragamuwa provinces are the most severely affected. This is because one in four of the people in these areas are internally displaced (in the conflict-affected northern and eastern areas),

4.5.2 Malnutrition

Lack of nutrition is a serious problem, particularly for children in poor areas where one in five children under the age of five years has stunted growth (under weight). Half of the Sri Lankan population does not receive the recommended minimum calorie intake and government social welfare programs do not have enough money or funding to rectify the causes of malnutrition in children, including safe water, sanitation, maternal health and childcare practices (AusAid 2011).

4.5.3 Education and health

As described in Section 4.3, while Sri Lanka has publicly funded primary education for all children between the ages of six to 18, there are large differences in learning outcomes across regions. This is because the quality of primary education is patchy,

with many children having poor access to qualified teachers. Furthermore, tertiary and vocational education is limited and not well aligned to the needs of the labour market.

4.5.4 Reconstruction and development

Reconstruction and development are major challenges in the conflict-affected areas. Using the Sri Lankan Central Bank report in 2010, AusAid (2011) declared that more than 100,000 homes need to be rebuilt. As a result, the Sri Lankan government is now focusing not only on education, but on building homes and increasing infrastructure in these communities.

4.5.5 Peace, conflict resolution and reconciliation

The 26 years of civil war were a major obstruction to sustainable development in Sri Lanka, and it affected economic growth with loss of human lives and widespread damage to property and infrastructure. This war absorbed large amounts of resources for defence, reconstruction and rehabilitation that could have been used more productively in other sectors. As a result of this situation, the government now faces huge economic problems if it is to develop the entire country including the post-conflict areas where many people are still internally displaced.

4.5.6 Realisation of social well being

Social wellbeing is one of the three elements inherent for the sustainable development in Sri Lanka. General conditions of health, happiness, creativity and responsible fulfilment, health care, education, housing and urban development, safety nets, care for aged, good governance and the rule of law, all contribute to social wellbeing. Human development policies of successive governments have led to improvements in health indicators including low mortality and fertility rates, which are far ahead of other developing countries. However, there are regional inequalities, with higher mortality rates in the rural sector compared to the urban sectors.

In the Mahinda Chinthana II (President's Vision), The Ministry of Environment and Natural Resources (2007) stressed the importance of rural development and agricultural

self-reliance (providing rural communities with access to markets, electricity and safe drinking water; investment in economic infrastructure and strengthened public service delivery). This reports pointed out that 'unplanned urban population growth has exerted pressure on land and water resources in the cities as well as surrounding areas, with impacts on sewage disposal, waste management, surface drainage and environment-related health problems'. The report estimated that by 2015 the urban population in Sri Lanka will increase from the present 30 per cent to 45 per cent (Ministry of Environment and Natural Resources 2007). Although the proper disposal and management of waste has been a major challenge in urban centres, the government has sought to the generate finances needed to improve the waste disposal system (Ministry of Environment and Natural Resources 2007). As a result, since its institution in 2007 the economic development plan (Institute of Policy Studies Sri Lanka 2007) has made significant progress towards achieving the management of waste.

4.6 Usefulness of the corporate social responsibility concept

Chapple and Moon (2005) pointed out that many established CSR activities in the Asian region can be identified as traditional community involvement and socially responsible employee relations. This situation is similar in Sri Lanka. However, the government needs considerable funds to develop the country's infrastructure and to invest in capital projects such as maintaining roads, building highways and bridges, constructing buildings and other projects such as the provision of electricity, health care and education.

Researchers (Fernando, 2010; Rathnasiri 2003) have highlighted that the Sri Lankan companies are implementing CSR for philanthropic purposes. In addition to philanthropic responsibility, the companies should consider different CSR practices looking at global institutions. According to international CSR standards and practice, Sri Lanka needs to develop as follows:

1. Improve the quality and relevance of education at all levels and enhancing access to education; providing high quality, equitable, cost effective, modern and sustainable health care services.

2. Structure modern, high standard and well-organised infrastructure services to improve access to input and output markets (i.e., roads, railways, ports, power and safe drinking water).

3. Promote the application of modern technology and R&D to enhance competitiveness.

4. Modernise the legal and regulatory framework to promote the business environment.

Government uses public funds for developing the above areas as public policy. Even though an increasing amount of funds has been devoted to these welfare activities over the past two decades, inflation, unemployment and the gap between the rich and the poor is still expanding in Sri Lanka. The Ministry of Environment and Natural Resources (2007) has identified social, economic and environmental problems that need to be addressed, including severe 'land degradation, pollution and poor management of water resources, loss of biological diversity, coastal erosion, increasing scarcity of water for agriculture, inadequate facilities for waste disposal in urban areas and traffic congestion in the main cities'.

These problems provide an overview of the social, economic and environmental situation in Sri Lanka. To assist the government in solving these problems, it is necessary for the private sector to contribute to social welfare, in addition to the payment of their taxation levies. The people, employees and customers also indirectly affect the stability and growth of the private sector (Porter and Kramer 2002). Social and environmental projects could easily be implemented by the private sector to assist in sustainable development of the country.

4.7 Corporate structure in Sri Lanka

The present study relates to the publicly listed companies in Sri Lanka. These companies are listed by the CSE, which currently has are 20 sectors and 241 registered companies. Fifty (50) companies were selected from eight industries including: banking; insurance and finance; plantations; manufacturing; hotels and travel; beverage, food and tobacco; trading; telecommunications and diversified holdings.

The present study uses public limited companies as its sample, with, interviews conducted with the expert people from the community organisations for the framework development. This section describes the Sri Lankan corporate structure and identifies the CSR in those organisations, which is described in more detail in the section 4.8 which follows.

Corporate structure describes the ownership of organisations (Fan and Wong 2002), usually classified as government-owned or privately-owned. In 1977 Sri Lanka's economy changed from public to private ownership. The ownership of Sri Lankan organisations can be categorised as either fully government-owned, semi-government-owned, public and groups, private companies, and individual-and family-owned companies. Government-owned organisations are appointed by the Minister of Cabinet of the relevant sector. The operational activities of these organisations are subject to government financial and administrative regulations (Balasooriya 2004).

Privately owned companies can be categorised as either as sole proprietor, partnership or corporations.

- **Sole proprietorship:** A sole proprietorship is a business owned by one person. The owner may operate on his or her own or may employ others. The sole proprietor has unlimited personal liability for the debts incurred by the business. This form is usually transferred to small businesses.
- **Partnership:** A partnership defines a form of business in which two or more people operate for the common goal of making profit. Each partner has total and unlimited personal liability for the debts incurred by the partnership. There are three typical classifications of partnerships: general partnerships, limited partnerships and limited liability partnerships.
- **Corporation:** A business corporation is a for-profit, limited liability or unlimited liability entity that has a separate legal personality from its members. A corporation is owned by multiple shareholders and is overseen by a board of directors, which hires the business's managerial staff. Corporate models have also been applied to the state sector in the form of Government-owned corporations. A corporation may be privately held (that is, held by a few people) or publicly traded.

Presently, in Sri Lanka approximately 36,000 companies have been registered and 2,160 of these are publicly owned companies, while 241 are listed by the CSE. These companies are regulated by the Companies Act No. 7 of 2007 and many of them are limited liability companies (ADB 2002, cited in Balasooriya 2004).

4.8 Corporate social responsibility in Sri Lanka

Stakeholders and other interested parties want to know about a company's social responsibility. Organisations are responsible for their actions with regards to both socio-economic and environmental consequences. Many organisations in Sri Lanka, therefore, consider their socio-economic and environmental impact part of their responsibility while at the same time generating profit (Nanayakkara 2010). Moreover, in a developing economy like Sri Lanka, the CSR concept plays an important role in the sustainable development discourse. This section discusses the development of the concept of CSR in Sri Lankan organisations and the ideas of various scholars in this field.

4.8.1 Evidence of corporate social responsibility in Sri Lanka

Recently, CSR has become a topic of discussion in the Sri Lankan corporate sector. Due to the country's serious economic problems the people, employees, customers and other interested parties put pressure on the government and business sector to improve the people's social and economic livelihoods. Most of Sri Lanka's private companies and groups of companies are run by families, and there is little evidence to show that these companies are engaged in philanthropic activities. Kumar et al. (2002) pointed out that 'wealthy families tended to donate money for the renovation of Buddhist places of worship. An example of this was the renovation of the Kelaniya temple with funds donated by the Wijewardane family'(p.3), and the people who made these types of donations are considered philanthropists.

Fernando (2007) stated that private sector companies in Sri Lanka started to notice the results of CSR programmes after the Asian tsunami in 2004. Private sector companies are now the largest contributor to GDP in Sri Lanka, and most employees work in the

private sector (Central Bank of Sri Lanka 2010). Pressures for the implementation of CSR by this sector have arisen from employees, customers and competitors.

There are two broad categories of CSR initiatives in Sri Lankan companies; externally focused approaches, and internal policy level approaches (Kumar et al. 2002; Rathnasiri 2003). External CSR approaches focus on the public and carrying out public awareness programmes. For example, Union Assurance, an insurance company operating in Sri Lanka, has undertaken a public awareness campaign on general safety aimed at children. This campaign focus on precautions that should be taken when lighting fireworks during the festival season. Union Assurance has also conducted an awareness programme for schoolchildren on how to cross public roads safely in order to avoid accidents.

A second example of externally focused CSR practices in Sri Lanka is that of Sampath Bank, a local commercial bank, which sponsors a public awareness campaign about preserving forests. Another local company, D. Samson Industries, a shoe manufacturing and distributing company, organised an island-wide school art competition with a view to enhancing the artistic skills of children. In general, Sri Lankan organisations are more concerned with externally focused CSR practices. Conversely, internal CSR programmes have been developed by companies according to the organisations' interests. These include initiatives to provide better working conditions for employees, gender equality, equal opportunities, waste treatment, truth in advertising, preserving immediate environment and ethical dealings (Rathnasiri 2003). However, the evidence available on CSR in Sri Lanka suggests that the traditional profit-maximising view is still prevalent according to Rathnasiti (2003). It appears that knowledge and understanding of CSR is limited in Sri Lankan organisations.

Ariyabandu and Hulangamuwa (2002) have shown that four categories of CSR activities been formed in Sri Lanka. These were initiated by private sector organisations and include donations, environmental protection, community responsiveness and corporate sponsorships. According to these authors, donations were given by companies to support community service projects. These contributed towards food, clothing and shelter for the poor, gives assistance for surgical operations and towards relief in times of disasters such as floods, landslides and droughts. It is also instrumental in the homes

for elderly people, which was built by the organisation' (Ariyabandu and Hulangamuwa 2002).

Generally, company operational activities have an adverse impact on the environment, and hence they engage in environmental protection activities. Ariyabandu and Hulangamuwa (2002) showed that companies engaged 'in ongoing coast conservation projects, anti-pollution programs (river and air pollution), eco-friendly business (solar water heaters, industrial safety equipment, effluent treatment chemicals and specialised plastic bottles), and soil conservation activities, organising seminars for public awareness on environmental conservation'.

Further, Ariyabandu and Hulangamuwa (2002) stated that under public awareness programmes, companies instituted safety programmes, informing the public of natural disasters, providing health information (e.g. dengue fever epidemics) and informing religious activities. Finally, Ariyabandu and Hulangamuwa (2002) pointed out that the corporate sponsorships for the young children in education, providing scholarships for the higher education of students, supporting services to disabled people, are common social activities in Sri Lankan organisations.

A study comparing CSR in two Sri Lankan companies implementing post-tsunami-related CSR activities was Fernando's (2007). His research made several suggestions for the theory and practice of CSR in Sri Lanka. He proposed a conceptual model, and examines virtuousness as a necessary attribute of genuineness in tsunami related CSR initiatives. Fernando's (2007) study provided good evidence for understanding CSR in Sri Lanka by showing publicity was the major reason for implementing CSR in Sri Lanka under the post-tsunami CSR initiatives.

The two companies were more concerned with focusing on CSR after the tsunami in Sri Lanka. One company focused on community-based projects and the other focused on environmentally based programmes. Fernando stated that these companies had attempted to balance economic, legal and ethical considerations and reacted in different ways. He also pointed out "the two companies have developed CSR initiatives based on the aggregation of firms differing resources and capabilities (a resource based interpretation)".

International Alert (2005) found the majority of companies in Sri Lanka would like to apply the concept of CSR; however, they have no clear guiding principles to follow. They also stated that companies genuinely want to contribute to society by improving the quality of life of people; therefore, they practice CSR. However, if the corporate sector is genuinely interested in investing in CSR projects they should address the real issues of Sri Lankan society with a rational approach for this to be more effective and fruitful (Fernando 2010; Rathnasiri 2002; International Alert 2005). These social issues include the alleviation of poverty, health, education, employee and consumer rights and environmental problems.

4.9 Corporate social responsibility regulations and guidelines

CSR operates on a voluntary base in Sri Lanka. However, Sri Lankan companies are using the communication of CSR as a proxy for CSR activities. While voluntary disclosure of CSR activities by Sri Lankan organisations is common, it is not a mandatory requirement (Abeysekera and Guthrie 2004, 2005; Bebbington et al. 2009). All listed companies have documented their CSR contributions and activities in separate sections of their annual reports according to the policy of the Sri Lanka Accounting and Auditing Standards Board, adopted in 2004. Sri Lankan companies use IFRS to prepare their financial statements (Khan 2006). In addition, a 'Code of Best Practice on Corporate Governance' was developed by the ICASL and the SEC, in consultation with the CSE. The major aim of the development of the code of best practice was to improve corporate governance practices in Sri Lanka.

Further, the Sri Lanka Accounting and Auditing Standard Act No. 15 of 1995 gave power to the ICASL to approve SLAS and SLAuS for the Sri Lankan organisations. This act was also in order to constitute an independent Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) to perform auditing functions. Further, the Act utilised all the SBEs to organise company income statements in accordance with the SLAS. Heenetigala (2010) explained that the SLAASMB now monitors the compliance of accounting and auditing standards as set out in the Act.

According to Kolk et al. (1999) the codes of conduct are encompass[ing] guidelines, recommendations or rules issued by entities within society (adopting body or actor) with the intent to affect the behaviour of (international) business entities (target) within society in order to enhance corporate responsibility" (p.151). Furthermore, differences among the international codes and internal codes were identified by Kolk et al. (1999).

Bondy et al. (2008) differentiated the two general types of codes as voluntary and mandatory. They viewed of the mandatory codes as 'a requirement for corporations determined by governing bodies such as governments (e.g. German Corporate Governance Code, Canadian privacy legislation), financial regulating bodies (e.g. UK Combined Code), or by industry association bodies (Responsible Care in the chemical industry)' (p.296). In the above paragraph financial regulating bodies which are well recognised in Sri Lanka were highlighted. In addition, codes of conduct have been introduced by the Si Lankan government, now encompassed as rules. See Table 4.1 and 4.2, for development of stakeholder relations such as employee and environment relations.

Evidence of CSR activities in Sri Lankan companies can be obtained from corporate websites, company annual reports as well as corporate sustainability reports. Since 2004, a number of listed companies have engaged in CSR activities. Presently, many companies believe CSR to be a significant contributing factor in their business operations. Therefore, the enclosure of a social responsibility statement in their annual reports is common in Sri Lankan companies (Ariyabandu and Hulangamuwa 2002).

Organisations must observe rules and regulations in relating to employees, customers and environmental factors, not simply the CSR-related regulations. However, these rules and regulations imply the need for social and environmental activities related to CSR. Table 4.1 shows the employee-related rules and regulations and Table 4.2 shows the environmental-related laws in Sri Lanka. Respondents were explained about these regulations to understand the basic idea about the fields of CSR.

Table 4.1: Labour Laws in Sri Lanka

No.	Items
1	Allowances to Plantation Workers Act No. 72 1981
2	Budgetary Relief Allowances of Workers Act No. 36 2005
3	Employees' Holidays Act
4	Employees' Provident Fund Act, Chapter 623
5	Employees' Councils Act, No. 32 of 1979
6	Employment Of Women, Young Persons and Children Act
7	Employment of Women, Young Persons and Children (Amendment) Act 2006
8	Employment of Women, Young Persons and Children(Amendment) Act 2003
9	Industrial Disputes (Amendment) Act
10	Industrial Disputes Act, Chapter 152
11	Minimum Wages Act
12	National Workers Charter
13	Payment of Gratuities Act No. 12 1983
14	Sri Lanka Bureau of Foreign Employment Act
15	Tertiary and Vocational Education (Amendment) Act 1999
16	Trade Unions Act
17	Termination of Employment of Workmen Act 2003
18	Wages Boards (Amendment) Act
19	Workmen's Compensation (Amendment) Act 2005
20	Workmen's Compensation Act

Source: Adapted from Labour Department of Sri Lanka 2012, website information accessed 11.12.201

Table 4.2: Environmental Laws in Sri Lanka

No.	Items	No.	Items
1	Agricultural Products (Regulations)	15	Sri Lanka Sustainable Energy Authority Act 2007
2	Animals Act	16	Tsunami Act 2005
3	Animal Diseases Act	17	Forest Rules 1979 (No. 1 of 1979)
4	Aquaculture Management (Disease Control) Regulations 2000	18	National Environmental (Protection and Quality) Regulations (No. 1 of 1990)
5	Aquaculture Management Regulations of 1996	19	Forests Act
6	Atomic Energy Authority Act	20	Forestry Laws and Regulation
7	Coast Conservation Act 1981 (No. 57 of 1981)	21	Land Development Ordinance 1935 (No. 19 of 1935)
8	Control Of Pesticides Act	22	Forests Act
9	Control of Pesticides (Amendment) Act	23	Soil Conservation (Amendment) Act 1996 (No. 24 of 1996)
10	Environment Conservation Levy Act 2008	24	Flood Protection Ordinance 1924 (No. 4 of 1924)
11	Fauna and Flora Protection Ordinance	25	Wildlife Protection Society Act
12	Felling of Trees (Control) Act		National Environmental Act 1980 (No. 47 of 1980)
13	Fertilizers Act 1961 (No. 21 of 1961)		National Environmental (Ambient Air Quality) Regulations 1994
14	Fisheries and Aquatic Resources (Amendment) Act 2006		

Source: Adapted from ADB website information accessed 11.12.2011
http://www.adp.org/Enviornmnetal/laws-regulations.asp/SriLanka

4.10 Corporate social responsibility-related organisations in Sri Lanka

In addition to the CSE, the SEC and other CSR-related organisations in Sri Lanka, the following companies have encouraged the development of CSR in the business sector in Sri Lanka, as outlined below.

4.10.1 The Ceylon Chamber of Commerce

The Ceylon Chamber of Commerce (CCC) was established in 1839 as an independent, non-profit and non-political voluntary body. The CCC is an important point of contact for business, both locally and internationally. The Chamber's membership ranges from sole proprietors to multi-national companies and it includes virtually every sphere of economic activity in Sri Lanka. Currently, the CCC is concerned with promoting CSR practices in Sri Lankan organisations. They develop and popularise CSR concepts in both the private and public sectors, providing international CSR issues and standards.

The Ceylon Chamber of Commerce (2005), on the other hand, introduced the following social issues for developing the CSR capacity of Sri Lankan organisations: respect for human rights, socio-economic development, employee welfare, consumer protection, respect for national sovereignty, resource sharing, community investment and socially responsible investment. With respect to environmental issues, the CCC recommends that environmentally friendly technology, eco-friendly waste disposal, prevention of environmental pollution, preservation of biodiversity, coastal preservation and management activities to be employed.

Since 2004, the CCC has also organised an annual competition for the best corporate citizen for participating private and public organisations. The assessment criteria for this competition are based on five stakeholder issues: environmental responsibility, employee relations, customer and supplier relations, community relations, and good governance and economic contribution. Both public and private sector enterprises are eligible to apply for the awards.

4.10.2 The STING Consultants

The STING consultants (2002) are a recently incorporated service organisation in Sri Lanka, providing marketing and brand consulting services. They have developed a corporate accountability-rating index that has operated since 2009; it focuses on assessing the level of an individual business's ability to understand and take up a strategic accountability programme. This index is open to all organisations that wish to measure their CSR effectiveness. The index includes six key areas: corporate values; stakeholder engagement; identifying impacts, risks and opportunities; policy coverage; management and governance; and measurement and disclosure. The index ranked 66 companies in 2011 and 65 companies in 2010. In addition, STING Consultants instruct organisations to use the GRI Guidelines for reporting CSR in their publications. As part of this commitment, STING compiled a database of sustainability reports based on the GRI guidelines that have been published by local companies to date.

4.10.3 The Sri Lanka Red Cross Society (SLRCS)

The Sri Lanka Red Cross Society has operated since 1936 and adopted a new constitution and organisational changes in 2002. The SLRCS covers all administrative districts of the country and its 6,500 members are all volunteers. SLRCS's vision is 'safer, resilient and socially inclusive communities through improving lifestyles and changing mind-sets' (Sri Lanka Red Cross 2011) (http://www.redcross.lk/idp), and their mission is 'reduce risk, build capacity and promote principles and values by mobilising resources, creating universal access to services through volunteerism and partnership' (Sri Lanka Red Cross 2011) (http://www.redcross.lk/idp). Their principle values are humanity, impartiality, neutrality, independence, voluntary service unity and universality.

One of the key programmes of the SLRCS is disaster management, which aims to improve community capacity to cope with and manage disasters, while continuing to maintain organisational readiness to respond to natural and manmade disasters. Their other major role is to provide support for displaced people. Here, their work with the UN to construct new houses following the owner-driven approach is the key constituent

of the programme, while other components such as the provision of clean water and sanitation, community infrastructure, livelihoods, health care, disaster management and organisational development complement the sustainability and the resilience of the community. In addition, the Red Cross plans to undertake the support activities under the seven sections listed below:

- Shelter and non-food relief items (NFRI) assistance
- Water and sanitation
- Health
- Education and sports
- Service provision
- Food security, agriculture and livelihood
- Mine action and economic development.

In addition, the Red Cross supports people by providing welfare services. During the 26 years of civil war endured by Sri Lanka, which ended in 2009 following the military defeat of the Tamil Tigers, thousands people lost everything savings, properties, shelter, education and health. The Red Cross now supports these civilians under a post-conflict reconstruction programme designed to improve their lifestyles. The following community services operate under this programme:

- **Shelter:** safe and adequate shelter and settlement solutions through the provision of cash grants and guidance on improved building techniques.
- **Health care:** provision of community-level preventive and curative services with the intention of reducing the health risks of the affected population.
- **Water and sanitation:** provision of safe water and adequate sanitation as well as the promotion of good hygiene to reduce the risk of waterborne and water-related diseases.
- **Livelihoods:** assist displaced families in replacing, repairing, re-establishing, strengthening and sustaining their household income.
- **Disaster management:** create awareness among local communities on local risks and resources available and prepare and equip them to respond to disasters.
- **Organisational Development:** capacity building of the branch-level structures in the Kilinochchi and Mulativu districts to provide effective support for the

local population to improve community resilience, to develop healthy lifestyles, prepare for disasters and respond to emergencies.

4.10.4 The Ministry of Health

The vision of the Ministry of Health for Sri Lanka is 'a healthier nation that contributes to its economic, social, mental and spiritual development'. Under this vision the ministry aims to Empower the community for maintaining and promoting their health, to improve comprehensive health services delivery and health actions, to strengthen stewardship and management functions, to improve the management of human.

In addition, that they have introduced the following sub-objectives to achieve these goals:

- To assist and develop IEC/BCC materials required for health promotion and behaviour change communication.
- To develop the capacity, both within and outside the Department of Health Services, to act as health promoters and change agents through advocacy, behaviour change communication and social mobilisation.
- To educate and empower the public on health issues, to enable them to increase control over and promote individual and community health.
- To coordinate with health-related government, non-government and international agencies and organisations in promoting the health of the people.
- To develop the managerial capacities of the health and health-related sectors to manage health promotion programmes.
- To monitor and evaluate health promotion programmes and facilitate their monitoring and evaluation at different levels.
- To support and undertake research related to behaviour change in the community and social mobilisation.

4.10.5 The Ministry of Education

Sri Lanka's education system is based on the British education system introduced by the British colonial masters in the 19th century. This system is now under the control of the

Ministry of Education, another government public welfare organisation. Their mission is to "develop competent citizens in keeping with the global trends through innovative and modern approaches to education leading to efficiency, equity and high quality performance ensuring stakeholder satisfaction" (Education System Profile 2012). Sri Lanka's education system is free for all citizens from Grade 1 to university level. In addition, the country has other tertiary education systems such as technical colleges, nursing schools, teachers colleges and higher diploma schools that operate under the control of the Ministry of Education. The role of the private sector is limited to the provision services to the education system. However, the limited resources available cannot be provided equally to all districts in the country and therefore the education systems in Sri Lanka is highly competitive, from the Grade 5 scholarship examination, through to the Grade 10 ordinary level examination to the Grade 12 advanced level (university entrance) examination.

The following welfare services are provided by the Ministry of Education:
- Free education from Grade 1 to university level
- Free text books from Grade 1 to Grade 12
- Free school uniforms
- Subsidised transport
- Bursaries for deserving students from Grade 5 up to university
- Midday meals for primary students in identified schools
- Free medical inspections in schools, and the provision of dental care and free spectacles to needy children

To maintain the quality of Sri Lanka's education system the following teacher training schools have been established:
- 17 National Colleges of Education
- 9 Teachers' Colleges for teachers training
- 100 Teachers' Centres for continuing teacher education
- 4 Faculties of Education in universities

The following programmes have been employed to develop the education system and improve the quality of education in Sri Lanka:

- Curricular reforms: child-centred activity based relevant curricula
- Improving the validity and reliability of examinations
- School-based assessment (SBA)
- Teacher development
- Better textbooks
- Promoting value education—democratic ideals, pluralism, social cohesion
- The use of ICT in education

To maintain and further develop the quality of education in Sri Lanka, private international schools and universities are being introduced, complementing the existing education system.

4.10.6 The Consumer Affairs Authority

The Consumer Affairs Authority (CAA), which falls under the Ministry of Trade Commerce, Consumer Affairs and Marketing Development, is the main government institution mandated to protect consumers against unfair trade practices and safeguard fair market competition in Sri Lanka. In Sri Lanka, consumer protection is addressed by a variety of methods, such as consumer education programs and complaint mechanisms. Within the CAA, the Consumer Affairs and Information Division is responsible for promoting the establishment of consumer organisations and encouraging consumer education, which has mainly consisted of programs and competitions for schoolchildren and messages in the mass media. The Sri Lankan Legal Aid Commission, an independent statutory body, has a Consumer Protection Desk, linked closely with the CAA. The consumer protection desk conducts nationwide consumer awareness programs and gives legal advice to aggrieved consumers seeking redress from the CAA.

The CAA was established under Consumer Affairs Authority Act No. 9 of 2003 and the Consumer Affairs Council (CAC) as the government body with control over consumer protection and business competition in Sri Lanka. It extensively regulates the sale of goods, as well as regulating services, which include banking and financial services. The Act gives the CAA and CAC quasi-judicial powers to investigate consumer complaints

and enforce the act, while also authorising courts to impose substantial monetary penalties and/or imprisonment for violations of the Act.

4.10.7 Department of Labour

The Department of Labour is linked to the Ministry of Labour in Sri Lanka and their mission is to engage with the labour development process through behavioural work environment within secured industrial peace All employers in Sri Lankan organisations must respect the labour law and other related laws and regulations issued by the Ministry of Labour and the Department of Labour. These rules protect employees' welfare, and many of their actions are similar to the international labour laws issued by the ILO. The main activities of the Department of Labour in Sri Lanka (Department of Labour 2011) are as follows:

- Enforcement of labour laws and settlement of industrial disputes
- Implementation of social security schemes
- Monitoring occupational hygiene and the prevention of industrial accidents
- Regulating the employment of persons, undertaking planning and research in the field of labour, educating social partners with a view to promoting employer–employee relations
- Labour market information services
- Collection, compilation and dissemination of labour statistics
- Registration of trade unions
- Working closely with the Ministry of Labour Relations and Manpower in fulfilling Sri Lanka's obligations as a member of the ILO

During the period of 85 years, over 40 pieces of legislation have been enacted for the protection and welfare of labour, covering a wide spectrum of activities. The implementation of these laws has been the task of the Department. In addition, the Department has also been involved in activities such as worker education, human resources placement, labour market information, social dialogue and monitoring complaints and the social development and quality of work life (Department of Labour 2011). In addition to observing these welfare and employee protection laws, many

organisations in Sri Lanka practise a variety of social activities as will be explained in Chapters 7 and 8.

4.10.8 The Central Environmental Authority

The Central Environmental Authority (CEA) was established in August 1981 under the provision of the National Environmental Act No. 47 of 1980. The Ministry of Environment and Natural Resources (ME&NR), which was established in December 2001, has the overall responsibility for the affairs of the CEA with the objective of integrating environmental considerations in the development process of the country. The CEA was given wider regulatory powers under the National Environment (Amendment) Acts No. 56 of 1988 and No. 53 of 2000.

The mission of the CEA is to be the 'flagship of the nation steering towards protecting and managing the quality of the environment by promoting public participation, enforcement, advanced technological interventions & environmental education' (Central Environmental Authority 2011). The CEA comprises three divisions; Environmental Pollution Control, the Environmental Management and Assessment and the Environmental Education Awareness.

The Environment Education and Awareness Division is responsible for creating and improving awareness and providing public education with the aim of obtaining participation in the environmental conservation process. The Education and Awareness Division has implemented many programs for various groups have implemented many programs for various groups to help achieve objectives such as social and environmental activities for schoolchildren and in other educational centres. The Division is comprised of the National Environment Information Centre, the HRD, Administration and Finance Division, the Legal Division, the Planning and Monitoring Unit and the Internal Audit Unit. Moreover, many social and environmental activities promote for the schoolchildren and other educational centres under the above unit.

4.11 Conclusion

In this chapter CSR and its present contribution of the Sri Lankan context has been discussed. Government organisation and non government organisations (NGO) have implemented rules and regulations for community development, health and education development as well as environmental development, which are part of the CSR plans identified by international CSR standards. The information available highlights the fact that CSR is necessary to fulfil a company's responsibility to society, their employees and customers. International Alert (2005) has explained that the majority of Sri Lankan companies wish to implement CSR programmes but they have no clear guidelines to follow. However, the majority of the companies in Sri Lanka already engaged in CSR practices do so because they genuinely wish to contribute to the betterment of society (International Alert 2005).

There is no mandatory requirement to practise CSR in developing countries, even though many private and public sector organisations have placed CSR into practice since 2003. The academic literature therefore provides justification for the regulation of CSR in terms of protecting the interests and rights of stakeholders where these diverge from the economic rights and interests of shareholders (Unerman and O'Dwyer 2007). Bondy et al. (2008) stated CSR codes are primarily connected with the CSR practices of an organization. They had little empirical supported for the link between codes and CSR. Thus, they suggested "if a corporation has a code, it is more likely used to govern traditional business concerns, such as compliance with third party governance requirements, internal issues such as conflict of interest, bribery and corruption, insider trading, etc."(Bondi et al. 2008, p.294).

Nevertheless, CSR implementation is costly. The Sri Lankan government needs to devote more funds to welfare activities for improving health, education and shelter. If the government does not facilitate community development then people will put pressure on it to meet their basic needs. Further, when private sector organisations do not consider responsibilities toward their stakeholder, they will face the same pressures, for example, product boycotts, employee pressures and customer pressures.

The CCC supports private sector organisations to implement CSR in their organisations. The Ministries of Education, Health, Labour and Consumer Protection, and Environmental Protection are widely recognised institutions; they have strategic plans to advance development through increasing social responsibility activities aimed at improving social and human welfare in Sri Lanka. The government and the private sector both favour the adoption of CSR concepts, and are attempting to promote the implementation of CSR programmes. Consequently, CSR is very popular and will have many positive effects on the country as a whole. Therefore, it is necessary to establish standards and guidelines for CSR in the Sri Lankan context (Rathnasiri 2003; Fernando 2010). Accepted measurement standards will enable the development of a rating system based on specific industries.

Chapter 5: Conceptual Framework and Hypothesis Development

5.1 Introduction

As stated earlier much of the existing research is based on the experiences of developed countries and has investigated inconsistent relationships between CSR and CP. A review of the limitations of previous research suggests that the relationship between CSR practices and CP has not been sufficiently studied in developing countries. Further, there is no accepted measurement system for CSR, and no accepted CSR reporting system. In addition, CSR is implemented on a voluntary basis, and is costly. This is certainly the case in Sri Lanka. The major objective of this study is to investigate the relationship between CSR and CP in developing countries such as Sri Lanka. Accordingly, the present study aims to develop a suitable CSR framework for the Sri Lankan context, and build a CSR index to measure the CSR practices in Sri Lankan companies.

The following chapter consists of two sections. The conceptual framework will be developed in the first part of the chapter, and twenty hypotheses relevant to all three objectives of the study will be identified in the second part. The conceptual framework developed in this chapter provides a basis to understand the effects of the different variables on CP, and allows the development of hypotheses regarding the relationship of corporate social elements such as employee relations, customer relations, community relations and environmental relations, and CP indicators such as ROS, ROA and ROE in Sri Lankan organisations. Section 5.2 presents a theoretical perspective on CSR and CP. The development of a conceptual framework is presented in Section 5.3. Section 5.4 provides a discussion of the development of the hypotheses and Section 5.5 concludes this chapter.

5.2 Theoretical views on corporate social responsibility

The CSR field presents a number of different theories and approaches that are complex and in some cases contradictory. Various scholars have reviewed the main theories of CSR and classified them into four major groups (Chand and Fraser 2006). These include instrumental theories, in which the corporation is observed as only an instrument for wealth creation, and its social activities are only a means to achieve economic results; political theories, which concern themselves with the power of corporations in society and the responsible use of this power in the political arena; integrative theories, in which the corporation is focused on the satisfaction of social demands and ethical theories, based on ethical responsibilities of corporations to society (Garriga and Melé 2004; Chand and Fraser 2006). These theories are conceptualised based on the role of business in society (Clarke 1998; Lantos 2001).

The role of business in society has been identified by Branco and Rodrigues (2007) as a stakeholder–shareholder debate. The theoretical perspectives of the present study are based on this debate, from the stakeholder–shareholder perspective. Clarke (1998) and Lantos (2001) presented these two viewpoints regarding the role of the business in society claiming that the two theoretical perspectives are the classical view and stakeholder view. These two perspectives are included the present study in the analyses of the relationship between CSR and CP.

5.2.1 The classical view

The classical view has two perspectives. The first is pure profit making, and the second is constrained profit making. From the first perspective a business has no social responsibility. However, from the second perspective, businesses should maximise shareholder wealth, obey the law and behave ethically (i.e., the business has social responsibility) (Friedman 1984). The idea behind the shareholder perspective is that the only responsibility of managers is to serve the interest of shareholders in the best possible way. Using company resources, the company should increase the wealth of the shareholders by seeking profits (Garriga and Melé 2004; Friedman 2007). McWilliams and Siegel (2001) stated that adequate investment in philanthropy and social activities is

also acceptable for the sake of profits. Further, several authors have suggested that while shareholder value maximisation is the one objective function common to all companies, this does not necessarily oppose social responsibility actions by companies (Sternberg 1997; Jensen 2001; Coelho et al. 2003; Sundaram and Inkpen 2004). A number of studies have investigated the relationship between the CSR and CP and tried to identify a positive relationship that maximises the shareholders' interests. The shareholder expectations are related to the ethical responsibilities of the organisations (Carroll 1979). As previously mentioned, these expectations come from various societal groups such as educations, and health, "the implied levels of ethical performance suggested by a consideration of the great ethical principles of moral philosophy" (p.41). For the purposes of development of the hypotheses, the present study used the stakeholder approach.

5.2.2 The stakeholder view

This view implies that the interests of other parties, in addition to shareholders are considered in the actions and decisions of companies. The other interested parties include "groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions" (Freeman 1998, p. 174). The term 'stakeholders' includes shareholders, creditors, employees, customers, suppliers and the wider community. Freeman (1984) asserted that companies have a social responsibility that requires them to consider the interests of all parties affected by their actions. Donaldson and Preston (1995) suggested that when stakeholder theory is used to 'identify the connections, or lack of connections, between stakeholder management and the achievement of traditional corporate objectives (e.g., profitability, growth)' (p. 71) this is the instrumental approach of stakeholder theory.

An instrumental approach to stakeholder theory views stakeholders' interests as factors to be taken into account and managed while the company is engaged in maximisation of shareholders wealth. The underlying argument is that stakeholders' interests are considered means for achieving higher-level goals, such as profit maximisation, survival and growth (Donaldson and Preston 1995). Moir (2001) stated that CSR covers a wide range of issues such as employee relations, human rights, corporate ethics, community relations and the environment. Indeed the reporting guidelines for CSR in

Europe, Moir (2001) examined the following areas: workplace (employees), marketplace (customers, suppliers), environment, community, ethics and human rights. In addition, in a study of executive attitudes to social responsibility, Holmes (1976) found that the strongest response was that "in addition to making a profit, business should help to solve social problems whether or not business helps to create those problems even if there is probably no short-run or long-run profit potential" (p. 37). The above studies concluded that CSR covers different issues relating to stakeholders and this has led to the stakeholder theory. Based on the strength of these studies, the present study will apply stakeholder theory to an investigation of CSR in Sri Lanka.

5.2.3 Stakeholder theory

Stakeholder theory can be directly adapted to CSR (Freeman 1984). It has engaged many stakeholders, such as suppliers, customers, stockholders, employees, the media, political action groups, communities and governments; the contention is that companies should integrate sustainable economic development concerns into business operations and in their interactions with stakeholders. The stakeholder model shows all the stakeholders contribute as inputs and try to obtain benefits as output.

In addition to the above-mentioned stakeholders, the government, NGOs and suppliers can be identified as internal and external stakeholders. However, the results of the pilot study for this research suggested that organisations are most interested in working with employees, customers, shareholders, communities and environmental activities to enhance sustainable development in Sri Lanka. Therefore, the present study assumes the main CSR elements include employees, shareholders, communities, the environment, education, health and customers, and have influenced the implementation of the current CSR in their organisations.

In this study, however, the development of the CSR framework used primary stakeholders who are related to the CSR activities of the organisations investigated. Stakeholder satisfaction depends on the expectations of companies, while companies aim to maximise their profit for the stakeholders. This win-win situation was highlighted by Freeman (1984) in his stakeholder theory. The profit of the organisation shows a company's financial performance. The present study assesses CP using ROE,

ROS and ROA as indicators. The organisations that were investigated are involved with a variety of social activities that engage their stakeholder groups. The hypotheses of this study are based on the propositions that good CSR practices directly affect CP in Sri Lanka. The practices of CSR were based on the stakeholders of the firms and stakeholder relations (economic, environmental and societal) were tested with the CP of the companies. The literature has reviewed different social measures. Clarkson (1995) and Moore (2001) used six measures as employees, customers, shareholders, environment, suppliers and community and the several researchers used one CSR dimension such as pollution control for CSR measures (Freedman & Jaggi 1986).

Therefore, the hypotheses of the present study have been developed under six stakeholder relationships employees, environment, educational, health, societal, and customers; in addition, three CP indicators such as return on equity, return on assets and return on sales, which indicates the companies' financial performances were investigated.

5.3 Development of a conceptual framework for the study

The conceptual framework (Figure 5.1) shows the connection between a CSR framework that operationalises the CSR concept and the CP variables investigated in this study. Evidence from empirical research suggests that there are several variables that influence the relationship between CSR and CP (refer to Chapter 2). This study used three financial performances as company performance. There are non-financial performances such as employee satisfaction, employee turnover, customer satisfaction, shareholder satisfaction and management attitudes could be changed implementing CSR concept of the organisations (Luo and Bhattacharya, 2006; Godfrey 2005; Margolis and Walsh 2003). However, the present study not discussed of these non-financial performance at this stage.

5.3.1 Dependent variables: Company performance

The present study considers company CP as a dependent variable because organisations' profit functions are measured by company financial performance

indicators such as ROE, ROA and ROS. Many scholars (McGuireet al.1988; Waddock and Graves 1997; Dowell et al. 2000; Simpson and Kohers 2002; Bauer et al. 2005; Mahoney and Roberts 2007) have used these variables to determine company financial measures. In the present study it is hypothesised that company performance has related positively to CSR when a one-year lag between company performance and all independent variables was used (Waddock and Graves 1997; Mahoney and Roberts 2007). ROA, ROE or ROS are employed as indicators of company efficiency and profitability (King and Lenox 2001; Manescu and Starica 2007; Mishra and Suar 2010; Waddock and Graves 1997; Tsoutsoura 2004; McGuire et al. 1988). The present study used three accounting measures, ROA, ROE and ROS, based on the work of Waddock and Graves (1997).

5.3.2 Independent variables: Corporate social responsibility

The present study identified the social performance variables from the pilot study and Delphi studies using the six stakeholder relations mentioned at Section 5.2.3. Using the annual reports of the companies, independent variables were measured using stakeholder dimensions, (employees, consumers, environmental and community, education and health contributions) disclosed in company annual reports. The present study developed an index to measure these stakeholder dimensions, using a dichotomous process the study calculates the CSR index, and then explore the effect of individual dimension variables within the calculated index. Thus, the present research expands previous research by (Graves and Waddock 1994; Waddock and Graves 1997). The study considers CSR as an independent variable, because the measures of CSR are not well developed (Simpson and Kohers 2002). The above stakeholder relationship activities are identified as CSR activities and measured using the CSR index developed in this study.

On the other hand, some scholars such as Yang et al. (2010) have investigated the relationship CSR and CP that CP was taken as independent variables results as follows: When the independent variable is ROA, ROE, or ROS, indicating that the ROA, ROE, or ROS had no significant impact corporate social performance. With regard to the impact of corporate performance on corporate social performance, regardless of the measurement variables of ROA, ROE, or ROS, the impact is not significant. So, the

conclusion for the impact of CP on CSR is consistent with Aupperle et al. (1985); Ullman (1985); Shane and Spicer (1983), which state that the relationship between CSR and CP is uncertain results.

5.3.3 Control variables

Company size, debt level and industry also affect CP and must be controlled in order to separate the CSR as a single variable (Ullmann 1985; Graves and Waddock 1994; Waddock and Graves 1997; Mahoney and Roberts 2007). To be consistent with the prior research, the present study used total assets and sales as a substitute for company size. Company size is an appropriate variable as a control, because the evidence shows that small and medium enterprises do not engage in CSR activities more than larger companies (Waddock and Graves 1997). Company size is measured by total assets and total sales.

Figure 5.1 shows the conceptual framework developed for this study, based on the research questions.
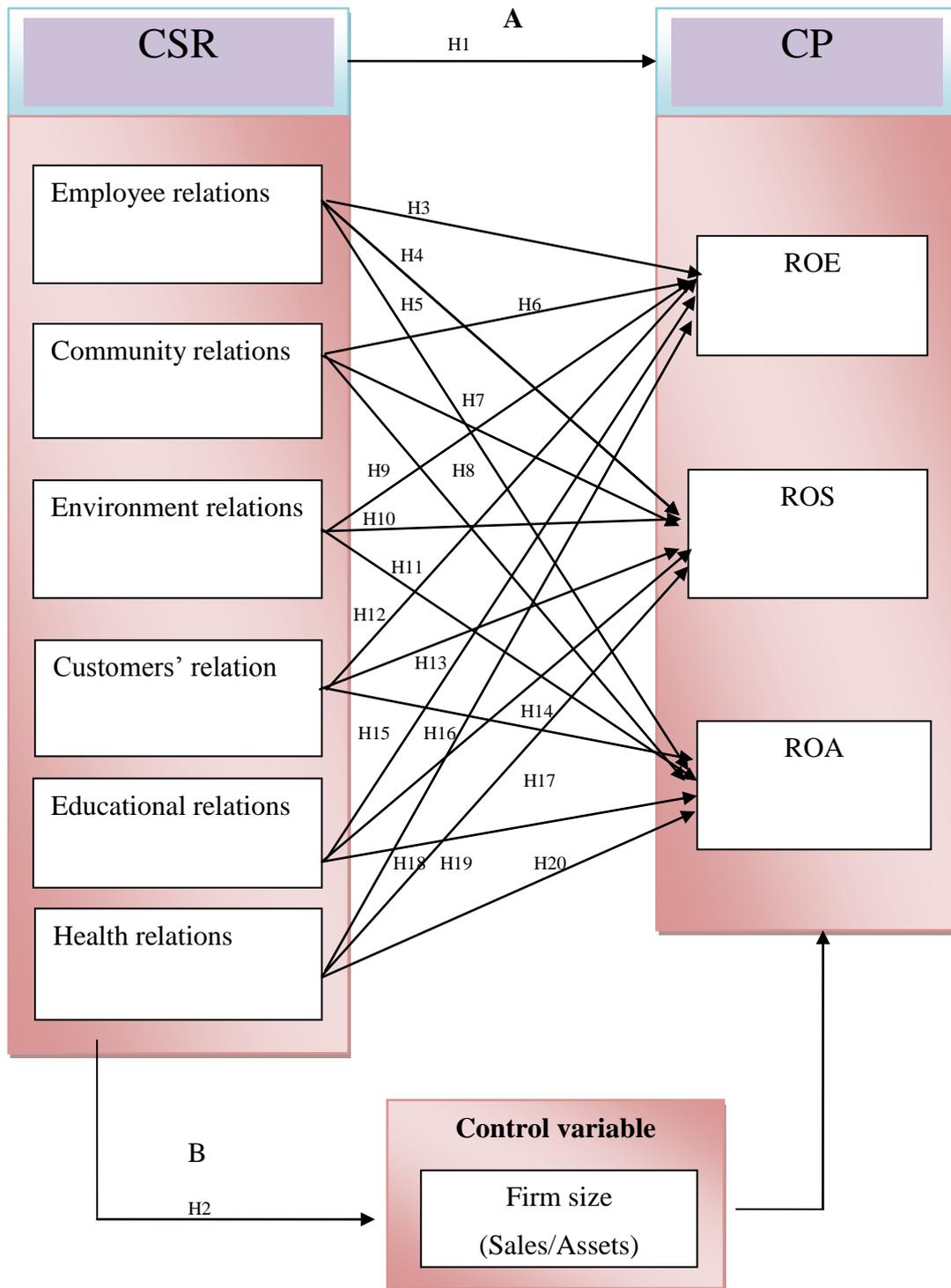
A- direct relationship

B- direct relationship with control variable

ROE- return on equity   CP –company performance

ROA- return on assets   CSR- corporate social responsibility

ROS –return on sales

Figure 5.1: Conceptual framework for the study

5. 4 Development of hypotheses

The first assumption made in this study is that the sample organisations in Sri Lanka practise CSR on a voluntary basis (CCC 2005; Anthonisz 2011). The second assumption is that all CSR activities practised by the sample companies were disclosed in their annual reports.

The hypotheses of this study are based on the propositions that good CSR practices directly affect CP in Sri Lanka. Studies have shown that the relationship between social responsibilities and accounting-based performance measures is generally positive (Bragdon and Marlin 1972; Bowman and Haire 1975; Parket and Eibert 1975; Freeman 1984; Cochran and Wood 1985; Clarkson 1995; Donaldson and Preston 1995; McWilliams and Siegel 2000). Contradicting this research, Waddock and Graves (1997) and Preston and O'Bannon (1997) offered a summary of previous conceptual explanations for negative, positive and no relationship between CSR and CP. Further, Griffin and Mahon (1997) ordered 51 previous CSR and CP relationship studies by decade and found 33 showed positive results, 20 showed negative results and nine showed no effect. Many recent CSR studies are based on stakeholder theory (Ruf et al. 2001) and the CSR variables represent stakeholder relationships such as those with employees, customers, shareholders, the environment, the community and suppliers.

The current study identified six stakeholder constructs as CSR initiatives that involve each stakeholder in companies in Sri Lanka. According to the conceptual framework, each stakeholder construct CSR initiative was matched with each corporate financial performance indicator to identify the CSR–CP relationship. Therefore, the basic hypotheses can be proposed for a direct relationship with the two variables:

H1: The higher level of corporate performance shows the higher level of CSR disclosure is positive.
H2: The higher level of corporate performance shows the higher level of CSR disclosure is positive when firm size is control variable

5.4.1 Hypotheses

Based on these two hypotheses, CSR disclosures can be described under different stakeholders. Many CSR elements have been examined in various studies. These include activities having an impact on the company's environment, customers, suppliers, communities, shareholders and other stakeholders such as government and employees. Studies have shown that CSR increases stakeholder satisfaction with activities based on these elements varying from country to country due to differences in accounting regulations, government actions, national culture, economy, and existence of pressure groups and the severity of the country's social and environmental problems (Williams and Ho Wern Pei 1999).

5.4.1.1 Company performance and CSR: employee relations

Employees, the human element of an enterprise, are a vital resource for strategy implementation (Lee and Miller 1999). Almost half of the world's largest companies believe employee motivation is a key driver when it comes to CSR (Volunteering Australia Inc 2007). While an employee is an expensive resource for the corporation he/she is considered a valuable stakeholder. The value of the employee is in his/her competence. If an organisation does not treat employees well and promote responsibility towards them and society, it may risk losing their competence. Davenport (2000) Graves and Waddock (1994) and Wood (1991) consider CSR initiatives towards employees as practices providing a family-friendly work environment; engaging in responsible human resource management; providing an equitable reward and wage system for employees; engaging in open and flexible communications with employees and investing in employee development.

Lee and Miller (1999) found that organisational commitment of employees (OCE), by itself, may have a weak positive association with ROA. Far more importantly, they found that ROA is strongly and positively influenced by the interaction between OCE and the dedicated pursuit of Porter's (1980) strategies for achieving competitive advantage: cost leadership, marketing differentiation and innovative differentiation. These strategies are used by organisations to improve the commitment of their employees and include factors like, a close community, good collaboration, employee

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loyalty and dedication, job involvement initiative. Additionally, the costs of having a high level of CSR are more than compensated by the benefits received in employee morale and productivity (Solomon and Hanson 1985). The negative externalities that influence society by poor management of employees, can be directly identified. For example, if the employees strike this affects society. Such influences not only need to be identified and measured but also need to be managed in such a way that the positive externalities are maximized and the negative externalities are minimized.

Post et al. (2002) advised that firms develop specific human capital as a resource of competitive advantage. In addition, they showed the committed employees can help to achieve a firm's goals. Furthermore, Cohen (2001, cited in Post et al. 2002) explained that managers and workers determine the work quality that expresses the competitive advantages. The section following focuses on employee contributions to CSR, their commitment to employee development as CSR relations, and employee contribution increases for firm performances. Sri Lankan organisations are legally committed to protect their employees and employers as a result of the Shops and Offices Employees Act of 1954, the Maternity Benefits Ordinance, the Employees Provident Fund and the labour law. Even though these ordinances are implemented for the benefit of employees, voluntary commitments are also expected from organisations by their employees. Organisations commit to their employees by implementing number of social activities.

The present study further extended the work Lee and Miller (1999) using three financial performances such as ROA, ROE and ROS.

The following hypotheses were developed in this study to test the above argument in relation to the Sri Lankan context as follows.

H3: The higher level of ROE   and higher level of CSR-employee relations is positive.
H4: The higher level of ROA   and higher level of CSR-employee relations is positive.
H5: The higher level of ROS   and higher level of CSR-employee relations is positive

5.4.1.2 Company performance and CSR: environment related

Environmental protection is considered to be in the public interest (Mazurkiewicz 2004). The Sri Lankan Government has ordered organisations to adopt environmentally sound behaviour through the institution of regulations, sanctions and occasionally, incentives. Mishra and Suar (2010) pointed out that environmental performance is enhanced by improvements in three aspects: product technologies such as the use of recycled raw materials and other resource saving programs, process technologies such as efficient production systems and end-of-pipe controls and management systems such as workers' training programs and environmental audits. They further noted that the global environmental policies have been endorsed using these aspects. Evidence suggests that proactive environmental management enhances a company's market value, reputation and financial performance (Klassen and McLaughlin 1996).

Thus, the organisation's responsibility is to protect the environment. Many organisations do this on a voluntary basis. As a result, the environmental aspect of CSR can be defined as the duty to cover the environmental implications of the company's operations, products and facilities; eliminate waste and emissions; maximise the efficiency and productivity of its resources; and minimise practices that might adversely affect the employment of the country's resources by future generations. Davenport (2000) and Wood (1991) added environmental activities to their CSP frameworks to demonstrate a commitment to the environment and to sustainable development.

The theoretical background of the relationship between environmental performance and CP reveals several important arguments. Elsayed and Paton (2005) pointed out 'the belief of the win-win scholars (Porter 1991; Porter and Linde 1995) is that environmental improvement or protection can be in the interest of the company as well as helping wider society' (p. 396). Later, many scholars debated Porter (1991) and Porter and Van der Linde's (1995) claims. However, Palmer et al. (1995) and Walley and Whitehead (1994) suggested that companies can be observed to be making a trade-off (at least in the short term) between environmental performance and CP. McWilliams and Seigel (2001) supported this argument, stating 'the optimal level of investment in corporate social responsibility for a company can be evaluated in the same way as any other investment—by considering the marginal costs and benefits' (Elsayed and Paton

2005, p. 397). Nevertheless, studies (Elsayed and Paton 2005; McWilliams and Seigel 2001) have suggested a positive relationship between company social performance or company environmental performance and financial performance. Based on this premise, therefore, the following hypotheses are proposed for this study:

H6: The higher level of ROE   and higher level of environment related CSR is positive

H7: The higher level of ROA   and higher level of environment related CSR is positive

H8: The higher level of ROS   and higher level of environment related CSR is positive

5.4.1.3 Company performance and   CSR: customer relations

Customers are the other important stakeholders and are perceived as the main driving force for corporations to implement CSR practices. Customer satisfaction can be defined as an overall evaluation of the consumer's total purchase and consumption experience with a product or service over time (Anderson and Gerbing 1988). Fornell et al. (2006) stated that customer satisfaction is recognised as a marketing strategy and a key driver of company long-term profitability and market value (Gruca and Rego 2005). These reasons are clearly recognised as drivers of CSR implementation by companies. Luo and Bhattacharya (2006) suggested three streams to address these points. First, institutional and stakeholder theory both suggest that a company's actions appeal to the multidimensionality of the consumer as not only an economic being but also a member of a family, a community and a country (Handelman and Arnold 1999). Secondly, a strong record of CSR creates a favourable situation that positively boosts consumers' attitudes towards the company (Handelman and Arnold 1999; Gürhan-Canli and Batra 2004). Thirdly, customers' increased power has become a way to express engagement in society.

Davenport (2000) and Wood (1991) developed CSR frameworks including the following customer care activities: respect for the rights of consumers, offering quality products and services and providing information that is truthful and useful. The literature has implied that CSR actions manipulate a company's market value in terms of customer satisfaction (Brown and Dacin 1997; Anderson et al. 2004). They mentioned aspects of CSR such as corporate ability that is innovative, or good product quality, as activities that have increased customer satisfaction. Some studies have

emphasised that CSR actions may not generate much institutional legitimacy, customer–company identification, or customer satisfaction (Scott 1987). Lee and Heo (2009) concluded that customer satisfaction underlies CSR since it positively affects CP. Based on these premises, therefore, the following hypotheses were developed:

H9: The higher level of ROE   and higher level of CSR-customer relations is positive

H10: The higher level of ROA   and higher level of CSR-customer relations is positive

H11: The higher level of ROS   and higher level of CSR-customer relations is positive

5.4.1.4 Company performance and CSR: community, educational and health

Companies consider the public when they assess their social activities. The community element is one of the major aspects of CSR that has been categorised according to sub-elements such as education, health, housing and security. Unlike the employee, customer and environment categories, this is a more important category for organisations because all stakeholders are members of the public. Lesser (2001) showed that as firm grow in size, geographical scope, and complexity, they pay special attention to support of communities of practice that could improve the firm's performance. Further, Husted (2003) demonstrated that when the companies focus their social actions on communities in and around their area of operation, they reap the benefits of a socially responsible image among employees and the local community. In contrast to this, however, Berman et al. (1999, cited in Mishra and Suar 2010) suggested that past evidence shows a negative relationship between CSR and the community and CP.

Furthermore, as mentioned in chapter 2, Griffin and Mahon (1997) and Margolis and Walsh (2001) analysed 147 research articles on the relationship between CSR and CP. Since then, a number of other studies relating to this area have been added to the literature (Tsoutsoura 2004; Coombs and Gilley 2005; Brine et al. 2006). For example, Berman et al. (1999) concluded the effects of community relation on company performance are less understandable. Also, Porter (1980) stated that the community relation and firm performance is less important because the community relations CSR most done unfocused and as piecemeal work.

Taking this information into considerations therefore, the study developed hypotheses for these three elements as follows:

H12: The higher level of ROE and higher level of CSR-community relations is positive

H13: The higher level of ROA and higher level of CSR-community relations is positive

H14: The higher level of ROS and higher level of CSR-community relations is positive

Many organisations in Sri Lanka undertake educational and health-related activities. The present study has identified these two activities as separate CSR elements (education and health) because organisations have placed more emphasis on these activities in their CSR reports. In addition, the government is granting funds for the education and health sectors by providing free education to university level, as well as universally free medical treatment at hospitals. As mentioned above in section 5.5.1.4, the education related CSR activities were based on community activities. Researchers such as Griffin and Mahon (1997) and Margolis and Walsh (2001) have concluded that there is a different relationship between CSR and CP. Nonetheless, companies develop their social activities based on the education and health sectors for marketing strategies. Companies expect positive effects from increasing their social and environmental activities. Hence, the hypotheses developed for this study are as follows:

H15: The higher level of ROE and higher level of CSR-education relations is positive

H16: The higher level of ROA and higher level of CSR-education relations is positive

H17: The higher level of ROS and higher level of CSR-education relations is positive

Organisations in Sri Lanka implement many health-related social activities, such as organising health camps, seminars on epidemics, improving knowledge of healthy foods and different competitions for schoolchildren relating to health care. Fernando (2007) stated that companies organise these activities both for publicity and to improve their reputation in society. These social activities are undertaken with an indirect expectation of enhancing the growth and survival of the organisation. Accordingly, this study developed the following hypotheses:

H18: The higher level of ROE   and higher level of CSR-health relations is positive

H19: The higher level of ROA   and higher level of CSR-health relations is positive.

H20: The higher level of ROS   and higher level of CSR-health relations is positive.

5.4.2 Control variable—company size

Company size is a relevant variable because there is some evidence that smaller companies may not exhibit as many overt socially responsibly behaviours as larger companies. This may be the case because as they mature and grow, companies attract more attention from external constituents and need to respond more openly to stakeholder demands (Waddock and Graves 1997).One of the company size measure is sales volume. A high volume of sales directly affects company profitability. This is shown in company' efficiency. The other factor of company size is total assets of the company. The total assets show the company's liquidity.

The present study utilises these two factors for the company size as control variables. Perrini et al. (2007) found that size explains the differences in company willingness to engage in specific CSR strategies. In addition, Graafland et al. (2003) suggested that small companies make less use of CSR instruments than large companies do. The reasons for this represented motivations such as visibility to the public and the media, economies of scale, the need for more instruments that facilitate the communication of values and norms both within companies and to their customers, and stronger competitiveness in the output market for small enterprises. Other researchers (Trotman Graham and Ken 1981; Pava and Krausz 1996; Stanwick and Stanwick 1998) found that there is a significant positive relationship between company size and CSR. According to several researchers, company size is expected to play a role in a company's CSR (Dierkes and Coppock 1978; Trotman Graham and Ken 1981; Perrini et al. 2007).

This means that firm size is a relevant variable because there is some evidence that smaller companies may not exhibit as many overt socially responsibly behaviours as larger companies. This may be the case because as they mature and grow, companies attract more attention from external constituents and need to respond more openly to stakeholder demands (Waddock and Graves 1997). Fombrun and Shanley (1990) found

that larger companies had a higher value for their Corporate Reputation Index. As a result, it is expected that larger companies will have higher levels of CSR. In conclusion, although the majority of studies on CSR and company size have found a positive link, there appears to be no strong evidence that company size and CSR are consistently either positively or negatively related (Kristoffersen et al. 2005).

5.5 Conclusion

In this chapter the development of the hypotheses to be tested in this study has been discussed. The theoretical basis for the study, the development of the conceptual framework, and the hypotheses of the study were presented. In the next two chapters the methodology used to test the hypotheses developed from the conceptual framework outlined in this chapter will be presented.

Chapter 6: Research Methodology

6.1 Introduction

The main research questions of the study identified in chapter one are as follows: what does CSR mean in the Sri Lankan context, to what extent are Sri Lankan companies socially responsible and, is there a relationship between CSR and the CP of Sri Lankan companies listed on the Colombo Stock Exchange (CSE)? In order to answer these research questions, a mixed method approach was used and this will be described in section 6.1.1 below. The three methodologies discussed in this research study fall under three research objectives; the design of a CSR framework is the Delphi method, development of CSR index (the dichotomous process) and identification of the relationships between CSR and CP (the panel data analysis). This will assist corporate organisations in Sri Lanka to pursue knowledge of CSR as a business and corporate strategy, as well as continue to validate its importance in the academic field.

The chapter is organised as follows: Section 6.1 presents an overall research paradigm that rationalises the research design and research approaches that guide the data collection methods and analysis procedures. Section 6.2 details the pilot study that confirmed the availability of the CSR research data in Sri Lanka and allowed the researcher to confirm the study as an important and essential research endeavour in the Sri Lankan context.

Section 6.3 presents the methods used to investigate the three research questions mentioned in Chapter one: describing the methods used for the data collection and analysis for first research question, In addition, this section outlines information related to the second research question and describes the data collection process for the development of the new CSR index specific for the Sri Lankan context. Finally, this section also describes the research methods used to answer the third research question examining the relationships between CSR and CP in Sri Lankan, outlining the panel data regression analysis and specific tests related to this study.

6.1.1 General research design

There are three aspects involving the research design of the study: qualitative, quantitative and mixed method approaches. Traditional research approaches use the first two designs, while the mixed method design is relatively new (Tashakkori and Creswell 2007). Over the past three decades researchers have discussed and debated the concepts, methods and quality standards for studies that utilise the mixed method approach (a combination of the quantitative and qualitative approaches) (Creswell and Clark 2007; Tashakkori and Creswell 2007; Creswell 2009). At the same time a considerable amount of research on corporate social reporting in contemporary annual reports has been undertaken (Ernst and Ernst, 1979; Trotman, 1979; Guthrie and Mathews, 1985; Cowen, Ferreri and Parker, 1987). Accordingly, this study uses the mixed method approach to answer the three research questions (see Chapter 1).

The four major types of mixed method designs described in the literature (Creswell and Clark 2007) are triangulation, embedded, explanatory and exploratory approaches. Exploratory research design can be categorised into two models: firstly, instrument development (quantitatively emphasised), and secondly, taxonomy development (qualitatively emphasised). One of the major problems presented in this study, the lack of a guiding CSR framework in the Sri Lankan context was mentioned in Chapter 1. In order to redress this problem, an exploratory design has been used in the present study. This can be described under the instrument development model as explained by Creswell and Clark (2007). The study begins qualitatively, as this approach is best suited for investigating a phenomenon. Further, an exploratory design is most suited to investigating or expanding and analysing a mechanism when one is not available (Creswell and Clark 2007), or to determine the significant variables to study quantitatively (p. 75). In the present study a CSR framework, developed using the Delphi method was designed. Using qualitative data (interviewed data) the researcher attempted to develop a framework. Next an index using the qualitative secondary information from the firms' annual reports was developed. These qualitative data change into the quantitative figures using the developed index. Finally, the significant variables for the relationship between CSR and CP have been identified. For this purpose researcher uses the quantitative data and the researcher utilize the quantities figures.

6.1.2 Nature of the study

As previously mentioned in this Chapter, the present study has been designed as an exploratory study. According to Creswell and Clark (2007), both qualitative and quantitative data are collected in a sequential time order. The following information consists to present study which are the time horizon, weighting, confidentiality and the research model of the study is discussed in this section here.

6.1.3 Time horizon

In implementing the mixed research method used by this study the timing horizon was not concurrent, but sequential (Morse 1991). Using sequential timing allowed information to be collected and analysed before using other information types. The study first collected the qualitative information and analysed it, then collected the quantitative information for further analysis. The data collection started after approval from the Human Research Ethic Committee (HREC) of Victoria University on 1st October 2010 (Annexure 6) had been given. The interview data (Annexure 1) were collected before November 2010 and questionnaire data (Annexure 2) were collected before January 2011.

6.1.4 Weighting

Creswell and Clark (2007) explain that two possible weighting options can be applied in mixed method research. One is equal weight and the other unequal. Equal weight means addressing the research problem using qualitative and quantitative method equally, and unequal weight means that one of the methods (qualitative or quantitative) will be used more than other. This is decided according to the theoretical drive or worldview call of the research. In taking a decision on the weighting of methods in a research project, three worldviews were introduced by the Creswell and Clark (2007): first, a positivistic worldview calls for a quantitative priority; second, a naturalistic worldview calls for a qualitative priority; third, a pragmatic worldview calls for either equal or unequal weighting. As the weighting decision in a mixed method design is as important as the time horizon, the researcher has given equal weightings to both the quantitative and qualitative results in addressing the study questions. This pragmatic worldview has been

selected because the research questions are oriented within real-world practice (Tashakkori and Creswell 2007; Creswell 2009).

6.1.5 Confidentiality and ethical issues

As mentioned earlier, the HREC approved the collection of the qualitative data using the interviews in the survey. The confidentiality of responses was assured, and explained to all respondents before the survey was conducted. The requirements for confidentiality have been respected by the researcher, who notified the HREC when approval was given (Annexure 7). Creswell (2003) stated that ethical considerations are as important in academic and business research, as is the case in any other field of research. This study addressed the ethical considerations raised, according to Victoria University's code of research. Accordingly, the principal responsibilities for this research study consist of the following:

- Complying with the study rules
- Maintaining high values of research to ensure the accuracy of the data via objectivity and systematic investigation
- Avoiding misrepresentation of the statistical accuracy of the data and refraining from placing excessive weight on the significance of the results by changing the results
- respecting the rights, confidentiality and information of the respondents
- avoiding conclusions that are not consistent with the research objectives or commitment to disclosing results.

In addition it is the responsibility of the researcher to analyse the data truthfully and to accurately report the data collection methods.

6.1.6 Research design model

As described above, Figure 6.1 describes the study flow, from the pilot study to the framework development, from the framework development to the index development, and from index development to the identification of relationships.
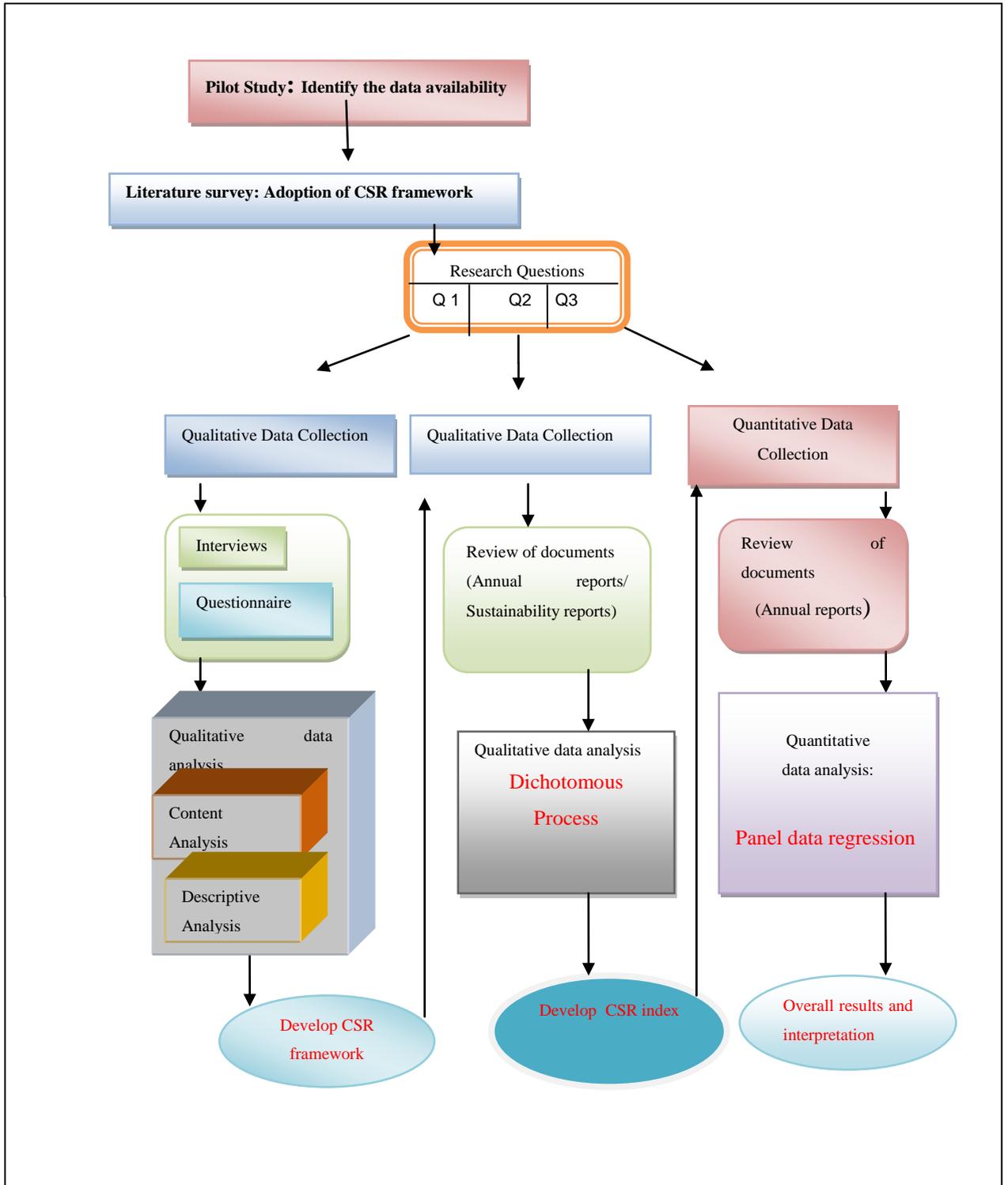
Figure 6.1: The procedures used to measure exploratory qualitative results with quantitative data

Source: Author's design

As shown in Figure 6.1 this mixed method study linked the initial qualitative section to the quantitative section by developing an instrument to identify a CSR framework for the Sri Lankan context, and developing an index to measure CSR in Sri Lanka. Building on these findings, the study identified six CSR dimensions. These instruments were then implemented in the second part of the study. For a more complete understanding of the above input and output procedures, the steps in the design were as follows:

1. Pilot test for determining the availability of the data

2. Literature review for identifying the research questions

3. Primary data (qualitative) collection for developing a CSR framework using the Delphi method

4. Secondary data (qualitative) collection from company annual reports for designing a CSR index

5. Secondary data (quantitative) collection for identifying the relationships between CSR and CP using data from the company annual reports

6. Content analysis and descriptive analysis adopted for development of the CSR framework

7. Dichotomous process employed for designing the index

8. Panel regression analysis for identifying the relationship between CSR and CP

Table 6.1 shows a summary of the research process of the study. It discusses the overall steps followed in the study and their outputs according to the exploratory research design.

Table 6.1: Summary of the research design of the study

Procedure	Study	Output
Selection of 10 companies and content analysis of their annual reports	Pilot study	Confirmed relevance of CSR framework and availability of data
Literature search Application of categories to Sri Lanka	Literature review Review of CSR implementation in Sri Lanka	Adoption of CSR framework Categories of stakeholders and related CSR activities confirmed
Interviews with 20 experts	Delphi study for data collection Round1: interview Round2: questionnaire Content analysis and descriptive statistics	Further development and confirmation of framework Development of a CSR disclosure index relevant to Sri Lanka
Fifty companies' annual reports reviewed Collected data from 50 annual reports (quantitative and qualitative data)	Dichotomous process Survey	CSR index development Database of CSR activities and performance for the years 2004–2009
Analysis using descriptive statistics, etc	Analyses of panel data	Determined the relationships between CSR and CP

Sources: Author's Design

6.2 Pilot test for identifying the data availability

The pilot study was conducted in Sri Lanka to ensure the relevance of the CSR framework and ascertain the availability of the CSR data necessary for the study. This phase was conducted according to the requirements of the Research Committee in the Faculty of Business and Law of the Victoria University. Members of the research committee questioned whether CSR was practised in Sri Lanka and requested a review to ensure that valid data would be available to support the study.

6.2.1 Data collection for the pilot study

To determine the availability of CSR data in Sri Lanka, the pilot tests randomly selected 10 listed companies of the CSE. These companies were selected based on their industry sector, specifically, banking, finance and insurance, manufacturing and plantations. The CSR practices of the selected companies were pretested by assessing their annual reports and website information. Next, the CSR data for the previous five years were examined. These CSR data were available in the companies' annual reports and sustainability reports, and disclosed their CSR practices under different headings based on their relevance to the stakeholders. The selected companies' CSR practices were catalogued under the stakeholder categories of employees, customers, shareholders, suppliers, community and environmental practices. However, the social elements were based on the CSR frameworks of developed countries, adopted from studies, for example, Clarkson (1995), Davenport (2000) and Moore (2000). Seven companies in the sample of this study mentioned that they were following international CSR standards and practices because there was no CSR framework specifically related to the Sri Lankan context.

6.2.2 Data analysis of the pilot test

As previously mentioned the pilot test identified the practices of CSR under various stakeholder relationship categories including employees, society, customers and environment. These stakeholder relationships were grouped according to the similarities with these practices, as identified by content analysis.

Useful information from each of the sample companies participating in the pilot study such as CSR elements, which once identified were used to develop the conceptual framework. Further, the conceptual framework of this study (presented in Chapter 4) shows CSR as the independent variable, which was categorised as six stakeholder relationships including employees, customers, health, education, communities and the environment.

6.2.3 Outcome of the pilot test

The pilot test demonstrated that companies in Sri Lanka are practising CSR with their stakeholders, even though there is no accepted framework. It was also shown that companies implement CSR activities on a voluntary basis, and their CSR information is available in annual and sustainability reports.

6.3 Methodology

The following section presents the methods used to investigate the three research questions mentioned in chapter one. For a more detailed understanding of the methods, this section outlines the three stages of the research study and the methods that used in the study.

6.3.1 Stage 1: Development of the CSR framework

This stage aims to answer the first research question of the study. The pilot study confirmed that CSR practices are being implemented by Sri Lankan companies. However, the literature review revealed that there is no CSR framework in Sri Lanka to guide its practise. Therefore, this study has enlisted the aid of experts in order to utilise their experience and knowledge of CSR practices. These experts were selected from community organisations, non-government organisations and listed companies. Their organisations were selected on the basis of their relationships with people, customers, employees and environmental activities.

6.3.1.1 The Delphi method

The Delphi method used in this study is designed to allow experts to exchange ideas (Delbecq et al. 1975; Davenport 2000). Skulmoski et al. (2007). These researchers have pointed out that the Delphi method investigates solutions for a particular problem. The original Delphi method was designed in 1950 by Norman Dalkey to solve issues in the Rand Corporation in the US. The objective of his study was to identify and discuss reliable views from experts in the company. Later, Helmer (1967) used this technique in his research aimed at overcoming military issues. Since then, many researchers have utilised the Delphi technique in their studies. Table 6.2 shows the users of Delphi and their views of this method.

As the current study aims to develop a new framework for CSR in Sri Lanka, the Delphi method was utilised for primary data collection. According to Linstone and Turoff (1975, cited in Ogden et al. 2005), the Delphi technique overcomes the limitations of the other forecasting methodologies (p. 31), such as relying on a single expert, which causes forecasting problems. Others simply average the forecasts of several experts, and there are also methods relying on round-table discussion and group agreement which may be influenced by group members in high positions.

Table 6.2: Users of the Delphi method

Users of the Delphi method	What is Delphi?
Norman Dalkey (1950)	The designer of the original Delphi method. The US Air Force commissioned the Rand Corporation to conduct a Delphi study
Olaf Helmer (1967)	Supported the validity and reliability of the technique as an acceptable method of data collection
Linstone and Turoff (1975)	A method for structuring a group communication process, so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem
Häder and Häder (1995, p. 12)	A relatively strongly structured group communication process in which matters on which naturally unsure and incomplete knowledge is available, are judged upon by experts
Rowe and Wright (1999)	Key characteristics of Delphi: anonymity of participants iteration; controlled feedback; statistical aggregation of group response
Kurth-Schai et al. (2000, p. 96)	Unlike more conventional survey methods the goal in selecting Delphi panels is not to develop a random sample representative of the general public. Instead, a purposive sampling approach is adopted
Ogden et al. (2005)	The Delphi method as one of three different research efforts
Zami and Lee, 2009	Key features of Delphi: systematic; questionnaire; expert opinion; iterative process; feedback; anonymity of participants

Sources: Adapted from the literature

Rowe and Wright (1999) and Zami and Lee (2009) demonstrated that the four characteristics of Delphi include participants being able to communicate their opinions freely and anonymously. They are informed of the other participants' perspectives and provided with the opportunity to clarify or change their views. Finally, a quantitative analysis was carried out on the data that was collected to allow an interpretation of the

data. Davenport (2000) applied the Delphi method to develop a CSP framework based on the stakeholder approach. The current study will apply Delphi methodology to design a CSR framework for the Sri Lankan context based on a similar approach. The present study used Linstone and Turoff's (1975, cited in Ogden et al. 2005) Delphi techniques for collecting the data and their data analysis methods were adapted to analyse the data.

6.3.1.2 Advantages & disadvantages of the Delphi technique

Ogden et al. (2005) pointed out that 'the anonymity of the Delphi technique provides the advantages of utilising multiple experts while avoiding the pitfalls of bias transfer and pressure' (p. 31). Table 6.3 below shows the advantages of the Delphi methods for collecting data for research studies. In addition to the above advantages, it should be noted that stated that the Delphi technique has several weaknesses (Andranovich, 1995). First, the Delphi participants must have written communication skills. Secondly, the Delphi method is labour-intensive and time consuming. For example, if mailed questionnaires are used, it can take from 45 days to over a 12-week period to administer from the start of the study to the completion of the final report. Third, Andranovich (1995) highlighted the need for highly motivated participants, since the quality of the responses depends on the interest and motivation of the respondents. Table 6.4 shows further limitations of this technique (Zami and Lee 2009).

Table 6.3: Strengths of the Delphi technique

Strengths (Advantages)	Authors
The process gives participants time to think through their ideas before committing themselves to them, leading to a better quality of response.	Rowe and Wright 1999; Garrod 2008; Linstone and Turoff 1975; Skulmoski et al. 2007
The potential influence of personality is removed.	Garrod 2008; Linstone and Turoff 1975; Skulmoski et al. 2007
Redundant 'noise' (issues that tend to sidetrack the debate) can be controlled by the project manager.	Linstone and Turoff 1975; Garrod 2008; Andranovich 1995; Rowe and Wright 1999
The process generates a record of the group's thoughts, which can be reviewed as required.	Rowe and Wright 1999; Garrod 2008; Linstone and Turoff 1975; Skulmoski et al. 2007
The method can be used to evaluate the spread of opinion as well as consensus points.	Rowe and Wright 1999; Garrod 2008; Linstone and Turoff 1975; Skulmoski et al. 2007
The anonymity of Delphi participants allows them to freely express their opinions without undue social pressures to conform from others in the group.	Rowe and Wright 1999; Garrod 2008; Linstone and Turoff 1975; Skulmoski et al. 2007
The technique is flexible enough to be applied in a variety of situations and to a wide range of complex problems, for which there is often no other suitable means of analysis.	Rowe and Wright 1999; Garrod 2008; Linstone and Turoff 1975; Skulmoski et al. 2007

Source: Adapted from Zami and Lee 2009

Table 6.4: Limitations of the Delphi technique

Weaknesses (Disadvantages)	Authors
A Delphi study is at the mercy of the world view and biases of the coordinating or monitor team, who choose the respondents, interpret the returned information and structure the questions. There is a great deal of debate therefore, over whether this coordinating group should be chosen from within or outside the organisation initiating the study and whether they should be experienced in the subject area of the study in question.	Masini 1993
It has not been shown consistently that the results of this method are any better than those achieved through other structured judgmental techniques.	Rowe and Wright 1999
The flexibility of the technique means it can be adapted to a whole range of situations, which in turn can make it vulnerable to misrepresentation and sloppy execution.	Amara and Future 1975
In the process of achieving consensus, extreme points of views run the risk of being suppressed when in fact they may provide important new information or insights.	Lang 1995
The process of choosing the panellists is often not considered seriously enough, even though it is the calibre of the panellists that determines the quality of the outcomes of the study.	Lang 1995
Certain questions are not asked as they do not seem important when the study begins. However, once it is underway new questions cannot be added can weaken the study considerably.	Simmonds 1977
The way the process and questionnaire is structured can lead to a bias (like IG tests), which assume a certain cultural background. People may give responses they think the monitoring group wants to hear, or they may not respond at all. Thus, the cultural background of respondents will impact upon the results.	Linstone 1978

Sources: Adapted from Zami and Lee 2009

6.3.1.3 The Delphi process

Kurth-Schai et al. (2000) explained that conventional Delphi studies follow a certain process. According to Kurth-Schai et al. (2000), researchers should use a clear criterion to select a panel of participants and design a well-structured questionnaire concerning the problems and issue(s) under consideration. The experts (respondents) are then asked to respond to the questionnaire during a series of rounds (iterations). All responses are provided individually and anonymously. Questionnaires are usually administered in the mail and, in most cases, respondents' identities are unknown to each other. They interact only with the researcher or a small research team (two to four members) conducting the process. Between rounds, panellists are provided with descriptions of previous individual and group responses (controlled feedback). The group opinion is generally expressed in the form of statistical indices, a measure of central tendency (usually the median response) and a measure of dispersion (usually the inter-quartile range). Panellists are frequently asked to submit comments and/or justification of their personal views for review by the researchers. These are often summarised and reported in subsequent iterations.

The Delphi process has been explained in different studies (Jain 1986; Goldfisher 1992; Ogden et al. 2005). These are summarised in Table 6.5 below.

Table 6.5: Delphi forecasting steps as relevant to this study

Steps	Activity
1	Define the problem
2	Select willing expert participants
3	Structure the initial questionnaire
4	Interview Questionnaire I: initial input
5	Combine and refine the initial predictions
6	Interview Questionnaire 2: fine-tune Step 5
7	Further analysis

Sources: Adapted from Ogden, Petersen et al. 2005

6.3.1.4 Sample identification

It is extremely important to firstly identify who should be included in the interview sample. The participants will provide all the information required to address the research questions. As it is not feasible to engage all members of a relevant population, the selection of survey participants is crucial. To improve the selection of the participants in this study, the following steps were taken, as outlined below.

6.3.1.5 Defining the population

The first step in the sample selection is to define the population. For this study, the population chosen was the companies and organisations that practice CSR in Sri Lanka. This population is represented by different government organisations, non-government organisations and listed companies. Within this population, the Ministry of Labour represents employees and the Consumer Development Authority represents customers.

6.3.1.6 Sample size

20 participants were selected from 10 organisations directly engaged with the stakeholders of companies included employees, customers, members of the general public and environmentalists in the present study. The employees were selected by the Ministry of Labour in Sri Lanka; while the customers were selected by the Consumer Development Authority of the Sri Lanka. These organisations' major activities are related to social services, for example, the Ministry of Labour works to protect employees and ensure their rights. Due to this careful selection process, overall the study sample represents the population required for the study.

6.3.1.7 Sample error and bias

Sample errors occur when estimates are derived from a sample rather than a population census. This is the source of the main difference between the sample population and the population of interest. Because the sample number is considerably smaller than the total population, sample errors due to inadequate representation of the total population may occur. Castillo (2009). To minimise these errors, Castillo suggested to test the entire population. Accordingly, the

present study included six groups population, therefore the entire population in all six groups including all employees; customers; environmentalists; education workers; health workers and the general community. The six groups identified in pilot study which was done by the researcher. To avoid bias in sampling, systematic random sampling was used as the best method to obtain unbiased variance estimators as suggested by Murthy (1967). There are three models of random sampling: simple random, stratified and multi-stage cluster sampling (Creswell 2002).

6.3.1.8 Sample size in Delphi studies

There is no agreement on sample size for Delphi studies (De Villiers et al. 2005; Creswell and Clark 2007; Skulmoski et al. 2007). According to Akins et al. (2005) there is no evidence for an ideal sample size and no rationale for selecting the sample size. Other studies claim that virtually any panel size is useful. Many published Delphi studies have used panels consisting of 10–100 or more panellists. For example, 13 experts were utilised to study the behaviours of young children and a sample of 10 experts evaluated health promotion interventions (Akins et al. 2005). Furthermore, large numbers of participants have also been adopted for different studies using the Delphi method; for example, The University of Virginia used 421 respondents, and one study invited 2,865 participants with 1,142 responding to their questionnaires (Cyphert and Gant 1971; Barnette 1978; Akins et al. 2005).

6.3.1.9 The Delphi questionnaire

The initial interview questions in the Delphi questionnaire were structured around the six content areas identified (See Section 5.3.2) in the literature review and pilot study: employees, educational, health, customers, the public and the environmental. The results of the pilot study showed that Sri Lankan organisations implement CSR based on stakeholder relationships including employees, educational, health, customers, the general public and the environmental. The sample included 20 experts who work as the top managers in the organisations, selected by the researcher under represented on six categories such as education, health, environment, employees, consumers and society.

Based on the pilot study, the first round of Delphi asked respondents to describe existing CSR programmes being implanted by the organisations and develop the possible basic CSR strategies or scenarios based on the identified CSR areas.

In this study, actual data gathering began with the first round of Delphi in which 17 semi-structured interviews were conducted. These ranged from 30–90 minutes in duration, with an average length of 60 minutes each. The participants were employed as executives, senior managers and managers. Each participant had a good knowledge of social responsibility practices and was familiar with stakeholder expectations. Further, as they were leaders who make decisions in the relevant social and environmental fields, they were identified experts in their fields. Notes were taken during each interview and five interviews were audio-recorded in the respondents' mother tongue. Seven interviews were recorded in English and 15 interviews were not recorded, because the respondents requested that their views were not recorded.

6.3.1.10 Open-ended questions

Each respondent was asked a series of open-ended structured questions (Annexure 1), depending on his or her area of expertise. The interview questions covered basic CSR requirements and current CSR practices in Sri Lanka. For example, the study chose the Education department as one of the sample organisations and asked one senior manager 'What social and environmental expectations do you have from the companies that operate in Sri Lanka?' The other sample organisations answered the same question and then reviewed all the responses describing current CSR ability and knowledge.

6.3.1.11 Research administration

The research interviews and survey were conducted according to the following procedures:
- The interview questionnaire was submitted to Victoria University's HREC for approval according to the University's Code of Research Ethics, and approved on 1 October 2010 (Appendix 6).
- The interviews were conducted by the researcher in the second week of October 2010. The interview participants were all senior management staff.

- The interviews were finalised on 30 October 2010, and the qualitative analysis was conducted on 5 November 2010.

- Data coding, tabulation and entry was carried out using N-vivo 8 to enable further analysis. The analysed data were sent to all respondents on 10 November 2010, together with a rating sheet and questionnaire for fine-tuning their responses to each question (Appendix 2). On 15 December 2010, the data collection stage was concluded, with a total of 20 rating sheets being returned, a 100 per cent response rate.

6.3.1.12 Measurement tests

Measurement testing is one of the main steps in social research and questionnaire analysis is the process of translating concepts into measurable variables (Sekaran 1992). As validity and reliability are the two major issues that a researcher must take into consideration when using data collection or measurement instruments, this study uses the following validity and reliability tests, in accordance with the literature.

6.3.1.12.1 Validity of instruments

The American Psychological Association has described the concept of validity as '...refers to the appropriateness, meaningfulness and usefulness of the specific inferences made from test scores' (Standards for Psychological and Educational Testing 1985, p. 9). If the findings of a study require suitability, significance and practicality, it needs to be convincing (valid). Therefore, validity tests must be conducted to determine whether the study truly measures what it intended to measure and how accurate the research results are. For the present study, validity was determined by asking pretested questions relating to the study of CSR in Sri Lanka. The instrument demonstrated that many people had little knowledge of the topic, and therefore the research questions were clearly worded and easy to understand. Examination of other similar studies determined appropriate wording for the questions and the elements necessary to provide an answer to each specific aspect of the study. The interview questionnaire was also pre-tested by a number of academics. The second round of the Delphi questionnaire was developed on the basis of the experts' responses to the first round of Delphi interview questions. The second round questionnaire was distributed to the same respondents, and thus the

validity of the second round questionnaire was tested by the respondents themselves. Wrong or biased questions were criticised and items were weighted according to the respondents' indications.

6.3.1.12.2 Reliability of the instrument

The interview questionnaire was designed to identify current CSR practices and to assist in developing a potential CSR framework. The questions were developed in accordance with the experts' fields of interest. In addition, some questions were not CSR-related. For example, 'what do you think about the social responsibility of organisations, how they implement it and why they organise it'? After completion of the interviews, all answers were matched with the second round questionnaire and analysed using a statistical method.

6.3.1.13 Data analysis

As discussed earlier, following the first round of Delphi interviews the data collected were analysed. Transferring qualitative information from a questionnaire onto a computer program (such as N-vivo 8) was accomplished by assigning codes. These codes were predetermined and categorised in the six stakeholder elements. Following this, the second round questionnaire was structured according to these codes and rated under the five point Likert scales. Participants were asked to rate the likelihood of each CSR relation occurring in the future, using this 5-point Likert scale (5 = most important, 4 = somewhat important, 3 = important, 2 = less important, 1 = not at all important). Descriptive analysis was then used to analyse the results on the basis of the CSR framework of the study. This step will be discussed in detail in Chapters 7 and 8.

6.3.2 Stage 2: Method of formulating the CSR index

This stage was designed to address the second research question of the study. The major purpose for developing a CSR index was to measure the data using a quantitative method in order allow further analyses such as examining the relationships between CSR and CP. The CSR index was calculated based on the information disclosed by selected companies in their annual reports and their sustainability reports, and named

the disclosure index. The procedures that were followed in the development of this index are discussed below.

6. 3.2.1 Sample characteristics

The sample companies of the study were selected from those listed by the CSE in Sri Lanka. As STING Consultants have developed a corporate accountability index, which has been in use since 2009, the top 50 listed companies in this study were selected based on the STING corporate accountability index. In Sri Lanka, CSR involvement is highly accepted by the CCC, which strongly encourages both private and public sector organisations to implement CSR programmes (CCC 2005). The companies selected for this study have all disclosed their CSR activities in annual and their sustainability reports, and this study uses this data disclosed for the five year period from 2005–2009.

6.3.2.2 Data collection

In addition, the companies' sustainability, employee and management reports as well as websites disclose their social responsibility activities. This study is concerned with the information disclosed in these publications, especially in the annual reports. The requirement to disclose this information has been laid down by statute, and the adherence to these professional and legal requirements depends on the government, professional and other regulatory bodies.

6.3.2.3 The research process

The aim of this study is to develop a disclosure index, which the literature has shown involves three steps. The first step is the selection of reliable items, relating to previous studies (Cooke 1989) and disclosures recommended by the accepted accounting standards body and legal requirements (Marston and Shrives 1991). The second step is weighting items as they arise in the index. Cerf (1961, cited in Marston and Shrives 1991) reviewed weightings by examining the literature and surveying an accepted accounting body. This weighting system of the present study is described in Section 6.3.2.4. The final step involves calculating the index scores. Buzdy (1974) and Wiseman (1982) stated that calculating the index is a difficult task. Researchers can use

the companies' disclosed items for developing a CSR index, but non-disclosed items should be pointed out as relevant or not. They further decided non-disclosure items by reading all items included in the annual reports and making suitable judgments as to whether an item was either not disclosed or irrelevant to the company.

6.3.2.4 The dichotomous process

A dichotomous approach was used in the current study for calculating the CSR index. This process included three steps: dichotomous, the decision to weight an item or not, and adjusting for non-disclosed items (Cooke 1989; Hossain et al. 1994). Previous disclosure studies have used this method (Cooke 1991; Hossain et al. 1994) and the three steps are described below.

6.3.2.4.1 The dichotomous approach

In this study, the approach to scoring items is essentially dichotomous, with a score of one (1) assigned to an item if it is disclosed (disclosure index) and a score of zero (0) when it is not. The total score T for a company is:

$$T = \sum_{t=1}^{n} d\mathrm{i}$$

where d_i is 1 if the item i is disclosed and 0 otherwise; n is the maximum number of items.

6.3.2.4.2 The unweighted approach

All disclosure scores used in this study are unweighted. The reason for this was to eliminate any bias inherent in a weighted score (Chow and Wong-Boren 1987), which may reflect the significance of objects to a particular group of information users (Chau and Gray 2002). Further, the implied assumption is that each disclosure item is equally significant for all user groups. Although this assumption cannot be practical, it has been shown that the resulting favouritism is less than it would be if it resulted from assigning

prejudiced weights to the items (Cooke 1989; Chau and Gray 2002). However, some of the disclosure literature supports unweighted indices (Robbins and Austin 1986).

6.3.2.4.3 Adjustment for non-applicable items

The applicability of any item to each company was taken into account and it was decided that the company should not be penalised if an item was not relevant. For example, when CSR information from the sustainability and annual reports was monitored and found that a particular item was not declared, it was assumed that the item was not significant. Thus, the highest score M for each company was computed as follows:

$$M = \sum_{t=1}^{n} d\text{i}$$

where d_i is the disclosure item and n is the number of items applicable to that company, an adjusted index is calculated as T/M. This adjustment procedure for non-applicable items was used in most of the empirical studies reviewed (Cooke 1989; Cooke 1993; Meek et al. 1995; Raffournier 1995). It is important to identify the reasons why these non-disclosure items occur in a particular company. Morris and Gray (2010) stated the following four reasons may account for non-disclosed items: a company may deliberately refuse to disclose an item, it may disclose certain items only, the item may not be applicable to the company and the item may be too small (not material) to warrant disclosure.

6.3.3 Stage 3: Method for identifying the relationship between CSR and CP in this study

The present study used three different qualitative and quantitative methods to answer the research questions. Sections 6.4.1 and 6.4.2 above discussed the qualitative methods used in the framework and index developments of the study. The qualitative CSR data was transformed into quantitative data using the disclosure index developed in this study. Following this step, the quantitative data and the companies' CP data were

utilised to address the major research question of the study. The following sections describe the methods used to address the research questions.

6.3.3.1 Defining the population

The study population included the 240 listed companies by the CSE in Sri Lanka. These 240 companies were categorised in 20 different industries.

6.3.3.2 Sample selection

The present study, 50 companies were selected as the sample group. These included companies from all eight industrial sectors of the CSE, including banks, insurance and finance, plantations, diversified, construction and engineering, beverage, food and tobacco, telecommunications, and trading and manufacturing companies. Each of these companies had practised CSR continuously for a minimum period of five years.

6.3.3.3 Data collection

The study examined data for the period 2004–2009. Data on CSR practices and CP were collected from secondary sources. CSR information was collected from the companies' annual and sustainability reports of the listed companies between 2004–2008. Financial data were collected for the period 2005–2009, with a one-year lag behind the CSR data. This period was selected because after the tsunami in Sri Lanka in 2004, companies and the general public were more interested in the concept of CSR (Fernando 2007) and many organisations had started to implement social welfare practices for their employees, customers and communities. For these reasons, this 5-year period was considered more suitable for understanding the CSR practices in Sri Lanka and identifying the CP of selected companies. In addition, listed companies had documented their CSR contributions and activities in separate sections of their annual reports, according to the policy of the Sri Lanka Accounting and Auditing Standards Board adopted in 2004. In other words Sri Lankan companies used IFRS to prepare their financial statements (Khan 2006). Currently, a voluntary Code of Best Practice on Corporate Governance developed by ICASL and the SEC in consultation with the CSE is being promoted to strengthen the corporate governance framework in Sri Lanka.

However, communication of CSR is being used as a proxy for CSP by Sri Lankan companies.

The data required for the six stakeholders relationship categories (employees, customers, communities, environment, educations and health) used in the present study were measured using the CSR index developed. The CP data used in the study were ROE, ROA and ROS calculated in Excel spreadsheets after identification of the companies' return, equity funds, total sales, total assets, profits before tax and profits after tax for the 5-year period.

6.3.3.4 Variable identification

The variables used to operationalise the constructs discussed in Chapter 4 are described below. They include the CSR relationship variables (employees, customers, communities, environment, education and health), CP and the moderating variables of company size and R&D.

6.3.3.4.1 Company performance measurements

This study measures CP using financial indicators. The concept of shareholder value as a key indicator of a company's financial performance is driven by investors. Following Waddock and Graves (1997), this study used three financial indicators for the measurements of CP, including ROE, ROS and ROA. As CP was expected to be positively related to CSR, a one-year lag between CP and all independent variables was used (Waddock and Graves 1997). Data on ROE, ROA and ROS were obtained from the CSE database for the years 2006–2010. These ratios are explained in detail in the following paragraphs.

6.3.3.4.2 Return on equity

ROE is the ratio used to assess the return on shareholder investment (Brigham and Daves 2007). In addition, ROE reflects management's effectiveness in generating additional earnings for shareholders (Tezel and McManus 2003). Wall Street analysts support the use of this ratio because the higher the ROE, the faster the growth of total

shareholder equity. As a result, the stock price will grow (Rothschild 2006). Conversely, ROE does not consider risk, even though shareholders are clearly concerned about risk (Brigham and Daves 2007).

$$ROE = \frac{\text{Net Income}}{\text{Shareholder Equity}}$$

6.3.3.4.3 Return on assets

The assets of a company comprise debt and equity. Both of these types of financing are used to fund the operations of the company. The ROA provides investors with an indicator of how effectively the company is converting assets to invest in net income. Higher ROA ratios indicate that the company is earning more money on less investment. ROA reports earnings generated from invested capital (assets). For public companies, ROA can vary substantially and is highly dependent on the industry. This is why when using ROA as a comparative measure, it is best to compare it against a company's previous ROA data or the ROA data from a similar company.

ROA is calculated using the following formula:

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

6.3.3.4.4 Return on sales

This measure is helpful to management, providing insight into how much profit is produced per dollar of sales. As with many ratios, it is best to compare a company's ROS over time to look for trends and compare it with other companies in the same industry. An increasing ROS indicates the company is becoming more efficient, whereas decreasing ROS could signal that a company is in financial difficulties. ROS is calculated using the following formula.

$$\text{ROS} = \frac{\text{Net Income (before interests and tax)}}{\text{Total Sales}}$$

6.3.3.4.5 Corporate Social Performance measurement

The present study calculated a composite measure of CSR for the sample years from 2004–2008. As described in Section 6.4.2, it used a dichotomous process. CSR was calculated by summing all detected CSR dimensions (community relations, customer relations, employee relations, environment, education relations and health relations) disclosed as CSR practices using the disclosure index discussed in Section 6.4.2.

6.3.3.4.6 Control variable measurement

Although the control variables of company size, industry and R&D and have all been identified in studies of CSR and CP relationships, following (Graves and Waddock 1994) and Waddock and Graves (1997), this study included only company size as a control variable. Including company size as the control variable allows the identification of factors other than CSR that could influence the CP measure (Wagner and Wehrmeyer 2002).

6.3.3.4.7 Company size

Company size may be relevant for several reasons, including the possible existence of scale economies inherent in environmentally-oriented investments. In addition, larger companies have been shown to follow CSR programmes more often than smaller companies (McWilliams 2001). Company size has been assessed using different measures in the literature. This study measured company size using total assets and total sales. The distribution of company total assets is unlikely to be normal. This problem has been addressed in the literature, and this study follows many researchers by using the natural logarithm of total assets as a proxy for the company size.

6.3.3.5 Statistical analysis

Preliminary analysis of the data was carried out for the period 2005–2010. To test the relationships suggested in the hypotheses stated in the conceptual framework, an E-Views econometrics program was employed. The data used were those for CSR practices from 2004–2008, analysing data for the period 2005–2009, because CSR has a one-year lag behind CSP. The use of this time lag is consistent with Waddock and Graves (1997) and Mahoney and Roberts (2007) in their tests of the potential relationship between CSP and company future CPs. Both the independent and the dependent variables have a one-year lag. Similar studies on the relationship between corporate social responsibilities practices have been conducted using regression analysis. A similar methodology has been used in previous studies (Kiel and Nicholson 2003; Laing and Weir 1999) where the sample size was large. However, regression analysis has limitations, such as multi co-linearity errors, that are avoided by using panel data regression analysis. Recently Mahoney and Roberts (2007) and Saleh et al. (2008), used panel data analysis for their CSR relationship studies.

6.3.3.5.1 Panel data analysis

Panel data is the combination of cross-sectional and time-series data used in economics to provide substantial information about economies. Panel data is described as data collected for individual units observed over a considerable period. This model is the most appropriate methodology for the present study because it uses both cross-sectional and time-series data for the five years between 2005–2009. Several terms have been used to describe panel data including pooled and longitudinal data, event study and cohort analysis (Gujarati 2003). Several researchers have used time-series and cross-sectional data to examine issues that could not be studied in either time-series or cross-sectional settings alone (Greene 2007). Further, panel data provides several benefits (Hsiao 1985; Klevmarken 1989), which will be discussed in the Table 6.6 below.

Table 6.6: Advantages and disadvantages of panel data

Advantages	Disadvantages
1. Controlling for individual heterogeneity.	Design and data collection problems.
2. Panel data give more informative data, more variability, less collinearity among the variables, more degrees of freedom and more efficiency.	Observations are not independent across space.
3. Panel data are better able to study the dynamics of adjustment.	Distortions of measurement errors.
4. Panel data are better able to identify and measure effects that are simply not detectable in pure cross-section or pure time-series data.	Analysing pooling data is much more difficult than running a cross-sectional analysis
5. Panel data models allow us to construct and test more complicated behavioural models than purely cross-section or time-series data.	Selectivity problems. Self-selectivity. Non response. Attrition
6. Micro panel data gathered on individuals, firms and households may be more accurately measured than similar variables measured at the macro level.	Short time-series dimension
7. Macro panel data on the other hand have a longer time series and unlike the problem of nonstandard distributions typical of unit roots tests in time-series analysis	Cross-section dependence

Source: Adapted from Baltagi (2005) 3rd edition

6.3.3.6 The model

Three accounting variables were utilised to represent CP: the dependent variables ROE, ROS and ROS. The panel data equation for this study as follows:

$$\gamma_{it} = \propto_i + \beta_1 \ X_{1it} + \beta_2 \ X_{2it} + \varepsilon_{it}$$

Therefore, the three equations explaining the direct relationship between ROE, ROA and ROS can be expressed as:

$$ROE_{it} = \propto_i + \beta_1 Com_{1it} + \beta_2 Hlth_{2it} + \beta_3 Env_{3it} + \beta_4 Emp_{4it} + \beta_5 Edu_{5it} + \beta_6 Cus_{6it} + \varepsilon_{it}$$

In addition, ROA is expressed as:

$$ROA_{it} = \propto_i + \beta_1 Com_{1it} + \beta_2 Hlth_{2it} + \beta_3 Env_{3it} + \beta_4 Emp_{4it} + \beta_5 Edu_{5it} + \beta_6 Cus_{6it} + \varepsilon_{it}$$

while ROS is expressed as:

$$ROS_{it} = \propto_i + \beta_1 Com_{1it} + \beta_2 Hlth_{2it} + \beta_3 Env_{3it} + \beta_4 Emp_{4it} + \beta_5 Edu_{5it} + \beta_6 Cus_{6it} + \varepsilon_{it}$$

where ROE = Return on Equity; ROS = Return on Sales; ROA = Return on Assets; Com = Community; Hlth = Health; Env = Environment; Emp = Employees; Edu = Education; Cus = Customers.

The indirect relationship of the panel data model is shown below. The differences mentioned between the direct models in this study include control variables such as company size:

$$ROE_{it} = \propto_i + \beta_1 Com_{1it} + \beta_2 Hlth_{2it} + \beta_3 Env_{3it} + \beta_4 Emp_{4it} + \beta_5 Edu_{5it} + \beta_6 Cus_{6it} + \beta_7 eFirm\ Siz_{7it} + \varepsilon_{it}$$

In addition, ROA is expressed as:

$$ROA_{it} = \propto_i + \beta_1 Com_{1it} + \beta_2 Hlth_{2it} + \beta_3 Env_{3it} + \beta_4 Emp_{4it} + \beta_5 Edu_{5it} + \beta_6 Cus_{6it} + \beta_7 eFirm\ Siz_{7it} + \varepsilon_{it}$$

while ROS is expressed as:

$$ROS_{it} = \propto_i + \beta_1 Com_{1it} + \beta_2 Hlth_{2it} + \beta_3 Env_{3it} + \beta_4 Emp_{4it} + \beta_5 Edu_{5it} + \beta_6 Cus_{6it} + \beta_7 eFirm\ Siz_{7it} + \varepsilon_{it}$$

where ROE = Return on Equity; ROS = Return on Sales; ROA = Return on Assets; Com = Community; Hlth = Health; Env = Environment; Emp = Employees; Edu = Education; Cus = Customer; Company size: total sales/total assets.

6.3.3.7 Panel data estimation

Three groups of panel data models were used to estimate the data. These are the constant coefficients model (pooled ordinary least squares model, or POLS), fixed effects (least squares dummy variable model, or LSDV) and random effects models. The constant coefficient model, or POLS, considers a constant intercept of the cross-sectional data. This method assumes that both the slope and intercept are equal for all data. Further, POLS ignores any form of heterogeneity (individual effects) across units.

The fixed effects model (FEM) assumes that the constant and slope differ in cross-sectional data. These variations are probably due to the particular features of each unit including managerial style or managerial philosophy (Greene 2007). These are introduced as LSDV because different dummy variables are adopted to allow for the FE. As it is simple to estimate and understand, this model is widely used. Nelling and Webb (2009) stated that a fixed effects model can be used to estimate the effects of the independent variables on the dependent variable, while controlling for the effect of unobserved variables. This is the major advantage of the FE model when considering panel data analysis.

The random effects model (REM) allows the intercept to vary between cross-sectional data, but this variation is treated as randomly determined. This model avoids the loss of degrees of freedom when compared with FEM. The effect of group and time is more common in the panel data, which can be either FE or random. The FEM assumes differences in intercepts across groups or time, whereas the REM investigates the

differences in error variances. In other words, it examines group and/or time influence error variances.

6.3.3.8 Specification tests

The following tests have been adopted to identify the best model:

6.3.3.8.1 Examining group effects (f tests: Pooled or FEM)

This test result shows whether there are fixed group effects or not (Park 2005). The null hypothesis is shown as:

$$H_0: \mu_1 = \mu_{n-1}$$

The hypothesis test is by F- test. If the null hypothesis is rejected, the fixed group effect is better than the POLS model. A higher F-value shows a lower p-value. The fixed group effect model is then accepted (Park 2005).

6.3.3.8.2 Examining random effects: (LM) test, pooled or REM

Random effects can be tested using a Breusch-Pagan LM test. The null hypothesis assumes that there are no random effects. If the null hypothesis is rejected, then REM is accepted over the POLS model. This result shows a larger chi-square value than the null hypotheses in favour of the random group effect model. The null hypothesis of the one-way random effect model is that the variances of groups are zero (Park 2005):

$$H_0: \sigma_{it}^2 = 0$$

6.3.3.8.3 Hausman test: FEM or REM

The Hausman specification test compares the FEM and REM to determine which is better. Hausman (1978, cited in Park 2005), stated that if individual effects are not correlated with the new regressors and H_0 =the null hypothesis is accepted, the REM produces unbiased estimators. If H_0 is rejected, the REM produces biased estimators and the FEM is preferred (Park 2005). If the tests indicate an insignificant p-value and

Prob $> \chi^2$ is larger than 0.5, then it is more appropriate to use the REM. Otherwise, the test has a significant p-value and the FEM should be used.

6.3.3.9 Testing for multi-collinearity

The multi-collinearity test examines the model's six independent variables to determine whether they indicate multi-collinearity, because the correlation between two independent variables is greater than 90 per cent ($r = 0.9$ and above). The most common measures for identifying multi-collinearity are the tolerance value and the variance inflation factor (VIF; the inverse of the tolerance value) (Sekeran and Bougie 2010). These two measures indicate the degree to which one independent variable is explained by the other independent variables.

6.4 Summary

Most scholars argue that the knowledge and practise of CSR has become a key factor in facilitating developing countries, such as Sri Lanka, in order to achieve sustainable development. However, no such study has yet been undertaken on the relevance of CSR in the Sri Lankan context. Thus, the present study is the first systematic study of CSR development in Sri Lanka. This chapter described in detail the research methodology the research design and data collection methods, together with the sample selection procedure and the measurement process. The development of the CSR framework, the construction of a CSR index and the identification of the relationship between CSR and CP were described.

The study process initially included a pilot study to determine if data were available. The Delphi method was then used to obtain data, consisting of interviews conducted with a carefully selected group of senior staff from a panel of 50 Sri Lankan companies. The interview data were edited and entered into N-vivo 8 computer software, and the data from the second round of interviews were edited using descriptive statistics analysis. The second stage of the study was to develop a CSR index based on the CSR framework, to allow the qualitative data to be transformed into a quantitative form. These quantitative CSR data and the companies' financial information were then

analysed using an econometric method and panel regression analysis in order to identify the relationship between CSR and CP. In Chapter 7, the data has been analysed and interpreted using this research procedure.

Chapter 7: Results and Analysis

7.1 Introduction

This chapter describes the results of the analysis of the qualitative and quantitative data for the development of a CSR framework and the construction of the CSR index, as well as the statistical methods used to identify the relationship between CSR and CP. As described in Chapter 6, the Delphi method was used to collect the data for this study, with two rounds of questioning. In the first round, data were collected in face-to-face interviews, while in the second round, data were collected by distributing a questionnaire. The collected data were analysed utilising content analysis and descriptive statistical techniques. For the construction of the CSR index, qualitative data were collected from the company annual reports, then transformed to quantitative data using a dichotomous index. Finally, a panel regression model was adopted to examine the relationships between CSR and CP, using CP data collected from the company annual reports.

The structure of this chapter is as follows: Section 7.2 presents the results of the pilot study, Section 7.3 the results of the qualitative and quantitative analysis of the data collecting using the Delphi method. Section 7.4 presents the development of the CSR disclosure index, while Section 7.5 examines the relationship between the CSR and CP in Sri Lanka. The data analysis procedures are also described in detail in this chapter.

7.2 Pilot test demographics

The pilot test involved selecting 10 private and publicly limited companies and examining their annual reports. The companies' annual reports were prepared according to ICASL requirements. These companies all have good reputations and a high market value and turnover. Table 7.1 shows the demographic information for the sample companies.

Table 7.1: Demographic data for the 10 sample companies

Company	Industry	Market Capitalisation (AUD)
Sampath Bank PLC	Banking, finance and insurance	246,978,890
HNB PLC	Banking, finance and insurance	385,349,042
Hayleys PLC	Diversified	234,661,020
Aitken Spence PLC	Diversified	392,233,481
Colombo Dockyard PLC	Construction and engineering	127,594,539
Ceylon Tobacco Company	Beverage, food and tobacco	779,616,047
Singer Sri Lanka PLC	Trading	128,286,799
People's Leasing PLC	Banking, finance and insurance	19,301,6971
Union Assurance PLC	Banking, finance and insurance	68,008,474
Cargills (Ceylon) PLC	Beverage, food and tobacco	337,518,661

Source: Adapted by Colombo Stock Exchange website information: www.cse.lk

The CSR practices of the sample companies were analysed for the previous five years. These companies are all well established and have been awarded 'Best Corporate Citizen' certificates and other awards by the CCC in Sri Lanka. The Best Corporate Citizen Award is an annual competition and publishes the best corporations' performance in community and social relations, employee relations, customer/supplier relations, as well as their economic and environmental performance. In addition, the selected companies are ranked in the annual STING Corporate Accountability Index (SCAI), derived by STING Consultants, a Sri Lankan marketing and brand consulting service. The SCAI includes the top 50 companies that are implementing CSR programmes in Sri Lanka.

Each sample company maintains a separate CSR unit which organises CSR activities on a voluntary basis. These activities were catalogued according to their stakeholder relationship categories: shareholders, employees, customers, environment, education, health and society (people). All of the sample companies emphasised their community activities and environmental activities as CSR activities. The study used these six CSR elements as CSR practices in Sri Lankan companies to collect data for the development of a CSR framework. The sample companies were not given equal weights to each of

these elements for their CSR investments. Table 7.2 shows the percentage values of the CSR activities under each stakeholder element category for the sample companies. These values were calculated according to content analysis results on the pilot studies.

Table 7.2: The distribution of the CSR activities of the 10 companies by category

Employees	Customers	Community	Environmental
28%	20%	34%	18%

Source: Concluded by content analysis results from the pilot test

Table 7.2 above shows how to allocate the CSR investment of the companies into the four categories employees, customers, community and environmental. Companies in Sri Lanka are more concerned with community relations activities than other areas. The % of community activities was more than one third of their total investments. The second large investment was employees' related CSR activities. Customers related CSR activities are considerably lower with 20%. Environmental CSR investments were the least concern of the sample companies with only 18% CSR activities. . .

The pilot test identified the major six CSR elements disclosed by the sample companies under above categories, described in detail below.

Sample companies have followed up the employee related CSR activities under the International Labour Organisation (ILO) and the labour law in Sri Lanka. The high standard employee relations activities such as welfare, training and development, promotion, recruitment and work facilities show the good corporate image, low labour turnover and higher productivity.

Community activities were the major CSR programmes of the sample companies. These philanthropic activities were conducted on a voluntary basis. Companies prefer to support schoolchildren to further their educational aspirations and many companies organise seminars, donate books, food, equipment, halls and computers, and sponsor annual competitions such as annual prize-giving, art festivals and exhibitions.

Another community activity identified was in the area of health. Health is a major issue in Sri Lanka. Traditional Sri Lankan medical treatment uses the Ayurvedic system, and

Ayurvedic doctors have always provided their services free of charge. The government also provides health services free of charge and people expect a free health service. Companies organised health camps, seminars on health related issues, provided free spectacles for needy people and built hospital wards, donated beds and equipment as well as maintaining hospitals. Their aim is to contribute to the peoples' health and happiness. In addition, social welfare activities such as maintaining parks in towns, introducing safety rules, organising day care centres, building community halls, grounds, sanitary facilities and sponsoring sport were also identified. Environmental activities were shown to be an important social activity, and the companies undertook many environmental initiatives such as planting, emissions control, cleaning, maintaining grounds, parks and organising seminars on 'green' practices and water management. The sample companies were not considered about the emissions control of the organisations. Sri Lankan government has regulated of emission control since 2008 is a compulsory requirement.

The sample companies also considered their customers when designing marketing strategies according to CSR concepts. To implement this strategy, companies increased their customer services, such as after-sales service facilities, the provision of internet facilities for transactions, rapid services, the introduction of different products and services, and the provision of quality products, services and information. If the company does not do the above strategies, long term the customer may leave the organisation. For example, if the company does not do the after sales service facility customers will change their product or service to another competitive organisation.

Standards commercial practices (SCP) are introduced by the government using the consumer protection laws, SLSs and ISOs, The difference between the CSR relation activities with customers and SCP is that SCP is based on the rules and regulation of the country.

7.2.1 The outcome of the pilot test

As described in Chapter 6, the conclusion drawn from the pilot test was that the sample companies practised CSR within the employee, customer, environment and community categories. They had implemented many community activities, including programmes

relating to education and health. All of the sample companies carried out educational and health-related CSR activities, and these two factors are the most important CSR activities in Sri Lanka. Further, these activities were conducted on a voluntary basis, with the aim of contributing to the development of an educated and healthy population. The importance of these activities was described in the companies' annual reports. However, the companies have hidden expectations when implementing these educational, health programmes such as reputation, goodwill, and increasing future markets (Fernando 2010). The objective of the pilot study was to identify the availability of relevant data for this study, and the outcomes confirmed that Sri Lankan companies are engaged in CSR practices, and that data on these practices is available in Sri Lankan organisations. The next stage of this study involved collecting data using the Delphi method and developing a CSR framework.

7.3 Delphi data collection and analysis procedure

This section describes the data collection using interviews and a questionnaire from the organisations and senior staff as described in Chapter 6. The staff who were interviewed in the first round of the Delphi process also participated in the survey, and the response rate was 100 per cent. The respondents were all experienced in community activities and understood the CSR concept. 50 per cent of the respondents were from government organisations and the other 50 per cent were from non-government and public limited companies. The Delphi procedure of this study employed two rounds: the first was the interviews and second, the questionnaire-based survey. The following sections describe the results of each round of the Delphi analysis.

7.3.1 Delphi: first round

As described above, the study identified six common stakeholder elements as CSR practices in Sri Lanka. Twenty people were selected for these interviews, representing each of the activities within the employee, education, health, customer, community and environment categories.

7.3.1.1 Selection of the sample

People were selected from 10 different Sri Lankan organisations representing the different stakeholder relationship categories. For the education category, representatives were selected from the Ministry of Higher Education; for the employee relations category, from the Ministry of Labour; for the environment category, from the Central Environmental Authority. For the consumers relations category, representatives were selected from the Consumer Affairs Authority; for the community relations category, the Red Cross; while the representatives for the health category were selected from the Ministry of Health. For the overall CSR of the country, representatives were chosen from the CCC and the three public limited companies that had been awarded as top 10 Best Corporate Citizens in 2009 (Colombo Chamber of Commerce Annual Report 2009/2010) (p. 23).

However, the selection of the organisations did not represent all the stakeholder perspectives of the country. There is no broader community perspective on organisational behaviour, which   is a limitation of the current study.

7.3.1.2 Description of the sample organisations

Six major community organisations were selected according to the services they provide for employees, customers, society, education, health and the environment. The 12 experts who participated from these six community organisations included two from each organisation. It was expected that each of these experts would have some knowledge of the other fields' with respect to CSR elements, because they were all well-educated and top-level managers in their organisations. In addition, eight experts were interviewed from the CSR practised organisations (public listed companies and other). These eight experts were expected to have an overall knowledge of the six CSR elements. Table 7.3 shows the participants' contribution to each of the CSR activities that were identified this study. Each element represented at least 10 experts. 'X' represents the two experts of each organisation. The first six community organisations totally covered the six stakeholder elements. The experts representing the areas ticked in Table 7.3 have considerable knowledge of the other CSR fields according to the findings.

Table 7.3: Classification of the 20 participants within the six CSR fields

The ten organisations	Environment oriented	Customers oriented	Employees oriented	Community related	Educational oriented	Health related
1	x					
2		x				
3			x			
4				x		
5					x	
6						x
7	x	x	x	x	x	x
8	x	x	x	x	x	x
9	x	x	x	x	x	x
10	x	x	x	x	x	x

Source: Author's calculation

Note: 'X' represents the two respondents of each organisation

The respondents of the study were nominated after discussing with the heads of the organisations. One respondent argued that because the government's role was social welfare it was difficult to implement additional services as CSR activities:

...because Sri Lanka is a developing country, as a public organisation we are implementing many social activities. However, it is not enough to permit the happiness of the all communities in the country. Therefore the private sector role is to do something more for their stakeholders other than their production and provide services as corporate social responsibility.

Another participant suggested that the main problem of CSR implementation in Sri Lanka is sustainability:

....every organisation likes to do CSR, but the problem is they are not continuing their CSR activities each and every year because of several reasons. The major issue is that CSR is a costly concept. To overcome this issue the company needs to grant funds every year from their budget. However, they need the self-assurance that their investment for CSR (funds) is more useful. That means at least they should know the benefits of their CSR investments.

All the experts interviewed stated that developing a CSR framework for Sri Lanka is necessary. Some experts said that corporate social and environmental responsibilities should not be limited to the philanthropic activities discussed in the literature, especially in the developing world: 'CSR is something more than philanthropic'.

The respondents consisted of 12 males and 8 females. They all agreed that six stakeholder characteristics were necessary for the development of a CSR framework for Sri Lanka. One respondent of the interview reported:

…the main CSR stakeholder relations are customers, communities, environmental and employees. However, education and health relations are important to our country because these two services are still provided free to people. These two relations have separate legal systems, parliamentary acts and laws for their development. Therefore, it is better to

recognise these two relations as separate CSR relations to the potential framework (Colombo Chamber of Commerce).

The theme of the above comments by participants is the suitability of the CSR framework. They expressed their views freely for developing the potential framework in the present study.

Following the interviews, the responses to the interview questions including additional suggestions were analysed using the content analysis technique for coding those six stakeholder categories. The results of the content analysis are shown in Table 7.4. Thirty-nine CSR activities were identified as a result of the interviews.

7.3.1.3 Data coding

Once the information was collected, the data were transformed into six coded groups using a content analysis technique. Since there were only 20 respondents, the data were transformed manually, then analysed using N-vivo 8 software.

7.3.1.3.1 Demographic data

The researcher included the some demographic questions that helped to personalise the questionnaire. These data are important to identify the validity and reliability of the answers of the respondents. The first demographic question related to the respondent's age group, and the second question related to their educational qualifications. The third question related to their stakeholder category, while the fourth question related to their level of experience. The final questions were regarding the CSR background of the participants.

7.3.1.3.2 CSR data

All questions in the interviews related to CSR. The second-round questionnaire asked the participants to respond on a five point Likert scale. The respondents were asked to mark the extent to which they agreed with a particular statement under each CSR element. They were offered the choice of Critical, Most Important, Important, Less Important and Not Important.

7.3.1.4 Respondents' profiles

The selected twenty persons (experts) have a good knowledge and good experience of CSR practises. The recognised CSR fields such as education, community, health, environmental and employees were represented by the top management person in the relevant community organisation. The participants came from different backgrounds, however, they were all well-educated and had an excellent understanding of their areas of CSR and were interested in the improvement of the CSR concept. Table 7.4 shows the respondents' educational backgrounds.

Table 7.4: Respondents' educational background

Educational level	Number of respondents	Frequency
Graduates	20	100%
Postgraduates	13	65%
Professional	13	65%

Source: Adapted from the content analysis results of the pilot study

All respondents had obtained at least a Bachelor level degree, 65 per cent graduated with Master's level degrees and 65 per cent of the participants had other professional qualifications in areas such as accounting, marketing or environmental management.

The age groups of the respondents are shown in Table 7.5.

Table 7.5: Respondents' age group

Age group	Number of respondents	Frequency
25–34	–	0
35–44	8	40%
45–54	8	40%
55–64	4	20%

Source: Adapted from the content analysis results of the pilot study

The other important demographic data is the respondents' levels of experience in their fields, which is summarised in Table 7.6 below. Twenty per cent of the participants had 15–20 years of work experience, and as such had good knowledge of their field.

Table 7.6: Respondents' field experience

Experience of the field	Number of respondents	Frequency
1–5 years	–	
6–10 years	5	25%
11–15 years	8	40%
16–20 years	4	20%
> 20 years	3	15%

Source: Adapted from the content analysis results of the pilot study

7.3.1.5 Analysis of the data

The study analysed the interview data and recognised 39 CSR characteristics that had been implemented by the respondents. Table 7.7 shows these CSR elements as the output of the first round of the Delphi analysis.

Table 7.7: CSR activities identified in first round of the Delphi method

Code	Suggestions for the CSR framework
1	Organising programmes for caring for the environment
2	Organising programmes for cleaning the environment
3	Planting trees: for 'greening' the environment and avoiding soil erosion
4	Organising a study programme for saving the environment 'save our environment'
5	Building houses for homeless people: primarily tsunami-affected people
6	Organising video/audio programmes and short films for understanding safety: road rules, healthy foods, first aid, preventing deaths, respect for fellow citizens etc.
7	Offering quality products and services
8	Maintaining parks and towns
9	Organising first aid programmes; safety programmes
10	Organising sports activities
11	Organising stress relief activities (musical shows for disable persons, exhibitions etc.)
12	Training and development activities
13	Health and safety programmes
14	Equal and impartial employment policies
15	Trade union development
16	Welfare facilities: transport, insurance, sports, organising functions
17	Grievance handling, formal leave systems
18	Two-way communication systems, formal recruiting, promotion and firing systems
19	Financial benefits
20	Supporting services for elders, children and disabled person
21	Prevention of child labour, labour discrimination (women)
22	Providing employee job facilities: rest rooms, toilets
23	Organising day care centres and pre-schools for children
24	Organising educational seminars for students and teachers for updating syllabuses and preparing for examinations
25	Donating books, uniforms and food and building school libraries
26	Encouraging scholarship students to continue their education up to university level
27	Organising English language support programme for rural areas student
28	Organising disability support activities (Braille keyboards, text-to-speech

	programmes, learning aids for slow learners)
29	Organising skill development programmes for undergraduates and school leavers
30	Providing scholarships for medical students / doctors for their education
31	Organising skill development programme for undergraduates and school leavers
32	Offering quality products and services
33	Providing information that is truthful and useful
34	Respects the rights of consumers
35	Providing after sales services
36	Organising dengue, HIV and rabies prevention programmes
37	Organising blood donation campaigns
38	Organising health care camps for the elderly and children
39	Supporting services to government hospitals. Donating beds, equipment, theatres and additional buildings

Sources: Based on the content analysis of the interview data

The potential CSR exercises, practices and procedures used for the second round were apparent from this table. Interestingly, these data were classified under the six categories that had been identified in this study. Table 7.8 shows the breakdown of the 39 CSR activities according to the content analysis.

Table 7.8: Classification of the 39 CSR activities identified

CSR constructs	Number of items
Employees	12
Customers	4
Environment	4
Education	7
Health	5
Community	7
Total	39

Source: Author's calculation (2012)

7.3.2 Delphi: Second round

As discussed in Chapter 6, survey method was used to collect the data for the second round of the Delphi analysis. This questionnaire was distributed to the same 20 respondents who were interviewed in the first round of the study. All 20 respondents participated in the second round giving a response rate of 100 per cent. Table 7.9 shows the rating sheet with its 39 questions. The overall response to these questions was very successful.

The rating sheet included a five-point Likert scale where 5 = critical, 4 = very important, 3 = important, 2 = less important and 1 = unimportant. As a result of the second round, the study fine-tuned and narrowed the 39 characteristics to 28, based on the mean values as described below. In addition, the CSR principles were operationalised as policies, practices for implementation, and measures and indicators were identified to assess their effectiveness and impact. The framework development procedure and the results are described in the next section of this chapter.

Table 7.9: Descriptive analysis: Second round of the Delphi method

*Activity	N	Min	Max	Mean	*Activity	N	Min	Max	Mean
Cus 31	20	4	5	4.7	Edu28	20	4	5	4.20
Hea 36	20	4	5	4.65	Com6	20	3	5	4.00
Com 11	20	4	5	4.6	Emp19	20	3	5	3.95
Emp 18	20	4	5	4.6	Edu29	20	3	5	3.95
Hea 38	20	4	5	4.6	Emp16	20	3	5	3.8
Env 3	20	4	5	4.55	Edu24	20	1	5	3.75
Emp 17	20	4	5	4.55	Com7	20	3	4	3.7
Edu 30	20	4	5	4.55	Cus32	20	1	5	3.15
Hea 35	20	4	5	4.55	Com9	20	2	4	2.8
Emp 15	20	4	5	4.5	Emp13	20	1	4	2.6
Edu 27	20	4	5	4.5	Emp23	20	1	3	2.6
Cus 34	20	4	5	4.5	Env1	20	2	3	2.5
Env 2	20	4	5	4.45	Emp22	20	1	5	2.5
Com 5	20	3	5	4.3	Emp21	20	1	3	2.35
Com 8	20	3	5	4.3	Cus33	20	1	4	2.3
Com 10	20	4	5	4.3	Emp20	20	1	4	2.25
Emp 12	20	3	5	4.25	Hea39	20	1	3	2.1
Emp 14	20	3	5	4.25	Hea37	20	1	3	1.95
Env 4	20	3	5	4.2					
Edu 25	20	2	5	4.2					

Source: Adapted from the results of the descriptive analysis

*Activities: Cus = Customers; Hea = Health, Com = Communities; Env = Environment; Edu = Education; Emp = Employees

The CSR activities in the framework were categorised into six stakeholder constructs. The pie chart below (Figure 7.1) shows the percentages of the six categories of this framework.
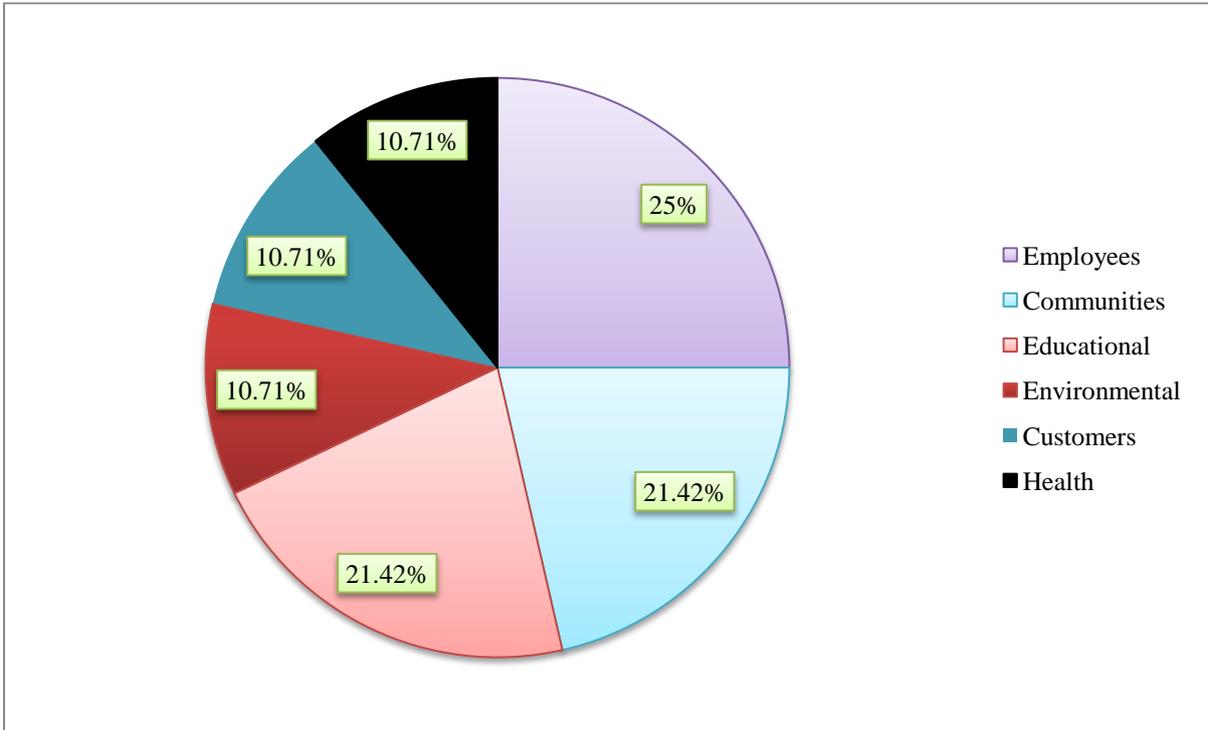
Figure 7.1: Distribution of the stakeholder relationships of the CSR framework

Source: Author's analysis (2012)

The above pie chart shows the percentage breakdown of the stakeholder relationships in the CSR framework. It can be observed that employee relations enjoy one fourth CSR-employee relation and CSR-communities and CSR-educations relations represent the 21%. Similar percentages such as 10.71% states the CSR-health, CSR-customers and CSR-environment in Sri Lankan firms.

The 28 CSR characteristics identified in Round 2 are described in Table 7.10 and are organised under six related areas. These characteristics were directly applied to the CSR framework developed in this study.

Table 7.10: CSR activities identified from the second round of Delphi analysis

Elements	Activities
Community relationships	
1	Organising video/audio programmes and short films for understanding safety: road rules, healthy foods, first aid, preventing deaths, respect for fellow citizens etc. Organising first aid programmes; safety programmes
2	Building houses for homeless people: primarily tsunami-affected people
3	Organising sports activities
4	Support services for the elderly, children and disabled persons
5	Organising stress relief activities: musical shows, exhibitions etc.
6	Maintaining parks and towns
Health relationships	
7	Organising dengue, HIV and rabies prevention programmes
8	Supporting services in government hospitals. Donating beds, equipment, theatres and additional buildings
9	Providing scholarships for medical students and doctors for further education
Employee relationships	
10	Providing training and development
11	Providing health and safety programmes
12	Instituting an equal and impartial employment policy
13	Trade union development
14	Providing welfare facilities: transport, insurance, sports, organising functions, organising daycares centres and pre-schools for children
15	Instituting a formal recruiting, promotion and firing system
16	Instituting a formal leave system and financial benefits
Educational relationships	
17	Organising educational seminars for students and teachers for updating syllabuses and preparing for examinations
18	Donating books, uniforms and food, building libraries in schools

19	Organising an English language support programme for rural area students
20	Organising disability support activities for disabled children (Braille key boards, text-to-speech programmes, learning aids for slow learners)
21	Organising skills development programmes for undergraduates and school leavers
22	Organising day care centres and pre-schools for children
Customer relationships	
23	Offering quality products and services
24	Providing information that is truthful and useful
25	Respecting the rights of consumers
Environmental relationships	
26	Organising programmes for caring for the environment, 'save our environment', clean the environment
27	Respecting applicable environmental rules: building plans, waste water arrangements, maintaining gardens, obtaining permission for land development
28	Planting trees: 'greening' the environment and avoiding soil erosion

Source: Author's analysis (2012)

Uninvolved eleven (11) characters have shown in Table 7.11 below. .

Table 7.11: Uninvolved characteristics from the second round Delphi

	Characteristics
1	Organising programmes for caring for the environment
2	Organising first aid programmes; safety programmes
3	Health and safety programmes
4	Supporting services for elders, children and disabled person
5	Prevention of child labour, labour discrimination (women)
6	Providing employee job facilities: rest rooms, toilets
7	Organising day care centres and pre-schools for children
8	Encouraging scholarship students to continue their education up to university level
9	Respects the rights of consumers
10	Providing scholarships for medical students, doctors for further education
11	Organising health care camps for the elderly and children

Source: Adapted from the results of the Delphi method

7.3.3 Validity of the data: the first round of Delphi analysis

The study interviewed 20 people who are experts in the six stakeholder relationships and highly experienced in social and environmental activities in the Sri Lankan context. The data were qualitative; one issue with the analysis of this type of research data is concerned with the validity of interview data. 'The objectivity of a piece of qualitative research is evaluated in terms of the…validity of its observations' (Kirk and Miller 1986, p. 13). According to these authors validity is the extent to which a data collection procedure gives the correct answer. In addition, they revealed that this is 'a question of whether the researcher sees what he or she thinks he or she sees' (Kirk and Miller 1986, p. 21). The validity of the qualitative data for this study was tested using the two methods outlined below.

First, Anthonisz (2008) pointed out 'an issue that arises when conducting interviews is that there is a risk that respondents may answer questions influenced by cultural scripts, instead of providing valid answers' (p. 37). The present study was limited to 20 respondents and approximately an hour was taken for each interview. During the interviews, the interviewer

and the interviewees built good relationships, which may have resulted in respondents 'answering questions in a way that is designed to please the interviewer' (Bryman 2004, p. 119). A common issue identified in this type of qualitative research involving interviews is the possibility that respondents' answers may be influenced by cultural scripts (Anthonisz 2008). This problem may have been even more acute in the present study, since the researcher gained access to his interviewees through his contacts in the sample organisations. To reduce this problem, the validity of the CSR activities described during the various interviews were compared to the CSR activities presented in the annual reports of the sample companies. This ensured the validity of the types of CSR activities undertaken by the sample companies, however, the validity of responses regarding why certain activities are undertaken remains difficult to guarantee, since these responses are inherently more subjective.

7.4 Index construction

The aim of the index development was to enable the quantification of the qualitative CSR data obtained from the company annual reports. Many researchers, for example Ruf et al. (2001) and Waddock and Graves (1997), have developed CSR indices for quantifying CSR and used these indices to identify the relationship between CSR performance and CP. The data used to develop the CSR index for the present study were collected from the sample companies' annual reports.

7.4.1 Company profiles

One aim of this study was to identify the current CSR practices in Sri Lankan companies. Therefore, the companies participating in the present study were required to implement CSR practices through the entire five-year sample period. The study examined all companies listed by the CSE and identified 50 that had practised CSR over the past five years, and ascertained that their practices had been disclosed in their annual reports. The selected sample companies represented eight industries out of the 20 industry groups in Sri Lanka, as shown in Table 7.12.

Table 7.12: Sample company industry categories

Industry categories	Number of sample companies
Banking, finance and insurance	17
Diversified	08
Plantations	10
Manufacturing	07
Telecommunication	02
Trading	01
Chemicals and pharmaceuticals	01
Beverage and food manufacturing	04
Total	50

Source: Author's Calculation (2012)

The selected 50 companies were registered by the CSE as listed companies in Sri Lanka. All of the sample companies were well recognised and established companies in Sri Lanka. These companies were categorised into six industry sectors including banking, insurance and finance, plantations, manufacturing, telecommunications and the diversified sector. They all disclosed their CSR activities for the past five years and documented them in the annual reports under the section of sustainability reports. They described a range of CSR practices, all undertaken on a voluntary basis. These companies had a systematic organisational structure. According to this structure, they monitor the information of social responsibility, appointing a person who is called as external information officer. This person's job is to collect the information from the external environment and develop activities related to CSR. Also, the selected companies' organisation structure consisted of one chairperson and the board of directors, who were elected by the company shareholders at their annual general meetings.

Table 7.13: Behaviours of the CSR relations of the sample companies for last five years

Industries	2004	2005	2006	2007	2008
Banking, finance and insurance	Community Environmental Customers	Community Customers, Health, Employees	Community Customers, Health, Environmental	Education, Health Environmental, Employees	Community, Health, Environmental, Customer, Education
Manufacturing	Community, Educational	Community, Health, Environmental, Customer	Community, Education, Environmental, Customers, Health, Employees	Community, Customers, Health, Environment, Employees	Community, Health, Environmental, Customer
Diversified	Community, Health, Environmental, Customer	Health and Environmental	Community Health, Environmental, Employees	Customers, Education, Environment, Employees	Environmental and Customer, Education
Beverage and food manufacturing	Environmental Customers	Community, Education, Environmental	Community Customers, Employees	Community Customers, Environment	Community, Health, Environmental, Customer

Source: Author's Calculation (2012)

The above Table 7.13 demonstrates the four industries related to Banking, finance and insurance, diversified, manufacturing and beverage and food manufacturing. The four categories represented 36 sample companies. All companies have been engaged with CSR engagements for the last five years and the industries considerably increased their environmental CSR relation activities than the years 2004. This happened because the disaster of Tsunami came on 2004 December. Since then organisations have been more concerned with the environmental CSR. Basically, all industry companies are more concerned with their customer related CSR activities except the diversified companies, because they identified the firms' growth and survival is based on their customers. As well, the community related activities are more concerned with the companies, but the education and health related activities are less concerned with other companies. The data showed the employee related CSR is less concerned about the banking finance and insurance sector.

Table 7.14: Basic stakeholders of the sample organisations

Industry	Community	Environmental	Employees	Customers
Banking, finance and insurance	--------	-------	X	X
Manufacturing	X	X	X	X
Diversified	--------	X	X	X
Beverage and food manufacturing	X	------	X	X
Plantation	X	X	X	-----
Telecommunication	X	X	X	X

Source: Author's calculation (2012)

Table 7.14 shows the companies' basic shareholders. For example, the basic shareholders of the banks finance and insurance sector are their customers, and employees. They do not have products or make decisions that are harmful to the environment. The major stakeholders of

manufacturing companies are basically all stakeholders in the community, environmental, employees and customers.

The companies' accounting information was disclosed in annual reports according to the Sri Lankan Accounting Standards issued by the ICASL. Further, all listed companies had documented their CSR contribution and activities in separate sections of their annual reports, according to the policy of the Sri Lanka Accounting and Auditing Standards Board, adopted in 2004. Therefore, companies in Sri Lanka use IFRS to prepare financial statements (Khan 2006). Further, a voluntary Code of Best Practice on Corporate Governance has been developed by the ICASL and the SEC in consultation with the CSE, for strengthening the corporate governance framework in Sri Lanka.

Here, the total numbers of CSR items could not exceed 28 because the framework included 28 variables. Further, the maximum CSR disclosure value for each CSR relationship was as follows: employees, 7; the community, 6; education, 6; health, 3; customers, 3; and the environment, 3. An example from one of the 50 sample companies is given below. This company, Aitken Spence PLC, was the first of the study, and was one of the companies that was awarded Best Corporate in Sri Lanka for the years 2006, 2008 and 2009.

Aitken Spence had disclosed four characteristics under 'employee relations' in 2005; however, the framework shows (see Table 7.15) seven employee relations. The employee relation index was calculated as 4/7, or 0.5714. In addition, the total CSR index for Aitken Spence was calculated by totalling all five categories of disclosure items and dividing the total number of CSR characteristics (28) that had been determined using the CSR framework. Aitken Spence had disclosed 24 items out of 28 for the year 2005. Thus, the CSR index for Aitken Spence in 2005 was 24/28, or 0.857. The raw data disclosed by Aitken Spence are shown in Table 7.15 Accordingly, the five year CSR indices for Aitken Spence were calculated and are shown in Table 7.16. The CSR indices of all 50 companies were calculated and are shown in the Table 7.17 below.

Table 7.15: Calculation of the raw CSR data for Aitken Spence PLC

CSR relations	Proposed values	2004 (Actual)	2005 (Actual)	2006 (Actual)	2007 (Actual)	2008 (Actual)
Customers	(3)	3	3	3	3	3
Employees	(7)	4	4	6	6	6
Education	(6)	5	4	6	5	6
Communities	(6)	6	6	4	5	6
Health	(3)	3	3	3	3	3
Environmental	(3)	3	3	3	3	3
Total (t)	**28**	**24**	**23**	**25**	**25**	**27**

Source: Author's Calculation (2012)

The above table shows the six stakeholder relations and the proposed 28 CSR characteristics under each CSR elements. In addition, the table shows the past five years disclosures of CSR activities by Aitken Spence in Sri Lanka. The CSR implementation for each year has been used for the framework developed in this study. For example, this study identified seven educational activities, and Aitken Spence implemented four of these activities in 2004 and 2005, and six activities from 2006 onwards. The disclosure values of each of the CSR relationships for Aitken Spence are shown in Table 7.16.

Table 7.16: Calculation of the dichotomous index for Aitken Spence PLC

CSR relations	Proposed Values	2004 (Actual)	2005 (Actual)	2006 (Actual)	2007 (Actual)	2008 (Actual)
Customers	(3)	1	1	1	1	1
Employees	(7)	0.5714	0.5714	0.85714	0.85714	0.85714
Educations	(6)	0.83333	0.6666	1	0.83333	1
Community	(6)	1	1	0.6666	0.83333	0.83333
Health	(3)	1	1	1	1	1
Environmental	(3)	1	1	1	1	1
Total (t)	**28**	**0.8571**	**0.8214**	**0.8928**	**0.8928**	**0.9642**
Index	**1**	**85%**	**82%**	**89%**	**89%**	**96%**

Source: Author's Calculation (2012)

The Table 7.16 showed the CSR indices for Aitken Spence for the past five years, and CSR indices for each category of the CSR framework. The total index was shown as a percentage value and other indices were shown as decimal values. For example, the number 1 is equal to 100 per cent and 0.5714 is equal to 57 per cent. Table 7.17 shows the percentage values of the CSR indices for all 50 companies for the five-year period calculated as discussed above.

Table 7.17: Dichotomous CSR indices of the 50 sample companies

Company	2004	2005	2006	2007	2008
1	29%	29%	29%	36%	36%
2	36%	32%	46%	46%	50%
3	86%	86%	86%	86%	86%
4	50%	61%	61%	82%	86%
5	21%	32%	25%	36%	36%
6	36%	29%	29%	39%	46%
7	32%	46%	50%	57%	57%
8	21%	21%	29%	18%	29%
9	46%	46%	46%	57%	61%
10	64%	68%	64%	75%	68%
11	29%	21%	39%	32%	36%
12	50%	29%	57%	57%	57%
13	50%	50%	50%	64%	64%
14	64%	68%	64%	75%	82%
15	57%	61%	68%	68%	82%
16	68%	68%	71%	71%	75%
17	50%	50%	50%	64%	64%
18	82%	82%	100%	100%	100%
19	39%	46%	54%	64%	64%
20	54%	50%	57%	61%	61%
21	82%	75%	86%	82%	82%
22	50%	64%	64%	64%	71%
23	61%	79%	61%	82%	96%
24	75%	79%	82%	89%	93%
25	71%	79%	82%	82%	82%
26	64%	57%	54%	75%	57%
27	82%	86%	93%	96%	89%
28	43%	43%	46%	46%	46%
29	54%	54%	57%	61%	68%
30	61%	61%	61%	61%	64%
31	46%	50%	54%	57%	61%

32	54%	57%	61%	68%	64%
33	61%	61%	68%	71%	71%
34	57%	61%	68%	68%	71%
35	46%	57%	57%	61%	68%
36	71%	71%	75%	75%	75%
37	43%	46%	54%	57%	61%
38	75%	82%	82%	82%	86%
39	82%	82%	82%	86%	79%
40	68%	68%	57%	71%	79%
41	54%	61%	57%	61%	68%
42	82%	89%	93%	96%	89%
43	64%	61%	57%	68%	82%
44	93%	93%	96%	93%	100%
45	43%	71%	75%	68%	75%
46	54%	57%	64%	68%	64%
47	61%	64%	64%	75%	79%
48	57%	57%	61%	68%	68%
49	79%	79%	75%	89%	86%
50	50%	50%	64%	68%	79%

Source: Based on the dichotomous process

7.5 Panel data analysis

This section presents the regression results from the panel data analyses and cross-sectional models of all regressions in the two relationships investigated in this study. The first regression analysis was undertaken to investigate the direct relationship between CSR and CP, then examine this relationship after the inclusion of company size as a control variable. CSR was quantified for each company using the disclosure index developed for this study, and CP was assessed by the accounting ratios ROE, ROA and ROS for each company. Company size was utilised to identify the effectiveness of the control variable, and measured by the total sales or/and total assets of each company. The regression results which included the control variable, identified the 18 relationships presented in Chapter 4. The panel data

regression analysis estimated three models: pooled OLS, FEM and REM. These three estimates were compared to find the method that offered the best model using the three specifications tests: the F-test, the LM test and the Hausman test, which were discussed in Chapter 6.

7.5.1 The relationship between corporate social responsibility and company performance

All six stakeholder relations showed a direct relationship with the control variable and links with the one-year lagged CP variables (dependent variables) as proposed in Chapter 5 under conceptual framework.

7.5.1.1 Dependent variable: ROE

Table 7.18 presents the results obtained from the regression analysis between the CSR variables as independent variables and ROE as the dependent variable. The study's sample period was the five years from 2004, and with 50 companies included in the study, there were 250 observations. Panel analysis of the direct relationship (without the control variable) showed the following results.

Table 7.18: Panel data analysis results: ROE as the dependent variable

	Pooled OLS		Fixed Effects		Random Effects	
	Coef.	P (Sig)	Coef.	P (Sig)	Coef.	P (Sig)
Observation	250		250		250	
No.of groups			50		50	
Consumers	0.07408	0.0564	0.08232	0.1612	0.0748	0.1829
Customers	0.05778	0.0497	–0.01529	0.7668	0.0441	0.3696
Employees	–0.2007	0.0626	–0.09861	0.1341	–0.1821	0.0036
Health	–0.0903	0.0384	–0.10944	**0.0075	–0.0939	0.0143
Education	0.07750	0.0543	0.05543	0.3421	0.0743	0.1699
Community	0.2528	0.0682	0.25674	***0.0008	0.2547	0.0002
Environment	–0.0079	0.0167	0.00886	0.6202	–0.0050	0.7614
R^2		0.095732		0.36937		
P-value (F)		0.000396		***0.0005		
F-test						
χ^2		1.71802				
Prob		0.00528				
Hausman test χ^2				24.3671		
Prob				0.00044		
Lagrange multiplier test χ^2			5.46943			
Prob			0.01935			

Sources: Adapted from the panel data analysis   **99 per cent significance level

7.5.2 Specification test 1

The specification tests were discussed in detail in Chapter 6. This section offers a summary of specification tests for all related regressions of this study. Further, these specification tests examined every regression to verify that the appropriate test had been chosen for each

regression. The following test results were used to identify the significant model for the study.

7.5.2.1 Examining group effects: F-tests (Pooled or FEM)

Table 7.18 allows the group effects to be identified by examining the F-test results. It can be seen that the F-test values of χ^2 were higher than the probability of F = 0.00528. These results indicated that the fixed effect model was better than the pooled OLS model.

7.5.2.2 Examining random effects: the Lagrange multiplier test (Pooled or REM)

Random effects can be tested by using the Breusch-Pagan LM test. The null hypothesis assumes that there are no random effects. If the null hypothesis is rejected then the random group effect model is more acceptable than the pooled OLS model. Large χ^2 values show that the null hypothesis is rejected in favour of the random group effect model. Table 7.18 shows a large χ^2 value of 5.46943, indicating that the null hypothesis was rejected and that the REM is more appropriate. The Hausman test was then applied to identify the model that should be accepted (FEM or REM).

7.5.2.3 The Hausman Test: FEM or REM

The Hausman specification test compares the FEM and the REM to determine the most appropriate model. The null hypothesis is that individual effects are not correlated with the other regressors in the model. If the alternative hypothesis is accepted for all relationships, this indicates that there is a correlation between the individual effects and the regressors. The result confirmed the null hypothesis was rejected ($\chi^2 = 24.3671$) therefore, the FEM was preferred over the REM. In other words, the Hausman test result shows the random effects are biased.

7.5.2.4 Conclusion: ROE as a dependent variable

From these specification tests it can be concluded that the FEM is the most suitable method, as was explained earlier in Chapter 6. It is apparent from Table 7.18 that the overall the

regressions are significant at the 99 per cent confidence level in the fixed effects method, as shown by the probability of F = 0.00015 in the FEM. It was noted that the R^2 value for the FEM is 36 per cent. Table 7.18, has shown that there is a strong positive relationship between community relations and ROE. Conversely, there is a strong negative relationship between health relations and ROE. This analysis did not reveal any significant relationships between the customer, employee, educational and environmental variables and ROE. The equation that follows represents the fixed effects method:

$$ROE = 0.082 - 0.0152_{cust} - 0.0986_{Employ} - 0.1094_{Heal} + 0.0554_{Edu} + 0.2567_{Commu} + 0.0088_{Env}$$

7.5.3 The effect of control variables: total sales with return on equity

The size of the organization is based on the annual sales of the firm and after controlling for company size and total sales as a control variable, the results show that total sales has a significant relationship with ROE, with a probability of 0.0000. The control variable, total sales, does not change the direction of the independent variables' effect as is shown in Table 7.19.

The results showed positive relationship between community and ROE with a probability of F-value of 0.0112, and strong negative relationship between health and ROE with a probability of F-value of 0.0037. Further, after controlling for total assets it was shown that total assets have a significant relationship to the ROE, with a probability of F-value of 0.00073.

CSR relationship studies have shown that different results and size is an important control variable (Ullman 1985 ; McWilliams and Siegel. 2000). Using the size as a control variable, CSR and CP studies have indicated that the sign of the relationship is positive (Tsoutsoura 2004; Waddock and Graves, 1997; McGuire, et al., 1988,1990; Aupperle, et al., 1985). In support of this, the relationship between CSR and economic performance studies firm's size affects economic performance and CSR performance and disclosure (Chen and Metcalf, 1980; Spicer, 1978b).

Table 7.19: Relationships identified with the control variables

Fixed effects	Effect of control variables (sales)		Effect of control variables (assets)	
	Coef.	P (Sig)	Coef.	P (Sig)
Observations		250	250	
No. of groups		50	50	
Consumers	–0.548710	0.0000	–0.1034	0.3687
Customers	–0.075751	0.1271	–0.0400	0.4498
Employees	–0.075716	0.2192	–0.1051	0.1085
Health	–0.111245	***0.0037	–0.1146	***0.0050
Education	0.004316	0.9381	0.0254	0.6716
Community	0.182983	*0.0112	0.2403	***0.0016
Environmental	0.005746	0.7313	0.00897	0.6137
Company size: sales/assets	0.112849	0.0000	0.03505	0.0620
R^2		0.451778		0.3806
P-value (F)		0.00000		0.0000

Sources: Results from the panel data analysis ***99 per cent, * 95 per cent significance levels

The following relationship represents the FEM with the dummy variable total sales:

$$ROE = -0.5487 - 0.0757_{cust} - 0.0757_{Employ} - 0.111_{Heal} + 0.00431_{Edu} + 0.1829 Commu + 0.0057 Env + 0.1128 \; sales$$

Conversely, the results show that with total assets as the control variable all independent variables are insignificant. The equation following represents the FEM:

$$ROE = -0.1034 - 0.0400_{cust} - 0.1051_{Employ} - 0.1146_{Heal} + 0.0254_{Edu} + 0.2403_{Commu} + 0.00897_{Env} + 0.3505 \; Assets$$

These tests were also conducted to identify the relationship between CSR and the other dependent variables, ROA and ROS. The results of each of these tests are discussed below.

7.5.4 The dependent variables: return on assets

Table 7.20 presents the regression results for the relationship between ROA as a dependent variable and the CSR variables as independent variables. There were 250 observations, represented by 50 groups.

Table 7.20: Panel data analysis results: ROA as the dependent variable

	Pooled OLS		Fixed Effects		Random Effects	
	Coef.	P (Sig)	Coef.	P (Sig)	Coef.	P (Sig)
Observation	250		250		250	
No. of groups			50		50	
Cons	0.0843	0.0114	0.10476	0.0042	0.0845	0.0112
Customers	−0.0410	0.1607	−0.07633	0.0172	−0.0414	0.1562
Employees	−0.6511	0.7740	−0.03312	0.4138	−0.0647	0.0789
Health	−0.0385	*0.0888	−0.03070	0.2207	−0.0384	0.0896
Education	−0.0110	0.7293	0.02062	0.5665	−0.0111	0.7272
Community	0.1253	** 0.001	0.10193	0.0288	0.1251	0.0020
Environment	−0.0025	0.7939	0.00550	0.6183	−0.0024	0.8014
R^2		0.0583		0.2722		
P-value (F)		0.0225		0.0879		
F-test						
χ^2		1.1639				
Prob		0.2342				
Hausman test						
χ^2				13.8892		
Prob				0.03089		
Lagrange multiplier test						
χ^2			0.216336			
Prob			0.641846			

Sources: Results from the panel data analysis   **99 per cent, *95 per cent significance levels

7.5.5 Specification tests 2

The following test results were used to identify the group effects operating in this study.

7.5.5.1 Examining group effects (F-tests: Pooled or FEM)

Table 7.20 presents the results obtained from the panel data analysis. If the F-test accepts the null hypothesis, then it is in favour of the pooled OLS model. In other words, as shown in Table 7.20, the pooled effects method is more appropriate that the REM. Therefore, the results of the analysis of the pooled effects model are noted here.

7.5.5.2 Examining random effects: the Lagrange multiplier test (Pooled or REM)

The LM test reveals the random effects of the model. Table 7.20 shows that in the results of the LM test χ^2 is lower than the p-value. Therefore, the null hypothesis is accepted and the REM is rejected. In other words, the results showed that there are no random effects and the pooled OLS model is more appropriate. Hence, it was not necessary to apply the Hausman test.

7.5.5.3 Conclusion: ROA as a dependent variable

The results of this regression analysis provided the directions of the previous regressions for the relationships between the dependent and independent variables. The results are shown in Table 7.20 indicate that overall the regressions were significant at the 5 per cent level in the pooled OLS, as shown by the probability of F value of 0.022528 in the Pooled OLS method. It was noted that the R^2 value was for the Pooled OLS method was 5 per cent. To summarise, there was a positive relationship between community relations and ROA with a probability of F value of 0.0019. Conversely, there was a negative relationship between health relations and ROA with a probability of F value of 0.888. The other results showed non-significant relationships between customers, education, employees and environmental relations. The following relationship represents the pooled OLS model.

7.5.6 The effect of the control variables: total sales and ROA

The control variable does not change the direction of the independent variables' effect, as shown in Table 7.21. The following relationship represents the pooled OLS method. The results, after controlling for company size and total sales, show that total sales had a non-

significant relationship with ROA with a probability of F-value of 0.4804. However, total assets had a highly significant relationship with ROA, with a probability of F value of 0.0007. The control variable total assets did not change the direction of the independent variables' effect. However, the control variable total sales changed the direction of the independent variables' effect as shown in Table 7.21.

Table 7.21: The relationships identified with the control variables

Pooled OLS	Control variable effect (sales)		Control variable effect (assets)	
	Coef.	P(Sig)	Coef.	P(Sig)
Observations		250		250
No. of groups		50		50
Consumers	0.03523	0.6477	0.27502	0.0000
Customers	–0.04554	0.1288	–0.01470	0.6193
Employees	–0.06559	*0.0756	–0.55749	0.1231
Health	–0.03909	*0.0845	–0.03147	0.1566
Education	–0.01301	0.6849	0.13031	0.6840
Community	0.12084	**0.0032	0.01392	***0.0005
Environmental	–0.00339	0.7320	–0.00040	0.9665
Size: Sales/Assets	0.00874	0.4804		0.0007
R^2		0.0602		0.1018
P-value (F)		0.033564		0.00045

Sources: Results from the panel data analysis   *** 99 per cent significance level

In the results of this regression analysis   signs of the previous regressions for the relationships between dependent and independent variables were found. To summarise, there was a positive relationship between community relations and ROA with a probability of F value of 0.0032. Conversely, there was a negative relationship between employees and health with ROA with p-values of 0.0756 and 0.0845 respectively. The other results showed non-significant relationships between customers, education and environmental relations. The following relationship represents the pooled OLS model with total sales as control variable:

$$ROA = \ 0.03523 - 0.04554_{cust} - 0.06559_{Employ} - 0.0314_{Heal} - 0.0130_{Edu}$$

$$+ \ 0.13031_{Community} - 0.00040_{Env} + 0.0087Sales$$

Conversely, with total assets as taken as the dummy variable, the results were different to those obtained in the total sales regressions. There is a strong positive relationship between community relations and ROA with a probability of F value of 0.0005, and other all dependent variables were given non-significant results. The following relationship represents the pooled OLS model with total assets as control variable:

$$ROA = \ 0.2750 - 0.01470_{cust} - 0.5574_{Employ} - 0.03909_{Heal} - 0.01301_{Edu}$$

$$+ \ 0.1208_{Community} - 0.0033_{Env} + 0.0007Assets$$

7.5.7 Dependent variable: Return on sales

Table 7.22 presents the regression results for the relationship between ROS as a dependent variable and the CSR variables as independent variables. There were 250 observations, represented by 50 groups.

Table 7.22: Panel data analysis results: ROS as the dependent variable

	Pooled OLS		Fixed Effects		Random Effects	
	Coef.	**P (Sig)**	**Coef.**	**P (Sig)**	**Coef.**	**P (Sig)**
Observations	250		250		250	
No. of groups			50		50	
Consumers	0.0428	0.4123	0.05697	0.3104	0.0434	0.4051
Customers	−0.0635	0.2735	−0.00011	0.9981	0.0544	0.2359
Employees	0.0583	0.2056	0.02074	0.7413	−0.0580	0.3158
Health	−0.0464	0.1919	0.04970	0.2012	−0.0467	0.1888
Education	0.0813	0.1065	0.06155	0.2706	0.0803	0.1110
Community	0.0643	0.3083	0.04125	0.5660	0.0633	0.3168
Environment	−0.0004	0.9779	0.01709	0.3813	0.0005	0.9717
R^2		0.0360		0.27870		
P-value (F)		0.1733		0.06549		
F-test						
χ^2		1.33174				
Prob		0.08942				
Hausman test χ^2				17.9482		
Prob				0.00636		
Lagrange multiplier test χ^2				1.07294		
Prob				0.300282		

Sources: Results from the panel data analysis   * no significant relationship

Overall, these regressions were significant at the 10 per cent level in the FEM as shown by the probability of F value of 0.0654. In the pooled methods the results showed a non-significant with relationship with ROS. The R^2 values were different for the pooled and fixed method regressions, with values of 3 per cent and 27 per cent.

7.5.8 Specification tests 3

The following test results were used to identify the above-mentioned three effects on the study.

7.5.8.1 Examining group effects (F-tests: Pooled or FEM)

From Table 7.20, it can be seen that the fixed effects method was the most suitable method, as explained in early sections of this thesis. Since the F-test for the null hypothesis was rejected this indicates that the FEM is more appropriate than the pooled OLS method.

7.5.8.2 Examining random effects: the Lagrange multiplier test (Pooled or REM)

The LM test shows the random effects of the model. The results showed the null hypothesis, that there were random effects, was rejected the null hypothesis this means there were random effect model will be favoured over the pooled ordinary least squares.

7.5.8.3 The Hausman test: FEM or REM

The results of the Hausman test showed that the null hypothesis was rejected and therefore the FEM was preferred. In other words, this test showed that the random effects were biased.

However, the results showed that not all individual variables were significant with ROS. The following relationship represents the FEM:

$$ROS = 0.0569 - 0.0001_{cust} + 0.0207_{Employ} - 0.0497_{Heal} + 0.0615_{Edu} + 0.04125_{Commu} + 0.0150_{Env}$$

After controlling for company size and total sales as a dummy variable, the results showed that total sales had a significant relationship with ROS, with a probability of F value of 0.005006. The dummy variable did not change the direction of independent variables' effect as is shown in Table 7.23, which described the relationships between CSR performance and ROA with the study's control variables company size and assets.

Table 7.23: Relationship identified with control variable

Fixed Effects	Effect of control variables (sales)		Effect of control variables (assets)	
	Coef.	P(Sig)	Coef.	P (Sig)
Observations	250			250
No. of groups	50			50
Consumers	0.4955	0.0001	–0.0004	0.9971
Customers	0.0419	0.3932	–0.0077	0.8793
Employees	0.0048	0.9368	0.0187	0.7665
Health	–0.0484	0.1978	–0.0513	0.1889
Education	0.1030	*0.0625	0.0523	0.3674
Community	0.0925	0.1925	0.0361	0.6176
Environmental	0.0171	0.3007	0.0150	0.3810
Size: Sales/Assets	–0.0784	0.0002	0.0108	0.5487
R^2		0.3284		0.2800
P-value (F)		0.0050		0.0752

Sources: Results from the panel data analysis   *95 per cent confidence level

The results of this regression signalled the previous regression for the relationships between the dependent and independent variables. To summarise, the positive relationship between educational relations and ROS was significant at the 90 per cent confidence level. Conversely, the results showed that with total assets as control variable none of the independent variables were significant. The following relationships are represented by the fixed effects model:

$$ROS = 0.4955 - 0.0419_{cust} + 0.0048_{Employ} - 0.0484_{Heal} + 0.1030_{Edu} + 0.03619_{Commu} + 0.01717_{Env} - 0.0784sales$$

Conversely, the results showed total assets as control variable and independent variables were non-significant. The equation follows represents the fixed effect method.

$$ROS = -0.0004 - 0.00775_{cust} + 0.01871_{Employ} - 0.05132_{Heal} + 0.05230_{Edu} + 0.0925_{Commu} + 0.015036_{Env} - 0.010827Assets$$

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7.5.9 Testing for multi-collinearity

Table 7.22 presents the results of the analysis for multi-collinearity. The common cut-off value was a tolerance of 0.10 and the VIF value is 10.

This showed that there were no multi-collinearity problems with the independent variables The tolerance value and VIF values were within acceptable levels. Table 7.22 shows the results of the multi-collinearity test for the three dependent variables.

Table 7.24: Testing for multi-collinearity: Tolerance and VIF

Model	Collinearity	Statistics
	Tolerance	VIF
Customers	0.776	1.289
Employees	0.659	1.518
Health	0.649	1.541
Education	0.534	1.872
Community	0.565	1.768
Environment	0.915	1.093
Assets	0.385	2.599
Sales	0.448	2.234

Source: Author's calculation; Dependent variables were ROE, ROS and ROA

7.5.10 Summary of the panel regression analysis

The three dependent variables, ROE, ROA and ROS, and the six independent variables: (customers, employees, environmental, social, education and health relations) were linked in a panel data regressions analysis.

The specification tests result determined that the FEM was appropriate for the two dependent variables ROE and ROS. In addition, the Pooled OLS model provided the best fit for the dependent variable ROA.

7.6 Conclusion

This section discusses the conclusions from the three analyses performed in this study. First, the objective of the development of the CSR framework was to identify standard CSR practices for organisations in Sri Lanka. This framework attempted to match the reality of the CSR programmes of the sample companies and measure for different study purposes. The framework developed was based on the literature review and expert knowledge and experience. The Delphi technique was used to collect data from a panel of Sri Lankan executives. This study used two Delphi rounds: the first round involved interviewing the selected experts, while the second round used a survey questionnaire. The same respondents participated in both rounds. The results of the first round identified 39 CSR elements, while the second round identified 28 CSR elements. These 28 items were used for the development of the CSR index in this study. A content analysis technique was used to analyse the first round data, and descriptive statistics were employed for the analysis of the second round data analysis. For this, the mean score value was used to reduce the data. To allow this, the 28 CSR items were grouped into six stakeholder relations categories.

The CSR index was developed based on the dichotomous measurements approach followed by authors (Cooke 1991; Hossain et al. 1994; Azhar 2001; Ho and Mathews 2002). The total CSR index for each of the companies, as well as the effects of the individual dimensions were calculated, in order to identify the relationship between CSR and CP. Thus, this research expands previous studies by Graves and Waddock (1994) and Waddock and Graves (1997) who used the KLD index based on the KLD data to calculate CSR ratings.

A panel regression analysis was used to determine the relationships between the three dependent variables, ROE, ROA and ROS, and the six independent variables customer, employee, environmental, social, education and health relationship categories. The conclusions drawn from the panel data regression using the fixed, random and pooled OLS models were as follows:

1. There was a significant positive relationship between CSR, community activities and ROE, and a negative relationship between health activities and ROE.
2. There was no relationship between CSR and ROS.

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3. There was a negative relationship between employee relations, health activities and ROA.

4. There was a positive relationship between community activities and ROA.

5. There was a positive relationship between community activities, health activities and ROE when company sales and assets are controlled for.

6. There was a positive relationship between community activities and ROA when company sales are controlled for.

7. There was a negative relationship between employee relations, health activities and ROA when company sales are controlled for.

8. There was a positive relationship between community relations and ROA when company assets are controlled for.

Finally, the results indicated that there was a significant relationship between CSR and company CP in Sri Lankan companies. The next chapter compares these results with the findings from the literature review presented in Chapter 2.

Chapter 8: Discussion

8.1 Introduction

The discussion of the results of the analysis of the relationship between CSR and CP in Sri Lanka are reported in this chapter. The model presented in the conceptual framework was tested using the statistical techniques described in Chapter 7. The statistical techniques involved the CSR framework development, developing the disclosure index and examining the relationship between CSR and CP. To test the relationships between CSR and CP, the following hypotheses were developed:

H1: The higher level of corporate performance *shows the higher level of CSR employee relations disclosure is positive*.

H2: The higher level of corporate performance *shows the higher level of CSR environmental relations disclosure is positive*

H3: The higher level of corporate performance *shows the higher level of CSR customer related disclosure is positive.*

H4: The higher level of corporate performance *shows the higher level of CSR education related disclosure is positive.*

H5: The higher level of corporate performance *shows the higher level of CSR community related disclosure is positive.*

H6: The higher level of corporate performance *shows the higher level of CSR health related disclosure is positive.*

CSR included the six stakeholder elements and CP included three CP indicators: ROE, ROA and ROS. The stakeholder elements were considered as independent variables and CP was

the dependent variable. The above hypotheses were analysed and checked to determine the validity of the model.

This chapter is structured as follows: Section 8.2 discusses the implications of the results from the Delphi method used to develop the CSR framework. Section 8.3 presents with the implications of the results of the measurements of CSR in Sri Lankan companies using the index developed , while Section 8.4 discusses the implications of the relationships between CSR and CP in Sri Lanka. Section 8.5 presents a summary of the results and their implications for CSR and CF. Finally, Section 8.6 presents the conclusions.

8.2 The CSR framework developed for Sri Lanka

The framework developed in this study was based on the sample companies' direct non-operating (social) activities with stakeholders. As described in Chapter 2, the majority of existing CSR frameworks have been constructed in developed countries, and are based on stakeholder theory. Accordingly, this study has developed a CSR framework that included six stakeholder categories: employees, customers, society, the environment, education and health.

All previous frameworks contain various numerically different categories of CSR activities. Clarkson (1995) developed a CSR framework which included community, employees, shareholders, customers, suppliers and public stakeholders. Accordingly, 20 employee   six customer, five shareholder, three supplier and seven public stakeholder issues were included in his framework. Davenport's (2000) CSR framework also consisted of six commitments based on the stakeholder approach. This framework identified an environmental commitment in addition to the six issues of Clarkson's framework. However, 20 CSR issues were identified Davenport's model while Clarkson's (1995) framework contains more than double the number of social and stakeholder issues compared to that of Davenport. Further, Rais and Goedegebuure (2009) have identified five shareholder relationships for developing countries, such as Indonesia. Among these are five customer, five supplier, five shareholder, ten employee issues and five community relations as stakeholder issues.

Although the literature review revealed that more CSR studies have been based on developed countries rather than developing countries, recently, scholars have begun to examine CSR studies from the perspective of developing countries. They aim to popularise this concept in the developing world due to the increasing rate of industrial disputes, global warming, and the effects of multi-national companies and globalisation. However, the establishment of the CSR concept in this context is a difficult task because still, there is no accepted definition of CSR. Therefore, developing countries cannot implement a permanent CSR framework in their companies. As discussed in Chapter 2, CSR practices differ from country to country and culture to culture. Within a country, CSR cannot always be applied in the same manner due to geographical, cultural and climate effects. Thus, the Western world's concept of CSR cannot be adapted to the developing world; these countries need a framework suitable for their own cultures.

Scholars have emphasised the necessity of a CSR framework for developing countries; however, this is not yet at an acceptable stage due to the reasons outlined below. Pantic and Mesche (2011) identified a number of reasons why a Western CSR framework has limited applicability in the developing countries. They argued that government inefficiency, widespread corruption, high unemployment and poverty are all considerably more widespread in developing countries than in the developed countries. In addition, they explained that governments in developing countries are facing serious difficulties in meeting their human rights obligations, due to corruption, lack of co-ordination and poor access to decision-making processes. However, companies in developing countries practise philanthropic activities such as donating money to their communities, supporting students and elderly people and organising sports activities to raise the general standard of living for the people in their societies, all on a voluntary basis.

The results of this study have shown that the major CSR practices identified in Sri Lanka comprise seven employee relations, three customer relations, six educational, three health-related, six community relations and three environmental relations activities (Annexure 3). These CSR practices have been included in a CSR framework in Sri Lankan companies. This result is consistent with previous CSR frameworks using the stakeholder approach of developed countries and some developing countries. The current study also developed a CSR framework in the context of stakeholder theory by establishing six stakeholder relationships

discussed below. This framework shows the identification of the formal CSR concept in Sri Lanka, and is the first CSR framework suitable for Sri Lankan culture. The following Table 8.1 below shows the comparison study of the proposed CSR framework, and the other three CSR frameworks, which have been used as the basement of the study such as Davenport (2000), Clarkson (1995) and Rais and Goedegebuure (2009).

Table 8.1: The Comparison Study of the existing CSR framework and the proposed framework of the current study

	Davenport (2000) framework	Clarkson(1995)	Rais and Goedegebuure (2009)	Current Study's Framework (2012)
Employee relations	Provides a family friendly work environment, Engages in responsible human-resource management, provides an equitable reward and wage system for employees, engages in open and flexible communications with employees, invests in employee development	General policy, benefits, compensation and rewards, training and development, career planning, employee assistance program, health promotion, absenteeism and turnover, leaves of absence, relationships with unions, dismissal and appeal, termination, layoff, and redundancy, retirement and termination counselling, employment equity and discrimination, women in management and on the board, day care and family accommodation, employee communication, occupational health and safety, part time, temporary, or contract employees, other employee	Equal opportunity, Work insurance for workers, provide health and medical treatment, Career planning system, Training and development program, remuneration and incentive pay plan, Solving the HR issues.	Training and development Health and Safety programme training and development, Equal and impartial employment policy, Trade Union development, Welfare facilities: transport; insurance; sports; organising functions, Organising day care centres and pre-schools children, Formal recruiting, promotion and firing system, Formal leaves system and Financial benefits

		or human resource issues.	
Customer /Consumer relations	Respects the rights of consumers, Offers quality products and services, Provides information that is truthful and useful	customer communications, producer safety, customer complaints	Overall customer satisfaction, Showing responses to customer complaints, provides product information and safety, customer commitment & protection, provide follow up service.	Offers quality products and services, Provides information that is truthful and useful, Respect the rights of consumers.
Investor Shareholder commitment	Strives for a competitive return on investment	General policy, shareholder communications and complaints, shareholder advocacy, shareholder rights, other shareholder issues	Performance (profit) achievement, Communication with Board of Commissionaires, Corporate response on environmental issues, Relationships with local authorities and regulations, good governance practices.	
Supplier Relations	Engages in fair trading practices with suppliers	General policy, relative power, other supplier issues,	Overall supplier satisfaction/supplier benefit, Safety standard determined to the products supplied, Offering solutions on supplier's issues, Supplier communication, and commitment to fulfil company obligations.	
Community Relations	Fosters a reciprocal relationship between the corporation and community, Invests in the communities in which it	Public health, safety, and protection, Conservation of energy and materials, environmental assessment of capital projects, other environmental issues,	Support for social life of local community, Involve in improving environmental conditions, benefit of	Organising video/audio programmes and short films for understanding safety: road rules, healthy foods, first aids, preventing deceases, respect to each other etc. And organising first aid programmes; safety

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	operates	Public policy involvement, Community relations, Social investment and donations	company's activities, response on social issues, philanthropic activities.	programmes, Building up houses for homeless people: tsunami affected people, Organising sports activities, Supporting services for elders, children and disabled person , Organising mental relief activities: musical shows, exhibitions etc, Maintaining parks and towns
Environmental commitment	Demonstrate a commitment to the environment, Demonstrate a commitment to sustainable development			Applicable environmental rules: building plans, waste water arrangement cleaning the garden, permission for land development, Planting trees: herbal and avoiding soil erosion
Education relations				Organising education seminars for students and teachers for updating syllabuses and preparing for the exams, Donations books, uniforms and foods and building up libraries in school level, Organising English language support programme: organising for rural areas student, Organising disability support activities for disabled children (Braille keyboards, text to speech programmes, learning aids for slow learners) Organising skill development programme for undergraduates and school leavers, Organising day care centres and pre-schools children
Health Relations				Organising Dengue, HIV and rebels preventing programmes, Supporting services to government hospitals. Donating beds, equipment, theatres and additional buildings, Providing scholarships for medical students, doctors for further education

The basic difference between the developed framework compared with others is that the stakeholder groups comprised employees, communities, customers and the environment. The community group was categorised into three subgroups: education, health and people. Thus, this framework is important for future studies and can be expanded by adding other stakeholder relationship categories, or reframing it in the context of other theories relating to CSR. The following sections discuss these stakeholder relationships and outlines why these stakeholders are so important.

8.2.1 Employee relations

Employees are an important element of companies, therefore, one of the company's aims is to satisfy them. As discussed in Chapter 2, Clarkson (1995) introduced 20 employee issues in his CSR framework. Davenport (2000) included five employee commitments and Rais and Goedegebuure (2009) presented 10 employee relationship issues. The current study introduced seven employee-related activities as CSR activities. These activities were: (1) training and development; (2) health and safety programmes; (3) equal and impartial employment policies (4) trade union development; (5) provision of welfare facilities such as transport, insurance, sporting activities, organising functions, organising day-care centres and pre-school for children; (6) a formal recruitment, promotion and firing system; and (7) a formal leave system and financial benefits. When these seven employee constructs were compared to those identified in Clarkson's (1995), Davenport's (2000) and Rais and Goedegebuure's (2009) studies, it was evident that similar employee issues were included and that many of these activities related to employees' welfare and development.

All of the sample companies' activities engaged in some of these employee-related activities. One of the sample companies, Sampath Bank, stated its commitment to employee relations as follows: 'An Employee Relations Policy that encompasses; improved communication, a grievance handling procedure, career counselling, and a gamut of thoughtfully designed welfare benefit plans, have all created an environment conducive to healthy employee relations.' (Sampath Bank PLC, Annual Report 2009).

One of the employee relation activities of Sampath Bank PLC was identified as remuneration and benefits. Under this scheme, the company employed the following activities:

We are above industry-average on certain remunerative based indicators. High performers are recognised and compensated on par with the industry. We have pioneered an innovative set of benefits for our employees. Team efforts are recognised through a 'Team Reward Scheme', Gratuity and pensions provisions exceed statutory requirements, A non-contributory pension plan, in addition to the Provident Fund, Gratuity and ETF (Sampath Bank PLC, Annual Report 2009).

It is generally accepted that CSR is a voluntary dimension that involves actions not prescribed by the law. Companies employ their own methods and follow international standards to implement CSR practices for their employees. As described in Chapter 2, the employee pressure is one of the factors that drives companies to institute social responsibility programmes. Conflicts between employees and employers are a common issue in Sri Lankan companies. As result of this, many rules and regulations have been established and added to the labour law and employees acts in Sri Lanka. For example, the Australian Human Rights Commission (2008) stated that these include "laws prohibiting discrimination and harassment in the workplace and laws requiring employers to provide equal employment opportunities. Such laws address the rights to equality and non-discrimination, which are set out in various international treaties including the International Covenant on Civil and Political rights" (web page).

Accordingly, organisations have disclosed that prohibiting discrimination and harassment in the workplace is one of their CSR activities. However, this is prescribed by law, and companies must comply with it. Section 8.3 describes the employee-related rules and laws that have been established in Sri Lanka, and identifies 22 labour-related acts. Therefore, it can be concluded that certain employee-related CSR activities are carried out on a voluntary basis, and that companies observe the rules and regulations of the country. Moreover, organisations implement CSR activities that are purely on a voluntary basis with the aim of satisfying their employees, for example, organising annual family trips.

8.2.2 Customer relations

Customer relations in CSR are among the most significant indicators of CSR performance (Rais and Goedegebuure 2009). This indicates that companies how to upgrade their customers. The present study found three customer issues, including offering quality products and services; providing information that is truthful and useful, and respecting the rights of consumers. These findings are in agreement with previous research for the development of CSR frameworks. Customers play important role for any business. As mentioned in Chapter 2, customer pressures are one of the reasons why companies implement CSR activities as a part of their business strategies (Rathnasiri 2003; Fernando 2010). A number of rules and regulations have been established in Sri Lanka to protect consumers. In brief, organisations must conduct their operational activities in accordance with the Consumer Affairs Authority Act 2003 and the Consumer Protection Act. As a consequence of this, there are no mandatory requirements for CSR activities to improve consumer relations; these are implemented on a totally voluntary basis.

Table 8.1 compares the exiting CSR frameworks developed in the literature. All reviewed frameworks (including the present study) commonly use product communication, quality, safety, and complaints issues (See page 228). Both developed and developing countries organisations and stakeholders are interested in these CSR relations (Clarkson, 1995; Davenport 2000; Rais and Goedegebuure 2009). The perceptions by Sri Lankans companies of their customer relations are interesting in terms of CSR projects. For example, one of the sample companies that engaged in customer-related CSR activities in this study is Sri Lanka Telecom. This company has been awarded as the one of the top 10 Best Corporate Citizens in Sri Lanka in 2008. Their views of customer relations as CSR are that:

> Vendors, suppliers, customers and retailers are all integral facets to our success story. The long-term relationships we have forged have been further strengthened by our philosophy of envisioning inspired solutions, conforming to best practices and continuing our forward thrust on sustainable development practices. As the industry continued to evolve and transform, the challenges we faced compelled us to deliver innovative products at the right price and the right time. This is what drove us from a network driven to a market driven culture. This then requires our

suppliers and procurers to remain aligned to our vision (Sri Lanka Telecom, Annual Report 2008).

8.2.3 Education-related activities

One anticipated finding was the extent of the education-related activities undertaken by Sri Lankan companies. In the present CSR framework, this relationship includes activities such as the following:

- Organising educational seminars for students and teachers for updating syllabuses and preparing for examinations
- Donations of books, uniforms and food
- Building libraries in schools
- Organising English language support programmes, particularly for rural students
- Organising disability support activities for disabled children (providing Braille keyboards, text-to-speech programmes, learning aids for slow learners)
- Organising skills development programme for undergraduates and school leavers
- Organising day care centres and pre-schools for children

These activities are special to Sri Lankan communities. Sri Lankan Society expects these services from profitable companies as a social responsibility. These activities are provided as free services and primarily benefit children. In relation to children, the literacy rate in Sri Lanka is comparatively high, which at 94 per cent is higher than those of other developing Asian countries. The Sri Lankan people believe that completing one's education is a great success in life, particularly because free education is available to all from Grade One to university level, without consideration of their social or financial status. University entrance is highly competitive and the facilities in rural schools, such as technology and human resources are poor. Therefore, students, parents and teachers expect that private organisations will provide aid in addition to the grants they receive from the government. Sri Lankan companies understand this situation and implement CSR activities to maintain and improve the literacy rate by organising student seminars, providing science labs, school libraries and food for students. They consider students as future investors, consumers and administrators, and that contributing to their development is a good investment for the country. Therefore,

companies undertake these CSR activities as a philanthropic responsibility (Visser 2007). There are no any mandatory requirements for these social services.

According to Rathnasiri (2003) and Fernando (2010) due to heavy competition business organisations are likely to engage in these activities as part of their business strategies The sample companies of the present study all provide educational CSR activities. For example, CIC, a manufacturer of chemicals, has been sponsoring student education for over two decades. The Chairman of CIC stated, 'it is better to teach a man to catch the fish, than simply giving him the fish'. They provide five scholarships per year for university students in various locations of the country, including Jaffna in the north, under this scheme. The scheme consists of two scholarships for the Faculty of Architecture, one for the Southern Medical Faculty, one for the Agricultural Faculty and one for the Medical Faculty. Apart from these five scholarships, three more scholarships are provided for their employees' children. Previously, the company ran a scholarship program with the Science Faculty, from which the graduates found employment in the company itself.

Another of the sample companies, Abans Group, is a publicly listed company. Through its various divisions and subsidiaries it provides training and internship opportunities for students from technical institutions, universities and professional bodies. In addition, successful trainees have been recruited by the group after completing their training. Further, the company sponsored the Exercise Book Distribution for underprivileged students in the Colombo area. This support began last year and the company look forward to it continuing into the future as well.

8.2.4 Health-related activities

Health-related issues are a major problem in Sri Lanka. Like the education sector, the health sector operates at the same level throughout the country and the Sri Lankan people expect more health services as CSR activities private sector organisations. The lack of hospital services for all areas of the country, and poor resources allocated to some hospitals are major issues. Free medicine, health care camps and educational seminars on infectious diseases are the most popular CSR activities.

The government reserves about 4.1 per cent of the national GDP for health expenditure. However, this amount is not enough to allow the implementation of necessary health services for the entire population. Companies interested in implementing CSR activities are offered enormous opportunities in the health sector. Even though free health services are provided in the country's hospitals, poorer patients are confronted with huge problems, some of which are life and death situations. The health-related social activities identified in this study, such as organising dengue, HIV and rabies prevention programmes; providing support services to government hospitals including donating beds, equipment, theatres and additional buildings; and providing scholarships for medical students and doctors for further education have not been individually included in the previous frameworks developed by Clarkson (1995); Davenport (2000) and Rais and Goedegebuure (2009). These authors described these activities as community relations activities. However, this study identified these activities are important when developing the CSR framework and therefore, this is introduced as separate category of stakeholder relationships.

Companies in Sri Lanka are not permitted to be involved in health treatments such as vaccinations. As mentioned earlier, the government dominate those activities in private companies, or private hospitals. Thus, vaccinating is compulsory health assurance for all children in the entire region; children are not vaccinated they are not admitted to schools. Apart from vaccinations, children are provided dental treatments for tooth in their schools under free. However, the companies can participate for the health prevention activities as CSR relations.

One of the sample companies in this study, Amano Takaful, highlighted two health relations CSR activities: the first was a donation made to the Accident and Orthopaedic Service of the National Hospital of Sri Lanka in Colombo, and the second was an AIDS awareness programme. These activities are provided on a voluntary basis and there is no statutory requirement in Sri Lanka that obliges companies to institute these activities, as well as no pressure from any stakeholders in the companies. For example, Amana Takaful stated the following:

As in every year, this year too Amana Takaful Cares sponsored the Annual AIDS awareness programme. AIDS has grown to become a major social concern with more

awareness needs on protection and the acceptance of those affected by it. The Sri Lanka AIDS Foundation organised a poster competition to address these issues and it was a mammoth success with contenders participating from many parts of the country (Amano Takaful Annual Reports 2009).

8.2.5 Community relations

Davenport (2000) stated that community activities are rather important because they directly or indirectly engage with the firm's activities. Community relations activities identified in this study are consistent with those of prior CSR frameworks. The present study identified these community activities as organising video/audio and short films for improving the awareness of safety issues such as road rules, healthy foods, first aids and preventing deaths. Other community activities included organising first aid programmes; safety programmes; building houses for homeless tsunami-affected people; organising sporting activities; and introducing finance facilities to people s such as insurance and savings schemes for children, pensioners, women and younger persons; compulsory third party insurance for vehicle owners; and maintaining parks and towns. The major aims of these activities is to improve life in the community.

One of the sample companies, NDB PLC provides an excellent example with an established plan for their CSR activities. They divided CSR into three categories; strategic, operational and corporate philanthropy. Under strategic CSR they implemented a library project, an English communication programme, supporting tsunami orphans and the empowerment of women. The following initiatives were categorised as corporate philanthropy: the NDB Cancer Aid Trust Fund, The Prevention of Child Abuse Trust, ongoing support to a girl's home, opening savings account for 50 children at the Ceylon School for the Deaf and Blind, and other charitable giving. Operational CSR activities included corporate governance compliance with the Code of Conduct, ethical business, employees relations, customer satisfaction, waste reduction/recycling, process innovation, product innovation, and environmentally and socially responsible lending policies (NDB Bank Annual Report 2009).

8.2.6 Environmental relations

Online resource materials for policymaking (2005) recognised that there are two broad categories for the environmental issues. One category relates to natural and environmental resources, and second relates to environmental problems associated with pollution, depletion and degradation of these resources. Arora (2004) argued that these natural resources cannot be used by the future generation, therefore the companies that use those resources today, should do something for them as CSR. The final stakeholder relationship category identified in the present study included three environmental protection activities, considered the most important factors of social responsibility in Sri Lanka. As shown in Table 8.1, Clarkson (1995) identified the issue as a stakeholder issue; however, he categorised it as public stakeholder issue. Davenport (2000) recognised two environmental commitments, which he categorised separately. However, Rais and Goedegebuure (2009) identified environmental protection activities as community relations. Sri Lanka is a developing country with a literacy rate higher than that of other Asian countries (described in Chapter 4), therefore, the respondents have considered environmental protection activities a social responsibility activity.

The stakeholders' pressures influence environmental CSR. The pressure from society influences to company to implement the voluntary CSR. Researchers, Delmas and Toffel (2004); Henriques and Sadorsky (1996) identified that both stakeholder pressures and organizational characteristics influence organizations to adopt environmental management practices and environmental plan.

As discussed in Chapter 4, the present study identified a number of environmental legislations related to Sri Lankan environment, and adherence to these laws and regulations is a compulsory requirement. Doane (2004) argued the cost of implementing regulation would overweigh the benefits. The legislation shows sustainability development. Asian Alliance PLC provided an excellent example of environmentally related CSR activities in Sri Lanka. This company operates under the 'three R' principles (reduce, reuse and recycle). Their annual report presents their environmental CSR contribution as follows:

Our approach to environmental management follows the principles of the 3R's: Reduce, Reuse, and Recycle. Based on the 3R approach, the Company has

implemented an organisation wide program of activities aimed at environmental conservation (Asian Alliance PLC Annual Report 2009).

Another example was the environmental relations CSR programme of Cargills (Ceylon) PLC, another of the study's sample companies. Cargill's responsibility to the environment is mentioned as follows:

> At Cargills we are aware that our island-wide reach creates high expectations for leadership in resource stewardship. We look to innovation as a way to preserve and protect the environment, whether by using energy and resources more wisely, pioneering profitable business and product lines that make use of renewable raw materials or helping customers shrink their environmental footprints. In the year, 2009 Cargills pledged to reduce wastage and improve efficiencies by 20 per cent and this goal was followed through by each individual business unit of the Group with results that far exceeded expectations (Cargills PLC Annual Report 2010).

8.3 Discussion of the dissimilar ideas of the interviewed people

The twenty experts presented some dissimilar ideas of their interviews that were important to the development of the framework of the present study. The educational experts suggested ideas for health relations CSR activities. In addition, they maintained that environmental cleaning activities can be done by utilising schoolchildren. As well, they said that the present epidemic in Sri Lanka is Dengue fever which is related to the health relations activity (disease spread by mosquitoes) that can be controlled by cleaning the environment by removing water left lying around.

These ideas were presented to health related respondents and environmental related experts. Then they expressed their responses as follows.

> " ..(t)he school children should know of the cleaning the environment, but they are not the people to do that activities as CSR. The related organisation obligation to clean the environment as well to develop the medical officers"

" when those important activities delegate to them, their will not be the sustainability"

Government responsibility is to run public development programs such as seminars for dengue, provisions money for public developments programs, medical equipment, and other social activities. In addition, respondents employed in the non-government organisations and public limited companies explained that because of some rules and regulations they cannot be attend important activities. They showed some examples of the communication activity the firms would like to develop the roads for the villagers. However, some social activity cannot be implemented because of the bureaucracy of the government. Nonetheless, while some government sector respondents accepted the concept of the CSR is important, but that it should be implemented by profit making organisations not the government.

8.4 Discussion of the corporate social responsibility index of the study

The aim of the development of a CSR index was to measure CSR items disclosed in company annual reports that were analysed in this study. Mattingly and Berman (2006) stated that the measurement of CSR remains a rather elusive task. Prior studies have shown that developing an index was the most appropriate method of measuring CSR in the developing countries. There are different sustainability indices available in the literature and these have been used for the measurement of social and environmental factors. This study developed a CSR index using a dichotomous process that included three steps and allows the index to be used as a whole, or as six separate sub-indices related to the six CSR elements.

One of the steps in the development of the CSR index in this study was the decision to weight or not to weight the CSR items disclosed in the company annual reports. Certain studies, for example, Robbins and Austin (1986) used unweighted indices and the weighted scores showed a bias of the weighting systems. As described in Chapter 2, previous studies have used survey instruments such as forced-choice measures (Aupperle et al. 1985; Aupperle 1991) and reputational scales such as the Fortune reputational and social responsibility index or Moskowitz' reputational scales (Bowman and Haire 1975; McGuire et al.1988; Preston and O'Bannon 1997) for measuring CSR. Further, subjective indicators obtained by content

analysis of documents (Wolfe 1991), behavioural and perceptual measures (Wokutch and McKinney 1991) and case study methodologies similar to social audits (Clarkson 1991) have also been used as CSR measures. Some researchers (Bowman and Haire 1975; Spicer 1978; Chen and Metcalf 1980; Shane and Spicer 1983) have used a one-dimensional measure of CSR, such as investment in pollution control.

The major objective of the present study was to get a quantitative figure for data analysis purposes. The importance of this developed index is that it can be applied to any CSR framework. If the items (CSR activities) are disclosed in any relations the items can value. In the present study a method known as the dichotomous process was used to calculate the index. Using this method, any interested party can develop a disclosure index.

Mayer (2008) proposed a number of sustainability indices, which have used by current organisations. These include factors such as wellbeing, environmental sustainability, natural capital, satellite based sustainability and sustainable national income. These indices all have one dimension, while the index developed in this study is multidimensional. Therefore, this index can be further developed by adding different dimensions. On the basis of the literature described in Chapter 2, it is not clear what each of the above indicators measure (Tsoutsoura 2004). Therefore, studies introduced multidimensional measures such as KLD rating system, where each company represented in the Standard and Poor 500 companies was rated on multiple CSR elements (Waddock and Graves 1997; Tsoutsoura 2004).

Waddock and Graves (1997) used the KLD index as a new construct for measuring CSR based on the eight CSP attributes that rated consistently across the entire Standard and Poor 500 companies. Briefly, five of the rated attributes emphasise key stakeholder relations, specifically, community relations, employee relations, performance with respect to product characteristics and treatment of women and minorities. Three of these attributes are based on military functions: contracting, participation in nuclear power and involvement in South Africa (relevant during the period of analysis). However, the findings of the current study were unable to demonstrate the sustainability indices that have been described in the literature. For example, Mayer (2008) explained that many of these sustainability indices have used the same type of methods to combine their data. He further criticised these indices,

stating that they may produce different results using the same data due to their assumptions, biases and methodological differences, creating confusion for sustainability efforts (p. 280).

The index calculation used in this study is simple and easily understandable. All CSR items disclosed in the annual reports of the sample 50 companies were included for calculating the index. This calculation was performed according to the CSR framework developed in this study. In addition to measuring CSR performance, the index results can be used to identify the transparency that characterises socially responsible companies (Chatterji 2009).

The next issue of the index developed was no weightage or rating system to any disclosure item when the index was being calculated. This was a limitation of the index. However, the current study was not concerned with this limitation because the framework did not mention any important stakeholders. It identified that stakeholder relations are similar. However, to overcome this limitation of the index, users can weigh up the important items after calculating the index.

8.5 Discussion of the main results of the study

The conceptual framework allowed the formulation of 19 hypotheses, which all predicted a positive relationship between the dependent and independent variables. The two null hypotheses were developed in Chapter 5 due to the possibility of a direct relationship with the control variable, company size. The first of these null hypotheses were developed for a direct relationship between CSR and CP, and the second was developed for a direct relationship between CSR and CP with company size included as a control variable. The first null hypothesis is given below, and a summary of the alternative hypotheses is shown in Table 8.2.

H_1: *The higher level of corporate* performance *shows the higher level of CSR disclosure is positive*.

Table 8.2: Summary of the hypotheses tested

Hypothesis number	Relationship between the two variables	Expected relationship	Results	Outcome
H-01	CSR and CP	Positive	P < 0.01	Accepted
H1	Employees and ROE	Positive	P > 0.1	Rejected
H2	Employees and ROA	Positive	P > 0.1	Rejected
H3	Employees and ROS	Positive	P > 0.1	Rejected
H4	Environmental and ROE	Positive	P > 0.1	Rejected
H5	Environmental and ROA	Positive	P > 0.1	Rejected
H6	Environmental and ROS	Positive	P > 0.1	Rejected
H7	Customers and ROE	Positive	P > 0.1	Rejected
H8	Customers and ROA	Positive	P > 0.1	Rejected
H9	Customers and ROS	Positive	P > 0.1	Rejected
H10	Community and ROE	Positive	P < 0.0001 (+)	Accepted
H11	Community and ROA	Positive	P < 0.1 (+)	Accepted
H12	Community and ROS	Positive	P > 0.1	Rejected
H13	Educational and ROE	Positive	P > 0.1	Rejected
H14	Educational and ROA	Positive	P > 0.1	Rejected
H15	Educational and ROS	Positive	P > 0.1	Rejected
H16	Health and ROE	Positive	P < 0.001 (−)	Accepted
H17	Health and ROA	Positive	P < 0.1 (−)	Accepted
H18	Health and ROS	Positive	P > 0.1	Rejected

Source: Author's calculation

The second null hypotheses developed in this study using a control variable, company size, is shown in Table 8.3.

H_2: *The higher level of corporate* performance *shows the higher level of CSR disclosure is* positive when size is as control variable.

Table 8.3: Summary of the hypotheses tested

Hypotheses	Relationship with performance	Expected relationship	Results	Outcome
H-02	CSR and CP: size as control	Positive	P < 0.001	Accepted
H1	Employees and ROE	Positive	P > 0.1	Rejected
H2	Employees and ROS: total sales	Positive	P < 0.01 (–)	Accepted
	Employees and ROA: total assets	Positive	P > 0.1	Rejected
H3	Employees and ROS	Positive	P < 0.1	Rejected
H4	Environmental and ROE	Positive	P > 0.1	Rejected
H5	Environmental and ROA	Positive	P > 0.1	Rejected
H6	Environmental and ROS	Positive	P > 0.1	Rejected
H7	Customers and ROE	Positive	P > 0.1	Rejected
H8	Customers and ROA	Positive	P > 0.1	Rejected
H9	Customers and ROS	Positive	P > 0.1	Rejected
H10	Community and ROE	Positive	P < 0.1 (+)	Accepted
H11	Community and ROA: total sales	Positive	P < 0.001 (+)	Accepted
H12	Community and ROS	Positive	P > 0.1	Rejected
H13	Education and ROE	Positive	P > 0.1	Rejected
H14	Education and ROA	Positive	P > 0.1	Rejected
H15	Education and ROS: total sales	Positive	P < 0.1 (+)	Rejected
H16	Health and ROE	Positive	P < 0.001 (–)	Accepted
H17	Health and ROA	Positive	P < 0.01 (–)	Accepted
H18	Health and ROS	Positive	P > 0.1	Rejected

Source: Author's calculation

Tables 8.2 and 8.3 show the results of the hypotheses discussed in Chapter 5. There was no major difference between the two null hypotheses proposed in this study. For Table 8.2, the null hypothesis, H-01, that CSR positively influenced CP was accepted. In addition, the H10; H11; H16; and H17 alternative hypotheses showed positive relationships with CP, while all other hypotheses were rejected on the basis of non-significance. The following conclusions can be drawn from the results presented in Table 8.3. The null hypothesis, H-02, was accepted when total assets were included as control variable. Therefore, the null hypothesis

was that CSR positively influence CP. The H2; H10; H11; H16; H17 alternative hypotheses showed positive relationships with CP, while all other alternatives hypotheses were rejected.

As described in Chapter 2, a number of studies observed a link between CSR and CP and many studies have shown that these two variables were significant. In this study, the existence and directions of the relationships between CSR and CP were examined using a more comprehensive data set and an improved statistical methodology, panel data regression analysis. This study produced results that corroborate the findings of much of the previous work in this field, for example, Waddock and Graves (1997), Hillman and Keim (2001) and Nelling and Webb (2009). The results of the hypothesis testing outlined above are discussed in the context of the literature review presented in Chapter 2 in the following section.

8.5.1 The relationship between employee-related corporate social responsibility and company performance is positive

The first three hypotheses argued that the relationship between CSR -employee-relations and company performance is positive.

H3: The higher level of ROE   and higher level of CSR-employee relations is positive.
H4: The higher level of ROA   and higher level of CSR-employee relations is positive.
H5: The higher level of ROS   and higher level of CSR-employee relations is positive

The first alternative hypothesis was rejected because no significant relationship was found between employee-related CSR and ROE, ROS and ROA. These findings are in direct contrast to previous research. The literature shows that there is a positive relationship between human resources-related CSR practices and company CP (Cascio 1991; Flamholtz 1985). Huselid (1995) pointed out that some CSR practices have been labelled as 'High Performance Work Practices' (U.S. Department of Labor 1993). Therefore, previous studies have shown that the relationship between these high performance work practices and CP was positive (Becker and Huselid 1998; Becker and Gerhart 1996; Wright and Boswell 2002). There are several possible explanations for the   findings in the current study.

Firstly, Sri Lanka is a developing country with an average unemployment rate of 6 per cent during the study period of 2004–2009. The Sri Lankan government is the major economic regulator of the country, and the high performance work practices described in Chapter 7 are primarily controlled by existing rules and regulations. Table 8.2 shows the rules and regulations established relating to employees in Sri Lanka. Accordingly, these laws and regulations restrict employee-related activities such as fair wages, working time and conditions, health care, redundancy and protection against unfair dismissal. These regulations are the Sri Lankan government regulations which every organisation should obey. However, these activities can be identified as implicit CSR activities (Matten and Moon 2008), and CSR definitions highlighted that CSR is voluntary and there are no rules or regulations related to its implementation (The European Commission 2002; Lantos 2001). Therefore, benefits such as improved financial indicators are not apparent from these employee welfare actions. The present study concluded that employee-related CSR activities have no relationship to CP in the Sri Lankan context.

Matten and Moon (2008) explained that the USA organisations have appreciated the standardized and formalized CSR practices. They differentiated between an explicit CSR and implicit CSR. Explicit CSR is well-articulated with formalised company programs and practices that are voluntary and perceived as part of company business strategies, implicit CSR is perceived as the result of rules and regulations, norms, and values that form (mandatory and customary) requirements for corporations and define proper obligations of corporate actors in collective rather than individual terms. Therefore, the mandatory requirements of organisations in developing countries' are not considered as real CSR by the employees.

Secondly, as a result of the financial accounting information available, the results of the study may not be consistent. Financial accounting information is disclosed and prepared according to the Sri Lankan Accounting and Auditing standards and therefore, certain international standards are not followed by the Sri Lankan companies. However, during the study period of 2004–2009, certain accounting practices relating to social and environmental factors changed in Sri Lanka. Certain other issues must also be raised; for example, in Sri Lanka there is no standard to measure the human resources of a company. This is not the case in other Asian

countries such as India, where the accounting value 'human resources' is used and disclosed as an asset on their balance sheets.

8.5.2 The relationship between environmentally related corporate social responsibility activities and company performance is positive

H6: The higher level of ROE   and higher level of CSR-environment relations is positive.
H7: The higher level of ROA   and higher level of CSR- environment relations is positive.
H8: The higher level of ROS   and higher level of CSR- environment relations is positive

The results of the study showed there is no significant relationship between CP and environmental performance. This finding corroborated the thinking of Elsayed and Paton (2005), who suggested that until the point where the marginal cost of such investments equals the marginal benefit, the relationship between environmental performance and CP will remain neutral.

However, other studies reached different conclusions and indicated a positive relationship between environmental performance and CP, such as those of Russo and Fouts (1997) and Waddock and Graves (1997). Other studies showed evidence of a negative relationship between environmental performance and CP (Chen and Metcalf 1980; Jaggi and Freedman 1992; Sarkis and Cordeiro 1998). The reasons identified in this study for these different conclusions are firstly, that there is no accepted definition of either CSR or environmental performance (Griffin and Mahon 1997). Secondly, the methodology used in these studies, event study, has been criticised (McWilliams et al. 1999; McWilliams and Seigel 1997) as being sensitive to research design issues and only being appropriate for assessing short-term impact. Thirdly, these studies might have shown positive relationships due to model mis-specification (McWilliams and Siegel 2000). These authors suggested that if the previous studies had used control variables such as R&D or and company size, the results would have indicated a neutral relationship. Finally, these studies have used small samples, since they were conducted in the 1970s and 1980s when the concept of CSR was still in its infancy and had not been implemented by many companies. The present study used panel data sets and cross-sectional data sets. Several other studies, such as King and Lenox (2002), Elsayed and

Paton (2005), used panel data to identify the relationship between environmental performance and CP.

However, some studies argued that environmentally friendly companies have gained competitive advantages (Klassen and McLaughlin 1996; Porter and Linde 1995). The environmental concerns act a leading role in society and the organisation. Therefore, employees, customers and communities are more concerned of the environmental performance of their organisation (Bauer and Smith 1996): for example, customers willing to pay more for the production of the environmental friendly companies. As well, empirical investigations have found that if the company has a positive environmental performance, then customer reputation of the company is positive (Russo and Fouts 2001). Thus, majority of theoretical and empirical studies have suggested on the effects of environmental performance of organisations propose that their benefits are more than the costs (Schreck 2011. P.172).

The findings of the current study are consistent with some of the previously published studies and suggest that environmentally related CSR activities should be expanded, given the rules and regulations related to the protection of the environment in Sri Lanka. As Table 8.2 outlined, there are a number of rules and regulations that have been adopted relating to environmental affairs in Sri Lanka, and so organisations are not concerned about presenting these activities in their annual reports as the corporate social responsibilities because the management perceives them as not voluntary participation and doing activities under those mandatory requirements.

However, in developed countries, companies are considered responsible for the allocation of technological and scientific risks, particularly risks associated with genetically manipulated organisms (Vogel 2002). This relates to the risk of creating public hazards. For example, certain major US food companies must display any ingredients produced from genetically altered seeds. Similarly, global warming and climate change is a result of company activity and many countries have instituted legislation relating to environmental protection. For example, 'Ford Motor Company dedicates large parts of its CSR report to initiatives to reduce carbon emissions, largely in response to shareholder activism' (Ford 2005, cited in Matten and Moon 2008, p. 414).

The Sri Lankan environmental situation is different from that of the US and other Western countries. However, new rules and regulations have been adopted for the protection of the environment. For example, the Motor Traffic Act of Sri Lanka has included regulations to fine the owners of vehicles that have high smoke levels. This does not include any standard for pollutants, and the Sri Lankan Police are responsible for administering fines to vehicles that produce the visible smoke.

8.5.3 The relationship between customer-related activities and company performance is positive

H9: The higher level of ROE   and higher level of CSR-customer relations is positive.
H10: The higher level of ROA   and higher level of CSR- customer relations is positive.
H11: The higher level of ROS   and higher level of CSR- customer relations is positive

The aim of customer-related CSR activities is to increase customer satisfaction in the anticipation of long-term financial benefits to the business (Nagar and Rajan 2005). Previous studies have investigated the relationship between customer satisfaction and profitability (Anderson et al. 1994; Mittal and Kamakura 2001). Customer satisfaction can be improved by increasing quality control. Highly satisfied customers are likely to purchase more regularly, in larger quantities, and to buy other goods and services offered by the same supplier (Anderson et al. 1994; Gronholdt et al. 2000). Thus, previous studies have shown that increasing customer satisfaction has positive effects on company return. Fornell (1992) described the benefits of customer satisfaction for the company as increasing 'the loyalty for current customers, reduced price elasticity, insulation of current customers from competitive efforts, lower costs of future transactions, reduced failure costs, lower costs of attracting new customers, and am enhanced reputation for the firm' (Anderson et al. 1994, p. 55).

However, studies have also mentioned that there are negative returns to increasing customer satisfaction by investing in quality control. The costs associated with reducing the probability of defects may be greater than the benefits to the organisations (Anderson and Shugan 1991; Anderson et al. 2004). Luo and Bhattacharya (2006) concluded that customer satisfaction is increased by CSR, however, companies do not always obtain benefits from these types of CSR practices. They further explained that when companies are not innovative, CSR

decreases their market return. Moreover, they stated that the less innovative companies may be better off financially by avoiding CSR actions.

The results of the present study were inconsistent with those of previous studies. No relationship was identified between customer-related CSR activities and company performance in Sri Lankan organisations. The current study sample included 50 companies from eight industries. The majority of the sample consisted of service organisations, including the banking, insurance and finance industries. The other industry sectors selected were the plantation, food, beverages and alcohol, manufacturing, diversified and telecommunications sectors. Companies from the banking, insurance and finance sector were directly engaged with their customers and their services were highly competitive in Sri Lanka. However, their increasing implementation of customer-related activities showed a non-significant relationship with CP, because the study period included a strong recession in Sri Lanka. In 2004, the December tsunami occurred, and this affected the economy for the following two years. Further, the civil war also affected the country's productivity and the world economic recession during 2008–2009 had a significant impact on the Sri Lankan economy (Central Bank of Sri Lanka 2005; 2006).

As concluded by Luo and Bhattacharya (2006) companies that are not innovative show results negative or non-significant relationships between customer-related CSR activities and CP. However, findings of the current study indicate directions for future research into why customer-related activities do not show a significant relationship with the company performance in Sri Lanka.

8.5.4 The relationship between community-related corporate social responsibility and company performance is positive

H12: The higher level of ROE   and higher level of CSR-community relations is positive.
H13: The higher level of ROA   and higher level of CSR- community relations is positive.
H14: The higher level of ROS   and higher level of CSR- community relations is positive

Community related activities of CSR concerns issues such as philanthropic and charitable contributions and the company's relationship with the community. Porter and Kramer (2002)

stated that community related activities are gained competitive advantages to the organisations. As mentioned in Section 8.5.2, if customers are aware of community activities such as donations, cultural and sports events that might influence positively their interest of the company (Fombrum and Shanley 1990; Smith and Alcorn 1991). Schreck (2011) argued that if the firm maintains a good relationship with community then the community helps build trust and confidence. This can be 'seen as a means of risk reduction' (Schreck 2011, p. 171).

Many studies have identified mixed results for the relationship between CSR and CP. The current study showed a positive relationship between community-related CSR activities and CP as measured by ROE and ROA. This finding is consistent with recent CSR literature, for example, Waddock and Graves (1997), Nelling and Webb (2009) and Peters and Mullen (2009).

Further, the results showed that with ROE as dependent variable, a FEM was the most appropriate model for community and other independent variables, with the coefficients for lagged community activities being positive and significant. In addition, with ROS as the dependent variable and Pooled Ordinary Model tests for CSR, the coefficients were also positive and significant. However, with ROS as the dependent variable, and the FEM as indicated by the appropriate tests, the results were not significant.

Nelling and Webb (2009) concluded that for company fixed effects, the relationship between CSR and CP was not as strong as had previously been reported in the literature. Further, when they tested this relationship using the Granger causality model, the results were the same. In addition, Ruf et al. (2001) argued that the relationship between CSR and CP based on stakeholder theory was positive. They demonstrated that CSP changed from 1991–1992 with company current and future CP. They concluded these results were consistent with those from other periods.

The literature review revealed that in developing countries CSR is mainly of a philanthropic nature, such as community activities. The developing world's companies are implementing these activities as part of their business strategies to increase company goodwill in their communities. However, results show a significant and positive relationship between community-related CSR activities and CP.

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8.5.5 The relationship between education-related activities and company performance is positive

H15: The higher level of ROE and higher level of CSR education related is positive.
H16: The higher level of ROA and higher level of CSR- education related is positive.
H17: The higher level of ROS and higher level of CSR- education related is positive

Education related CSR is targeting for the future benefits but basing on the present generation. The education relates activities are more concerned with community related CSR but developing countries such as Sri Lanka that concerns of these activities as basic CSR activity. The output of education is human knowledge and creativity which is intangible and cannot be measured. Studies have recommended that education be considered as economic activity. Rong (2010) explained that the nature of primary education was to provide basic knowledge for humans to be able to read, write and intelligence. The objective of higher education was cultivating higher levels of skills (critical thinking, and specified knowledge of particular areas). Rong (2010) further stated that education related to social beings and should separate primary education from higher education.

This study showed that there was no relationship between education-related CSR activities and company ROE, ROA and ROS. Previous studies included education-related activities in community relations. The education-related activities conducted in Sri Lanka are primarily targeted to primary education and schools. School children are considered as the future resources of the country, and investment in education-related activities is undertaken at a substantial cost to the economy.

Certain studies have shown that education-related activities are different from other social responsibilities of the country (Matten and Moon 2008). Even though Sri Lankan companies are concerned with education activities, this study showed that the relationship between these activities and CP was not significant. Rong (2010) advised "the awareness of the importance of education and literacy is commonly seen among governments and international organizations, who are primary holders of this responsibility" (p.6).

Rong (2010) further stated that firms can participate in education related CSR and achieve the following: build positive reputation, accessed high-quality human resource, fulfil company mission. The present study shows as negative results between CSR education and CP, which is perhaps due to the fact that the target group of these educational activities were students, who do not yet participate in the economic development of the country (as the labour force) and are not available as customers because they have no purchasing power. Thus, the return on these investments in education will not be obtained immediately.

It should be noted the results of this study were not very encouraging to the companies. Nevertheless, more research needs to be undertaken in this area before the association between education-related CSR activities and company performance can be more clearly understood.

8.5.6 The relationship between health-related CSR activities and company performance is positive

H18: The higher level of ROE and higher level of CSR-health relations is positive.

H19: The higher level of ROA and higher level of CSR-health relations is positive.

H20: The higher level of ROS and higher level of CSR-health relations is positive.

The results of these tests indicated that there was a significant negative relationship between health-related activities and CP. As explained in Chapter 7, health-related activities used as a CSR construct of this study compare with other community-related activities of other studies. The previous results were identified as significant relationships between community relations and CP. For example, Nelling and Webb (2009) used the KLD index for measuring CSR. The KLD index includes community activities, and identified a positive relationship between these community activities and CP. Other CSR relationship studies, such as that of Preston and O'Bannon (1997), concluded that there is a positive and significant relationship between community and environmental responsibility and company performance as indicated by ROS.

One of the issues that emerged from these findings is that the health-related CSR activities were costly. Companies valued their health-related social actions and increased company reputation and goodwill. The expenses for these issues are higher than for other CSR-related

activities, and thus this relationship was identified as significant but negative. It should be known, however, that during the sample period, significant health issues occurred in the Sri Lank. For example, there was an epidemic of dengue fever, and an increase in the number of casualties from the civil war. Generally, the health-related CSR activities' cost was higher than the other CSR costs and thus it directly affected the profitability of the companies.

8.5.7 Summary of the results and implications

The results indicated that CSR activities and CP have various relationships: positive, negative and non-significant. Organisations implement their CSR activities for different reasons. Both the positive and negative relationships encourage companies to implement the relevant CSR activities, while a non-significant relationship discourages the implementation of these activities. However, the major reasons for why companies implement these CSR activities are management attitudes, government support, employee motivations, and customer satisfaction. Whitley (1999) presented the four national business systems (NBS) that affect CP and the social responsibility activities in any particular country. Matten and Moon (2008) argued that these four systems are quite different between countries and state that these distinctive elements of CSR are embedded in national business systems, such as industrial relations, labour law and corporate governance.

Voluntary CSR approach believes that CSR can benefit companies. This can name as business case for CSR. These benefits motivate to implement CSR for shareholders and managers. CSR is a win-win strategy because its benefit goes to both organisation and society. The above benefits have been highlighted by the researchers as increasing market values (Aupperle et al. 1985; McWilliams and Siegel 2000), reducing risk (Moore 2001), employee motivation (Turban and Greening 1997), and increasing loyalty and improving corporate reputation (Maignan et al. 1999). However, studies have shown that voluntary CSR based on social and environmental pressures. The society advocates government regulation of business especially of multinational companies (Palmer 2003). These regulations are internationally recognised and binding. For example destruction of the ozone layer, acid rain or global warming can only be managed internationally. Leighton et al. (2002) argued that codes cannot respond to actual societal demands. The main problem of voluntary CSR in developing countries is sustainability. Managers have recognised this

situation and suggested to implement the regulations for CSR. Implementing the regulations would overweight the benefits of company (Gonzalez ad Martinez 2004).

CSR in the developing countries is still largely philanthropic in nature and is a voluntary service provided by companies. As described in Chapter 2, Carroll's (1991) philanthropic components show that these activities were performed to meet the charitable expectations of the people, to help the fine and performing arts sectors of the community, to provide assistance to private and public educational institutions and to support and increase the community lifestyle. Apart from these philanthropic activities, as described in Carroll (1991), the legal responsibilities and discretionary activities as well as the economic responsibilities, have not been included as CSR activities by the sample organisations. Further research should investigate why some stakeholder relationships do not significantly affect CP in Sri Lanka. For example, employee- and customer-related CSR activities and showed a non-significant relationship with CP. Further studies should be conducted with a greater focus on the health-related activities, which showed a negative relationship with CP.

8.6 Conclusion

This study identified positive and significant relationships between CSR and CP. The research questions were analysed and tested for statistical significance, and were discussed in relation to theory, the current literature and the context of this study. The results indicated that CSR was a recommended model for organisational CP, and that it was beneficial for the company as well as the stakeholders. Mixed results shown for the different stakeholder-related activities, but overall the study indicated that CSR concepts made an essential practical and academic contribution to developing countries such as Sri Lanka.

The following points should be considered when comparing the results of this study with those reported in the literature. This study compared CSR and CP, and showed that health- and community-related CSR activities had significant relationship to CP, while four other CSR-related activities did not show significant relationships with CP when ROE was used as the dependent variable. The calculation of the financial indicators in Sri Lankan organisations was based on the accounting standards issued by the ICSAL. These differed from the

international standards, and therefore the different financial indicators will give different results. The next chapter will discuss a summary of the findings and conclusions of the study.

Chapter 9: Conclusion

9.1 Introduction

The purpose of this thesis was to explore the CSR practices of Sri Lankan listed companies, how CSR is measured and how CSR affects CP. As described in Chapter 4, Sri Lanka has an open economic environment; therefore, Sri Lankan industries are highly competitive. The private sector plays an important role in the country's economy. The output of private sector industries in Sri Lanka grew annually by a considerable amount: 12.5 per cent in the year 2009 compared to 7.3 per cent in 2008, and the private sector industries accounted for 94 per cent of industrial production in 2009 (Central Bank 2010). As described in Chapter 8, rules and regulations have been established for the protection of employees, communities, consumers and the environment, but stakeholders expect something more than the normal products and services provided by their companies. In Chapter 2, it was discussed how stakeholder pressure on companies is one reason why CSR is implemented by management even though this is costly. Further, stakeholder expectations extend to the implementation of social responsibilities as discussed in Chapter 3. Conversely, companies in Sri Lanka have voluntarily implemented a range of CSR activities, including philanthropic and charitable activities, environmental conservation, public awareness campaigns and corporate sponsorships (Ariyabandu and Hulangamuwa 2002).

The structure of this chapter is organised as follows. Section 9.2 shows how the study has addressed the research objectives by discussing the research questions, the methodologies and the findings of the study. Section 9.3 provides a summary of the significance of the study, in terms of its academic and practical contributions. Section 9.4 shows a summary of the limitations of the study, while Section 9.5 present a summary of the implications and suggestions for future research.

9.2 Achievement of the research objectives

This section discusses the study's overall objectives and research problems, including how the researcher addressed the research problems by using the methodology described in Chapter 6, and the study's findings and implications.

The overall study showed CSR is an important business concept in both developing and developed countries. However, the responses to stakeholders were complicated because there is no mandatory requirement to implement the CSR concept and no framework that captured the uniqueness of the Sri Lankan cultural and economic environment. The major purpose of this study was to fill this gap and develop a CSR framework so that Sri Lankan companies could introduce the benefits of this concept to their stakeholders. Among these potential benefits is a contribution to CP.

Thus, the principal research question of this study was 'Is CSR performance related to CP in the Sri Lankan corporate sector?' To investigate possible answers to this question, three subsidiary questions were addressed. These were:
1. What does CSR mean in the Sri Lankan context?
2. To what extent were Sri Lankan companies socially responsible?
3. Was there a relationship between CSR and CP in the Sri Lankan companies listed on the CSE?

To answer these questions, the study began by examining the literature on CSR in both the developed and developing worlds.

9.2.1 What does CSR mean in the Sri Lankan context?

The literature search found the modern concept of CSR was developed in the 1950s and has subsequently modified. Research has shown that CSR involves two parties: business and society. Both business and society can accomplish their expectations through implementing the CSR concept. So this concept can be considered as win-win strategy. However, researchers have argued that CSR practices in the developing world are different from those

in the developed world. In particular, CSR in the developing world had a more philanthropic, rather than legal and discretionary, focus.

There is an extensive debate concerning the legitimacy and value of being a socially responsible business. As discussed in Chapter 2, there are different views on the role of a company in society and no agreement as to whether wealth maximisation should be the sole goal of a corporation. Most people concern certain benefits from a business being socially responsible, but most of these are still difficult to quantify.

However, voluntary CSR based on the social and environmental pressures (McInerney 2006). CSR policies involve a commitment by corporations, usually expressed in their statements of business principles or corporate-specific codes of conduct, to enhanced concern for the environment, human rights, fairness to suppliers and customers, and opposition to bribery and corruption (Unerman and O'Dwyer 2007). As well, Government regulation became more concern with promoting welfare activities of the organisations. So between the voluntary CSR and the regulations of the government has close relationship. These voluntary and regulatory concepts can be discussed under the topic of CSR and legal environments. However, the Chapter 9, Sections 9.2 discussed the lack of CSR regulations in Sri Lankan business environment the study developed a CSR framework and index for the identifying the relationship between CSR and CP. Furthermore, the study has developed a framework because there was no CSR definition accepted in Sri Lanka. Though the companies implement CSR, it is voluntary basis. There are no relevant regulations for disclosing CSR practices.

Accordingly, the first step in this research was to develop a CSR framework and understanding of CSR practices in Sri Lanka. As there is no mandatory requirement to put CSR into practice in Sri Lanka, companies had developed in their own CSR programmes for their organisations, for different reasons. These differences relate to different activities and consequences for various stakeholders as described in Chapter 2. In addition, different organisations have used different methods to disclose their CSR practices, even though they have adopted international CSR standards and principles to implement their CSR activities. However, some organisations disclosed philanthropic activities as CSR practice while others

reported a combination of philanthropic and compliance with legal and economic responsibilities as CSR actions.

Further, the literature reported developing countries are more concerned with philanthropic activities than other social responsibilities, such as legal, discretionary and economic duties. Welford (2005) concluded that philanthropic activities were more common in North America and Canada. Moon (2002) stated that Asia follows the CSR development in the West, but lags behind the CSR best practice in countries such as the UK. However, a trend in Asian countries is the new wave of interest of CSR, especially in Japan. Studies have shown that there are considerable differences in CSR practices between the Asian countries. Thus, a common CSR framework is essential for countries, particularly in the developing world, however, it is difficult to establish a universal framework due to the different CSR practices in different cultures.

Thus, the first research question was addressed by developing a CSR framework suitable for the Sri Lankan context. The development of this framework was based on stakeholder theory, which was developed by Freeman (1984). For this purpose, a pilot study was conducted, which involved examining the annual reports from 10 Sri Lankan companies for CSR-related information that they had disclosed over a 5-year period to confirm the availability of CSR data in Sri Lanka. A number of CSR practices were identified in the listed companies in Sri Lanka under several stakeholder categories. The study confirmed these six stakeholders categories as being employees, customers, the environment, education, health and communities. Using these stakeholder categories, a data collection method was designed, which involved interviewing senior members of the selected organisations.

The Delphi research technique was used to collect the data for this study. Two survey methods were employed; the first used interviews, while the second round used a survey questionnaire. Twenty expert respondents were selected from 10 government and non-government organisations in Sri Lanka. These data were used to develop a CSR framework after analysis of the data gathered in the interviews and the survey. Content analysis of the experts' opinions were analysed using SPSS descriptive statistics and identified the opinions of the survey respondents. As described in Chapter 5, the CSR framework classified the companies' CSR activities according to the six pre-identified categories of stakeholders who

were the target of these CSR activities. The 28 different CSR activities identified in this study were distributed across these categories. In response to the first research question, the findings from this phase of the study were that CSR activities in the Sri Lankan context relate to six stakeholder groups. These CSR activities were mainly philanthropic and charitable activities, environmental protection initiatives, community responsiveness and corporate sponsorships. The corporate sponsorships were primarily concerned with education- and health-related activities. These latter two activities formed two separate categories in the CSR framework developed in this study.

9.2.2 To what extent are Sri Lankan companies socially responsible?

This question is rather difficult to answer, particularly for the developing world. CSR is multidimensional variable; therefore, the data are qualitative. Qualitative data needs to be converted to quantitative figures to measure company CSR practices. Further, no common framework was available for either assessing the types of activities that were taking place or for reporting CSR; this study developed a common CSR index for the listed companies in Sri Lanka. These companies have reported CSR activities in their annual reports and the data from a content analysis of these reports showed evidence of CSR being practised in Sri Lanka.

The second research question was answered using the framework developed in the first stage of the study, which categorised six stakeholder constructs. The CSR practices undertaken by each company were measured under each stakeholder construct and the results were used to calculate the CSR index of each company. The index provided one summary figure for the overall CSR activities and six different figures for the six stakeholder groups identified in the framework. For this calculation, a dichotomous process was used which included three steps to calculate the index for each company. The index was composed of the six constructs and the number of CSR practices identified within each construct.

The findings showed the extent to which Sri Lankan companies have adopted CSR practices. Different organisations used different methods to disclose their CSR activities, although they had all adopted international CSR standards and principles to practice them. Some organisations performed philanthropic activities, while other companies practised a

combination of philanthropic activities, and compliance with legal and economic responsibilities. The literature suggests that in developing countries, CSR is mainly philanthropic. For example, Welford (2005) concluded that philanthropic activities were more common in North America and Canada. He further noticed that Asia follows the CSR development of West (Moon 2002), but Asia lags behind best practice in countries such as the UK. However, Asian countries are experiencing a new wave of interest in CSR, especially from Japan. These researchers have shown that within Asia there are considerable differences in CSR practices.

Baughn et al. (2007) stated that many companies in Asia do not understand CSR, but they are on familiar terms with community development and philanthropic activities. Further, socially responsible products and processes, and socially responsible employee relations are also common CSR activities. However, the extent of organisations' CSR implementation is difficult to measure. This study demonstrated that CSR activities disclosed by the sample companies could be measured using the CSR index developed in this study.

9.2.3 Is there a relationship between corporate social responsibility and company performance in Sri Lankan companies?

The third research question was answered by analysing the relationships between CSR indices and CP data for the past five years using data from the annual reports of 50 public limited companies listed on the CSE. This was achieved by using the panel regression technique.

Both cross-sectional and time-series data were identified. Therefore, panel regression analysis was conducted to identify the relationship between the two variables. The panel analysis included three models; pooled OLS, fixed effects and random effects. To test the validity of these effects, specification tests were employed. As described in Chapter 6, three specification tests have been specifically designed for panel regressions; the F-test, the LM test and the Hausman test. Similar methodology was used as described in previous studies to identify these different relationships. For example, these methods have been used in studies of CSR and CP (Nelling and Webb 2009; Rais and Goedegebuure 2009), a determinant of capital structure and CP (Ramadan 2009), and the impact of environmental performance on

CP (Elsayed and Paton 2005), and so were considered appropriate for the current study due to the sample size and data characteristics.

The conceptual framework of the study presented in Chapter 5 was designed to guide the analyses of the relationship between CSR and CP of the listed companies in Sri Lanka. This framework consisted of three types of variables: an independent variable (CSR); a dependent variable (CP); and a control variable (company size). The independent variables were the six CSR elements, consisting of activities targeting employees, the environment, customers, communities, education and health. The dependent variables of the study were the financial indicators ROE, ROS and ROA.

ROE is useful for evaluating a company's profitability compared to that of other companies in the same industry. ROA is an important profitability ratio because it measures the efficiency with which the company is managing its investment in assets and how it as them to generate profit, while ROS evaluates a company's operational efficiency. The study developed 19 hypotheses drawn from this conceptual framework. The significance of each of these hypotheses was tested using the methodology presented in Chapter 5.

Different findings were obtained depending on the performance measures employed. Table 9.1 shows the summary of the findings of the study.

Table 9.1: Findings of the study: Significance data only

Independent variable	Dependent variables	Significance	Significance with control variable: company size (total sales/total assets)	
Overall CSR index	ROE	P < 0.0001	P < 0.0000	
Individual elements	ROE		Total sales	Total Assets
Health		P < 0.001	P < 0.001	–
Community		P < 0.001	P < 0.001	
Customers			–	P < 0.0001
Environmental				P < 0.01
Education			–	P < 0.001
Overall CSR index	ROA	P < 0.01	P < 0.01	P < 0.0001
Health	ROA	P < 0.01	P < 0.01	–
Community		P < 0.001	P < 0.001	P < 0.0001
Employees			P < 0.01	–
Overall CSR index	ROS	P < 0.01	P < 0.001	P < 0.01

Source: Author's calculation

9.2.4 Implications of the Findings

These results are classified according to the three dependent variables, ROE, ROA and ROS. When ROE is the dependent variable, the results indicate that the overall model is statistically significant (p < 0.0001). The health and communities elements are statistically significant when the ROE is the dependent variable. A positive relationship was shown with the community construct and a negative relationship was shown with health-related elements.

As discussed in Chapter 8, this mix of positive and negative relationships occurs due to the cost benefit effect on companies. CSR is a costly concept and community-related activities are implemented to attract people to companies while increasing their reputation, goodwill and sales (Fernando 2007; Porter & Kramer 2011). Asian countries in particular (Fernando 2007) invest in social responsibilities in order to increase their popularity and gain a return. The first alternative hypothesis was rejected because no significant relationship was found between employee-related CSR and ROE, ROS and ROA. These findings are in direct

contrast to previous research. The literature shows that there is a positive relationship between human resources-related CSR practices and CP (Cascio 1991; Flamholtz 1985). Huselid (1995) pointed out that some CSR practices have been labelled as 'High Performance Work Practices' (U.S. Department of Labor 1993). This happens when companies engage in CSR activities and therefore a positive relationship could be expected between community related activities and CP. Conversely, health related activities are also costly, but these were conducted as donations and therefore the returns from these activities are lower than those from the community-related activities. For example, some of the health-related activities in Sri Lanka include building a ward in a government hospital or renovating an operating theatre. These activities reduce the profit of the companies and result in the negative relationship between health-related activities and CP in Sri Lankan companies.

The study confirmed that there is a significant relationship between CSR and companies ROE. The analysis of community activities and the company profitability shows positive effects, while health-related activities and profitability showed negative effects. As discussed in Chapter 8, the literature on this topic has also shown significant, non-significant, and positive and negative relationships between the CSR and CP. Hence, these results are in broad agreement with those of previous studies.

Secondly, when ROA is the dependent variable, the results indicate that the overall model is statistically significant ($p < 0.01$). Again, health and community-related activities have a significant relationship with ROA.

Therefore, it was concluded that CSR and ROS have a significant relationship. In other words, a company's efficiency is enhanced by implementing CSR practices, especially community-related activities. This study shows that community relationships also have a strongly positive relationship with ROA, while health-related activities have a negative relationship with ROA. Finally, when the ROS is the dependent variable, results indicated the overall model was statistically significant ($p < 0.01$).

In summary, the above analysis shows the dependent variables ROE, ROA and ROS have significant relationships with CSR. ROE and ROA have highly significant relationships with

CSR performances, while ROS showed a less significant relationship (only 10 per cent significance level).

When the study analysed the relationship between CSR and CP using company size as the control variable, the direction of the independent variables' influence on ROA and ROE did not change. However, when total assets were used as the control variable the results were totally changed and a significant relationship was identified between customer-related activities and ROE. Further, this analysis revealed a negative relationship between environmentally-related activities and ROE.

9.3 Summary of the contribution of the study.

This section discusses the contribution of this study in terms of its academic and practical implications.

9.3.1 Academic contribution

In reviewing the literature, it was apparent CSR frameworks had been developed, along with principles and theories, and previous studies had shown mixed results of the relationship between CSR and company performance. The present study contributes to the body of knowledge in the area of CSR in the following ways.

Firstly, the framework and index development for the Sri Lankan context for the CSR studies are a major contribution to knowledge. The lack of CSR literature related to the Sri Lankan context suggested the necessity for the development of an appropriate CSR framework. In doing so, the results of this study show that Sri Lankan listed companies are implementing CSR practices and reporting these in their annual reports. They need a suitable CSR structure to implement CSR practices in order to be able to identify the advantages for themselves and their stakeholders. In addition, they need to identify the importance of cultivating a new set of CSR practices in order to compete successfully in a global economic market. The legal responsibilities of companies have been identified as CSR in certain developed countries (Carroll 1979). However, the companies in Sri Lanka did not identify their legal compliances as CSR. No rules and regulations established for responsibility to CSR implementation in Sri

Lanka. The Table 4.1 and 4.2 in Chapter 4 described the rules and regulations relating to employees and environmental issues. These regulations are not being employed as CSR in the organisations. As a result, their CSR disclosures mainly report activities in education, community, health and the environment. In addition, activities involving employee welfare were also considered CSR. These findings constitute an academic contribution to the study of CSR.

Secondly, this study has contributed to theory by developing a CSR index that can be used to calculate the level of a company's CSR practices. This index was based on the framework developed for the study. This framework comprised six categories of stakeholder relations. The disclosure values of CSR can be measured by using the present CSR index. This contribution is of significant importance for future Sri Lankan CSR studies. For many developing countries, a major limitation to CSR studies has been the difficulties associated with measuring CSR practices. This study used a rigorous and scientific method to develop a CSR index which can be used by future researchers in their studies.

Thirdly, as described in Chapter 5, CSR was defined by its stakeholder relationships. Consequently, stakeholder theory provides the theoretical underpinnings of this study. According to Freeman (1983) companies should consider not only their shareholders, but also the interests of their stakeholders. Other advantages related to the implementation of CSR have been discussed in Chapter 2. This study confirmed the importance of stakeholder theory to the understanding of CSR in developing countries.

Next, this study's principle objective was to identify the relationships between CSR performance and CP. The findings of this study are consistent with many CSR relationship studies that have adopted the panel data analytical approach. Therefore, this study is a direct contribution to the theory of CSR and its development.

Finally, panel regression analysis was used to identify the relationships between the two variables. Many studies have used regression analysis methods to examine CSR and CP relationships. However, these studies have all suffered from the problem of multi-collinearity and the use of panel data analyses eliminates this problem. As described in Chapter 6, panel regression has many other advantages compared to standard multiple regression analysis.

Therefore, another academic contribution made by this study was to demonstrate the advantage of a new method for analysing CSR relationship studies.

9.3.2 Practical contributions

From a practical perspective, this study provides feedback to company managers that these stakeholder activities are beneficial to them. Even though these stakeholder activities are cost-based, in the long term they bring financial benefits to shareholders and thus managers will be encouraged to implement CSR activities on a voluntary basis.

Mandatory requirements are needed to improve the implementation of activities related to environmental, employee and customer constructs. As a CSR framework has yet to be identified in the developing countries, the framework developed in this study provides a useful model that could be employed to facilitate the discussion of CSR in other developing countries. In addition, other Sri Lankan organisations which have not yet implemented CSR programmes will become aware of the ideas and expectations of their stakeholders in relation to CSR activities.

As discussed in Chapter 2, the practice of CSR is considered by organisations in terms of stakeholder pressures. Managing CSR well provides an opportunity for risk management by a company, including the amelioration of disputes, strikes and other disruptions.

However, Sri Lanka's CSR is still in its infant stage. The benefits of CSR are an important study for developing countries. Recent theoretical study Schaltegger and Burritt (2005) mentioned that CSR brings the following benefits: risk management, cost reduction, differentiation, positive influence on shareholder value, improved reputation and brand value, and maintaining the license to operate. In addition, Heal (2005) also stated risk management, efficiency gains, improved relations to regulators, improved brand value, improved employee productivity and reduced capital costs.

Furthermore, CSR researchers now focus their studies with the CSR and poverty concept (Pradhan (2007); Marino and valor (2011). Some argue that CSR is a tool that can eradicate the poverty of the country. Therefore, this concept is a complex topic, focussing with

variety of perspectives (Marino and Valor, 2011). Sri Lanka is a developing country it is needed to develop and eradicate the poorness. If CSR concept could do that confidentiality, the researcher's objective of this study is achieved.

9.4 Limitations of the study

The following limitations were identified as a consequence of the methodologies employed in this study:

1. The number of participants in the interviews was limited to 20 experts. The experts' opinions, of which 39 were coded in first round of the study, were reduced to 28 in the analysis. Therefore, issues of differences in perceptions between a limited numbers of participants may limit the generalisability of the results.

2. The CSR data for the estimation of issues in this study depended largely on the quality of the data available in the annual reports and from the respondents' perceptions. Hence, the results were limited to the information obtained from these two data sources.

3. The scope of the study was limited to the 50 listed companies in Sri Lanka. These 50 companies include the eight industry sectors in the CSE. This limits the generalisability of the findings to all organisations in Sri Lanka. The study findings might have been different if a larger sample of listed companies had been included and the study period had been extended.

4. This study was limited to three financial performance indicators such as ROA, ROE and ROS to make out the company performance. There are many indicators   such as non-financial performance indicators can be used for the study to examine this relationship.

The framework development of this study was limited to the six stakeholder elements and their associated activities identified in the pilot study. CSR implementation and CSR practices under these six categories were limited to those conducted on a voluntary basis. Thus the actual CSR practices were limited to practices identified as philanthropic and

welfare-driven in nature. The CSR framework was limited to the 28 CSR activities. This figure was calculated based on the six stakeholder elements described above. Thus, important non-philanthropic activities that were not addressed could be further investigated. The study selected 10 organisations, which included both government and non-government companies. The respondents of the interviews were specialists in their particular CSR elements. It was assumed that they had a good overall knowledge of the other CSR practices in addition to their areas of expertise in Sri Lanka. However, the selection of the organisations did not represent all the stakeholder perspectives of the country. There is no broader community perspective on organisational behaviour, which is a limitation of the current study.

9.5 Future research

Areas for future research include testing of the reproducibility of these results in other publicly listed companies on the CSE in Sri Lanka. The CSR framework developed in this study could be applied to identify the CSR of these companies and their CSR indices can be calculated using the dichotomous model. The panel data analysis model could be adopted to analyse the relationships between the CSR and CP variables for these companies. This study focused on Sri Lankan companies. Another focus for future research could be a comparison of a cross-sectional study Sri Lanka and the other developing countries such as India, Malaysia, Bangladesh or Indonesia. These other countries are also contributing to the development of CSR concepts in their cultures and academic fields. It is important to understand the most important CSR elements in other developing countries, and to recognise the important stakeholder reactions other than the six elements identified in this study.

The study used the interview technique for the collection of data from government organisations and the NGO and public sector companies. The reason the government organisations were selected was because the role of the government is crucial in decision-making processes in Sri Lanka, as well as in the implementation of rules and regulations. Ten of the 20 people interviewed of this study represented government organisations. Future studies could use larger sample sizes for modifying the CSR framework in order for it to be utilised in the actual CSR practises of organisations. This study did not reveal major differences in the direct relationships between CSR and CP whether or not control variables were included. However, this study used only company size as control variable, whereas the

previous studies have suggested that industry, R&D and management attitudes all affect CSR and company performance. Therefore, future research could include these control variables to examine the relationship between the CSR and CP.

The study was limited to three indicators of CP when identifying the relationships between CSR and CP. CSR is a qualitative variable, and not the only factor to affect the company CP. This also affected non-financial performance factors such as employee satisfaction, employee turnover, customer satisfaction, shareholder satisfaction and management attitudes. Therefore, future research could examine the relationships between CSR and company non-financial performance in the Sri Lankan context. This study reviewed the literature in the context of the developed countries. It developed the CSR framework and indices and finally identified the relationship between CSR and CP in the context of a developing country. Therefore, the study's advancement can be examined researching a new study by comprising between developed country contexts of this research in Sri Lanka.

9.6 Conclusion

The literature has revealed the benefits to be gained from effective CSR practices. CSR acts as a very important role in attracting stakeholders and stakeholder confidence to companies as discussed in Chapter 2. The study supported the argument that there is a positive relationship between CSR and the performance of Sri Lankan companies. In addition, the data collection technique, method of analysis and development of a new CSR index awere new in the area of CSR in Sri Lanka.

The findings of this study are in agreement with the literature identified from different countries. This study related to the developing countries of Sri Lanka. There have been few studies describing the development of a CSR framework development in developing countries. However, as described in Chapter 6, Rais and Goedegebuure (2009) suggested a framework for Indonesia that was developed according to stakeholder theory and is consistent with the CSR framework developed in this study. In addition, Davenport (2000) and Ruf et al. (2001) developed CSR frameworks using stakeholder relationships. As described in Chapter 2, CSR practices differ from country to country and culture to culture (Chambers

2003; Matten 2004). These studies developed frameworks that are consistent with the literature and their own country's style.

Disclosure indices developed in various studies (Cooke 1991; Hossain et al. 1994) have used disclosed data and a dichotomous process. Developed countries used these CSR indices for different objectives, such as measuring the CSR performance, providing transparency between stakeholders and companies and for analysing research studies. Popular CSR ratings are the KLD index, the CSR index, the AA1000 and the Dow Jones Sustainability Index. The present study developed a CSR index because existing indices cannot be adopted to Sri Lankan companies because their formal CSR practices have not been implemented in this country.

The main objective of the study was to identify the relationship between CSR and CP in the listed companies in Sri Lanka. For this purpose, the study analysed the data using a econometric test, panel data regression analysis, which gave more accurate results than standard regression analysis. This study was the first study in Sri Lanka to identify the relationship between CSR and CP using this type of econometric analysis. The results showed that there is a significant relationship between CSR and CP. To understand these results, the findings revealed that community-related activities showed a positive relationship with CP, while health-related activities showed a negative relationship. The above discussion of the limitations of this study and the possibilities for future research conclude this thesis.

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Appendix 1: Interview Questionnaire

A. General Questions (Demography)

Please tick in the appropriate answers

1. Which of the following groups represents you?

25–34 years	
35–44 years	
45–54 years	
55–64 years	

2. What is your education level?

Degree	
Master Degree	
Doctor of Philosophy	
Professional qualification	
Others (Please specify)	

3. In which stakeholder category is your organisation involved?

Customers		NGO	
Government		Investors	
Suppliers		School Children/ teachers	
Employees		Patients/ Aged people/	
Media		Business coalitions	
Communities			

4. How long have you held your current position in the company?

Less than 2 years	
3–5 years	
6–8 years	
9–11 years	
More than 11 years	

5. Would you like to receive a copy of the summary report of the study?

Yes	
No	

6. If yes, please fill in the form below or just attach your business card

Name: ....

Position: ....

Postal Address: ....

....

E-mail: ....

Telephone: ....

Thank you very much for taking the time to complete this questionnaire. Your help in providing this information is greatly appreciated. If there is anything else you would like to tell us about, please do so in the space provided below.

B. Interview Questions

1. What social and environmental expectations do you have of companies that operate in Sri Lanka?
2. What do you think about the social responsibility of the organisations, how they implement it and why they organise it?
3. What do you think are company's objectives for developing CSR activities?
4. Can you explain why organisations implement certain social activities ?

5. Do you believe that the mandatory activities in companies are based on social responsibility? Please explain
6. Do you believe that organisations involved in voluntary activities such as cash donations and any other activities that are free of charge are socially responsible? If yes, please give examples.
7. What specific activities do you think companies should be doing?
8. What are the most popular activities provided by companies under CSR?
9. Do you think these activities are important to CSR?
10. What, in your opinion, are the characteristics of CSR?
11. Can you please specify the most relevant stakeholder issues under CSR?
12. Do you have an idea about any other activities related to CSR?
13. What sort of activities would you like to introduce as part of CSR?
14. What sort of pressure do you apply to companies to be socially responsible?
15. In your opinion what are most important activities your organisations expect as CSR activities?
16. Can you think of a leading socially responsible company?
17. What do you think makes them a leader in this area?

Appendix 2: Delphi Second Round Questionnaire

Rating sheet for the questionnaire of the second round of Delphi; This all 39 questions includes the final results of the first round Delphi. Please confirm your answers of the first round marking the rating sheet follows.

Please tick (√)le the relevant cage according to your opinion (5 = Critical; 4 = Most important; 3 = Important; 2 = Less important; 1 = None)

Number	Question	5	4	3	2	1
	Environmental Relations					
Env1	Organising programmes for caring the environment					
Env2	Organising programmes for cleaning the environment					
Env3	Planting trees: herbal and avoiding soil erosion					
Env4	Organising study programme for saving the environment-					
	Community Relations					
Com5	Building up houses for homeless people: tsunami affected people					
Com6	Organising video/audio programmes and short films for understanding safety: road rules, healthy foods, first aids, preventing deceases, respect to each other etc.					
Com7	Marinating the parks and towns					
Com8	Supporting services for elders, children and disabled person					
Com9	Organising first aid programmes; safety programmes					
Com10	Organising sports activities					
Com11	Organising mental relief activities (Musical shows for disable person, exhibitions etc.)					
	Employee Relations					
Emp12	Training and development					
Emp13	Health and Safety programme					
Emp14	Equal and impartial employment policy					

Emp15	Trade Union development					
Emp16	Welfare facilities: transport; insurance; sports; organising functions					
Emp17	Grievances handling, Formal leaves system					
Emp18	Two way communication system, Formal recruiting, promotion and firing system					
Emp19	Financial benefits					
Emp20	Organising day care centres and pre-schools children					
Emp21	Prevention child labour, Labour discrimination (Women)					
Emp22	Providing employees' job facilities: rest rooms, toilets					
Emp23	Organising day care centres and pre-schools children					
	Education					
Edu24	Organising education seminars for students and teachers for updating syllabuses and preparing for the exams					
Edu25	Donations books, uniforms and foods and building up libraries in school level					
Edu27	Encouraging scholarship students to continue their educations up to the universities					
Edu28	Organising English language support programme for rural areas student					
Edu29	Organising disability support activities (Braille keyboards, text to speech programmes, learning aids for slow learners)					
Edu30	Organising skill development programme for undergraduates and school leavers					
Edu24	Organising formal day care centres and pre-schools					
	Customers					
Cus 31	Offers quality products and services					
Cus32	Provides information that is truthful and useful					
Cus33	Respects the rights of consumers					
Cus34	Providing after sales services					
	Health					
Hea35	Organising Dengue, HIV and rebels preventing programmes					

Hea36	Organising blood donation campaign					
Hea37	Organising health care camps for elders and children					
Hea38	Supporting services to government hospitals. Donating beds, equipment, theatres and additional buildings					
Hea39	Providing scholarships for medical students, doctors for further education					

Appendix 3: CSR Framework

Community relations
1. Organising video/audio programmes and short films for understanding safety: road rules, healthy foods, first aids, preventing deceases, respect to each other etc. And organising first aid programmes; safety programmes
2. Building up houses for homeless people: tsunami affected people
3. Organising sports activities
4. Supporting services for elders, children and disabled person
5. Organising mental relief activities: musical shows, exhibitions etc
6. Maintaining parks and towns
Health relations
7. Organising Dengue, HIV and rebels preventing programmes
8. Supporting services to government hospitals. Donating beds, equipment, theatres and additional buildings
9. Providing scholarships for medical students, doctors for further education
Employee relations
10. Training and development
11. Health and Safety programme
12. Equal and impartial employment policy, Grievances handling, Prevention child labour, Labour discrimination (Women)
13. Trade Union development
14. Welfare facilities: transport; insurance; sports; organising functions, Organising day care centres and pre-schools children
15. Formal recruiting, promotion and firing system
16. Formal leaves system and Financial benefits
Education relations
17. Organising education seminars for students and teachers for updating syllabuses and preparing for the exams
18. Donations books, uniforms and foods and building up libraries in school level
19. Organising English language support programme: organising for rural areas student
20. Organising disability support activities for disabled children (Braille keyboards, text to speech programmes, learning aids for slow learners)
21. Organising skill development programme for undergraduates and school leavers
22. Organising day care centres and pre-schools children
Customers relations
23. Offers quality products and services
24. Provides information that is truthful and useful
25. Respects the rights of consumers.
Environmental Relation

26.	Organising programmes for caring the environment, saving the environment-'save our environment', cleaning the environment
27.	Applicable environmental rules: building plans, waste water arrangement cleaning the garden, permission for land development
28.	Planting trees: herbal and avoiding soil erosion

Sources: Analysed data based on the descriptive statistics

Appendix 4: Dichotomous CSR Indices of the Study

Company	2004	2005	2006	2007	2008
1	29%	29%	29%	36%	36%
2	36%	32%	46%	46%	50%
3	86%	86%	86%	86%	86%
4	50%	61%	61%	82%	86%
5	21%	32%	25%	36%	36%
6	36%	29%	29%	39%	46%
7	32%	46%	50%	57%	57%
8	21%	21%	29%	18%	29%
9	46%	46%	46%	57%	61%
10	64%	68%	64%	75%	68%
11	29%	21%	39%	32%	36%
12	50%	29%	57%	57%	57%
13	50%	50%	50%	64%	64%
14	64%	68%	64%	75%	82%
15	57%	61%	68%	68%	82%
16	68%	68%	71%	71%	75%
17	50%	50%	50%	64%	64%
18	82%	82%	100%	100%	100%
19	39%	46%	54%	64%	64%
20	54%	50%	57%	61%	61%
21	82%	75%	86%	82%	82%
22	50%	64%	64%	64%	71%
23	61%	79%	61%	82%	96%
24	75%	79%	82%	89%	93%
25	71%	79%	82%	82%	82%
26	64%	57%	54%	75%	57%
27	82%	86%	93%	96%	89%
28	43%	43%	46%	46%	46%

29	54%	54%	57%	61%	68%
30	61%	61%	61%	61%	64%
31	46%	50%	54%	57%	61%
32	54%	57%	61%	68%	64%
33	61%	61%	68%	71%	71%
34	57%	61%	68%	68%	71%
35	46%	57%	57%	61%	68%
36	71%	71%	75%	75%	75%
37	43%	46%	54%	57%	61%
38	75%	82%	82%	82%	86%
39	82%	82%	82%	86%	79%
40	68%	68%	57%	71%	79%
41	54%	61%	57%	61%	68%
42	82%	89%	93%	96%	89%
43	64%	61%	57%	68%	82%
44	93%	93%	96%	93%	100%
45	43%	71%	75%	68%	75%
46	54%	57%	64%	68%	64%
47	61%	64%	64%	75%	79%
48	57%	57%	61%	68%	68%
49	79%	79%	75%	89%	86%
50	50%	50%	64%	68%	79%

Source: CSR index Based on the dichotomous process

Appendix 5: Tolerance Value and VIF for Multi-collinearity Test

	Coefficients[a]						
	Unstandardised Coefficients		Standardised Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	.008	.112		.070	.944		
Cust	.049	.052	.065	.943	.347	.778	1.286
Employee	−.204	.063	−.244	−3.244	.001	.660	1.515
Healt	−.093	.039	−.182	−2.401	.017	.650	1.539
Edu	.069	.056	.103	1.239	.216	.538	1.858
Community	.248	.069	.291	3.610	.000	.574	1.743
Envi	−.009	.017	−.033	−.518	.605	.924	1.082
Assets	.012	.018	.049	.681	.497	.715	1.399

a. Dependent Variable: ROE

Appendix 6: HREC Approval

MEMO

TO	Dr Colin Higgins	DATE	01/10/2010
	School of Management and Information Systems		
	Footscray Park Campus		

FROM	Dr Nick Billington
	Chair
	Faculty of Business and Law Human Research Ethics
	Committee

SUBJECT	Ethics Application—HRETH 10/165

Dear Dr Higgins,

Thank you for submitting your application for ethical approval of the project entitled:

HRETH 10/165 Corporate social responsibility and company performance: Evidence from Sri Lanka

(BLHREC 10/59)

The proposed research project has been accepted and deemed to meet the requirements of the National Health and Medical Research Council (NHMRC) 'National Statement on Ethical Conduct in Human Research (2007)', by the Chair of the Business & Law Human Research Ethics Committee. Approval has been granted from 1st October 2010 to 31st March 2012.

Continued approval of this research project by the Victoria University Human Research Ethics Committee (VUHREC) is conditional upon the provision of a report within 12 months of the above approval date (by **1ˢᵗ October 2011**) or upon the completion of the project (if earlier). A report proforma may be downloaded from the VUHREC web site at: http://research.vu.edu.au/hrec.php

Please note that the Human Research Ethics Committee must be informed of the following: any changes to the approved research protocol, project timelines, any serious events or adverse and/or unforeseen events that may affect continued ethical acceptability of the project. In these unlikely events, researchers must immediately cease all data collection until the Committee has approved the changes. Researchers are also reminded of the need to notify the approving HREC of changes to personnel in research projects via a request for a minor amendment.

On behalf of the Committee, I wish you all the best for the conduct of the project. If you have any queries, please do not hesitate to contact me at Nick.Billington@vu.edu.au

Kind Regards,

Dr Nick Billington
Chair
Faculty of Business and Law Human Research Ethics Committee