FACTORS LEADING TO CSR REPORTING: A CASE FROM MANUFACTURING SECTOR IN SRI LANKA

D.G. SUJEEWA DAMAYANTHI

DEPARTMENT OF ACCOUNTING

and

R.M.R.B RAJAPAKSE

DEPARTMENT OF ACCOUNTING

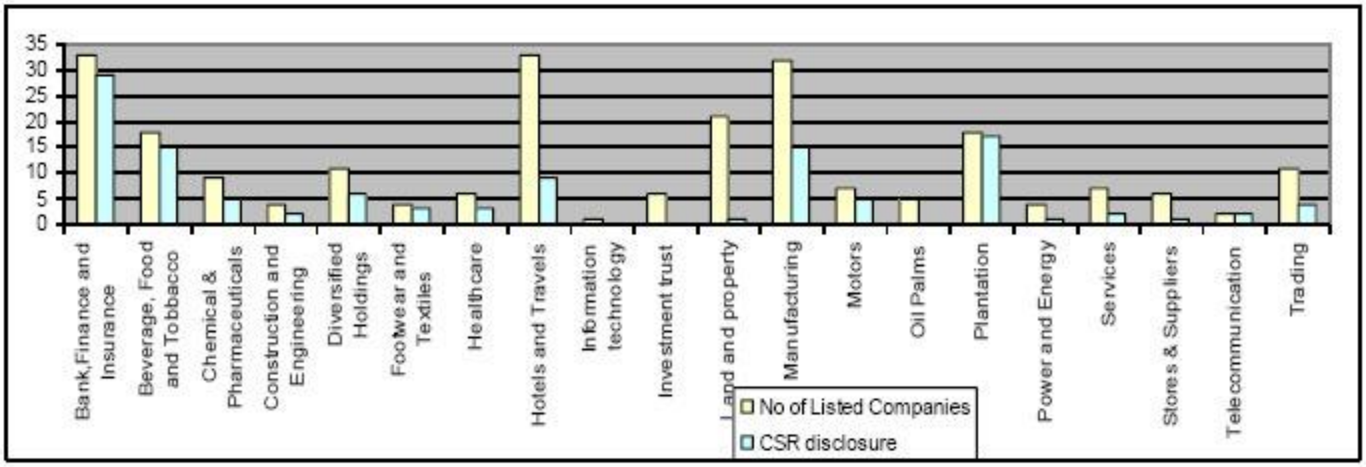
Abstract

—Corporate Social Responsibility (CSR) reporting originated from a growing stakeholder awareness of the role of business entity in the society. It is a voluntary form of self-regulation that aims to undertake everything from human rights and labour standards to limiting carbon dioxide emissions that lead to climate changes (Doane, 2004).

There are number of studies which emphasize the development of CSR reporting worldwide (Boesso & Kumar, 2006; Enquist, Johnson & Skalan, 2006; Nielsen & Thomsen, 2007; Ratanajongkol & Low, 2006; Slater & Gilbert, 2004; Tilling & Tilt, 2009). World Bank Report (2004) reveals that 45 percent of the world‘s largest firms produce some form of non-financial report, compared to 35 percent level of these firms in 1999. Ratanajongkol & Low (2006) found that in 1993, 13 percent of the top 100 firms in the world produce health, safety, or environmental report. By 1996, that number had risen to 17 percent, in 1999, 24 percent of firms produced CSR or Sustainability Reports, and by 2002, it was 28 percent.

As to Chapple and Moon (2006), in the Asia (India, Indonesia, Malaysia, Philippines, South Korea, Singapore, and Thailand) there is a growing trend on CSR reporting even though it lags a little behind the trend in European countries.

A study by Rajapakse (2009) found that there is a growing tendency to report on CSR or SR among listed companies in Sri Lanka. The figure 1 clearly states that in the banking and finance, insurance, plantation, food and beverages and tobacco sectors, the CSR or SR reporting is mostly common. Interestingly, in the manufacturing sector almost fifty percent is reporting on CSR or SR. The rationale for selecting the manufacturing sector is twofold; first, this is the sector which highly influences on the environment. Second, a considerable amount of companies do produce reports on CSR while the same amount does not. Thus, the researcher can explore the actual motives behind CSR reporting (which avoid the CSR reporting motive of mere reporting trend of the sector).



Source: Researcher's own construction (2009)

AS to Chappel and Moon (2006), some specific factors in a country determine the level of CSR reporting. This witness to the justice of the study on factors leading to CSR reporting in Sri Lanka where there is a distinguished economic, social and cultural background exists.

Thus, the key objective of this study is to explore the factors which lead to report on Corporate Social Responsibility in manufacturing context in Sri Lanka.

The theories of the legitimacy and the new-institutional sociological perspective have provided theoretical underpinnings in examination of those factors (Bebbington, Higgins & Frame, 2009; Ratanajongkol & Low, 2006). Companies might produce CSR reports

with the core expectation of legitimization with the society or it might be a result of power struggle to achieve some benefits.

The legitimacy is defined as —a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within socially constructed system of norms, values, beliefs and definitions (Suchman, 1995, p. 574). Furthermore, the theory depends on the assumption that the organizations do not have an inherent right to exist (Tilling & Tilt, 2009). Thus, the current study examines the reflection of legitimacy through the factors leading to CSR reporting in the manufacturing sector in Sri Lanka.

Past research (Burchell, 1980; Hopwood, 1983; Hopwood & Miller, 1994) argue that institutional theory perspective emphasizes the importance of trans-organizational processes in organizational functioning and enables a consideration of relations of power as they affect the organization. The institutional theory could be utilized to explain how the institutional forces can influence intra-organizational practices, thus the CSR reporting. The basic assumption of the new-institutional sociology is that the intra-organizational structures and procedures, including Accounting are largely shaped by other factors rather than cost minimizing objectives. The new institutionalism provides a useful theoretical framework for studying how the organizations struggle with pressures to change (DiMaggio & Powell, 1991). Thus, the current study examines the reflection of institutional struggle through the factors leading to CSR reporting in the manufacturing sector in Sri Lanka.

The present study adopted interpretative methodology with the use of multiple case design. Data collection was supported by data triangulation which incorporated interviewing and CSR reports reviewing. Five companies were selected for the current research adopting to the purposive sampling technique which satisfies three conditions, namely, companies which are listed in the Colombo stock exchange, non-multinational (to avoid influences from the foreign headquarters), and secured CSR related awards from ACCA in United Kingdom or ICASL from year 2003. Ten informants, who have the utter responsibility in CSR reporting, were selected from those companies.

Findings of the study are twofold. First, CSR reporting is successful in: establishing legitimacy through reporting the quality and desirability of its products and operations, being a communication media ,avoiding stakeholder challenges, proactively winning the confidence of stakeholders, informing the stakeholders on organizational changes and changing the perception of the public reflecting the legitimization through the factors leading to CSR reporting. Second, CSR reporting is due to: requirement to ensure the competitive position in the industry, maintain the trend in the industry, the influence by the professional bodies which provide guidelines, the organizational growth and its' profitability, influence of leaders on CSR reporting, and the impact of organization specific culture reflecting the institutionalization through the factors leading to CSR reporting.

References

*Bebbington, J., Heggins, C., & Frame, B. (2008). Initiating sustainable development reporting: evidence fron New Zealand.**Accounting Auditing and Accountability**, 22, 583-625.*

*Belal, A. R., & Owen, D. L. (2007). The views of corporate managers on the current state of, and future prospects for, social reporting in Bangladesh. **Accounting, Auditing & Accountability**, 20(3), 472-494.*

*Boesso, G., & Kumar, K. (2006). Drivers of corporate voluntarily disclosure. **Accounting Auditing and Accountability,** 20, 269-296.*

*Burchell, S. (1980). The role of Accounting in organization and society. **Accounting, organization and Society**, 5, 5-27.*

*Chapple, W., & Moon, J. (2006). CSR agendas for Asia. **Corporate Social Responsibility and Environmental Management,**14, 183 -193.*

*DiMaggio, P. J., & Powell, W. W. (1991). The iron cage revisited: institutional isomorphism and collective rationality in organizational fields. **American Sociological Review**, 48, 147-160.*

*Doane, D. (2004). Beyond Corporate Social Responsibility minnows, mammoths and market. **Futures,** 37, 215-219.*

Enquist, B., Johnson, M., & Skalen, P. (2006). Adoption of corporate social responsibility: incorporating a stakeholder perspective. ***Qualitative Research in Accounting and Management****, 3, 188-207.*

Hopwood, A. J. (1983). On trying to study accounting in the context in which it operates. ***Accounting, Organization and Society****, 8, 287-305.*

Hopwood, A.G., & Miller, P. (1994). ***Accounting as social and institutional practice****. Cambridge: Cambridge University Press.*

International Survey of Corporate Social Responsibility (2008). ***KPMG international survey of sustainability reporting****. KPMG.*

Meyer, J.W., & Rowan, B. (1977). Institutionalized organizations: formal structure as myth and ceremony. ***American Journal of Sociology,*** *83, 340-363.*

Nielsen, R.P. (2007). What can managers do about unethical management. ***Journal of Business Ethics,*** *6, 309–320.*

*Ratannajorgkol, S., & Low, M. (2006). Corporate social responsibility in Thailand: the news is all good and increasing.****Qualitative Research in Accounting and Management****, 3, 67-83.*

Slater, A., & Gilbert, S. (2004). The evolution of business reporting: Make room for sustainability disclosure. ***Environmental quality management, Autumn****, 41-48.*

Suchman, M. (1995). Managing Legitimacy: Strategic and Institutional approaches. ***Academy of Management Review,*** *20, 571-610.*

World Bank. (2004). ***World bank annual report:*** *Author*