**Corporate social reporting by MNCs' subsidiaries in Sri Lanka**

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## Abstract

This study examines the pressures, barriers and enablers which subsidiaries of multinational companies encounter when engaging in corporate social reporting within a developing country context. The researchers conducted in-depth interviews with eighteen managers across ten subsidiaries in Sri Lanka. The findings show that the subsidiaries are overwhelmingly driven by their need to attain internal legitimacy and conform to formal institutionalised processes for reporting on CSR which act as a barrier against publishing separate social reports in Sri Lanka. The study uncovers a tension between head office reporting requirements and demonstrating accountability for the needs of local stakeholders.

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## 1. Introduction

Multinational corporations (MNCs) have become more powerful over the years and their potential to develop effective approaches to global issues, of which social responsibility is at the forefront, has also increased dramatically (Jamali, 2010; Waddock, 2008; Husted and Allen, 2006). In effect, MNCs are viewed as an important force in resolving global challenges (Margolis and Walsh 2003, Matten and Crane 2005; Rasche and Kell 2010; Scherer and Palazzo, 2007). Conversely, however, MNCs have always been at the receiving end of a wide range of criticism ranging from the negative effects of globalism to exploitation of cheap labour and natural resources (Braithwaite and Drahos, 2000; Gramlich and Wheeler 2003; Prout, 2006). They have especially been accused of relocating to developing countries, where environment, health and safety, governance and employee welfare standards are deficient or non-existent (Oosterhout 2008, Palan 2003). Therefore, corporate social reporting (CSRep), defined here as "the process of communicating the social and environmental effects of organisations' economic actions to particular interest groups within society and to society at large" (Gray, 1987:9), has attracted attention by making social and environmental impacts of MNC operations more visible (Gray, 1996 *et al* ; Kolk, 2010). Interestingly, prior research has revealed differences in corporate social disclosure at country level, and between domestic companies and MNC subsidiaries within the same country (Chapple and Moon, 2005). This suggests that the CSRep practices of MNC subsidiaries operating in developing countries may be influenced by different pressures than those of domestic firms operating in these countries. Yet, despite a sharp increase in social accountability pressures on MNCs, which have been pursued by diverse stakeholders across different countries and by varying regulatory and governance systems (Ite, 2004; Kolk, 2008), little is known about the CSRep practices of MNC subsidiaries operating in developing countries (Islam and Deegan, 2010) and their responses to these pressures

(Jamali, 2010; Meyer, 2004). Moreover, the few studies which *have* examined the head office influence on CSRep practices of subsidiaries have found a lack of external CSRep amongst such subsidiaries (e.g. Amran and Devi, 2008). As such, questions arise as to what barriers may exist which hamper subsidiaries of MNCs to engage in external reporting within a developing country and what enablers may propel them to overcome such barriers.

This paper addresses these questions and responds to calls for more in-depth studies examining CSRep amongst MNCs and their affiliates (Gray *et al*, 1996; Islam and Deegan, 2010) and the need to understand the different pressures which drive MNC subsidiaries to engage (or not to engage) in CSRep (Belal and Momin, 2009). It uses a multiple case study research design to explore the pressures, barriers and enablers that can influence the CSRep practices of MNC subsidiaries and to provide a better understanding of how isomorphic pressures and legitimacy concerns occur among these subsidiaries and their MNC head offices pertaining to CSRep. This empirical investigation of social reporting practices is carried out in ten MNC subsidiaries operating in Sri Lanka. Investigating the reporting of social and environmental effects specifically by MNC subsidiaries operating in a developing country such as Sri Lanka is important, given their significant corporate power and influence in such countries (Islam and Deegan, 2010) . Furthermore, Sri Lanka also presents a unique context where 'voluntary' CSRep of public-listed companies has increased in recent years but, overall, CSRep has remained at a very embryonic stage. There is no statutory requirement in Sri Lanka for public-listed companies to engage in CSRep, and, in the light of a vacuum of regulatory pressures for CSRep, professional bodies such as the Association of Chartered Certified Accountants (ACCA) and trade associations such as the Ceylon Chamber of Commerce (CCC) have played a more prominent role in promoting social responsibility and CSRep. Our study aims to shed some light on the CSRep practices of MNCs operating in

Sri Lanka, i.e. whether and how they have adopted ‘voluntary’ CSRep and what pressures, barriers and enablers may have influenced these subsidiaries to engage in CSRep (or not). In so doing, our study contributes to the CSRep literature as follows:

- Firstly, it adds to the relatively small but emerging empirical research body of CSRep studies which *adopts a developing country perspective* (Belal, 2008; Belal & Cooper, 2011; Belal & Momin, 2009; Belal & Roberts, 2010; Islam & Deegan, 2008;
- Kuasirikun, 2005; Kuasirikun & Sherer, 2004; Lodhia, 2003);
- Secondly, by using in-depth interview data, it *uncovers the internal processes* by which companies make disclosures, seen by Adams (2002) as under-investigated;
- Thirdly, it provides a *deeper understanding of the manifestation of isomorphic pressures and legitimacy concerns related to CSRep strategies of MNCs* which have not been significantly highlighted, particularly with regard to insights at the subsidiary level (Kustova and Zaheer, 1999; Tempel et al., 2006);
- Fourthly, by investigating the Sri Lankan context through the lens of institutional theory and identifying pressures from the host country’s environment, it *adds a unique institutional setting to the growing number of social and environmental accounting research studies* taking a similar stance (Islam and Deegan 2008);
- Finally, empirical studies into the reasons why companies do *not* voluntarily publish social and environmental issues are relatively underdeveloped (Martin and Hadley, 2008) and by including the *search for reasons for the absence of social disclosure* especially amongst subsidiaries of MNCs, our study sheds light on the question of why companies in developing countries often disclose very little (Belal and Momin 2009, Belal and Cooper 2011).

The paper proceeds as follows: Sections 2 and 3 provide an overview of CSRep in relation to MNCs and examine the manifestation of institutional duality within CSRep in the context of institutional theory literature. Particular attention is given to CSRep practice and the institutional environment in Sri Lanka. Then, the research methods used to collect and analyse the data in this study are presented (Section 4). Section 5 reports the main findings obtained through the analysis pertaining to the ten subsidiaries within this study. Findings are discussed in Section 6. The study's conclusions and viable future research avenues are examined in Section 7.

## 2. Previous research

This section examines the present context of CSRep amongst MNCs through an examination of prior empirical research. It also provides an overview of our knowledge about MNCs and CSRep in Sri Lanka.

### *MNCs and CSRep*

The need to understand CSRep in developing countries has been highlighted as much needed due to the existence of large numbers of developed country multinationals operating in these countries (Gray *et al*., 1996; Islam and Deegan, 2010). As argued by Gray *et al.* (1996), if developing country governments are to exert any type of control over the operations of these powerful MNC subsidiaries, then it is important to ensure accountability amongst them for their operations in these countries. Taking this assertion into consideration, previous research studies have examined various aspects of CSRep in relation to MNCs. These studies point to conflicting findings with regard to the publication of corporate social reports by MNC subsidiaries in terms of their content and the audiences for which they are intended. For example, according to Aerts *et al.* (2006) MNCs tend to use different types of social disclosures which are aimed towards different stakeholders as part of their CSRep practices. Based upon this argument, Sotorrío and Sánchez (2010) found significant differences between the disclosure of different types of social information by MNCs for their local audience and those disclosed for their global audiences in a study of the CSRep practices amongst 26 non-Spanish MNCs operating in Spain. Similarly, Andrew *et al.* (1989) also found that the subsidiaries of MNCs in South East Asia disclosed more social and environmental information than domestic firms. Somewhat in contrast, Newson and Deegan (2002) examining why MNCs only respond to 'global expectations' of CSRep rather than meeting the information needs of people in their 'home countries', found that there was minimal association between global expectations and the disclosure policies of large MNCs. In a more recent study, Islam and Deegan (2010) have found that media attention on social and environmental issues could propel MNCs operating in developing countries to engage more in CSRep.

Most of the above mentioned studies have focused on developing countries and most rely on secondary data. We thus know little as to how subsidiaries of MNCs operating in a developing country engage in CSRep and what pressures and challenges they face. Even less is known about CSRep-related internal processes between MNCs and their subsidiaries (Bebbington *et al.* 2009), and the barriers to and enablers for CSRep faced by MNC subsidiaries (Kolk, 2010).

***MNCs and CSRep in Sri Lanka***

Sri Lanka is a country with a population of 20.3 million located in South Asia (World Bank, 2010a). At a per capita Gross National Income of only $1990 per year (World Bank, 2010b), it is presently experiencing post-conflict economic growth. Sri Lanka has aggressively pursued a market economy, through extensive economic liberalisation which took place from 1977 to 1994, resulting in largely private sector led economic growth (Central Bank of Sri Lanka, 2010). As such, the private sector in Sri Lanka, which includes MNCs, has become both the primary engine of financial growth and a major contributor to human resource development within Sri Lanka (International Alert, 2005).

Compared to other countries in South Asia, Sri Lanka has a long history of corporate philanthropy, which has largely been led by individual values and actions rather than established public relations practices or formal CSR practices (Mayer and Salih, 2006). In recent times there has been renewed interest in CSR with many companies vying with each other to show their excellence in addressing different aspects of CSR.

This increasing awareness of CSR has been accompanied by an increasing interest in voluntary CSRep amongst public limited companies (Rajapakse 2005 and 2007). However, as with MNC and CSRep in general, there is a deficiency of research in Sri Lanka examining CSRep of MNCs. For example, in a review of CSRep literature in emerging economies by Belal and Momin (2009), the authors identify studies into CSRep practices of MNCs from Bangladesh and India within the South Asian region, but none were available from Sri Lanka. Nevertheless, some studies have been carried out by local researchers analysing both MNCs and local private sector organisations listed on the Colombo Stock Exchange (Rajapakse, 2003, 2005 and 2007; Senaratne, 2009; Ajward, 2006). From these studies we know that there has been a steady rise in voluntary CSRep amongst public quoted companies in Sri Lanka over the years, but the number of companies publishing stand-alone corporate social reports and the quality of disclosure remains low (Senaratne, 2009). For example, a study by Rajapakse (2009) into annual reports of quoted public companies published in 2006 revealed that 120 out of 238 companies reported on CSR issues. However, only 85 of these 120 reports had a separate section devoted to CSR and only a minority (i.e. 16 companies) had stand-alone corporate social reports. Nevertheless, this indicates an upward trend of voluntary CSRep in the private sector in Sri Lanka compared to an earlier study in 2004 (Rajapakse, 2007), in which only 24 public listed companies out of 123 disclosed any aspect related to social and environmental reporting (i.e. 19%). Rajapakse's (2009) findings also mirror findings from a study by ACCA in 2005, in which a survey of the top 100 Sri Lankan private sector companies (i.e. 75 listed companies and 25 non listed companies) revealed that 69% of the 75 listed companies included only some form of disclosure on environmental and/or social issues in their annual reports, while 39% did not report on these issues at all. This early stage of CSRep seems also to be reflected in the *quality* of these disclosures. Social disclosure remains basic and has predominantly taken a qualitative or narrative form, with only a marginal amount of companies publishing stand-alone corporate social reports (Senaratne, 2009). Whilst notable reporting practices were found in ACCA's (2005) study in areas such as community related issues and employee welfare, the vast majority of companies did not provide any information on bribery and corruption, energy use, environmental management and procurement issues.

Taken together, Sri Lanka presents a context where 'voluntary' CSRep of public-listed companies have been increasing but overall remains at a very embryonic stage. None of the previous studies have paid particular attention to the CSRep practices of Sri Lankan based MNC subsidiaries. Whether there is an increasing trend in voluntary CSRep (identified across listed public limited companies) within subsidiaries of MNCs is not yet known, nor are the perceptions of managers of MNCs' subsidiaries regarding prevalent pressures, barriers to and enablers for CSRep. The next section provides an overview of the theoretical perspectives deployed to investigate and understand CSRep of MNCs in Sri Lanka.

## 3. Theoretical perspectives: institutional and legitimacy theory

Institutional theory, and specifically neo-institutional theory, focuses on cognitive institutions that constitute actors, define social realities and thus shape organisational behaviour in subtle but powerful ways (DiMaggio & Powell, 1991; Scott, 2001). In recent years, there has been a heightened interest in applying institutional theory to the study of MNCs (Dacin, Kostova, & Roth, 2008; Kostova & Zaheer, 1999; Westney, 2005), especially to examine factors influencing subsidiary practices in different host country institutional environments (Kostova & Roth, 2002; Tempel et al., 2006). When host country institutional factors obtain the status of a 'social fact' (Oliver, 1991:148), subsidiaries have to implement organisational practices that are less self-interested and more acceptable or legitimate within the host country (Suchman, 1995). From an institutional perspective 'legitimacy' primarily involves symbolic conformity with cultural prescriptions and understanding (Deephouse & Suchman, 2008; Meyer & Rowan, 1977; Ruef & Scott, 1998) and organisations tend to adopt various practices and structures in order to create and maintain this conformity. In recent times, institutional theory has also increasingly been turned to by researchers in order to explain CSRep practices (Islam & Deegan, 2008; Kolk, 2005). Prior empirical research has found that institutional pressures create an institutional context within which organisations make decisions regarding what to disclose and how (Crawford & Williams, 2010), and that powerful stakeholders can influence social policies and related disclosure practices of organisations in specific industries (Amran & Devi, 2008; Amran & Haniffa, 2011; Bebbington et al., 2009; Islam & Deegan, 2008, 2010; Rahaman, Lawrence, & Roper, 2004). As such, institutional theory can be utilised to understand how particular CSRep practices may be employed by organisations within a specific institutional environment due to pressures from powerful stakeholders (Islam & Deegan, 2008, 2010). Amongst such powerful stakeholders identified as influencing CSRep are the host country government (Amran & Devi, 2008; Amran & Haniffa, 2011), global non-governmental organisations (Rahaman et al., 2004), multinational buying companies (Islam & Deegan, 2008), regulatory agencies (Crawford & Williams, 2010) and media (Islam & Deegan, 2010).

Deegan (2009) stresses that institutional theory can also be linked to legitimacy theory, and that a joint consideration of these theories could provide a richer explanation of factors influencing CSRep practices of companies. Whilst legitimacy theory discusses how a company uses CSRep to legitimise its relationship with “society”, institutional theory investigates more broadly changes in a company’s practice in order to bring legitimacy to its organisation (for a detailed discussion see Deegan, 2009; also for further links to stakeholder theory). In order to gain legitimacy, organisations are seen to change their organisational practices to suit institutional isomorphism (DiMaggio & Powell, 1983). Institutional isomorphism explains how organisations compete not just for resources or customers but also for political power and institutional legitimacy, and occurs through three antecedents: coercive, mimetic and normative (DiMaggio & Powell, 1983). In relation to CSRep of MNCs, coercive pressures could arise from the host country government, regulators and non-governmental organisations. At present, CSRep in Sri Lanka is not regulated through the country’s general financial reporting framework. The financial reporting framework is governed by the Company’s Act no. 7 of 2007 and the Sri Lanka Accounting Standard 3 (SLAS-3) on ‘Presentation of Financial Statements’ (ICA, 2005) which encourages voluntary CSRep such as environmental reporting, but categorically states that:

> "Reports and statements presented outside financial statements are outside the scope of Sri Lanka Accounting Standards" (ICA, 2005:9)

Other than this financial reporting framework, environmental reporting is only encouraged to some extent by the National Environment Act no. 47 of 1980. According to this legislation, all manufacturing and/or service oriented businesses are required to produce a report on the expected environmental impact of their activities to the Central Environmental Authority (CEA) prior to obtaining an Environmental Protection Licence and a report outlining their proposed as well as on-going environmental management activities needs to be submitted to the CEA annually to renew this licence (CEA, 1980).

Mimetic isomorphism could occur, in relation to CSRep of MNCs, when companies in the same sector or industry follow similar CSRep practices to avoid legitimacy concerns and ensure their competitive advantage. Unerman and Bennett (2004) state that, without coercive pressure from stakeholders, there may be no pressure to mimic or surpass current CSRep practice. However, more generally, all three isomorphic pressures can be interrelated in various ways and, due to partly simultaneous operation, it can be difficult to identify which pressure dominates (Boxenbaum & Jonsson, 2008).

In relation to CSRep, frequent reference has been made to the third isomorphic pressure (Kuasirikun, 2005; Lodhia, 2003). Normative isomorphism is generally related to pressures arising from group norms to adopt particular organisational practices or to fulfil professional expectations (DiMaggio & Powell, 1983). For example, Lodhia (2003) in his study of accountants' responses to the environmental agenda on Fiji suggests that the Fiji Institute of Accountants could play a crucial role in raising awareness of, and successfully implementing, environmental accounting in Fiji. In respect to CSRep in Sri Lanka, the question arises as to how the low level of regulatory pressure can be overcome by mimetic and/or normative pressures. One characteristic element of the institutional environment in Sri Lanka is that, in the absence of formal regulatory pressures for CSRep, several non-governmental institutions and professional bodies have taken viable steps to promote social and environmental awareness as well as CSRep. The most prominent initiative is the ACCA Sri Lanka Sustainability Reporting Awards, established in 2004 (ACCA, 2004). This rewards those organisations which report and disclose environmental, social or full sustainability information and aims at raising awareness of transparency among the accounting and CSR profession, encouraging the uptake of CSRep and increasing accountability for stakeholder responsiveness (ACCA, 2010). More broadly, the National Chamber of Commerce of Sri Lanka's Business Excellence Awards (NCCSL, 2010) and CCC Annual award scheme for the Ten Best Corporate Citizens (CCC, 2010) also promote and encourage the adoption of social responsibility in general amongst private sector companies in Sri Lanka.

In addition to these external pressures relevant to the organisational practice of MNC subsidiaries in one host country, MNCs have also been depicted as a network of organisations (i.e. headquarters and different national subsidiaries) linked together by exchange relationships collectively encased within a global structure (Bartlett & Ghoshal, 1990) and operating within dynamic economic, political and societal environments in different host countries (Sundaram & Black, 1992). The plurality of its operating environments and the global spread of its operations have meant that the MNC structure of management needs to combine a decentralised base of operations and a centralised core which could simultaneously coordinate the sub units globally (Kolde & Hill, 1967). As such, the relationship between the subsidiaries and the MNC headquarters is dynamic and complex (Gupta & Govindarajan, 1991; Rosenzweig & Singh, 1991) and this unique context of MNCs indicates that other than external pressures, internal pressures arising from MNC head offices also need to be considered if a subsidiary is to ensure both external and internal legitimacy of its organisational practices, such as CSRep.

The application of legitimacy to MNCs has been studied in a series of early articles published by Kostova and others (Dacin et al., 2008; Kostova & Roth, 2002; Kostova & Zaheer, 1999). They argue that a multinational subsidiary has to gain 'dual' legitimacy and as such is in a state of 'institutional duality'. MNCs pressurise subsidiaries internally to adopt organisational practices which are transferred to it from their home country head offices. Externally the host country institutional environment pressurises it to adopt local organisational practices. Hence, subsidiaries of MNCs have to decide which institutional pressures are more important; is it those internal pressures that would enable it to become legitimate within the MNCs or is it the external pressures that would enable it to gain external legitimacy within the host country's local context?

Subsidiaries of MNCs can gain internal legitimacy by adopting and implementing organisational practices and strategies that are similar to those of the parent company (Davis, Desai, & Francis, 2000; Hillman & Wan, 2005). Existing international business literature also focuses on how MNC strategies and organisational practices are controlled by parent firms, using integration mechanisms (Bartlett & Ghoshal, 1989; Cray, 1984). As such, internal legitimacy will be greater where the parent company exercises increasing control over the organisational practices of its subsidiaries (Bartlett & Ghoshal, 1989; Cray, 1984) in order to gain higher levels of synergy through global integration of operations (Dacin et al., 2008). Ang and Cummings (1997) have found that MNCs place more importance on economic considerations when subsidiaries implement organisational practice, than on whether that practice is mimetic with the parent. Kostova (1999) and Xu and Shenkar (2002) supported this by later research. They recognised that differences in external institutional environments (i.e. host country institutional environments) may result in heterogeneity of organisational practices across countries based upon economic considerations. Hence, subsidiaries of MNCs may have a greater tendency to respond to external host country institutional pressures than internal head quarter pressures. Other studies have also established that subsidiaries of MNCs do not passively conform to internal pressures for the adoption of organisational practices (Tempel et al., 2006) but launch strategic responses towards parent company attempts to transfer organisational practices (Ferner, Almond, & Colling, 2005; Kostova & Roth, 2002) in their attempt to gain internal legitimacy.

The focus of this study is the analysis of these internal and external pressures on the CSRep practice of MNC subsidiaries in Sri Lanka and how subsidiary management responds to these pressures to gain internal and external legitimacy. More specifically, it aims to enhance our understanding of 'institutional duality' in the case of CSRep by examining the relationship and possible tensions between the integration of reporting "infrastructures" within global organisations and responsiveness to local expectations in Sri Lanka. As previous studies have not considered the barriers and enablers in relation to internal and external institutional pressures for CSRep at host country level within a developing country context, it is also our hope that this study will help advance our knowledge and future research in this respect. The research design and methods of data collection and analysis are described next.

## 4. Research design and methods

The following section discusses how this research was designed, including the selection of the Sri Lankan case study subsidiaries and the use of in-depth interviews to obtain data pertaining to the nature of and attitude towards CSRep.

### *Selection of cases and interviewees*

Our exploratory study adopted a case study research design (Eisenhardt 1989, Yin 2009) to investigate the internal processes and perceptions governing CSRep in MNCs' subsidiaries in Sri Lanka. Case studies can be seen as a guide to establishing a framework for data collection and are particularly suitable for research areas where there is little prior theoretical literature or empirical research (Eisenhardt 1989). Such type of inquiry is viewed to be well suited for studying accounting in practice and to achieving a fuller understanding of the context and factors which shape contemporary management and accounting practices (Adams, 2002; Ahrens & Chapman, 2006, 2007; Parker, 1994). We used a multiple case design to enable and assist cross-case analysis and synthesis (Eisenhardt, 1989; Yin, 2009), and selected case studies from one specific host country to minimise host country effects (such as cultural, economic, social and political factors) which would have rendered comparison of cases difficult otherwise.

Cases selected to be studied in a case study research "are not sampling units and therefore, should not be chosen as such" (Yin, 2009:32). Thus, purposive sampling of cases was undertaken which demands that a critical analysis be made with regard to the parameters of the population that is being studied (Silverman, 2005). In keeping with the qualitative nature of the study, no parameters were set in terms of subsidiary size, sector or number of employees when selecting the subsidiaries. However, the subsidiaries were selected due to the nature of the data required. Firstly, all of the companies had to be MNC subsidiaries based in Sri Lanka and recognised for their corporate responsibility practices. Since there was no common way of recognising the degree of corporate responsibility contributions made by different subsidiaries in Sri Lanka, subsidiaries which were listed as being among the 'Most Respected Entities in Sri Lanka' (LMD, 2008) were selected to obtain data for the study. The ranking is commissioned by the country's leading business magazine, the Lanka Monthly Digest (LMD), and uses a survey of 800 business people attached to organisations within the limits of Greater Colombo who rank the most respected companies in terms of various aspects, one of which is CSR. As such, from an overall ranking of 100 companies, eleven companies, which were MNC subsidiaries, were selected. Secondly, we wanted to contrast organisations with different attitudes toward CSRep. Within the resulting eleven subsidiaries were organisations considered to be leaders in CSRep whilst other organisations are less advanced or do not publish a stand-alone social report at all (though other forms of social reporting were apparent). Columns 1, 2 and 3 of Table 1 list all subsidiaries and provide details of their operations and multinational affiliations. All subsidiaries have long-standing operations in Sri Lanka with three companies starting their operation 10 to 20 years ago, two companies having between 35 to 50 years experience and five companies operating in Sri Lanka for more than 70 years (in three of these cases even more than 100 years).

**Table 1**
Overview of ten subsidiaries and interviewees

| Subsidiary | Type | Head office location | Sector | Interviewee |
|---|---|---|---|---|
| Company1 | Private Ltd | Europe | Finance | – Public Affairs<br>– Corporate Communications<br>– Corporate Social Responsibility |
| Company2 | Private Ltd | Europe | Finance | – Corporate Affairs (2 interviewees) |
| Company3 | Private Ltd | Europe | Cement | – Sustainable Development<br>– Corporate Social Responsibility |
| Company4 | Private Ltd | Europe | Consumer goods | – Corporate Relations and Corporate Social Responsibility |
| Company5 | Private Ltd | Europe | Consumer goods | – Human Resources<br>– Corporate Communications |
| Company6 | Private Ltd | Asia-Pacific | Consumer goods | – Human Resources |
| Company7 | Private Ltd | North America | Consumer goods | – Public Affairs and Communications |
| Company8 | PLC | Europe | Insurance | – Marketing<br>– Communications |
| Company9 | PLC | Asia-Pacific | Telecommunication | – Public Policy & Corporate Responsibility<br>– Corporate Social Responsibility |
| Company10 | PLC | Europe | Tobacco | – Corporate Social Responsibility<br>– Corporate Communications |

Initial contact was made with these eleven subsidiaries. However, one subsidiary belonging to a global pharmaceutical company rejected outright the possibility of our gaining access, stating that their company policy did not promote data collection in relation to internal management practices by external researchers. The engagement with the remaining ten subsidiaries was supported by the fact that one of the authors is from Sri Lanka and hence, a certain level of trust and rapport could be developed supporting the relationship with the interviewees (Belal and Roberts, 2010). Initial contact was made with the remaining ten subsidiaries in two alternative ways. First, where prior business contacts were already available within the selected ten subsidiaries, a ‘referral’ to the manager responsible for CSR was obtained through this contact. Alternatively, where such personal referrals were not available, then the name of the manager responsible for corporate responsibility was obtained from publications, company websites or through other interviewees (since the size of the host country meant that most of the corporate managers knew each other). He/she was then contacted initially by telephone and subsequently via email. In both instances of gaining access a formal letter containing a brief introduction to the research project and an outline of the broad interview themes was presented to each of the ten subsidiary managers who were contacted initially. These initial ‘gatekeepers’ then recommended which other corporate managers and executives within the subsidiaries should be interviewed based upon their level of engagement in CSR practices and also the requirements of the research study.

Overall, eighteen corporate managers, all Sri Lanka nationals working for MNCs and who were involved in managing CSR related practices across different management levels (mostly top and middle management levels), were interviewed during the period October 2008 to January 2009 in order to explore how and why they engage in CSRep practices (or not) (Column 4 of Table 2). Apart from the subsidiary interviewees, the country manager of ACCA was also interviewed to gain her perspectives on CSRep practices of subsidiaries in Sri Lanka.

***Data collection***

An interview guide derived from the review of CSR and CSRep literature and Sri Lankan specific factors guided the interviews. Key interview themes consisted of the following: The level of and engagement in CSRep practices of the subsidiary in Sri Lanka, managerial views on barriers and enablers for CSRep in Sri Lanka and the nature of formalised internal reporting of CSR practices to MNC head offices by the subsidiaries. Although the interview guide was followed as a means of gaining better focus throughout the interviews, it did not restrict the use of probing questions to gather more detailed information from the interviewees. Each interview lasted between 30 and 60 minutes and all managers were assured of anonymity through the use of acronyms to identify the subsidiaries and job roles. The use of such in-depth interviews in this research study helped in obtaining detailed information about how the subsidiaries approach CSRep, especially in view of the relationship between the subsidiary and the CSRep practice of the MNC. It also helped as a data collection instrument with the ability to follow-up immediately to clarify areas which were not made clear during the course of the interview, and therefore enabling the understanding of the processes and structures related to CSRep practice more clearly (Marshall and Rossman, 2006). In addition to the interviews, data was gathered from the corporate social reports (and related publications) of the ten subsidiaries to substantiate the findings.

### *Data analysis*

During the data collection all nineteen interviews were digitally recorded and then transferred to computer as mp3 files. All interview transcripts were coded and a database was created using NVivo8. As advised by Yin (2009), such an activity enhances the reliability of the study and makes the analytic process more transparent and accountable (Fielding, 2002). In the initial stage, transcripts were read several times, together with notes made during the interviews. Open coding allowed overall features of the phenomenon under study to be identified and categorised. Then, relationships between these categories were explored. Using NVivo8 enabled us to go back to the original interview in which a section of text had been coded. This protocol enabled two key themes to emerge from the data. They are summarised and discussed in the next section.

## 5. Findings

As shown in Table 2, only three out of ten MNC subsidiaries examined for this study had actually published an external, stand-alone corporate social report[3] within Sri Lanka at the time of collecting the data. Nine subsidiaries (including three subsidiaries who published separate social reports) provided information related to their social and environmental activities within Sri Lanka to their head offices, and, after collating this information, the MNC published a global corporate social report. However, it is interesting to note that 'alternative' media were used by almost all of the subsidiaries to publicise their social and environmental focused activities. The emphasis here was on internal media (newsletters in seven subsidiaries) while two subsidiaries published small CSR booklets, which were distributed amongst their customers (Table 2).

[3] Meaning externally published social reports and not those disclosures made within company annual reports. "Social report" subsumes here CSR-related types of reports such as corporate responsibility, social or sustainability reports.

**Table 2**
CSRep of the ten subsidiaries

| Company | CSRep | | Alternative/ additional publications at subsidiary level (frequency) |
|---|---|---|---|
| | Subsidiary | Head office | |
| Company1 | No external (stand-alone) social report | Social report | CSR booklets<br>Internal newsletter (biannually) |
| Company2 | No external (stand-alone) social report | Social report | None |
| Company3 | No external (stand-alone) social report* | Social report | Internal newsletter (quarterly) |
| Company4 | No external (stand-alone) social report | Social report | CSR booklets (annually) |
| Company5 | No external (stand-alone) social report | Social report – limited to reporting on home country | Internal newsletter (quarterly) |
| Company6 | No external (stand-alone) social report | Social report | None |
| Company7 | Annual review and social report | Social report | Internal newsletter (quarterly) |
| Company8 | No external (stand-alone) social report – CSR section in annual report | Social report | Internal newsletter (quarterly) |
| Company9 | Social report | Not reported | Internal newsletter (monthly) |
| Company10 | Social report | Social report | Internal newsletter (monthly) |

Note: "social report" subsumes CSR-related types of reports (here: CSR, corporate responsibility, and sustainability report).

* At the time of data collection Company3 did not have an externally published stand-alone social report, although about six months after the data collection was completed for this study, the subsidiary published an external social report providing details pertaining to their CSR projects in Sri Lanka.

In response to a question related to how those companies which *do* publish corporate social reports perceive the quality of other Sri Lankan companies' CSRep, the consensus was that it was at a deficient level. For example, one interviewee commented:

> I don't see any company in Sri Lanka doing sustainability reporting up to 100% as expected of GRI standards. In Sri Lanka, most of the social reports published are graded at "C" or "D" […] in terms of GRI indicators. (Interviewee, Company9)

To this extent, at least, there is support for the expectations born of our review of the literature (above) – i.e. that the data analysis suggests that CSRep in Sri Lanka is still at an early stage.

The further condensation of codes of analysis established after analysing the interview data provided two key themes showing how the ten MNC subsidiaries examined in this study engage in CSRep. The first of these are the *external pressures, barriers to and enablers for* CSRep encountered by the subsidiaries at the host country level. This is followed by the *internal pressures, barriers and enablers* for CSRep which arise from within the MNC as perceived by the subsidiaries. Each of these is examined next.

***External host country level pressures, barriers to and enablers for CSRep in Sri Lanka***

With regard to external pressures that subsidiary managers encountered in their CSRep in Sri Lanka, our analysis of the interview data reveals that one of the pressures for having a corporate social report was related to the need to keep up with local competitors who *do* publish this kind of report (External Pressure P1; Figure 1). This was mostly stressed by those subsidiary managers who did not publish corporate social reports. A typical response included:

> Most of the quoted companies in Sri Lanka [are] putting out a report – CSR or sustainability – so now we feel we need to publish a report. (Interviewee, Company4)

The interviewee further attested to the importance of having a corporate social report by referring to other local stakeholders, especially to the Sri Lankan government and its different authorities:

> We have a lot of government authorities that we deal with […] and it would be nice to keep them informed because sometimes they view multinationals as profit hungry or not very nationalistic.

The existence of this pressure was also echoed by several other interviewees who, in addition, elaborated on the relevance of maintaining support of "society" more generally:

> One of the reasons as to why we did these separate local publications about our CSR activities is because people ask us. In Sri Lanka today they ask how socially responsible our company is so we do see a need to report our social responsibility activities. (Interviewee, Company5)

However, overall, the interviewees seem frustrated by the lack of standardised reporting by other companies in Sri Lanka:

> [...] most companies are reporting on their CSR projects but are not using any standard reporting practices. (Interviewee, Company3) In Sri Lanka nobody does reporting using proper standards like GRI and AA1000 and to my knowledge even if they do, no third party verifies their reports. (Interviewee, Company10)

Despite a growing pressure to adopt CSRep as an organisational practice within the business sector, the low quality of and lack of standardised reporting in the host country thus appear to restrain developments in CSRep (External Barrier B1).

The responses from those subsidiaries which publish a stand-alone corporate social report also imply a strategic nature of managing stakeholder relationships through reporting. The interviewee of Company9 stated the need to address stakeholder expectations and to maintain the 'reputation' of the subsidiary in Sri Lanka as key motivators for publishing a corporate social report:

> […] having the reputation of being the number one company for such a long spell, we need to publish and also in Sri Lanka, with the competitiveness coming in the future when we will be like fighting to get that .02% growth, those are the times that reporting will be more meaningful.

The interviewee was of the view that in the long-term the industry conditions in Sri Lanka with enhanced competitiveness would also accentuate the need to have CSRep and a viable sustainability strategy. This is also a stated aim of the ACCA Sri Lanka award as pointed out by the country manager of ACCA Sri Lanka:

> […] our competitors […] are on the bandwagon but sometimes these award programmes tend to reward superficial CSR programmes […] So most companies lose site of the main goal—which is to have a core sustainability strategy and programme and report using GRI guidelines which is what we at ACCA Sri Lanka wants to drive towards.

However, the positive assumptions about the effects of the ACCA Sustainability Reporting and other CSR Award Schemes were echoed by a minority of the interviewees only. A few interviewees stressed that the awards could encourage people to do more and that awards were about sharing of experience – hence, representing a potential external enabler for CSRep. Conversely, however, several interviewees complained that the expectations were too high so that companies would not engage with the social responsibility and reporting agenda at all and that ongoing projects and initiatives would not be captured by the awards available in Sri Lanka, contending that a lack of trust in Sri Lankan awarding schemes acts as a barrier for engaging in CSRep (External Barrier B2) and taking part in CSRep awards in Sri Lanka. The following quotes are illustrative of this view:

> Sometimes when you look at the criteria of the awards and the projects which win the awards are [always] huge projects […] Also, the awards by the Chamber don't have a separate section for ongoing projects, which is not fair. (Interviewee, Company7)

> Awards always help to do new things but awards also prevent people from doing the same things.. I think if they didn't have the awards companies might not have got into CSR at all […] but at the same time these awards also need to encourage people to do more in CSR. (Interviewee, Company1)

Some interviewees even went on to note that the local awards could be corrupted and influenced by political motives:

> In Sri Lanka we can't win, I mean we have won a few awards globally …but then it is all confidential […] here in Sri Lanka a lot of politics matter and we have completely stopped taking part in these local awards because it'
> s not good for our image (Interviewee, Company9)

> We see that there are certain biases on decisions made when you look at the local awards […] because there are very few companies, […] most of the [directors] are also sitting on these board for ACCA or CIMA and their panels […] so when it comes to judging of the report […] that plays a very big role. (Interviewee, Company9)

Finally, the failure of local companies as well as other MNC subsidiaries to adopt CSRep practices due to a lack of mandatory reporting frameworks was identified as another barrier by the interviewees (External Barrier B3), especially from the three subsidiaries which did publish social reports:

> At the moment in a lot of companies in Sri Lanka, CSR is not institutionalized to the extent where social reporting becomes a mandatory tool [...] because obviously it is not regulated. (Interviewee, Company3)

***Internal MNC pressures, barriers to and enablers for engaging in CSRep in Sri Lanka***

The data showed that there were internal pressures that subsidiaries had to face arising from their head offices in relation to the dissemination of information pertaining to all aspects of their corporate responsibility activities. To this end most subsidiaries were pressurised by their head offices (i.e. regional and/or global) to engage in 'periodic internal reporting'. Such internal reporting ranged from quarterly and annual reports, which specifically focused on the corporate responsibility practices being implemented by the subsidiaries, to less frequent reporting. Company1, for example, has quarterly reporting specifically focused on the progress of the community engagement practice:

> […] quarterly they ask for a report about how much we have spent, so we have to report and we have to give them a breakdown in each area. The quarterly reporting is

> to the regional office which will consolidate all the Asia Pacific Region and then will be reporting to group head office.

Where subsidiaries were not required to engage in periodic reporting, the regional offices requested the subsidiaries to complete a 'CSR Questionnaire' or a 'CSR Update'. These usually had to be filled in with specific details and supported by relevant documentation by the relevant subsidiary CSR managers. Several interviewees also alluded to the use of internal reporting as a monitoring device; for example:

> […] the Group send[s] us a questionnaire, we call it the CSR review. […] They use it to monitor […] whether things have been achieved in Sri Lanka. (Interviewee, Company3)

The above responses emphasise that subsidiaries' social reporting activities *are* made in an effort to respond to internal pressures from the MNC head office. Within the seven MNC subsidiaries which did not publish a stand-alone corporate social report in Sri Lanka, the interviewee responses point to directives from their head offices which ensured that they share information pertaining to their social and environmental activities with their head offices so that the head office could collate the data and publish a periodic corporate social report focused on their total global or regional operations. The following extract from the interviews is illustrative of this common protocol.

> In Sri Lanka we don't have any reports. What we do is annual reporting on health, safety and environmental requirements to our regional headquarters. Then at group level they do a centralised report. (Interviewee, Company2)

As such, it is apparent that within these subsidiaries the majority of MNC head offices do not encourage the publication of a stand-alone corporate social report at the subsidiary level. One fairly typical comment illustrates this point:

> Social reporting is something that we have been shying away from […] the primary factor is that the global head quarter does not promote social reporting for publicity. (Interviewee, Company7)

Therefore, the global reporting focus of MNCs appears to be crucial for preventing subsidiary level CSRep in Sri Lanka. It results in an allocation of resources which make CSRep at host country level in many cases unachievable (Internal Barrier B4) and in reporting structures and processes which are aligned with internal monitoring protocols and, consequently, are less responsive to local stakeholder expectations (Internal Barrier B5). Starting with the former barrier (Internal Barrier B4), cost was mentioned by almost all subsidiaries (e.g. in the form of often time consuming and costly compliance with standards and related training of staff) and viewed as a key barrier especially by interviewees from those subsidiaries which do not report through a stand-alone social report. For example, one interviewee said:

> There is a section on sustainability in our annual report [...] we can publish a separate report [but] the cost does not justify why we should have a report. (Interviewee, Company8)

This was echoed, more generally, by the Country Manager of the ACCA, UK, Sri Lanka branch. According to her, although the companies are motivated to carry out CSRep, the lack of funding has resulted in a dearth of CSRep in Sri Lanka:

> […] everybody is cutting down on annual reports cost and the few [CSR writers] in Sri Lanka charge a premium for the reports. […] costs go up 5–6 folds […] and it is

> not easy to justify such costs to a Board in your company. (Country Manager, ACCA Sri Lanka)

The above quotes provide evidence that a lack of either global or regional head office sanction for bearing additional costs prevented several companies from publishing stand-alone corporate social reports at host country level in Sri Lanka.

Furthermore, elaborating on the need to 'fill in' data within a given format and the ability to be able to answer such questions in future, several interviewees alluded to the fact that they were compelled to change their organisational reporting structure and processes. For a significant number of interviewees, the way in which these systems were set up follows a mere compliance logic to comply with internal reporting requirements defined by the MNC, rather than it enabling subsidiaries to respond to local stakeholders' expectations through CSRep (Internal Barrier B5).

> Initially we didn't have any measurements for Health, Safety and Environment in Sri Lanka [...]. We had to establish measurements only because it became a mandatory reporting requirement of Global Company2 [...] (Interviewee, Company2)
>
> It's basically like a table and we just have to fill it, but it's quite long about 70 pages. It started after the MNC took us over. (Interviewee, Company8)

Despite these barriers, three subsidiaries did publish annual stand-alone social reports in Sri Lanka (Table 2). Our investigation of enablers for CSRep thus placed particular attention to their CSRep processes and structures, but findings were consistent with responses from interviewees of other subsidiaries. Three enablers were identified. Firstly, the interviewees of all MNC subsidiaries consistently reported that a 'mandate' from the head office would be required to publish any social report at subsidiary level (Internal Enabler E1). For example, one interviewee says,

> We most importantly need internal sanction on social reporting. I mean […] Global sanction, and unless Global sees it as something that we will be doing then we know it is not going to happen. (Interviewee, Company4)

Global sanction for CSRep was being provided by the head offices of all three subsidiaries publishing separate host country level social reports. The following illustrative quote from one of the interviews at Company10 emphasises that the head office mandate enabled the subsidiary to respond to the pressure from stakeholders in Sri Lanka to report its social and environmental activities:

> If you take Sri Lanka and [European home country], the issues are entirely different. So what the head office says is, you have your issues, you have your regulations, you have your culture, we need to fall in line with that and do your thing. That's why we have decided to have a different CSR report for different countries [...]

Secondly, it became evident that the subsidiaries in Sri Lanka faced difficulties when changing their reporting systems to meet head offices' requirements and that knowledge transfer from head offices was supportive to meet such an organisational change (Internal Enabler E2). In Company3 and Company10, two subsidiaries of European and American MNCs respectively, knowledge pertaining to the development of CSRep has been transferred to them from their head offices. According to the interviewees at Company10, for example, the support and knowledge transferred from their global head offices related to CSRep enabled them to understand the stakeholder engagement process for social reporting and commence the process within and adapt it to the specific context of Sri Lanka:

> […] the entire process was given to us by our global head office. […] our entire management team went through training in the UK […] the stakeholder engagement process for social reporting was a tailor made program sent to us by head office. (Interviewee, Company10)

Thirdly, the interviewees from all three subsidiaries alluded to initial organisational resistance to the new CSRep practice and the relevance of top management commitment at subsidiary level and its support for CSRep (Internal Enabler 3). As illustrative quotes by interviewees of Company9 and Company10 show, without top management commitment the subsidiaries would have found it difficult to commence CSRep, let alone implement viable social responsibility initiatives.

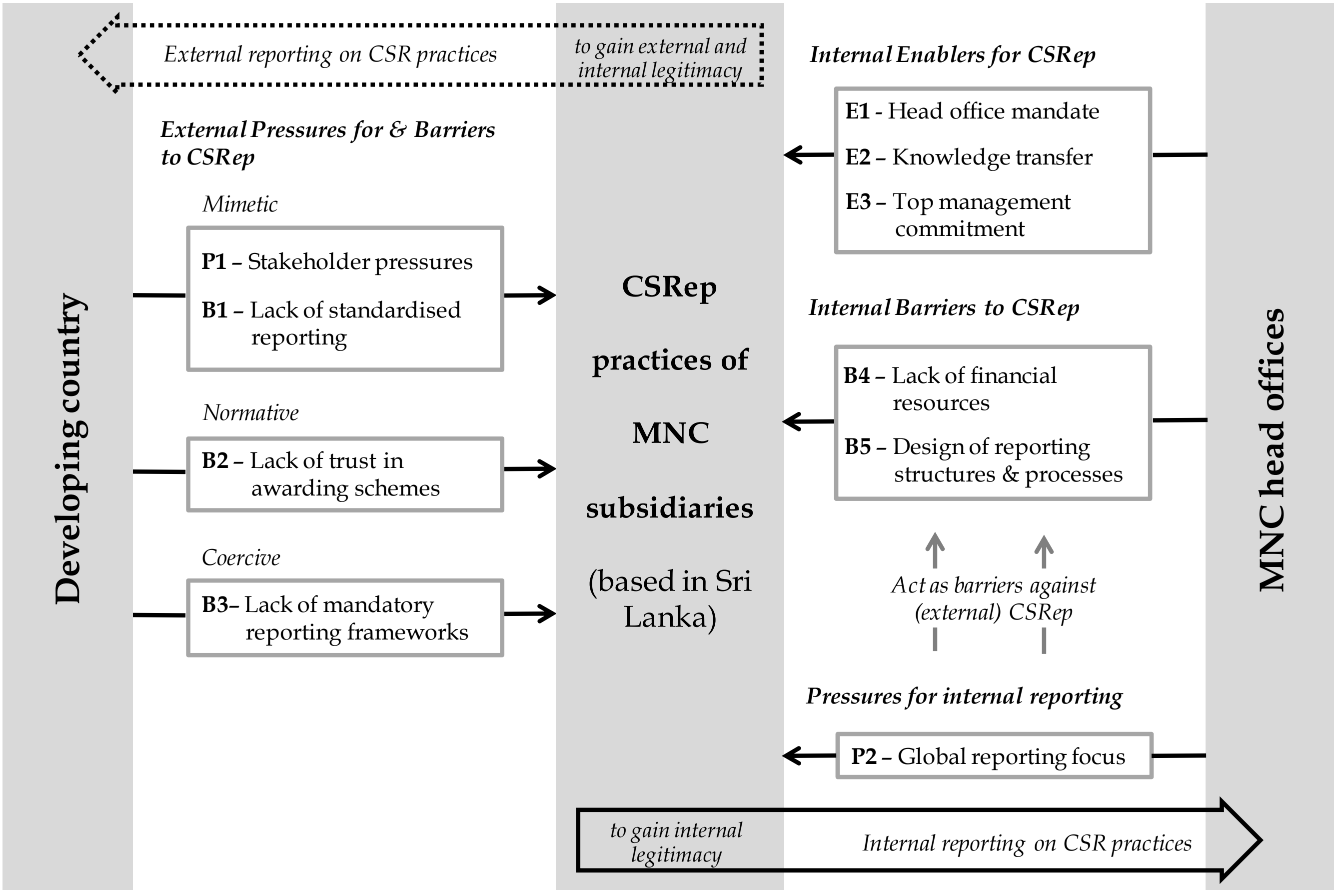
> […] a lot of companies fail when it comes to the top team commitment […] I would say the main thing was top team commitment, giving their 100% time which helped us to establish our social reporting. (Interviewee, Company10)

> There was a lot of resistance at the beginning [of identifying GRI indicators and responsibilities] […] when you say that there is an indicator and they think they will get judged upon it […] they become even more resistant [...] but once you have management commitment it's not so difficult" (Interviewee, Company9)

In these three subsidiaries the mandate to publish corporate social reports has been provided to them by their global head offices. The top management commitment which was reiterated by the interviewees as being important was obviously driven by this head office mandate.

Figure 1 summarises the barriers, enablers and pressures identified in this study and their interactions with each other influencing CSRep of MNC subsidiaries. We next examine and discuss these findings.

**Figure 1**
Pressures, barriers and enablers influencing CSRep of MNCs' subsidiaries




## 6. Discussion

We commence our discussion of the empirical results with the external pressures for reporting on CSR practices, their perceived intensity and how subsidiary management responds to these pressures. Overall, our analysis suggests that the institutional pressures for CSRep arising from the external environment of MNC subsidiaries in Sri Lanka are weak and that this represents part of our explanation for the low take-up of CSRep. A defining feature of most developing countries is that mandatory requirements for CSRep are at an early stage (UNEP *et al*., 2010) and as we have already indicated earlier there is no evidence of the existence of coercive isomorphism as imposed by regulatory authorities in Sri Lanka. In terms of normative pressures our study throws light on the effectiveness of awarding schemes carried out by the accountancy profession and other institutions to enhance formal CSRep in Sri Lanka. Interestingly, a number of our interviewees were concerned about the trustworthiness and effectiveness of the current local award schemes. With regard to the former concern (lack of trust), as a number of our interviewees highlighted, there is doubt about the reliability of the current local recognition and award schemes. This echoes previous observations that corruption of officials and other agents in developing countries can play a part in impeding greater accountability and transparency (Gond *et al.*, 2012; Herzig *et al.*, 2012). With regard to the latter concern (effectiveness of award schemes), questions arise as to whether the preoccupation of 'Western' or international guidelines and standards can have a positive effect on CSRep in Sri Lanka. Hence, our findings substantiate the point made by Belal and Owen (2007) who raise the question whether a codes and standards based approach in developing countries may be premature at the present time. The overall impression gleaned from our study is that more basic support and encouragement from the institutional environmental may be needed to initiate a CSRep learning process in partnership with companies.

Although our study is limited to only one type of normative pressure (awarding schemes), the fact that other pressures were not mentioned by the interviewees alone could be interpreted as a signalling of a deficient institutional environment. Findings from previous CSRep studies in developing countries (e.g. Lodhia, 2003; Kuasirikun, 2005) suggest that other normative pressures can play an important role in leveraging CSRep and future research on CSRep in

Sri Lanka may provide further insights in this respect. Likewise, closer examination of the role of the host country institutions in acting as a potential enabler to or barrier for CSRep may be revealing and may have important implications in the MNC subsidiaries either adopting or not adopting standardized CSRep practice. Government regulatory agencies could play an important role in this process as noted by Kuasirikin and Sherer (2004) and Crawford and Williams (2010), for example by introducing mandatory reporting.

Despite the rather weak coercive and normative pressures, several subsidiaries *are* concerned about gaining legitimacy within Sri Lanka and to this end they undertake mimetic isomorphism, seen in the subsidiaries' concerns about stakeholder expectations and findings whereby the subsidiaries imitate other local companies by publishing alternative forms of social reporting media. This corresponds with prior studies which have identified that organisations are sensitive to what their peers are doing (Islam and Deegan, 2008) and that mimetic pressures can be more important than regulatory or coercive pressures in relation to engaging in CSRep (Bebbington *et al*., 2009). That, still, only a few subsidiaries in our study publish stand-alone social reports to gain external legitimacy, is also partly due to the low quality of CSRep and other barriers, as will be discussed below.

Turning to internal pressures for reporting on CSR, our study firstly highlights the key decisional role adopted by the head offices of the MNCs in shaping and controlling CSR reporting practices of their subsidiaries. In all of the ten subsidiaries examined in this study we found formal institutionalised processes to enable internal reporting of subsidiaries' CSR practices to the regional and/or global head offices. The pattern emerging from our analysis is of the MNCs collecting information from their subsidiaries pertaining to different elements of corporate responsibility and then reporting on them either at a regional or global level.

The establishment of formally institutionalised internal CSRep practices appear to enable the head offices of these MNCs to ensure that not only does the subsidiary adhere to their mandates related to social and environmental policies but also implements a global social responsibility agenda across the MNC network. This mirrors Islam and Deegan's (2008, 2010) observations in the context of multinational buying organisations and their influence and control over CSR activities and reporting practices of suppliers in developing countries in an attempt to respond to pressures arising from global media agenda setters.

This centralisation of CSRep (seen in nine out of the ten subsidiaries examined in this study) also effectively negates to a certain degree the need for stand-alone corporate social reports at subsidiary level by the global and/or regional publications. Our findings show that the decision on whether a stand-alone corporate social report should be published is made by the MNC head offices and not by the subsidiaries themselves. For example, both Company4 and Company5 respondents clearly indicated that although, in principle, they did support the publication of external social reports in Sri Lanka, they did not yet have the 'mandate' to do so by the head offices of their MNCs. This clearly indicates an 'integration–responsiveness' tension which subsidiaries of MNCs encounter in relation to CSRep and the requirements for internal versus external legitimacy (Kostova and Zaheer, 1999; Tempel *et al*., 2006). Overwhelmingly, the views expressed by our interviewees seem to suggest that the subsidiaries of MNCs in Sri Lanka are more driven by formal institutionalised processes established by MNCs (seen through internal CSRep mandates and internal reporting mechanisms in this study) and thus take on a more global approach to CSRep, overcoming mimetic isomorphic pressures arising from within the institutional environment in Sri Lanka. That the majority of the ten subsidiaries examined for this study are primarily concerned with gaining internal legitimacy by following head office mandated CSRep, also supports

Bebbington *et al.*'s (2009) assertion that the organisation's stance towards CSRep is a decisive factor in its institutionalization and can overrule the influence of external institutional isomorphism. Further evidence for this observation is provided by the fact that even in those few subsidiaries which published stand-alone social reports for key institutional stakeholders (especially the Sri Lankan government and to counter possible 'nationalistic' feelings amongst their consumers who might be deterred by the foreign ownership of the company) strict control was maintained by the head offices of the MNCs through internal reporting to ensure that the CSRep which was being carried out in Sri Lanka was within the global standards adhered to by the MNC, and thereby ensuring a 'head office directed' CSRep practice in Sri Lanka.

While the adoption of such a global and head office directed CSRep practice might be helpful in ensuring internal consistency, it could create difficulties in managing tensions emerging from stronger institutional pressures in the host country environment in the future. The current orientation of MNC subsidiaries' CSRep practice and the way in which reporting systems are designed and used appears less conducive to reflect changes in the external institutional environment and to reflect existing CSR strategies and processes to foster social performance at subsidiary level. Thus, the findings, at least partially, provide support to scepticism as to the actual capacity of organisational moves toward sustainability to influence and sufficiently shape organisational actions and practices in Sri Lanka. The question also arises as to what extent accountability to local stakeholders in Sri Lanka can be achieved in a situation where reporting on CSR practices of subsidiaries are clearly influenced and constrained by the requirements of their MNC (internal reporting formats, compliance with reporting standards) and mostly contained within global reporting processes. This question often relates to the role of institutional driving forces such as professional bodies or governments. However, our study suggests that the developing country context may be somewhat different from the developed country context and other support and incentives may be needed, as discussed above in the context of the subsidiaries' external institutional environment. In addition, our study gives some insights into enablers for CSRep within the complex relationship between MNC head offices and their subsidiaries in Sri Lanka. As commented upon by most respondents, the restricted head office mandates to report locally (mainly because of cost implications and reporting systems which primarily focus on an internally driven CSR agenda) acted as key barriers in discouraging MNC subsidiaries to publish stand-alone social reports. However, those respondents from companies which did have separate social reports were of the view that their head office mandate and the top management commitment at subsidiary level helped them to overcome cost pressures. In addition, to overcome problems in the establishment of reporting systems at subsidiary level, several interviewees pointed out that capacity building support from MNCs appears to play an important role (e.g. engagement techniques to enhance cooperation between subsidiaries and local stakeholders). In sum, the transfer of knowledge related to social reporting to the subsidiaries coupled together with a head office mandate and top management commitment (at subsidiary level) appear to be most critical in enhancing CSRep from an internal perspective.

## 7. Conclusion

This paper has presented an analysis of the CSRep practices of MNC subsidiaries in the developing country context of Sri Lanka. By using a multiple case study it attempted to explore internal processes by which companies organise and make social disclosures, and searched for reasons for the absence and presence of social disclosure. The analysis revealed a tension between using reporting guidelines and following MNC reporting requirements as an internal legitimating exercise and demonstrating accountability for the views and needs of a broad range of stakeholders. Our research suggested that subsidiaries were predominantly concerned about gaining 'internal legitimacy' and conformed to formal institutionalised processes for CSRep which act as a barrier against the publishing of separate social reports in Sri Lanka and achieving greater accountability in the local context.

The evidence of our study extends our understanding of institutional duality, in this case for CSRep. Although legitimacy theory would suggest that for the subsidiary to obtain its "license to operate" for example by complying with the host country's institutional requirements for CSRep (Deephouse and Suchmann, 2008), in the absence of such external coercive pressures (as seen in the findings) MNC subsidiaries rarely seem to engage in voluntary CSRep in the developing country. The subsidiaries rather report internally in order to ensure adherence to internal pressures and to gain internal legitimacy from their head office. Interestingly, the findings also show that, within the context of a developing country, unless heroic and unrealistic assumptions about voluntary approaches such as international standards and award schemes requiring high demands are made, the effectiveness of normative isomorphism mechanisms remains restrained.

The nature of legitimacy seeking through CSRep by Sri Lankan MNCs' subsidiaries means that our findings have implications for policy making and practice. 'Head office' control which ignores the local stakeholder concerns for social reporting prevents corporate accountability and transparency in CSRep at host country level (Belal & Owen, 2007). This provides substantive support for the government of Sri Lanka to bring in legislative and policy changes, such as a revision of the Company's Act no 7 of 2007 and the Sri Lanka

Accounting Standard 3 (SLAS-3), which at present do not even promote voluntary CSRep. Such changes would indicate the Sri Lankan government's interest in inculcating a CSR culture into the corporate sector in the country. For MNCs operating in developing countries this also raises important issues related to their approach to CSRep and rethink of the building of local capacities for CSRep at subsidiary level in order to avoid difficulties in managing possible future tensions between internal and external legitimacy (Kostova and Zaheer, 2006). With a renewed and increasing interest in the CSR agenda in Sri Lanka, new expectations related to social disclosure will emerge and likely become more institutionalised in the future. Our findings indicate that capacity building and knowledge transfer through internal and external channels as well as a higher engagement of organisational members involved in CSRep appear to have a high potential to enhance the enabling role of information and reporting systems and, ultimately, may contribute to a greater level of accountability to local stakeholders.

Overall, our study adds to our knowledge of the extent and manner in which CSRep by MNC subsidiaries takes shape in a developing country context. However, the fact that these conclusions are based upon a small number of cases within one specific developing country context should be borne in mind. Further research could aim to capture the complexity of responses and approaches to CSRep in the context of MNC subsidiaries through detailed case studies (Chapple and Moon, 2007) which could apply an action research approach (Adams and McNicholas, 2007; Adams and Frost, 2008) or a naturalistic interpretive and ethnographic approach, respectively (Baxter and Chua, 2003; Durden, 2008). Likewise, comparative case studies examining different institutional pressures in developed and developing countries and the resultant level of social disclosure by MNC subsidiaries' could also extend our initial findings (Perez-Batras *et al.*, 2010) and deepen our understanding of the interdependencies between subsidiary management on the one hand and, on the other hand, head office and local environment, respectively (Tempel *et al.*, 2006). Through this research our understanding of the reasons for a low-scale uptake of CSRep by MNC subsidiaries in developing countries such as Sri Lanka could be enhanced and gain insights into ways to further improve social disclosure in the future.

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