TITLE: SEEKING LEGITIMACY THROUGH CSR: INSTITUTIONAL PRESSURES AND CORPORATE RESPONSES OF MULTINATIONALS IN SRI LANKA

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ABSTRACT

Arguably, the corporate social responsibility (CSR) practices of multinational enterprises (MNEs) are influenced by a wide range of both internal and external factors. Perhaps most critical among the exogenous forces operating on MNEs are those exerted by state and other key institutional actors in host countries. Crucially, academic research conducted to date offers little data about how MNEs use their CSR activities to strategically manage their relationship with those actors in order to gain legitimisation advantages in host countries. This paper addresses that gap by exploring interactions between external institutional pressures and firm-level CSR activities, which take the form of community initiatives, to examine how MNEs develop their legitimacy-seeking policies and practices. In focusing on a developing country, Sri Lanka, this paper provides valuable insights into how MNEs instrumentally utilise community initiatives in a country where relationship-building with governmental and other powerful non-governmental actors can be vitally important for the long-term viability of the business. Drawing on neo-institutional theory and CSR literature, this paper examines and contributes to the embryonic but emerging debate about the instrumental and political implications of CSR. The evidence presented and discussed here reveals the extent to which, and the reasons why, MNEs engage in complex legitimacy-seeking relationships with Sri Lankan host institutions.

KEY WORDS

Corporate Social Responsibility, Community Initiatives, Developing Country, Government, Political Behaviour, Legitimacy, Multinational Enterprises

ABBREVIATIONS

CSR	Corporate Social Responsibility
GOSL	Government of Sri Lanka
MNE	Multinational Enterprise
SADP	Sustainable Agricultural Development Project
SLA	Sri Lanka Apparel

INTRODUCTION

Corporate social responsibility (CSR) in multinational enterprises (MNEs) has been the focus of scholarly research for some time (Husted and Allen, 2006; Mohan, 2006; Rodriguez *et al*, 2006). Nevertheless, answers to a critical question, "Does corporate social responsibility (CSR) help multinational enterprises (MNEs) to gain legitimacy among host-country institutional actors?" have been distinctly lacking. While some scholarship (Su and He, 2010; Zhao, 2012) concerned with CSR has answered 'Yes' to this question, other questions about 'How', 'Why' and 'To what extent' multinationals gain legitimacy via their CSR policies and practices remain poorly addressed. In this paper we respond to this gap in the literature and, in the process, contend that when MNEs operate in countries where the state exerts considerable power and control over businesses, such as in Sri Lanka, CSR can prove to be an important legitimisation tool by which MNEs can gain recognition (and support) from the state and other institutional actors (Feng and Wang, 2010).

Promoted as an 'ideal way' through which MNEs can engage in ethical behaviour, activities labelled as 'corporate social responsibility' vary considerably, ranging from involvement with communities (Grayson, 1993; Muthuri, 2008; Seitanidi and Ryan, 2007) to establishing environment management systems (Ingram and Frazier, 1980; Rondinelli and Berry, 2000). Existing research does furnish evidence of the influence exerted by various institutions, such as governments, on other organisational practices of multinationals (Geppert *et al*., 2003; Tempel and Walgenbach, 2007), however, there is a paucity of research which examines the forms and processes of legitimacy-seeking behaviour of MNEs via their CSR policies and practices (Oliver, 1991; Palazzo and Scherer, 2006; Trullen and Stevenson, 2006). Given the recent resurgence of interest in MNEs' role as 'global political actors' (Scherer *et al*., 2009), who are engaged in the development of a global-level CSR agenda (Detomasi, 2007; Matten and Crane, 2005; Palazzo and Scherer, 2006; Scherer *et al*., 2006), it has become critically important to understand how MNEs act politically, especially in a state-dominated developing countries such as Sri Lanka.

Sri Lanka provides a particularly revealing context in which to study interactions between MNEs, the state and other institutions, in relation to the formers' legitimacy-seeking behaviour. Sri Lanka's recent history is one of a civil war in which a peace-settlement was secured in 2009 under controversial circumstances that are still being questioned by the global community (BBC, 2013). Economically, Sri Lanka has aggressively pursued the development of a market-economy through an extensive market liberalisation programme dating from 1977 to 1994 (Central Bank of Sri Lanka, 2010). The new economic policies adopted by the Government of Sri Lanka (GOSL), guided by Mahinda Chintana, known as 'Mahinda's thoughts' (GOSL, 2013), which is the incumbent Sri Lankan president Mahinda Rajapakse's political manifesto, have raised concerns within the business community (United States Foreign Commercial Service, 2013). The Sri Lankan government's intervention to suspend the privatization of loss-making state enterprises and the promotion of state control within key industries, as well as the re-nationalisation of thirty-seven private businesses under the auspices of the 'Revival of underperforming enterprises and underutilised assets Act' of 2011 (Aneez and Sirilal, 2011), have created an uncertain policy environment for businesses. The perception amongst investors is that the Sri Lankan government is consolidating its dominant political power amidst a revival of Sinhala nationalism (Hull and Sirilal, 2011).

Nevertheless, Sri Lanka has a long history of corporate philanthropy, notably led by individual values and actions rather than formal corporate CSR practices (Mayer and Salih, 2006). The voluntary adoption of CSR has steadily grown within the corporate sector in recent years (ACCA, 2005) with an increase in the voluntary reporting of CSR practices amongst public limited companies (Rajapakse, 2009) and global subsidiaries (Beddewela and Herzig, 2013). These corporate efforts are paralleled by other institutional actors' actions to promote CSR in the country. Such attempts have included *inter alia* the establishment of CSR Awards. For example, in recent years, we have witnessed the introduction of the Association of Chartered Certified Accountants (ACCA) of Sri Lanka's awards for 'Sustainability Reporting' (ACCA, 2007), the National Chamber of Commerce of Sri Lanka's 'Business Excellence Awards'[1] (NCCSL, 2010), and the Ceylon Chamber of Commerce's annual award scheme for the 'Ten Best Corporate Citizens'[2] (CCC, 2010). In addition, some of Sri Lanka's leading companies have become signatories to the United Nations Global Compact (UNGC) principles. Industry-wide initiatives such as 'Garments without guilt', promoted by Sri Lanka Apparel (SLA), the industry body for Sri Lanka's apparel industry (SLA, 2013), have also made a significant contribution towards changing corporate perceptions of CSR in the country. The GOSL and its various departments have also made a concerted effort to incorporate CSR into a public-private partnership model, with the establishment of the National Centre for Economic Development (NCED) (NCED, 2008). By adopting a 'participatory' approach to the development of national economic policies and plans via the creation of 'Private-Public Partnerships', the overall objective of NCED has been to align business objectives with the Millennium Development Goals[3] (UN, 2009) with the aim that effective and progressive social and economic development may be achieved in Sri Lanka.

Collectively these efforts have resulted in some important community initiatives implemented by MNEs' subsidiaries operating in Sri Lanka, in partnership with various institutional actors, including the GOSL. These consist, for example, of long-term projects such as the Sustainable Agricultural Project (SADP) implemented by a tobacco MNE, aimed at eradicating rural poverty in

[1] The National Chamber of Commerce of Sri Lanka's 'Business Excellence Awards' are designed to recognise local enterprises who have built sustainable market competitiveness (i.e. sustainable growth) together with CSR.
[2] The Ceylon Chamber of Commerce's annual award scheme for the 'Ten Best Corporate Citizens' raises awareness about CSR and encourages the adoption of CSR practices among companies in Sri Lanka.
[3] The MDGs established quantitative benchmarks to halve extreme poverty in all its forms in the world through the achievement of eight goals consisting of eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empower women, reducing child mortality, improving maternal health, combating HIV/AIDS and other diseases, ensuring environmental sustainability and developing a global partnership for development (UN, 2009).

the country and the 'Saubaghya[4]' women's entrepreneurship development project implemented by a food manufacturing MNE, as well as other shorter-term projects such as health camps for rural villages and clean drinking water provision projects. However, given the level of state power and control present in Sri Lanka, coupled with the increased pressure from other institutional actors to engage more in community development efforts in the country, it is important to also examine how MNEs use their discretionary power to direct their CSR activities towards gaining legitimacy from their host country institutional actors.

Given the context and conditions outlined above, in this paper we focus on firm-level legitimacy-seeking behaviour. However, rather than examining the external regulatory and policy environment in isolation, we also explore the internal strategy context. In so doing we investigate the ways in which MNEs use their CSR activities to engage in legitimacy-seeking behaviour. In summary, our study contributes to neo-institutional theory and CSR literature in the following ways: firstly, our research adds to the relatively small but emerging body of empirical research concerned with CSR that adopts a developing-country perspective in Asia (Chapple and Moon, 2007); and secondly, our paper provides further insights that permit a greater understanding of 'legitimacy' in neo-institutional theory. By examining a study within the context of CSR *we reveal the inter-play which occurs between MNE subsidiaries and key institutional actors* in relation to gaining legitimacy through the use of CSR in developing countries (Oliver, 1991). Thirdly, our study advances the previously deficient knowledge and understanding of the political behaviour of MNEs in relation to host-county governments, and reveals insights into its cooperative dimensions (Fransen, 2013; Menzies and Orr, 2010). Finally, our investigation responds to calls to develop *an alternative view of organisational strategic and management practices*, using a neo-institution theory based view (Peng *et al*, 2008), especially in relation to MNEs (Leung *et al*., 2005).

[4] The term can be translated as meaning 'prosperity'.

The remainder of this paper proceeds as follows: Section 2 briefly examines the CSR literature that is most salient to our research, followed by a discussion of isomorphism and legitimacy within neo-institutional theory. Section 3 presents the methods used to collect and analyse the data in this study. Section 4 reports the main findings in relation to the ten MNE subsidiaries studied and their use of CSR in Sri Lanka. Section 5 provides a discussion of our findings and this is followed by the final section which concludes the paper and suggests viable future research avenues.

THEORETICAL DEVELOPMENT

In this section we briefly explore two main bodies of academic literature that are most pertinent to our research: firstly, scholarship concerned with CSR; and secondly, neo-institutional theory which proposes ideas about isomorphism and legitimacy. We turn first to literature about CSR.

Corporate Social Responsibility: discretionary, strategic or mandated?

One long running debate in CSR literature focuses on questions which ask whether companies should adopt *discretionary* CSR (Carroll, 1979; Wartick and Mahon, 1994) or *strategic* CSR (Husted, 2001; Husted and Allen, 2007; Husted and Salazar, 2006) or whether they should be compelled or *regulated* to do so (Fairbrass 2011; Fairbrass and Zueva-Owens, 2012). The roots of this debate can be traced back to an early definition of CSR (Carroll 1979: p 500) where the phenomenon is deemed to comprise '*economic, legal, ethical and discretionary'* responsibilities. Conventionally, this discussion explores whether corporate community initiatives, or those CSR-related activities which companies use exclusively to engage with their wider local-community (or social) stakeholders, have been treated as a discretionary or voluntary philanthropic activity or some alternative type of behaviour (Saiia *et al*., 2003)**.** Crucially, over the course of time, research has indicated that if managed effectively, community initiatives could assist companies in retaining and even increasing their customers (Levy, 2005; Simmons and Becker-Olsen, 2006), fostering a sense of commitment from employees (De Gilder *et al*., 2005; Grayson, 1993; Zappala, 2004) and strengthening their corporate reputation as a ‘caring business’ (Arendt and Brettel, 2010; Brammer and Millington, 2005; Brammer and Pavelin, 2005; Hillenbrand and Money, 2007). As a result, community initiatives have come to be perceived more as strategic activities rather than voluntary or discretionary (Saiia *et al*., 2003): that is to say, not legally mandated but strategically essential.

Whilst, previously, corporate community initiatives (or corporate charitable activities) were substantially determined by the profits and values of their business owners, it is argued that today these are influenced more by the needs and requirements of other powerful stakeholders (Brammer and Millington, 2004; Veser, 2004), including the state (Zhao, 2012). Therefore, in effect, companies are not implementing community initiatives simply for ethical or philanthropic reasons but for more instrumental reasons such as long-term profit maximisation (Navarro, 1988) through the creation of competitive and comparative advantages for the firm (Hillman and Keim, 2001; Porter and Kramer, 2002; Waddock and Boyle, 1995) and in order to gain socio-political legitimacy (Hemphill, 1999) from powerful institutional stakeholders. Although previous studies have examined the potential instrumental benefits of corporate community initiatives (Fooks *et al*., 2013; Saiia *et al*., 2003), very few studies (but see Zhao, 2012) investigate how companies exploit these initiatives to seek legitimacy from the state and other key institutional actors. Some studies, such as the one conducted by Su and He (2010), have shown that firms engage in philanthropy to maximise the firm’s benefits, not in the form of an immediate economic return, but rather in order to maximise their ‘political return’, which is designed to circumvent regulation or seek to be better protected from government intervention or legislation. Under such circumstances, any mismanagement of CSR as part of a firm-level strategy could thus weaken the firms’ competitive position relative to their rivals in the country, and undermine their legitimacy, which in turn could result in a long-term disadvantage for the firm (Baron, 2001).

Accordingly, following the leads offered by the past research discussed immediately above, our research examines how MNEs based in Sri Lanka exploit their CSR strategy and community initiatives to engage in legitimacy-seeking behaviour and to assess to what extent their actions are instrumental and/or political as suggested above. We now proceed by briefly discussing neo-institutional theory.

Neo-Institutional theory: Isomorphism and Legitimacy

Neo-institutional theory defines ‘legitimacy’ as “the degree of cultural support for an organisation” (Meyer and Scott, 1983: p 201). Legitimisation seeks to influence questions posed by institutional actors (and provide answers) about what constitutes *acceptable* corporate behaviour on the part of private actors (Hamann and Acutt, 2010). By engaging in legitimacy-seeking behaviour, companies usually intend to secure and maintain access to valued resources from key institutional constituents ultimately leading to the organisation’s future survival (Sonpar *et al*., 2009).

Organisations may adopt two main strategies to gain legitimacy: they could *passively* conform to isomorphic pressures arising from external institutions (Di Maggio and Powell, 1983; Meyer and Rowan, 1983; Powell and Di Maggio, 1991) or they could *proactively* engage in managing these institutional pressures by adopting certain legitimacy-seeking strategies (Pfeffer, 1978; Oliver, 1991; Ashforth and Gibbs, 1990; Suchman, 1995). By conforming to three external *institutional pressures,* identified by DiMaggio and Powell (1983), organisations can build support and gain legitimacy for their activities in specific institutional environments. Broadly defined as institutional isomorphism, these consist of *mimetic, normative,* and *coercive* isomorphic pressures. ‘Coercive isomorphism’ is said to occur where organisations are required to adopt different practices as the result of imposition by a more powerful authority, such as a national government. ‘Normative isomorphism’ is deemed to exist where ‘appropriate organisational practices’ are promoted by professional groups with which organisations need to comply. Finally, ‘mimetic isomorphism’ takes place where organisations respond to uncertainties in practice by imitating those practices which have been adopted by other successful organisations in the same industry or in different industries. These three types of isomorphism can collectively provide three related but distinct bases for legitimacy which institutional actors could confer upon the organisations. Legitimacy can be achieved by conforming to the law of the land (through coercive isomorphism), via moral compliance (through normative isomorphism) and/or through adopting a common frame of reference or definition of the situation (through mimetic isomorphism) (Di Maggio and Powell, 1991).

Traditionally most CSR models, such as the corporate social performance model (Wood, 1991; Wartick and Cochran, 1985), and theories such as stakeholder management (Freeman, 1984), advise companies to actively engage in CSR and manage external social issues effectively. From this perspective companies cannot simply comply with institutional pressures in order to gain legitimacy: they also need to proactively develop CSR activities specifically targeted towards legitimacy-building. This proactive approach is also advocated by other authors such as Ashforth and Gibbs (1990), Oliver (1991) and Suchman (1995), who argue that organisations need to strategically (and instrumentally) manage their institutional environments, by

> "…adopting managerial perspectives instrumentally to manipulate and deploy evocative symbols in order to garner societal support." (Suchman, 1995: 572).

Under such circumstances, legitimacy becomes a 'cultural currency' and an 'operational resource' (Ashforth and Gibbs, 1990), which can facilitate the capture of intermediate inputs (of both an economic and non-economic nature) from external constituents, thereby reducing transaction costs for the firm (Boddewyn, 2012).

Prior research has shown that MNEs exercise managerial agency through the adoption of range of strategies such as seeking market leadership and lobbying for regulatory change (Holtbrugge and

Berg, 2004). The implementation of CSR by subsidiaries has also been recognised by some authors (See Fooks *et al*., 2013; Lawrence, 2010; Miller, 2008) as the deliberate use of managerial agency to gain legitimisation. Empirical studies have furnished substantial evidence to indicate that companies use CSR instrumentally to achieve a range of objectives including the desire to generate new business opportunities (Hahn, 2009), to project an image of positive social performance (Fombrun and Shanley, 1990), to mitigate or off-set poor social performance in other areas (Chen *et al*., 2010), to protect companies from negative forms of regulation and/or help them meet stakeholder expectations, which ultimately can result in financial gains for companies in either the short- or long-term (Polishchuk, 2009). However, these studies examine CSR in a broader context and fail to explore how companies specifically use CSR as part of legitimacy-seeking strategies.

At this juncture we draw on Oliver's (1991) typology that identifies five possible strategic responses, each one equating to a different level or degree of active agency towards external institutional pressures ranging from little resistance to outright defiance. The responses include: 'Acquiescence', which refers to adherence by the company to rules, values and norms within the institutional environment. Such acquiescence depends also on the intention of the organisation to conform to institutional pressures and importantly its expectation that conformity will result in the fulfilment of its self-serving interests. 'Manipulation' which involves the company in actively seeking to change or exert power over institutional demands, is considered to be the most active response to institutional pressures. It is also an opportunistic strategic response, in that, organisations engage in trying to alter or control institutional constituents and their criteria of evaluation in order to achieve legitimisation. 'Compromise' represents a certain level of compliance with institutional actors' requirements where organisations actively demonstrate conformity to and accommodation of the norms, values and rules promoted by institutional actors. However, Oliver (1991) argues that it only results in partial compliance, as compared to a strategy of 'Acquiescence', as organisations are more interested in promoting their own self-interests. In contrast to the three strategies discussed above, the strategies of ‘Avoidance’ and ‘Defiance’ are used by organisations to either circumvent and/or reject institutional pressures. ‘Avoidance’, therefore, is concerned with organisational attempts to evade the need for conformity to institutional norms and expectations, while ‘Defiance’ consists of active resistance by the company or even unequivocal rejection of institutional pressures. We argue that Oliver’s typology, with its framework for evaluating legitimacy-seeking behaviour, provides a powerful analytical tool with which to research how MNEs use CSR activities to seek legitimacy from host-country institutional actors.

Moreover, while previous studies have examined the role of CSR in legitimacy-seeking behaviour of companies (Palazzo and Richter, 2005; Trullen and Stevenson, 2006), the focus has been on exploring the external regulatory and external policy environment, rather than the internal firm-level strategy context. In this context, previous studies have found evidence indicative of the pressures exerted by host-country institutions on MNE subsidiaries’ CSR, such as increased local adaptation of their CSR (Barin Cruz and Boehe, 2010; Kolk *et al*., 2010; Yang and Rivers, 2009). Those studies which have looked at firm-level legitimacy-seeking strategies have focused on other CSR-related practices such as corporate governance (Selekler-Goksen and Yildirim Oktem, 2009; Judge *et al*., 2008; Mason *et al*., 2007), environmental management practices (See for example Hoffman, 1999; Bansal & Clelland, 2004; Jennings and Zandbergen, 1995; Clemens and Douglas, 2006), or corporate communications (Castello and Lozano, 2011). Therefore, it is a challenge to find empirical studies that show the forms and processes of legitimacy-seeking behaviour of MNEs’ subsidiaries who use CSR in the form of community initiatives. We address this gap in the research by exploring how MNEs in Sri Lanka make use of such approaches. We examine both the external and internal forces operating and explore whether firms utilise the sorts of responses proposed by Oliver (1991) above as a reaction to the coercive, normative or mimetic pressures identified by the authors referred to above (Powell and Di Maggio, 1991; Di Maggio and Powell, 1983; Meyer and Rowan, 1983).

The research framework for the study

The body of literature reviewed above suggests that domestic, host-country institutional isomorphism can exert considerable pressure on MNEs to adopt CSR activities which are compliant with local or host-country requirements. In countries such as Sri Lanka, where the state control and power has been increasing steadily, these pressures may very well arise mostly from the central government itself (Zhao, 2012; Yang and Rivers, 2009), as coercive pressures. MNEs' subsidiaries are also likely to face normative pressures, specifically those arising from professional and industrial bodies, compelling them to engage in CSR practices (Amran and Haniffa, 2011). Although mimetic pressures have been identified as being less influential in relation to MNE subsidiaries' CSR strategies (Amran and Siti-Nabiha, 2009; Beddewela and Herzig, 2013), it could still be considered to be an important institutional pressure. However, our argument here is that while MNEs *do* face these host-country isomorphic pressures in relation to their CSR practices, these MNEs are not inherently passive actors themselves. Rather, we argue that multinational firms are capable of taking proactive measures, so as to engage in a dynamic way with these institutional pressures and pursue effective legitimacy-seeking strategies. We recognise that the firms could employ a range of different types or kinds of CSR initiatives with the objective of building long-term relationships with the state and other important institutional actors, so that ultimately their survival in the country can be assured (Fooks *et al.*, 2013).

INSERT FIGURE 1 ABOUT HERE

In our case study, we focus particularly on community initiatives as a form of CSR. More specifically, our research explores how the interaction between MNEs and other societal institutions takes place in Sri Lanka and how CSR initiatives are used by MNEs in their broad legitimacy-seeking strategies (as illustrated in figure 1). Drawing on the literature above, therefore, we pose and address two key questions.

- **How do the host-country institutional actors influence the CSR activities of MNEs?**
- **How do MNEs use CSR activities to seek legitimacy from host-country institutional actors?**

Having outlined our conceptual approach in this paper, we now turn to examine the research methods used in order to address these questions.

METHODS

Given the lack of existing empirical research in our chosen area and the need to understand the specific context within which CSR led legitimacy-seeking behaviour takes place, an exploratory qualitative method was chosen (Guba and Lincoln, 1985; Silverman, 2005). More specifically, in order to investigate how different MNE subsidiaries operating in a developing country engage in legitimacy-seeking behaviour using CSR, we used a case-study research strategy (Eisenhardt, 1989; Yin, 2009) consisting of a multiple case design. This approach was chosen to enable and assist cross-case analysis and synthesis (*Ibid*). Data was collected from ten selected cases (i.e. MNE subsidiaries) in one specific host country (i.e. Sri Lanka) to minimise host country effects (such as cultural, economic, social and political factors) which would have rendered comparison of cases difficult or less meaningful otherwise. We also collected data from key institutional actors, using in-depth interviews, in order to explore how they seek to influence the CSR activities of MNEs operating in the country.

Data Collection

Using purposive sampling (Silverman, 2005), the subsidiaries were selected on the basis of the nature of the data required. No parameters were set in terms of subsidiary size, sector or number of employees when selecting the subsidiaries. This complemented the exploratory nature of the study. The only selection criterion that we used was to the conduct research focusing on MNE subsidiaries based in Sri Lanka who were actively engaging in CSR.

As there was no commonly accepted or available measurement for recognising the degree of CSR contributions made by Sri Lankan-based MNEs, subsidiaries which were listed as being among the 'Most Respected Entities in Sri Lanka' (LMD, 2008) provided the basis for our sample selection. 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. Hence, from an overall ranking of 100 companies, the first ten MNE subsidiaries with the highest rankings were selected for research purposes. We also wanted to compare companies from different industries, ranging from those where there was high state control to industries with low or no state control. Table 1 lists all of the selected subsidiaries and provide details about their operations, global affiliations as well as the details of the interviewees from each of the subsidiaries. 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 of experience and five companies have been operating in Sri Lanka for more than 70 years (in three of these cases, for more than 100 years).

INSERT TABLE 1 ABOUT HERE

Access to the subsidiaries was initially gained by contacting the manager or senior executive in charge of CSR by telephone or email. A formal letter containing an overview of the research project as well as the key interview themes was presented to each of the ten subsidiary managers. These 'gate keepers' then recommended other corporate managers and senior executives within their firm, as potential interviewees, and also helped to arrange meetings with them. In total, twenty-nine corporate managers, all Sri Lankan nationals working for MNEs, were interviewed during the period October 2008 to January 2009. These corporate managers were selected for their involvement either directly or indirectly in the decision-making relating to CSR activities and/or the communication of the outcomes of CSR activities.

Apart from the corporate managers, senior staff from eight institutional actors representing a range of key institutions, including the GOSL were also interviewed. The objective was to explore their interactions with the ten case study companies. Table 2 provides details about these institutional interviewees including their institutional affiliations.

INSERT TABLE 2 ABOUT HERE

The corporate managers, together with the respondents from the institutional actors, were interviewed using an interview guide. The key themes used for interviewing the subsidiary managers comprised the following: the scope and extent of engagement in CSR; the company's motives for engaging in CSR; and the firm's engagement with host-country institutional actors and their reciprocal influence. The institutional actors were interviewed about their overall engagement with the ten companies, and their influence over the firms in relation to their CSR activities. Although the interview guides were followed as a means of maintaining a strong focus throughout the interviews, these did not restrict the use of probing questions needed to gather more detailed information from the interviewees. All the interviews were conducted face-to-face at the offices of the MNEs. Each interview lasted between 30 and 60 minutes and all respondents were assured of anonymity. Further data was also gathered from the published corporate social reports (and related publications) to furnish additional detail about the CSR activities of the MNEs.

Data analysis

During the data collection all thirty-seven interviews were digitally recorded and then transferred to computer as mp3 files. All interview transcripts were coded and a database was created by using NVivo10. 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.

Following Miles and Huberman (1994), we undertook a cross-case analysis of the initial themes which were developed by using open coding. In other words we undertook a scrutiny of transcripts to produce initial codes (Strauss, 1996) which categorises the data (Flick, 2002) and allowed overall features of the phenomenon under study to be identified and categorised. During the cross-case analysis, we remained mindful of the unique context of each subsidiary being analysed. For example, we were aware of the firm's and the industry's characteristics, the level of engagement in CSR by the company, and the nature of the interactions with institutional actors and the GOSL.

The cross-case analysis enabled us to identify patterns that were strongly attributable to subsidiaries operating in specific industries in Sri Lanka. We then further analysed these initial patterns using the interview data obtained from the institutional actors. Our immersion in the data enabled us to find key themes and then to develop a more comprehensive understanding of the interaction between institutions and subsidiary CSR activities, leading to the generation of a more refined analysis of external institutional pressures operating on the CSR activities of the MNEs' subsidiaries and how they, in turn, developed their legitimacy-seeking strategies via their CSR activities.

FINDINGS

In summary, we found that the external institutional pressures on the CSR activities of the ten subsidiaries varied according to the level of government control over an industry and the power of the institutional actor exerting the pressure. The subsidiaries in turn used CSR activities pragmatically and instrumentally and engaged in distinctive legitimacy-seeking strategies. We examine these findings in more depth below.

External Pressures and Intervening Factors

All ten subsidiaries indicated that there were external pressures which influenced different aspects of their CSR activities. For example, in deciding whether to partner a non-governmental or governmental institution and how they prioritised their company's CSR projects was a product of such external pressures. Three of the subsidiaries identified the government as the most forceful source of external pressure, indicating that the government's impact on them ranged from legal and regulatory pressures to demands for partnerships with government institutions to minimise political risks (see Table 3). The quotations below exemplify the degree of pressure exerted by the government on these firms.

> "… [W]hen we decide to invest in long-term CSR projects, like the Sustainable Agricultural Development project or the Bio-Diversity Project, we prioritise to see how these projects will help in achieving *high government impact* and high social impact [...] Maintaining our reputation in Sri Lanka is important and we have to proactively manage our external environment [..] So when we have identified a risk, we proactively engage and manage it before it becomes a severe risk issue […] *so doing long-term projects with the government helps us to minimize some of these identified external risks.* (CSR Manager, Tobacco Company, 2009. Emphasis added.)

"By doing these CSR projects we aim to increase our corporate equity […] right now *our main CSR programmes are mainly focused on the government to build up our corporate equity among the government*. Then once [that is] done then we will go for building corporate equity amongst the public." (Human Resources Director, Nutrition Company, 2009. Emphasis added.)

"Well the Government is very happy [...] and they are supporting our projects, like the Solid Waste Management project and our efforts to promote Sustainable Construction in the country, where we work with the Environment Ministry [...] they are encouraging companies to come in take care of rural communities [...] *they also recognize organizations that support communities and the country*." (Vice-President Sustainable Development, Cement Company, 2009. Emphasis added.)

INSERT TABLE 3 ABOUT HERE

Further investigation of the specific industries where these three subsidiaries operated showed that these were significantly controlled by the government (see Table 4). For example, the Tobacco Company operates as a monopoly in Sri Lanka, which is extensively taxed as well as highly regulated by the government[5]. Tobacco Company's business sustainability, and specifically its ability to maintain its monopoly position, is completely dependent on its acceptance as a key contributor to the GOSL's revenue and development initiatives. The Nutrition Company was also dependent on the GOSL for its business profitability, as the majority of their products are milk-based products which are imported from abroad and which are also price controlled in Sri Lanka[6].

[5] In 2006 the government, enacted a Tobacco Control Act in 2006 for comprehensive tobacco control and established the National Alcohol and Tobacco Authority (NATA) to implement the Act (NATA, 2010), and the price of tobacco products are decided in conjunction with the Ministry of Finance in Sri Lanka, making it 100% price controlled.

[6] As the domestic milk production only constitutes about 17% of the requirement of the market, the rest is imported, import taxes are imposed and Full Cream Milk Powder is specified as an essential commodity by the Minister of Trade, Commerce & Consumer Affairs Section 18 of the Consumer Affairs Authority Act No.09 of 2003 and the prices of FMCP products are determined by the Consumer Affairs Authority (CAA, 2010)

The Cement Company also faced both price controls and import restrictions on their cement products by the GOSL (and related ministries).

INSERT TABLE 4 ABOUT HERE

Our evidence further reveals that the government of Sri Lanka is perceived to be actively applying coercive pressure on the CSR activities of those companies operating in those industries which are state-controlled. This finding is unsurprising. However, we also found that the Sri Lankan government also applies normative type pressures, as well as coercive pressures, to private sector companies via the National Centre for Economic Development (NCED), which promotes increased public-private engagement:

> "What the government does is to discuss policy issues, [through] the 24 cluster committees of the NCED [...] we also want to guide companies' community development plans towards MDGs [but] the government can't impose that the companies do CSR …" (National Coordinating and Communications Officer, NCED, 2009)

These pressures seem to have resulted in community initiatives which are sponsored fully by the multinationals, but are implemented in partnership with different government ministries and authorities. For example, to support the Livestock Master Plan (LMP) introduced by the Ministry of Livestock and Rural Community Development (which includes a plan to reach 100% milk self-sufficiency in the Sri Lankan dairy sector by the end of 2015) (Mendis and Edirisinghe, 2014), the Nutrition Company implements a Farmer Development Project in collaboration with the Ministry to increase the local dairy production in line with the government's targets.

The external pressures on CSR activities of the other seven companies mostly arose from non-governmental organisations (NGOs) including local trade associations (see Table 5). For example, interviews revealed that NGOs or third sector organisations such as the Ceylon Chamber of Commerce (CCC), the National Chamber of Commerce (NCCSL), professional bodies such as the Association of Chartered Certified Accountants (ACCA), and global institutions such as the United Nations Development Programme (UNDP) were major influences on the CSR activities of the MNEs.

INSERT TABLE 5 ABOUT HERE

The non-governmental institutional actors mostly tended to use normative pressure by promoting the voluntary adoption of industry-wide norms and codes of conduct as well as advocating the adoption of 'best-practice' by organising CSR award competitions. For example, the Ceylon Chamber of Commerce organises the *Ten Best Corporate Citizen* awards, which recognises and promotes CSR initiatives among its member companies. They also influence their member companies to engage in CSR activities which are related to the achievement of the eight MDGs through steering committees:

> "[We use] the Steering Committees [to] focus on the MDGs and try and identify areas that would reduce the gap of MDGs in Sri Lanka. [In these] CSR Steering Committees we invite people from the United Nations, from the World Bank from the IUCN. [They are there to provide] technical support or advice to the private sector companies on how to handle different projects [...] We thought we [will] try and do projects that reflect these eight goals so [each] committee is focused [on achieving one goal]. For example if BANK1 is leading one committee, TOBACCO leads the other and so on and then they have brought in other companies also into their teams. We call [these] steering committees 'Goal Coordinating Committees' and every month they present the progress on what [each one of them] they are

> doing and on how they are progressing, the issues they have and we see [whether] we can help them out if they have issues related to implementation." (Additional Deputy Secretary General, Ceylon Chamber of Commerce, 2009)

The Employers Federation of Ceylon (EFC), being the only member of the International Labour Organisation (ILO) in Sri Lanka, is focused on promoting employer interests at a national level (EFC, 2009). The EFC comprises of 440 private sector company members and focuses their CSR-related company-wide promotions on employee relations and welfare (Lanka Business Online, 2010). It does this by promoting the voluntary adoption of codes of conduct related to employee welfare and grievance-management within the purview of Sri Lanka's labour laws:

> "[We have two aims]. One is to help to promote awareness with regard to Corporate Social Responsibility and how it would work from a business point of view [...] and secondly to improve the quality of life of employees [by getting organisations] to focus on gender equality and sexual harassment. [We are focusing on these areas in relation to corporate responsibility] because these things are also very close to the work of the International Labour Organisation. [We have] steering committees [which are responsible] for ensuring that our member companies collaborate in adopting these voluntary codes […] in certain cases we have picked companies, the ones we know who will do this and who would do it properly - but it is a voluntary process". (Deputy Director General, EFC, 2009)

In summary, the above analysis indicates that multinationals in Sri Lanka face both *coercive* and *normative* pressures from the country's key institutional actors and the government. The findings underline the dominant power of the Sri Lankan government (Aneez and Sirilal, 2011), in certain sectors propelling those MNEs to adopt community CSR initiatives which are large in scale, more long-term oriented and in partnership with government agencies (see Table 4). Stronger normative pressure emanates from NGOs and trade associations, steering the businesses towards adopting more participative approaches and resulting in the MNEs engaging in community CSR initiatives as a way of fulfilling their social and professional obligations. We now turn to reviewing the internal legitimacy-seeking behaviour of the surveyed firms.

Internal Legitimacy-seeking behaviour and CSR

We analysed the legitimacy-seeking behaviour of the ten companies using Oliver's (1991) five strategies responses discussed above. However, we only found evidence for two of the five strategic responses: namely, 'manipulation' and 'compromise'.

Manipulation

We identified the use of manipulation as a legitimacy-seeking strategy by the three subsidiaries which were facing coercive pressures from the government. Due to their need to maintain legitimacy with the government, and thus minimise operational and political risk, these subsidiaries were keen to increase their engagement with the government by implementing CSR projects. They wanted to ensure that the government was aware of their contribution to the country not just from a financial or economic perspective, but also from a community-building angle. This would enable these subsidiaries to attempt to either prevent any negative future government actions (for example, such as the enactment of new laws for nationalisation of certain MNEs, the restriction of their business practices and the opening up monopolised markets to competition), or would, at least, help to ensure that the subsidiary is notified in advance of any such changes so that preventative measures could be taken to ensure their continued operations in the country.

For example, the Sustainable Agricultural Project (SADP), which is a pioneering project launched by the Tobacco Company to uplift rural villagers from poverty and guide them to achieve self-sustenance, is implemented in close collaboration with different government authorities as outlined in the quotation immediately below:

> "We must always take the government on board, especially people like the District's Government Agent and people like the Agriculture Minister, because we are in a controversial industry: so, if we do not have the sanction of the government, then pressure groups would interpret our involvement with the farmers as if we are trying to help these farmers plant tobacco." (Corporate Social Investment Manager, Tobacco Company, 2009)

Furthermore, this project is also strongly aligned with the vision and objectives of Mahinda Chinthana: A vision for a new Sri Lanka (GOSL, 2013), the incumbent Sri Lankan president's political manifesto. It shows the importance for Tobacco Company of developing strong ties with the government:

> "We do not publicize about SADP, but we prefer to do it and show the results to people who really matter, like the Finance Minister, Agricultural Minister and all those top government officials. Rural poverty alleviation is also a government priority and it is important for us to do a project which is on the government's priority list." (Director Corporate Affairs and Regulatory Affairs, CTC, 2009)

The Farmer Development Project launched by the Nutrition Company supports dairy farmers in Sri Lanka to increase their milk production in a sustainable manner. This project crucially supports the Sri Lankan Ministry of Livestock and Rural Community Development's national targets for increasing milk production.

> "Our third area for CSR is farmer development which supports the national cause to increase local diary milk product from 15% to 50% [...] this is a government goal and [was also] in their election manifesto." (Human Resources Director, Nutrition Company, 2009)

Recent events in these three sectors such as the temporary restrictions placed on imported milk products by the government (Field, 2014), the increase in import duties on cement and milk products (Lanka Business Online (LBO), 2012), much stricter price controls on cement (LBO, 2011) and the introduction of graphic pictorial anti-smoking messages, under new labelling and packaging regulations for tobacco products in Sri Lanka (Kirinde, 2012) further indicate the increasing political risks which MNEs encounter. The use of *manipulation* shows the more pro-active engagement that subsidiaries (which face increased political risk) have adopted to try to neutralise these risks by using CSR activities. See Table 6 for further examples of evidence relating to firms' use of a manipulation strategy.

INSERT TABLE 6 ABOUT HERE

Compromise (or Collaboration)

A collaboration or 'compromise' strategy is also used by some subsidiaries to engage in legitimacy-seeking behaviour with institutional actors to seek mutually beneficial CSR outcomes. However, this strategy tended to be voluntary and to address or respond to normative pressures. The collaboration between the firms and various governmental and non-governmental institutions occurred to achieve mutual goals related to a specific community initiative. For example, five of the subsidiaries (including the Tobacco Company) use a compromise strategy to work with the Ceylon Chamber of Commerce (i.e. Chamber), which promotes the achievement of the eight MDGs by its member organisations through their CSR activities (see Table 7).

INSERT TABLE 7 ABOUT HERE

However, these five subsidiaries' level of collaboration is a result of how actively each one participates and the extent of resource contribution that they can make to these projects. As explained by the Assistant Manager of CSR at Banking Company 1, the subsidiaries encounter a variety of issues in relation to their collaboration with the Chamber.

> "It came up actually [because] we won the Ceylon Chamber of Commerce Best Corporate Citizen awards and then whoever [who] won the chamber awards [was asked] to [form each of] the committees… Because we focus on Education [in our Community Corporate

Responsibility agenda] we started heading the [Goal Steering Committee] for MDG two which is ‘Universal education for primary schools’. Initially [as a] project [we did] spoken English [classes] for estate schools and the Drinks Company helped us in the beginning […]. *It was difficult [to find] financing because not like earlier now companies don’t really give money*. But somehow we got [these projects] off the ground under this committee.” (Assistant Manager of CSR, Banking Company 1, 2009. Emphasis added.)

In addition to collaborating with the Chamber, we also found evidence that the subsidiaries also cooperate with other institutional actors, such as the ACCA and the NCCSL, by participating in CSR award schemes organised and promoted by these institutions. This has normatively influenced the subsidiaries CSR practices as indicated below:

“Yes, I think if the [chamber] didn’t have the awards [we] might not have got into [CSR] at all.” (Senior Public Affairs Manager, Banking Company 1, 2009)

“Our Corporate Communications Manager had to sit down and put all of this [information about our Corporate Responsibility] together into a document [so that we could] answer those questions that the Chamber had asked [in the award application] and it helped us to interpret and organise our CSR activities.” (Vice-President- Human Resources, Consumer Company 2, 2009)

The most recent initiative undertaken by the Ceylon Chamber of Commerce was to launch a voluntary CSR charter called the *Voluntary Agenda for Responsible Business*. This was intended to be adopted by private sector organisations (including multinational subsidiaries) operating in Sri Lanka. Its objective was to “shape the business strategy to promote a sustainable balance in a society that is developing and growing” (Ceylon Chamber of Commerce, 2008:01). This voluntary charter was a collaborative effort amongst several institutional actors and international organisations who are actively engaged in promoting greater sustainability within the business practices of Sri Lankan organisations.

Across the other three subsidiaries we found further evidence of collaboration mostly with government institutions. For example, the Telecom Company, successfully partnered with the Ministry of Education, to launch the Digital Bridge distance learning initiative, which was aimed at bridging the rural-urban digital chasm in the education system. The Insurance Company as well as the Drinks Company has launched community initiatives in collaboration with various ministries in the Sri Lankan government. Table 8 lists further examples of community initiatives that these ten multinational enterprises' carried out in Sri Lanka.

INSERT TABLE 8 ABOUT HERE

The strategies that these companies have developed to enhance their acceptance and trust among external institutional actors, discussed above reflect how they are reconciling the tension between institutional pressures and legitimacy, by using their community initiatives. The *manipulation strategy* reflects the growth in public-private partnerships and the direct alignment of community initiatives with government requirements, whilst the *collaboration strategy* displays a type of voluntary engagement with important governmental and non-government institutional actors. The evidence that we have collected provides us with an initial understanding of how CSR activities, and more specifically community initiatives, have moved away from being a *discretionary activity* to a *strategically* important one.

DISCUSSION AND CONCLUSION

The research undertaken for this paper aimed to explore how institutional pressures, viewed as a form of isomorphism, influence CSR practices among MNEs based in Sri Lanka, and how the researched companies in turn proactively seek legitimacy using their CSR activities. Our study reveals and highlights important findings related to a more instrumental use of CSR activities by companies, specifically to gain political advantage. To a certain extent it also provides an understanding about how national-institutional pressures influence a specific aspect of CSR (i.e. community initiatives) (Mondejar and Zhao, 2013). Despite the stated importance of addressing community issues in CSR (Carroll, 1991), the MNE subsidiaries we researched do this not simply because they want to do 'good' to society. Rather, they also have other intangible objectives, which we found were linked to the different institutional pressures encountered in Sri Lanka. The studies MNEs engaged in CSR strategically (Suchman, 1995) to build, to maintain, and to enhance their relationships and standing amongst the state and other important institutional stakeholders.

In relation to institutional pressures, we found clearly identifiable coercive and normative isomorphic pressures (Di Maggio and Powell, 1983), arising from governmental and non-governmental institutional actors. With regard to the former, rather than identifying clearly defined legal and regulatory structures as previous studies have done (Du and Vieira, 2012), we identified more intangible, yet effective pressures adopted by the government, or 'informal rules of the game' (Peng, 2002; p 275) to get subsidiaries to engage in more long-term oriented CSR activities in Sri Lanka. This is also in line with Zhao (2012) who also identified the significant pressures that powerful governments could exert upon companies' CSR activities. However, by showing that pro-active government pressure could even occur in small developing countries (such as Sri Lanka), our findings raise questions about the ability of MNEs to manipulate host-country governments as stated in previous studies (Campbell *et al*., 2012). Rather, our findings indicate that in order to manage increasing governmental pressures, MNEs can develop a cooperative relationship with government agencies. Community initiatives form an integral part of this relationship building process. It can be argued that MNEs' motivations for engaging in CSR are more politically than altruistically driven. Furthermore, we contend that the MNEs anticipate that by undertaking CSR strategies and community initiatives that they can pre-empt or circumvent detrimental government action, such as unfavourable or adverse regulatory changes, and may even be able to directly influence government policies (Mondejar and Zhao, 2013) to their advantage.

In relation to normative pressures, our findings showed that these were mostly directed towards the 'substance' of MNEs community initiatives, with non-governmental actors using their standing within the host-country to do so opportunistically (Oliver, 1991). The MNEs in our study managed the normative pressures by cooperating with these institutional actors, using a partnership approach towards the implementation of community initiatives. While this is mostly in line with previous studies, which have examined the use of collaborative partnerships as an effective way to implement CSR (See Seitanidi and Crane, 2009; Seitandi and Ryan, 2007), our findings also reveal that MNEs do so when they are able to actively *control* the partnership, thus enabling them to gain social approval and legitimisation within the host-country.

Although our study did indicate evidence of the above-mentioned normative pressures, it was surprising that cultural and religious pressures, which have been previously identified as normative pressures (Blasco and Zalner, 2010), were not pinpointed by the subsidiary managers as being more important. We also unable to discernible any mimetic isomorphic pressures. This may be due in part to the fact that all of these ten MNE subsidiaries dominated their specific industries in Sri Lanka, and were market-leaders. Therefore, mimicking local competitors may not be a priority for them. This finding differs greatly from studies which have identified mimetic pressures often superseding normative and coercive pressures on MNE CSR practices (Amran and Haniffa, 2011).

Significantly, the two legitimacy-seeking strategies that we identified, while being similar to Oliver's (1991), strategic responses to institutional pressures, are also different as we place CSR at the very core of these strategies. We show that CSR activities *can* be an important tool by which companies implement strategic responses to manage external institutional pressures and ultimately gain legitimacy. While Oliver's (*Ibid*.) strategic responses have been explored by others and remains a key contribution towards examining structure and agency in neo-institutional theory (Fransen, 2013), our findings extend these identified strategic responses to the political CSR view, which has been gaining momentum in recent years. The political CSR literature has extended firm-level arguments focusing on corporate citizenship theory (Matten and Crane, 2005) and the broadened the corporate citizenship concept (Valente and Crane, 2010) to a more global-level construct (Drahos and Braithwaite, 2001), which contends that MNEs have become important political actors at the global level of governance (Detomasi, 2007; Matten and Crane, 2005; Palazzo and Scherer, 2006; Scherer *et al*., 2006). Based on our findings, we argue that concentrating on firm-level political CSR is also important, due to the direct impact it has on MNE CSR activities in developing countries, as is shown in this case.

Politically speaking, CSR efforts can aid MNEs in building local legitimacy and strong local relationships with host governments, and clearly what a MNE does or does not do in terms of CSR activity has competitive and political implications (Detomasi, 2007). The evidence suggests that MNEs are more likely to use CSR as 'political tool' to achieve objectives related to the preservation of societal legitimacy, to maintain flexibility in dealing with demands of host governments, and to prevent negative policy that might harm their competitiveness, and eventually their business sustainability (*Ibid*.). This was clearly observable from the findings of this study, where such objectives were being fulfilled specifically by the use of the *manipulation* strategy.

The *manipulation* strategy also bears a close resemblance to Fooks *et al'*s (2013) identification of 'neutralization' and 'pre-empting' strategies, which assist MNEs in managing political influences on their business, further indicating the potential for CSR to be used as part of a firm's political strategy. Given that CSR is by its nature considered to be a *voluntary* corporate activity, our findings indicate, that paradoxically the actions by the state and other institutional actors by engaging in indirect means of steering, work within the sphere of corporate self-determination to channel corporate CSR activities towards the fulfilment of their own goals. It corresponds with similar studies which have shown how the state (or government) could act as a positive force seeking to push corporate CSR agendas further towards the achievement of social goals (Polishchuk, 2009; Vallentin and Murillo, 2012).

Thus, we argue that subsidiaries of MNEs can take proactive steps to acquire legitimacy in the host-country, and suggest at least two kinds of such actions that they can undertake (See figure 2). Firstly, they can pursue strategies to align their CSR activities to those priority development goals and/or political agendas of the host-county government, thereby, using CSR as tool in their subsequent political strategies. Secondly, they could adopt strategies to identify important institutional actors, who can confer legitimisation upon the subsidiary, and then collaborate with these actors through CSR activities, thereby developing long-term productive relationships which could, in the future, assist the subsidiaries' survival in the country. Adopting these proactive strategies appear to be most important for those MNEs operating within industries where there are strong or direct government controls and those having to manage powerful institutional actors (Drahos and Braithwaite, 2001; Palazzo, G., & Richter, 2005).

INSERT FIGURE 2 ABOUT HERE

Research Limitations and Areas for Future Research

Despite revealing significant fresh empirical data about the CSR practices of MNEs in a developing country, this paper, of course, has limitations. Most particularly, it is non-generalizable beyond the context in which the data has been collected, as is common to case study research (Yin, 2009). It also utilises data collected during a specific time period, which may not be indicative of the fluid nature of organisational responses and institutional pressures within a country (Lawrence, 2010), which would ideally be better served by a longitudinal study (Mondejar and Zhao, 2013). Future research should aim to capture the complexity of responses and approaches to legitimacy-seeking in the context of CSR practices of MNE subsidiaries through detailed case studies (Chapple & Moon, 2007) differentiating between industrial sectors (Jackson and Apostolakou, 2010) and political cultures (Gjolberg, 2009) prevalent across different countries. Future research should also examine the locus of political activity that governs CSR amongst MNEs in host countries, using multiple subsidiaries across developed and developing countries, thus ensuring comparative results in host-countries where the level of state control and power may vary.

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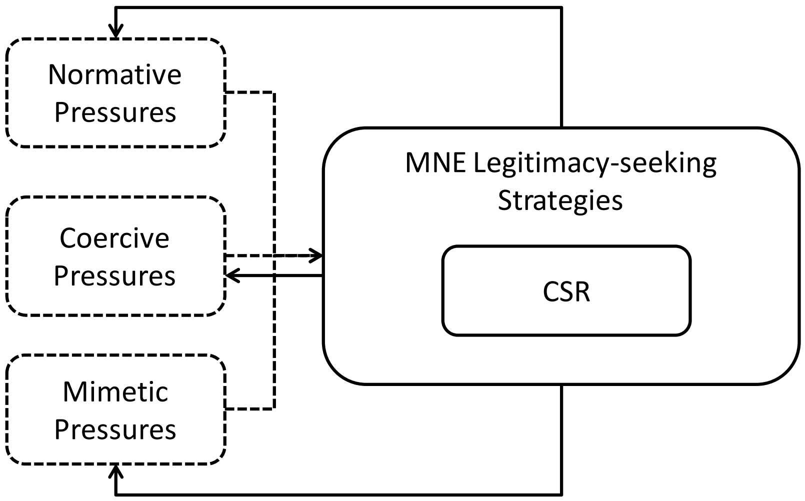
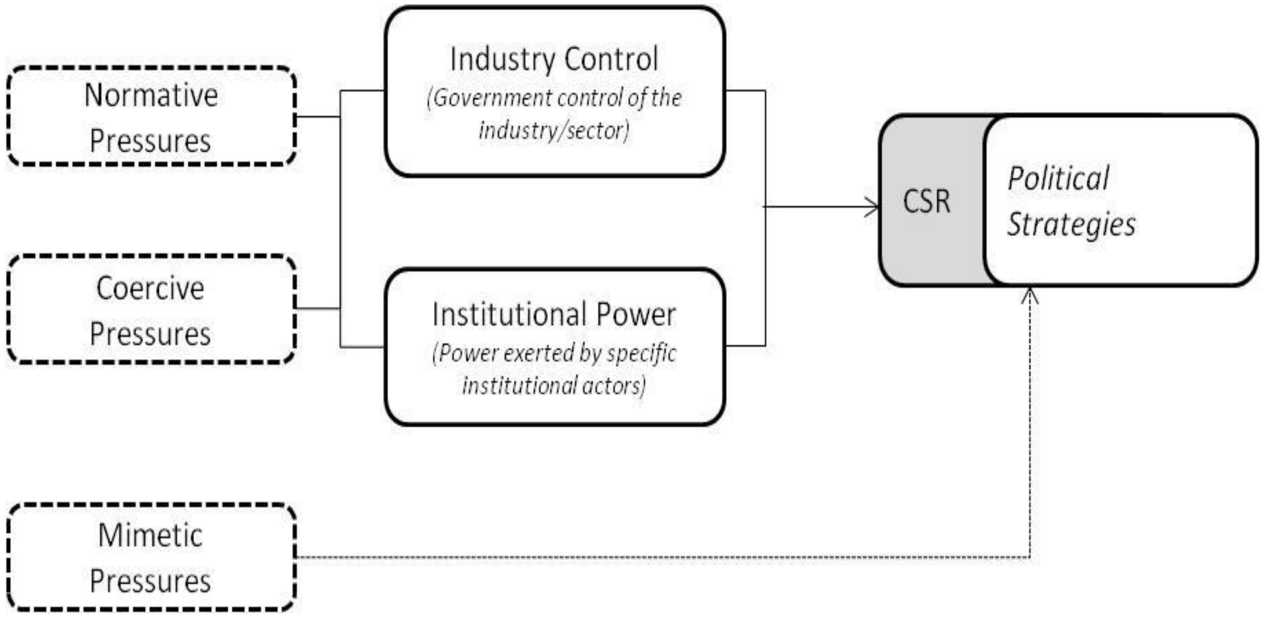
Figure 1: Research Framework



Source: Authors

Figure 2: CSR-led political strategy



Source: Authors

Table 1: Overview of subsidiaries, interviewees and level of state control in the industry

Subsidiary	Type	Head office location	Sector (ISIS Classification)	Details of Interviewees
Banking Company 1	Private Ltd	Europe	Financial and Insurance (Financial service activities)	Interviewee 01 (Senior Public Affairs Manager) Interviewee 02 (Corporate Communications Manager) Interviewee 03 (Assistant Manager CSR - Education) Interviewee 04 (Assistance Manager CSR – Environment)
Banking Company 2	Private Ltd	Europe	Financial and Insurance (Financial service activities)	Interviewee 05 (Head of Corporate Affairs) Interviewee 06 (Corporate Affairs Officer)
Cement Company	Private Ltd	Europe	Manufacturing (Manufacture of other non-metallic mineral products)	Interviewee 07 (Vice-President Sustainable Development) Interviewee 08 (CSR Manager) Interviewee 09 (Coordinator Sustainable Development) Interviewee 10 (Environment Manager)
Consumer Company 1	Private Ltd	Europe	Manufacturing (Manufacture of food products)	Interviewee 11 (Corporate Relations Manager) Interviewee 12 (Consumer Activations Manager) Interviewee 13 (Brand Manager)
Consumer Company 2	Private Ltd	Europe	Manufacturing (Manufacture of food products)	Interviewee 14 (Vice-President Human Resources) Interviewee 15 (Corporate Communications Manager) Interviewee 16 (External Affairs and Activations Manager)
Drinks Company	Private Ltd	North America	Manufacturing (Manufacture of Beverages)	Interviewee 17 (Country Human Resources Manager) Interviewee 18 (Public Affairs and Communications Manager)
Nutrition Company	Private Ltd	Asia-Pacific	Manufacturing (Manufacture of food products)	Interviewee 19 (Human Resources Director) Interviewee 20 (Manager Regulatory Affairs and Nutrition)
Insurance Company	PLC	Europe	Financial and Insurance (Insurance, reinsurance and pension funding)	Interviewee 21 (Assistant General Manager – Marketing) Interviewee 22 (Communications Manager)
Telecom Company	PLC	Asia-Pacific	Information and Communication (Telecommunications)	Interviewee 23 (Group Chief Corporate Affairs Manager) Interviewee 24 (Senior manager Public Policy and Corporate Responsibility) Interviewee 25 (Senior Executive CSR)
Tobacco Company	PLC	Europe	Manufacturing (Manufacture of Tobacco products)	Interviewee 26 (Director Corporate and Regulatory Affairs) Interviewee 27 (Corporate Social Responsibility Manager) Interviewee 28 (Corporate Communications Manager) Interviewee 29 (Corporate Social Investment Manager)

Source: Authors

Table 2: Overview of institutional interviewees

Institution	Affiliation	Interviewee
National Council for Economic Development	Government of Sri Lanka	National Coordinating and Communications Officer for MDGs
The Ceylon Chamber of Commerce (CCC)	Trade Association	Deputy Secretary General
Employers Federation of Ceylon (EFC)	Private Sector Association	Deputy Secretary General
National Chamber of Sri Lanka (NCCSL)	Trade Association	Deputy Director General
The Association of Chartered Certified Accountants	Professional Body	Centre Manager – Sri Lanka
International Union for the conservation of nature (IUCN)	Non-Governmental Organisation	Coordinator Business and Biodiversity Programme
United Nations Global Compact in Sri Lanka	Global Non-Governmental Organisation	United National Global Compact Focal Person
United Nations Development Fund	Global Non-Governmental Organisation	Private Sector Partnerships Advisor

Source: Authors

Table 3: Illustrative quotes to indicate external institutional pressures – industry controlled subsidiaries

[We need to] manage [government] policies. [In] the food sector, there are many [government] policies [such as] the nutrition policy and the food safety policy [and] there are laws such as the Food Act. So [we] have to comply with [all these] laws and regulations. [These are] certain parameters which [could] actually restrict our operational freedom in this country and [therefore] could directly affect our business. (Manager Regulatory Affairs and Nutrition, Nutrition Company, 2009).
[We] also aim to work with government institutions and other institutions like the [Ceylon] Chamber in our projects [..] the obvious side of this project is it that we are doing good to society [meeting our] but it also helps us to build our corporate reputation that would be enhanced through this project. It also gives us avenues for engagement with important stakeholders, like the government in Sri Lanka this is always a fantastic tool to use right? So [we] look at the holistic picture what CSR would do the business. What kind of value it would bring back, value addition to the business in the long-term. (Corporate Communications Manager, Tobacco Company)
"For us we can't do anything in Sri Lanka without the support of government institutions. Anything to do with health or nutrition, we need the Ministry of Health's permission... so what do is to partner with the Ministry for our nutrition programme because you can't approach, you can't even distribute, you can't do any awareness unless the Health Ministry gives the green light... the government, for us is a key stakeholder...and if we don't have a good strategic corporate response plan we can't show the government how we are a nutritional and diary expert...so the day the government tells us to leave the country, they will know that they are losing a nutrition company from Sri Lanka that means from whom are they going to get that expertise from? So that's where we come in, they have to see that we support the nutrition in this country....so we want to be seen by the government as nutrition and diary expert. So that is why we helped the government to prepare a dairy development policy. Any food company has to have good relationship with the government because it affects people. (Human Resources Director, Nutrition Company)
" We basically invest in projects which are most useful for Sri Lanka...what the society needs and the government needs**"** (Director - Corporate and Regulatory Affairs, Tobacco Company)

Source: Authors

Table 4: Sri Lankan government control of specific industries

Subsidiary	Industry	GOSL regulation of the Industry	Regulatory Authority	Regulatory Activities and Implications for subsidiaries	Large scale capacity building and other CR projects
Cement Company	Cement	Price Control	Consumer Affairs Authority (Ministry of Trade Commerce, Consumer Affairs and Marketing Development)	Cement products are specified as an essential commodity by the Minister of Trade, Commerce & Consumer Affairs Section 18 of the Consumer Affairs Authority Act No.09 of 2003 and the prices of Cement products are determined by the Consumer Affairs Authority (CAA, 2010)	• Coastal Rehabilitation Programmes • Three year apprentice development programmes for unemployed youth in the villages near to the cement manufacturing facilities
Nutrition Company	Fast Moving Consumer Goods (Processed Milk Powder)	Price Control and Import Taxes	Ministry of Livestock Development Sri Lanka Consumer Affairs Authority (Ministry of Trade Commerce, Consumer Affairs and Marketing Development) Ministry of Finance	As the domestic milk production only constitutes about 17% of the requirement and the rest is imported, import taxes are imposed and Full Cream Milk Powder is specified as an essential commodity by the Minister of Trade, Commerce & Consumer Affairs Section 18 of the Consumer Affairs Authority Act No.09 of 2003 and the prices of FMCP products are determined by the Consumer Affairs Authority (CAA, 2010)	• Investment of 19 million New Zealand Dollars in a livestock development study for the government • Free training programmes for government medical personnel
Tobacco Company	Tobacco and Alcohol	Taxation and Licensing	National Authority on Tobacco and Alcohol (NATA) Ministry of Finance	The Government taxes both tobacco and alcohol products in Sri Lanka (presently about 12%) (ADIC, 2010). The government enacted a Tobacco Control Act in 2006 for comprehensive tobacco control and established NATA to implement the Act (NATA, 2010) In Sri Lanka the largest monopoly of cigarettes come for the ***TOBACCO*** (ADIC, 2010). However, as more stringent legislation has been enacted within the country, ***TOBACCO's*** business sustainability is dependent on its acceptance as a key contributor to the GOSL's revenue and development initiatives.	• Sustainable Agricultural Development Project- SADP An investment of 225 million rupees to alleviate rural poverty in Sri Lanka

Source: **Various**

Table 5: Illustrative quotes to indicate external institutional pressures – non- industry controlled subsidiaries

"We do have peer pressure, not necessarily from companies in the same industry to engage in CSR. For example, 15 years back we didn't have these competitions, encouragement from the government or institutions like the Ceylon Chamber of Commerce to engage in CSR. I would say it is positive development [...] it is good to have this type of encouragement coming from state and private sector and other institutions" (Assistant General Manager Marketing, Insurance Company)
"We do try to do large projects in Sri Lanka, like our 'global hand washing day' but then we usually get the government ministry on board and take them as a partner on this journey ... so if there is an opportunity they (the government) must also take and see it as a win-win situation" (Consumer Activations Manager, Consumer Company 1)
"When we see areas where we can work in, for example when we started with the water stewardship project there was a serious drought and people were suffering quite a lot. We took the initiative and wanted to play the leadership in water and we actually linked up with UNDP and got involved in two big projects, so I would say although NGOs can pressure us we also evaluate whether the issue is relevant for us and also whether we have resources to engage in it" (Vice-President Human Resources, Consumer Company 2)

Source: Authors

Table 6: Illustrative quotes to indicate manipulation strategy of MNEs

If [there are] regulations coming up [which are] going to be detrimental to the community we will then play an advocacy role with the government. We have done that for mobile taxes, the green mobile levy. We also pre-empt legislation or regulations [by] voluntarily adopting good practices" (Senior Manager Public Policy and Corporate Responsibility, Telecom Company).
"[Now for example] the Media Minister can come up with a cabinet paper saying that milk powder advertisements are [going to be] banned. [This would] directly affect our business. So we have to manage them strategically [how we do this is that] we [get] involved in the policy making process [at the industrial level] and make sure that whatever the policies [that the government changed] are [also] in line with our business strategies" (Manager Regulatory Affairs and Nutrition, Nutrition Company 3).
"We basically support and work very closely with the [Sri Lankan] Livestock Ministry. [We are doing this through] two ways. [The first] is that we are helping them to articulate a dairy development policy for Sri Lanka. [The present government] wants to increase the local milk consumption from 15% to 50% to gain self-sufficiency in 2015. So [...] we told the government [that] we have the expertise and [we can help them do this]". (Human Resource Director, Nutrition Company)
"The Sustainable Agricultural Development Project is one of the key CSR projects which TOBACCO handles now. We select villages with the support of the government agents and then we assist them to develop home gardens which would self-sustain them. Our target [is to] register 10000 families by 2010 and to support them till 2013. We are hoping to spend 225 million rupees on the whole project" (CSR Manager, Tobacco Company)
"We don't usually talk about these big projects because, we are doing it in good faith […] We prefer to do it and just show it to people who really matter […] like the Finance Minister, Agricultural Minister all those top government officials […] rural poverty elevation is a government priority […] This project has come up from the government priority list […]" (Director, Corporate and Regulatory Affairs, Tobacco Company)
"So what we do is we have to make a case to get money [from our global head offices]. So we [justify by] saying [that] SADP is going to be a reputation building arm [for us] in Sri Lanka [...]. The obvious side of it that we are doing well to society [so we can meet] our societal expectations. [But] then there is the corporate reputation that would be enhanced through this project. Also [another reason] is the engagement part of it. It would give us avenues for engagement with our stakeholders [especially the government]" (Corporate Communications Manager, Tobacco Company)

Source: Authors

Table 7
The Ceylon Chamber of Commerce's MDG agenda and Subsidiary CSR projects

The Millennium Development Goals (MDGs)	**Subsidiary**	**CCIs**
Goal 1: Eradicate extreme poverty and hunger	Tobacco Company	Sustainable Agricultural Development Project (SADP)
Goal 2: Achieve universal primary education	Banking Company 1	English Education Projects
Goal 3: Promote gender equality and empower women	Banking Company 2	Gender Equality promotional projects
Goal 4: Improve maternal health	Consumer Company 2	Clean Drinking water projects
Goal 5: Reduce Child Mortality	Consumer Company 1	Pears Safe Hands Project *(Pears Brand)*
Goal 6: Combat HIV/AIDS, Malaria and other diseases	John Keels Sri Lanka	John Keels HIV/AIDS awareness campaign
Goal 7: Ensure environmental sustainability	Brandix Sri Lanka Talawakelle Tea Estates Kelani Valley Plantations	Different CCR projects
Goal 8: Develop a Global Partnership for development	Microsoft Sri Lanka Sampath Bank Sri Lanka	Microsoft's unlimited potential project Sampath Bank's entrepreneur development projects

Source: Ceylon Chamber of Commerce (2008)

Table 8: Examples of community initiatives implemented by multinational subsidiaries in Sri Lanka

Subsidiary	Level of state control of the industry	Legitimacy–seeking behaviour	Community initiative	Institutional Actor
Cement Company	*High*	*Manipulation*	Sustainable Construction Project	Ministry of Environment
			Solid Waste Management Project	Local Authorities
Nutrition Company			Farmer Development Project	Ministry of Livestock and Rural Community Development
Tobacco Company			Sustainable Agricultural Development Project	Ministry of Agriculture
Banking Company 1	*Medium-Low*	*Compromise /Collaboration*	English Language Training Project	Ceylon Chamber of Commerce
Banking Company 2			Gender Equality Promotion Project	Ceylon Chamber of Commerce and Employers Federation of Ceylon
Consumer Company 1			Pears Safe Hands Project	Ministry of Health
Consumer Company 2			Water Purification Projects	Local Authorities
Drinks Company			PET Bottle Recycling Project	Ministry of Environment
Insurance Company			Higher Education Scholarship Scheme	Ministry of Higher Education
Telecom Company			Digital Bridge distance learning initiative	Ministry of Education

Sources: Various