Understanding corporate responsibility in Sri Lanka

Current business perspectives and practices in Sri Lanka are products of both the island’s colonial trading past as well as its present turbulent political circumstances. Commerce in Sri Lanka is rooted in a long history of international trade with its former colonial powers – the Portuguese, the Dutch, and the British – as well as with neighbouring Asian countries. Private companies were formed in the early part of the 18th century, and Sri Lanka’s stock market was set up in the latter half of the 1800s. Sri Lanka has around 240 companies currently listed on the Colombo Stock Exchange and can be compared – at least in scale – with Bangladesh (around 208 listed companies).¹ Employment in the private sector is just under half of the total employment (47.8%). On a sectoral basis, the service sector is the largest sector for employment (42.6%), while the agriculture sector accounts for 32.4%, and industry for 25.7%.

The Sri Lankan private sector has not always enjoyed government encouragement and public support. In the 1960s and the early 1970s, large numbers of private companies and foreign-owned enterprises, across all sectors, were nationalized. Large industrial companies, for example in the steel and cement sectors, as well as tea plantations and newspaper publishing concerns fell under government ownership and management. In 1977, with a new government in place, the corporate sector was given the impetus to act as an engine of economic growth in

¹ Details at <http://www.bangladeshcapitalmarket.com/>, last accessed on 15 March 2004
a bid to create a liberal, market-driven economy. This ambition was however short-lived, as Sri Lanka slipped into a state of ethnic civil war in the early 1980s. By the end of the 1990s, official estimates put the number of lives lost due to the war at around 60,000. While the war has been mostly confined to the north and the east of the island, its impact on the corporate sector has been significant due to the inherent political and business risk. It is then perhaps unsurprising that the Sri Lankan corporate sector tends to be cautious and conservative.

Sri Lankan society is highly politicized and there is a general public perception of the private sector being exploitative. Recent large-scale privatization on the island – such as that of bus services – has resulted in companies being accused of ‘cherry-picking’ the profitable routes and services. Those routes that are deemed unprofitable are left with either a low level of service or no service at all. With this experience of recent private sector development, the public is sceptical of change and mistrusts the motives of business. People generally do not expect companies to engage in socially responsible practices. The majority of Sri Lankans can hardly envisage environmentally sustainable initiatives, human rights protection, and gender equality being integrated into business practices.

Four models of corporate responsibility

The four models of CR (corporate responsibility) outlined here illustrate the evolution of the business model, as well as the ways in which businesses have viewed and engaged in social responsibility within South Asia.

**Ethical model**

The origins of the first ethical model of CR lie in the pioneering efforts of 19th century corporate philanthropists such as the Cadbury brothers\(^2\) in England and the Tata family in India. The pressure on Indian industrialists to demonstrate their commitment to social progress increased during the Independence movement, when Gandhi developed the notion of trusteeship, whereby the owners of property would voluntarily manage their wealth on behalf of the people.

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\(^2\) John and Benjamin Cadbury, brothers from Birmingham, pioneered the development of chocolate around 1847.
I desire to end capitalism almost as much as the most advanced socialist. But our methods differ. My theory of trusteeship is no makeshift, certainly no camouflage. I am confident that it will survive all other theories.

Gandhi (1939), cited in Bose (1947)

In Sri Lanka, there is little evidence of such corporate philanthropy in the early 20th century. Philanthropy tended to be directed towards religious causes by philanthropists who were also owners of companies. These wealthy families tended to donate money for the renovation of Buddhist places of worship. An example of this was the renovation of the Kelaniya Temple with funds donated by the Wijewardene family.

**Statist model**

A second model of CR emerged in India after Independence in 1947, when India adopted the socialist and mixed economy framework with large public sector and state-owned companies. The boundaries between the state and society were clearly defined for the state enterprises. Elements of CR, especially those relating to community and worker relationships, were enshrined in labour law and management principles. Sri Lanka broadly followed the same political evolution around this time, and this model prevailed until the change of government in 1977.

**Neo-liberal model**

Indeed, the global trend towards privatization and deregulation can be said to be underpinned by a third model of CR—that companies are solely responsible to their owners. This approach was encapsulated by the American economist Milton Friedman, who in 1958 challenged the very notion of CR for anything other than the economic bottom line.

If anything is certain to destroy our free society, to undermine its very foundation, it would be a widespread acceptance by management of

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3 Recipient of the 1976 Nobel Prize for Economic Sciences, Friedman is widely regarded as the leader of the Chicago school of monetary economics, which stresses the importance of the quantity of money as an instrument of government policy and a determinant of business cycles and inflation. Friedman has also written extensively on public policy, with emphasis on the preservation and extension of individual freedom.
social responsibilities in some sense other than to make as much money as possible. This is a fundamentally subversive doctrine.

Friedman (1958)

Many in the corporate world and elsewhere would agree with this concept, arguing that it is sufficient for business to obey the law and generate wealth, which through taxation and private charitable choices can then be directed towards social ends.

The Sri Lankan corporate sector has not opened up in any significant sense towards philanthropic giving and wider social responsibility. This is possibly due to a lack of initiatives to educate and raise local awareness of the possibilities in these areas. It is also partly a result of an inherent conservatism in the private sector, which mostly resembles the neo-liberal approach to CR.

Sri Lanka is a predominantly Buddhist society. Nearly 70% of the population is Buddhist; philanthropy, or the Buddhist concept of dhana, is an integral part of life on the island. The religious model would suggest that local shareholders of firms should engage in philanthropy. However, this rarely happens in practice. Most Sri Lankan corporates are also not aware of the more secular, humanitarian reasoning, which underpins CR, or of the growing international trend towards a stakeholder mindset.

**Stakeholder model**

The rise of globalization has also brought with it a growing consensus that with increasing economic rights, business also has to face up to its social obligations. Citizen campaigns against irresponsible corporate behaviour, along with consumer action and increasing shareholder pressure, have given rise to the stakeholder model of CR. This view is often associated with R Edward Freeman, whose seminal analysis of the stakeholder approach to strategic management in 1984 brought stakeholders into the mainstream of

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4 Pioneer of the stakeholder and ‘business ethics’ concept in the context of corporate responsibilities, Freeman developed a framework for identifying and managing the critical relationships of the modern corporation. His conceptual crystallization of stakeholder analysis has become a staple of both academic writing and business academic models. Freeman’s contribution to education at the intersection of business and society is also extensive. He has won numerous teaching awards and is well known for his innovative approach to pedagogy.