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Abstract

This study examines government influence, changes in societal expectations and the 2004 tsunami on corporate social responsibility (CSR) in Sri Lanka, a developing country. Hypotheses are formulated based on legitimacy theory to examine the annual changes in total quantity and categories of CSR disclosures between 2004 and 2007. Four directional hypotheses are used to test the increase in CSR disclosures and the increase in category-specific CSR disclosures based on a disclosure classification system. A null hypothesis is used to test whether the change in CSR disclosures from 2004 to 2005 and from 2005 to 2006 remained relatively constant after 2006. The directional hypotheses and the null hypothesis on the extent of disclosure are supported but the category-specific hypotheses are rejected. This result provides support for legitimacy theory.

Introduction

This study investigates the quantity and categories of voluntary corporate social responsibility (CSR) disclosures by management bodies of listed Sri Lankan main board hotel companies in their 2004 to 2007 annual reports. The aim of the study was to assess managerial responses in Sri Lanka to outside influences and the efforts of these managers to legitimise their CSR activities, as disclosed in corporate annual reports. Specifically, influences of government, changes in societal expectations and a tsunami devastation are considered. The hotel industry was selected because "corporate social responsibility is considered more relevant to the hotel industry than to other economic activities (in Sri Lanka) …" (Gonzalez & Leon, cited in Rodriguez & Cruz, 2007: 825).
The study is significant for two reasons. Firstly, the disclosure benchmark used in this study (O’Rourke, 2004) to assess the extent of CSR disclosure is closely related to the economic and other goals of developing countries including sustainability practice. In addition, it is the first time that the items disclosed in the report prepared by O’Rourke (2004) for the World Bank has been used as a benchmark to analyse CSR disclosures in annual reports. Secondly, in practical terms of its application, this study is the first to be conducted in Sri Lanka on CSR and the research findings will be of interest to policy makers of CSR regulation and users/preparers of corporate annual reports.

The remainder of this paper is organised in five sections. Section one is prior research relevant to the purpose of this study. Section two sets out the theoretical framework and develops the research hypotheses. Section three describes the method employed, which includes data source, sample selection, classification of disclosure and research design. Section four presents an analysis of the data, and the final section summarises the results, limitations and implications, while also offering some suggestions for further research.

Prior Sri Lankan Research

*Company Regulatory Background in Sri Lanka*

The control of accountants and accounting in Sri Lanka is governed by three forces. They are the stock market, legislation and self legislation (Perera, 1980). The Institute of Chartered Accountants of Sri Lanka was established under the Institute of Chartered Accountants Act No. 23 of 1959 by parliament. The council of the Institute is responsible for the management of its affairs, for the issue of Sri Lankan accounting and auditing standards, and for the registration and control of the maintenance of professional standards for accountants in Sri Lanka. The Sri Lankan financial year commences on the 1st of April and ends on 31st of March. The companies Act No. 17 of 1982 has a mandatory requirement for all companies to have their financial statements audited by a member of the Institute of Chartered Accountants of Sri Lanka or registered auditors (H L B Edirisinghe & Co, 2005). Currently there are no regulations in Sri Lanka in the area of CSR. Consequently, companies make disclosures in their annual reports voluntarily.

*Studies in Sri Lankan Context*

Researchers have not published significant studies on CSR of listed Sri Lankan companies. There has, however, been limited Sri Lankan published research, which examines CSR activities in that country. Two studies, one by Ariyabandu and Hulangamuwa (2002) and the other by International Alert (2005) were undertaken before the tsunami, while a third study by Fernando (2007) was completed in the wake of the tsunami.

Ariyabandu and Hulangamuwa (2002) interviewed government institutions that dealt with disaster management and firms to determine how they responded to the situations that arose after natural disasters. They identified four categories of non-
business activities of companies. They were philanthropic and charitable activities, contributions towards environmental conservation, building public awareness on important issues, and corporate sponsorships. The activities of companies in the situations after social disasters were allocated to one of the four categories.

An alternative approach was used by International Alert (2005), a London-based peace building organisation, in the first half of 2004. This study aimed to address the limitations associated with the Ariyabandu and Hulangamuwa (2002) study. The survey was used to gain an understanding of CSR by the Sri Lankan general public and determine how they perceived the role of business in the society. The second part of the survey determined how the business community perceived its own role in society, an understanding of CSR and how it was practiced in Sri Lanka. The research was also conducted to better understand the CSR initiatives in Sri Lanka by analysing how interviewees defined corporate social responsibility, reasons for engagement, areas of engagement and the history behind them (International Alert, 2005).

It is somewhat surprising that the research findings demonstrated that most Sri Lankans did not have a clear understanding about the role they wish businesses to play in society. The public was unsure as to what aspect businesses should focus on: profits or social values. While a small proportion of people felt that business should do more for the social good, they had doubts about some companies’ activities and expressed fears, saying that the private sector exploits consumers and destroys cultural values. However, the interviews with the business community demonstrated that they perceive many incentives through the involvement in CSR activities. They indicated the ability to transform company image in the eyes of the public as one of their main incentives. International Alert’s survey was conducted before the tsunami and the survey results were published in 2005.

Whilst the studies by Ariyabandu and Hulangamuwa (2002) and International Alert (2005) highlighted CSR in Sri Lanka before the tsunami in 2004, Fernando (2007) investigated CSR in the wake of the tsunami using a comparative case study of two Sri Lankan companies. The study explained possible reasons why companies became involved in CSR initiatives during the first 11 months after the Asian tsunami in 2004. The senior managers interviewed said that when there was a lack of publicity of their CSR initiatives, their stakeholders both national and international were interested to know what the companies had contributed to the tsunami relief effort. There had been increasing pressure from the stakeholders because some had directed their resources via the company to affected areas. The study results identified the main factors that influenced the private sector’s involvement in CSR activities. These included: positive image and relationship-building with the general public, indirect ways of promoting business motives, altruism and charity, covering up negative impressions associated with businesses, relationship-building with the government and other agencies, and obtaining tax benefits and other concessions.

Whilst these studies did not employ a theoretical framework to explain CSR, they nevertheless provide sufficient vital background of social responsibility understanding and social responsibility practices to consider a theoretical framework
together with associated hypotheses to explain CSR in Sri Lanka during the period 2004 to 2007.

Theoretical Framework and Hypotheses

**Legitimacy Theory**

Even though a variety of theories have explained CSR in different ways, legitimacy theory appears better suited because it provides possible reasons to adopt CSR or increase the level of social disclosure after an incident related to the firm or to the society in which the firm operates. Consequently, this research adopts legitimacy theory as the theoretical framework for this study.

According to Suchman (1995), "Legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (574). Legitimacy theory argues that organisations can only continue to exist if the societies in which they are based perceive the organisation to be operating to a value system which is commensurate with the society's own value system (Gray, Owen & Adams, 1996). The organisations should continually seek to ensure that they are perceived as operating within the bounds and the norms of their respective societies. They attempt to ensure that their activities are perceived by outside parties as being "legitimate". However, bounds and norms are not permanent, and they change over time. Hence, organisations are required to be responsive to the ethical environment in which they operate (Deegan, 2009).

Such connection can be explained as organisations are represented as having social contracts with society, which regularly expects them to address social issues. As per the social contract, a legitimacy gap exists if there is a lack of association between the way society expects a firm to act and how the organisation’s activities are perceived by society.

**Firm Size**

A considerable amount of literature has been published on relationships between the amount of CSR disclosures and corporate characteristics (Garcia-Sanchez, 2008). From those studies Trotman and Bradley (1981), Belkaoui and Karpik (1989), Deegan and Gordon (1996) and Patten (1991) have found a significant direct positive relationship between size of the company and the number of CSR disclosures. The firm size can be measured in different ways. Christopher, Hutomo and Monroe (1997) and Hackston and Milne (1996) tested the association between the company size and level of environmental disclosure using company total assets and market capitalisation as the measures of firm size. However, the generalisation of such an association is difficult due to the differences between the samples studied such as country of study, industry composition and study period. Company size, however, appears to be an important variable which controls CSR of companies (Adams, 2002).
Hypotheses Formulation

Using the legitimacy theory framework the following section describes the formulation of four directional hypotheses and a null hypothesis.

Increase in the Total Quantity of CSR Disclosures

The 2004 tsunami was an opportunity for companies directly and indirectly affected to help communities, environments and economies damaged by the natural disaster and test their commitment to CSR (Henderson, 2007). At the same time, Sri Lankan society was in a situation where it needed a great deal of help to redevelop the country and to help the displaced community after the tsunami. The government of Sri Lanka implemented and monitored programmes with the help of non-government organisations and companies to help civilians, directly, and restructuring, more broadly. Given this background, the change in government, societal perceptions and values was clear. If companies did not respond to that change, the social contract could be terminated and their legitimacy threatened. The evidence showed that this situation was identified by Sri Lankan company directors by the interviews conducted following the 2004 tsunami (Wijesinghe & Jayasinghe, 2005).

It is anticipated that hotels would respond to the government influence and change in society’s expectations by becoming involved in more social activities and disclosing such activities in their financial reports to represent them as legitimate corporate citizens to the government and to the society. This leads to the following directional hypothesis.

H1: Ceteris paribus, there is an increase in total quantity of CSR disclosures of main board companies in the hotel industry in 2005 compared to 2004.

The 2005 financial year ended on 31 March 2005. Being only three months after the tsunami incident (tsunami took place on 24 December 2004); this period would be insufficient for companies to fully comply with government influence, societies expectations and tsunami impact. Therefore, it would be anticipated that companies would react using CSR in both 2005 and 2006. This leads to the following directional hypothesis.

H2: Ceteris paribus, there is an increase in total quantity of CSR disclosures of main board companies in the hotel industry in 2006 compared to 2005.

Increase in the Total Quantity of Category Disclosure

It is anticipated that the powerful combination of government influence, change in society expectations and tsunami would lead not only to an increase in the quantity of disclosure but also to an increase in the total quantity of category disclosures in each category. This leads to the following directional hypotheses.

H3: Ceteris paribus, there is an increase in quantity of categories of CSR disclosures in the main board companies in the hotel industry in 2005 compared to 2004.

H4: Ceteris paribus, there is an increase in quantity of categories of CSR disclosure in main board companies in the hotel industry in 2006 compared to 2005.
Discontinuance of Increase in Total Quantity of CSR Disclosures

As indicated in H1 and H2 it is expected companies would increase the level of CSR disclosures in both 2005 and 2006 compared to their respective previous years in response to influences in order to comply with their social contract. If companies have reacted according to the level society wanted, there would be no increase in the total CSR disclosure level in 2007 compared to 2006 because by this time the combined impact of government influence, society expectations and the tsunami would subside. This leads to the following null hypothesis.

_Ho1: There is no increase in total quantity of CSR disclosures of main board companies in the hotel industry in 2007 compared to 2006._

Research Methodology

**Sample Frame and Data Sources**

The present study examined CSR disclosures in the 2004-2007 annual reports of a population of 26 hotel companies listed on the main board of the Colombo Stock Exchange (CSE). Main board is selected since it represents the significant and dynamic part of the CSE. To qualify for inclusion in the study, a company had to make its reports available for all four years of the study. These annual reports were obtained from the CSE library.

**Data Collection, Recording and Analysis**

Content in the company annual reports was examined using the items presented in Table 1 a list of CSR disclosure items prepared for the World Bank on CSR in developing countries (O’Rourke, 2004). A dichotomous index (Marston & Shrives, 1991) was used to examine the items contained in each company’s annual report. A score of one was given to the items presented and a score of zero was given if an item was not reported. A dichotomous index was deemed suitable for the study as it was only necessary to determine the level of CSR disclosures, not the importance or quality of the disclosures. The potential minimum and maximum scores for each company ranged from 0 to 42. The maximum score of 42 is the sum of the items in each category in Table 1. The ten sub-categories of these 42 items are used to identify any changes in the quantity of disclosure of categories. To avoid coder bias and hence increase reliability and validity, an independent reviewer coded and scored the items (Krippendorff, 1980). Descriptive Statistics, Pearson Correlation and Wilcoxon matched-pairs signed rank tests were used to analyse the data.

**Control Variable**

A single variable size of the companies was used as a control variable. Larger companies are more visible and so are more likely to be subject to social and political pressures than smaller ones. This means larger companies will increase their disclosure more than smaller companies. In order to test the effect of company size on the total quantity of CSR disclosure in 2005, two measures of company size, total assets and market capitalisation were employed.
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environmental Performance:</strong></td>
<td></td>
</tr>
<tr>
<td>ENV1.</td>
<td>Compliance with environmental laws (rates of non-compliance, fines, legal proceedings, etc.);</td>
</tr>
<tr>
<td>ENV2.</td>
<td>Emissions of toxic chemicals to air, water, and land;</td>
</tr>
<tr>
<td>ENV3.</td>
<td>Emissions of greenhouse gases;</td>
</tr>
<tr>
<td>ENV4.</td>
<td>Material flows—energy, raw materials, water, land, etc.;</td>
</tr>
<tr>
<td>ENV5.</td>
<td>Product life-cycle assessment;</td>
</tr>
<tr>
<td>ENV6.</td>
<td>Environmental management systems (e.g., ISO 14000);</td>
</tr>
<tr>
<td>ENV7.</td>
<td>Disclosure of environmental risks to local community members.</td>
</tr>
<tr>
<td><strong>Respect for Labor Rights:</strong></td>
<td></td>
</tr>
<tr>
<td>LAB1.</td>
<td>Policies on freedom of association, collective bargaining, non-discrimination, child labor, and forced labor;</td>
</tr>
<tr>
<td>LAB2.</td>
<td>Facilitation of freedom of association and rates of unionization;</td>
</tr>
<tr>
<td>LAB3.</td>
<td>Formal agreements with independent trade unions;</td>
</tr>
<tr>
<td>LAB4.</td>
<td>Wages (comparable to industry average, prevailing wage, or &quot;living wage&quot;);</td>
</tr>
<tr>
<td>LAB5.</td>
<td>Employee benefits provided;</td>
</tr>
<tr>
<td>LAB6.</td>
<td>Working hours.</td>
</tr>
<tr>
<td><strong>Health and Safety Practices:</strong></td>
<td></td>
</tr>
<tr>
<td>HSP1.</td>
<td>Rates of occupational injuries, diseases, and fatalities;</td>
</tr>
<tr>
<td>HSP2.</td>
<td>Lost time from injuries;</td>
</tr>
<tr>
<td>HSP3.</td>
<td>Hazard communication programs;</td>
</tr>
<tr>
<td>HSP4.</td>
<td>Training on health and safety;</td>
</tr>
<tr>
<td>HSP5.</td>
<td>Joint employee-management health and safety committees.</td>
</tr>
<tr>
<td><strong>Respect for Human Rights:</strong></td>
<td></td>
</tr>
<tr>
<td>RHR1.</td>
<td>Countries of operation with problematic human rights records;</td>
</tr>
<tr>
<td>RHR2.</td>
<td>Role of government or military in factory operations;</td>
</tr>
<tr>
<td>RHR3.</td>
<td>Political and economic rights guaranteed to employees.</td>
</tr>
<tr>
<td><strong>Community Economic Development and Social Impacts:</strong></td>
<td></td>
</tr>
<tr>
<td>CED1.</td>
<td>Percent of profits reinvested in community from which profits earned;</td>
</tr>
<tr>
<td>CED2.</td>
<td>Percent of profits paid into a local community development trust;</td>
</tr>
<tr>
<td>CED3.</td>
<td>Impacts on local development patterns of investments/suppliers.</td>
</tr>
<tr>
<td><strong>Corporate Governance:</strong></td>
<td></td>
</tr>
<tr>
<td>COG1.</td>
<td>Internal accountability procedures;</td>
</tr>
<tr>
<td>COG2.</td>
<td>Composition of the Board;</td>
</tr>
<tr>
<td>COG3.</td>
<td>Management compensation;</td>
</tr>
<tr>
<td>COG4.</td>
<td>Disclosure of potential conflicts of interest.</td>
</tr>
<tr>
<td><strong>Corporate Payments to Governments:</strong></td>
<td></td>
</tr>
<tr>
<td>CPG1.</td>
<td>Payments for contracts or concessions;</td>
</tr>
<tr>
<td>CPG2.</td>
<td>Corporate taxes and royalty payments;</td>
</tr>
<tr>
<td>CPG3.</td>
<td>Donations to candidates for political office or political parties.</td>
</tr>
<tr>
<td><strong>Stakeholder Engagement:</strong></td>
<td></td>
</tr>
<tr>
<td>STE1.</td>
<td>Policies and procedures for engagement;</td>
</tr>
<tr>
<td>STE2.</td>
<td>Frequency and forms of engagement;</td>
</tr>
<tr>
<td>STE3.</td>
<td>Information that is accessible and understandable to stakeholders.</td>
</tr>
<tr>
<td><strong>Supply Chain Management:</strong></td>
<td></td>
</tr>
<tr>
<td>SCM1.</td>
<td>Locations of factories/farms/mines in supply chain;</td>
</tr>
<tr>
<td>SCM2.</td>
<td>Number of workers in supply chain;</td>
</tr>
<tr>
<td>SCM3.</td>
<td>Code implementation and monitoring program;</td>
</tr>
<tr>
<td>SCM4.</td>
<td>Systems for measuring and monitoring performance;</td>
</tr>
<tr>
<td>SCM5.</td>
<td>Compliance staff numbers and budgets;</td>
</tr>
<tr>
<td>SCM6.</td>
<td>Process for verification of reported data.</td>
</tr>
<tr>
<td><strong>Forward-looking Information:</strong></td>
<td></td>
</tr>
<tr>
<td>FLI1.</td>
<td>Scenario planning to avoid specific problems;</td>
</tr>
<tr>
<td>FLI2.</td>
<td>Plans for dealing with future risks</td>
</tr>
</tbody>
</table>

Note: Developed from O’Rourke, 2004
Results

Introduction

Descriptive and inferential statistics were generated using the Statistical Programme for Social Science (SPSS) version 17 in order to test the hypotheses developed in the Theoretical Framework and Hypotheses section.

Descriptive Data Analysis

Table 2 presents the number of main board companies disclosing CSR from 2004 to 2007. Over three-quarters (75%) of main board companies practiced CSR from 2004 to 2007. The disclosing companies proportion increased by 4 per cent from 2004 to 2005. However the proportion remained constant after 2005.

Table 2: The Level of CSR in Main Board Hotel Companies from 2004 to 2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Non disclosing companies</th>
<th>Disclosing companies</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No of Hotels</td>
<td>%</td>
<td>No of Hotels</td>
</tr>
<tr>
<td>2004</td>
<td>6</td>
<td>23%</td>
<td>5</td>
</tr>
<tr>
<td>2005</td>
<td>20</td>
<td>77%</td>
<td>21</td>
</tr>
<tr>
<td>2006</td>
<td>20</td>
<td>77%</td>
<td>21</td>
</tr>
<tr>
<td>2007</td>
<td>20</td>
<td>77%</td>
<td>21</td>
</tr>
</tbody>
</table>

As indicated in Table 3, there was a 10 per cent increase in the mean number of CSR disclosure from 2004 to 2005 and an increase of 17 per cent from 2005 to 2006. Although there was an increase in the mean number of CSR disclosure between 2004 and 2005, the range of disclosures remained the same (0-14). However, the increase in mean number of CSR disclosure between 2005 and 2006 resulted in an increase in the range (0-17). There was a decrease in the mean disclosure of 3 per cent from 2005 to 2006 but the range remained constant. Table 2 illustrates that a high proportion (77%-81%) of hotel companies are recognised as practicing CSR in annual reports but, as shown by the mean and range in Table 3 they did not indicate a high level (extent of reporting) of CSR during the study period.

Table 3: Descriptive Statistics (Raw Data)

<table>
<thead>
<tr>
<th>Year</th>
<th>Board</th>
<th>% Increase</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>Main</td>
<td>3.500</td>
<td>2.789</td>
<td>0-14</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>Main</td>
<td>3.850</td>
<td>2.894</td>
<td>0-14</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>Main</td>
<td>4.500</td>
<td>4.022</td>
<td>0-17</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>Main</td>
<td>4.350</td>
<td>3.655</td>
<td>0-17</td>
<td></td>
</tr>
</tbody>
</table>
**Hypotheses Testing**

**H1:** *Ceteris paribus, there is an increase in total quantity of CSR disclosures of main board companies in the hotel industry in 2005 compared to 2004.*

A Wilcoxon test was conducted to evaluate whether the increase in CSR disclosure from 2004 to 2005 identified by the descriptive statistics in Table 3 was significant. The one-tailed Wilcoxon tests (Table 4) confirmed a significant increase (p<0.05) in CSR disclosures in 2005 compared to 2004 for the main board hotel companies. Hence H1 was accepted.

**Table 4: Wilcoxon Matched-pairs Signed Rank Tests for the Change in Total Quantity of CSR Disclosure from 2004 to 2005**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Decrease</th>
<th>Increase</th>
<th>Ties</th>
<th>Z</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Board</td>
<td>n= 1</td>
<td>6</td>
<td>21</td>
<td>1.93</td>
<td>0.03*</td>
</tr>
<tr>
<td>mean rank change</td>
<td>3</td>
<td>4.17</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p≤ 0.05 (one-tailed).

**H2:** *Ceteris paribus, there is an increase in total quantity of CSR disclosures of main board companies in the hotel industry in 2006 compared to 2005.*

A one-tailed Wilcoxon test was conducted to evaluate the increase in CSR disclosure from 2005 to 2006 and was identified by table 5 as significant. The result is significantly positive in 2006 (p<0.05) compared to 2005 for the main board hotel companies. Hence H2 was accepted.

**Table 5: Wilcoxon Matched-pairs Signed Rank Tests for the Change in Total Quantity of CSR Disclosure from 2005 to 2006**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Decrease</th>
<th>Increase</th>
<th>Ties</th>
<th>Z</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005-2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Board</td>
<td>n= 1</td>
<td>5</td>
<td>20</td>
<td>1.81</td>
<td>0.03*</td>
</tr>
<tr>
<td>mean rank change</td>
<td>2</td>
<td>3.80</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*p≤ 0.05 (one-tailed).

The relationship between company size (company total assets and market capitalisation) and total quantity of CSR disclosure was tested using Pearson correlation. If the value of r is between 0.10 and 0.29 (either + or -) it is called a weak (small) relationship; if r is between 0.30 and 0.49 (either + or -) it is called a moderate (medium) relationship; and if r is between 0.5 and 1 (either + or -) it is called a strong (large) relationship (Cohen, 1988, cited in Shukla, 2009). As shown in Table 6, the results indicate a weak positive relationship (p>0.01) between the total quantity of CSR disclosures and company total assets (r = 0.142); market capitalisation (r = 0.106) for the main board hotel companies and an insignificant relationship with market capitalisation (r = 0.106).
### Table 6: Pearson Correlation Results in Main Board Hotels for 2005

<table>
<thead>
<tr>
<th></th>
<th>Total disclosure</th>
<th>Total assets</th>
<th>Market capitalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total disclosure</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>P. Correlation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.(1-tailed)</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total assets</td>
<td>.142</td>
<td>.120</td>
<td>.888**</td>
</tr>
<tr>
<td>P. Correlation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.(1-tailed)</td>
<td>.245</td>
<td>.304</td>
<td>.000</td>
</tr>
<tr>
<td>Market capitalisation</td>
<td>.106</td>
<td>.888**</td>
<td>1</td>
</tr>
<tr>
<td>P. Correlation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sig.(1-tailed)</td>
<td>.304</td>
<td>.000</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: N=26; ** Correlation is significant at the 0.01 level (1-tailed)

### Table 7: CSR Disclosures by Categories in Main Board Hotels from 2004 to 2007

<table>
<thead>
<tr>
<th>Category</th>
<th>Year</th>
<th>No. of Disclosures</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL ENV</td>
<td>2004</td>
<td>4</td>
<td>0.150</td>
<td>0.784</td>
<td>0-4</td>
</tr>
<tr>
<td></td>
<td>2005</td>
<td>3</td>
<td>0.120</td>
<td>0.588</td>
<td>0-3</td>
</tr>
<tr>
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</table>
Table 7 illustrates the extent of CSR disclosures across categories by year in the main board hotels. As presented in the table the highest reported category was corporate governance (COG) with a total number of disclosures of 40 for all years in the study. The average number of category disclosures remained stable at 1.54 disclosures per year with a standard deviation of 0.859. The second highest reported category was supply chain management (SCM), and this increased from 2004 to 2005 from 2005 to 2006 in the expected direction of hypotheses H3 and H4. The third highest reported category for the main board companies was corporate payments to governments (CPG). The average number of disclosure in the CPG category increased from 2004 to 2005 following the direction of hypothesis H3. However, the average number of the CPG category disclosures decreased from 2005 to 2006. Interestingly, the respect for human rights (RHR) category did not have any disclosures for the main board hotels in any year.

Table 8: Increase in average number of CSR disclosures by categories in main board hotels from 2004 to 2007

<table>
<thead>
<tr>
<th>Category</th>
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<th>2006</th>
<th>2007</th>
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<td>5%</td>
</tr>
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</tr>
<tr>
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<td>1%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
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<td>0%</td>
<td>0%</td>
<td>0%</td>
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<td>34%</td>
<td>35%</td>
</tr>
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<td>16%</td>
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</tr>
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<td>6%</td>
<td>4%</td>
</tr>
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<td>21%</td>
<td>22%</td>
</tr>
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<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
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</tr>
</tbody>
</table>

Base year is preceding year

From Table 8, stakeholder engagement (STE) and forward-looking information (FLI) categories indicate an increase in the average number of CSR disclosures from 2004 to 2006 for the main board hotels.

Table 9 shows the number of disclosures and the percentage of disclosure from the total disclosures in each item in the index of main board hotel companies. Results of the study demonstrate that internal accountability procedures (COG1) and composition of the board (COG2) were the highest reported items. The second highest reported item was locations of factories/farms/mines in supply chain (SCM1). This was followed by corporate taxes and royalty payments (CPG2). There were no other index items reported at a level.
### Table 9: Disclosures of Individual Index Items from 2004 to 2007

<table>
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<th>Item</th>
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<th>2005 Disclosures</th>
<th>2006 Disclosures</th>
<th>2007 Disclosures</th>
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</tr>
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</table>

Total 91 100% 100 100% 117 100% 113 100%

**H3:** *Ceteris paribus, there is an increase in quantity of categories of CSR disclosures in the main board companies of hotel industry in 2005 compared to 2004.*

**H4:** *Ceteris paribus, there is an increase in quantity of categories of CSR disclosure in the main board companies of hotel industry in 2006 compared to 2005.*
A one-tailed Wilcoxon test (Table 10) was performed to assess whether there were any significant differences in the total quantity of category disclosure from 2004 to 2005 and 2005 to 2006 in the main board hotels. Table 7 demonstrated descriptive statistics for average category disclosures and few categories were identified as having the expected direction of hypotheses H3 and H4. However, as shown in Table 10,

Table 10: Wilcoxon matched-pairs signed rank tests for the change in quantity of categories of CSR disclosure in main board hotels from 2004 to 2006

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<th>Increase</th>
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<th>Z</th>
<th>p</th>
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</table>

*p ≤ 0.05 (one-tailed).

only the corporate payments to government’s (CPG) category indicated a significant positive increase (p ≤ 0.05) from 2004 to 2005 in main board hotels. Therefore H3 was rejected. Similarly, only the respect for labour rights (LAB) category increased
significantly (p≤0.05) from 2005 to 2006 in main board hotels. Hence H4 was rejected.

**Ho1: There is no increase in total quantity of CSR disclosures of main board companies in the hotel industry in 2007 compared to 2006.**

A one-tailed Wilcoxon test was undertaken to evaluate if the change in the total quantity of CSR disclosures from 2006 to 2007 was significant. Table 3 demonstrated a decrease in the average number of CSR disclosures from 2006 to 2007. The results of one-tailed Wilcoxon test (Table 11) demonstrated that there was no significant difference in the total quantity of CSR disclosure in 2007 compared to 2006 (p>0.05) for the main board hotel companies. Hence Ho1 was accepted.

**Table 11: Wilcoxon Matched-pairs Signed Rank Tests for the Change in Total Quantity of CSR Disclosure from 2006 to 2007**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Decrease</th>
<th>Increase</th>
<th>Ties</th>
<th>Z</th>
<th>p</th>
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</table>

**Conclusion**

This study examined the CSR of Sri Lankan hotel companies that were on the main board of the CSE during the period 2004 to 2007 with a view to determining whether changes in society’s expectations and government influences together with a natural disaster impacted on the level of CSR in annual reports.

Findings of the study clearly demonstrate that the total number of CSR disclosures have increased from 2004 to 2005 and from 2005 to 2006 leading to acceptance of H1 and H2. There were no significant changes in the total number of CSR disclosures from 2006 to 2007. For this reason, Ho1 is accepted. The study findings indicate that there is no strong evidence of association between the firm size and the total number of CSR disclosure in main board hotel companies in Sri Lanka. The total number of category disclosures did not increase significantly from 2004 to 2005 or from 2005 to 2006 in all ten categories. Hence hypotheses H3 and H4 are rejected.

Overall, the study findings suggest that companies are part of society. Therefore, when society experiences problems and when the government increases the pressure on companies, companies cannot continue their operations in isolation even though they may not have done anything harmful to the society. If they do so, the social contract can be terminated and their legitimacy questioned. For that reason, companies use CSR in their annual reports as a tool to represent them as legitimate enterprises by managing the pressure experienced from the public and the government. Taken together, these findings show the accountability to stakeholders and the possibility of explaining companies’ CSR using political economy theory. The reason for this alternative explanation is the unclear distinction between the theories
and high level of overlap (O’Donovan, 2002). Hence the result of this research is consistent with Ratanajongkol, Davey and Low (2006) study which found that CSR cannot be explained using a single theoretical framework.

The findings of the study for the period 2004 to 2007 have implications for institutions such as the Security Exchange Commission, the Institute of Chartered Accountants of Sri Lanka and the Sri Lanka Accounting and Auditing Standards Monitoring Board, suggesting the introduction of a voluntary code of practice or any kind of regulation in order to improve CSR reporting in Sri Lanka. Further, companies that do not take part in CSR should be encouraged to practice CSR, while companies that already practice should improve the level of CSR. On the other hand, companies now know how the relationship between themselves and society should be managed, specifically around the time of major natural disaster. The users of annual reports are provided with insights about the CSR of a particular company and they can consider CSR when making decisions related to companies. The preparers of annual reports should be provided with guidelines as the policy makers have done so for the corporate governance disclosures. Moreover, the extent of reporting should be improved rather than limited to a few areas such as corporate governance disclosures, corporate payments to governments and supply chain management.

This study is also subject to a limitation. This research was limited to CSR disclosures in company annual reports. Consequently, environmental/sustainability reports, website disclosures and media announcements did not form part of the study and so this may have underscored the level of CSR determined. Nevertheless, the annual report is considered to be an important document and one which a company produces on a regular basis.

In conclusion, there are a number of potential areas for future research on CSR. Other methods of CSR such as website disclosures and media announcements could also be included in order to evaluate overall CSR of companies. This study only investigated one industry and future research can be conducted on other industries for comparison. The period of investigation could be extended to include more recent data and this would enable a two-period comparative analysis.

An earlier less analytical version of this paper that also comprised a different framework was included in the proceedings of the 4th International Conference on Managing Service, 2010, Bali.

References


