Corporate social reporting in Sri Lanka surrounding the tsunami in 2004

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Corporate Social Reporting in Sri Lanka Surrounding the Tsunami in 2004

By

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ABSTRACT

There is a growing interest in studying corporate social reporting (CSR) around the world. This interest is specifically growing in developing countries. The importance of encouraging CSR is emphasised by The World Bank mainly because of the benefits associated with CSR to such developing countries.

This study examines government influence, research and influence of changes in society expectations on CSR in Sri Lanka a developing country surrounding the tsunami in 2004. Research questions are proposed to examine the change in total quantity of CSR disclosures between the years 2004, 2005, 2006 and 2007. Four directional hypotheses and a null hypothesis are developed based on legitimacy theory and by the review of previous studies. The four directional hypotheses are used to test the increase in CSR disclosures and the increase in category CSR disclosures based on a disclosure classification from 2004 to 2006. 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 hotel industry is selected since it is considered to be a sensitive industry. The main board companies are selected because, they form the significant part of the Colombo Stock Exchange and they are more active than the secondary board companies. Secondary board hotel companies' data was also collected for comparison. A disclosure index is prepared using the items disclosed in a report published by a World Bank staff member O'Rourke (2004) for the World Bank on CSR in developing countries. Index items are believed to be relevant to Sri Lanka, a developing country, and this is the first time it has been used in research into CSR. Company annual reports of main board hotels industry are analysed using the index by identifying the annual report disclosures related to the items in the index. Items presented are given score of "one" and otherwise "zero" resulting in a total score of each annual report to be used in the statistical analysis. Secondary board hotel data was also collected and analysed in the same manner.

Descriptive analysis indicated that more than 75% of companies practice CSR in main board hotel companies in Sri Lanka from 2004 to 2007. Overall descriptive data analysis demonstrated an increase in average number of CSR disclosures from 2004 to 2006 in the main board hotel companies. The 17% change indicated from 2005 to 2006 was higher than the change from 2004 to 2005 (10%). Wilcoxon

matched-pairs signed rank tests were employed to determine whether the change reported by descriptive analysis was significant. The statistical tests results were shown to be significant ($p \leq 0.05$) in both 2005 compared to 2004 and 2006 compared to 2005 in the main board hotels. However, the statistical test results for the secondary board was not significant ($p > 0.05$).

Descriptive statistics on average CSR disclosure per category showed an increase in Community economic development and social impacts (CED) and Supply chain management (SCM) categories of the main board hotels. However, the Wilcoxon matched-pairs signed rank tests results did not indicate a significant change in category CSR disclosures from 2004 to 2006 for all categories. It was also shown that the total quantity of category CSR disclosure increased significantly from 2004 to 2005 in corporate payments to governments (CPG) category of the main board hotel companies. This may be because of the pressure perceived by the companies from the government. Study results found that average number of CSR disclosures of main board hotel companies have decreased from 2006 to 2007. However, the Wilcoxon matched-pairs signed rank tests showed that the change was not significant ($p > 0.05$) for the main board from 2006 to 2007.

The results of this study suggest that government pressure, research and changes in society expectations may influence CSR of companies after a major social disaster. If companies do not react to CSR up to the level required by society and the government companies' legitimacy will be questioned.

DECLARATION

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CHAPTER 1

INTRODUCTION

Corporate social disclosure in company annual reports has been a significant research matter in recent years. Research interest has been focused on why companies have become involved in Corporate Social Reporting (CSR). This chapter presents the research background, research questions, significance and contribution of the study.

Background of the Study

According to Frost cited in Godfrey, Hodgson & Holmes (2000, p.657)

> The traditional foundation of accounting is based on three characteristics. They are the accounting entity, financial measurement of economic events and a defined group of users concerned with the financial position and performance of the entity. Traditional concepts of accounting are not adequate, when users of the information are not necessarily financial participants of the entity. Where the traditional concepts of accounting are inadequate, many of the issues relating to corporate social reporting (CSR) are debated

There is a growing interest in researching CSR because companies are disclosing aspects of this information in their annual reports. This attention has increased predominately since the latter half of the 1990s. As long as CSR disclosures stay mainly of a voluntary nature, then accounting academics will make efforts to understand the reasons for reporting this information (Deegan, 2002). To date CSR has been focused mostly in Europe and the United States. Emerging market economies that can quickly become CSR flashpoints are also gaining increased attention from researchers (Dawkins & Ngunjiri, 2008). The World Bank is now evaluating whether encouraging CSR might be of interest and benefit to developing country governments, because of the societal benefits associated with CSR. If adequate data were available, it is possible that developing countries could leverage the CSR achievements of local firms, to attract investment and export opportunities, and also use CSR of corporations to support local economic development efforts (O'Rourke, 2004).

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Sri Lanka

Sri Lanka, a developing country is an island in the Indian Ocean, situated between 6 and 10 degrees north of the equator. Due to this location Sri Lanka has a mostly tropical climate. The natural disasters mostly experienced in this country are: floods, landslides, drought and cyclones. Except for the said major natural hazards, Sri Lanka also experiences windstorms, coastal erosion, environmental degradation and deforestation. The impact of each natural disaster varies and leaves a lasting impact in most situations on the people by disrupting life and livelihoods (Ariyabandu & Hulangamuwa, 2002). Over the last two decades, there has also been a war between the government military and the Liberation of Tamil Eelam (LTTE). According to official figures, more than 65,000 people have been killed. Despite variations in the military balance of power, the situation has entered a long-term stalemate with neither side capable of defeating the other. The country has experienced the economic outcomes of war and vulnerability of Sri Lankan business to the conflict (International Alert, 2005). The war was won by government militaries on May 17, 2009.

On 26 December 2004, Sri Lanka was hit by a tsunami caused by a massive earthquake 1,500 kilometres away near northern Sumatra. Even though Sri Lanka experienced periodic droughts, floods, landslides and the occasional cyclones, the nation had never experienced any natural disaster of this scale magnitude in recorded history. Sri Lanka was completely unprepared for the tsunami. No serious earthquake has occurred in Sri Lanka for three centuries. Therefore, Sri Lanka had no effective domestic hazard warning systems and had not realised the need to be a part of international early warning systems such as tsunami warning systems. Within a very short period of time, over 30,000 people lost their lives and several hundred thousand people had been displaced. Thousands of houses and other buildings, railways, bridges, communication networks and other infrastructure and capital assets were heavily damaged. The tsunami was a huge shock to the country (Jayasuriya, Steele, Weerakoon, Knight-John &, Arunatilake, 2006). Ground cover, smaller trees and shrubs have been removed by the tsunami, virtually the entire coastline of Sri Lanka has been affected by the tsunami but the impacts vary considerably (World Bank, Asian Development Bank & Japan Bank for International Cooperation, 2005). The tsunami affected industries included fishing, hotel and tourism, banking and financial industries (Australian Government Department of Foreign Affairs and Trade, 2008).

The government has done well to involve the companies in the relief and rehabilitation effort by using the organisational skills of key figures in the business community as well as making use of their financial and other resources (Corporate rivalry over relief, 2005). The damage caused to lives and property has ironically created a new chapter in the social responsibility practices of Sri Lankan business organisations (Fernando, 2007).

According to Gonzalez & Leon (2001) cited in Rodriguez & Cruz (2007, p.825)

> Corporate social responsibility is more relevant to the hotel industry than to other economic activities, given the bidirectional relation that exists between the tourist product offered and its natural, economic, social and cultural environment. Thus this environment is not only the physical support of the activity, but also forms part of the tourist product itself, since it determines the quality and satisfaction of the tourist's experience.

In addition

> The aftermath of the tsunami thus illustrates the particular aptness in a tourism setting of the business arguments for the social and environmental care and respect central to corporate social responsibility, where the coincidence of commercial and non-commercial interests acknowledged earlier is very marked (Henderson, 2007, p.236).

For these reasons, Sri Lanka and the hotel industry was selected for this study.

Given this background, this study examines whether government influence, research and the influence of change in society expectations impacted on CSR practices in Sri Lanka, a developing country in line with legitimacy theory as displayed in figure 1.1 over the 4 year period from 2004 to 2007.

Research Questions

The following research questions were established to determine if there was a change in total CSR disclosures in company annual reports in Sri Lanka before and after the tsunami in 2004. Specifically, this study will determine;

1. If there was an increase in the total quantity of CSR disclosures in the hotel industry by year from 2004 to 2007?
2. If there was an increase in total quantity of categories CSR disclosures in the hotel companies by year from 2004 to 2007?
3. If the increase in CSR disclosures ceased in 2007
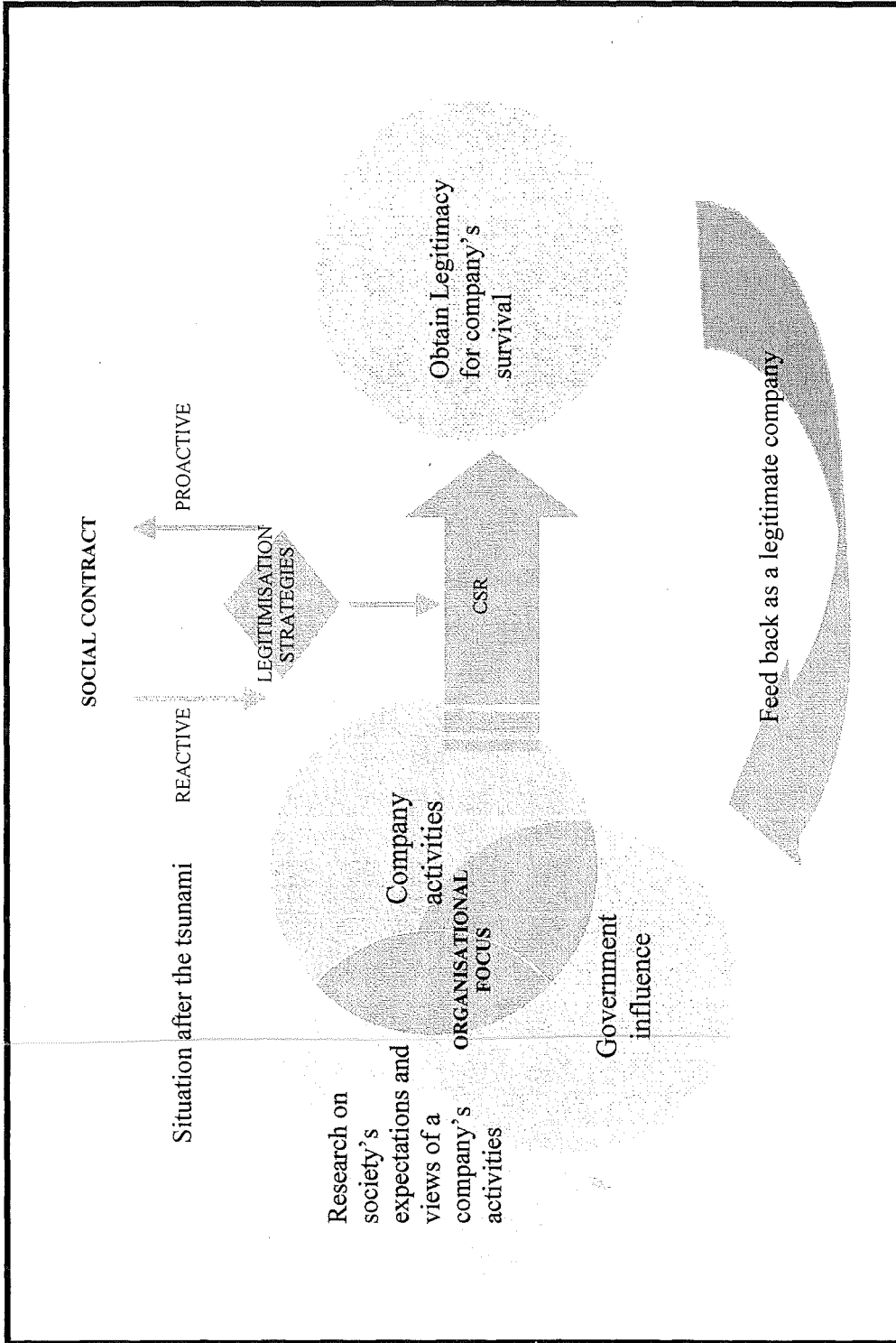
Figure 1.1

Research background (developed from O'Donovan, 2002)

Significance and Contribution of the Study

This study has both theoretical and practical significance. Previous studies were based on social incidents which happened due to companies' own operations (Deegan, Rankin & Voght, 2000; Jantadej & Kent, 1999; Patten, 1992; Walden & Schwartz, 1997). Theoretically this study contributes to knowledge by focussing on a natural disaster which happened without any involvement of companies and examining how companies reacted to CSR to the situation. The disclosure index used in this study to assess the extent of CSR disclosure is closely related to the economic and other goals of developing countries. In addition this is the first time that the items disclosed in the report published by O'Rourkes (2004) for World Bank has been used to analyse CSR disclosures in annual reports. The study results are explained using the legitimacy theory. In practical terms of its application, this study is the first study to be conducted in Sri Lanka on CSR and the research findings will be of interest to policy makers such as Securities Exchange Commission (SEC), Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) and Chartered Institute of Accountants Sri Lanka (ICASL) to establish a suitable CSR framework for Sri Lanka. This study will also assist users of annual reports to gain insight in to CSR disclosures.

Organisation of the Study

Chapter two outlines the related literature published in Asian developing countries including Sri Lanka, studies on influence of social incidents on CSR and other related studies. The theoretical framework utilised in this study and the development of hypotheses is explained in chapter three. Chapter four describes the research methodology employed in the study. An analysis of the results is presented in chapter five. The final chapter concludes with findings of the study, implications, limitations and some suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

Introduction

Several definitions have been used in literature to explain the meaning of Corporate Social Reporting (CSR). International Alert (2005, p.12) defines CSR as a process of preparing reports that present non financial data about employees, community economic aspects, stakeholder engagement, and social and environmental practices. It is carried out via a process called ethical accounting or auditing by which a company regularly measures and records its fulfilment with set policies and procedures, and utilises the outcome as a basis for dialogue with stakeholders on past actions with an aim to shaping future ones. One of the most commonly used definition has been provided by Mathews (1997) cited in McMurtrie (2005, p.129)

> Organisations that function in modern society only do so with the implicit permission of their host society. In order to maintain the support of their host and thereby continue to exist, organisations need to demonstrate that they are responsible members of society that deserve the support they receive. One important component of this demonstration of worthiness is the way organisations communicate with their host society. The information produced by organisations in this regard has been called corporate social disclosure and its conceptual construction has attempted to capture the issues on which society has placed importance and that may influence the way society interacts with the organisation.

This chapter describes the published literature in terms of studies categorised into those in a Sri Lankan context, those from other South Asian developing countries, studies describing the influence of social incidents on CSR, and other studies.

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 the 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 commencing 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 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

Even though there are no studies published on CSR in Sri Lanka, several attempts have been made to examine the corporate social responsibility activities in a Sri Lankan context. Ariyabandu & Hulangamuwa (2002) conducted a study on corporate social responsibility and natural disaster reduction in Sri Lanka in 2002. They investigated how firms responded to the situations that arose after natural disasters such as floods, landslides, drought, cyclones, windstorms and coastal erosion. Initially researchers interviewed government institutions which dealt with disaster management, relevant nongovernment organisations and other charitable organisations by telephone. During the second stage of the study, 15 private sector companies were identified to carry out further investigations using face-to-face interviews. The 15 companies were selected to encompass different spheres of business such as industrial and service sectors, different sizes of business (large, medium and small), multinational companies and local companies, public quoted companies and non-quoted companies. A questionnaire guide was used for conducting the interviews and the interviews were semi structured. Interviews were mostly carried out with the Chief Executive Officer or with the chair person of the company. The Secretary General of Ceylon Chamber of Commerce was also interviewed in the study.

It was found that company provided relief in response to emerging disaster situations. The country has a remarkable history of philanthropic activities, rooted in its religious and cultural heritage. It is an ordinary practice for the rich sections of the society to extend help to the needy, and to support accepted social causes. Private sector engagement in activities such as extending material help to the poor, supporting old people's and children's homes, charitable activities towards religious organisations and in recent times helping the displaced from the civil war were existed in the country (Ariyabandu &, Hulangamuwa, 2002). Ariyabandu and Hulangamuwa (2002) 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 grouped in to one of the four categories. Corporate social responsibility activities were generally carried on an individual basis by the companies and few short term partnerships were identified between few companies. They acknowledged the lack of empirical evidence on CSR in Sri Lanka specifically in the context of natural disasters (Ariyabandu &, Hulangamuwa, 2002). However, the ability to generalise of these results is limited to the small sample size of this study.

An alternative approach was used by International Alert (2005), a London based peace building organisation which conducted a survey in the first half of 2004. This study aimed to address the limitations associated with Ariyabandu & Hulangamuwa (2002) study. The survey was used to gain an understanding of "corporate social responsibility" 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 corporate social responsibility and how it was practiced in Sri Lanka. The research was also conducted to better understand the corporate social responsibility 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).

In order to obtain public perceptions about corporate social responsibility and the role of business in society, a countrywide household survey was conducted. A semi-structured questionnaire was administered through face-to-face interviews with men

and women aged between 18 to 65 years. International alert also interviewed individuals from the business community using a semi-structured questionnaire. One hundred and forty seven individuals from the business community were interviewed. Regions, type of ownership, age of the company and the staff size were concentrated in the sample selection covering 10 specific industrial sectors. 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 take part in society. The public was unsure as to what level 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 corporate social responsibility activities. They indicated the ability to transfer company image in the eyes of the public which is one of their main incentives. The International Alert's survey was conducted before the tsunami and the survey results were published in 2005. The survey results highlighted the status of corporate social responsibility in Sri Lanka from a public and business society perspective (International Alert, 2005). This study is relevant as covered a large geographical area of the country and number of industries. In addition survey gathered data from both business society and general public.

Whilst the studies by Ariyabandu and Hulangamuwa (2002), International Alert (2005), highlighted corporate social responsibility in Sri Lanka before the Tsunami in 2004, Fernando (2007) investigated corporate social responsibility in the wake of the Asian tsunami using a comparative case study of two Sri Lankan companies. The study explained possible reasons why companies involved in corporate social responsibility initiatives during the first eleven months after the Asian tsunami in 2004. At the first stage of the study, 21 interviews were conducted with formal and informal donors, civil society leaders, business leaders and victims of the Asian tsunami. The research included four interviews in order to identify how the top management of two leading Sri Lankan private sector organisations involved in corporate social responsibility initiatives during the first 11 months after the tsunami in 2004. The primary method of data collection was based on in-depth, face-to-face interviews. A semi-structured interview guide was used. The senior managers

interviewed said that when there was a lack of publicity of their corporate social responsibility initiatives, and their stakeholders both national and international were interested to know what the companies 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 which influenced the private sector's involvement in corporate social responsibility activities as 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. This research was mainly limited in its scope to leadership perspectives of organisations soon after the tsunami incident. Another limitation of this study is the small sample of companies.

Studies Conducted in other Asian Developing Countries

Studies involving CSR disclosure in annual reports for other Asian developing countries is limited. Imam (2000) studied corporate social performance reporting in Bangladesh to examine the areas of corporate social and environmental accounting. His study surveyed reporting practices of 40 listed companies on the Dhaka stock exchange. Imam found that disclosures regarding environment, consumer, community and other social aspects were ignored by most companies. Only information regarding employees were disclosed in the annual reports and the disclosures were made in the chairman's statement/address or in the director's report. Generally, only positive disclosures were only made. The listed companies in Bangladesh placed greater importance on human resource disclosure and provided important human resource information such as health training and safety. The study found that Bangladeshi companies provided a low level of disclosures except in human resources area and the majority of companies had not adopted environmental reporting practices. This research presented the position of CSR in Bangladesh, but lacked an examination of the driving forces of CSR in Bangladesh.

Belal & Owen (2007) investigated the views of corporate managers on the current state and future prospects for CSR in Bangladesh. The study employed a series of interviews with senior managers from 23 companies. The main objective of this study was to examine the perceptions of a group of senior managers towards the

emerging trend of CSR in Bangladesh. A sample of top 100 companies representing different industry sectors was selected from the Dhaka stock exchange for the study. The interview requesting letters were sent to the selected companies and 21 responses were received. Two public enterprises in the chemical sector were included using personal contacts to incorporate the views of managers working in state-owned companies. Interviews were conducted at the respective manager's place of business and lasted between 30 minutes to 2 hours depending on the degree of interest and detailed knowledge on the part of the interviewees. Interviews were based on key issues identified from reviewing the CSR literature and knowledge of the specific Bangladeshi context. Key areas covered in the interviews were managerial perce tion as to the need for CSR, views as to which constituencies comprise the organisation's key stakeholders in terms of the role played by stakeholder consultation in the reporting process, the perceived relevance of prominent social reporting standards such as Global Reporting Initiative (GRI), key factors driving the current and possible future disclosure practice. The study found the main motivation behind CSR practice was a desire on the part of corporate management to manage powerful stakeholder groups. The views stated by interviewees supported Western based studies that were concerned with improving corporate image. The number of interviewees indicated that the key motivating factors in driving reporting at least in the longer term were organisational legitimisation and internationally accepted CSR standards. However, this research is limited by only interviewing managers of companies. The key areas concerned in the interviews were similar to the areas highlighted by the World Bank as important areas for studying CSR in a developing country (O'Rourke, 2004). The research findings helped to explain the reasons for engaging in CSR voluntarily in Bangladesh an Asian developing country.

Ratanajongkol, Davey & Low (2006) conducted a study on CSR in Thailand using the annual reports of 40 companies between 1997 and 2001. This study selected the 40 largest companies by market capitalisation listed on the stock exchange of Thailand. Companies were categorised into four industries namely manufacturing, services, finance and properties. Content analysis was used as a technique to analyse annual reports and the amount of disclosure, themes and quality dimensions. The study results indicated a trend towards increasing levels of corporate social disclosure among sampled companies. Further the results showed different trends in

CSR in different industries. Researchers used legitimacy theory, political economy theory and economic conditions to explain the trends and they concluded saying that no single theory can explain disclosures of CSR (Ratanajongkol, Davey & Low, 2006).

Smith, Yahya and Amiruddin (2007) studied environmental disclosure and performance reporting in Malaysia. The main objective of this study was to examine the association between the environmental disclosures of Malaysian publicly listed companies and their corporate characteristics such as industry membership, financial performance, share price movement, political cost proxies, information costs, dependence on debt and the capital market. The annual reports of 40 companies were used in the study. Content analysis was used to analyse the annual report disclosures. A score was assigned to the dependent variable, as per the number of environmental disclosures found in annual reports. A check list which described the criteria for identifying the disclosures was designed in order to assign a numerical number to the environmental disclosures. An independent reviewer was used to review the check list. The overall scores varied from 1 to 35 disclosures with a mean of 10.3 disclosures across all 40 companies. These results were different to other non Malaysian studies in the literature. The results indicated that profit performance was negatively associated with the level of environmental disclosures. The authors concluded that environmental reporting practices in Malaysia were different from other countries which have a mature reporting process.

Studies from the Sri Lankan context demonstrated the change in corporate social responsibility activities following the tsunami in 2004. The findings of Sri Lankan studies also highlighted the reasons for these companies to engage in corporate social responsibility activities. The studies from other Asian developing countries indicated the status of CSR and the company objectives of practicing CSR. Smith, Yahpa and Amiruddin (2007) demonstrated that CSR practices are different across countries in terms of the level of maturity in the reporting process. Table 2.1 provides a summary of studies that have examined CSR for Asian developing countries.

Table 2.1
Summary of studies conducted in Asian developing countries

Researcher(s)	Objectives of the study	Research sample	Research method used	Key findings of the study
Ariyabandu, M.M. & Hulangamuwa, P. (2002)	Examine organisations activities in situations arose after the natural disasters in Sri Lanka	15 companies selected by initial telephone interviews for further study representing different businesses in the country which included different spheres (industrial and services), different sizes of business (large, medium and small), different origins of business (local, multinational).	Initial desk study of journals, news papers and financial reports. Telephone interviews with organizations dealt with disaster management. Face to face interviews conducted with 15 companies. Questionnaire guide was used in the face to face interviews and interviews were semi-structured	The companies appeared to be involved in social responsibility activities at emergencies in the form of relief. Companies' social responsibility activities are identified in to four categories . Most organisations described the corporate social responsibility initiatives as single activities and companies mainly carried out such initiatives on individual basis
International Alert (2005)	Investigate the current status of corporate social responsibility in Sri Lanka	147 interviews conducted with business community represented different regions, different ownership types, and different sizes. 1814 respondents were interviewed from the general public represented different regions and different nationalities. The survey conducted to obtain public views on corporate social responsibility	The survey had two parts. First part was conducted to obtain views of the public and second part was carried out to gather information from business community Countrywide survey was conducted using a semi structured questionnaire which was guided through face to face interviews	Sri Lankans did not have a clear understanding about the role they expect the companies to play in the society. Local businesses identified corporate social responsibility as a historical practice driven by gatherings Main reason for the involvement in corporate social responsibility is to communicate the image of the business in the eyes of the public

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Table 2.1 (Continued)
Summary of studies conducted in Asian developing countries

Researcher(s)	Objectives of the study	Research sample	Research method used	Key findings of the study
Fernando, M. (2007)	Study the corporate social responsibility initiatives of firms after the tsunami in 2004 and the possible reasons for the engagement in such activities	21 interviewees representing formal and informal donors, civil society leaders, business leaders and tsunami victims. Two companies for in-depth interviews.	21 interviews conducted with donors, civil society leaders, business leaders, tsunami victims to develop a diverse knowledge on tsunami related corporate social responsibility activities. In-depth face to face interviews approach using a semi structured interview guide in conducting the case studies.	Possible reasons to engage in corporate social responsibility initiatives were improve company image, relationship building with society and government agencies, to cover up unfavorable impressions associated with companies and to obtain government tax benefits and other concessions
Imam, S. (2000)	Examine areas of CSR and to find the position of CSR in Bangladesh	40 randomly selected companies from Dhaka stock exchange	Literature review on CSR and content analysis on company annual reports to find out the extent of disclosure and measurement tools used	Bangladeshi listed companies placed greater concern on human resources related disclosures Few companies disclosed important HR disclosures such as health, training and safety. Most of the companies had not adopted the CSR Only positive disclosures were made and the disclosures were mainly descriptive. CSR disclosures appeared in chairman's address or directors report

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Table 2.1 (Continued)
Summary of studies conducted in Asian developing countries

Researcher(s)	Objectives of the study	Research sample	Research method used	Key findings of the study
Belal, A.R. & Owen, D.L. (2007)	Examine the views of corporate managers on the existing and future prospects for CSR in Bangladesh	Senior managers of 23 Bangladeshi companies representing multinational, domestic, private and public sectors.	Interviews were conducted with the senior managers at their premises. Interview protocol was used as a guide and the interviews were recorded.	Bangladeshi managers used CSR mainly to improve company image and to manage perceptions of powerful stakeholders. A change in reporting appeared to be influenced by factors such as parent company and world bank influence. Long term motivation factors towards CSR are found as organisational legitimization and internationally accepted CSR standards.
Ratanajongkol, S., Davey, H. & Low, M. (2006)	Examine the extent and the nature of CSR practices in Thai companies	40 largest Thai companies were used as the sample. Size ranking of market capitalisation used as the basis.	Companies were classified into four industries. Content analysis used to examine the annual reports of 40 companies of 1997, 1999 and 2001. Extent and the nature of CSR was measured based on the number of words disclosed using a classification with five main themes.	Findings showed a general trend towards increasing level of CSR disclosure. Increase in the CSR disclosure varied among different industries. Thai companies concentrated more on HR disclosures. Findings indicated the difficulty of explaining incidence of CSR utilizing a one theory

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Table 2.1 (Continued)
Summary of studies conducted in Asian developing countries

Researcher(s)	Objectives of the study	Research sample	Research method used	Key findings of the study
Smith, Yahpa and Amiruddin (2007)	Examine the extent of association between environmental disclosures and the company corporate characteristics.	40 companies listed in the Kuala Lampur stock exchange were used in the study sample.	Content analysis used to examine the annual reports of companies. Score was given to the dependent variable which was environmental disclosure. A check list was used to identify the annual report disclosures and it was reviewed by an independent person.	Study findings were different to the findings of similar studies conducted in western countries. Findings suggested that the profit performance of Malaysian companies is negatively associated with the level of environmental disclosures.

Studies on Influence of Social Incidents on CSR

Researchers hypothesised that social incidents associated with companies may bring a legitimacy threat to those companies. They found an increase in the level of CSR in these companies after the incident compared to the level of CSR before the incident. Studies related to CSR associated with events are limited.

Patten (1992) studied intra-industry environmental disclosures in response to the Alaskan oil spill. The oil spill occurred when the Exxon Valdez super tanker struck a reef when it was transporting Alaskan crude oil. The study was based on two arguments. Firstly, even though Exxon was primarily responsible for the oil spill, The Alyeska Pipeline Services Company was also at fault. Secondly, the threat to the legitimacy related not only for the companies involved but for all petroleum firms. Patten (1992) survey 21 out 23 publicly traded petroleum companies excluding Exxon in the study. The annual reports of those companies in 1988 (year before the incident) and 1989 (incident year) were analysed for environmental disclosures. Disclosures were identified using a schema with 7 categories. They included discussion of environmental regulations or requirements, environmental policies or company concern for the environment, conservation of natural resources, awards for environmental protection, recycling efforts, and expenditures related to environmental performance, litigation related to environmental actions. The survey was carried out in two stages. In the first stage a statistical test (t-test) was used to determine the mean disclosure between 1988 and 1989 were different in order to find if post-Valdez environmental concern influenced the level of environmental disclosures. During the second stage, a regression analysis was conducted to determine the size and/or a company's involvement with Alyeska associated and the amount of disclosures from 1988 to 1989. The results indicated that the mean number of environmental disclosures increased from 1988 to 1989 and the regression analysis indicated a positive relationship between the amount of disclosures, firm size and ownership of Alyeska. Therefore, these results indicate that the amount of disclosure increased post the Exxon Valdez incident. Patten suggested that a threat to a firm's legitimacy encourages companies to include more social responsibility information in reports. However, the results of this study are limited to one incident and the oil industry.

On the other hand, Walden & Schwartz (1997) studied environmental disclosures and public policy pressure by examining the environmental disclosure practices in the annual reports for selected firms in four industries including oil industry using content analysis. This research was an extension of Patten (1992) study. Walden & Schwartz's objective was to investigate the significant positive differences in the level of environmental disclosures in annual reports from 1988 to 1989 and 1989 to 1990 in a number of industries. The other industries included in the study were chemical, consumer products and forest products. The study sampled 53 companies across four industries.

The study was designed to determine the possible response to public policy pressure subsequent to the 1989 Alaskan Exxon Valdez oil spill on the levels of environmental disclosures of sample firms. Walden and Schwartz conducted a comparative statistical analysis by industry from 1988-1990 to determine if the level of disclosure was significantly different over this period. Significant positive differences in the levels of disclosure were expected for the event year 1989 and for the post event year 1990. Data from 1990 was analysed to determine the significance of changes in the levels of disclosures in the post event year. Levels of disclosures were tested using environmental themes as a basis for analysis both by a quantity score to measure quantity and by a quality assessment referred to as a disclosure score by various sections of the annual report. A detailed coding scheme was developed and pretested with specific instructions. The texts of the annual reports were examined and matched to the computerised search to identify the environmental disclosures. Once the search for a company was completed, the environmental disclosures were re-examined and marked clearly for analysis and coding. Coding was completed for each environmental disclosure observed using the two quantity score and the quality assessment (two variables).

Walden and Schwartz found that the level of nonfinancial environmental disclosures increased significantly in terms of quantity and quality from 1988 to 1989 across all four industries under consideration in support of the influence of social change. The financial environmental disclosures increased significantly in 1989 from 1988 in two industries; oil and forest products. The levels of nonfinancial disclosures of all oil industry companies had increased in 1989. The oil industry findings for 1989 were consistent with Patten's study (1992) which reported an increase in the level of environmental disclosures in terms of quantity for the oil industry. The levels of

nonfinancial environmental disclosures in 1990 represented positive significant differences over 1989 in terms of quantity and quality for the oil and consumer products industries (Walden &, Schwartz, 1997).

Deegan, Rankin & Voght (2000) examined the reactions of Australian companies in terms of annual report disclosures after the five major social incidents; Exxon Valdez, Bhopal disaster, Moura Mine disaster in Queensland, Iron Baron oil spill of Tasmania and Kirki oil spill of Western Australia which had significant implications for environment and society. They considered the previous studies examined company reactions to major social incidents in terms of annual report disclosures restricted to the United States. The study used a sample of companies which were identified as these that faced a potential threat to their legitimacy following social incidents under consideration. Two annual reports prior to the incident and two annual reports following the incident for the sample companies were examined using the content analysis to determine level of disclosure. The study results were consistent with the legitimacy theory and demonstrated that companies do appear to change their disclosure policies around the time of major company or industry related social events. The disclosure reaction appears to be related to the nature of the incident, rather than to social issues generally. This study highlighted the strategic nature of voluntary social disclosures and were consistent with a view that management considers that annual report social disclosures are a useful device to reduce the effects upon a corporation of events that are perceived to be unfavourable to the corporation. However, this study was limited to the content of annual reports and the views of management were not considered in the study.

A recent study by Branco *et al.* (2008) revealed that firms used environmental disclosures to manage a firm's legitimacy. Waste management has been an issue since the 1995 incident in Portugal and sites were constructed for the incineration and co-incineration of industrial waste. The study examined changes in the level of environmental disclosures of two large cement companies with waste management sites, namely Cimpor and Secil, in response to increased public awareness of their activities resulting from the co-incineration controversy. They identified in the event year, 1999, both companies where the subject of major public scrutiny. Similarly with other event studies, they used the pre and post event periods to examine changes in terms of the extent of environmental disclosure related to the event. They examined annual reports of Cimpor and Secil from 1994 to 2003, which included the

5 years prior to the event and 5 years after the event using content analysis. The quantity of environmental disclosures closely related to co-incineration and waste management sites used to implement the process were also considered in the study. The level of environmental disclosures was measured by the number of sentences. The tables and graphs which were presented in annual reports were also considered in the study. One line of tables and graphs with environmental disclosures were considered as one sentence. Results of the study represented an increase in the environmental disclosures for both companies. Specifically, Cimpor indicated a significant increase from 1994 to 1998 and from 1999 to 2004. A disclosure category increase was also found for the categories, "environmental policies or company concern for the environment", "environmental management systems and audit", "conservation of natural environment and recycling activities", "conservation of the energy in the conduct of business operations". There was a significant increase from one sentence in 1998 to 14 sentences in 1999 on the disclosures belonging to the "environmental policies or company concern for the environment" category. The other categories did not have any disclosures prior to 1999; however there were 3 to 18 disclosures in 1999. Findings suggested that companies used environmental disclosures as a mechanism to manage a firm's legitimacy which may have been threatened, not through harming society or environment, but the possibility to create harmful results by company operations. This happens specifically in the situations where such possible harmful results come into attention of the public and media.

Other Related Studies

Rodriguez and Cruz (2007) researched the relationship between social-environmental responsibility and performance of hotel firms. The objective of their research was to examine the relationship between the corporate social responsibility and firm performance. The study included 80 hotels in the 3-5 star classes. They used multiple regression analysis to evaluate the contribution of corporate social responsibility (the independent variable) to the profitability (dependent variable) of the hotel firms. The study used the measure relative return on average assets to represent profitability. Return on average assets (ROA) was not used in this study because it can be affected by the current conditions, both was economically, specifically to the hotel industry. The relative return on average assets was calculated as the difference between the ROA of each hotel and the mean ROA for the Spanish hotel sector as a whole for the year under consideration. A series of control variables such as hotel size (total

assets), firm's product market strategies were used in the analysis. A representative sample of Spanish hotel managers was used to measure the independent variable and they were requested to evaluate corporate social responsibility of other competing hotels on a Likert scale of 0-10. In addition, 15 in-depth interviews were conducted with managers of Spanish hotels. The study results indicated that if a Spanish hotel firm can increase its levels of corporate social responsibility by 1 unit, its firm's relative ROA will rise by 0.07 points. Therefore the higher level of social responsibility greater the profit level (Rodriguez & Cruz, 2007).

Table 2.2 presents a summary of the studies on the influence of social incidents on CSR which were described in detail in the previous section.

Summary

Previous studies conducted in Sri Lanka compared corporate social responsibility in terms of its understanding in the community and by corporations before the tsunami. Companies' efforts towards relief activities and possible expectations of such activities also have been investigated. However, those studies only examined the corporate social responsibility behaviours of companies and none of the studies have attempted to explain the research findings using a theoretical framework. Studies investigating CSR in other Asian developing countries identified the motivation of firms towards CSR in annual reports and the possible reasons for CSR. The results of event studies demonstrated a significant growth in CSR after the incident and most studies used legitimacy theory to explain the behaviour of corporations. This analysis of prior research indicates a research gap exists between the studies conducted in Asian developing countries and event studies conducted on CSR. Studies involving Asian developing countries examined the CSR of firms, but they had not applied a theoretical framework to explain the research findings. The following chapter will explain legitimacy theory the theoretical framework to be used in this study and the formulation of hypotheses.

Table 2.2
Summary of studies conducted on influence of social incidents on CSR

Researcher(s)	Objectives of the study	Research sample	Research method used	Key findings of the study
Patten, M (1992)	Examine environmental disclosure of companies in the petroleum industry subsequent to the Alaskan Exxon Vadez oil spill.	21 publicly traded petroleum companies excluding Exxon used in the study.	Annual reports of sample companies for 1988 (year before the incident) and 1989 (incident year) were analyzed using the content analysis in the study. Disclosures were identified by a classification with 7 categories.	Results indicated an increase in mean environmental disclosures from 1988 to 1989. Positive relationship was discovered between the firm size and ownership of Alyeska. Results suggested that a threat to a firm's legitimacy does encourage firm to include more CSR disclosures.
Walden & Schwartz(1997)	Study environmental disclosures of companies in four industries including oil industry subsequent to the Alaskan Exxon Valdez oil spill.	53 companies from four industries namely chemical, consumer products, forest products and oil industry.	Annual report disclosures were analyzed using the content analysis and the environmental themes were used as the basis for the analysis. A detailed coding scheme was developed for the analysis.	Study results demonstrated an increase in non financial disclosures across all four industries from 1988 to 1989.

Table 2.2 (Continued)
Summary of studies conducted on influence of social incidents on CSR

Researcher(s)	Objectives of the study	Research sample	Research method used	Key findings of the study
Deegan, Rankin & Voght (2000)	Examine the reactions of Australian companies by annual report disclosures after five major social incidents.	Sample companies were selected from companies that faced for potential legitimacy threat following social incidents. Number of companies included in the study sample was 41.	Two annual reports prior to the incident and two annual reports after the incident of sample companies were analysed using content analysis.	Study results indicated that companies do appear to change their disclosure policies around the time of major social incidents consistent with legitimacy theory.
Branco et al (2008)	Investigate changes in levels of voluntary disclosure of two cement companies in Portugal in response to the increased public awareness of the results on their co-incineration process.	Two companies were selected for the study, which were under the public scrutiny.	Annual reports of two companies of 5 years prior to the event and 5 years after the event were analysed using the content analysis. Level of environmental disclosure was measured based on number of sentences.	Companies used environmental disclosures in annual reports as a mechanism of managing their legitimacy which was threatened by the increased public awareness about the problematic company operations. Company legitimacy can be threatened not because of the company has done something harmful to the society but, the possibility to happen something harmful.

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CHAPTER 3

THEORETICAL FRAMEWORK AND HYPOTHESES FORMULATION

Introduction

This chapter presents the theoretical framework relevant to the study and the development of hypotheses based on the theoretical framework and the literature review outlined in the previous chapter.

Incidence of CSR

Several theories have been used to explain the incidence of CSR. Positive theory claims the CSR in annual reports is used by management to pursue their own interests. Studies that have used positive accounting background have demonstrated that managers of companies making large profits and misusing monopoly powers are likely to be selective about accounting methods to minimise reported earnings (Milne, 2001). Another way of interpreting CSR is from the political economy perspective. Political economy theory describes that CSR works as a tool to build and maintain economic and political systems that support company interests (Frost, 2000). Stakeholder theory and legitimacy theory are developed in this political economy background (O' Donovan, 2002). According to the stakeholder theory, the changing nature of the business environment has created a demand for companies to accept their responsibility to the wider community beyond the shareholders and owners. Hence the stakeholder theory identifies CSR as a method of managing the relationship with its stakeholders (Elijido-Ten, 2007). Even though the theories aforementioned have explained CSR in different ways, legitimacy theory 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.

Legitimacy Theory

"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" (Suchman, 1995, p.574 cited in Tilling, 2004). 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 perspective 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 a time. Hence, organisations are required to be responsive to the ethical environment they operate (Deegan, 2007).

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 societies expects a firm should act and how the organisation activities perceive by the society.

According to Sethi (1977 & 1978) cited in Deegan (2002), legitimacy gap can arise from two sources. One situation is when unknown information about the firm becomes known to the public (by media or by any other method). The second situation is when there is a change in society's expectations which lead to a legitimacy gap, even though the firm operates in the same way. In fact, a firm can lose legitimacy even though it does not change its behaviour. Hence it is difficult to identify the status of firm's legitimacy (O'Donovan, 2002). On the other hand, Deegan (2007) argues that variation of a firm performance from society's expectations could happen if the firm has not made disclosures which describe actions in accordance with society's expectations that change over time. Moreover, firm legitimacy is believed to be influenced by disclosures of information but not merely by changes in firm activities that have not been disclosed (O' Donovan, 2002).

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 & Bradley (1981), Belkaoui & Karpic (1989), Deegan & Gordon (1996) and Patten (1991) have found significant direct positive relationship between size of the company and the amount of CSR disclosures. The firm size can be measured in different ways. Christopher, Hutomo & Monroe (1996) and Hackston & 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 said association is difficult due to the differences between the samples studied such as country of study, industry composition and study period but, the company size is appeared 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. The directional hypotheses are developed to examine the change in total quantity of CSR disclosures over time.

Increase in the Total Quantity of CSR Disclosures

The 2004 Indian Ocean tsunami was an opportunity for companies directly and indirectly affected to help societies, environments and economies damaged by the natural disaster and test the commitment to corporate social responsibility (Henderson, 2007). On the other hand 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 in 2004. The government of Sri Lanka implemented and monitored programmes with the help of non government organisations and companies to help civilians and restructuring. Given this background, the change in government, society perceptions and values is clear. If the companies did not respond to that change, the social contract could be terminated and the companies' legitimacy could be 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 expected that hotels responded to the change in society's expectations by becoming involved in more social activities and disclosing such activities in their financial reports in 2005 and 2006 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 31st of March 2005. Being only three months after the tsunami incident (tsunami took place on 24th of December 2004); this period would be insufficient for the companies to fully comply with society's expectations. Therefore would be anticipated that companies reacted 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

Companies use disclosure types related to the incident to alter the perceptions of the society (Branco et al, 2008). Similarly with Patten (1992), Walden and Schwartz (1997), Deegan, Rankin and Voght (2000) this research applies a 42 item content classification to identify the extent of CSR disclosure. The 42 items are categorised in to 10 sub categories to identify any increase in disclosure quantity of each category. It is expected that the change in society expectations after the tsunami in 2004 increased 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 of 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 of hotel industry in 2006 compared to 2005.

Continuance of Increase in Total Quantity of CSR Disclosures

The change in the society expectations for CSR is anticipated in the incident year 2005 and the following year (2006). It is expected companies would react to such change by increasing the level of CSR disclosures in both 2005 and 2006 compared to their previous years in order to comply with the social contract. If companies reacted according to the level society wanted, there would be no increase in the total CSR disclosure level in 2007. 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.

Summary

This chapter discussed the theories used to explain the incidence of CSR and explained the legitimacy theory which is the theoretical framework for this study. Four directional hypotheses and a null hypothesis were developed based on legitimacy theory and the previous research studies. The directional hypotheses were formulated to test the increase in the total quantity of CSR disclosure and the increase in total quantity of category CSR disclosure. The following chapter will describe the methodology in terms of data source, population, content analysis, data collection and recording method. The control variables also presented which were used to test the association between the company size and the total quantity of CSR disclosure.

CHAPTER 4

RESEARCH METHODOLOGY

Introduction

This chapter outlines the research methodology which is employed to test the hypotheses developed in previous chapter. The chapter includes a discussion on importance of annual reports (the source of data), population investigated and content analysis. The chapter also explains the data collection and recording method used in the study. Finally, the control variables used to test the level of association between company size and the extent of CSR disclosure are described.

Annual Reports

This study uses the company annual reports as the source documents to gather data. A company's annual report is a statutory report that is prepared regularly includes both statutory and voluntary disclosures and management has the editorial power over the content of annual report (Campbell, 2000, Wilmshurst & Frost, 2000). Hence annual reports are the single most important source of information about company activities which is provided shareholders by the company (Adams, Hill & Roberts, 1998). The advantage of using annual reports for the study is that they can be easily compared and the management intentions can also be identified to a certain extent using disclosures. When investigating the extent of annual report disclosure, essentially the level of disclosure before the incident has to be established and then this measure should be compared with the extent of disclosure following an incident (Deegan, 2000). This study will use annual reports from 2004 (year before the tsunami), 2005 and 2006 to examine if there is a change in CSR disclosure. Annual reports of 2007 will be used to test null hypothesis (Ho1) to determine if the change in CSR disclosure continued after 2006. Annual reports are collected from Colombo stock exchange library.

Population

Main board is selected since it represents the significant and dynamic part of the Colombo Stock Exchange (CSE). The choice of using the whole population of main board hotel companies for examination is dictated by objectives of the study and more over to avoid the limitations associated with using a sample for examination.

Data from secondary board listed companies of Colombo Stock Exchange in hotel industry data was also gathered to make comparisons with main board companies and to examine the CSR of hotel industry as a whole. The Colombo Stock Exchange industry classification was used to identify main and secondary board companies. Both main board and secondary board company lists were obtained from the Colombo Stock Exchange website. More practical consideration was given to the data availability during the period of study. Hence the companies listed after 2004 or those between delisted from 2004 to 2007 were excluded from the analysis.

Content Analysis

The research uses a method of document review called content analysis to examine the content of company annual reports. According to Hair, et al (2007, p.195)

> Content analysis obtains data by observing and analysing the content or message of written text through systematic analysis as well as observation, the researcher examines the frequency that words and main themes occur and identifies information content and characteristics embedded in the text. The end result often is to quantify qualitative data.

Several studies, which were focused on what was reported, have used content analysis as a research method to gather and organise different types of empirical data. This methodology has been used in several countries including Sri Lanka. These include Australia (Guthrie &, Petty, 2000; Guthrie *et al.*, 1999), Canada (Bontis, 2003), Hong Kong (Petty, 2003), Italy (Bozzolan *et al., 2003),* Sweden (Olsson, 2001), South Africa (April *et al.*, 2003), and Sri Lanka (Abeysekera & Guthrie, 2004, 2005). Legitimacy theory is related to the use of content analysis as a measure of reporting (Guthrie, Petty & Yongvanich, 2004). Content analysis was carried out by classifying portions of text into content categories. Pictures, words or any other units of text classified into the same categories are considered to carry same meanings. These which are grouped based on the requirements of the researcher. Specifically in the quantitative studies it is necessary to identify the transcript that will be classified and recorded, a procedure is also known as unitizing (Rourke et al, 2000).

According to Hsieh & Shannon (2005, p.1285), the success of the content analysis depends greatly on the coding process. Similarly with any other research technique, content analysis also has certain limitations which could impact the results, such as

problems with deficiencies in the documents, ambiguity in the judgement process, coder bias and coder error (United States general accounting office, 1996). Milne and Adler (1999) claimed that there is no method that can be adopted in order to carry a reliable content analysis. They suggested that it is important to understand the research tools and their limitations and the context of the research before presenting the study findings. The reliability analysis recommends that a learning cycle should involve about 20 reports to be analysed by the less experienced coders in order to perform appropriately at a reliable level. According to Krippendorff (1980), content analysis has a weakness if only one person is engaged in the coding of data. He recommends the duplication (repeat) of coding in order to improve the reliability and validity of results. Therefore to minimise the impact of weaknesses of using content analysis an independent review was done by a competent person on a sample of 24 annual reports for verification of the coding and results were 96 % agreed to the extent of disclosure. A hundred percent agreement was reached after further discussions and explanations on the variation (4%) found. Therefore the coding results were not influenced by the limitations of content analysis indicated by Krippendorff (1980).

Data Collection and Recording Method

The company annual report content was examined using to the disclosure index list presented in Table 4.1. The index is prepared using the CSR disclosure items published in a report by World Bank staff member (O'Rourke, 2004) on CSR in developing countries. The index presented in Table 4.1 was used because the items in this report are believed to be relevant to Sri Lanka, a developing country. A dichotomous index (Marston & Shrives, 1991) was used to examine 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 suitable for the study as it was only necessary to determine the level of CSR disclosures rather than why companies make such disclosures (Christopher & Filipovic, 2008). This document review process and scoring was repeated for the 2005, 2006 and 2007 annual reports. 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 4.1. Data collected for each company the company name, total assets and market capitalisation.

Table 4.1

Key metrics of Corporate Social Reporting (developed from O'Rourke, 2004)

Indicator	Description
Environmental Performance:	
ENV1.	Compliance with environmental laws (rates of non-compliance, fines, legal proceedings, etc.);
ENV2.	Emissions of toxic chemicals to air, water, and land;
ENV3.	Emissions of greenhouse gases;
ENV4.	Material flows—energy, raw materials, water, land, etc. ;
ENV5.	Product life-cycle assessment;
ENV6.	Environmental management systems (e.g., ISO 14000);
ENV7.	Disclosure of environmental risks to local community members.
Respect for Labor Rights:	
LAB1.	Policies on freedom of association, collective bargaining, non-discrimination, child labor, and forced labor;
LAB2.	Facilitation of freedom of association and rates of unionization;
LAB3.	Formal agreements with independent trade unions;
LAB4.	Wages (comparable to industry average, prevailing wage, or "living wage");
LAB5.	Employee benefits provided;
LAB6.	Working hours.
Health and Safety Practices:	
HSP1.	Rates of occupational injuries, diseases, and fatalities;
HSP2.	Lost time from injuries;
HSP3.	Hazard communication programs;
HSP4.	Training on health and safety;
HSP5.	Joint employee-management health and safety committees.
Respect for Human Rights:	
RHR1.	Countries of operation with problematic human rights records;
RHR2.	Role of government or military in factory operations;
RHR3.	Political and economic rights guaranteed to employees.
Community Economic Development and Social Impacts:	
CED1.	Percent of profits reinvested in community from which profits earned;
CED2.	Percent of profits paid into a local community development trust;
CED3.	Impacts on local development patterns of investments/ suppliers.
Corporate Governance:	
COG1.	Internal accountability procedures;
COG2.	Composition of the Board;
COG3.	Management compensation;
COG4.	Disclosure of potential conflicts of interest.
Corporate Payments to Governments:	
CPG1.	Payments for contracts or concessions;
CPG2.	Corporate taxes and royalty payments;
CPG3.	Donations to candidates for political office or political parties.

Table 4.1 (continued)
Key metrics of corporate social reporting (developed from O'Rourke, 2004)

Indicator	Description
Stakeholder Engagement:	
STE1.	Policies and procedures for engagement;
STE2.	Frequency and forms of engagement;
STE3.	Information that is accessible and understandable to stakeholders.
Supply Chain Management:	
SCM1.	Locations of factories/farms/mines in supply chain;
SCM2.	Number of workers in supply chain;
SCM3.	Code implementation and monitoring program;
SCM4.	Systems for measuring and monitoring performance;
SCM5.	Compliance staff numbers and budgets;
SCM6.	Process for verification of reported data.
Forward-looking Information:	
FLI1.	Scenario planning to avoid specific problems;
FLI2.	Plans for dealing with future risks

Control Variables

In order to test the effect of company size on the total quantity of CSR disclosure two types of company size measures were used as control variables. The first control variable was company total assets as at 31st of March 2005 and the second control variable was market capitalisation (end of the year share price x number of issued shares at the yearend) of the company as at 31st of March 2005.

Summary

This chapter discussed the research methodology used for this study. It explained the reasons for selecting annual reports as the source of data, population from which the companies selected from and the method of content analysis. Data collection and recording method was elaborated by highlighting how data is prepared for the analysis. The control variables were presented which are used to test the association between the company size and the extent of company CSR. The next chapter will describe the results of CSR disclosure analysis. Descriptive data analysis results are presented first followed by the other statistical test results.

CHAPTER 5

ANALYSIS OF RESULTS

Introduction

This chapter presents research findings from the research methodology outlined in the previous chapter. The increase in total quantity of CSR disclosure from 2004 to 2007 is discussed in the main board companies of hotel industry. Results of the secondary board companies and both main and secondary board hotels are also presented together for further analysis.

Descriptive and inferential statistics were generated using the Statistical Programme for Social Science (SPSS) version 17 in order to test the hypotheses developed in chapter 3.

Descriptive Data Analysis

Table 5.1 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% from 2004 to 2005. However, the proportion remained constant after 2005.

Table 5.1
The level of CSR in main board hotel companies from 2004 to 2007

	2004		2005		2006		2007	
	No of Hotels	%	No of Hotels	%	No of Hotels	%	No of Hotels	%
Non disclosing companies	6	23%	5	19%	5	19%	5	19%
Disclosing companies	20	77%	21	81%	21	81%	21	81%
Total	26	100%	26	100%	26	100%	26	100%

Note N= 26

As shown in table 5.2 the proportion of disclosing companies remained constant over the four years investigated (75%) in secondary board hotels.

Table 5.2
The level of CSR in secondary board hotel companies from 2004 to 2007

	2004		2005		2006		2007	
	No of Hotels	%	No of Hotels	%	No of Hotels	%	No of Hotels	%
Non disclosing companies	1	25%	1	25%	1	25%	1	25%
Disclosing companies	3	75%	3	75%	3	75%	3	75%
Total	4	100%	4	100%	4	100%	4	100%

Note N=4

As shown in table 5.3 over three quarters of companies in the main and secondary board hotels practiced CSR in their annual reports. There was an increase of 3% in the proportion of companies who made CSR disclosures in annual reports in 2005 compared to 2004. The number of companies who practiced CSR remained constant from 2005 to 2007.

Table 5.3
The level of CSR in the main and secondary board hotels from 2004 to 2007

	2004		2005		2006		2007	
	No of Hotels	%	No of Hotels	%	No of Hotels	%	No of Hotels	%
Non disclosing companies	7	23%	6	20%	6	20%	6	20%
Disclosing companies	23	77%	24	80%	24	80%	24	80%
Total	30	100%	30	100%	30	100%	30	100%

Note N=30

As indicated in Table 5.4, there was a 17% increase in the mean number of CSR disclosures from 2005 to 2006 and an increase of 10% from 2004 to 2005. 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). Data from Table 5.3 and this table illustrated a high proportion (75%) of hotel companies are recognised as practicing CSR in annual reports but, they did not indicate a high level (extent of reporting) of CSR. This is demonstrated in Table 5.4 which shows the range of disclosures for the main board hotel companies (0-17), secondary board (0 - 21) and both main and secondary board together (0 – 21) during the study period.

Table 5.4
Descriptive Statistics from 2004 to 2007 – Raw Data

Year	Board	% Increase	Mean	Std. Deviation	Range
2004	Main		3.500	2.789	0-14
	Secondary		6.000	6.928	0-16
	Total		3.830	3.524	0-16
2005	Main	10%	3.850	2.894	0-14
	Secondary	4%	6.250	7.411	0-17
	Total	9%	4.170	3.687	0-17
2006	Main	17%	4.500	4.022	0-17
	Secondary	16%	7.250	9.359	0-21
	Total	17%	4.870	4.89	0-21
2007	Main	-3%	4.350	3.655	0-17
	Secondary	-14%	6.250	7.411	0-17
	Total	-6%	4.600	4.199	0-17

Note N=30

Figure 5.1 presents the change in the total disclosures for main board hotels, secondary board hotels and the total hotel industry from 2004 to 2007. The main board hotel companies increased their average number of CSR disclosures from 2004 to 2006. There is a clear decrease in the average number of CSR disclosures in 2007 for both main and secondary board hotels compared to 2006. In addition, the average number of CSR disclosures for the secondary board hotels was higher than the main board hotels from 2004 to 2007.
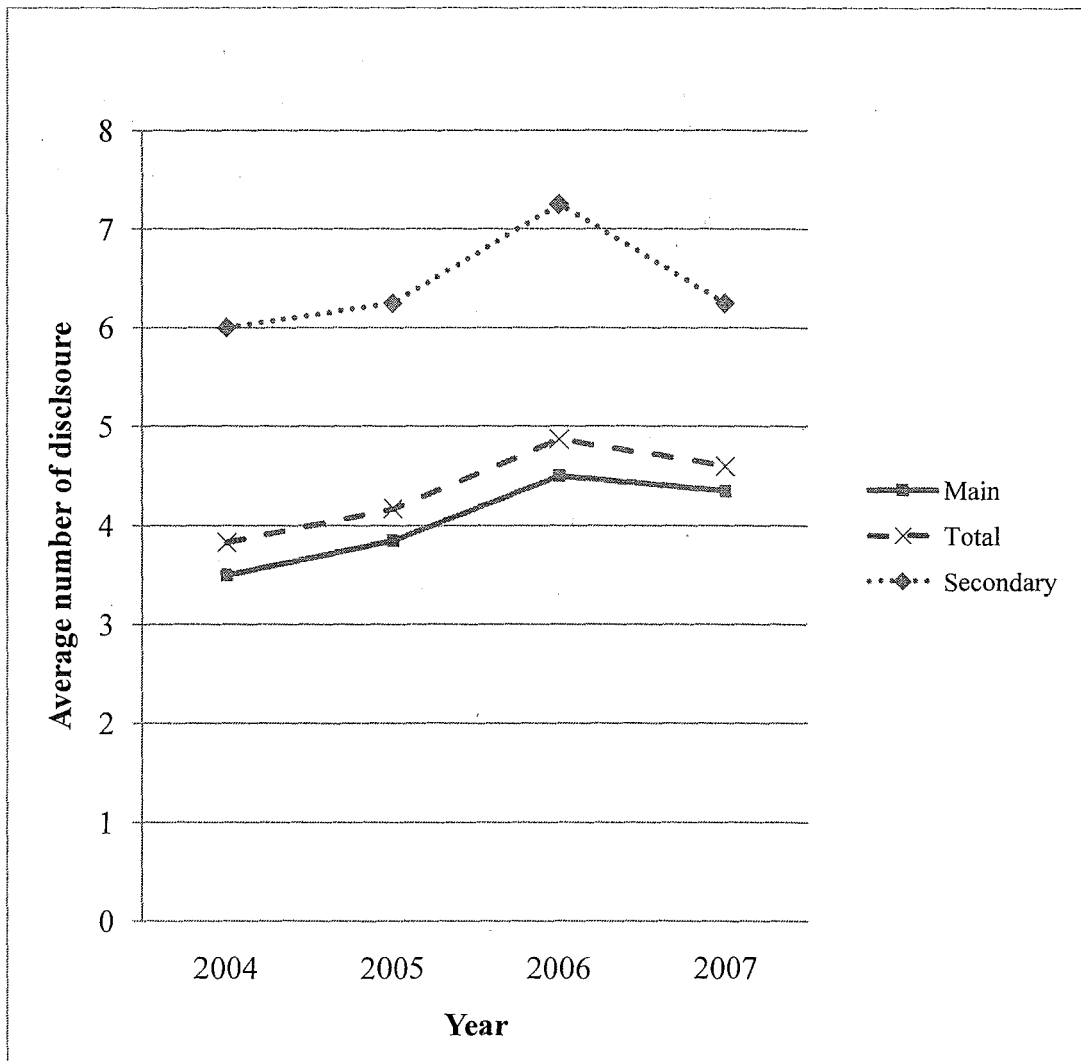
Figure 5.1
Average number of CSR disclosure by year from 2004 to 2007

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 5.4 and figure 5.1 was significant. The one-tailed Wilcoxon tests (Table 5.5) 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. Even though the secondary board hotels also indicated an increase by year the one-tailed Wilcoxon tests did not show any significant differences ($p>0.05$). The overall hotel industry demonstrated an increase in the average number of CSR disclosures in 2005 compared to 2004.

Table 5.5
Wilcoxon matched-pairs signed rank tests for the change in total quantity of CSR disclosure from 2004 to 2005

Variable		Decrease	Increase	Ties	Z	p
2004-2005						
Main Board	n=	1	6	21	1.93	0.03*
mean rank change		3	4.17			
Secondary Board	n=	0	1	3	1.00	0.16
mean rank change		0	1			
Main and Secondary	n=	1	7	22	2.12	0.02*
mean rank change		3.50	4.64			

*$p \leq 0.05$ (one-tailed).

Hypotheses Testing

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 5.4 and figure 5.1 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. Descriptive statistics results showed the average number of CSR disclosure also increased in the secondary board by year, however the observed change was not significant ($p>0.05$). The one-tailed Wilcoxon tests confirmed a significant increase ($p<0.05$) in CSR disclosures in 2006 compared to 2005 for the overall hotel industry.

Table 5.6
Wilcoxon matched-pairs signed rank tests for the change in total quantity of CSR disclosure from 2005 to 2006

Variable		Decrease	Increase	Ties	Z	p
2005-2006						
Main Board	n=	1	5	20	1.81	0.04*
mean rank change		2	3.80			
Secondary Board	n=	0	1	3	1.00	0.16
mean rank change		0	1			
Main and Secondary	n=	1	6	23	2.05	0.02*
mean rank change		2	4.33			

*$p \leq 0.05$ (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 5.7, the results indicated 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.

Table 5.7
Pearson correlation results in main board hotels for 2005

	Total disclosure	Total assets	Market capitalisation
Total disclosure			
P. Correlation	1		
Sig.(1-tailed)	-		
Total assets			
P. Correlation	.142	1	
Sig.(1-tailed)	.245	-	
Market capitalisation			
P. Correlation	.106	.888**	1
Sig.(1-tailed)	.304	.000	-

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

Table 5.8 provides the Pearson correlation results of the relationship between the total quantities of CSR disclosure and company size (company total assets and market capitalisation). It can be seen from the results that there was a strong positive relationship ($p>0.01$) between the total quantities of CSR disclosure and total assets (r = 0.632); market capitalisation (r = 0.632).

Table 5.8
Pearson correlation results in secondary board hotels for 2005

	Total disclosure	Total assets	Market capitalisation
Total disclosure			
P. Correlation	1		
Sig.(1-tailed)	-		
Total assets			
P. Correlation	.632	1	
Sig.(1-tailed)	.184	-	
Market capitalisation			
P. Correlation	.632	1**	1
Sig.(1-tailed)	.184		-

Note N=4; ** Correlation is significant at the 0.01 level (1-tailed)

Pearson correlation was employed to test the relationship with total quantity of CSR disclosure and company size (two variables; total assets and market capitalisation). As presented in table 5.9, the variables total assets (r = 0.233) and market capitalisation (r = 0.175) have a weak positive relationship with the dependent variable total quantity of CSR disclosure.

Table 5.9
Pearson correlation results in the main and secondary board hotels for 2005

	Total disclosure	Total assets	Market capitalisation
Total disclosure			
P. Correlation	1		
Sig.(1-tailed)	-		
Total assets			
P. Correlation	.233	1	
Sig.(1-tailed)	.108	-	
Market capitalisation			
P. Correlation	.175	.885**	1
Sig.(1-tailed)	.177	.000	-

Note N=30; ** Correlation is significant at the 0.01 level (1-tailed)

Table 5.10 illustrates the extent CSR disclosures across categories by year in the main board hotels. As presented in the table the highest reported category was corporate governance (COG). 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, 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 category did not have any disclosures for the main board hotels in any year.

Table 5.10
CSR disclosures by categories in main board hotels from 2004 to 2007

Category	Year	No. of Disclosures	Mean	Std. Deviation	Range
TOTAL ENV	2004	4	0.150	0.784	0-4
	2005	3	0.120	0.588	0-3
	2006	6	0.230	0.863	0-4
	2007	6	0.230	0.863	0-4
TOTAL LAB	2004	4	0.150	0.613	0-3
	2005	3	0.120	0.326	0-1
	2006	7	0.270	0.604	0-2
	2007	6	0.230	0.43	0-1
TOTAL HSP	2004	3	0.120	0.431	0-2
	2005	1	0.040	0.196	0-1
	2006	3	0.120	0.431	0-2
	2007	1	0.040	0.196	0-1
TOTAL RHR	2004	0	0	0	0
	2005	0	0	0	0
	2006	0	0	0	0
	2007	0	0	0	0
TOTAL CED	2004	2	0.080	0.392	0-2
	2005	6	0.230	0.587	0-2
	2006	7	0.270	0.667	0-2
	2007	8	0.310	0.736	0-2
TOTAL COG	2004	40	1.540	0.859	0-2
	2005	40	1.540	0.859	0-2
	2006	40	1.540	0.859	0-2
	2007	40	1.540	0.859	0-2
TOTAL CPG	2004	18	0.690	0.471	0-1
	2005	20	0.770	0.514	0-2
	2006	19	0.730	0.452	0-1
	2007	20	0.770	0.43	0-1
TOTAL STE	2004	0	0	0	0
	2005	5	0.190	0.567	0-2
	2006	7	0.270	0.778	0-3
	2007	4	0.150	0.464	0-2
TOTAL SCM	2004	20	0.770	0.43	0-1
	2005	21	0.810	0.567	0-2
	2006	24	0.920	0.628	0-2
	2007	25	0.960	0.72	0-3
TOTAL FLI	2004	0	0	0	0
	2005	1	0.040	0.196	0-1
	2006	4	0.150	0.464	0-2
	2007	3	0.120	0.431	0-2

Note: For a full description of above categories refer to Table 4.1 on pages 32-33

From table 5.11 stakeholder engagement (STE) and forward looking information (FLI) categories indicate an increase in the average number of CSR disclosure from 2004 to 2006 for the main board hotels.

Table 5.11
Increase in average number of CSR disclosures by categories in main board hotels from 2004 to 2007

Category	2004	2005	2006	2007
ENV	4%	3%	5%	5%
LAB	4%	3%	6%	5%
HSP	3%	1%	3%	1%
RHR	0%	0%	0%	0%
CED	2%	6%	6%	7%
COG	44%	40%	34%	35%
CPG	20%	20%	16%	18%
STE	0%	5%	6%	4%
SCM	22%	21%	21%	22%
FLI	0%	1%	3%	3%
	100%	100%	100%	100%

Note: For a full description of above categories refer to Table 4.1 on pages 32-33
Base year is preceding year

Figure 5.2 shows the average number of category disclosures from 2004 to 2007 for the main board hotel companies. As indicated in table 5.10, the corporate governance (COG) category did not change during the period under consideration. The average number of disclosures for the community economic development and social impacts (CED) category and supply chain management (SCM) categories increased from 2004 to 2005 and 2005 to 2006 in accordance with the direction of the hypotheses. Corporate payments to governments (CPG), forward looking information (FLI) and stakeholder engagement (STE) categories increased average disclosures from 2004 to 2005, but decreased from 2005 to 2006. Environmental performance (ENV), health and safety practices (HSP) and respect for labour rights (LAB) categories show an increase in average disclosures from 2004 to 2005 to 2006.
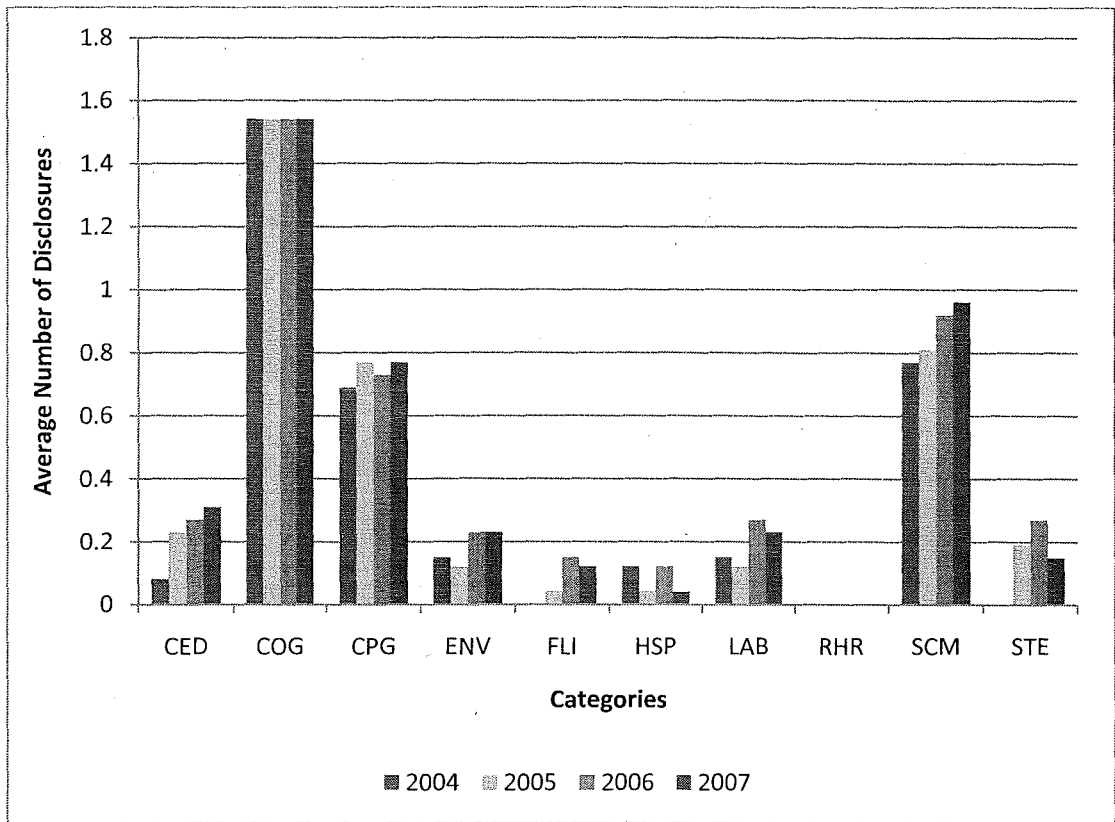
Figure 5.2
Average disclosures by year in main board hotels from 2004 to 2007

Note: For a full a description of above categories refer to Table 4.1 on pages 32-33

The table 5.12 shows only the community economic development and social impacts (CED) category has an increase in average number of CSR disclosure from 2004 to 2006 for the secondary board hotels. The average number of CSR disclosure for environmental performance (ENV) category remained stable at 8% from 2004 to 2005 and increased to 14% in 2006.

Table 5.12
Increase in average number of CSR disclosures by categories in secondary board hotels from 2004 to 2007

Category	2004	2005	2006	2007
ENV	8%	8%	14%	12%
LAB	8%	4%	7%	8%
HSP	4%	8%	7%	4%
RHR	4%	0%	0%	0%
CED	4%	8%	10%	8%
COG	25%	24%	21%	24%
CPG	13%	12%	10%	12%
STE	8%	12%	10%	12%
SCM	17%	16%	14%	16%
FLI	8%	8%	7%	4%
	100%	**100%**	**100%**	**100%**

Note: For a full description of above categories refer to Table 4.1 on pages 32-33
Base year is preceding year

As with the main board companies, corporate governance (COG) category was the highest reported category in the secondary board hotels. The average number of COG disclosures remained constant (mean 1.5 with a standard deviation of 1) throughout the study period. The supply chain management (SCM) category was the second highest reported category and the average number of category disclosures remained stable at 1 with a standard deviation of 0.816 from 2004 to 2006. A corporate payment to the government (CPG) was the third highest reported category and its averages disclosures were 0.75 with a standard deviation of 0.5 from 2004 to 2006.

Table 5.13
CSR disclosures by categories in secondary board hotels from 2004 to 2007

Category	Year	No. of Disclosures	Mean	Std. Deviation	Range
TOTAL ENV	2004	2	0.500	1.000	0-2
	2005	2	0.500	1.000	0-2
	2006	4	1	2.000	0-4
	2007	3	0.750	1.500	0-3
TOTAL LAB	2004	2	0.500	1.000	0-2
	2005	1	0.250	0.500	0-1
	2006	2	0.500	1.000	0-2
	2007	2	0.500	1.000	0-2
TOTAL HSP	2004	1	0.250	0.500	0-1
	2005	2	0.500	1.000	0-2
	2006	2	0.500	1.000	0-2
	2007	1	0.250	0.500	0-1
TOTAL RHR	2004	1	0.250	0.500	0-1
	2005	0	0	0	0
	2006	0	0	0	0
	2007	0	0	0	0
TOTAL CED	2004	1	0.250	0.500	0-1
	2005	2	0.500	1.000	0-2
	2006	3	0.750	1.500	0-3
	2007	2	0.500	1.000	0-2
TOTAL COG	2004	6	1.500	1.000	0-2
	2005	6	1.500	1.000	0-2
	2006	6	1.500	1.000	0-2
	2007	6	1.500	1.000	0-2
TOTAL CPG	2004	3	0.750	0.500	0-1
	2005	3	0.750	0.500	0-1
	2006	3	0.750	0.500	0-1
	2007	3	0.750	0.500	0-1
TOTAL STE	2004	2	0.500	1.000	0-2
	2005	3	0.750	1.500	0-3
	2006	3	0.750	1.500	0-3
	2007	3	0.750	1.500	0-3
TOTAL SCM	2004	4	1	0.816	0-2
	2005	4	1	0.816	0-2
	2006	4	1	0.816	0-2
	2007	4	1	0.816	0-2
TOTAL FLI	2004	2	0.500	1.000	0-2
	2005	2	0.500	1.000	0-2
	2006	2	0.500	1.000	0-2
	2007	1	0.250	0.500	0-1

Note: For a full description of above categories refer to Table 4.1 on pages 32-33

Figure 5.3 indicates the average number of category disclosures by year. There was no increase for the corporate governance (COG) category, which was also reflected by the main board hotels. Supply chain management (SCM) and corporate payments to governments (CPG) also did not show any increase in the average number of disclosures. Community economic development and the social impacts category (CED) increased in average number of disclosure from 2004 to 2005 and 2005 to 2006 following the direction of both H3 and H4. Health and safety practices (HSP), and stakeholder engagement (STE) increased only from 2004 to 2005.
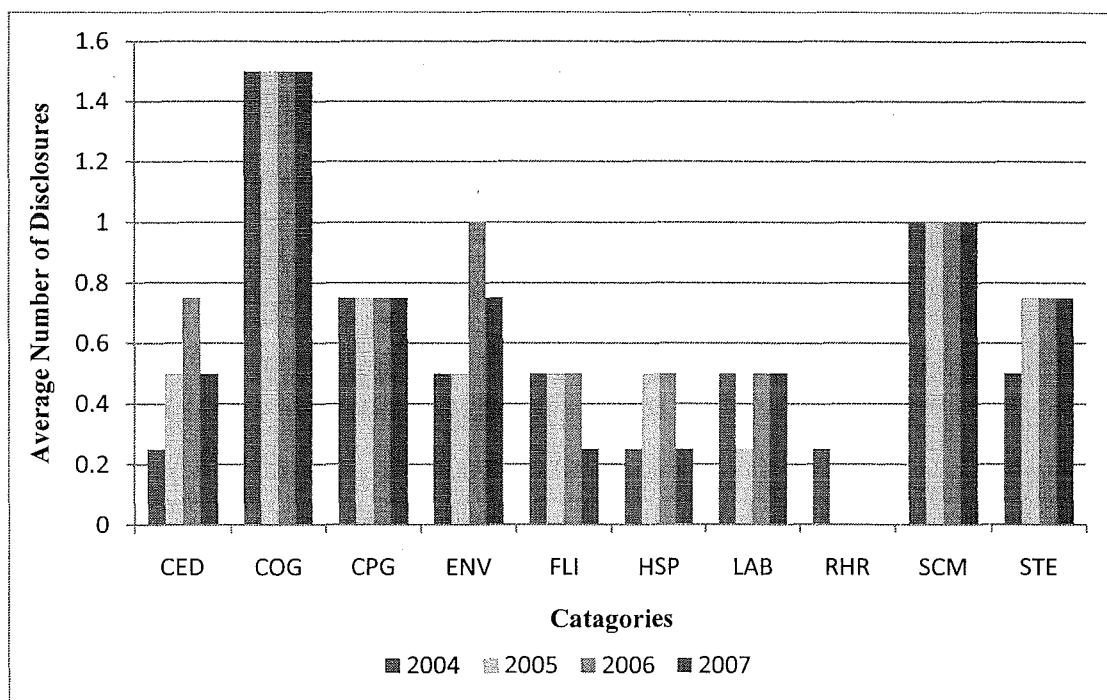
Figure 5.3
Average disclosures by year in secondary board hotels from 2004 to 2007
Note: For a full description of above categories refer to Table 4.1 on pages 32-33

The average number of category disclosures in the hotel industry as a whole is presented in Table 5.14. The highest reported category was corporate governance (COG) category followed by supply chain management (SCM) and corporate payments to governments (CPG). The disclosures related to respect for human rights (RHR) were not disclosed by companies in the hotel industry in this study.

Table 5.14
CSR disclosures by categories in the main and secondary board hotels from 2004 to 2007

Category	Year	No. of Disclosures	Mean	Std. Deviation	Range
TOTAL ENV	2004	6	0.200	0.805	0-4
	2005	5	0.170	0.648	0-3
	2006	10	0.330	1.061	0-4
	2007	9	0.300	0.952	0-4
TOTAL LAB	2004	6	0.200	0.664	0-3
	2005	4	0.130	0.346	0-1
	2006	9	0.300	0.651	0-2
	2007	8	0.270	0.521	0-2
TOTAL HSP	2004	4	0.130	0.434	0-2
	2005	3	0.100	0.403	0-2
	2006	5	0.170	0.531	0-2
	2007	2	0.070	0.254	0-1
TOTAL RHR	2004	1	0.030	0.183	0-1
	2005	0	0	0	0
	2006	0	0	0	0
	2007	0	0	0	0
TOTAL CED	2004	3	0.100	0.403	0-2
	2005	8	0.270	0.640	0-2
	2006	10	0.330	0.802	0-3
	2007	10	0.330	0.758	0-2
TOTAL COG	2004	46	1.530	0.860	0-2
	2005	46	1.530	0.860	0-2
	2006	46	1.530	0.860	0-2
	2007	46	1.530	0.860	0-2
TOTAL CPG	2004	21	0.700	0.466	0-1
	2005	23	0.770	0.504	0-2
	2006	22	0.730	0.450	0-1
	2007	23	0.770	0.430	0-1
TOTAL STE	2004	2	0.070	0.365	0-2
	2005	8	0.270	0.740	0-3
	2006	10	0.330	0.884	0-3
	2007	7	0.230	0.679	0-3
TOTAL SCM	2004	24	0.800	0.484	0-2
	2005	25	0.830	0.592	0-2
	2006	28	0.930	0.640	0-2
	2007	29	0.970	0.718	0-3
TOTAL FLI	2004	2	0.070	0.365	0-2
	2005	3	0.100	0.403	0-2
	2006	6	0.200	0.551	0-2
	2007	4	0.130	0.434	0-2

Note: For a full description of above categories refer to Table 4.1 on pages 32-33

Figure 5.4 indicates average number of category disclosure from 2004 to 2007 in the hotel industry. The corporate governance (COG) category remained stable in terms of disclosures over the study period. Supply chain management (SCM), community economic development and social impacts (CED), stakeholder engagement (STE) and forward looking information (FLI) increased in average number of disclosures from 2004 to 2005 and 2005 to 2006 following the direction of H3 and H4. Environmental performance (ENV), health and safety practices (HSP), respect for labour rights (LAB) categories decreased average number of category disclosures from 2004 to 2005 but increased from 2005 to 2006.

Figure 5.4
Average disclosures by year in the main and secondary board hotels from 2004 to 2007

Note: For a full description of above categories refer to Table 4.1 on pages 32-33

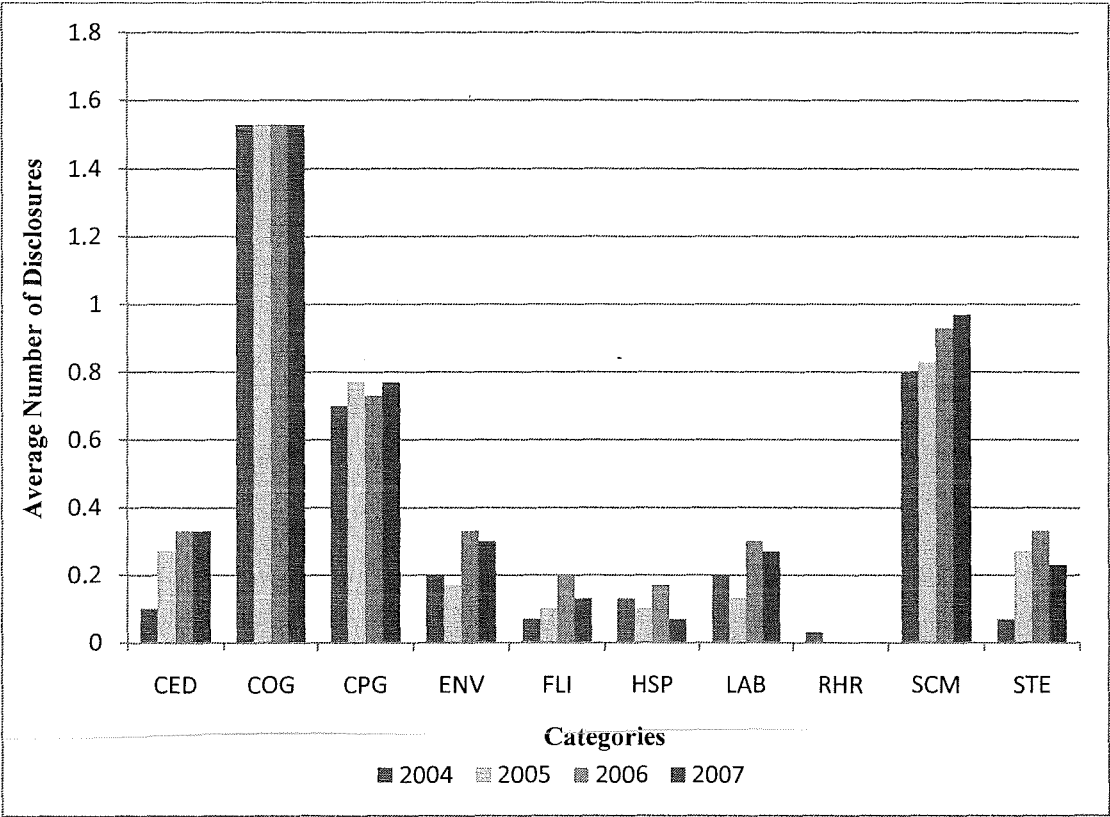It can be seen from the data in Table 5.15 that the average CSR disclosures increased only in respect to community economic development and social impacts (CED) and stakeholder engagement (STE) categories from 2004 to 2006 for the total hotel industry. Environmental performance (ENV), respect for labour rights (LAB) and health and safety practices (HSP) categories indicated a decrease in average number of CSR disclosures from 2004 to 2005 but an increase from 2005 to 2006.

Table 5.15

Increase in average number of CSR disclosures by categories in the main and secondary board hotels from 2004 to 2007

Category	2004	2005	2006	2007
ENV	5%	4%	7%	7%
LAB	5%	3%	6%	6%
HSP	3%	2%	3%	1%
RHR	1%	0%	0%	0%
CED	3%	6%	7%	7%
COG	40%	37%	32%	33%
CPG	18%	18%	15%	17%
STE	2%	6%	7%	5%
SCM	21%	20%	19%	21%
FLI	2%	2%	4%	3%
	100%	100%	100%	100%

Note: For a full description of above categories refer to Table 4.1 on pages 32-33.
Base year is preceding year

Table 5.16 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 demonstrated 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 (CPG1). There were no other index items reported at a level.

Table 5.16
Disclosures of individual index items for years 2004-2007

Item	2004 Disclosures		2005 Disclosures		2006 Disclosures		2007 Disclosures	
	No.	%	No.	%	No.	%	No.	%
ENV1	0	0.00%	0	0.00%	1	0.85%	2	1.77%
ENV2	1	1.10%	1	1.00%	1	0.85%	1	0.88%
ENV3	1	1.10%	0	0.00%	0	0.00%	0	0.00%
ENV4	1	1.10%	1	1.00%	2	1.71%	1	0.88%
ENV5	0	0.00%	0	0.00%	0	0.00%	0	0.00%
ENV6	1	1.10%	1	1.00%	2	1.71%	2	1.77%
ENV7	0	0.00%	0	0.00%	0	0.00%	0	0.00%
LAB1	0	0.00%	0	0.00%	2	1.71%	0	0.00%
LAB2	0	0.00%	0	0.00%	0	0.00%	0	0.00%
LAB3	1	1.10%	0	0.00%	0	0.00%	0	0.00%
LAB4	1	1.10%	1	1.00%	2	1.71%	2	1.77%
LAB5	2	2.20%	2	2.00%	3	2.56%	4	3.54%
LAB6	0	0.00%	0	0.00%	0	0.00%	0	0.00%
HSP1	0	0.00%	0	0.00%	0	0.00%	0	0.00%
HSP2	0	0.00%	0	0.00%	0	0.00%	0	0.00%
HSP3	0	0.00%	0	0.00%	1	0.85%	0	0.00%
HSP4	2	2.20%	1	1.00%	2	1.71%	1	0.88%
HSP5	1	1.10%	0	0.00%	0	0.00%	0	0.00%
RHR1	0	0.00%	0	0.00%	0	0.00%	0	0.00%
RHR2	0	0.00%	0	0.00%	0	0.00%	0	0.00%
RHR3	0	0.00%	0	0.00%	0	0.00%	0	0.00%
CED1	1	1.10%	4	4.00%	3	2.56%	4	3.54%
CED2	1	1.10%	2	2.00%	4	3.42%	4	3.54%
CED3	0	0.00%	0	0.00%	0	0.00%	0	0.00%
COG1	20	21.98%	20	20.00%	20	17.09%	20	17.70%
COG2	20	21.98%	20	20.00%	20	17.09%	20	17.70%
COG3	0	0.00%	0	0.00%	0	0.00%	0	0.00%
COG4	0	0.00%	0	0.00%	0	0.00%	0	0.00%
CPG1	0	0.00%	2	2.00%	0	0.00%	0	0.00%
CPG2	18	19.78%	18	18.00%	19	16.24%	20	17.70%
CPG3	0	0.00%	0	0.00%	0	0.00%	0	0.00%
STE1	0	0.00%	3	3.00%	3	2.56%	3	2.65%
STE2	0	0.00%	0	0.00%	1	0.85%	0	0.00%
STE3	0	0.00%	2	2.00%	3	2.56%	1	0.88%
SCM1	20	21.98%	19	19.00%	19	16.24%	20	17.70%
SCM2	0	0.00%	1	1.00%	3	2.56%	2	1.77%
SCM3	0	0.00%	0	0.00%	0	0.00%	1	0.88%
SCM4	0	0.00%	0	0.00%	0	0.00%	1	0.88%
SCM5	0	0.00%	1	1.00%	2	1.71%	1	0.88%
SCM6	0	0.00%	0	0.00%	0	0.00%	0	0.00%
FLI1	0	0.00%	1	1.00%	3	2.56%	2	1.77%
FLI2	0	0.00%	0	0.00%	1	0.85%	1	0.88%
Total	**91**	**100%**	**100**	**100%**	**117**	**100%**	**113**	**100%**

Note: For a full description of above items refer to Table 4.1 on pages 32-33

Hypotheses Testing

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 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 5.10 and figure 5.2 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 it can be in table 5.17, only the corporate payments to government's (CPG) category indicated a significant positive increase ($p \leq 0.05$) from 2004 to 2005 in main board hotels. Therefore H3 was rejected. Similarly, only the Respect for labour rights (LAB) category increased significantly ($p \leq 0.05$) from 2005 to 2006 in main board hotels. Hence H4 was rejected.

Table 5.18 presents the results of one-tailed Wilcoxon test which was conducted to evaluate the existence of significant changes in total quantity of category disclosure in the secondary board hotels. Even though some categories were found as following the direction of H3 and H4 in secondary board through the descriptive data analysis, none of the categories indicated a significant difference from 2004 to 2005 or 2005 to 2006 in total quantity of category disclosure as per Table 5.18.

Table 5.17
Wilcoxon matched-pairs signed rank tests for the change in quantity of categories of CSR disclosure in main board hotels from 2004 to 2006

Variable		Decrease	Increase	Ties	Z	p
2004-2005						
ENV Category	n=	1	0	25	1.00	0.16
mean rank change		1	0			
LAB category	n=	2	2	22	0.38	0.35
mean rank change		3	2			
HSP category	n=	2	0	24	1.41	0.08
mean rank change		1.5	0			
RHR category	n=	0	0	26	0	0.50
mean rank change		0	0			
CED category	n=	0	3	23	1.63	0.51
mean rank change		0	2			
COG category	n=	0	0	26	0	0.50
mean rank change		0	0			
CPG category	n=	1	3	22	1.63	0.05*
mean rank change		2.5	2.5			
STE category	n=	0	3	23	1	0.16
mean rank change		0	2			
SCM category	n=	1	2	23	0.58	0.28
mean rank change		2	2			
FLI category	n=	0	1	25	1	0.16
mean rank change		0	1			
2005-2006						
ENV Category	n=	0	2	24	1.34	0.09
mean rank change		0	1.5			
LAB category	n=	0	3	23	1.63	0.05*
mean rank change		0	2			
HSP category	n=	0	1	25	1	0.16
mean rank change		0	1			
RHR category	n=	0	0	26	0	0.50
mean rank change		0	0			
CED category	n=	2	2	22	0.38	0.35
mean rank change		3	2			
COG category	n=	0	0	26	0	0.50
mean rank change		0	0			
CPG category	n=	1	0	25	1	0.16
mean rank change		1	0			
STE category	n=	0	1	25	1	0.16
mean rank change		0	1			
SCM category	n=	0	2	24	1.34	0.09
mean rank change		0	1.5			
FLI category	n=	0	2	24	1.34	0.09
mean rank change		0	1.5			

*$p \leq 0.05$ (one-tailed).

Table 5.18
Wilcoxon matched-pairs signed rank tests for the change in quantity of categories of CSR disclosure in secondary board hotels from 2004 to 2006.

Variable		Decrease	Increase	Ties	Z	P
2004-2005						
ENV Category	n=	0	0	4	0	0.50
mean rank change		0	0			
LAB category	n=	1	0	3	1.00	0.16
mean rank change		1	0			
HSP category	n=	0	1	3	1.00	0.16
mean rank change		0	1			
RHR category	n=	1	0	3	1.00	0.16
mean rank change		1	0			
CED category	n=	0	1	3	1.00	0.16
mean rank change		0	1			
COG category	n=	0	0	4	0	0.50
mean rank change		0	0			
CPG category	n=	0	0	4	0	0.50
mean rank change		0	0			
STE category	n=	0	1	3	1	0.16
mean rank change		0	1			
SCM category	n=	0	0	4	0	0.50
mean rank change		0	0			
FLI category	n=	0	0	4	0	0.50
mean rank change		0	0			
2005-2006						
ENV Category	n=	0	1	3	1	0.16
mean rank change		0	1			
LAB category	n=	0	1	3	1	0.16
mean rank change		0	1			
HSP category	n=	0	0	4	0	0.50
mean rank change		0	0			
RHR category	n=	0	0	4	0	0.50
mean rank change		0	0			
CED category	n=	0	1	3	1	0.16
mean rank change		0	1			
COG category	n=	0	0	4	0	0.50
mean rank change		0	0			
CPG category	n=	0	0	4	0	0.50
mean rank change		0	0			
STE category	n=	0	0	4	0	0.50
mean rank change		0	0			
SCM category	n=	0	0	4	0	0.50
mean rank change		0	0			
FLI category	n=	0	0	4	0	0.50
mean rank change		0	0			

Table 5.19
Wilcoxon matched-pairs signed rank tests for the change in quantity of categories of CSR disclosure in the main and secondary board hotels from 2004 to 2006.

Variable		Decrease	Increase	Ties	Z	P
2004-2005						
ENV Category	n=	1	0	29	1.00	0.16
mean rank change		1	0			
LAB category	n=	3	2	25	0.71	0.24
mean rank change		3.33	2.5			
HSP category	n=	2	2	27	0.58	0.28
mean rank change		2	2			
RHR category	n=	1	0	29	1.00	0.16
mean rank change		1	0			
CED category	n=	0	4	26	1.89	0.03*
mean rank change		0	2.5			
COG category	n=	0	0	30	0	0.50
mean rank change		0	0			
CPG category	n=	1	3	26	1.00	0.16
mean rank change		2.5	2.5			
STE category	n=	0	4	26	1.86	0.03*
mean rank change		0	2.5			
SCM category	n=	1	2	27	0.58	0.28
mean rank change		2	2			
FLI category	n=	0	1	29	1.00	0.16
mean rank change		0	1			
2005-2006						
ENV Category	n=	0	3	27	1.63	0.05*
mean rank change		0	2			
LAB category	n=	0	4	26	1.89	0.03*
mean rank change		0	2.5			
HSP category	n=	0	1	29	1.00	0.16
mean rank change		0	1			
RHR category	n=	0	0	30	0	0.50
mean rank change		0	0			
CED category	n=	2	3	25	0.71	0.24
mean rank change		2.5	3.33			
COG category	n=	0	0	30	0	0.50
mean rank change		0	0			
CPG category	n=	1	0	29	1.00	0.16
mean rank change		1	0			
STE category	n=	0	1	29	1.00	0.16
mean rank change		0	1			
SCM category	n=	0	2	28	1.34	0.09
mean rank change		0	1.5			
FLI category	n=	0	2	28	1.34	0.09
mean rank change		0	1.5			

*$p \leq 0.05$ (one-tailed).

One-tailed Wilcoxon test was conducted to evaluate if there were any significant changes in the total quantity of category disclosures in the overall hotel industry. Table 5.19 indicates that two categories have significant changes (p< 0.05) in the total quantity of category disclosure from 2004 to 2005. These are community economic development (CED) and stakeholder engagement (STE). Environmental performance (ENV) and respect for labour rights (LAB) also demonstrated significant increase in total quantity of category disclosures from 2005 to 2006.

Hypotheses Testing

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 two-tailed Wilcoxon test was undertaken to evaluate if the change in the total quantity of CSR disclosures from 2006 to 2007 was significant. Table 5.4 and Figure 5.1 demonstrated a decrease in the average number of CSR disclosures from 2006 to 2007. The results of two-tailed Wilcoxon test (Table 5.20) 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. Secondary board hotel companies and main and secondary board hotels together also did not indicate a significant differences in the total quantity of CSR disclosure in 2007 compared to 2006 (p>0.05).

Table 5.20
Wilcoxon matched-pairs signed rank tests for the change in total quantity of CSR disclosure from 2006 to 2007

Variable		Decrease	Increase	Ties	Z	p
2006-2007						
Main Board	n=	2	2	22	0.18	0.85
mean rank change		2.75	2.25			
Secondary Board	n=	1	0	3	1.00	0.32
mean rank change		1	0			
Total industry	n=	3	2	25	0.68	0.5
mean rank change		3.33	2.5			

Summary

This chapter presented the descriptive and statistical analysis results of testing the hypotheses. The results indicated that the total quantity of CSR disclosure has significantly increased from 2004 to 2005 and from 2005 to 2006 in main board hotel companies. Hence H1 and H2 were accepted. However, the total quantity of category disclosures has not increased significantly from 2004 to 2005 or from 2005 to 2006 in all 10 categories. Therefore H3 and H4 were rejected. No significant increase in total quantity of CSR disclosure was found from 2006 to 2007 for main board hotels. Hence Ho1 is accepted. The following chapter will summarise the study explaining the study findings, implications, limitations and the suggested areas for the future research.

CHAPTER 6

CONCLUSION

Summary

This study examined CSR of Sri Lankan hotel companies that were in main board of Colombo Stock Exchange before and after the tsunami in 2004. This was investigated to determine whether changes in society's expectations, research and government influences after a natural disaster impacted on the level of CSR in annual reports.

Chapter two reviewed all the previous published studies conducted in relation to the area of this study. This chapter also highlighted a gap in the literature in the area of CSR after a natural social disaster.

Chapter three outlined the legitimacy theory, the theoretical framework for the study. This chapter also described the applicability of legitimacy theory and the study background to the development of four directional hypotheses and a null hypothesis.

Chapter four describes the methodology employed for the study in order to test the hypotheses developed in chapter three. This chapter included annual reports, population, content analysis, data collection and recording method and definitions of variables. Data collected included the annual reports for 26 main board hotel companies and 4 secondary board companies. An index with 42 items in 10 categories contained in O'Rourke (2004) report (shown in table 4.1) was used to analyse the annual reports. An unweighted dichotomous index was used to score CSR disclosures. Companies were given a score of 1 for the items reported and a 0 if they were not reported. The total score for each company was used in the data analysis.

Chapter five presented the analyses of CSR disclosures. Each hypothesis was tested using the descriptive statistics followed by one-tailed or two-tailed Wilcoxon tests in order to evaluate whether the change in total quantity of CSR disclosure was significantly different.

Findings of the Study

Annual reports of hotel companies in the main board of Colombo Stock Exchange were examined to determine if they reacted to legitimacy threat perceived from government and by the changes in society expectations in terms of increased level of CSR after the tsunami in 2004. Findings of the study provide an understanding on how companies in the main board of Sri Lankan hotel industry reacted to the devastation by increasing the total quantity of CSR disclosures from 2004 to 2005 (incident year) and 2005 to 2006 (year following the incident). This lead to acceptance of H1 and H2. However, the descriptive data analysis demonstrated the change in average number of CSR disclosures in the year following the incident (2006 compared to 2005) was higher than the change in average number of CSR disclosures in the incident year (2005 comparing to 2004). In line with expectations this showed that the companies could not react immediately to the perceived legitimacy threat because of the short period to the end of 2005 financial year. Consequently, they needed 2006 to achieve the level of CSR in line with society and government expectations. Despite the significant increase in total quantity of CSR disclosure over time, main board hotel companies still had not practiced CSR at a high (depth) level. This indicates Sri Lankan companies would benefit from the development of guidelines in order to improve the level of CSR.

This study showed that there were no significant changes in the total quantity of CSR disclosures from 2006 to 2007. For this reason, the null hypothesis (Ho1) was accepted. As hypothesised the reason for the decrease in average number of CSR disclosure from 2006 to 2007 would be that the main board hotel companies performed at the level required by the society and the government of Sri Lanka.

The study findings indicated there was no strong evidence of association between firm size and the total quantity of CSR disclosure in main board hotel companies in Sri Lanka. Comparatively, for the secondary board hotels, there was a moderate positive association between firm size and the total quantity of CSR disclosures. Nevertheless, according to the Colombo Stock Exchange listing requirements, the large companies are listed in the main board. The significant increase in the total quantity of CSR disclosures from 2004 to 2005 and 2005 to 2006 of the main board companies in the hotel industry indicates that they perceived a higher level of legitimacy threat compared to the secondary board hotel companies.

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The total quantities in all 10 categories of disclosures did not increase significantly from 2004 to 2005 or from 2005 to 2006. Hence hypotheses H3 and H4 were rejected. However, the corporate payments to government's (CPG) category, showed a significant increase in the total quantity of category disclosure from 2004 to 2005. As hypothesised this occurred because of the perceived government pressure which arose after the tsunami in 2004. Community Economic Development and Social Impacts (CED) significantly increased from 2004 to 2005 for the main and secondary board hotels. It is evident that main board hotel companies perceived more government pressure compared to secondary board hotels. The influence of change in society expectations was experienced by both main and secondary board hotel companies. The highest reported category was corporate governance (COG). This could be related to the introduction of a voluntary code of best practice on corporate governance by the Institute of Chartered Accountants of Sri Lanka jointly with Securities Exchange Commission in 2003. The publication of compliance to corporate governance rules in annual reports is now a mandatory rule for listed companies in the Colombo Stock Exchange from 1st of April 2007 commencing 2008 financial year.

Overall the study findings suggest that companies are part of and influenced by society. Therefore, as with the findings of Branco *et al.* (2008) when societies experience problems and there is increased pressure by the government companies cannot continue to operate in isolation even if they are not directly associated with the incident. If they do so the social contract can be terminated and companies' legitimacy will be questioned. For that reason companies use CSR in their annual reports as a tool to represent themselves as legitimate enterprises as indicated here by managing the pressure experienced from the public and the government. Taken together, these findings showed the accountability to stakeholders and the possibility to explain companies CSR using stakeholder theory a branch of political economy theory. The reason for that is the unclear distinction between the theories and the high level of overlap (O'Donovan, 2002). Hence the result of this research appears to be consistent with Ratanajongkol, Davey & Low (2006) study who found that CSR can be explained by using more than a single theoretical framework.

Implications

The findings of the study have implications for institutions such as Security Exchange Commission, Institute of Chartered Accountants of Sri Lanka and Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) to introduce 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 and the companies that already practice should improve the level of CSR. On the other hand companies now have an understanding about how the relationship between the society and company should be managed specifically around the time of major social disaster. The users of annual reports are provided insights about CSR of company annual reports 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.

Limitations

Similar to any other research this study is also subject to limitations. 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. However, the annual report is an important document which a company produces on a regular basis. Companies included in the study are those that remained in the main board hotels listing of Colombo Stock Exchange during the period 2004 to 2007. Hence the result of this study only represents CSR disclosures in annual reports of main board hotel companies in Sri Lanka. However, main board is the dynamic part of Colombo Stock exchange and Sri Lanka is a developing country which was seriously affected by the 2004 tsunami. The subjectivity of data collection procedure is another issue. However, independent review on sample annual reports was done by a competent person to increase the reliability and validity of coding. The amount of donations and damage caused to the hotels were also considered for inclusion in the study but all of the data were not available.

Suggestions for Future Research

The findings and implications of this study provide a number of potential areas for future research on CSR. This study only investigated one industry and future research can be conducted on one or more other industries for comparison. A longitudinal study could be conducted to assess CSR in Sri Lanka over time. Other methods of CSR such as website disclosures and media announcements could also be considered rather than only using annual reports in order to evaluate overall CSR of companies. In addition companies' intentions of involving in CSR can be examined using interviews or questionnaires. Further interviews with annual report preparers and company managers will help to obtain a better understanding of why companies voluntarily involve CSR and what are the motivating factors to make CSR disclosures. Finally, future research can be conducted applying different theoretical frameworks.

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APPENDICES

Appendix A: Companies in the Hotel Industry

No	CSE Symbol	Company Name	Board
1	AHUN.N0000	Aitken Spence Hotels Holdings PLC	Main
2	CONN.N0000	Amaya Leisure PLC	Main
3	AHPL.N0000	Asian Hotels & Properties PLC	Main
4	BINN.N0000	Beruwala Walk Inn Limited	Main
5	BBH.N0000	Browns Beach Hotels PLC	Main
6	CHOT.N0000	Ceylon Hotels Corporation PLC	Main
7	PALM.N0000	Confifi Hotel Holdings PLC	Main
8	EDEN.N0000	Eden Hotel Lanka Limited	Main
9	GHLL.N0000	Galadari Hotels (Lanka) PLC	Main
10	REEF.N0000	Hotel Reefcomber PLC	Main
11	SERV.N0000	Hotel Services (Ceylon) Limited	Main
12	HSIG.N0000	Hotel Sigiriya PLC	Main
13	HUNA.N0000	Hunas Falls Hotels PLC	Main
14	KHC.N0000	Kandy Hotels Company (1938) Limited	Main
15	MRH.N0000	Mahaweli Reach Hotels PLC	Main
16	NEH.N0000	Nuwara Eliya Hotels Company PLC	Main
17	PEG.N0000	Pegasus Hotels of Ceylon PLC	Main
18	RENU.N0000	Renuka City Hotel Limited	Main
19	BHR.N0000	Riverina Hotels Limited	Main
20	RPBH.N0000	Royal Palms Beach Hotel	Main
21	SHOT.X0000	Serendib Hotels PLC	Main
22	SIGV.N0000	Sigiriya Village Hotels PLC	Main
23	STAF.N0000	Stafford Hotels PLC	Main
24	TAJ.N0000	Taj Lanka Hotels Limited	Main
25	TANG.N0000	Tangerine Beach Hotels PLC	Main
26	TRAN.N0000	Trans Asia Hotels PLC	Main
27	KHL.N0000	John Keells Hotels PLC	Secondary
28	MARA.N0000	Marawila Resorts	Secondary
29	RHTL.N0000	The Fortress Resorts PLC	Secondary
30	LHL.N0000	The Lighthouse Hotels	Secondary

Appendix B: Colombo Stock Exchange Listing Requirements

Equity Requirements	
Main Board	Eligibility to be listed:
	An issued and paid up capital of Rs 75,000,000 (Rs. 75 Mn) (or value equivalent)
	A profit before tax for three consecutive years immediately preceding the date of application
	25% of the issued capital must be held by/offered to the public.
SecondaryBoard	Eligibility to be listed:
	An issued & paid up capital of Rs. 5,000,000 (Rs. 5 Mn) or where the company is incorporated/established outside Sri Lanka, a value equivalent thereto.
	At the time of listing 10% of the issued capital must be held by the public

Debt Requirements	
Main Board	Eligibility to be listed:
	The applicant company shall provide a guarantee (from a bank licensed by the Central Bank of Sri Lanka or a multilateral lending agency acceptable to the CSE) for the repayment of capital and interest.
	OR The Debt Security shall be secured against collateral. ('Collateral' shall mean land and buildings.)
	OR The Debt Security shall have an investment grade rating from a rating agency registered with the SEC.
Secondary Board	Eligibility to be listed:
	The applicant company shall have been in business for a minimum period of 3 years, immediately preceding the date of application