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Current context of disclosure of corporate social responsibility in Sri Lanka

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Abstract

Disclosure of Corporate Social Responsibility (CSR) is one of the ethical responsibilities of a corporate. It is the mean of aware stakeholders regarding company's engagement on social responsibility. The study focused to find out the current context of disclosure of CSR in Sri Lanka. GRI guidelines used to measure the level of disclosure. Findings of the study revealed that the overall level of CSR disclosure is at a low level and there is a need of much improvement in governance, economical, social and environmental disclosures which are the major components of sustainability. It is observed that there are deviations in the level of disclosure among different industry sectors. However, that the trend of the level of disclosure is slight increasing and it signaling high level of CSR disclosures in future.

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Keywords : Disclosure of CSR; GRI; Sri Lanka

1. Introduction

Today's competitive and dynamic market environment has created new set of challenges for any business which are not only related to economics. To survive and prosper, firms must bridge the gaps in economic as well as social systems. Corporate Social Responsibility (CSR) is the concept that companies are used to bridge this gap and many successful corporate giants from the world wide have given their high concentration on CSR. Many researchers revealed the benefits of engaging CSR. Not only engage in CSR but also disclosing CSR is part of their ethical responsibility. Annual reports are used for the purpose of measuring the disclosure level. The main objective of this paper is to identify the current context of disclosure of CSR. Under this disclosure level, trends, industry differences are to be identified. Recommendations and conclusion are made based on the findings.

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2. Methodology

2.1. Population and sample

Population of the study was all companies listed in Colombo stock Exchange of Sri Lanka. There were 230 companies operating under 20 different industry categories. A sample of 75 companies representing most engaged industries were selected for the purpose of research. Therefore, industries that consisted five or less than five corporate were ignored since their impact on the study would be negligible and to prevent from bias. These 75 companies represented 14 different industry sectors and 37% of each industry sector.

2.2. Data Collection

Data collected through content analysis. Annual reports of the sample were used as the data source. There are advantages and disadvantages of using content analysis as a mean of measuring disclosure of CSR. However in Sri Lankan context it is impossible to use other means of measures like, corporate reputation indicators, data produced by measurement entities or pollution indicators. Therefore, despite of its own drawbacks, it was found to have significant advantages of content analysis as a technique for measuring corporate social responsibility.

2.3. CSR index

In this study disclosure of CSR is measured based on the Global Reporting Initiative (GRI) guidelines. Many sustainability and CSR indices developed based on the GRI guidelines. For the purpose of the study new index (prepared index) prepared by eliminating all non disclosed variables based on GRI whole index. Data relating to 7 main variables (121 sub variables) in the original index collected. Guidelines which are not disclosed at all by any of the companies were ignored. The prepared index is consisted with only with 95 sub variables. Though some sub variables were ignored it kept remained the main categories (Strategy and Analysis, Organization Profile, Reporting Parameters, Corporate Governance, Environmental, Economical and Social) of the original GRI index as it is. In this study check list method is applied and equal weigh was given to every variable by allocating 1(one) mark for each disclosed variable and 0(zero) for non disclosed variable. Therefore in the case of total score is 121 and in the prepared index it is 95. After getting the final score of each company then converted into percentage form to make data more meaningful. This procedure applied both in the case of whole index and prepared index.

$$\begin{array}{l}
 \text{CSR score} \\
 \text{of a} \\
 \text{company}
 \end{array}
 = \frac{\text{No. of CSR disclosure items adapted by the company}}{\text{Total No. of disclosure items in the CSR index}} \times 100$$

Table 1. Population and sample.

Industry Sector	No. of Companies	
	Population	Sample
Bank Finance and Insurance	28	11
Beverage Food and Tobacco	18	7
Chemicals and pharmaceuticals	9	3
Healthcare	6	2
Hotels and Travels	32	12
Investment Trusts	8	3
Land and property	19	7
Manufacturing	31	12
Motors	6	2
Oil Palms	5	2
Plantations	18	7
Services	6	2
Stores suppliers	5	2
Trading	9	3

3. Data analysis

3.1. Descriptive statistics

It is found that the overall level of disclosure based on the whole GRI index and the prepared index (after excluding all non disclosed variables) was at a low level. With regard to the whole GRI index, the average level disclosure was only 21% and in the case of prepared index it was only 26% which is unsatisfactory. Maximum level of disclosure was only 83% and 63% for prepared and whole index respectively. Minimum level of disclosure was 12% and 10% for prepared and whole index respectively. This has created a gap or range between maximum and minimum amounting to 53% and 83% respectively. This huge gap gave a hint that there is no consistency of CSR reporting.

Table 2. Descriptive statistics

	Whole Index	Prepared Index
Mean	21%	26%
Maximum	63%	83%
Minimum	10%	12%
Range	53%	71%

3.2. Trend

Data collected for 5 years of period commencing from 2005/2006 to 2009/2010. These annual data used to find the trend of the CSR disclosure. Although the overall level of disclosure is at a low level, it also

observed a positive increment in trend of such disclosures over the five years. But this growth is at a very attractive. From 2005/2006 to 2009/2010 growth rate of average level of disclosure is about 53%. Based on the growth rate it can expect higher level of disclosure in future

Table 3.Trend in level of disclosure

	2005/ 2006	2006/ 2007	2007/ 2008	2008/ 2009	2009/ 2010
Mean	17.2	22.1	24.1	29.3	37.3
Maximum	47	48	65	78	83
Minimum	12	15	18	20	25
Range	35	33	47	58	58

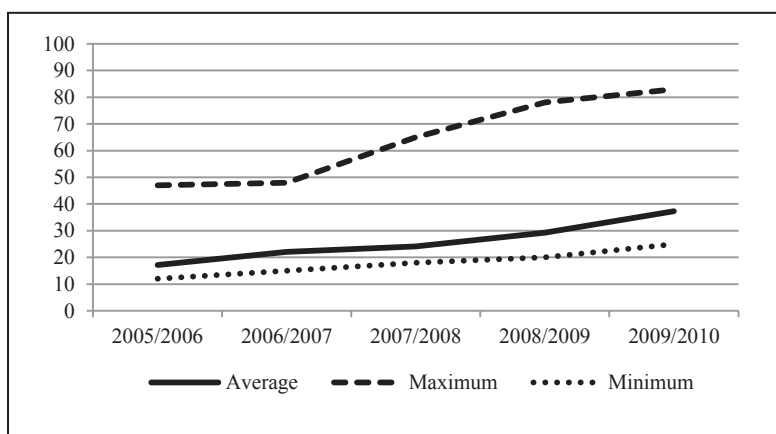


Fig. 1. Trend in level of disclosure

3.3. Reporting practices

By analyzing the cumulative frequencies of the CSR disclosure level, reporting practices of companies can be identified. It was revealed that majority of companies are at a below 50% level of CSR disclosure. Only few companies were doing extensive CSR reporting. According to the whole GRI index 99% of sample reported less than 50% level of disclosure while only 1% of the sample exceeded 50% level of disclosure. In the case of prepared index it is 94% and 6% respectively. This again indicate inconsistency in reporting practices

Table 4.Reporting practices

CSR disclosure level	% of Companies	
	Whole Index	Prepared Index
Less than 50%	99	94
More than 50%	1	6

3.4. Industry differences

Bank, finance and insurance sector has recorded the highest level of disclosures whereas investment trusts, service sector and land & property sectors have recorded the minimum level of disclosures. Same results were obtained even with regard to the prepared index. It means industry sectors like bank, finance, insurance, beverage, food and tobacco understand the need of strong social characteristics in their business and tight stakeholder relationship than other sectors in order to survive. Therefore, they are paying much attention when disclosing their CSR activities. This makes clearer that there is an industry impact to the level of CSR disclosure.

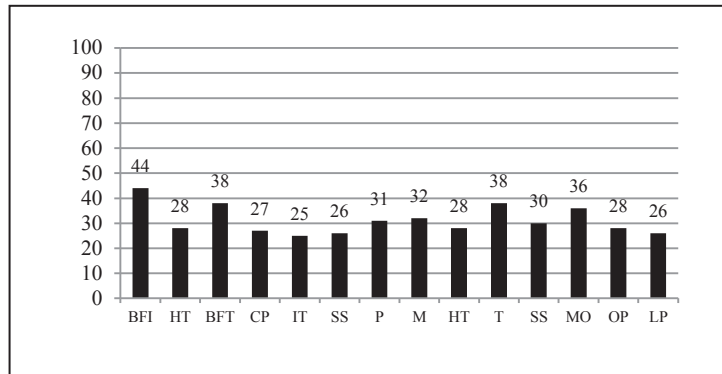


Fig. 2. Industry differences

Table 6. Growth in the level of disclosure

Industry sector	Growth % (2005/2006 to 2009/2010)
Health	52
Motors	49
Bank ,Finance and Insurance	41
Beverage , Food and Tobacco	40
Chemical and Pharmaceutical	39
Manufacturing	33
Trading	33
Hotel and Travels	27
Services	26
Stores Suppliers	23
Oil Palms	22
Land and Property	12
Plantations	10
Investment Trusts	9.3

3.5. Variable differences

Even though the average level of disclosure is low, disclosure level of some variables were at a satisfactory level. Variables like strategy and analysis, organization profile, and reporting parameters, are at a satisfactory level. But it has revealed that disclosure level of social, environmental and economical variables, which are the three pillars of sustainability, are at a very unsatisfactory level.

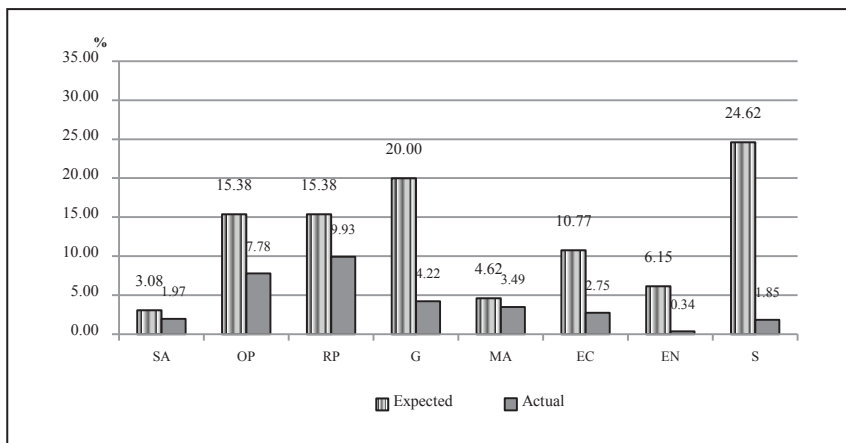


Fig. 3. Variable differences

Table 5. variable differences

Variable	2005/2006	2009/2010	Growth
Strategy and Analysis	1.87	2.17	18
Organizational Profile	7.53	8.14	8
Report Parameters	9.52	10.15	7
Governance	2.83	6.46	128
Economic	2.52	2.97	18
Environment	0.10	0.70	580
Social	1.05	3.04	190

4. Discussion

4.1 Low CSR disclosure level

What may be the reasons for the low level of disclosure? Previous researches and surveys have evident that CSR practices are less in Asian countries when compared to other continents. According to the Mohan (2001), CSR in Asia have tended to follow developments in the West. Chambers, Chapple, Moon, and

Sullivan (2003) suggested that CSR in Asia lags behind best practice in countries such as the UK. Welford (2004) did a survey to identify the corporate social responsibility in Europe, North America and Asia. Survey results evident that majority of Asian countries are lags behind except Japan.

Also following possible reasons can be identified for low level of disclosure. Primary objective even now is to maximize shareholders wealth. Still in Sri Lanka wealth maximization of shareholders is the major objective of the company rather than satisfying whole stakeholder's needs. This can be justified by using the observations on annual reports when collecting data. Most of the annual reports consisted only with financial statements and other mandatory corporate information. Some annual reports included graphs and other ways of describing, but focused only on their revenues, dividends, and some other ratios like ROA, ROE which aimed to satisfy information needs of shareholders. Very few companies tend to discuss about their employees, environmental impact and other social aspects.

High cost involved in measuring and disclosing may be another reason. Though the disclosure of CSR is importance it carries high cost of measuring and disclosing. Therefore companies tend to produce their annual reports only consist with financial statements at a minimum cost. There is less intensive from the authorities. CSR disclosure is not mandated and no any clear guidance. Therefore companies are reluctant to disclose CSR. Accounting frame work of Sri Lanka is not in line with the latest global dynamics like green accounting, ethical reporting... etc. If the accounting framework mach with these dynamics it will provide a guideline and motivation to CSR reporting. Perception of believing that the success can be measured by the financial figures should be changed. Current accounting framework for Financial Statement Preparation and Presentation focuses only on financial performance. Thus accountability is concerned from a narrow perspective.

4.2 Increasing trend

Although it has been the case, it also observed a positive increment in trend of such disclosures over the five years. This may be due to recently experienced corporate scandals such as Golden key, Ceylinco etc. Improved awareness of stakeholders on global trends also may be a reason. Because According to stakeholder theory corporate social performance is assessed in terms of a company meeting the demands of multiple stakeholders. Firms must at some level, satisfy stakeholder demands as an unavoidable cost of doing business. (Ruf et al., 2001). Therefore when there is a demand for certain information has led companies to provide such information. Power of some stakeholders may be the reason for this or otherwise it could be due to appreciation of existence of different stakeholders and needs have to be satisfied. Introduction of awards by different institutions has created a competition and increased awareness among the company. Introduction of Code of Best practices by Chartered Accountants of Sri Lanka (CA) . This code focused on Corporate Governance, which is one aspect of CSR according to the GRI guidelines. It is observed that disclosure level relate to the governance variables showed a notable improvement after introducing these requirements. Listing requirements by the Colombo Stock Exchange is another reason for this increasing trend.

4.3 Reporting practices and industry differences

From the findings it is revealed that only few companies are doing extensive CSR reporting, while other companies are not giving that much of importance in this regard. In Sri Lanka there is no any clear guidance to disclose. On the other hand this information is not mandated. Therefore there is no any consistency between companies.

Depend on the industry sector level of disclosure has been changed. Industry specific and context specific factors may Cause such differences. According to the Griffin and Mahon, (1997), specific industries include the uniqueness of internal competencies or external pressures inherent in an industry, the degree of public visibility, the different configurations of stakeholders and their differing degrees of activism on particular

issues

4.4. Sustainability

Three pillars of sustainability are economic, social and environment. In order to survive, organizations must conform to the rules and belief systems prevailing in the environment (Meyer & Rowan, 1977), Are Sri Lankan companies moving towards sustainability? When analyze collect data, it is clear that there is huge gap between expected and actual level of disclosures with regard to the economical, environmental and social variables . However attractive growth reported in the level of disclosure for 5 years of period in social and environmental parameters. Variables relating to economical aspects are not showed that much of growth.

4.5 Conclusion

In order to improve the level of disclosure both stakeholders as well as companies must acknowledge the concept of CSR and its benefits. This awareness should specifically be focused on revolutionizing the narrow definition of CSR. Because most of the corporate personalities are tempted to think that CSR means some voluntary activities like donations to charity and so on. Without understanding what the CSR is and importance of CSR, expecting higher level of CSR disclosure is a mirage. Awareness of the stakeholders creates an information need and this will in turn create an invisible bind for organizations participate on CSR. CSR is a voluntary activity, but findings emphasis the need of government or any responsible authority's interference. It should provide guidance, motivation and monitoring for CSR issues.

Globalization has dissolved all boundaries among nations. Therefore harmonization has become a decision factor in this context. Organizations concerning much on their reputation and profits now must in line with the globally accepted social Responsibility norms. By considering all the factors discussed above it has been identified the need of creating CSR boom in Sri Lanka

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