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## **DISCLOSURE OF CORPORATE SOCIAL RESPONSIBILITY IN TOURISM INDUSTRY, SRI LANKA**

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### **Abstract**

Studies that concentrate on the trend of Corporate Social Responsibility (CSR) disclosure in the Sri Lankan context, particularly in the hotel industry, are hardly found. The present study, therefore, aims to identify the trend in CSR disclosure of the tourism industry in Sri Lanka for the period from 2014 to 2018. A mixed approach of content and thematic analysis was employed in analyzing ten selected publicly quoted companies in the hotels and travels industry. The results of the study reinforce the tourism sector the pattern and the trend of CSR disclosure in heading towards effective strategic decisions. The study concludes that the growth of CSR disclosure in the hotel industry is not consistent.

**Keywords:** Sri Lanka, Tourism Industry, Corporate, Social Responsibility

### **Introduction**

Today, the tourism industry is the third largest foreign exchange earner in Sri Lanka <sup>[1]</sup>. The industry has shown an upsurge in growth after the end of the civil war in 2009. Tourist arrivals have increased from 447,890 in 2009 to 2,333,796 in 2018<sup>[1,2]</sup>. Sri Lankan Tourism Development Authority (SLTDA) plans to double these numbers by 2020. Nevertheless, the interest of the community to engage in the tourism industry has rapidly increased due to this upsurge in growth after the civil war. It is mainly due to the expectations of the society and the possible consequences such an industry can have on the community. Maintaining a strong relationship between the community and the tourism industry is vital since it is the fundamental of building the country's image among tourists. As a result, if the community is disgruntled with the tourism establishments that will lead to loss of reputation in the world tourism <sup>[3]</sup>. Hence, CSR allows organizations to counteract this pressure from society while creating a sustainable future for the hotel industry. Damayanthi and Rajapakse<sup>4</sup>, record that there is a growing trend in CSR activities reported by listed corporations. Furthermore, studies have shown that organizations by unique differentiation of CSR activities have tried to compete among themselves <sup>[5]</sup>.

However, a recent study by Wijesinghe<sup>6</sup>, argues that, the authentic disclosure level of CSR activities is low though a positive incremental trend is observed as a whole in Sri Lanka. Having said from the literature it is evident that many studies are conducted in other sectors except the few in tourism though the same is highly focused in other countries. Furthermore,

a knowledge gap was identified due to lack of research conducted in the tourism industry focusing on its CSR disclosure trend in recent years. Hence this research aimed to answer the question of what the trend of CSR disclosure in the tourism industry of Sri Lanka is. Accordingly, this research attempted to identify the trend of CSR disclosure in the tourism industry over the past five years and also, focused on exploring the importance given by firms on different dimensions of CSR.

## Methodology

Current study employees a sample of ten publicly quoted hotel corporations listed under hotels and travels sector. Systematic sampling was adapted to avoid biasness towards firms with high market capitalization. Only firms which had released annual reports for the period of 2014 – 2018 were considered during sample selection. Annual reports for the period of 2014-2018 were used to derive CSR related information of selected firms. Preliminary work was to develop a checklist of keywords based on past literature. A checklist was developed with items relating to five dimensions of CSR, viz. community, employee relations, environment, product quality and diversity. The five dimensions included 190 keywords. By using the keywords in the checklist, a content analysis was carried out. It was found, searching the keywords at once would not serve the purpose. Secondly, the theoretical thematic analysis by Braun & Clarke<sup>7</sup> approach was adopted to deepen the analysis further. Under thematic analysis, CSR related information, which was not identified under the content analysis, were categorized into 62 CSR sub-themes. These themes and sub-themes were derived from the previously developed checklist of CSR items. A set of decision rules was developed to maintain consistency among all fifty annual reports when deriving CSR related information. Repetition of keywords and sub-themes in annual reports were counted and converted into Nila Units, introduced by Nuzula & Kato<sup>8</sup> to measure the level of CSR performance by each firm. Nila unit is calculated by dividing the total number CSR related keywords by the total number of words in the considered document.

$$Nila\ Unit = \frac{Number\ of\ CSRness\ words}{Total\ number\ of\ words\ in\ one\ document} \times 100$$

Average Nila Unit Percentage (ANUP) for each period was then calculated by dividing the total of Nila units for each period by the total number of considered firms in order to identify how the trend of CSR disclosure has behaved during the considered period.

## Results

From the year 2014-2018, ANUP has shown an increment of 24.05%. However, the average annual growth rate of ANUP during the period is only 5.54%. On the other hand, annual growth rates of ANUP fluctuated between 13.77% to 1.35% show an inconsistent growth during the period. From the point of dimensions of CSR, “employee relation” and “community” hold an average importance in disclosure of 37% and 23% respectively during the period. “Environment” and “Product quality” dimensions hold an average importance of 19% and 16% respectively, while diversity being at only 6%.

## Discussion

Based on the findings of the study, it was observed that there is a positive but slight incremental trend of CSR disclosure based on ANUP. Though the overall growth between 2014-2018 is 24.05%, which may seem attractive, the annual average growth rate is only 5.54%. It shows rather slow growth in the level of CSR disclosure during the period. Furthermore, inconsistency in annual growth rates was observed during the period. From 2015 to 2016, the annual growth rate has dropped from 13.77% to 4.18%. In 2017, this growth rate again decreased to 1.35% but increased up to 3.27% in 2018. Though there is an overall upward trend during the period, this inconsistency in annual growth makes it difficult to ensure that this trend will continue in the coming years as well.

Furthermore, it was found that, by 2018, only six out of ten firms have adopted a reporting structure that separately discusses on CSR and Sustainability matters. It was also noticed that most of the firms have repeatedly engaged in the same CSR initiatives and disclosed a similar level of information in consecutive years. Thus, it shows a lack of effort among companies to increase CSR commitments and could be the underlying reasons for slow growth in CSR disclosure. In some cases, annual reports only consisted of the financial aspect of the entity, and hardly any CSR related information was disclosed. A similar argument is made by Wijesinghe<sup>9</sup>, stating that most financial reports contain financial and corporate information intending to satisfy shareholder needs. Wijesinghe<sup>9</sup> further argues that the primary objective of Sri Lanka companies is to maximize shareholder wealth instead of satisfying stakeholders as a whole.

Focusing the dimensions, it was observed that the highest emphasis by firms is given on disclosing employee related information. During the period, an average of 37% of disclosed CSR information relates to employee relations. Such a result can be expected as tourism is a high labor-intensive industry. Higher daily customer interaction could be another underlying reason for hotels to give such emphasis on their human capital. Providing high-quality service in-order to decrease customer churn rate by pooling skilled labour within the organization could be a motive for such focus. Firms may also be motivated to disclose information regarding their human capital as a mean of building confidence in shareholders which could especially be true for a firm operating in the tourism industry.

Moreover, it is observed that dimensions such as “community” and “environment” are also given a higher level of emphasis when disclosing CSR information. It is evident that significant efforts were put by most selected hotel firms to minimize the adverse effects of their operations on nature and community. However, it is still an undeniable fact that these initiatives may be strategically placed to benefit the firm itself. Most environmental initiatives taken by the firms can be linked with reducing energy costs and counteracting legal pressure. Some community outreach programs are carried out to develop strategic and harmonious relationships with local groups as a mean to avoid volatile situations.

From the findings of the study, it is evident that diversity is the least emphasized dimension, with an average importance in disclosure of only 6%. It was noticed that, though most firms discuss gender, ethnicity and racial equality, there is hardly any emphasis on factors such as employment of disabled and special interest groups. It raises the question of whether the

definition of equality within the Sri Lankan context is still limited to such a narrow scope. This can be considered as an area that requires more attention and future research.

Agreeing it is not the part of this paper, with the recent incident of the Easter Sunday attack, a decline in the identified CSR disclosure trend can be expected. Due to low occupancy rates, some hotels are forced to reduce their service rates to a level as low as 50%. Impact on financial performance due to such, will force firms to be more vigilant on their cost patterns. Hence, even the firms performing well in CSR may withhold from such activities as a mean of protecting profit margins. On the other hand, to counteract the current situation in the country, firms may focus more on improving their product quality and being innovative in providing higher security measures. Hence, the current average importance in disclosure of product quality, which is 16%, can be expected to increase in the future.

## Conclusion

Findings of the study reveal that there is a slight increment in the trend of CSR disclosure in the tourism industry. Further, it was found that a significant proportion of disclosed CSR information relates to dimensions such as employee relations, community, and environment. It was observed that, though there is a positive increment in the level of disclosure, annual growth of the trend is problematic. As cited by Fernando<sup>10</sup>, based on results of a survey conducted in 2004 by an international NGO named International Alert, reiterates that most companies lack strategy and policy in conducting CSR and also lacks a clear direction as to what and how to contribute to the society. As final remarks, in a global context, CSR is considered as a part of annual reports and financial statements, instead of voluntary activity<sup>6</sup>. As a result, it is recommended to exaggerate more effort by governing bodies of the country to foster the disclosure of CSR deeply rooted as the culture of the Sri Lankan firms.

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