The impact of Beijing Olympic Sponsorship Program on annual report social disclosure by local sponsors

Juncheng Hu

Edith Cowan University

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The Impact of Beijing Olympic Sponsorship Program on Annual Report Social Disclosure by Local Sponsors

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This thesis is submitted in partial fulfilment of the requirements for the degree of Bachelor of Business (Honours)

17, July, 2009
USE OF THESIS

The Use of Thesis statement is not included in this version of the thesis.
Abstract

The objective of this study is to utilise both legitimacy theory and reputation risk management theory to examine the impact of the Beijing Olympic Sponsorship Program on annual report social disclosures by local sponsors. Specially, this study attempts to test whether local sponsors increase annual report social disclosure in responses to their sponsorship participation and whether the increases can be explained by other companies operating in the same industry group. This study also compares and contrasts legitimacy theory with reputation risk management theory, and discusses the applicable power of legitimacy theory and reputation risk management theory in positive events/issues.

The annual report disclosures are reviewed for both sponsors and non-sponsors in order to make before and after comparisons. Comparisons are also made between sponsors and non-sponsors in terms of their social disclosure and event-related disclosure. The results indicate that first, sponsors disclosed more social and event-related information in their annual reports after they participated in the sponsorship program, while this was not the case for non-sponsors; second, sponsors disclosed more event-related disclosure than non-sponsors but not for the overall social disclosure. This study also found that the event-related disclosure was significantly correlated with levels of sponsorship while the total amount of social disclosure was correlated with firm size.

These results suggest that the annual report could be used as a self-presentational device for managers to protect and enhance corporate reputation. Reputation risk management theory does have the power in explaining certain amounts of social disclosure particularly in these positive issues, but only limited with these firms which gained reputation from the issue. These results do not challenge the dominance of legitimacy theory in corporate social disclosure area, but argues that reputation risk management theory could provide several useful insights and be used as a supplement of legitimacy theory.
Declaration

I certify that this thesis does not, to the best of my knowledge and belief:

(i) incorporate without acknowledgement any material previously submitted for a degree or diploma in any institution of higher education;

(ii) contain any material previously published or written by another person except where due reference is made in the text; or

(iii) contain any defamatory material.

(iv) I also grant permission for the library at Edith Cowan University to make duplicate copies of my thesis as required.

Signed: ________________________________ Date: 01/10/2009
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Chapter One
Introduction

1.1 Research background

... To be a sponsor of Beijing Olympics is not only an economic activity, but the embodiment of corporate social responsibility...

-- Spoken by YuanBin, the marketing director of the Beijing Organizing Committee for the Games of the XXIX Olympiad (BOCOG)

When bidding for hosting the 2008 Olympic Games, Beijing promised to provide a high-level Olympic Game and a high-level Olympic with distinguishing features. The high-level Olympics refer to high-level sporting venues and facilities, cultural events and opening ceremonies, media services, security work, volunteer involvements, friendliness and hospitality, and high-level urban construction and transportation. The distinguishing features refer to “Chinese style, cultural splendour, contemporary spirits and mass participation” (BOCOG, 2008). The Chinese government recognises that the Beijing Olympics would be “a perfect occasion to fully display China's 5,000-year history and its resplendent culture, a grand ceremony that will gather athletes from all over the world and present diverse and brilliant cultures” (BOCOG, 2008).

In order to achieve above goals and show the world a “modern, progressive, environmentally friendly, and socially responsible image”, the nation is “making an unprecedented financial and societal commitment” to enhance its environment and society (Brody and Zachlod, 2003). Beijing’s “Green Olympics, High-tech Olympics and People’s Olympics” efforts has prompted the Chinese government, multinational and local companies, non-profit organisations, media services and the people to work together. Many projects associated with the Olympics are involved in environmental protection, venues and facilities construction, transportation development and community transformation. In terms of the environmental protection projects alone, the Chinese government estimated $85 billion needed for environmental improvements projects through its tenth Five-Year Plan. Being supportive partners or sponsors of these projects could assist an organisation to establish secure and long-term market positions in China (Brody and Zachlod, 2003).
Of these programs, the Beijing 2008 Olympic Sponsorship Program is considered as “the most comprehensive sponsorship package” ever created in association with the Games. The aim of the sponsorship program is to “consolidate, enhance and protect the rights, benefits and privileges of the sponsoring corporations” (BOCOG, 2008). It is also a risky investment for a corporation as a result of the great amount of cash outflows. The level of marketing rights granted to each corporation is determined by the level of support the corporation contributes which is measured by the cash value of the sponsorship. The official (BOCOG, 2008) claimed that the return on investment could be maximised though the Olympic sponsorship program. For international corporations that are looking to expand their businesses to the Chinese market, a sponsorship with the 2008 Olympics will be a “powerful business opportunity” to showcase their products or services and strength and build business ties across China. For local firms, the Olympics would also be an honourable opportunity to enhance their corporate reputation and brand awareness, demonstrate their strengths in key products, services and technologies as well as achieve high levels of recognition for their commitment to China’s national quest for professional excellence in all realms of business (BOCOG, 2008).

The role of sponsorship of a sporting event in enhancing corporate reputation and competence has been well discussed in previous marketing literature. It is generally agreed that sponsorship has a significant role in increasing sales, building marketing ties, attracting media attention, enhancing corporate identity, adding corporate intangible assets (such as goodwill) and leveraging employee morale. (see: Aims, Slack and Berrett, 1999; Aims, 2003; Dolphin, 2003; MacDonald, 1991; Papadimitriou, Apostolopoulou and Dounis, 2008). The studies of Olympic sponsorship have gained much marketing and management scholars’ attention as it is such a huge event that provides lots of media exposure and showcasing opportunities for companies to promote their brands and demonstrate their leadership (Dolphin, 2003; Miyazaki and Morgan, 2001; Sandler and Shani, 1993; Stipp, 1998; Wang, 2008). This study will extend the marketing related sponsorship research to the accounting reporting area, examine how the Olympic sponsorship impacts on an organisation’s social reporting behaviours and investigate what motives an organisation to disclose their relevant social activities voluntarily.
First of all, the current theoretical framework of corporate social reporting motivates this study. The most commonly employed theory in this area is legitimacy theory (Gray et al., 1995; Brown and Deegan, 1996; Deegan, 2002). Following legitimacy theory, organisations are social citizens and their accounting systems are parts of the broader social system. To study corporate social disclosure must be undertaken under the social, economic and political contexts as they are inseparable issues (Deegan, 2002). Legitimacy theory predicts that organisations adopt certain communication strategies in reaction to issues or events that might cause a threat to their ongoing existence. Several empirical evidences can be found through previous literature (see Patten, 1992, Deegan and Gordon, 1996, Deegan and Rankin, 1996; Deegan, Rankin and Voght, 2000; Deegan, Rankin, and Tobin, 2002). These empirical evidences build a solid research foundation for this study to conduct the related studies concerning corporate voluntary reporting reactions of Chinese local sponsors to their sponsorship, considering that Olympic sponsorship is a significant social and economic issue.

However, previous empirical studies adopting legitimacy theory mainly focus on corporate reactions to unexpected environmental crises. The reasons for researchers to focus only on the negative scenarios might be: first, Researchers might believe that it is natural for organisations to disclose if they have good news. Second, the study of negative events could help researchers better to examine the objectivity of their social disclosure. For example, Deegan and Rankin (1996) found that few of environmentally prosecuted companies disclosed their prosecutions of their environmental performance. Rather than that, they disclosed positive environmental information to offset the negative impact of prosecutions. These findings could urge the relevant parties such as the government, media, accounting standard setters and shareholders to look at the objectivity of corporate social disclosure.

This study acknowledges the significant contribution of previous researches utilising legitimacy theory. Nevertheless, that ignorance of positive events also encourages this study to question the power of legitimacy theory, and this study recognises that that is a research gap. For the necessity of studying positive events, two significant studies might provide good explanations: one is O'Donovan (2002) and the other is Bebbington, Larrinage and Moneva (2008).
O'Donovan (2002) discussed this research gap within the legitimacy framework. He indicated that the purpose of corporate response to environmental crises was mainly to repair organisational legitimacy, and the managerial style was primarily reactive. However, environmental crises incur incidentally but not always. For most periods of time, the companies are at a socially, economically and environmentally stable situation but the levels of social disclosure increase naturally. Thus, O'Donovan (2002) proposed that the applicability and predictive power of legitimacy theory should be extended. Other techniques of managing legitimacy such as to gain and maintain legitimacy should be mentioned. Contrasting with strategies for repairing legitimacy which are usually reactive to an unforeseen and immediate crisis, to gain and maintain legitimacy is “usually ex ante, proactive and not normally related to a crisis” (O'Donovan, 2002, p. 350).

Bebbington et al (2008) discussed this limitation beyond legitimacy theory and provided a new lens to understand corporate social reporting behaviour that is reputation risk management theory as they named. They noticed that there were significant differences between the term of “legitimacy” and “reputation” as was indicated by Deephouse and Carter (2005). They recognised reputation as a potential driver of corporate social reporting, and suggested that the levels of corporate social disclosure might not only be associated with corporate reactions to legitimacy threat but might be driven by their intentions to deal with corporate reputation. Bebbington et al (2008) advanced academic insights into motives underlying corporate social reporting. However, Adams (2008) was concerned with the theory of Bebbington et al (2008) that might have too many overlaps with legitimacy theory, be lacking practical implications and out of its social and environmental context. For the purpose of this study, both legitimacy theory and reputation risk management theory are embraced and discussed.
1.2 Research objectives and questions

Therefore, the objective of this study is to utilise both legitimacy theory and reputation risk management theory to examine the impact of the Beijing Olympic Sponsorship Program on annual report social disclosures by local sponsors. Research questions in this study are: first, to compare and contrast legitimacy theory with reputation risk management theory and discuss their respective impact on corporate social disclosure; second, to ascertain changes in the levels of disclosure by local sponsors after they participated in the Sponsorship program, third, to test whether the changes can be explained by other companies operating in the same industry group; and finally, to discuss the predictive power of legitimacy theory and reputation risk management theory.

1.3 Research motivation and significance

This study has several motivations. First, Olympic sponsorship is a significant economic and social issue with huge public attention. Inspired by marketing research that sporting event sponsorship could enhance corporate reputation significantly, and reputation risk management theory that reputation is a potential driver of corporate social disclosure, this study adopts the view that the Olympic sponsorship provides a perfect opportunity to conduct corporate social disclosure under such context. This also ensures that the theoretical framework of Bebbington et al (2008) might not go too far away with its social context. Second, motivated by current research that merely discusses the impact of positive issues or events, this study attempts to extend the corporate social disclosure research to positive scenarios, and addresses the motives to increase levels of disclosure in reaction to such events or issues. Last, the results of this study will also bring empirical evidences to reputation risk management theory, and address the necessity to distinguish reputation risk management theory with legitimacy theory.

This study has both theoretical and practical implications. Theoretically, first, this study adopts legitimacy theory and reputation risk management theory to test the perceived changes in the levels of disclosure in reaction to major social events. However, contrasting with previous events investigated, this study attempts to test whether legitimacy theory and reputation risk management theory could be used to explain the
annual report disclosures following some positive events or issues such as participation in Olympic sponsorship. It has both implications for legitimacy theory and reputation risk management theory. In terms of legitimacy theory, different with previous researches that focus on organisational techniques to repair legitimacy, this study emphasizes the tactics to gain and maintain legitimacy. The results of this study could provide evidence as to whether the legitimacy-enhancing events or issues lead to increases in the levels of social disclosure in annual reports. In terms of reputation risk management theory, the new theoretical perspective will be established to explain the environmental and social disclosure behaviour of companies. The findings of this study could be considered as new evidences to that theoretical framework (Bebbington et al, 2008). As this theory heavily draw on management research, this study also highlights the interdisciplinary nature of the study of social and environmental reporting.

In summary, what this study is really interested in is to find out “whether there are any perceived changes in levels of corporate social disclosure following positive events”, “if yes, what drives them to disclose?”, “is legitimacy theory still an effective explanation?”. The study believes that the results could benefit a wide variety of annual reports users, especially, the shareholders, managers, investors, financial analysts, regulators and academic researchers to understand the motives of managerial disclosure of social and environmental issues in China.

1.4 Organisation of the thesis

This study is organised as follows: chapter one introduces this study in terms of its research background, objectives, research questions, motivations and significance. Chapter one also provides an outline of this study. Chapter two is the literature review. The first part of this literature review discusses previous empirical studies that adopt legitimacy theory. The second part relates to studies under reputation risk management theory. The third part presents relevant literature of the impact of sponsorship on corporate reputation. Chapter three reviews the theories that are used and the formulation of hypotheses. Both legitimacy theory and reputation risk management theory are discussed. Finally, the three hypotheses to be tested in this study are presented. Chapter four discusses the research methodology relating to the research design, the sample selection, data collection procedures and the control variables.
Chapter five discusses the results of this study which includes the descriptive statistics, results of hypotheses testing, and control variables. Both parametric and non-parametric tests were used to examine the hypotheses. The independent t-test, the Wilcoxon Signed Rank Test and Mann-Whitney U test were employed to test the three hypotheses. Regression analysis was used to test the control variables. Chapter six summarises the major findings, addresses the contributions and limitations of this study and also suggests avenues for future research.
Chapter Two

Literature Review

2.1 Introduction

This chapter is organised into five main parts. The first part provides the objectives and outlines of the literature review. The second and the third part are concerned with related literature on corporate voluntary disclosure. The second part focuses on studies that were conducted under legitimacy theoretical framework. The third part reviews recent literature on corporate social reporting that adopts reputation risk management theory. The fourth part presents the discussion of sponsorship and its impact on corporate reputation. The final part summarises main arguments developed by previous literature and identifies the potential research gaps.

2.2 Empirical studies adopting legitimacy theory

Legitimacy theory has been widely used to study social and environmental reporting practice (Gray et al., 1995; Brown and Deegan, 1996; Deegan, 2002). A number of accounting studies have discussed specific types of social responsibility disclosures that have appeared within annual reports (Deegan, 2007). According to Deegan (2007), these annual report social disclosures could be used by accountants or managers as part of the portfolio of strategies to establish and/or maintain the legitimacy of their respective organisations.

This section mainly reviews event typed-studies of legitimacy theory on which this study is built. That includes Patten (1992), Deegan and Rankin (1996), Deegan, Rankin and Voght (2000). Several longitudinal and interview-based studies are also reviewed here as these studies provide strong arguments to legitimacy theory. These studies include Brown and Deegan (1998), Guthrie and Parker (1989), Deegan, Rankin and Tobin (2002) and O’Donovan (2002).
Patten (1992)

An early event study that sought to provide empirical evidences to legitimacy theory was Patten (1992). He investigated the effect of the Exxon Valdez oil spill on the changes in the extent of environmental disclosures made by a sample of publicly traded companies. He suggested: the Alaskan Oil incident which significantly damaged the environment, was strongly enough to make a threat to the legitimacy of the whole petroleum industry not just to Exxon. Patten (1992) hypothesised that if legitimacy theory worked, companies operating within the petroleum industry would react to this event by increasing the amount of environmental disclosures in their annual reports.

In order to test the hypotheses, annual reports disclosure for both 1988 and 1989 were examined and the classification scheme of Wiseman (1982) was used to measure the changes in the extent of environmental disclosure. The number of pages in one-hundredth page intervals included in the annual report was considered as the measurement unit. Two variables selected in the Patten’s regression analysis were size and whether companies were part owners of Alyeska, a company liable for responding to any oil spill in Prince William Sound within five hours.

The results indicated that both independent variables, size and ownership of Alyeska, were in the direction hypothesized and statistically significant. Along with the two variables, the mean change of environmental disclosure significantly increased. Patten’s study (1992) showed a significant increase in environmental disclosure after Exxon Valdez oil spill accident, thereby supporting legitimacy theory. The significant contribution of Patten (1992) that all companies within that industry group reacted to an incident which cause a threat to the legitimacy of the inudstry group.
Deegan and Rankin (1996)

Following Patten (1992), Deegan and Rankin (1996) examined the effect of public prosecutions on the changes in corporate annual report environmental disclosure policies. Same with Patten (1992), legitimacy theory was also adopted as the theoretical framework. Based on legitimacy theory, particularly those developed by Patten (1992), they hypothesised that an increase of environmental disclosure in corporate annual reports would be made in reaction to prosecutions around the time of prosecution. Compared with Patten (1992), they further hypothesised that prosecuted companies might provide more disclosure than non-prosecuted disclosure and affected companies might only disclose positive news.

In order to test the hypotheses, they selected a sample of 20 firms from those that were successfully prosecuted by the New South Wales and Victorian Environmental Protection Authorities for breaches of environmental protection laws during the period from 1990 to 1993. Another sample of 20 firms that could be matched by industry and size with the previous sample of 20 firms but had not been prosecuted was also selected in order to make comparisons. The environmental disclosures were further classified as positive or negative.

Results indicated: first, prosecuted firms disclosed significantly more in the year of prosecution than any other year in the sample period; second, prosecuted firms disclosed more environmental information than non-prosecuted firms; third, for all the companies, disclosures about their environmental performance were predominantly positive and qualitative. Only two companies within the sample provided a description of the environmental offence. Other firms within proven environmental prosecutions failed to disclose these environmental offences, but in turn, they disclosed details of environmental awards they had received in order to offset the negative effect of the environmental prosecutions and to manage their legitimacy. The researchers concluded that legitimacy theory was supported in their study. Compared with Patten (1992), the additional contribution made by Deegan and Rankin (1996) was that directly affected companies disclosed more than non-affected companies within that industry, and second, the nature of disclosure was basically positive.
Deegan, Rankin and Voght (2000)

Consistent with Patten (1992), Deegan and Rankin (1996), and Deegan, Rankin and Voght (2000) examined the annual report reactions of Australian companies to five major social incidents. These incidents included the Exxon Valdez in Alaska, the Bhopal disasters in India, the Moura Mine disaster in Queensland, the Iron Baron Oil spill off the coast of Tasmania, and the Kirki oil spill off the coast of Western Australia. These events could be traced to specific dates and well-known by a large number of the Australian population. Therefore, some media coverage would be given to those incidents as a result of huge public awareness of those issues.

In Deegan et al (2000), legitimacy theory was constructed as the main theoretical framework. In the discussion of legitimacy theory, they particularly emphasised the notion of social contract. Deegan et al (2002) argued that the concept of a social contract was central to legitimacy theory and "legitimacy and contract compliance go hand in hand" (p. 105). The social contract in Deegan et al (2000) mainly referred to social expectations that companies had to meet, which represented the ongoing relationship between the society and businesses. Breaches of the social contract would affect the legitimacy of a company which would lead to public sanctions. They also believed that media was a source of a threat to corporate legitimacy.

Thus, they retrieved information on media articles for each incident from Australian Business Intelligence Index, which contained media articles from several major newspapers, such as The Australian and The Age. A sample of listed companies was selected for each incident and companies selected were believed to face a potential threat to their legitimacy following an incident. The research methodology used was content analysis and the extent of disclosure was measured by relevant sentences contained in an annual report.

Deegan et al (2000) found that incident-related industries provided significantly greater levels of total and positive incident-related disclosure after the incident than before the incident. The only exception was Kirki oil spill incident due to a lack of media attention. Their study showed support for the view that organisations utilised their annual report as a means to legitimise their ongoing existence, and to reduce the effects of the events or issues that were perceived to be unfavourable to a corporation’s image.
Brown and Deegan (1998)

Another study which recognised media as the proxy of community expectations is Brown and Deegan (1998). The findings of this study impacted significantly on following empirical studies such as Deegan et al (2000) and Deegan et al (2002). The objective of Brown and Deegan (1998) was to examine the relationship between the print media coverage given to the environmental effects of various industries and the levels of annual report environmental disclosures made by a sample of companies operating within these industries.

Both legitimacy theory and media agenda setting theory were used in their study. In the discussion of legitimacy theory, Brown and Deegan (1998) also addressed the significance of social contract in legitimacy theory. Organisations were expected to comply with the social contract. Otherwise, the community could revoke the contract to continue the ongoing operations of an organisation. Legitimacy was related to that notion of social contract. Brown and Deegan (1998) also introduced the role of media in corporate annual report environmental disclosures. The basic argument was that the media was able to influence community perceptions about issues. If an organisation responds to community concerns of its environmental and social performance, it could be hypothesised that a relationship existed between the extent of social and environmental disclosure within the annual report and the media attention given to those issues.

Brown and Deegan (1996) found: first, higher levels of annual report environmental disclosures were significantly associated with higher levels of media attention given to corporate environmental issues; second, the negative media attention of corporate environmental performance would lead to positive disclosure of environmental information in corporate annual reports; final, management used annual reports as a tool to legitimate their ongoing operations. The authors concluded that both legitimacy theory and media agenda setting theory were supported in their study. The significant contribution of Brown and Deegan (1996) was that they found a relationship between higher levels of media attention and higher levels of annual report environmental disclosures.
Guthrie and Parker (1989)

However, empirical studies of legitimacy theory did not always provide consistent results. One study reviewed here is Guthrie and Parker (1989), who questioned the applicability of legitimacy theory. They undertook a historical study to investigate the annual report social disclosure made by BHP, which was one of Australia’s largest steel corporations, over a 100 year period from 1885 to 1985. The objective was to discover whether legitimacy theory could be used to explain corporate social disclosure practices. They hypothesized that following the legitimacy theory, the peak disclosure periods should be matched with the peak periods of significant social, economic or political events affecting the company. However, their results showed little correspondence between peaks of BHP’s corporate social reporting disclosures and key socio-economic events affecting BHP during its operating history. Thus, Guthrie and Parker (1989) concluded that the evidence examined failed to confirm the legitimacy theory as an explanation of BHP’s social disclosure over time.

Deegan, Rankin and Tobin (2002)

Deegan, Rankin and Tobin (2002) provided inconsistent results to Guthrie and Parker (1989). Their study could be considered as an extension of Guthrie and Parker (1989). They re-examined the annual report disclosure of environmental and social information of BHP, which had been examined by Guthrie and Parker (1989). Nonetheless, more recent annual reports were retrieved over a 15 years period from 1983 to 1997. The objective of their study was to test whether annual report social disclosures could be explained by the concepts of social contract and legitimacy theory. Different with Guthrie and Parker (1989), they used the extent of media attention given to particular issues as the proxy of community concerns, which was borrowed from media agenda setting theory developed by Brown and Deegan (1998). Therefore, print media articles were used as the indicator of major social events affecting an organisation’s legitimacy.

Contrasting with Brown and Deegan (1998), the results indicated a support for legitimacy theory. First, the levels of print media coverage given to specific attributes of BHP’s social and environmental performance positively correlated with the levels of specific social and environmental disclosures made by BHP in its annual reports; and second, higher levels of unfavourable print media coverage would lead to higher levels
of positive social and environmental disclosures. The results implied that first media attention stimulated greater corporate disclosure; second, the disclosure nature was mainly positive; finally, managers utilised the annual reports for legitimising activities. The researchers concluded that those environmental issues which attracted the greatest media attention were also those issues which were associated with the greatest amount of annual report disclosure. Legitimacy theory was supported in their study.

**O’Donovan (2002)**

The last research paper reviewed under this section is O’Donovan (2002). Consistent with previous literature, O’Donovan (2002) agreed that the changes in social norms and values motivated organisational change and imposed pressure on organisational legitimisation. Management of legitimacy started from where senior management perceived that legitimacy was threatened. Compared with previous papers, he further pointed that “the techniques/tactics chosen will differ depending on whether the organisation is try to gain or to extend legitimacy, to maintain its level of current legitimacy or to repair or to defend its lost or threatened legitimacy” (p. 349). Different with tactics to repair legitimacy, to gain legitimacy required managers to be proactive.

Rather than do content analysis of annual reports, O’Donovan (2002) conducted semi-structured interviews to generate his own data. He used six vignettes which were given to six managers from large Australian companies. The vignettes provided different scenarios that indicated the legitimisation tactics either to gain, maintain or repair legitimacy. The scenarios used in O’Donovan (2002) were not real and pertaining to fictitious companies. He argued that using hypothetical events and companies could be more likely to generate honest answers. Managers were asked about their choices of disclosure approaches. The disclosure approaches included to avoid disclosure, to alter social values, to shape perceptions of the organisation and to conform to social values. O’Donovan (2002) found that the significance of the event impacted on managers’ disclosure approaches. If an issue/event was of low significance, it would not, in most circumstances, lead to the use of legitimisation tactics and specific annual report disclosures. Disclosure approaches made by managers were also found to differ depending upon whether the intention of the action was to gain, maintain or repair legitimacy. O’Donovan (2002) is an important part of theoretical framework for this study.
Summary

Previous empirical studies adopting legitimacy theory showed several agreements: first, the annual report social and environmental disclosure was considered as a tool used by managers to legitimise the ongoing existence of the organisation (Brown and Deegan, 1998; Deegan and Rankin, 1996; Deegan et al 2000; Deegan et al; 2002); second, managers reacted, potentially by increasing social and environmental disclosure in their annual reports, to these issues or events which might cause a threat to the legitimacy of an organisation (Deegan and Rankin, 1996; Deegan et al 2000; Patten, 1992; O'Donovan, 2002). third, for a social and environmental event or issue, the directly affected companies would provide more social and environmental information in their annual reports than other companies within that industry group (Deegan and Rankin, 1996; Deegan et al, 2000); fourth, the nature of the environmental and social disclosure in corporate annual reports was primarily positive and quantitative (Deegan and Rankin, 1996; Deegan et al, 2000); last, the media was able to impact on community concerns with the environmental and social performance of a specific firm in an industry. The levels of disclosure reactions made by managers might be associated with the levels of media attention given to a particular social and environmental issue of that company. Negative media attention to that issue would lead to positive social and environmental disclosure in corporate annual reports (Brown and Deegan, 1998; Deegan et al, 2000’ Deegan et al; 2002).

These studies could be classified into event-typed studies such as Patten (1992), Deegan and Rankin (1996) and Deegan et al (2000), longitudinal studies such as Guthrie and Parker (1989), Brown and Deegan (1998) and Deegan et al (2002) and interview-based studies such as O'Donovan (2002). The event studies established a potential link between a legitimacy threatening environmental issue/event and the choice of legitimisation tactics, resulting in annual report disclosures. This provides a research foundation for this paper to conduct this social and environmental disclosure research under the Olympic event in the Chinese context. Other studies such as Brown and Deegan (1998) and Deegan et al (2002) recognised the role of media in shaping community perceptions and proposed that annual report environmental disclosure would be made in responses to media attention. O'Donovan (2002) was used as parts of theoretical framework of this study.
However, most of major social and economic events selected by previous event-studies were only limited within “unexpected” incidents. Under this context, the annual report disclosure reactions were ultimately based on the management’s perceptions of an issue’s public importance and its impact on the corporation’s image or survival. That indicated that the management’s perceptions were a determining factor as to whether a company responded to an incident. Such kind of perception was ultimately responding or reactive management behaviour. In other words, the annual report disclosure was basically reactive or responsive, rather than proactive or planned, to a social event. This is determined by the nature of the event selected that is “unexpected” rather than “expected” which can be predicted. Different with previous event studies which mainly focused on environmental crises, this study will examine the annual report disclosure reactions to issues that were not environmental incidents such as Olympic sponsorship. In reverse, the Olympic sponsorship could provide opportunities to enhance an organisation’s reputation and legitimacy.

2.3 Literature linking reputation with corporate social disclosure

In recent years, researchers started to discuss the motives of managers to use corporate social reporting beyond legitimacy theory. They challenged the argument that corporate social reporting enhanced accountability. They provided new perspectives why firms engaged in corporate social reporting. Two typical literature are reviewed here: one is Hooghiemstra (2000) and the other is Bebbington et al (2008). Hooghiemstra (2000) indicated that corporate social reporting was an outcome of corporate impression management process. He suggested using corporate communication as an overarching framework to study corporate social reporting in which “corporate image” and corporate identity” are central (p. 55). Bebbington et al (2008) proposed a potential link between corporate reputation risk management and social reporting.
Hooghiemstra (2000) utilised ideas from marketing and management research, and introduced the concepts of corporate communication and impression management to study the motives of corporate social reporting. Corporate communication was defined, by Van Riel (1995, p. 26), cited in Hooghiemstra (2000, p. 57), as “an instrument of management by means of which all consciously used forms of internal and external communication are harmonised as effectively and efficiently as possible, so as to create a favourable basis for relationships which groups upon which the company is dependent”. Hooghiemstra (2000) stated that the closely related concepts of “corporate identity” and “corporate image/reputation” were central to corporate communication. He also recognised that corporate social reporting was a form of impression management tactics made by an organisation to communicate with its stakeholders.

Hooghiemstra (2000) compared and contrasted his theoretical framework with current legitimacy theory. In terms of similarities, he indicated that first, both his theory and legitimacy theory viewed corporate social reporting as a means to influence people’s perceptions; second, both of them indicated that managers were willing to report “good news” but reluctant to disclose “bad news”; finally, both of them recognised the role of media in affecting people’s perceptions of a company, and managers did react to media concerns. Nevertheless, there were several differences. First, corporate social reporting from a corporate communication perspective was aimed at protecting or enhancing corporate image or reputation, whereas under legitimacy theory corporate reporting was aimed at legitimising corporate ongoing existence. Moreover, from corporate communication perspective, corporate social reporting could contribute in creating a positive image for an organisation, which could secure its competitive advantages. Finally, corporate annual report social and environmental disclosure was basically self-laudatory or self-presentational to a large extent, which is different with legitimacy theory which focuses on the rational of “public pressure” and “accountability” (Hooghiemstra, 2000).

The case study of Shell/Royal Dutch was conducted by Hooghiemstra (2000) indicated that the strategies developed by previous legitimacy theory were not sufficient to generate successful management for an organisation. The initial reactions made by Shell/Royal Dutch to negative publicity after it announced its decision to sink the Brent
Spar in the Atlantic Ocean was only to show its compliance to regulation and emphasise that its decision was the best solution, which aimed at, arguably legitimising its ongoing operations. However, this way of responding seemed to worsen Shell’s reputation and that of the whole oil sector. Having learned its experience and recognised that a company’s reputation was the most valuable asset, Shell not only changed its communication style from “buffering” to “bridging” but additionally, placed a large emphasis on ethical standards. Shell implemented several initiatives such as increase corporate social disclosure in their reports and websites, open dialogue and welcome debate from its stakeholders, and advertise their images. Hooghiemstra (2000) argued that these initiatives in fact aimed at protecting its reputation. Therefore, the author concluded that the intentions for managers to use corporate social reporting were not only to influence public opinions of the company as a “good corporate citizen” and but also to do their “feel-good image building”.

Bebbington, Larrinaga and Moneva (2008)

A more recent paper linking corporate reputation with social disclosure is Bebbington et al (2008). They started the discussions from recent literature that questioned the explanatory power of legitimacy theory, and thereby, their literature attempted to point towards “the possibilities of more diverse and varying explanations of CSR reporting and the need to put flesh on the bones of legitimacy theory” (p. 338). Bebbington et al (2008) proposed that the corporate social responsibility reporting could be viewed as an outcome, and a part of reputation management process. Similar with Hooghiemstra (2000), this paper also heavily drew on management research.

The theoretical framework of Bebbington (2008) was built on Benoit (1995)’s image restoration strategies. Benoit (1995), cited in Bebbington (2008), summarised previous image restoration literature which studies individuals’ accounts, excuses and apologies as well as corporate responses to criticism. Benoit’s studies included explanations of the accounts given by Exxon, Union Carbide and Tylenol in response to the crises they faced. He argued the impetus for image restoration attempts arose from the fact that “humans are embroiled in activities which will lead to conflict and potential damage to reputation”. Interestingly, he suggested that humans had a “deep-seated” need to have and maintain “face”. The types of reputation disclosure can be functioned as first, it is a “reprehensible act must have been committed” or must have addressed the audiences’

Their review of the Shell Report 2002 indicated that most of Benoit’s image restoration strategies could be evidenced. Second, Shell’s disclosure had a strong transcendental quality. The dominant theme of those disclosures was to show the company’s charity involvement. The findings of Bebbington et al (2008) suggested that the disclosure was a self-presentational device aimed at “the self” and focusing on “the narcissistic manufacture of the organisation identity for being good” (p. 353), which is consistent with Hooghiemstra (2000). Finally, Bebbington et al (2008) indicated that his theory did not stand alone and that could be integrated with legitimacy theory and stakeholder theory.

Several criticisms of Bebbington et al (2008) could not be ignored. Adams (2008) provided deep analysis and critique of Bebbington et al (2008). Adams (2008) suggested that there were largely cognate between Benoit’s image restoration strategies and Lindblom’s legitimisation strategies. There are overlaps between “strategies to legitimize, strategies to minimise risk, and strategies used in engaging with stakeholders and a link between perceived reputation and legitimacy” (Adams, 2008, p. 367). Adams (2008, p. 367) indicated that Bebbington et al’s reputation risk management theory might have little potential to add to broader understanding of “why companies report, what they do or don’t, and how they use the information reported” as Bebbington et al’s theory focused little on the broader context. Thus, Adams noted that Bebbington et al’s analysis might draw attention away from “acknowledging the importance of the social, political and economic context in which disclosures are made and the manner in which reports both reflect and set out to influence the broader social, political and economic context” or draw attention away from “the importance of process, attitudes and power plays in determining what goes into report” (p. 367).
Summary

In summary of Hooghiemstra (2000) and Bebbington et al (2008), the major arguments, particularly those different with legitimacy theory, are: first, corporate reputation is one motive for managers to do corporate social reporting; second, the annual report social disclosure is mainly self-presentational which focuses mainly on “self-image”, which is different with legitimacy theory which emphasises the rationale of “accountability”; third, legitimisation techniques do not necessarily generate successful management. The importance of emphasis on corporate reputation should be highlighted. These arguments also provided a possible lens for this study to understand the social reporting under the Olympic sponsorship context. The reputation risk management theory of this study is built on Hooghiemstra (2000) and Bebbington et al (2008). However, one main drawback of these two studies is that they failed to provide a strong difference in the definitions of “legitimacy” and “reputation”. The tactics generated by reputation risk management theory seem to have many overlaps with legitimacy theory. Finally, the reputation risk management theory is lacking of empirical tests.

2.4 Sponsorship and its strategic role in corporate reputation and legitimacy

This section reviews literature on sponsorship and its major impact. Sponsorship is one of key areas in the management and marketing research. Dolphin (2003, p. 173) reported that sponsorship had “moved away from being a philanthropic approach to communication” and had been recognised as a key corporate marketing strategy. He concluded that sponsorship played a significant role in enhancing corporate image or reputation, increasing sales opportunities, improving communication values, leveraging employee morale and adding goodwill.

Definition of sponsorship

The theoretical definition of sponsorship is not clear in spite of the growth of research concerning sponsorship (Dolphin, 2003), but there are several agreements on defining sponsorship that this study could adopt. Sandler and Shani (1993) defined sponsorship as the provision of resources such as money, people or equipment by the sponsor to an
event in exchange for the direct association to that event. Similar with Sandler and Shani (1993), Dolphin (2003) defined sponsorship as an activity in which the sponsor could either support an association/person for their presentation of an event or the organiser of the event in exchange for their brand name promotion. Tripodi (2001) indicated sponsorship as a marketing communication tool for commercial benefits. Thwaites (1995) tended to recognise sponsorship as a transaction, while Dolphin (1999) agreed in some degree and stated that sponsorship was a financial support given by the sponsor to an event with the commercial objectives to create goodwill and improve public relations. All of previous definitions were embraced here and this study recognised sponsorship as a financial support to the organiser of a sporting or cultural event or an association/person that involved in that event with certain commercial objectives.

Sponsorship and corporate reputation

The discussion of sponsorship is always associated with corporate image and reputation. Amis, Slack, and Berrett, (1999) recognised company or brand image and reputation as the most important resources achieved from a sport sponsorship program, and good corporate reputation enabled a company to secure its competitive advantage. Aims et al (1999) recognised that those resources of competitive advantage were usually intangible, tacit, firm-specific and depreciated slowly. They conducted an interview study of senior marketing personnel from 28 national and multi-national Canadian firms that had been involved in sport sponsorships at the national or international levels to determine how sponsorships were created and managed. The results indicated that sponsors which were successful in managing sponsorship programs had either "knowingly or fortuitously" developed their sponsorship into a distinctive competence and made it an intrinsic part of overall marketing and communications mix.

Consistent with Amis et al (1999), Amis (2003) investigated the ways in which sport could be used in the management and development of the key intangible resources of image and reputation at Guinness, a multinational company. Data were collected from a variety of sources, including interviews, video, documents, internal presentations, electronic media and various popular press and academic publications. The results agreed that the utilisation of sport through direct sponsorship, advertising and on-trade promotions played a central role in the development of corporate reputation.
Further evidence of the focus on reputation as an important corporate resource could be found though Hall (1993). Several intangible resources were identified in Hall (1993): intellectual property rights, contracts and licenses, personal and organisational networks, know-how employees, corporate reputation and organisational culture. He reported that these intangible assets represented a significant portion of company value, and reputation was the highly valuable resource most focused by British executives. He stated that the notion of corporate reputation was a central ingredient to gain competitive advantage and corporate success.

Different with Hall (1993), Amis et al (1999) and Amis (2003) preferred to use the term “distinctive competence” to describe the ability to generate sustainable advantage. In order to achieve this distinctive competence, there are three requirements that need to be taken into managers’ consideration (Amis et al, 1999).

The first one is whether the sponsorship is able to provide a significant increase to perceived customer value of the product and service offered by the firm. Here, Amis et al (1999, p. 253) highlighted the role of brand equity and indicated that “brand equity, a combination of image and reputation, is just such an intangible resource that can add to the perceived customer value of a product or service”. Amis (1999) offered four potential benefits of brand equity to customer value: first, it differentiates a company with its competitors. Second, it creates a positive image in minds of customers; third, it prevents the erosion of market shares; last, it provides more time for a company to respond to its environmental threats.

The second one is uniqueness. That indicates whether the sponsorship assets or resources could be either uniquely held by the sponsors, or could contribute significantly more to the firm than to any of its competitors. Aims et al (1999, p. 253) stated that “the distinctive competence that the firm develops must be unique in order to differentiate the firm from its competitors”. Otherwise, the significance of sponsorship becomes weak if that competence could be imitated by competitors. The strong stakeholder impression of corporate uniqueness and differentiating image with its competitors is a crucial element of corporate reputation.

The third one is extendability. That indicates that sponsors must “constantly striving to find new ways of leveraging it across the organisation” through the sponsorship. “The
more often that it is used, the more the competence is developed, and the more valuable it becomes to the firm which owns it” (Amis et al, 1999, p. 257).

Olympic sponsorship and its impacts

There is no doubt that Olympic sponsorship provides a super marketing platform that could satisfy Amis et al (1999)'s three components of successful sponsorship. This is determined by the significant rights and benefits attributed to sponsors by the Olympic sponsorship. Take Beijing Olympic sponsorship as an example. BOCOG (2008) claimed that several rights and benefits could be guaranteed through the Olympic sponsorship program, which included product/service exclusivity in specific categories, use of Olympic marks for the corporate marketing and promotional purposes, hospitality opportunities at the Olympic Games like accommodation, accreditation, tickets for opening and closing ceremony, preferred TV coverage, sponsor recognition program and acknowledgements and protection of sponsorship rights via the anti-ambush marketing program. However, the rights and benefits are differentiated between the levels of sponsorship an organisation participates in. For example, the ten top sponsors of Beijing Olympics even have the rights of product/service exclusivity globally during the Olympic year (BOCOG, 2008). These benefits and rights of Olympic could secure a strong brand alignment with the Olympic event and corporate uniqueness or exclusivity, and enhance corporate reputation significantly.

Correspondingly, the strict selection process of Olympic sponsors ensured that only the best industry would be selected. In terms of Beijing Olympics, the selection process highlighted corporate strength, quality and reliability of product/service, financial performance, brand alignment and marketing activation. It also highlighted corporate accountability and reputation. For example, BOCOG (2008) stated that “companies must possess a good reputation and social image ..., in addition, their products should be environment-friendly”. In this perspective, the sponsorship such as Olympics could be considered as an accreditation of corporate reputation.

Previous literature concerning Olympic sponsors demonstrated that Olympic sponsorship had a significant impact on corporate reputation. McDonald (1999) noted that consumers might usually believe that an Olympic sponsor is the best company in its industry. Tripoldi (2001) indicated that Olympic sponsorship could be used as an
equity-establishing strategy to enhance corporate reputation and demonstrate their brand is superior over competitors. Consistent with Tripoldi (2001), Papadimitriou et al (2008) indicated that Olympic sponsorship could provide sponsors concrete rights and specific benefits associated with the strongest sporting brand in the world. They reported that World leading companies such as Coca-Cola, Kodak and Visa International had integrated several sponsorship agreements well into their long-term marketing strategies and were continuously promoting their involvement in order to gain competitive advantage.

Stipp (1998) undertook a phone survey for NBC (National Broadcasting Company in America) to examine how 1992 Summer Olympics impacted on corporate image of Olympic sponsors. Stipp (1998) found that marketing objectives could be achieved though the Olympic sponsorship program. For example, in Stipp (1998), 95% of respondents agreed that companies sponsoring the Olympics could advertise effectively to a large audience, 91% agreeing that sponsors could associate the company name with Olympics and 95% agreeing that companies could generate sales. Furthermore, the study also showed that 83% of respondents agreed that sponsors were responsible companies. The study suggested that this company's sponsorship of the 1992 Summer Olympics had a substantial effect on the company's image, to a large extent, was a result of "extra" benefits resulting from the Olympic sponsorship.

A survey conducted by Wang (2008) concerning Beijing Olympic sponsors also showed that sponsors achieved their marketing objectives through Olympic sponsorship program. The results indicated that the Olympic sponsorship program did promote the sponsors' corporate image, social responsibility, sales generation and brand recognition. It also showed the comparison in the brand recognition of sponsors with non-sponsors. The findings indicated that most sponsors went ahead of their main competitors in terms of brand recognition through the Olympic sponsorship campaigns.

Media coverage might be another important benefit from the Olympic sponsorship. Beijing Olympic Committee recognised that Olympic sponsors had the preferred right to do advertisements on TV, newspapers and websites. Their promotion could be used with Olympic patents and symbols (BOCOG, 2008). Previous literature on sponsorship showed that media coverage was one motivate for managers to choose sponsorship (Cornwell, et al, 2000). For example, Otker (1988) indicated that to build sound
relations between sponsors, the sponsored events and the media was one indication of successful sponsorship. Meenaghan and Shipley (1999) suggested that media had a significant effect in corporate sponsorship. Media was recognised as the medium to transfer the messages of sponsors. Managers used media to respond to social expectations and manage public perceptions of their corporate and brand image. All these studies show that sponsors would have high media coverage, while that also means high public expectations of sponsors’ other performances. As O’Donovan (2002, p. 349) argued, if an organisation that promoted itself as “extremely social and environmentally responsible”, it would need to “keep one step” ahead of the public expectations.

However, it might be indicated through several literature that the benefits of sponsorship do not accrue automatically which require organisations’ careful management of sponsorship. McDononald (1991) suggested that theoretically, sponsorship played a significant role in corporate reputation, but in practice the companies appeared to take the trouble to find the effect of sponsorship on that. The problem might be that the effects were difficult to observe and the research on the measurement of sponsorship impact was inadequate. Consistent with McDononald (1991), Papadimitriou et al (2008) also recognised Olympic sponsorship as an important opportunity for sponsors to generate their brand value, but their results indicated that the majority of the Grand National Sponsors of Athens 2004 Olympics failed to report clear or measurable objectives, failed to consider the strategic or brand-related initiatives in their investing decisions and failed to establish evaluation processes. The researchers encouraged sponsors to adopt a more strategic approach in the sponsorship solicitation and management process. Miyazaki and Morgan (2001) questioned the value of Olympic sponsorship and suggested that organisations should ensure that organisations’ goals were well associated with corporate sponsorship of events.

Summary

The review of marketing and management literature show that sponsorship as an “activity”, “financial support”, “marketing communication tool” or “provision of resources” in which the sponsor could support either an association/person for their presentation of an event or the organiser of the event in exchange for their brand name promotion (Dolphin, 1999; Sandler and Shani, 1993; Thwaites, 1994; Tripodi, 2001).
Sponsorship has strong association with corporate image or reputation. Corporate reputation is the most important ingredient to gain competitive advantage and corporate success for managers (Hall, 1993). This resource could secure distinctive competence of an organisation (Amis et al, 1999; Amis, 2003). Sponsorship could provide a significant increase to perceived customer value of the product and service offered by the firm, generate unique sponsorship assets or resources that competitors cannot copy and have the characteristic of extendability (Aims et al, 1999).

Olympic sponsorship is the way to attract high media attention and meet social expectations. The strict selection process can also make “best industry” become the sponsors. Literature indicated that Olympic sponsorship could be used by managers to demonstrate their leadership and showcase their brand superior over competitors (Tripoldi, 2001; Papadimitriou et al, 2008). Therefore, Olympic sponsorship could impact on corporate reputation significantly (Dolphin, 2003; Miyazaki and Morgan, 2001; Sandler and Shani, 1993; Stipp, 1998; Wang, 2008).

2.5 Summary

Studies concerning Olympic sponsorship demonstrated that the Olympic sponsorship was usually associated with the “best” firm in their industry group and could also impact on people’s perceptions of its corporate image. Previous studies indicated that sponsorship attracted huge media attention, and was a means to manage social expectations. Following accounting literature like Brown and Deegan (1996) and Deegan et al (2000), it is expected that managers react to media attention in order to manage public expectations. Therefore, it is expected that managers will make reactions to their sponsorship. The event-typed studies of legitimacy theory also suggest that managers react, potentially by increasing social and environmental disclosures in their annual reports, to an event/issue which could cause a threat to their corporate legitimacy. However, no empirical studies extend the theoretical framework to study the corporate responses to positive issues or events. The arguments generated by reputation risk management theory added a new potential lens that the annual social report disclosure could be used as a self-representational device to enhance corporate reputation. Motivated by arguments developed by marketing research, legitimacy theory and reputation risk management theory, this study will test whether managers react to positive issues or events such as Olympic sponsorship in their annual reports.
Chapter Three
Theoretical Framework and Hypotheses Formulation

3.1 Introduction

The objective of this chapter is to build the theoretical framework for this study and formulate the hypotheses to be tested. Legitimacy theory and reputation risk management theory are reviewed. Finally, three main hypotheses are formulated in order to address the research questions discussed in Chapter one.

3.2 Legitimacy theory

Overview of legitimacy theory

Legitimacy theory, like a number of other theories, such as political economy theory and stakeholder theory, is considered as a system-oriented theory (Deegan, 2002). The system-oriented theory perceives that organisations are social creations and their existences have to operate within a larger social system as part of coalition individuals and sub-coalitions (Deegan, 2002).

Gray et al. (1996) directly pointed that the insights provided by legitimacy theory were actually established on those derived from another theory known as political economy theory. He defined “political economy” as the social, political and economic framework within which human life takes place. The “Bourgeois” perspective of political economy theory posits that corporate social reporting behaviour should be linked to a broad range of inseparable political, economic and environmental issues and influences (Gray et al, 1996). Deegan (2002) supported Gray et al (1996) and indicated that social, political and economic issues could not be separated, and a single issue could not be meaningfully investigated without considering others.

Within this perspective, it has been argued that their social “citizenship” depends on the willingness of societal acceptance of their continuing operations. The organisations are assumed to be influenced by, but also have influence upon the society where they operate (Deegan, 2002). Therefore, legitimacy could also be considered as a crucial resource which an organisation to rely on for survival (Deegan, 2002). This perspective can also be explained by resource dependence theory. Resource dependence theory proposes that to comply with the demands of others and to manage dependencies are starting points of organisational behaviours as they create constraints on organisational actions. The primary objective is to ensure the needed resources of an organisation could be gained and maintained continually (Deegan, 2002). Milne and Patten (2002, p. 374) argued that “the more critical and scarce the resources required by the organisation, the greater the control over the organisation those with resource possess, and the greater the attention they receive from the organisation”. As a result, the larger social system holds the power to determine whether the organisational utilisation of societal resources is to be legitimate or not.
Legitimacy and the notion of social contract

The two definitions of legitimacy are reviewed here. One is from Dowling and Pfeffer (1975) and the other is from Suchman (1995). The definitions of legitimacy show several agreements. First, they support the discussions in previous section that the entities cannot simply claim themselves as "being legitimate". The legitimacy of an entity is primarily based on what the society rather than what the entity considers legitimate. In other words, the society "confers" upon the organisation the "state" of legitimacy (Deegan, 2002). Second, they indicated that legitimacy existed when the entity's value system were congruent with the value system of the larger social system of which the entity is a part.

Dowling and Pfeffer, (1975, p. 122) defined legitimacy as:

... a condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy.

Similar with Dowling and Pfeffer, Suchman (1995, p. 574) stated:

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.

Deegan (2002, p. 292) argued that this perspective was similar with the notion of "social contract" provided by Mathews (1993, p. 26) who stated:

The social contract would exist between corporations (usually limited companies) and individual members of society. Society (as a collection of individuals) provides corporations with their legal standing and attributes and the authority to own and use natural resources and to hire employees. Organisations draw on community resources and output both goods and services and waste products to their general environment. The organisation has no inherent right to these benefits, and in order to allow their existence, society would expect the benefits to exceed the costs to society.

According to Deegan (2002), the "social contract" notion is not easy to define, but it could be used to represent the multitude of implicit and explicit societal expectations about how the organisation should conduct their operations. The fundamental argument is: if the society perceives that the organisation has breached its social contract, an
organisation’s survival will be threatened. Thus, the organisation needs to operate in an acceptable or legitimate manner in order to comply with that social contract.

Failure to comply with social contract would lead to public sanctions (Deegan, 2002). This might be evidenced through, for example, “consumers reducing or eliminating the demand for the products of the business, factor suppliers eliminating the supply of labour and financial capital to the business, or constituents lobbying government for increased taxes, fines or laws to prohibit those actions which do not confirm with the expectations of the community” (Deegan, 2002, p. 293). The notion of social contract is widely used in previous studies of legitimacy theory (Brown and Deegan, 1998; Deegan and Rankin, 1996; Deegan et al 2000; Deegan; 2002).

However, one difficulty is that it is difficult to measure social expectations as they change over time. Thus, researchers such as Brown and Deegan (1998), Deegan et al (2000) and Deegan et al (2002) tended to use media as the proxy of social expectations and community concerns. The basic argument is that the media is powerful to influence community perceptions about a company’s environmental perceptions. They recognised that managers responded to community concerns if they perceived that there was a legitimacy problem. Therefore, they proposed a relationship between the levels of media attention given to particular social and environmental issues and the levels of annual report environmental disclosure. This is also a valuable insight for this study.

**Legitimisation strategies and tactics**

In order to comply with social expectations and remain legitimate, organisations may adopt a number of legitimisation strategies. Lindblom (1994) distinguished legitimacy with legitimisation, and stated that legitimacy was a status or condition while legitimisation was a process that led an organisation to be legitimate. According to Deegan (2002), two papers considering organisational legitimisation strategies were highly cited: Dowling and Pfeffer (1975) and Lindblom (1994).

Dowling and Pfeffer (1975, pp. 126-127) indicated several actions that might be taken by an organisation to gain or to maintain their legitimacy:
First, the organisation can adapt its output, goals and methods of operation to conform to prevailing definitions of legitimacy. Second, the organisation can attempt, through communication, to alter the definition of social legitimacy so that it conforms to the organisation’s present practices, output, and values. Finally, the organisation can attempt, again through communication, to become identified with symbols, values, or institutions which have a strong base of social legitimacy.

Despite several overlaps with Dowling and Pfeffer (1975), Lindblom (1994) attempted to extend the concept of legitimacy to organisational reporting area. Lindblom (1994) stated:

- Corporate social disclosure may be used to communicate changes in the corporation’s output, methods, and goals which have been made in response to shifts in the relevant publics’ expectations (p. 13).
- The organisation attempts to demonstrate the appropriateness of the output, methods, and goals to the public through education and information. This alternative does not require a change in business performance or in societal expectation but, rather, requires only a change in perception (p. 14).
- Identifying organisational output, methods, and goals with the popular perception of what is appropriate without any attempt at actual conformity. Under this alternative business performance does not change, nor do societal expectations. Instead the corporation attempts to associate itself with symbols having high legitimate status (p. 15).
- The organisation attempts to bring popular views into conformity with organisational output, methods, and goals. Here the emphasis is on education and information. Under this alternative the corporation is not making and internal adjustment to close the legitimacy gap but, rather, seeks an adjustment in societal expectation. (p. 16)

However, that does not mean that the voluntary disclosure of corporate social and environmental information is objective. That indicates these legitimisation strategies developed by Dowling and Pfeffer (1975) and Lindblom (1994) could be managed. Buhr (1998) argued that Dowling and Pfeffer (1994)’s strategies could be summarised into two dimensions at play to attain legitimacy: one is “action” that is whether an organisation’s activities are congruent with social values and the other is “presentation” that is whether the activities appear to be congruent with social values. The chosen level of environmental disclosure may have everything or nothing in common with the environmental management record of the organisation (Buhr, 1998, p. 165). Deegan et al (2002) supported Buhr (1998) and indicated that “organisations seek to ensure that they act, or at least appear to act, within the boundaries and norms of societies in which they operate” (p. 319). Previous empirical studies also indicated that companies seemed to be reluctant to provide its negative information about its social and environmental performance (Guthrie and Parker, 1989; Deegan and Gordon, 1996; Deegan and Rankin, 1996).
One problem here is: if the intended audience will not be aware of what the company is doing or trying to achieve, the legitimacy of the organisation will still remain problematic. Therefore, it is argued that the public "legitimate" actions of an organisation must be accompanied by effective communications with its stakeholders (Deegan, 2002). The annual report disclosure strategy is one of communication tactics used by organisations to implement each of the above strategies developed by Lindblom (1994).

O’Donovan (2002, p. 351), based on previous literature, provided several explanations why annual report disclosure was significant for managers to consider. First, the annual report has long been used as a major public document that is "a pivotal presentation by a company" and has significant impact on "the way financial markets and the general public perceives and reacts to a company". Second, the inclusion of voluntary information in the annual report could be used by managers "to send specific signals and messages to the public", "to persuade readers to accept management’s view of society", to present "messages to society and other corporate stakeholders about their social and environmental actions and activities" and to "correct misconceptions the public may have formed about a company/industry and its environmental activities". Final, from the users' perspective, stakeholders want to see an increase in corporate environmental disclosures in the annual reports. The study of corporate social disclosure in annual reports was also widely used in previous event-typed studies such as Patten (1992), Deegan and Rankin (1996), Deegan et al (2000) and Deegan et al (2002).

A questionnaire study conducted by Deegan and Rankin (1997) was designed to investigate whether annual report was a strong source of environmental information and whether environmental information was relatively important to the decision-making process in comparison with other social responsibility information and financial information. The findings demonstrated that the environmental information was significantly material to particular groups of annual report users such as stockbrokers, analysts, accounting academics and shareholders. The annual report was considered to be significantly more important than any other sources of environmental information by the respondents.
The purpose of corporate responses: to gain, maintain or repair legitimacy

Recently, O’Donovan (2002) found that managerial intentions of using these legitimisation strategies could be distinguished. He summarised three main managerial purposes: to gain, maintain or repair legitimacy. O’Donovan (2002) argued that to gain legitimacy started if a large organisation moves into a new area for itself and its stakeholders. To gain legitimacy could be either for the propriety of the new activity in general or for management’s own validity as managers. In some cases such as Tilling (2004), this purpose is more referred to “establish” legitimacy. Tilling (2004) used the word “to gain legitimacy” more related to where organisations attempted to gain “new” legitimacy after they have already “established” certain levels of “legitimacy”. O’Donovan (2002) argued that in attempting to gain legitimacy, management needs to be proactive.

To maintain legitimacy requires managers to “keep current” as public needs and wants change over time. O’Donovan (2002) stated that this process was thought to be far easier than either to gain or repair legitimacy. The only challenge was that organisations needed to “observe, or even anticipate, change and protect past accomplishment if they are to maintain their legitimacy” (p. 349). O’Donovan (2002) further argued that the less legitimacy an organisation started with, the less it needed to maintain. In the reverse situation, if an organisation that promoted itself as “extremely social and environmentally responsible” were to maintain its legitimacy, it would need to “keep one step” ahead of the public expectations (O’Donovan, 2002, p.349).

To repair legitimacy has been often related to the crisis management (O’Donovan, 2002). He argued that “the main difference is that strategies for repairing legitimacy are reactive, usually to an unforseen and immediate crisis, whereas techniques to gain legitimacy are usually ex ante, proactive and not normally related to a crisis” (p. 350). The majority of empirical studies into managing legitimacy referred to corporate responses to “negative” issues or events that brought the company or industry to the public spotlight (Patten, 1992; Brown and Deegan, 1998; Deegan and Rankin, 1996; Deegan et al 2002). However, there were a lack of researches into the types of tactics/strategies and disclosures aimed at gaining or maintaining legitimacy (O’Donovan, 2002).
3.3 Reputation risk management theory

Interest in organisational reputation is more recent in comparison with the notion of organisational legitimacy. Reputation has an impact in status theory in sociology, the resource-based view of the firm strategy and game theory in economics (Deephouse and Carter, 2005). The literature systematically linking corporate reputation with annual report social disclosure is scarce. Bebbington et al (2008) indicated that this might be a potential worthwhile research area in explaining the motives of corporate social reporting.

This section firstly compares and contrasts the concept of legitimacy with reputation. The discussion is mainly based on Deephouse and Carter (2005) and King and Whetten (2008). Secondly, this section presents the theory concerning the role of corporate reputation which is built on Dowling (1994), Hannington (2004), and Haywood (2005). Thirdly, this section recognises communication as a key strategy to build and protect reputation, which is developed from Dowling (1994), Gaines-Ross (2007), Hannington (2004), Harris (1993) and Haywood (2005). Finally, this section provides a potential link between corporate social reporting and corporate reputation, which is built on Hooghiemstra (2000) and Bebbington et al (2008).

Comparing and contrasting legitimacy with reputation

Similarities between organisational legitimacy and reputation have been discussed in previous literature (see Deephouse and Carter, 2005; King and Whetten, 2008). First, both organisational legitimacy and reputation are constructed on similar process that stakeholders evaluate an organisation (Deephouse and Carter, 2005). Second, both of them represent intangible resources that organisations rely on to improve their chances of survival and performance and to acquire resources (King and Whetten, 2008; Deephouse and Carter, 2005). Third, both of them might have similar antecedents, such as “organisational size, charitable giving, strategic alliances and regulatory compliance” (Deephouse and Carter, 2005). Final, both of them were components of their theory of social identities which constituted an organisation’s reference group (King and Whetten, 2008).
Differences in legitimacy and reputation could and should be highlighted (Deephouse and Carter, 2005; King and Whetten, 2008). Deephouse and Carter (2005) indicated that legitimacy has been traditionally considered as “acceptability or acceptance”, “taken-for-granted” standards and congruence with social systems. In contrast to legitimacy, reputation focuses more on “relative standing or desirability, quality, esteem, and favourableness” (Deephouse and Carter, 2005, p. 331). Some words such as image, esteem, prestige and goodwill were always used interchangeably with reputation in literature (Deephouse and Carter, 2005).

Consistent with Deephouse and Carter (2005), King and Whetten (2008, pp. 192-193) also stated that “legitimacy is a requirement of all organisations”, “critical to organisational survival”, whereas reputation is a “desirable, but not essential property” which “makes an organisation better”. Legitimacy emphasises more on “similarity” while reputation represents “positive distinction” (King and Whetten, 2008, p. 200). The essential difference of legitimacy and reputation was described as “who is this actor similar to and how is this actor different from all similar others” (King and Whetten, 2008, p. 192). King and Whetten (2008, p. 193) further argued that as opposed to antagonistic and one-sided relationship which was indicated by past literature, legitimacy and reputation should be considered as complementary, reciprocal and interdependent relationship. They indicated that reputation could be viewed as an extension of legitimacy and that the two perceptions were connected though an organisation’s adoption of particular social identities (King and Whetten, 2008, p. 193).

**Corporate reputation and its role**

Consistent with previous discussions, reputation is a perception of an organisation’s ability to meet the expectations of its stakeholders, but stakeholders’ evaluations are not limited in one specific category. Hannington (2004) used the Harris-Fombrun Reputation Quotient to represent major dimensions of stakeholders’ revaluation. These six dimensions also arguably consist of an organisation’s reputation.

The six dimensions are: products and services in terms of its quality, innovation and services; financial performance in terms of its current record, future growth, risks of investment and comparisons with its competitors; vision and leaders in terms of its current leadership, vision of their future and the use of market advantages; working
environment in terms of its organisational culture, employee relations and employee policy; social responsibility in terms of environmental responsibility and community involvement; and final, sector specific in terms of their successful projects.

Corporate reputation affects business results every day of every year. (Dowling, 1994; Hannington, 2004; Haywood, 2005). Good corporate reputation could lead to excess profits over those of other industry participants by "inhibiting the mobility of rival firms, acting as barrier to entry into markets, signalling to customers about the quality of the firm's products and possibly enabling the firm to charge higher prices, attracting better job applicants, enhancing access to capital markets and attracting investor" (Dowling, 1994, p. 17) and also, discussed more explicitly in Dowling (1994), adding strategic value if it is used to add an extra element to the company's marketing mix, impacting on customer choices for companies which sell products or services that are functionally equivalent and generating goodwill in a company's balance sheet. Corporate reputation was also the most important asset for managers to consider (Amis et al, 1999; Amis, 2003; Gaines-Rose, 2007; Hannington, 2004; Haywood, 2005). Amis et al (1999) recognised that these reputational assets were usually intangible, tacit, firm-specific and depreciated slowly which could create distinctive competence and secure that competence for a corporation. As Bill Pendergast, the Corporate Reputation Management Chairman of Fleishman-Hillard, which is cited in Hannington (2005, p. 5), argued:

*Reputation is a corporation's most important asset. Strong and durable reputations are built over time by doing the 'right things right' across the organisation, and taking appropriate credit for achievements. Reputation influences all the goals a corporation can set – getting a higher stock multiple, generating higher profit margins, attracting and retaining the best employees, finding strong business partners, and capturing both the attention and loyalty of customers. Reputation also is a critical factor in how well an organisation weather a crisis.*

**Communication is a key strategy to build and protect reputation**

Corporate reputation is an extremely important asset for an organisation to secure their competitive advantage, but a good corporate reputation is based on people's perceptions. Therefore, that requires managers to take careful management. According to Haywood (2005), reputation management is essentially the management of public relations. In this process, communication with its stakeholders plays vital role in determining whether
the management is successful. The corporate intentions of communication could be summarised as:

...to create a favourable reputation, to increase an already favourable reputation, to maintain or reinforce the established every favourable reputation, to change an unfavourable reputation people hold of the company and to modify, or reposition people's reputations when they are at odds with the company's activities, or when competitors are seen to be similar... (Dowling, 1994, p. 117).

The creation, maintenance or reinforcement of corporate reputation started from key business events and touch-points that influence reputation. These issues or events might include bidding for new contracts, contract fulfilment, problem handling and resolution, customer-facing staff, media coverage and industry watches (Hannington, 2004). All these issues or events depend on effective communication with its stakeholders. The key objective of communication is to select some “positive” issues or events and align the corporate images and brand name to that issues, events or touch-points. In the process, managers should consider whether the event or issue links to a product which could invite publicity, the people attracted are users or potential users of the product and there is a meaningful or necessary link between the product and the event (Harris, 1993).

In the case of positive events or issues, the most commonly used tactic, identified by Hooghiemstra (2000), is that of acclaiming, which is “designed to explain a desirable event in a way that maximises their implications for the actor” (p. 61). However, in reverse, He also argued that the tactics of acclaiming which comprised of “enhancement” and entitlement” were also often used particularly when circumstances appeared to deprive the actor of credit for desirable events.

The change or modification of corporate unfavourable reputation is related to crisis management (Dowling, 1994). This argument here might also be similar with that argument of “to repair corporate legitimacy” from O'Donovan (2002). According to Dowling (1994), the communication under crisis should address “both the cognitive needs (for the facts and analysis) and emotional needs (for assurance or sympathy) of affected stakeholders” (p. 216). Within this framework, responding to a crisis requires three sequential actions: “the immediate communication response, answering the basic media questions and demonstrating remorse” (Dowling, 1994, p. 216). However, recovering reputation is a long way to achieve which “typically does not come from one major event or announcement, but rather from a series of small incremental steps that
slowly generate positive momentum". At this stage, companies must be cautious not to appear too boastful or overconfident as good news surfaces. Companies on the recovery continuum should remain humble and always on guard (Gaines-Rose, 2007, p. 125)

**Linking reputation management with corporate social reporting**

Literature such as Dowling (1994), Gaines-Rose (2007), Hannington (2004), Harris (1993) and Haywood (2005) are purely based on management and marketing research. Their communication perspectives were only discussed within marketing means such as corporate advertising, sponsorship, website and media disclosure. None of these papers focused on accounting tactics. Hooghiemstra (2000) and Bebbington et al (2008) tended to extend the concept of reputation into study of corporate social reporting in corporate annual reports.

Hooghiemstra (2000) was in fact using corporate communication as his theoretical framework. Nevertheless, through his discussion, he recognised that corporate reputation was central to the communication perspective. From previous literature concerning corporate social reporting, he noted that the annual report could be used as a communication means for managers to communicate with its stakeholders. Therefore, he argued that the intentions of managerial disclosure of social and environmental information in their annual reports were to enhance and protect their corporate reputation. The nature of that disclosure was self-laudatory.

Bebbington et al (2008) discussed the impact of reputation and reputation management on corporate social reporting. He argued that corporate social reporting could be viewed as both an outcome of and part of reputation risk management processes. This study tended to support this argument. However, different with Bebbington et al (2008) which might focus mainly on corporate responses to repair their images, this study tended to look at another side whether annual report reactions would be made to positive issues. The basic argument in this study is that both positive and negative issues lead to corporate reputation management strategies. Effective communication with stakeholders is essential in the successful management of reputation. Annual report is arguably the self-presentational device to disclose their "entitlement" or "enhancement" of corporate social responsibility contributions. Then, it could be expected that certain amounts of disclosure would be made in annual reports in reaction to positive issues or events. The
summary of major similarities and differences of legitimacy theory and reputation risk management theory is shown in table 1.

### Table 1
Comparing and contrasting legitimacy theory with reputation risk management theory

<table>
<thead>
<tr>
<th></th>
<th>Legitimacy theory</th>
<th>Reputation risk management theory (RRM)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Definition</strong></td>
<td>Both based on similar process that stakeholders evaluate an organisation</td>
<td>Focus on desirable but no essential property</td>
</tr>
<tr>
<td></td>
<td>Both represents resources that organisations rely on to improve survival chance</td>
<td>Makes an organisation better</td>
</tr>
<tr>
<td></td>
<td>and acquire resources</td>
<td>Positive distinction with others</td>
</tr>
<tr>
<td><strong>Similarities</strong></td>
<td>Similar antecedents</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Components of social identities</td>
<td></td>
</tr>
<tr>
<td><strong>Differences</strong></td>
<td>Focus on taken-for granted standards and congruence with social systems</td>
<td>The notion of corporate reputation</td>
</tr>
<tr>
<td></td>
<td>Focus on similarity</td>
<td>Focus on reputation as the most important asset</td>
</tr>
<tr>
<td><strong>Key concept</strong></td>
<td>The notion of social contract</td>
<td>To protect and enhance corporate reputation</td>
</tr>
<tr>
<td></td>
<td>To meet social expectations and comply with the social contract</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To respond external pressure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Emphasise the role of media</td>
<td></td>
</tr>
<tr>
<td><strong>Strategies/tactics</strong></td>
<td>Actual changes of corporate goals, methods and output</td>
<td>Through communication to manage public relations</td>
</tr>
<tr>
<td></td>
<td>Symbolic presentation of changes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Through communication to demonstrate the change or persuade readers with new views</td>
<td></td>
</tr>
<tr>
<td><strong>Managerial reactions to</strong></td>
<td>To repair legitimacy loss caused by negative events</td>
<td>Align reputation to positive events to enhance reputation</td>
</tr>
<tr>
<td>events</td>
<td>To gain or main legitimacy</td>
<td>To defend or protect reputation in reaction to negative events</td>
</tr>
<tr>
<td><strong>The role of annual report</strong></td>
<td>A device to meet external parties needed</td>
<td>A self-presentation device to focus on self image</td>
</tr>
<tr>
<td></td>
<td>To repair legitimacy loss if needed</td>
<td>To showcase its contribution, enhancement and entitlement</td>
</tr>
<tr>
<td></td>
<td>To legitimise its ongoing relations and manage social contract</td>
<td>To enhance and protect corporate reputation</td>
</tr>
<tr>
<td></td>
<td>A legitimisation process</td>
<td>An outcome, part of reputation management process</td>
</tr>
</tbody>
</table>
3.4 Hypotheses formulation

Three hypotheses are formulated here to test the annual report disclosure reactions to the Olympic sponsorship. The hypotheses are built on previous marketing research concerning sporting sponsorship, legitimacy theory and reputation risk management theory. The hypotheses address the research questions in Chapter one.

**Hypothesis one - annual report social disclosures by local sponsors**

Following previous research concerning legitimacy theory and reputation management theory, both identity-enhancing and identity-threatening events would lead to impression management behaviour (Milne and Patten, 2002). In terms of legitimacy theory, corporate legitimacy could be achieved though actual actions which are congruent with social values and expectations and/or symbolic presentations which make an organisation appear to be congruent with social values (Buhr, 1998). However, whichever strategic managerial styles an organisation would adopt, communication of their strategic posture or actual public activities with stakeholders is a must to achieve their organisational goals (Deegan et al, 2000). Otherwise, as is argued before, the society would not be aware of what the organisation has done and what it is achieving. Within these communication means, the annual report is considered as the most commonly accepted and recognised corporate communication vehicle (O'Donovan, 2002). Therefore, legitimacy theory posits that annual report reactions would be made in responses to these events.

However, different with previous empirical tests which solely focus on negative events such as environmental crises (Patten, 1992; Deegan and Rankin, 1996; Deegan et al, 2000), this study will not review that disclosure for negative scenarios. Obviously, Olympic sponsorship is not an environmental crisis. On the contrary, it provides an opportunity for organisations to demonstrate their congruence with social expectations. Therefore, different with previous studies of legitimacy theory, the annual report social disclosure here could be, if it shows an increase, arguably attributed to managerial responses to gain and maintain legitimacy rather than to repair legitimacy as is indicated by previous studies.
Previous Studies of marketing and management research indicated that sponsorship could enhance corporate reputation. Thus, reputation risk management theory is also embraced as a theoretical framework in this study. The fundamental argument of reputation risk management theory is that annual report social disclosure tends to be used by as self-presentational device to show corporate “enhancement” of social responsibility and their “entitlement” of contributions in order to manage stakeholders’ perceptions of their corporate reputation (Hooghiemstra, 2000). This communication behaviour always incurs when organisations gained credits from some events or issues. Therefore, the social disclosure could be, if it shows an increase, arguably attributed to managerial responses to the corporate reputation gained. Based on both legitimacy theory and reputation management theory, it can be hypothesized that managers would increase levels of social disclosure in their annual report in response to these events or issues. This leads to the hypothesis:

H1: (a) The local sponsors of Beijing Olympics are likely to provide a greater level of social disclosure in their annual reports after the sponsorship program is implemented.

In this study, social disclosure relates to the disclosure of environmental performance, product health and safety, human resources, community involvement and the Olympic-event-related issues. Olympic event-related disclosure relates to the disclosure of Olympic sponsorship, Olympic involvement, Olympic green project, the support of athletes, and any other social responsibilities activities relating to Olympics. The appendix 1 lists the categories of social and event-related disclosure. This study will specially test whether Olympic-related disclosure also show an increase as it is arguably more related to the sponsorship itself.

H1: (b) The local sponsors of Beijing Olympics are likely to provide a greater level of the event-related disclosure in their annual reports after the sponsorship program is implemented.

**Hypothesis two - annual report social disclosures by non-sponsors**

Prior researches by Patten (1992), Deegan and Rankin (1996), and Deegan et al (2000) indicate that the increases in the levels of social disclosure in reaction to a major social and environmental event are not limited within the firms that are directly affected from
the event, but also other companies operating in the same industry group, as environmental incidents affected the appearance of legitimacy for all companies within this industry. In order to avoid illegitimacy, other companies in the industry might use annual report social disclosure to deflect public attention from the issue of concern to other related issues (Deegan et al., 2000). However, this argument is limited within corporate responses to negative events or crises. This study tests whether this argument applies in positive circumstances. This leads to the following hypothesis:

H2: (a) Non-sponsors operating in the same industry group are likely to provide a greater level of social disclosure in their annual reports after the sponsorship program is implemented.

This study will specially test whether Olympic-related disclosure also show an increase as it is arguably more related to the sponsorship itself.

H2: (b) Non-sponsors operating in the same industry group are likely to provide a greater level of the event-related disclosure in their annual reports after the sponsorship program is implemented.

Nevertheless, reputation risk management theory might provide different perspectives on this issue which actually supports that non-sponsors would not make similar disclosure reactions as sponsors. If following King and Whetten (2008), legitimacy is “a requirement of all organisations”, “critical to organisational survival”, whereas reputation is a “desirable, but not essential property” which “makes an organisation better”. Legitimacy emphasises more on “similarity” while reputation represents “positive distinction” (p. 200). Sponsorship could generate, enhance and secure that “desirable property”, “positive distinction” and “uniqueness” of these companies which are directly involved in this sponsorship. That means that sponsorship only affects corporate reputation of individual companies rather than the whole industry group. Therefore, it could be expected that non-sponsors would not make same reactions as sponsors. That indicates that the corporate responses to this issue might be only limited within these companies who gained reputation from the participation of Olympic sponsorship, even though it could be potentially argued that non-sponsors use annual reports disclosure to compete with sponsors in terms of their social responsibility performance, but no previous literature emphasised this proposition. In conclusion,
either the acceptance or rejection of this hypothesis has implications for both legitimacy theory and reputation risk management theory.

**Hypothesis three - comparisons between sponsors and non-sponsors**

Consistent with previous discussion, legitimacy theory shows that the increases in the levels of social disclosure in reaction to a major social and environmental event are not only limited within the firms that are directly affected from the event, but also other companies operating in the same industry group (Patten, 1992; Deegan and Rankin, 1996; Deegan et al, 2000). However, there are differences in terms of the amount of their social disclosure. Deegan and Rankin (1996) indicated that the directly affected companies provided higher levels of social disclosure than those that were not directly affected companies. This study will test that hypothesis under positive scenarios.

Following reputation risk management theory that corporate reputation has the characteristics of positive distinction and uniqueness, and considering that Olympic Sponsorship is basically a differentiating strategy that enhances that uniqueness, it could be also reasonably expected that there are some differences in the disclosure level between sponsors and non-sponsors in reaction to the event. This study further addresses whether that difference is driven by the increases in whole categories of social disclosure or only driven by event-related disclosure. That will have implications for the further discussion of the theoretical framework. This leads to the following research hypothesis:

H3: (a) Local sponsors of Beijing Olympics are likely to provide a greater level of social disclosure after the sponsorship program is implemented than non-sponsors.

This study will specially test whether Olympic-related disclosure also show an increase as it is arguably more related to the sponsorship itself.

H3: (b) Local sponsors of Beijing Olympics are likely to provide a greater level of the event-related disclosure after the sponsorship program is implemented than non-sponsors.
3.5 Summary

The theoretical frameworks employed in this study are legitimacy theory and reputation risk management theory. Legitimacy theory is based on the notion of social contract which represents social values and expectations. Legitimacy theory argues that organisations need to operate in an acceptable or legitimate manner in order to comply with the social contract. Failure to do that will lead to public sanctions (Deegan, 2002). In order to meet public expectations, organisations would adopt several legitimisation strategies and tactics (Lindblom, 1994). These strategies/tactics could be managed either to do actual action or symbolic changes (Buhr, 1998). Annual report social disclosure is one strategy to communicate actual or symbolic change with stakeholders (Deegan and Rankin, 1997). The purposes of corporate responses in annual reports could be to gain, maintain or repair legitimacy (O’Donovan, 2002).

Reputation risk management theory is based on the notion of corporate reputation. Different with the concept of legitimacy, reputation focuses on positive distinction which makes an organisation better (King and Whetten, 2008). Reputation risk management theory proposes that corporate reputation can impact on customer choices, attract investors, enhance access to capital markets and generate goodwill (Dowling, 1994). Corporate communication tactics are aimed at protecting and enhancing corporate reputation. The creation, maintenance or reinforcement of corporate reputation requires organisations to align their corporate reputation to events/issues that influence reputation (Harris, 1993). Reputation risk management theory suggests that annual report social reporting is the outcome or a part of reputation management process (Bebbington et al, 2008), and the nature of social reporting is self-presentational to show corporate social performances and contributions.

Based on legitimacy theory and reputation risk management theory, this study generates three hypotheses. They are: first, local sponsors of Beijing Olympics are likely to provide a greater level of social and event-related disclosure in their annual reports after the sponsorship program is implemented; second, non-sponsors of Beijing Olympics are likely to provide a greater level of social and event-related disclosure in their annual reports after the sponsorship program is implemented; third, local sponsors of Beijing Olympics are likely to provide a greater level of social and event-related disclosure after the sponsorship program is implemented than non-sponsors.
Chapter Four
Research Methodology

4.1 Introduction

The objective of this chapter is to discuss the research methodology relating to the study design, statistical model, sampling process, data collection procedures, and the measurement of control variables.

4.2 Study design

"Before-and-after" study design

In this research, the before-and-after study design is employed to test the differences of variables. According to Kumar (1996, p. 91), the before-and-after study design could be undertaken by "two sets of cross-sectional observations on the same population to find out the change in the phenomenon or variables between two points in time". The change is measured by comparing the difference in the before and after observations of the phenomenon or variables. This difference represents the intervention or impact of the program. Based on Kumar (1996, p. 89), the before-and-after study design is the most appropriate design for measuring the impact or effectiveness of a program, situation, issue, phenomenon, event, problem or attitude.

Kumar (1996, p. 91) states that "when the program has been completely implemented or is assumed to have had its effect on the population, the after observation is carried out to ascertain the impact attributed to the intervention". The impact of the intervention of a program or event in the before-and-after design is calculated as follows:

"Change in dependent variable =
[status of the dependent variable at the 'after' observation] –
[status of the dependent variable at the 'before' observation]" (Kumar, 1996, p. 91)

Nevertheless, several disadvantages cannot be ignored. One of the most significant disadvantages is that as the formula measures total change, it cannot ascertain whether
the change in the dependent variable is driven by independent or extraneous variables (Kumar, 1996). In order to minimise the effect of those extraneous factors, a control group design is needed.

The control group design

In a study utilising the control group design, two groups are selected: a “control” group and an “experimental” group. Kumar (1996, p. 91) stated:

*These groups are expected to be comparable as far as possible in every respect except the intervention. The experimental group either receives or is exposed to the intervention, whereas the control group is not.*

Kumar (1996) further proposed the steps to conduct the observations in detail. First, both experimental group and control group are subject to “before” observations at the same time. Second, an “after” observation is also made on both groups when it is assumed that the intervention has an impact. Therefore, the difference in the “before” and “after” observations between the groups in terms of the dependent variables could be explained by the intervention of the intervention (Kumar, 1996). The following discussion shows the algebraic model.

For the experimental group,

\[
\text{Changes in the dependent variable} = [\text{Impact of the program}] \\
\pm [\text{Impact of other extraneous factors}]
\]

For the control group,

\[
\text{Changes in the dependent variable} = \pm [\text{Impact of other extraneous factors}]
\]

Therefore, that leads to

\[
[\text{Impact of the program}] = [\text{Changes in the dependent variable of experimental group}] \\
- [\text{Changes in the dependent variable of control group}]
\]
4.3 Sampling process

The sampling process refers to the selection of annual reports of both Beijing Olympic sponsors and non-sponsors where the data for the hypotheses testing is obtained. In order to minimise other extraneous factors such as various cultural backgrounds, economic conditions and political systems among different countries, only Chinese companies are included. The annual reports of Chinese companies are collected from the Mergent Online database, which provides annual reports of listed companies from selected countries around the world.

Sampling of sponsors

In this study, the sample of local sponsors represents the experimental group indicated by Kumar (1996). The initial selection is to examine the levels of Beijing Olympic sponsorship. Beijing Olympics has five levels of sponsorship including top worldwide partners, partners, sponsors, exclusive suppliers and suppliers. However, only top worldwide partners, partners and sponsors are examined in this study. Exclusive suppliers and suppliers are excluded in this study. The reasons for excluding exclusive suppliers and suppliers are: first, compared with partners and sponsors, suppliers have less marketing rights through the sponsorship program and might be less attractive to the public; second, suppliers are not top sponsors which are highly reputable and usually considered as the best company in their area; third, many suppliers such as MengNa group, Yadu and Crystal technology are not public listed companies. Their annual reports cannot be accessed by the public. Therefore, that reduces our sample to fifteen companies.

Within the group of top sponsors, two companies (State grid and Heng Yuan Xiang) are not public listed companies and are excluded. One company (China Netcom) was not listed until 2004, which is also excluded from this study. The final sample of sponsors is limited to twelve companies which includes all companies that meet the selection criteria. They are Air China, Bank of China, China Mobile, China national petroleum corporation (CNPC), Haier Global, Lenovo, PICC Property and Casualty Company (PICC), Sinopec, Sohu, TsingTao Brewery, Yanjing Brewery, and YiLi. All these companies have strong brand recognition in China.
Sampling of non-sponsors

The control group refers to non-sponsors. The objective of selecting non-sponsors is to minimise the effect of extraneous variables (Kumar, 1996). Given that industry classification and firm size are relevant factors impacting on the levels of social disclosure (Patten, 1992; Deegan and Rankin, 1996), this study selected twelve Chinese companies, matched by industry classification and firm size, which had not participated in the Sponsorship program. This matching process follows the methodology developed by Deegan and Rankin, (1996). Moreover, within that industry group, this study tries to select those companies which are the most important competitors of the sponsors in terms of their products and services area, such as Sohu and Sina, Yili and Mengniu. Their relationships are just like McDonald with KFC, Coca-Cola with Pepsi. The reason to choose main competitors is to test whether the reputation differentiation strategy has an impact on the levels of annual report disclosure. If one sponsor has several competitors which are at the same level, the non-sponsor whose firm size is most close to the sponsor is chosen. In terms of corporate size, it cannot guarantee some indicators such as total assets are at the exactly same level. In order to minimise the variation, non-sponsors which have similar levels of assets with sponsors are selected. Consequently, this study considers firm size as a control variable. Non-sponsors selected in this study are China Eastern, China Resources, China Unicom, CNOOC, Founder, Industrial Commercial Bank of China (ICBC), Maotai, Mengniu, Ping’an Insurance, Sina, Sinochem, and The Creative Life (TCL).

Sampling years

In order to examine the impact of an event/issue on the extent of annual report disclosure, it is necessary to firstly establish the level of annual report disclosure prior to an event/issue and then compare this measure with the extent of disclosure following an event/issue. In this study, the periods of sampling years consist of two years prior to the event and two years after the event. The decision on two years selection is subjective, but it has several advantages and could represent the intervention of sponsorship program. First, some companies might not do immediate disclosure reactions in their annual reports considering the time lag if this study uses one year before and one year after. Second, if three years “before and after” test is used, the windows might be too long, and thereby other extraneous events might have an impact.
In this study, another difficulty is the various dates that different sponsors signed their sponsorship contracts with Beijing Olympic Committee. Table 2 shows their dates that the sponsorship contract was signed. The balance sheet date for Chinese companies is at the end of each physical year. Therefore, for sponsors that signed the contract in years 2004 or 2005, it is expected that managers made relevant disclosures in their 2004 or 2005 annual reports respectively. Table 2 shows sponsors and their matched non-sponsors.

Table 2

<table>
<thead>
<tr>
<th>Sponsors, non-sponsors, and sampling years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsors</td>
</tr>
<tr>
<td>Lenovo</td>
</tr>
<tr>
<td>(n=12)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Note: (a) The information regarding the dates of signing the sponsorship is collected from sponsors’ annual reports.</td>
</tr>
</tbody>
</table>

4.3 Data collection process

Content analysis is employed in this study to collect the data and examine the levels of disclosure. Content analysis in social reporting literature has been widely employed (see: Patten, 1992, Deegan and Gorden, 1996; Deegan and Rankin, 1996; Gray et al., 1995; Guthrie and Parker, 1990). Content analysis is an instrument used to measure comparative positions and trends in reporting (Guthrie et al., 2006). Content analysis seeks to present published information in an objective, systematic, and general way (Holsti, 1969). Objectivity means that “each step in the research process must be carried
out on the basis of explicitly formulated rules and procedures” (Holsti, 1969, p. 3). Objectivity indicates that these and other decisions are guided by an explicit set of rules that minimise, although it could not perfectly eliminate, the possibility that the findings reflect the analyst’s subjective predispositions rather than the content of the documents under analysis.

Systematic means that the categories of classification need to be clearly and operationally defined according to consistently applied rules (Holsti, 1969; Guthrie et al, 2008). This requirement clearly eliminates analyses in which only materials supporting the investigator’s hypotheses are admitted as evidence. A reliable coder is necessary for consistent coding.

Generality requires that the findings must have theoretical relevance (Holsti, 1969). Holsti (1969) states that purely descriptive information about content which is unrelated to other attributes of documents or to the characteristics of the sender or recipient of the message is of little value. The requirements of objectivity, systematic, and generality are not only limited within content analysis, but also being necessary conditions for all scientific inquiry (Holsti, 1969). Content analysis is actually the application of scientific methods to documentary evidence.

However, the above requirements of content analysis are not always easy to achieve. The most significant difficulty is the subjectivity and consistency of interpretation of the analysed content (Deegan and Rankin, 1996, Milne and Adler, 1999). Milne and Adler (1999) indicate that the reliability of the research instruments and the data collected need to be demonstrated. The methods indicated by Milne and Adler (1999) apply in this study to overcome the weakness of content analysis. First, in this study, two independent coders, the researcher and Zhang Xiangyu who is an accounting student in Edith Cowan University, are involved in doing content analysis of annual reports. The discrepancies between these two coders are few, but any discrepancy was discussed, re-checked and re-solved between two coders. Second, in order to ensure that the coding instruments are reliable, the researcher should demonstrate that the coding instrument with well-specified decision categories and decision rules are established, and the coded categories could be selected from a relevant and well-grounded literature (Milne and Adler, 1999). The coding categories of this study are adopted from Deegan et al (2002).
The establishment of coding rules consists of two elements: first, how to define the category and second, how to measure the unit (Holsti, 1969). The most important requirement of categories and units measurement is that they must adequately reflect the investigator’s research question. This implies that the analyst must define clearly the variables, and secondly, he/she must specify the indicators which determine whether a given content datum falls within the category. That requires: a valid presentation of the analyst’s concepts, and being sufficiently precise that it guides coders to produce reliable judgments (Holsti, 1969).

In terms of social disclosure, the category usually includes four major components: the environment, product safety, human resources and community involvement. Some researchers may adopt one specific category if he/she wants to test that specific disclosure. For example, in studies like Patten (1992) and Deegan and Rankin (1996), only the environmental information is tested as other components are not relevant to their research focuses. In this study, the categories of social disclosure which is adopted from Deegan et al (2002) are shown in Appendix 1.

After establishing the classification category, the research needs to consider two dependent variables in relevance to their research focus: the quality and the quantity of the disclosure. For the studies concerning quality, researchers need to pre-establish a set of rules for the category and scoring policies. A scoring worksheet is usually prepared. The measurement units always refer to scores. The quality of disclosure is not examined in this study. Regarding the quantity of the disclosure, there is a debate on the preferred units of analysis which tend to be words, sentences and pages. For example, Patten (1992) is based on the number of pages, while Deegan and Gordon (1996) are based on the number of words.

This study here recognises the number of sentences might be a better indicator of the disclosure. First, the use of words or pages has significant limitations. To use words might be very time-consuming if the research involves a large volume of data, while to use pages is too difficult to measure if the theme is not be in an exact one page. Second, Sentences are preferred in written communication if the task is to infer meaning (Gray et al., 1995). Using sentences for both coding and measurement is likely to provide complete, reliable and meaningful data for further analysis (Guthrie et al, 2008). Final, the sentence count method is more appropriate for converting charts, tables and
photographs into equivalent lines and is more likely to provide more reliable measures of inter-rater coding than words (Guthrie et al., 2008). Consequently, in this study, the dependent variable refers to the number of sentences relating to social disclosure.

### 4.4 Statistical model

The statistical model used by this study relates to the methodology developed by Kumar (1996). In addressing the research questions and related hypotheses, this study is concerned with whether there were changes in the levels of disclosure by local sponsors after they participated in the Sponsorship program and whether the changes can be explained by other companies operating in the same industry group. Following Kumar (1996) and the research questions of this study, it can be shown that the nature of this study is to test the mean differences of the dependent variables before and after the sponsorship was implemented for sponsors and non-sponsors, and the mean differences between sponsors and non-sponsors after they implement the sponsorship. This study first employs the K-S test to examine the assumption of normality. Some categories, especially the total amounts of social disclosure for all sampling groups, support the assumption of normality, but several individual categories of social disclosure violate the assumption. As the data do not provide consistency in terms of their normality, this study decides to use both parametric and non-parametric tests. Therefore, a paired-sample t-test and Wilcoxon signed rank test are used to test hypotheses one and two. An independent t-test and Mann-Whitney test are used to test hypothesis three. The statistical software SPSS is used to do the statistical testing.

### 4.5 Control variables

As several extraneous variables cannot be perfectly controlled, this study needs to test how those variables impact on the levels of annual report social disclosure. Two control variables are discussed and the statistical model is presented. Other variables such as industry group, economic performance, environmental performance, ownership structure, listing location of sponsors and country-specific variables are not considered because of the inherent sample size in the study.
Measurement of control variables

Levels of sponsorship
The control variable in this study refers to the levels of sponsorship made. The objective of testing this variable is to examine whether the levels of annual report social disclosure by local sponsors is associated with level of sponsorship. The measurement of this variable is:

3 - Top worldwide partners
2 - Partners
1 - Sponsors
0 - Non-sponsors

Firm size
The relationship between firm size and the levels of social disclosure has been well discussed in previous studies (Patten, 1992; Deegan and Carroll, 1993; Cullen and Christopher 2002). Legitimacy theory posits that organisations have a “social contract” with the society where it operates. The society expects organisations to comply with the social contract. Failure to comply with social contract will lead to public pressure or sanctions imposed on the organisation (Brown and Deegan, 1996; Deegan et al, 2000; Deegan, 2002). In addition to this argument, Watts and Zimmerman’s (1978) political cost hypothesis could make additional contributions. They posit that larger firms are deemed to be more subject to public exposure. Hence, they have more political costs than smaller companies, such as more public expectation of social performances, more government-imposed taxation and other regulations, and more media attention and exposure. According to Watts and Zimmerman (1978), larger firms are more likely to use accounting tactics to reduce their political costs. Following the political cost hypothesis and legitimacy theory, larger companies might have more incentives to use legitimisation techniques, such as to increase their annual report social disclosure, to manage their legitimacy and the social contract. Consistent with previous studies, this study uses total assets to represent firm size. In order to make data satisfy the assumption of normality, the data are transformed to the natural logarithm of total assets.

Statistical model of testing control variables
This study employs the multiple regression model to test the two control variables. The multiple regression model provides an indication of the statistical significance of individual independent variables, as well as for the overall model. In order to simplify the process, only 2005 annual reports were reviewed in this section to determine the dependent variables. The regression model could be explained as follows:

\[ \text{DISC}_{k(i,ii)} = \beta_0 + \beta_1 \text{SIZE}_k + \beta_2 \text{LEVEL}_k + \epsilon_k \]

Where,

\( k \) denotes the firm

\( \text{DISC}_{(i)} \) represents total amounts of social disclosure including all categories in 2005 annual reports (number of sentences)

\( \text{DISC}_{(ii)} \) represents the Olympic event-related disclosure in 2005 annual reports (number of sentences)

\( \text{SIZE} \) is the natural logarithm of total assets

\( \text{LEVEL} \) represents the levels of sponsorship

\( \epsilon \) is the normally distributed random error

### 4.6 Summary

This chapter discusses the research design, sampling process, data collection procedures, statistical model and the measurement of control variables. The before-and-after and the control group designs developed by Kumar (1996) apply in this study. The sampling companies are collected from Mergent Online database which provides annual reports of listed companies from selected countries around the world. Content analysis is employed in this study to collect the data and measure the levels of social disclosure. In order to minimise the risk of subjectivity, two independent coders are involved in the content analysis process. The categories used are adopted from Deegan et al (2002). The number of sentences, which is the dependent variable, represents the levels of social disclosure in this study. The statistical models relate to the test of mean differences. Both parametric and non-parametric methods are utilised. A paired-sample t-test and Wilcoxon signed rank test are used to test hypotheses one and two. An independent t-test and Mann-Whitney U test are used to test hypothesis three. Two control variables are recognised: levels of sponsorship and firm size. A multiple regression model is used to test the control variables.
Chapter Five
Results and Findings

5.1 Introduction

This chapter will first present the descriptive statistics relating to the dependent variables, and then discuss the tests of hypotheses and control variables. Last, the main findings are discussed and analysed.

5.2 Descriptive statistics

The descriptive statistics of the variables are displayed in Table 3. It shows the “before-and-after” comparison of total amounts of social disclosure and event-related disclosure for both sponsors and non-sponsors. The table includes the mean, minimum and maximum amount of disclosure and the standard deviation. The mean amount of disclosure refers to average number of sentences per year across the two years before or after the sponsorship was implemented. The minimum and maximum of disclosure refers to lowest and highest average number of sentences disclosed by a firm across the two years before or after the sponsorship was implemented.

It shows that both sponsors and non-sponsors increased their social disclosure steadily in terms of issues relating to the environment, product, human resources, community involvement and overall disclosure. For both groups of sponsors, their Olympic-related disclosure shows a significant increase after their contracts were signed, but non-sponsors do not make similar reactions.
Table 3
Descriptive statistics of dependent variables

<table>
<thead>
<tr>
<th>Disclosure</th>
<th>Before (Years -2 and -1)</th>
<th>After (Years +1 and +2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean Sentences</td>
<td>SD</td>
</tr>
<tr>
<td>Sponsors (n = 5) with annual reports 2002 to 2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>3.0</td>
<td>6.2</td>
</tr>
<tr>
<td>Product</td>
<td>20.6</td>
<td>13.2</td>
</tr>
<tr>
<td>Human Resources</td>
<td>26.2</td>
<td>18.7</td>
</tr>
<tr>
<td>Community</td>
<td>6.8</td>
<td>9.0</td>
</tr>
<tr>
<td>Olympic-related</td>
<td>.2</td>
<td>.3</td>
</tr>
<tr>
<td>Total amount</td>
<td>56.8</td>
<td>22.3</td>
</tr>
<tr>
<td>Sponsors (n = 7) with annual reports 2003 to 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>2.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Product</td>
<td>6.2</td>
<td>4.1</td>
</tr>
<tr>
<td>Human Resources</td>
<td>9.4</td>
<td>8.4</td>
</tr>
<tr>
<td>Community</td>
<td>.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Olympic-related</td>
<td>.0</td>
<td>.0</td>
</tr>
<tr>
<td>Total amount</td>
<td>19.1</td>
<td>13.7</td>
</tr>
<tr>
<td>Non-sponsors (n = 5) with annual reports 2002 to 2005</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>1.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Product</td>
<td>18.9</td>
<td>10.6</td>
</tr>
<tr>
<td>Human Resources</td>
<td>23.2</td>
<td>21.0</td>
</tr>
<tr>
<td>Community</td>
<td>1.8</td>
<td>2.0</td>
</tr>
<tr>
<td>Olympic-related</td>
<td>.1</td>
<td>.2</td>
</tr>
<tr>
<td>Total amount</td>
<td>45.3</td>
<td>32.9</td>
</tr>
<tr>
<td>Non-sponsors (n = 7) with annual reports 2003 to 2006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>1.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Product</td>
<td>5.4</td>
<td>4.8</td>
</tr>
<tr>
<td>Human Resources</td>
<td>4.8</td>
<td>3.5</td>
</tr>
<tr>
<td>Community</td>
<td>2.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Olympic-related</td>
<td>.0</td>
<td>.0</td>
</tr>
<tr>
<td>Total amount</td>
<td>13.6</td>
<td>4.7</td>
</tr>
</tbody>
</table>
5.3 Hypotheses testing

A number of statistical tests are conducted in order to test the hypotheses developed previously. As the annual reports of sampling companies have two ranges of time periods (one is from year 2002 to 2005 and the other is from year 2003 to 2006), the testing of hypotheses requires them to be examined separately. Both the parametric and non-parametric testings are employed in this study as the K-S tests show that the data do not provide consistency in terms of their normality.

Results of hypothesis one

H1 (a) relates to whether sponsors of Beijing Olympics provided greater levels of social disclosure after the sponsorship was implemented than before. The results of the tests are shown in table 4. Both a paired-samples T-test and a Wilcoxon signed rank test are employed to determine whether there is a significant difference in the amount of social disclosure between the “before” and “after”. The results indicate that both sampling groups of companies show a significant increase in terms of total amounts of social disclosure at significant level $p \leq 0.05$. Thus, hypothesis one (a) could be accepted regarding the total social disclosure.

However, most of individual categories of social disclosure do not show a significant increase for both sampling groups. That might be because first sampling groups do not include a great number of companies, and second some companies have their own preferences of forms of disclosure. The categories of disclosure are diverse rather than unified in one category. For example, many companies such as Lenovo and Bank of China might not be environment-sensitive, and thereby they prefer to focus on the disclosure of customer service and employees training and development. Some companies such as YiLi tend to focus on product safety while companies such as Sinopec are likely to disclosure more on environmental information.

A further comparison is made to test whether there is a significant difference in the event-related disclosure. The results are shown in table 5. From the Paired-samples T-test and the Wilcoxon Signed Rank, the results clear show that the difference is significant for both sampling groups at the significance level $p \leq 0.05$. Therefore, the H1 (b) is accepted.
### Table 4

**Social disclosure by local sponsors**

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean (sentences) Before Sponsorship</th>
<th>Mean (sentences) After Sponsorship</th>
<th>Paired-samples T-test</th>
<th>Wilcoxon Signed Rank Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean Paired-samples T-test</td>
<td>Sig. (one-tailed) t-value</td>
<td>z-value</td>
<td>Sig. (one-tailed)</td>
</tr>
<tr>
<td>Sponsors (n=5) with annual reports from year 2002 to 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>3.000</td>
<td>4.800</td>
<td>1.857</td>
<td>0.069 1.604 0.055</td>
</tr>
<tr>
<td>Product</td>
<td>20.600</td>
<td>27.200</td>
<td>4.872</td>
<td>0.004 2.023 0.022</td>
</tr>
<tr>
<td>Human Resources</td>
<td>26.200</td>
<td>31.900</td>
<td>1.819</td>
<td>0.072 1.625 0.052</td>
</tr>
<tr>
<td>Community</td>
<td>6.800</td>
<td>8.400</td>
<td>1.372</td>
<td>0.121 1.342 0.090</td>
</tr>
<tr>
<td>Sum (a)</td>
<td>56.600</td>
<td>72.300</td>
<td>3.451</td>
<td>0.013 2.023 0.022</td>
</tr>
<tr>
<td>Sum (b)</td>
<td>56.800</td>
<td>84.500</td>
<td>6.520</td>
<td>0.002 2.032 0.021</td>
</tr>
<tr>
<td>Sponsors (n=7) with annual reports from year 2003 to 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>2.714</td>
<td>3.286</td>
<td>2.066</td>
<td>0.042 1.841 0.033</td>
</tr>
<tr>
<td>Product</td>
<td>6.214</td>
<td>8.500</td>
<td>1.946</td>
<td>0.050 1.826 0.034</td>
</tr>
<tr>
<td>Human Resources</td>
<td>9.429</td>
<td>10.000</td>
<td>2.248</td>
<td>0.033 1.807 0.036</td>
</tr>
<tr>
<td>Community</td>
<td>0.786</td>
<td>1.357</td>
<td>1.622</td>
<td>0.078 1.604 0.055</td>
</tr>
<tr>
<td>Sum (a)</td>
<td>19.144</td>
<td>23.143</td>
<td>3.057</td>
<td>0.011 2.371 0.009</td>
</tr>
<tr>
<td>Sum (b)</td>
<td>19.144</td>
<td>29.500</td>
<td>3.469</td>
<td>0.007 2.375 0.009</td>
</tr>
</tbody>
</table>

**Note:**

(a) Social disclosure includes environment, product, human resources and community categories, but excludes Olympic-related disclosure
(b) Social disclosure includes Olympic-related disclosure

### Table 5

**Olympic event related disclosure by local sponsors**

<table>
<thead>
<tr>
<th>Sample</th>
<th>Mean (sentences) Before Sponsorship</th>
<th>Mean (sentences) After Sponsorship</th>
<th>Paired-samples T-test</th>
<th>Wilcoxon Signed Rank Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>t-value</td>
<td>Sig. (one-tailed) t-value</td>
<td>z-value</td>
<td>Sig. (one-tailed)</td>
</tr>
<tr>
<td>Sponsors (a)</td>
<td>0.200</td>
<td>8.100</td>
<td>2.973</td>
<td>0.021 2.032 0.021</td>
</tr>
<tr>
<td>Sponsors (b)</td>
<td>0.000</td>
<td>6.927</td>
<td>3.222</td>
<td>0.009 2.375 0.009</td>
</tr>
</tbody>
</table>

**Note:**

(a) Sponsors (n = 5) with annual reports from year 2002 to 2005
(b) Sponsors (n = 7) with annual reports from year 2003 to 2006
Results of hypothesis two

H2 (a) relates to whether non-sponsors of Beijing Olympics provided greater levels of social disclosure after the sponsorship was implemented than before. Table 6 shows the results of a Paired-samples T-test and a Wilcoxon Signed Rank Test. For the first group of non-sponsors, the hypothesis cannot be accepted in terms of total amount of social disclosure and each individual category. That indicates that the first group of non-sponsors do not increase their social disclosure significantly in reactions to the event. For the second group of non-sponsors, the hypothesis is not accepted in terms of individual categories of social disclosure. The hypothesis cannot also be accepted in terms of total amount of social disclosure if that excludes Olympic-related disclosure [sum (a) shows], even though the tests of Paired-samples T-test (which indicates a rejection) and Wilcoxon Singed Rank Test (which indicates an acceptance) provide inconsistent results. In this case, the result of t-test is arguably more powerful as a double check of K-S tests show that the assumption of normality can be supported. Nevertheless, the hypothesis could be accepted in terms of total amount of social disclosure including Olympic related disclosure at the significance level \( p \leq 0.05 \) [sum (b) shows]. Overall, H2 (a) cannot be accepted.

H2 (b) relates to whether non-sponsors of Beijing Olympics provided greater levels of event-related disclosure after the sponsorship was implemented than before. Table 7 shows the results of a Paired-samples T-test and a Wilcoxon Signed Rank Test. For two groups of non-sponsors, both of the results fail to show a significant increase in total amounts of event-related disclosure. Thus, H2 (b) cannot be accepted at the significance level \( p \leq 0.05 \). That indicates: the reactions of non-sponsors to the event are not that significant as sponsors.
### Table 6

**Social disclosure by non-sponsors**

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean (sentences) Before Sponsorship</th>
<th>Mean (sentences) After Sponsorship</th>
<th>Paired-samples T-test</th>
<th>Wilcoxon Signed Rank Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>t-value</td>
<td>Sig. (one-tailed)</td>
</tr>
<tr>
<td>Non-sponsors (n = 5) with annual reports from year 2002 to 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>1.300</td>
<td>1.300</td>
<td>0.000</td>
<td>0.500</td>
</tr>
<tr>
<td>Product</td>
<td>18.900</td>
<td>21.000</td>
<td>0.730</td>
<td>0.253</td>
</tr>
<tr>
<td>Human Resources</td>
<td>23.200</td>
<td>23.100</td>
<td>-0.077</td>
<td>0.471</td>
</tr>
<tr>
<td>Community</td>
<td>1.800</td>
<td>5.600</td>
<td>1.430</td>
<td>0.113</td>
</tr>
<tr>
<td>Sum (a)</td>
<td>45.200</td>
<td>51.000</td>
<td>1.663</td>
<td>0.086</td>
</tr>
<tr>
<td>Sum (b)</td>
<td>45.300</td>
<td>51.000</td>
<td>1.655</td>
<td>0.087</td>
</tr>
<tr>
<td>Non-sponsors (n = 7) with annual reports from year 2003 to 2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>1.286</td>
<td>1.286</td>
<td>0.000</td>
<td>0.500</td>
</tr>
<tr>
<td>Product</td>
<td>5.429</td>
<td>6.214</td>
<td>0.855</td>
<td>0.213</td>
</tr>
<tr>
<td>Human Resources</td>
<td>4.786</td>
<td>6.286</td>
<td>1.183</td>
<td>0.141</td>
</tr>
<tr>
<td>Community</td>
<td>2.071</td>
<td>3.571</td>
<td>1.680</td>
<td>0.072</td>
</tr>
<tr>
<td>Sum (a)</td>
<td>13.572</td>
<td>17.357</td>
<td>1.640</td>
<td>0.076</td>
</tr>
<tr>
<td>Sum (b)</td>
<td>13.572</td>
<td>18.357</td>
<td>2.253</td>
<td>0.033</td>
</tr>
</tbody>
</table>

Note:
(a) Social disclosure includes environment, product, human resources and community categories, but excludes Olympic-related disclosure
(b) Social disclosure includes Olympic-related disclosure

### Table 7

**Olympic event related disclosure by non-sponsors**

<table>
<thead>
<tr>
<th>Sample</th>
<th>Mean (sentences) Before Sponsorship</th>
<th>Mean (sentences) After Sponsorship</th>
<th>Paired-samples T-test</th>
<th>Wilcoxon Signed Rank Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>t-value</td>
<td>Sig. (one-tailed)</td>
</tr>
<tr>
<td>Non-sponsors (a)</td>
<td>1.000</td>
<td>0.000</td>
<td>-1.000</td>
<td>0.187</td>
</tr>
<tr>
<td>Non-sponsors (b)</td>
<td>0.000</td>
<td>0.929</td>
<td>1.518</td>
<td>0.090</td>
</tr>
</tbody>
</table>

Note:
(a) Non-sponsors (n = 5) with annual reports from year 2002 to 2005;
(b) Non-sponsors (n = 7) with annual reports from year 2003 to 2006
Results of hypothesis three

Hypothesis three relates to the comparison of sponsors and non-sponsors regarding their total amounts of social disclosure and Olympic-related disclosure. Comparison is made between sponsors and non-sponsors which have the same time period of annual reports selected.

H3 (a) refers to the comparison of total amounts of social disclosure between sponsors and non-sponsors. The results are presented in table 8 which shows the comparison of companies with annual reports from year 2002 to 2005 and table 9 which shows the comparison of companies with annual reports from year 2003 to 2006. As the results indicate, there is no significant difference in total amounts of social disclosure and each individual category. Therefore, the hypothesis three (a) is rejected.

H3 (b) refers to the comparison of Olympic-related disclosure between sponsors and non-sponsors. The quantities of event-related disclosure made by sponsors after the sponsorship is implemented are compared with those made in the same periods by the matched sample of non-sponsors. A Paired sample of T-test and a Mann-Whitney test are used to determine whether there a significant difference exists between the total event-related disclosure between of sponsors and non-sponsors after the sponsorship is implemented. The results are shown in table 10. The hypothesis can be accepted at the significance level $p \leq 0.05$. That indicates that Beijing Olympic sponsors disclose significantly more Olympic-related information than non-sponsors during the period covered by the study.
## Table 8

Comparison of Social disclosure between sponsors and non-sponsors [group (a)]

<table>
<thead>
<tr>
<th>Categories</th>
<th>Test</th>
<th>Mean</th>
<th>SD</th>
<th>Mean</th>
<th>SD</th>
<th>t-value (one-tailed)</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group (a) companies with annual reports from year 2002 to 2005</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environment</td>
<td>t-test</td>
<td>4.800</td>
<td>8.106</td>
<td>1.300</td>
<td>2.907</td>
<td>0.909</td>
<td>0.203</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.059</td>
<td>0.145</td>
</tr>
<tr>
<td>Product</td>
<td>t-test</td>
<td>27.200</td>
<td>11.697</td>
<td>21.000</td>
<td>6.955</td>
<td>0.102</td>
<td>0.173</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.940</td>
<td>0.174</td>
</tr>
<tr>
<td>Human resources</td>
<td>t-test</td>
<td>31.900</td>
<td>19.175</td>
<td>23.100</td>
<td>18.393</td>
<td>0.741</td>
<td>0.240</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.522</td>
<td>0.301</td>
</tr>
<tr>
<td>Community</td>
<td>t-test</td>
<td>8.400</td>
<td>8.870</td>
<td>5.600</td>
<td>7.012</td>
<td>0.554</td>
<td>0.298</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.529</td>
<td>0.299</td>
</tr>
<tr>
<td>Sum (a)</td>
<td>t-test</td>
<td>70.200</td>
<td>21.177</td>
<td>51.000</td>
<td>31.159</td>
<td>1.140</td>
<td>0.146</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.358</td>
<td>0.088</td>
</tr>
<tr>
<td>Sum (b)</td>
<td>t-test</td>
<td>78.300</td>
<td>21.244</td>
<td>51.000</td>
<td>31.159</td>
<td>1.619</td>
<td>0.075</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.776</td>
<td>0.038</td>
</tr>
</tbody>
</table>

Note:
Sum (a) refers to social disclosure includes environment, product, human resources and community categories, but excludes Olympic-related disclosure.
Sum (b) refers to social disclosure includes Olympic-related disclosure.
Table 9

Comparison of Social disclosure between sponsors and non-sponsors [group (b)]

<table>
<thead>
<tr>
<th>Categories</th>
<th>Test</th>
<th>Sponsors Mean</th>
<th>Sponsors SD</th>
<th>Non-sponsors Mean</th>
<th>Non-sponsors SD</th>
<th>t-value (one-tailed)</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group (b) companies with annual reports from year 2003 to 2006</td>
<td>Environment t-test</td>
<td>3.286</td>
<td>6.775</td>
<td>1.286</td>
<td>2.079</td>
<td>0.747</td>
<td>0.240</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.410</td>
<td>0.341</td>
</tr>
<tr>
<td></td>
<td>Product t-test</td>
<td>8.500</td>
<td>6.934</td>
<td>6.214</td>
<td>4.405</td>
<td>0.736</td>
<td>0.239</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.515</td>
<td>0.304</td>
</tr>
<tr>
<td></td>
<td>Human resources t-test</td>
<td>10.000</td>
<td>7.953</td>
<td>6.286</td>
<td>4.572</td>
<td>0.071</td>
<td>0.155</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.286</td>
<td>0.099</td>
</tr>
<tr>
<td></td>
<td>Community t-test</td>
<td>1.357</td>
<td>1.796</td>
<td>3.571</td>
<td>4.476</td>
<td>1.215</td>
<td>0.124</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.820</td>
<td>0.206</td>
</tr>
<tr>
<td></td>
<td>Sum (a) t-test</td>
<td>23.000</td>
<td>14.405</td>
<td>17.429</td>
<td>6.729</td>
<td>0.927</td>
<td>0.190</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.449</td>
<td>0.327</td>
</tr>
<tr>
<td></td>
<td>Sum (b) t-test</td>
<td>55.000</td>
<td>29.500</td>
<td>18.357</td>
<td>6.309</td>
<td>1.700</td>
<td>0.058</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1.151</td>
<td>0.125</td>
</tr>
</tbody>
</table>

Note:
Sum (a) refers to social disclosure includes environment, product, human resources and community categories, but excludes Olympic-related disclosure.
Sum (b) refers to social disclosure includes Olympic-related disclosure.

Table 10

Comparison of Olympic related disclosure between sponsors and non-sponsors

<table>
<thead>
<tr>
<th>Test</th>
<th>Sponsors Mean</th>
<th>Sponsors Standard deviation</th>
<th>Non-sponsors Mean</th>
<th>Non-sponsors Standard deviation</th>
<th>t-value (one-tailed)</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group (a) companies with annual reports from year 2002 to 2005</td>
<td>t-test</td>
<td>8.100</td>
<td>6.015</td>
<td>0</td>
<td>0</td>
<td>3.011</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.875</td>
</tr>
<tr>
<td>Group (b) companies with annual reports from year 2003 to 2006</td>
<td>t-test</td>
<td>6.929</td>
<td>5.689</td>
<td>0.929</td>
<td>1.618</td>
<td>6.965</td>
</tr>
<tr>
<td></td>
<td>Mann-Whitney</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.769</td>
</tr>
</tbody>
</table>

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5.4 Test of control variables

In this study, only two control variables are tested: firm size and levels of sponsorship. A cross-sectional regression analysis is employed to test whether the total amounts of social disclosure and the event-related disclosure can be explained by these two control variables. In order to simplify the process, only 2005 annual reports are reviewed to determine the dependent variable.

Table 11 and table 12 show the results of the regression analysis. From table 11, the results of ANOVA show that the linear relationship between dependent variables and independent variables exists for both groups. Table 12 shows that the amount of Olympic-related disclosure in 2005 annual reports is significantly correlated with the levels of sponsorship they participated in, while not significantly correlated with a company's firm size. Interestingly, if the total amount of social disclosure is used as the dependent variable, the results show that the dependent variable is significantly correlated with firm size, while not significantly correlated with the levels of sponsorship. That indicates that the levels of sponsorship might only drive the amount of Olympic-related disclosure but not a driver of the total amount of social disclosure.
Table 11
ANOVA of regression analysis of controlled variables

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model (a)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regression</td>
<td>156.716</td>
<td>2</td>
<td>78.358</td>
<td>7.178</td>
<td>0.004</td>
</tr>
<tr>
<td>Residual</td>
<td>229.242</td>
<td>21</td>
<td>10.916</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>385.958</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Model (b)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regression</td>
<td>7658.158</td>
<td>2</td>
<td>3829.079</td>
<td>6.770</td>
<td>0.005</td>
</tr>
<tr>
<td>Residual</td>
<td>11877.467</td>
<td>21</td>
<td>565.594</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19535.625</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:
The dependent variable of model (a) is the amount of Olympic-related disclosure; The dependent variable of model (b) is the amount of social disclosure including environment, product health and safety, human resources, community involvement and event-related disclosure.

Table 12
Regression analysis of Olympic-related disclosure and social disclosure

<table>
<thead>
<tr>
<th></th>
<th>Unstandardised Coefficients</th>
<th>Standardised Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std.Error</td>
</tr>
<tr>
<td>Model (a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-2.000</td>
<td>6.588</td>
</tr>
<tr>
<td>Size</td>
<td>0.298</td>
<td>0.633</td>
</tr>
<tr>
<td>Levels</td>
<td>4.371</td>
<td>1.173</td>
</tr>
<tr>
<td>Model (b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-120.983</td>
<td>47.418</td>
</tr>
<tr>
<td>Size</td>
<td>14.942</td>
<td>4.555</td>
</tr>
<tr>
<td>Levels</td>
<td>12.432</td>
<td>8.445</td>
</tr>
</tbody>
</table>

Note:
The dependent variable of model (a) is the amount of Olympic-related disclosure; The dependent variable of model (b) is the amount of social disclosure including environment, product health and safety, human resources, community involvement and event-related disclosure.
5.5 Summary and discussion of findings

To summarise previous findings, local sponsors of Beijing Olympics provided greater levels of social and Olympic event related disclosure after they participated in the sponsorship program, but non-sponsors did not make similar levels of disclosure reactions. Local sponsors provided greater levels of event-related disclosure in their annual reports than non-sponsors after their sponsorship contracts were signed, but the difference of total amounts of social disclosure between sponsors and non-sponsors was not statistically significant.

In terms of total amounts of social disclosure, legitimacy theory provides several useful insights. The results of this study show that sponsors disclose significantly more social information in their annual reports after the sponsorship contract was signed. No doubt, Olympic sponsors would attract more media attention and public expectations of their environmental and social performances after they became sponsors. In order to meet these expectations, managers might utilise annual report social disclosure in response to public expectations. Moreover, under the circumstances of this study, there is no indication that sponsors experienced legitimacy loss from the sponsorship program. Therefore, the increases of social disclosure might be attributed to corporate responses to gain new legitimacy or maintain their current legitimacy, as is indicated by O’Donovan (2002). The increase of annual report disclosure could also be explained by reputation risk management theory. Reputation risk management theory argues that managers might use impression management techniques, potentially by increasing the annual report social disclosure, to showcase their social performances to stakeholders.

Regarding the comparison between sponsors and non-sponsors relating to levels of social disclosure after the sponsorship was implemented, the mean amount of total disclosure of sponsors is more than non-sponsors. However, that is not statistically significant. That might indicate the impact of positive events or issues on annual report social disclosure might not be significant as previous empirical studies that emphasised more on negative scenarios.

In terms of the disclosure of Olympic-related issues, there is a significant increase in the amount of disclosure for sponsors in their annual reports after the sponsorship was implemented than before, while non-sponsors do not show such increase as sponsors. It
is not surprising that sponsors disclose significantly more Olympic-related information than non-sponsors. That indicates that managers do react to positive events and issues but these reactions are only limited with these companies who involve in these issues.

These findings have strong implications for reputation risk management theory. First, the findings demonstrate that managers react to positive issues or events by potentially increasing the annual report disclosure. Second, the findings of this study support this argument and show that the disclosure of Olympic related issues is only limited within sponsors who aligned their reputation to the Games. That could indicate that reputation is “positive distinction” which makes organisations better. That also supports Hooghiemstra (2000) that the communication strategy used by managers is to “explain a desirable event in a way that maximises their implications for the actor” (p. 61). Through this communication process, sponsors want to show their “positive distinction” or “uniqueness” with their competitors and to demonstrate their leadership in the marketplace. That might be the reason why sponsors are willing to disclose more Olympic event related disclosure than non-sponsors.

However, several limitations cannot be ignored by using reputation risk management theory as a theoretical framework. The findings only show that sponsors disclose significantly more than non-sponsors in terms of event-related issues, but fail to show there is a significant difference in other categories and total amounts of social disclosure. That indicates that the applicable power of reputation risk management theory is only limited within to explain several “extra” disclosures of event-related issues.

The results of testing control variables also support this argument. If only considering the total amounts of event-related disclosure as the dependent variable, the results show that it is significantly correlated with the levels of sponsorship. However, if using the total amounts of social disclosure as the dependent variable, the control variable, levels of sponsorship, lost its power. The results show the total amount of social disclosure is significantly correlated with firm size. The association between firm size and levels of annual report social disclosure has been developed in legitimacy theory and the political cost hypotheses. Therefore, this study argues that it still needs legitimacy theory to explain the corporate social disclosure behaviour.
In summary, reputation risk management theory might provide a better explanation of corporate disclosure reactions to positive issues or events and their choices of utilising some “extra” categories of disclosure to showcase their “uniqueness’, “excellence” and “leadership”. The annual report is used as a device that addresses “the self” and corporate image. The following section (section 5.6) discusses Lenovo’s choices of Olympic event related issues and also supports previous findings and analysis. However, reputation management theory does have several limitations. The explanatory power is only limited within these firms which aligned their corporate reputation to these issues and extra disclosure which addresses these issues. The results do not challenge the dominance of legitimacy theory in corporate social disclosure area, but argue that reputation risk management theory could provide several useful insights, particularly in specific categories of social disclosure.

5.6 Olympic event related disclosure – Lenovo’s choices

This section specifically reviews Lenovo’s Olympic event related disclosure in its 2004 annual report. In its 2004 annual report, Lenovo added one more section to discuss the implications of Olympic sponsorship after its sponsorship contracts was signed. Through its report, it can be seen that the report is particular designed to highlight their brand and product alignment with the event:

*We feel proud to represent Chinese enterprises in helping to promote the Olympic Movement. As a partner of the International Olympic Committee (IOC), we are responsible for providing the computing technology equipment, services and funds to support the events with all provisions in place in five years (p. 7)*

*The TOP partnership stands for recognition of the IOC for the quality of our products and technologies. The IOC has a high standard for its worldwide partners. After vigorous evaluation of our technologies, products and services, and our overall strength, they are fully convinced of our capabilities as their sole supplier of computing equipment. Our products were tested and approved by the IOC and are currently serving the Turin Organising Committee of the Olympic Winter Games.(p.7)*

Furthermore, plenty of impression management tactics can be found through Lenovo’s 2004 annual reports. First, they particularly selected some strong words to show their involvement in the Olympic sponsorship. For example, they used twice the words “the first Chinese enterprise to join the Olympic partnership program” to address that they are the first Chinese Olympic partner. These worlds are bolded, highlighted and
enlarged. Second, they inserted several typical pictures which show their participation. The Olympic flag and symbols are always presented in combination of Lenovo’s products and brand title in their annual reports which indicates that managers in Lenovo want to make stakeholders in mind that the corporate image of Lenovo has strong association with the Olympic Games. Third, they particularly selected famous persons’ comments on their excellence of corporate reputation and product quality. For example, on page 9 of their 2004 annual reports, Lenovo particular cited four famous persons’ comments which are Mr. Jacques Rogge, President of the IOC, Mr. Gerhard Heiberg, Chairman of the IOC Marketing Commission, Mr. Liu Jingmin, Deputy Mayor of Beijing and Executive Vice President of BOCOG and Mrs. Evelina Christillin, Deputy President of 2006 Turin Olympic Winter Games Organising Committee. Their comments are highlighted by using the enlarged, colored and decorated words. All of their comments addressed Lenovo’s positive corporate reputation, product quality and leadership in such areas. Here shows their words:

*The International Olympic Committee welcomes Lenovo to the Olympic Family and acknowledges your support and commitment. Your reputation for quality and excellence gives us great confidence in you.*

— Mr. Jacques Rogge, President of the IOC

*TOP partners like Lenovo have excellent product quality and corporate images, and they are the leaders in their respective fields. What they have achieved through their own efforts has not only won the trust of the IOC and Olympic host cities, but also that of Olympic teams and sports fans all over the world.*

— Mr. Gerhard Heiberg, Chairman of the IOC Marketing Commission

*Lenovo Group is an outstanding representative of China’s hi-tech industry. Its products and services enjoy extensive appreciation and high reputation in China. Lenovo’s partnership with the IOC will further enhance its corporate image and help further expand its markets.*

— Mr. Liu Jingmin, Deputy Mayor of Beijing and Executive Vice President of BOCOG

*Lenovo’s computing equipment for the Turin Olympic Winter Games passed the tests of the IOC and are up and running smoothly in Turin. Our staff is completely satisfied with Lenovo’s world-class products and services and technical support. They have certainly won our hearts.*

— Mrs. Evelina Christillin, Deputy President of 2006 Turin Olympic Winter Games Organising Committee

The underlined words are made by this study which highlights Hooghiemstra (2000)’s argument that the nature of annual report voluntary disclosure of their social and environmental information is primarily self-presentational to disclose their “entitlement” or “enhancement” of corporate social responsibility contributions. These words used
particularly addresses Lenovo’s corporate reputation, which might indicate that the managerial intention of disclosing these words is to showcase, protect or enhance their corporate reputation. The findings support Bebbington et al (2008) that annual report disclosure could be viewed as an outcome, and a part of reputation management process which is also consistent with previous discussions that reputation risk management theory might be a better explanation for the managerial reactions to positive issues or events.
Chapter Six
Conclusion

6.1 Introduction

This chapter concludes major discussions of this study in relation to research objectives and motivations, literature review, theory development, hypotheses formulation, research methodology, findings and implications, research significance and contribution. Finally, this chapter recognises research limitations of this study and provides suggestions for further research.

6.2 Research objectives and motivations

The purpose of this study is to utilise both legitimacy theory and reputation risk management theory to examine the impact of the Beijing Olympic Sponsorship Program on annual report social disclosures by local sponsors. Specially, this study attempts to test whether local sponsors increase annual report social disclosure in responses to their sponsorship participation and whether the increases can be explained by other companies operating in the same industry group. This study also compares and contrasts legitimacy theory with reputation management theory and discusses the applicable power of legitimacy theory and reputation management theory in positive events/issues.

Motivated by the lack of research on reputation risk management theory in explaining corporate social reporting, this study attempts to provide empirical evidence to reputation risk management theory. Legitimacy theory is also embraced in this study. Different with previous empirical studies of legitimacy theory which solely focus on corporate reactions to environmental crises or incidents, this study is interested in examining whether the major arguments developed by legitimacy theory are applicable in explaining corporate disclosure responses to positive issues or events. Therefore, this study addresses that the intentions of managerial reactions to positive events might be to gain new legitimacy or to maintain their current levels of legitimacy.
6.3 Literature, theory and hypotheses

The literature reviewed focuses on previous empirical studies adopting legitimacy theory and literature linking corporate reputation with annual report social disclosure. The empirical studies of legitimacy theory contribute to the establishment of this study's theory, hypotheses and research methodology. The literature on the discussion of the impact of corporate reputation provides a new lens to understand the nature of corporate reporting practices. Finally, literature of sponsorship and its strategic role is reviewed.

The theories adopted in this study are legitimacy theory and reputation risk management theory. Legitimacy theory argues that when managers perceive an issue or an event that causes a threat to its legitimacy, managers will make reactions to the issue, potentially by increasing social disclosure in their annual reports. Reputation risk management theory perceives that corporate annual report social disclosure is the outcome or part of reputation management process. The annual report is used by managers as a self-presentational device to protect or enhance corporate reputation, and showcase their contribution of corporate social performances, particularly in response to these positive events or issues.

Based on the theoretical frameworks, this study hypothesised that: first, the local sponsors of Beijing Olympics are likely to provide a greater level of social and the event-related disclosure in their annual reports after the sponsorship program is implemented. Second, non-sponsors operating in the same industry group are likely to provide a greater level of social and the event-related disclosure in their annual reports after the sponsorship program is implemented. Third, the local sponsors of Beijing Olympics are likely to provide a greater level of the event-related and social disclosure after the sponsorship program is implemented than non-sponsors.

6.4 Methodology and statistics

In order to test previous hypotheses, the before-and-after study design and control group design by Kumar (1996) are employed in this study. The final sample includes twelve sponsors and twelve non-sponsors which are traditional competitors of sponsors in the
Chinese marketplace. The annual reports are collected from Mergent database. Content analysis is used to collect the data. The dependent variable refers to number of sentences. Both parametric and non-parametric tests are employed to test the hypotheses. This study also employs a regression model to test two control variables.

### 6.5 Major Findings

This study found: first, in terms of the total social and Olympic event-related disclosure, sponsors show a significant increase in their annual reports after the contract was signed, while that is not the case for non-sponsors. Sponsors disclose more event-related disclosure than non-sponsors, but there is no significant difference in terms of total social disclosure. Finally, the level of event-related disclosure is significantly correlated with the level of sponsorship, while the total amount of social disclosure is positively correlated with corporate size.

### 6.6 Implications of findings

This study argues that the findings have both implications for reputation risk management theory and legitimacy theory. Regarding reputation risk management theory, first, the findings demonstrate that managers do react to positive issues or events by potentially increasing the annual report disclosure. Second, the findings of this study support this argument that corporate reputation is "positive distinction" which makes organisations better. Third, the findings support that the nature of annual report voluntary disclosure of their social and environmental information is primarily self-presentational to disclose their "entitlement" or "enhancement" of corporate social responsibility contributions.

However, the applicable power of reputation risk management theory is only limited within these firms which gained reputation from the issue and the disclosure of event-related issues. Legitimacy theory still provides useful insights in explaining corporate social disclosure. The results demonstrate that managers not only use annual reports to repair their organisational legitimacy in response to legitimacy lose, but also use them to gain or maintain legitimacy in reaction to positive issues or events. Therefore, this
study concludes that the results do not challenge the dominance of legitimacy theory in corporate social disclosure area, but reputation risk management theory could provide several useful insights, particularly in specific categories of social disclosure and be read as a supplement of legitimacy theory.

6.7 Research significance and contribution

This study has several contributions. First, this study compares and contrasts legitimacy theory with reputation risk management theory. The discussion of these two theories contributes in the knowledge that the definitions of corporate legitimacy and reputation could be differentiated. This study indicates that reputation is considered as an extension of legitimacy, and they could be used together. This study also summarises previous major arguments and findings generated by legitimacy theory and reputation risk management theory. Legitimacy theory emphasises the notion of social contract which represents the relationship between firms and the society. Compliance with social contract is a must for organisations to be legitimate. Under legitimacy theory, managers might increase annual report social disclosure to manage their social contract and legitimise ongoing operations. The annual report disclosure is considered as a part of legitimisation process aimed at managing external pressure. In contrast, reputation risk management theory tends to focus more on annual report as a self presentational device to enhance and protect corporate reputation. This provides an alternative lens for stakeholders to understand the nature of annual report social disclosure. It contributes in the knowledge that annual report social disclosure could be used as an impression technique either to meet external pressures or to do self-image building.

Second, this study examines the applicability and predictive power of legitimacy theory in reaction to positive issues or events. This is an extension of previous empirical tests of legitimacy theory. The findings indicate that affected companies increase their total amounts of social disclosure after they signed the contract. The findings support O'Donovan's (2002) arguments of corporate incentives of managing legitimacy, which contribute in the knowledge that managers not only use annual report social disclosure to repair legitimacy loss, but also to gain and maintain legitimacy.
Third, this study provides an empirical test to reputation risk management theory. The results demonstrate that managers use extra disclosure in reaction to positive issues, and those disclosures are basically positive. The review of Lenovo’s annual reports shows that managers use reputation management tactics to impress stakeholders. This study concludes that the nature of social disclosure is self-presentational to showcase corporate performances. Nonetheless, this study also recognises several limitations of reputation risk management theory. The results indicate that it might only be effective in explaining these companies which gained reputation from the event and their extra disclosure choices of event-related issues. Despite these limitations, this study considers that reputation risk manager theory provides a new valuable lens and this theory could be used as a supplement of traditional legitimacy theory.

Finally, this study also highlights the interdisciplinary nature of the study of social and environmental reporting and enhances academic diversity in this area. The notion of sponsorship and its impact are heavily based on management and marketing research. This study shows accounting research needs to be studied with other disciplines of business research. The results could have multidisciplinary implications. This study also believes that the results could benefit a wide variety of users of annual reports, especially, the shareholders, managers, investors, financial analysts, and regulators to understand the motives of managerial disclosure of their social and environmental issues in China. They can also be of interest to the researchers particularly in voluntary disclosure that uses reputation risk management theory as the theoretical framework.

6.8 Research limitations

This section discusses several limitations of this study, which could also provide indications for future research in this area. First, the sampling companies in this study only consist of twelve top sponsors and twelve non-sponsors, and all these companies selected are Chinese companies. That might not present well the whole group of Beijing Olympic sponsors which includes both international and Chinese companies. Moreover, this study only reviews the sponsors of 29th Olympic Games. Second, this study only reviews two control variables in this study, which are levels of sponsorship and firm size. Other variables such as industry group, economic performance, environmental
performance, ownership structure, listing location of sponsors and country-specific variables are not considered because of the inherent sample size in the study.

Moreover, this study is solely based on content analysis of annual reports. This might have three major limitations of adopting this methodology. First, the subjectivity of content analysis cannot be perfectly eliminated even though it could be controlled. Second, content analysis is only based on the review of documents. Interview-based study might be better to directly examine managerial motivations of social disclosure. Third, other sources of disclosure choices such as company websites are totally ignored.

The final limitation relates to the discussion of legitimacy theory and reputation risk management theory. From the previous empirical studies of legitimacy theory, it is found that several researchers might have used corporate image or reputation occasionally interchangeable with legitimacy. That might suggest that the word legitimacy indicated by previous literature might have already covered the meanings of reputation, even though this study suggests that reputation risk management theory can be used as a supplement of legitimacy theory.

6.9 Suggestions for future research

The final part of this study provides suggestions for future research. As this study only reviews annual report social disclosure by local sponsors of one Olympic, future research could examine reporting reactions of sponsors of other Olympics or examine several Olympics concurrently. Second, Olympic sponsors could include both international and local leading companies. Other factors such as environmental sensitivity, economic performance, environmental and social performance, ownership structure, listing location of sponsors and country-specific variables could be considered. Third, as the methodology of content analysis has several limitations, future research could conduct qualitative research such as interview or case study to generate the primary data. That might help stakeholders’ in-depth analysis of managerial motivations to disclose such information. Future research could also use websites as one source of data even though it might have technical problems to examine past websites. Finally, empirical tests of reputation risk management could be undertaken under other social and economic issues or events other than corporate sponsorship.


Appendix 1

Categories of social disclosure Source: Adopted from Deegan et al (2002)

A Environmental information

- Pollution control in the conduct of business operations
- Capital, operating and research and development expenditures for pollution abatement
- Statements indicating the compliance with environmental laws and regulations
- Recognition of the need to comply with society standards and regulations
- Statements indicating the reduction of pollution
- Prevention or repair of damage to environment or natural resources
- Conservation of natural resources and recycling
- Using, or researching, recycled materials
- Efficiently using materials resources in the manufacturing process
- Supporting the anti-litter campaigns
- Environmental awards
- Preventing waste
- Designing facilities harmonious with the environment
- Contributions in terms of cash or sculptures to beautify the environment
- Restoring historical buildings and structures
- Wildlife conservation
- Training employees in environmental issues
- Conservation of energy in the business operations
- Using energy more efficiently during the manufacturing process
- Utilising waste materials for energy production
- Disclosing energy saving resulting from product recycling
- Discussing the company’s efforts to reduce energy consumption
- Disclosing increased energy efficiency of products
- Research aimed at improving energy efficiency of products
- Receiving an award for energy conservation
- Voicing the company’s concern about energy saving
- Disclosing the company’s energy policies

B Product Safety and responsibility

- Customer Health and Safety
- Product and Service Labelling
- Responsible marketing Communications
- Customer Privacy
- Policy discussion
Appendix 1 continues

C Human resources

- Employee health and safety
- Employment of minorities or women
- Employee training
- Employee assistance and benefits
- Employee remuneration
- Employee profiles
- Employee share purchase schemes
- Employee more
- Industrial relations

- Discussion of policy that will impact on employees
- Employee turnover
- The closing down of any part of the organisation

D Community involvement

- Donations of cash, products or employee services to support established community activities, events, organisations, education and the arts
- Summer or part-time employment of students
- Sponsoring public health projects
- Sponsoring educational conferences
- Funding scholarship programmes or activities
- Other special community related activities, e.g. supporting town planning
- Supporting national pride and government sponsored campaigns
- Supporting the development of local industries or community programmes
- Recognising local and indigenous communities

E Olympic-event related disclosure

- Statement in support of Olympic game
- Olympic sponsorship
- Management strategies
- Discussion on the impact of Olympics
- Sponsorship of any Olympic events at the national or local level
- Green Olympic projects
- Involvement in Olympic facilities and venues construction
- Donation on Olympics
- Responsible marketing
- Other contributions in relation to Olympics