

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

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## Abstract

*The aim of this study is to utilise legitimacy theory to explain the impact of the Beijing Olympic Sponsorship Program on annual report social disclosures including event-related disclosure of local sponsor companies for this legitimacy enhancing and maintaining positive event. The study is concerned with examining whether the arguments developed in relation to legitimacy repairing negative events explain corporate disclosure response to these legitimacy maintaining and enhancing positive events. The findings indicate that sponsors disclosed more social and event-related information but this was not the case for non-sponsors. It was also found that sponsors disclose more event-related information than non-sponsors but not in relation to overall disclosure. This result provides support for legitimacy theory for these legitimacy maintaining and enhancing positive events but is not entirely identical to the findings for legitimacy repairing associated with negative events.*

## Introduction

The aim of this study is to utilise legitimacy theory to examine the impact of the Beijing Olympic Sponsorship Program, a legitimacy enhancing and maintaining positive events, on annual report social disclosures including event-related disclosures of local sponsors. To achieve this aim, annual report disclosures are reviewed for both sponsors and a control group of 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 both excluding and including event-related disclosure.

This study has several motivations for being undertaken. Olympic sponsorship is a significant economic and social issue with huge public attention and considerable media exposure. Further, events research has to date focused on negative issues or

events – for example, an environmental crisis – whereas this study focuses on a positive event, sponsorship. Given this background, it is of interest to observe the impact of a positive event on disclosure in the annual report using the arguments developed in relation to negative events.

The study is important for a number of reasons. First, it is believed to be the first empirical study published which utilises legitimacy theory in respect of legitimacy maintaining and enhancing positive events. Consequently, this study extends the range of event type studies from repairing legitimacy to maintaining and enhancing legitimacy. Second, the results could provide evidence as to whether legitimacy enhancing leads to increased levels of social disclosure in annual reports as does legitimacy repairing. Finally, the results could benefit a wide range of users of annual reports to understand the motives of managerial disclosure of a positive legitimacy maintaining and enhancing event in China.

Prior literature is reviewed in the next section, while the following section sets out the theoretical framework and develops the research hypotheses. The next section outlines the data sources, sample selection and statistical method. The next section reports the results, followed by the final section which provides the major findings, addresses the limitations and implications of the study and also suggests some avenues for future research.

## **Prior Research**

Legitimacy theory has been widely tested in prior empirical studies and has been used to review event-type studies and issues in social and environmental reporting practice (for example, Deegan and Blomquist, 2006; Islam and Deegan, 2008). These studies, however, whilst making important contributions to the literature, are not directly related to the present study because they did not consider positive but unexpected social and environmental events and issues. For this reason they will be acknowledged but the theme of their studies will not be discussed in detail.

The event-type studies referred to in the previous paragraph established a potential link between legitimacy threatening environmental issues/events and the choice of legitimisation tactics, resulting in increased annual report disclosures by management. This management behaviour of disclosure was basically reactive. In other words, the annual report disclosure was reactive or responsive, rather than proactive or planned to a social event. It was O'Donovan (2002) who proposed that to gain legitimacy required managers to be proactive.

This study, unlike previous event studies which focused on crises, will examine the annual report disclosure reaction to Olympic sponsorship. In line with O'Donovan (2002), the Olympic sponsorship could provide opportunities for an organisation to maintain and gain its legitimacy. Hence, O'Donovan's work is of

paramount importance to this study as it identifies what appears to be an apparent research gap in the literature and in so doing provides the thrust of this study.

## **Theoretical Framework and Research Hypotheses**

### ***Legitimacy Theory***

Legitimacy theory is considered as a system-oriented theory. The system-oriented theory perceives that organisations are social creations and their existences have to operate within a larger social system or environment 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).

Within this perspective, it has been argued that an organisation's social "citizenship" depends on the willingness of societal acceptance of their continuing operations. Organisations are assumed to be influenced by, but also have influence upon the society, in which they operate (Deegan, 2002). Therefore, legitimacy could also be considered as a crucial resource which an organisation relies on for survival (Deegan, 2002). 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. In essence this gives rise to the notion of an implied social contract (Mathews, 1993). In order to comply with social expectations, organisations may adopt a number of legitimisation strategies (Dowling and Pfeffer, 1975; Lindblom, 1994) and the annual report is considered to be the most commonly accepted and recognised corporate communication vehicle (O'Donovan, 2002).

### ***Hypotheses Formulation***

#### ***Hypothesis One - Annual Report Social Disclosures by Local Sponsors***

An organisation's social strategy must be communicated; otherwise, society would not be aware of what the organisation has done and what it is achieving in respect of their social contract. Within these communication means, the annual report is considered of paramount importance. Therefore, legitimacy theory likely posits that annual report reactions would be made in response to Beijing Olympic sponsorship. These reactions could be attributed to a number of factors either individually or in combination. These could include deliberate additional disclosure as a means of further highlighting/supporting their sponsorship, for self-laudatory purposes, and as an indicator of support to the social/environmental endeavours of their government. Compared to previous studies of legitimacy theory, the increased annual report social

disclosure could arguably be attributed to managerial responses to gain and maintain legitimacy rather than to repair legitimacy as is indicated by previous studies.

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 responsibility activities relating to Olympics. Appendix 1 lists and details the categories of social disclosure relevant to this study.

Based on legitimacy theory, social disclosure as listed in Appendix 1 is assessed in two separate hypotheses to permit additional analysis. First, it is hypothesized that managers of sponsor companies would increase levels of social disclosure, excluding event-related disclosure in their annual report in response to this event. This leads to the following hypothesis:

*H1(a): Ceteris paribus, the local sponsors of Beijing Olympics are likely to provide a greater level of social disclosure, excluding event-related disclosure, in their annual reports after the sponsorship program is implemented.*

Second, it is hypothesized that Olympic-related disclosure will also show an increase in disclosure in the annual report as it is arguably more directly related to the sponsorship itself. This leads to the following hypothesis:

*H1(b): Ceteris paribus, 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 research by Patten (1992), Deegan and Rankin (1996), and Deegan *et al.* (2000) indicates that increases in the levels of social disclosure in reaction to a major social and environmental event are not limited to the firms that are directly affected from the event, but also to other companies operating in the same industry group, as environmental incidents affect 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 circumstance. As with and consistent with Hypotheses H1(a) and H1(b) two separate hypotheses are formulated:

*H2(a): Ceteris paribus, non-sponsors of Beijing Olympics operating in the same industry group are likely to provide a greater level of social disclosure, excluding event-related disclosure, in their annual reports after the sponsorship program is implemented.*

*H2(b): Ceteris paribus, non-sponsors of Beijing Olympics 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.*

### *Hypothesis Three - Comparisons between Sponsors and Non-sponsors*

Consistent with previous discussion, legitimacy theory suggests 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 a positive scenario. As with and consistent with Hypotheses H1(a), H1(b), H2(a) and H2(b), two separate hypotheses are formulated:

*H3(a): Ceteris paribus, local sponsors of Beijing Olympics are likely to provide a greater level of social disclosure, excluding event-related disclosure, after the sponsorship program is implemented than non-sponsors.*

*H3(b): Ceteris paribus, 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.*

## **Research Methodology**

### ***Sampling Process***

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 had five levels of sponsorship including top worldwide partners, partners, sponsors, exclusive suppliers and suppliers (BOCOG, 2008). 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 fewer 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 publicly listed companies. Their annual reports cannot be accessed by the public. This reduced the sample to fifteen companies.

Within the group of top sponsors, two companies (State grid and Heng Yuan Xiang) are not publicly listed companies and are excluded. One company (China Netcom) was not listed until 2004, and so is also excluded from this study. The final sample of sponsors is limited to twelve companies. 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 comprises non-sponsors. The objective of selecting non-sponsors is to minimise the effect of extraneous variables (Kumar, 1996) such as industry classification and firm size. 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 were not participants in the sponsorship program. Moreover, within that industry group, companies are selected which are considered important competitors of the sponsors in terms of their products and services area, such as Sohu and Sina, Yili and Mengniu. 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 to make two years the basis of selection is arbitrary, but it has several advantages. First, some companies might not implement disclosure reactions in their annual reports considering the time lag if this study used one year before and one year after as the basis of comparison. 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 on the data.

Another difficulty that emerged during the study is the various dates that different sponsors signed their sponsorship contracts with Beijing Olympic Committee. Table 1 shows sponsors and their matched non-sponsors and dates that

the sponsorship contract was signed. The balance sheet date for Chinese companies is at the end of each fiscal 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 1: Sponsors, Non-Sponsors and Sampling Years**

Sponsors (n=12)	Dates of Sponsorship Announced (a)	Sampling Years		Non-Sponsors (n=12)
		Before	After	
Lenovo	Mar-04	2002, 2003	2004, 2005	Founder
Bank of China	Jul-04	2002, 2003	2004, 2005	ICBC
China mobile	Jul-04	2002, 2003	2004, 2005	China unicom
Sinopec	Aug-04	2002, 2003	2004, 2005	CNOOC
Air China	Aug-04	2002, 2003	2004, 2005	China eastern
CNPC	May-05	2004, 2005	2005, 2006	Sinochem
PICC	May-05	2004, 2005	2005, 2006	Ping'an insurance
Haier Global	May-05	2004, 2005	2005, 2006	TCL
YangJin	Jun-05	2004, 2005	2005, 2006	China Resources
TsingTao	Jun-05	2004, 2005	2005, 2006	Maotai
YiLi	Jun-05	2004, 2005	2005, 2006	Mengniu
Sohu	Nov-05	2004, 2005	2005, 2006	Sina

Note: (a) The information regarding the dates of signing the sponsorship is collected from sponsors' annual reports.

### ***Data Coding and Collection Process***

After collecting the data, content analysis was employed to examine the levels of disclosure in the number of sentences on items shown in Appendix 1. In this study, in line with Krippendorff (2004), two independent coders were involved in doing the content analysis of the annual reports. The discrepancies between these two coders were found to be few and these were resolved before the analysis proceeded.

Regarding the quantity of disclosure, there is much debate on the preferred units of analysis which tend to be words, sentences and pages. For example, Patten (1992) recommends analysis based on the number of pages, while Deegan and Gordon (1996) base their analysis on the number of words. For this study it was felt 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 involved a large volume of data, while to use pages is too difficult to measure if the theme is not contained in a single 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). Finally, 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 number of sentences is used.

### ***Statistical Tests***

This study first employs the Kolmogorov-Smirnov (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 does not provide consistency in terms of their normality, this study uses both parametric and non-parametric tests. A Paired-sample t-test and Wilcoxon Signed-Rank Test are used to test hypotheses one and two, and an independent t-test and Mann-Whitney test are used to test hypothesis three. The statistical software SPSS is used to undertake the statistical testing.

## **Results**

### ***Descriptive Statistics***

The descriptive statistics of the variables are displayed in Table 2. 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 the 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 components of social disclosure steadily in terms of issues relating to the environment, product, human resources and community involvement. For both groups of sponsors, their Olympic-related disclosure shows an increase after their contracts were signed, but not so for non-sponsors.

**Table 2: Descriptive Statistics of Dependent Variables**

Disclosure	Before (Years -2 and -1)				After (Years +1 and +2)			
	Mean Sentences	SD	Min	Max	Mean Sentences	SD	Min	Max
Sponsors (n = 5) with annual reports 2002 to 2005								
Environment	3.0	6.2	.0	14.0	4.8	8.1	.0	19.0
Product	20.6	13.2	6.5	39.0	27.2	11.7	13.0	41.0
Human Resources	26.2	18.7	4.0	46.0	31.9	19.2	3.0	48.5
Community	6.8	9.0	.0	18.5	8.4	8.9	0.0	20.5
Olympic-related	0.2	0.3	.0	0.5	8.1	6.0	0.5	14.5
Sponsors (n = 7) with annual reports 2003 to 2006								
Environment	2.7	6.1	.0	16.5	3.3	6.8	.0	18.5
Product	6.2	4.1	3.0	14.5	8.5	6.9	3.0	21.0
Human Resources	9.4	8.4	3.0	27.5	10.0	8.0	4.0	27.0
Community	0.8	1.1	.0	3.0	1.4	1.8	.0	4.0
Olympic-related	0.0	.0	.0	.0	6.9	5.7	3.5	19.5
Non-sponsors (n = 5) with annual reports 2002 to 2005								
Environment	1.3	2.6	.0	6.0	1.3	2.9	.0	6.5
Product	18.9	10.6	7.5	32.5	21.0	7.0	9.5	27.0
Human Resources	23.2	21.0	6.5	59.0	23.1	18.4	7.0	54.0
Community	1.8	2.0	.0	4.0	5.6	7.0	.0	16.5
Olympic-related	0.1	0.2	.0	0.5	.0	.0	.0	.0
Non-sponsors (n = 7) with annual reports 2003 to 2006								
Environment	1.3	2.1	.0	5.0	1.3	2.1	.0	5.0
Product	5.4	4.8	1.5	15.5	6.2	4.4	2.5	15.0
Human Resources	4.8	3.5	2.0	11.5	6.3	4.6	1.5	14.0
Community	2.1	2.3	.0	5.5	3.6	4.5	.0	10.5
Olympic-related	.0	.0	.0	.0	.9	1.6	.0	4.5

## Hypotheses Testing

A number of statistical tests were conducted in order to test the hypotheses. 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.

### *Results of Hypothesis One*

H1(a) relates to whether sponsors of the Beijing Olympics provided greater levels of social disclosure after the sponsorship was implemented, than before. The results of the tests are shown in Table 3. Both a Paired-samples T-test and a Wilcoxon Signed-Rank Test were employed to determine whether there was a significant difference in the amount of social disclosure with both exclusion and inclusion of event related between the before and after sponsorship. The results indicate that both

sampling groups of companies show a significant increase in terms of total amounts of social disclosure at the significance level  $p \leq 0.05$ . Thus, hypothesis H1(a) is accepted.

However, most of the individual categories of social disclosure do not show a significant increase for both sampling groups. That might be because first, the sampled groups do not include a large number of companies, and second, some companies have their own preferences in regards to forms of disclosure. The categories of disclosure are diverse rather than unified in one category. For example, companies such as Lenovo and Bank of China might not be environmentally sensitive, and thereby 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 disclose more 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 4. From the Paired-samples T-test and the Wilcoxon Signed-Rank Test, the results clearly show that the difference is significant for both sampling groups at the significance level  $p \leq 0.05$ . Therefore, H1(b) is accepted.

**Table 3: Social Disclosure by Local Sponsors**

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

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 4: Olympic Event Related Disclosure by Local Sponsors**

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

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 5 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 because the significance levels are  $> 0.05$ . This 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 because the significance levels are  $> 0.05$ . The hypothesis cannot also be accepted in terms of total amount of social disclosure excluding Olympic-related disclosure because the significance level is  $> 0.05$  [sum (a) shows], even though the tests of Paired-samples T-test (which indicates a rejection) and Wilcoxon Signed-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 partially accepted in terms of total amount of social disclosure including Olympic related disclosure at the significance level  $p \leq 0.05$  [sum (b) shows]. However, H2(a) cannot be accepted, because the results of some of the tests are either not significant at the 0.05 level or the results are inconsistent.

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 6 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 as significant as sponsors.

**Table 5: Social Disclosure by Non-Sponsors**

Category	Mean (sentences) Before Sponsorship	Mean (sentences) After Sponsorship	Paired-samples T-test		Wilcoxon Signed Rank Test	
			t-value	Sig. (one-tailed)	z-value	Sig. (one-tailed)
Non-sponsors (n = 5) with annual reports from year 2002 to 2005						
Environment	1.300	1.300	0.000	0.500	0.000	0.500
Product	18.900	21.000	0.730	0.253	0.944	0.173
Human Resources	23.200	23.100	-0.077	0.471	-0.365	0.358
Community	1.800	5.600	1.430	0.113	1.069	0.143
(a)			1.663	0.086	1.490	0.068
(b)			1.655	0.087	1.483	0.069
Non-sponsors (n = 7) with annual reports from year 2003 to 2006						
Environment	1.286	1.286	0.000	0.500	0.000	0.500
Product	5.429	6.214	0.855	0.213	1.022	0.154
Human Resources	4.786	6.286	1.183	0.141	0.933	0.176
Community	2.071	3.571	1.680	0.072	1.604	0.055
(a)			1.640	0.076	1.703	0.045
(b)			2.253	0.033	2.201	0.014

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 6: Olympic Event Related Disclosure by Non-Sponsors**

Sample	Mean (sentences) Before Sponsorship	Mean (sentences) After Sponsorship	Paired-samples T-test		Wilcoxon Signed Rank Test	
			t-value	Sig. (one-tailed)	z-value	Sig. (one-tailed)
Non-sponsors (a)	1.000	0.000	-1.000	0.187	-1.000	0.159
Non-sponsors (b)	0.000	0.929	1.518	0.090	1.483	0.069

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 who have selected the same time period of annual reports.

**Table 7: Comparison of Social Disclosure between Sponsors and Non-Sponsors [Group (a)]**

Categories	Test	Sponsors		Non-sponsors		Results	
		Mean	SD	Mean	SD	t-value (one-tailed)	Significance
Group (a) companies with annual reports from year 2002 to 2005							
Environment	t-test	4.800	8.106	1.300	2.907	0.909	0.203
	Mann-Whitney					1.059	0.145
Product	t-test	27.200	11.697	21.000	6.955	0.102	0.173
	Mann-Whitney					0.940	0.174
Human resources	t-test	31.900	19.175	23.100	18.393	0.741	0.240
	Mann-Whitney					0.522	0.301
Community	t-test	8.400	8.870	5.600	7.012	0.554	0.298
	Mann-Whitney					0.529	0.299
(a)	t-test					1.140	0.146
	Mann-Whitney					1.358	0.088
(b)	t-test					1.619	0.075
	Mann-Whitney					1.776	0.038

**Table 8: Comparison of Social Disclosure between Sponsors and Non-Sponsors [Group (b)]**

Categories	Test	Sponsors		Non-sponsors		Results	
		Mean	SD	Mean	SD	t-value (one-tailed)	Significance
Group (a) companies with annual reports from year 2002 to 2005							
Environment	t-test	3.286	6.775	1.286	2.079	0.747	0.240
	Mann-Whitney					0.410	0.341
Product	t-test	8.500	6.934	6.214	4.405	0.736	0.239
	Mann-Whitney					0.515	0.304
Human resources	t-test	10.000	7.953	6.286	4.572	0.071	0.155
	Mann-Whitney					1.286	0.099
Community	t-test	1.357	1.796	3.571	4.476	1.215	0.124
	Mann-Whitney					0.820	0.206
(a)	t-test					0.927	0.190
	Mann-Whitney					0.449	0.327
(b)	t-test					1.700	0.058
	Mann-Whitney					1.151	0.125

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

H3(a) refers to the comparison of total amounts of social disclosure between sponsors and the matched sample of non-sponsors. The results are presented in Table 7, which shows the comparison of companies with annual reports from year 2002 to 2005 and Table 8, 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 with both exclusion and inclusion of event-related and each individual category. Therefore H3 (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 was used to determine whether a significant difference exists between the total event-related disclosure between sponsors and non-sponsors after the sponsorship is implemented. The results are shown in Table 9. The hypothesis can be accepted at the significance level  $p \leq 0.05$ . That indicates Beijing Olympic sponsors disclose significantly more Olympic-related information than non-sponsors during the period covered by the study.

**Table 9: Comparison of Olympic Related Disclosure between Sponsors and Non-Sponsors**

Test	Sponsors		Non-sponsors		t-value (one-tailed)	Significance
	Mean	Standard deviation	Mean	Standard deviation		
Group (a) companies with annual reports from year 2002 to 2005						
t-test					3.011	0.009
Mann-Whitney	8.100	6.015	0	0	2.875	0.003
Group (b) companies with annual reports from year 2003 to 2006						
t-test					6.965	0.016
Mann-Whitney	6.929	5.689	0.929	1.618	2.769	0.003

## Discussion and Conclusion

The purpose of this study was to utilise legitimacy theory to examine the impact of the Beijing Olympic Sponsorship Program on annual report social disclosures by local sponsors. In contrast to previous empirical studies of legitimacy theory, which solely focus on corporate reactions to environmental crises or incidents, this study is concerned with examining whether the major arguments developed by legitimacy theory in relation to environmental crises or incidents are all applicable in explaining corporate disclosure responses to positive issues or events. Consequently, this study

addresses managerial strategies to positive events to gain new legitimacy or to maintain current levels of legitimacy.

This study found that, 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. Local sponsors provided somewhat 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 useful insight. The results of this study show that sponsors disclosed 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 in social disclosure might be attributed to corporate responses to gain new legitimacy or maintain their current legitimacy, as is indicated by O'Donovan (2002).

Regarding the comparison between sponsors and non-sponsors relating to levels of social disclosure after sponsorship implementation, the mean amount of total disclosure of sponsors is more than non-sponsors. However, that is not statistically significant. This outcome may indicate the impact of positive events or issues on annual report social disclosure might not be as significant as previous empirical studies that emphasised negative scenarios (for example, Patten, 1992; Deegan *et al.*, 2000).

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 to those companies which are involved in sponsorship. The results of this study demonstrate that managers not only use annual reports to repair their organisational legitimacy in response to legitimacy loss, but also use them to gain or maintain legitimacy to positive issues or events. 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.

As with most other studies there are limitations which, while they do not invalidate the findings of this study, do provide direction for improved future research in this area. First, the sample was relatively small and all companies selected were Chinese companies. That might not represent the entire group of Beijing Olympic sponsors which includes both international and Chinese companies. This would suggest a study comprising a sample of all sponsors would be valuable. Moreover, this study only reviews the sponsors of 29<sup>th</sup> Olympic Games and therefore lacks generalisability to other similar events.

In conclusion, as the notion of sponsorship and its impact on organisational image and reputation are heavily based on management and marketing research, reputational risk management theory could be investigated and tested alongside legitimacy theory (Bebbington *et al.*, 2008a, 2008b). The results could have multidisciplinary implications which could influence the nature of sponsorship and their impact on corporate reporting.

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## Appendix 1

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### Categories of social disclosure with the exception of group E Olympic event - related disclosure

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#### 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
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- 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

#### 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 morale
  - Industrial relations
  - Discussion of policy that will impact on employees
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- 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 to Olympics
- Responsible marketing
- Other contributions in relation to Olympics

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Source: Adopted from Deegan *et al.* (2002)