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SUSTAINABILITY DISCLOSURE CATEGORIES: WHO REPORTS WHAT?

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ABSTRACT

The objective of this research is to identify the characteristics and scope of sustainability reporters and the factors influencing those sustainability reporters. Furthermore, our primary goal is to illustrate the nature and types of sustainability reporting irregularities within various industrial segments listed in the Colombo Stock Exchange (CSE). Sustainability disclosure as indicated above was utilized as an indicator for measuring the magnitude of sustainability disclosure; as such it represented the dependent variable of this research. The sustainability indices that comprised of five indicators (General Sustainability Disclosure Index [GSDI], Economic Sustainability Disclosure Index [ECSDI], Social Sustainability Disclosure Index [SOSDI] Environmental Sustainability Disclosure Index [ENSDI] and Overall Sustainability Disclosure Index [OVSDI]) were developed specifically for this research. In addition, the items that comprise each sustainability index applied in this study were established according to relevant GRI standards.

Our final data set consisted of 83 firms that were listed on CSE and operated in ten industrial sectors including Power & Energy (P&E), Plantation (PL), Manufacturing (MN), Construction & Engineering (C&E), Bank Finance & Insurance (BF&I), Beverage Food & Tobacco (BF&T), Land & Property (L&P), Hotels & Travels (H&T), Oil Palm (OP) and Chemicals & Pharmaceuticals (C&P). The data used in this study were obtained through an examination of Annual Reports and Sustainability Reports that were issued during the fiscal year ended in 2018. We found that firms generally reported higher amounts of sustainability related information regarding economic issues compared to all other areas. Additionally, we observed that firms recorded the lowest level of sustainability reporting regarding environmental concerns. Our regression model supported findings indicating that whether or not firms operate in the financial industry influences the degree to which they provide sustainability related information. Specifically, we noted that firms operating in the financial sector reported relatively fewer amounts of sustainability-related information. This observation may result from relatively less pressure from stakeholders and expectations for these entities to engage in sustainability activities. We documented that company size measured by Total Asset significantly and positively relates to the amount of General, Economic, Social and Overall Sustainability Content firms report to stakeholders. Additionally, the Age and Profitability of the Companies did not demonstrate statistically significant relationships to any of the Sustainability Disclosure Indices we examined. Consistent with previous studies and signaling theory premises, we concluded that Operating Leverage (Debt-to-Equity Ratio) demonstrated a statistically significant and positive association to Sustainability Disclosure Indices. Finally, we identified that Economic and Social Considerations prevailed over

Environmental Considerations when Boards influenced the Sustainability Reporting processes of their respective firms. The results of our study will contribute toward a better understanding and prediction of Sustainability Reporting Practices among Sri Lankan firms toward furthering private sector accountability in sustainable development agendas. The results of our study also contribute to the existing body of knowledge concerning sustainability reporting from a developing nation perspective.

***Keywords**: Sustainability Disclosures, Global Reporting Initiatives, GRI, Profitability, Leverage, Age, Firm Size, CSE, Sri Lanka.*

INTRODUCTION

Sustainability reporting is fundamentally structured around the concept of sustainable development, which is built on three interconnected pillars: economic performance, social equity, and environmental protection. According to the World Commission on Environment and Development, sustainable development is defined as "development that fulfills current needs without compromising those of future generations" (Brundtland, 1987). From a business viewpoint then, development is defined as an organization meeting the needs of direct and indirect stakeholders now (shareholders, employees, clients, pressure groups, regulatory bodies, government and local community) without compromising future direct and indirect stakeholders (Hockerts, 2002). Bartlett (2012) defines it as "development that does not compromise future needs". Although these definitions differ in their prominence, they share a shared commitment to safeguarding the interests of future generations and reflect a broad consensus on the concept of sustainability (Berns, 2009).

Bartlett (2012) argues that the Brundtland Commission focuses more on needs of the present and he contends that this is disconnected from sustainability and that they only indirectly consider future needs. From a business viewpoint, Kocmanova and Simberova (2011) define sustainability as corporate strategy that monitors long growth, efficiency and competitiveness by integrating performance in economic, environmental and social management. This definition is particularly suitable because it echoes strongly Triple Bottom Line by John Elkington. From this perspective, sustainability is from the manager's business standpoint and requires that business organizations be responsible and accountable to and on their economic, social and ecological bottom lines.

Despite growing literature on sustainability reporting in developing countries, this research is still underdeveloped (Sahay Sumiani et al., Md Habib Uz Zaman et al., 2007) and tends to focus on just a few developing countries such as Malaysia, Bangladesh, India and China (Fifka, 2012). Studies show that generally sustainability reporting is not widespread in most Asian countries and tends to be confined to specific sectors such as oil, chemicals and steel. Hussain, Rigoni and Orji (2016) looked at sustainability reporting across different parts of the world and looked at social and environmental performance of companies in fifteen Asian countries. They concluded that Asian companies seem to be performing less well compared to European companies.

Studies looking at sustainability reporting in South Asia reach similar conclusions. In India only a small number of companies produce comprehensive reports; reporting tends to cluster in oil, mining, cement, automotive and pharmaceutical industries (Sen and Das, 2013). Nevertheless, Sen and Das (2013) note that momentum for sustainability reporting has grown recently. Similarly, Malaysia is at an early stage of development for sustainability reporting; most disclose

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related sustainability information within annual reports rather than issuing separate standalone reports (Sawani et al., 2010). Reasons for few banks producing standalone reports likely include costs associated with compiling and understanding additional information. Md Habib Uz Zaman et al (2011) investigated reporting by banks listed on Dhaka Stock Exchange (DSE). Twelve banks in their sample represented almost sixty five percent of total assets and deposits of the entire Bangladeshi banking sector. They concluded that while banks report heavily on social aspects of sustainability, human rights and product responsibility are only touched upon briefly.

Specific studies have looked into assessing development of sustainability reporting, analyzing reporting approaches and presence of control procedures. Results show that qualitative approaches predominate in reports produced and there has been less attention paid to credibility of information (Momin and Parker, 2013; Ratanajongkol et al, 2006; Sen and Das, 2013; Senaratne and Liyanagedara, 2012; Senaratne and Liyanagedara, 2012).

With regard to the credibility of information, sustainability reporting can distort behavior just as much as it enhances it (Perez Batres et al, 2012). Like other continents Asia as a region has also participated in larger transcontinental studies or studies focusing on different countries from various regions of Asia. This research also shows that reporting varies very differently among these countries and this is attributed to national business systems. Globalization also seems to affect reporting: multinational firms report sustainability more often than those operating only domestically.

Very few studies have looked at disclosure practices of Sri Lankan firms. Senaratne and Liyanagedara (2012) studied compliance with GRI guidelines among publicly quoted companies from seven different sectors and found overall low levels of compliance and great variation among companies. Further longitudinal study over five years (2005 to 2010) to investigate trends in Corporate Social Responsibility reporting in Sri Lanka found researchers believed that reporting would increase positively in Sri Lanka relative to reporting by firms in developed countries (Wijesinghe, 2012). There has been very little research on prominence of reporting in Sri Lanka but most studies that look at sustainability disclosures consider multinationals and find that disclosures are starting to gain momentum in Sri Lanka but are still in very early stages (Beddewela and Herzig, 2012; Hunter and Van Wassenhove, 2011). Companies report on sustainability activities for a number of reasons and research suggests that firms where senior management have positive views of social and environmental practices disclose more information related to those practices (Fernando & Pandey, 2012).

Given that research into reporting on sustainability in Sri Lanka is still limited but growing, this current study looks into nature and degree of reporting and factors that influence it by looking at reports of firms listed on CSE. This study also identifies sector specific variations in practice of reporting on sustainability. An index called General Sustainability Disclosure Index (GSDI) is used as the dependent variable to measure degree of sustainability disclosure. This index comprises five indexes: Economic Sustainability Disclosure Index (ECSDI), Social Sustainability Disclosure Index (SOSDI), Environmental Sustainability Disclosure Index (ESNDI) and Overall Sustainability Disclosure Index (OVDI). These index items are constructed using relevant standards of GRI.

LITERATURE REVIEW

The term "Sustainability Disclosure" (often referred to as "Sustainability Reporting", "Corporate Social Responsibility (CSR) Reporting", "Environmental, Social and

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Governance (ESG) Disclosure") refers to the provision by an organization of sustainability related information to its external stakeholders. Literature on sustainability reporting pay attention to differentiate between what is being reported (disclosure) and how well things are done (performance), while also specifying if the measurement of disclosure is based on the number of organizations disclosing, the amount of data disclosed, or the quality of that disclosure (Hahn & Kühnen, 2013). There is considerable evidence within the existing body of literature regarding the quantity/amount of sustainability disclosure but there appears to be relatively little focus on the type(s) of sustainability related information which are disclosed, or the factors that influence these choices. In an attempt to address this knowledge gap, this paper explores both the quantity and nature/types of sustainability disclosure, and examine several of the primary factors influencing each.

The theoretical foundations for the practice of sustainability disclosure can be traced back to the definition of sustainable development established by the World Commission on Environment and Development (WCED) in 1987; Sustainable Development is described as meeting the needs of the present without diminishing the ability of future generations to meet their own needs. Over time, corporate sustainability reporting has evolved from fragmented social and environmental disclosures to a more holistic approach to sustainability reporting. Part of this evolution was driven by the establishment of voluntary reporting guidelines such as the Global Reporting Initiative (GRI). Additionally, recent developments include changes to the institutional framework including the release of new GRI Universal Standards (effective in 2023), the European Union's Corporate Sustainability Reporting Directive (CSRD), and the ISSB standards (IFRS S1 and S2) which reflect a shift from primarily voluntary disclosure mechanisms towards a combination of mandatory/quasi-mandatory regimes. These changes have significant implications for both organizational disclosure practices and the comparison of research across different time periods.

To describe how sustainability disclosure practices have been developed, researchers have used a number of theoretical lenses including institutional and legitimacy theories, which represent two major paradigms. Institutional Theory states that an organization's behaviors are affected not only by the desire for increased efficiencies but also by the desire to comply with social expectations that exist outside of the organization (Moll et al., 2018). The social expectations may be in the form of pressure that is coercive, normative or mimetic (DiMaggio & Powell, 1983), and they may evolve over time due to changing societal norms and expectations (Edelman, 1992). Legitimacy Theory has a similar perspective to institutional theory and it argues that organizations will go to great lengths to create the perception that their behavior is "desirable," "proper" or "acceptable" according to a socially accepted framework of norms and values (Suchman, 1995). Therefore, sustainability disclosures can be seen as a means for companies to achieve, maintain or restore their legitimacy (Deegan, 2002).

Legitimacy is defined by Suchman (1995) as a multi-dimensional concept consisting of pragmatic, moral and cognitive legitimacy. Pragmatic legitimacy refers to what stakeholders perceive as the tangible advantages resulting from an organization's actions. Moral legitimacy pertains to the normative judgment of whether the action was "the right thing to do," regardless of whether there were tangible advantages. Cognitive legitimacy represents the degree to which stakeholders understand organizational actions and believe them to be acceptable based upon the existing cognitive structure. Therefore, considering these three dimensions of legitimacy within the sustainability context indicate that the amount

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of sustainability-related information that is disclosed by companies is determined by factors beyond pure economics, i.e. ethics and the acceptance of sustainability as part of organizational routine. It indicates that the scope and quality of the sustainability information disclosed depends upon company efforts to address legitimate expectations.

Research on sustainability disclosures shows a variety of company-specific attributes which affect the frequency and quantity of disclosures. Company size is widely recognized as a strong determinant of corporate disclosures. The higher the level of visibility a company has due to its large scale (measured using Total Assets or Market Capitalization) the higher the level of scrutiny that exists concerning its business practices. Consequently, larger companies are subjected to greater pressures to disclose sustainability information than smaller ones (Deegan, 2002). As such, numerous empirical analyses identified a positive correlation between company size and sustainability disclosures (e.g. Gao et al., 2005; Ho & Taylor, 2007; Uyar, 2012) which implies that companies increase transparency and disclose more information to meet the expectations of various groups of stakeholders and thus strengthen their reputation (Matuszak et al., 2019; Ghazali, 2007). However, no consensus exists about the consistency of this relationship across different measurement methods and data sets.

The effects of company age on sustainability disclosure are still inconclusive. On the one hand some studies assume that companies, whose history is longer than others (and therefore have gained experiences and built-up relations with relevant stakeholders), tend to produce a higher volume of sustainable reporting than younger companies (Delaney & Huselid, 1996). On the other hand, many studies identify a negative relationship between company age and sustainability disclosure which may result from a lower sensitivity of mature companies towards the increasing expectations of society (Rettab et al., 2009; Liu & Anbumozhi, 2009). Multiple studies on listed companies in Nigeria have also hypothesized no relationship. For instance, Okoye & Adeniyi (2018) found that age does not impact social disclosure because both young and old firms are equally likely to report their CSR activities to gain legitimacy. These ambiguous results suggest that the age of a company may impact on sustainability disclosure indirectly via its influence on perceived threats against legitimacy and flexibility.

Corporate governance constitutes an important element of sustainability disclosure. The ability of firms to integrate sustainability into their strategic decision making is enhanced through effective governance. Additionally, effective governance enables transparency and accountability. Governance structures related to sustainability are becoming increasingly formalized. Sustainability is being integrated into corporate governance frameworks at the Board of Directors level (Kolk, 2008). A strong governance structure is associated with greater completeness and credibility in the sustainability reports produced by firms (Painter-Morland, 2006). Board size has been positively correlated with sustainability disclosure. This could be due to several reasons. First, larger Boards of Directors may provide better monitoring of a company's operations. Second, larger Boards of Directors may have access to a greater diversity of skills which can assist a company in addressing a broader range of stakeholder concerns. Finally, larger Boards of Directors will typically be more connected to outside stakeholders and therefore may place a greater emphasis on sustainable business practices (Hu & Loh, 2018). Most empirical research indicates a positive relationship between board size and sustainability reporting quality.

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The relationship between profit and sustainability disclosure has been extensively studied, although results vary. According to the signaling theory, companies with higher profits should provide more detailed information about their sustainability practices because they want to demonstrate how well they operate and decrease the degree of uncertainty between the company and investors (Alsaeed, 2006; Waddock & Graves, 1997). Companies with higher profits may also have more resources available to them to implement sustainability practices and to develop reports on those practices. Prior research has shown that profit is an important predictor of sustainability reports (de Villiers et al., 2011; Branco et al., 2014). Companies with a history of profits are able to provide a positive image to investors and other stakeholders, because they can demonstrate that their profitable status resulted from legal and socially acceptable actions. However, Gray (2006) questioned the relationship between social and environmentally-related disclosure and financial performance. Later studies also found no significant correlation or even a negative one indicating that high profitability does not necessarily lead to more extensive sustainability reporting (Reverte, 2009; Coffie et al., 2018). Although inconsistent results exist, the signal theory offers a plausible explanation for why there would likely be a positive relationship between profitability and sustainability disclosure.

Leverage is frequently cited as a primary factor influencing sustainability disclosure. Highly leveraged firms are scrutinized much more than less leveraged firms by creditors who require increased transparency regarding risks that impact their lending decisions (Ho & Taylor, 2007; Naser et al., 2006). High levels of leverage create agency problems and increase creditor anxiety, thus leading to increased disclosure on behalf of the firm (Kuzey & Uyar, 2017) and can be viewed as an instrument of disclosure driven by stakeholder pressure and information requirements.

Previous studies have also examined the industry segment of the company as an alternative factor that explains both the amount and type of sustainability reporting. Prior studies (Chapple & Moon, 2005; de Grosbois, 2012; Tuan, 2012), have thoroughly studied how being attached to a specific industry influences companies' sustainability reporting as there are considerable differences in social and environmental impacts across various industries. Clarkson et al. (2011) showed that companies within the Mining, Oil and Chemical Industries provide substantially more detailed information on their environmental, Health and Safety concerns than other companies. Kolk (2003) stated that companies in the Finance and Service Industry tend to report more about Social Issues and Philanthropy than other companies. Dinithi and Qian (2019) using Regression Analysis show that in Sri Lanka, whether or not a company belongs to one of many different industry segments does not tend to impact the degree of sustainability reporting.

Sustainability disclosure in developing countries creates many challenges. Different economic conditions, institutional constraints and weak law enforcement mechanisms can influence both the amount and nature of sustainability reporting. For example, sustainability reporting in Sri Lanka is still primarily voluntary and focuses on social indicators rather than environmental indicators (Dissanayake et al., 2016). Multinational corporations with subsidiaries in developing countries may experience dual institutions, i.e. they need to balance international reporting standards with local institutional conditions (Beddewela & Herzig, 2013). Therefore, sustainability disclosure practices in developing countries must take into consideration the different institutional environment in which they occur.

The literature on sustainability disclosure emphasizes the importance of establishing clear definitions for concepts, distinguishing between sustainability disclosure and

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actual performance, as well as the distinction between determinants and outcomes of sustainability disclosure. Because sustainability reporting is increasingly transitioning from voluntary to mandatory reporting practices, accounting for changing institutional conditions and regulation will become crucial. Based on previous research on the topic this study extends the existing knowledge base by investigating both the quantity and types of sustainability disclosure and their respective determinants in a given institutional setting.

METHODOLOGY

The study population comprises 297 companies listed in the Colombo Stock Exchange (CSE), representing 20 business sectors as of 31 December 2018. We, however, focused on ten business sectors as provided in Table 1, and drew 50 % of companies with higher market capitalization within such sectors under the study as the sample for this investigation. Thus, the companies in each of the said sectors were listed in descending order of market capitalization, and the first 50% of firms with higher market capitalization were drawn as our sample. The final sample used for our study is summarized in Table 1.

Table 1 – Samples for the Study

Sectors	Total Companies	50% of companies based on higher market capitalization	Initial Sample	Incomplete records and extreme values	Final Sample
Power & Energy (P&E)	9	4.5	5	0	5
Plantations (PL)	19	9.5	10	2	8
Manufacturing (MN)	41	20.5	21	15	6
Construction & Engineering (C&E)	4	2	2	0	2
Bank Finance & Insurance (BF&I)	72	36	36	15	21
Beverage Food & Tobacco (BF&T)	24	12	12	5	7
Land & Property (L&P)	20	10	10	1	9
Hotels & Travels (H&T)	39	19.5	20	3	17
Oil Palms (OP)	5	2.5	3	1	2
Chemicals & Pharmaceuticals (C&P)	12	6	6	0	6
	245	122.5	125	42	83

The objective of this study is twofold. One is to report the extent of sustainability disclosures in the annual reports of listed firms. The other is to test the hypothetical relationship between firm-specific factors and sustainability disclosure scores to identify the factors that may be used for predicting the sustainability disclosure practices of Sri Lankan firms. The sustainability disclosures in the annual reports of companies are surveyed based on the key topic items in the Global Reporting Initiative (GRI) Sustainability Disclosure Standards.

The core disclosure topics prescribed in 'GR 102 general disclosures' and items reflecting the topic-specific standards prescribed in 200 series (Economic issues); 300 series (Environmental topics); 400 series (Social topics) were used to develop sustainability disclosure indices for this study. Thus, this study constructed and employed four sustainability disclosure indices, namely 'General Disclosures Index (GEDI)' which was constructed with 58 items based on 'GR 102 General Disclosures'; 'Economic Sustainability Disclosures Index (ECSDI)' which incorporated 09 items based on the standards under GRI

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economic topics of 200 series; 'Environmental Sustainability Disclosures Index (ENSDI)' that employed 34 items were based on the standards under GRI environmental topics of 300 series; and 'Social Sustainability Disclosures Average Index (SOSDI)' represented 48 core items reflecting on GRI's social topics standards issued under 400 series.

Table 2: Global Reporting Initiative (GRI) Sustainability Disclosure Standards

Sustainability Indices	Number of Item	Underlying GRI standards
General Disclosures Index (GEDI)	58	GR 102 General Disclosures'
Economic Sustainability Disclosures Index (ECSDI)	9	200 series (Economic topics);
Environmental Sustainability Disclosures Index (ENSDI)	34	300 series (Environmental topics)
Social Sustainability Disclosures Index (SOSDI)	48	400 series (Social topics)
Overall Sustainability Disclosure Index (OVSDI)	149	

GRI's GR 102 general disclosures standards that form the basis for General Disclosures Index (GEDI) constructed for this research guide the reporting of contextual information about an organization and its sustainability reporting practices which include information about an organization's profile, strategy, ethics and integrity, governance, stakeholder engagement practices, and reporting process (GRI 2020).

GRI's standards in 300 series relates to seven economic topics relating to sustainability concerns that an organization impacts on the economic conditions of its stakeholders, and on economic systems at local, national, and global levels. These standards seek to capture flow of capital among different stakeholders, and the main economic impacts of the organization throughout society. As of 2020, GRIB has issued economic standards under sub categories of Economic Performance (GRI 201) Market Presence (GRI 202), Indirect Economic Impacts (GRI 203), Procurement Practices (GRI 204), Anti-corruption (GRI 205), Anti-competitive Behavior (GRI 206) and Tax (GRI 207). However, as some standards were not effective at this time this research was conducted, the items used in Economic Sustainability Disclosures Index (ECSDI) for this study emanate from the GRI's economic sub topics of Economic Performance, Market Presence, Indirect Economic Impacts and Procurement Practices.

Items included in Environmental Sustainability Disclosures Index (ENSDI) of this study are based on eight GRI's Environmental topics (300 series) namely Materials (GRI 301), Energy (GRI 302), Water and Effluents (GRI 303), Biodiversity (GRI 304), Emissions (GRI 305), Waste (GRI 306), Environmental Compliance (GRI 307) and Supplier Environmental Assessment (GRI 308).

Social Sustainability Disclosures Index (SOSDI) captures the social dimension of sustainability and records the disclosers on the impacts that the organization has on the social systems within which it operates. GRIB has issued as of 2020, nineteen standards on cardinal topics on social sustainability. Social Disclosures Index (SOSDI) we constructed employs 48 disclosure requirements stipulated in GRI social standards.

The study observes companies over a single year. i.e. 2018 following such previous disclosure studies (e.g. Healy et al., 1995; Botosan, 1997; Kamel and Shahwan, 2014; and Kamel and Awadallah, 2017).

Sustainability disclosers contents in annual reports and sustainability reports (if any for

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the study period) were surveyed using techniques of content analysis which is now a commonly used method in various similar empirical exercise. Complying to previous disclosure studies (e.g. Chow and Wong-Boren, 1987; Zarzeski, 1996; Ferguson et al., 2002; Kamel and Awadallah,2017) disclosure items were scored using unweighted dichotomous index as weighted indices on other hand may be subjective and it does not significantly vary in outcome (Kamel and Awadallah,2017). Thus, if an item under observation is disclosed in the annual report by a company *i*, it is assigned the score of 1 and 0 otherwise. Disclosure index of company (i) is obtained by dividing summation of scores it secured by total number of items used for the computation of that disclosure index. Therefore, the disclosure index of company can empirically be represented as follows:

$$GEDI_i = \sum_{j=1}^{n=58} X_{it} * \frac{1}{n}$$

$$ECSDI_i = \sum_{j=1}^{n=09} X_{it} * \frac{1}{n}$$

$$ENSDI_{i,} = \sum_{j=1}^{n=34} X_{it} * \frac{1}{n}$$

$$SOSDI_{i,} = \sum_{j=1}^{n=48} X_{it} * \frac{1}{n}$$

$$OVSDI_i = \sum_{j=1}^{n=1} X_{it} * \frac{1}{n}$$

Where X*i* is score assigned to company *i*. X*i* is equal to 1 if the item is disclosed and 0 otherwise, and n is the total number of items used in calculation of the respective disclosure index. To test hypotheses, the following OLS regression models were fitted estimating the effect of firm specific factors on the level of sustainability disclosure made by the sample firms:

$$GEDI_i = \beta 0 + \beta 1\ FSi + \beta 2\ FAi + \beta 3\ PRi + \beta 4\ FRi + \beta 5\ CGi + DSi + \mu i$$

$$ECSDI_i = \beta 0 + \beta 1\ FSi + \beta 2\ FAi + \beta 3\ PRi + \beta 4\ FRi + \beta 5\ CGi + DSi + \mu i$$

$$ENSDI_{i,} = \beta 0 + \beta 1\ FSi + \beta 2\ FAi + \beta 3\ PRi + \beta 4\ FRi + \beta 5\ CGi + DSi + \mu i$$

$$SOSDI_{i,} = \beta 0 + \beta 1\ FSi + \beta 2\ FAi + \beta 3\ PRi + \beta 4\ FRi + \beta 5\ CGi + DSi + \mu i$$

$$OVSDI_i = \beta 0 + \beta 1\ FSi + \beta 2\ FAi + \beta 3\ PRi + \beta 4\ FRi + \beta 5\ CGi + DSi + \mu i$$

Where; GEDI is General disclosure index; ECSDI is economic sustainability disclosure index; ENSDI is environmental sustainability disclosure index; SOSDI is social sustainability disclosure index, OVSDI is overall sustainability disclosure index; FS refers to firm size measured by total assets; FA denotes firm age measured by the year of establishment of the company; PR refers to profitability measured by return on equity; FR is firm risk proxied by debt to equity ratio; CG is a corporate governance variable and it is represented by number of directors in the board (board size); DS is a binary dummy variable for sector where a firm in Bank Finance & Insurance sector was coded 1 and 0 for firms in Non-Financial Sectors; β0 the intercept (constant term); $\beta_1, \beta_2, \beta_3, \beta_4,$ *and* β_5 are parameter estimators of corresponding independent; and μi is error term. For statistical purposes all independent variables except PRO and DS, sector dummy variables were log transformed before regression analysis.

RESULTS AND DISCUSSIONS

Panel A in Table 3 indicates that the most disclosed sustainability topic related index is ECSDI while ENSDI represents the lowest disclosed area of sustainability. ECSDI records the highest spread meaning the sustainability discloser practices with respect to economic impacts highly varies among companies. Entities seem to be relatively less varied in disclosing the social impacts indicated by SOSDI than any other sustainability information. General disclosures supersede all sustainability indices investigated.

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Panel B of the below table displays that ECSDI tends to be the highest disclosed sustainability index in CSE's sectors of power & energy, plantations and hotels & travels while GSDI dominates in the sectors of manufacturing, construction & engineering, bank finance & insurance, beverage food & tobacco and chemicals & pharmaceuticals. However, ENSDI except in the sector of land & property remains to be the lowest disclosed index among all sectors surveyed. In land & property ECSDI is the lest disclosed sustainability index. In comparison with other sectors under investigation, the sector of power and energy topped in sustainability disclosure contents pertinent to economic, environmental and social topics whereas the land & property sector scores least under all the said three areas of sustainability. Plantation sector tends to disclose more on economic topic than other areas of sustainability. Firms operating in manufacturing, construction & engineering, bank, finance & insurance, oil palms, and chemicals & pharmaceuticals sectors tend to disclose more on general items surveyed than topic specific sustainability contents. However, comparative to other sustainability topics, economic topics (ECSDI) have been prioritized within manufacturing and bank, finance & insurance sectors while it is social topic that is predominant within the sectors of construction & engineering oil palms, and chemicals & pharmaceuticals. Firms operating in beverage food & tobacco and hotels & travels supplies more information on economic sustainability than environmental and social contents.

As the sample is categorized into financial and non-financial sectors (Panel C in Table 3), firms in non-financial sector precede over finance, bank and insurance firms in average sustainability information under all three sustainability topics namely economy, environment and society. Firms in finance, bank and insurance sectors disclose relatively more on general items (GSDI) them topic specific contents.

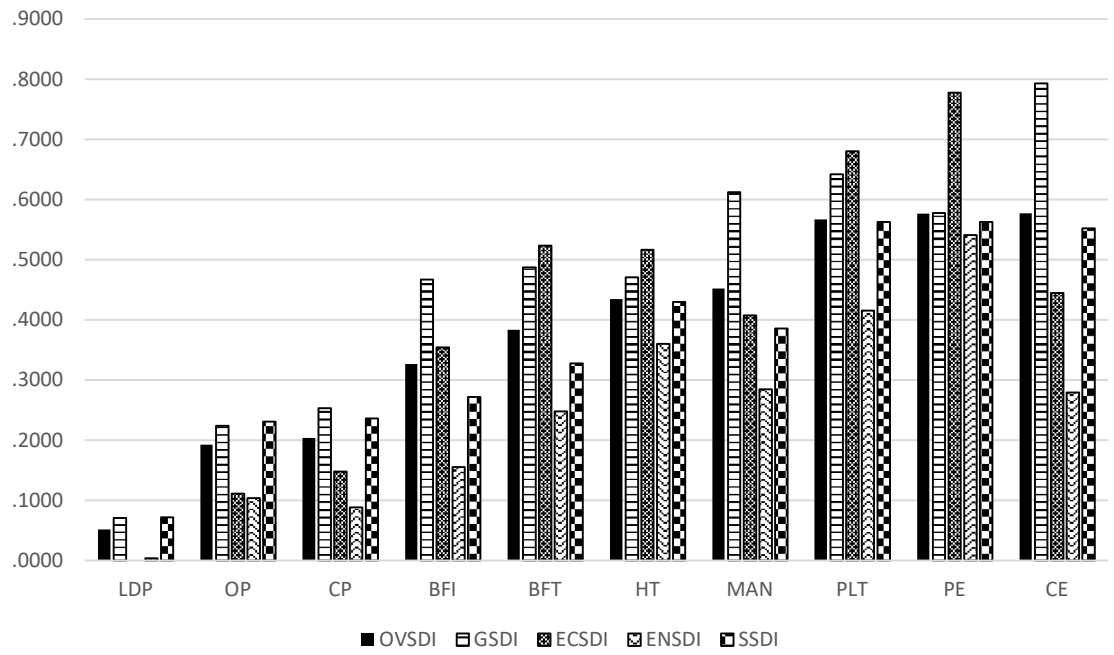


Figure 1: General Sustainability Disclosers Index (GSDI) by Sector

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Table 3: Descriptive Statistics

Panel A : Descriptive Statistics of Variables

	μ	σ	Range	Q1	Q2	Q3
GSDI	0.4471	0.2441	0.9655	0.2414	0.5172	0.5862
ECSDI	0.4056	0.3407	1.0000	0.1111	0.3333	0.7778
ENSDI	0.2431	0.2469	0.9118	0.0588	0.1765	0.3824
SOSDI	0.3442	0.2346	0.8750	0.1702	0.2917	0.5000
OVSDI	0.3649	0.2137	0.7852	0.1879	0.3624	0.5570
SIZE(Mn)	58,177	187,429	1,319,742	2,234	6,035	35,645
AGE	48.48	37.56	167	26.00	37.00	52.00
PRO	0.1524	0.3434	3.59	0.04	0.13	0.20
LEV	3.07	4.35	23.22	0.30	0.98	4.59
COG	8.85	2.54	13.00	7.00	9.00	10.00

Panel B: Sectoral Average and Spread (SD) of Sustainability Disclosure Indices

	n	GSDI	ECSDI	ENSDI	SOSDI	OVSDI
P&E	5	0.578(0.056)	0.778(0.157)	0.541(0.218)	0.563(0.205)	0.577(0.125)
PL	8	0.642(0.193)	0.681(0.333)	0.415(0.336)	0.563(0.294)	0.567(0.151)
MN	6	0.612(0.144)	0.407(0.278)	0.284(0.233)	0.385(0.253)	0.452(0.158)
C&E	2	0.793(0.268)	0.444(0.000)	0.279(0.104)	0.552(0.074)	0.577(0.104)
BF&I	21	0.467(0.220)	0.354(0.304)	0.156(0.129)	0.272(0.113)	0.326(0.140)
BF&T	7	0.488(0.245)	0.524(0.356)	0.248(0.138)	0.327(0.154)	0.384(0.174)
L&P	9	0.071(0.057)	0.000(0.000)	0.003(0.010)	0.072(0.091)	0.051(0.036)
H&T	17	0.470(0.165)	0.516(0.324)	0.360(0.284)	0.430(0.243)	0.435(0.206)
OP	2	0.224(0.098)	0.111(0.157)	0.104(0.061)	0.231(0.086)	0.193(0.007)
C&P	6	0.253(0.211)	0.148(0.218)	0.088(0.202)	0.236(0.237)	0.204(0.209)

Panel C: Financial Sector (BF&I) and Non-Financial Sectors (NFS) Compared

	n	GSDI	ECSDI	ENSDI	SSDI	OVSDI
BF&I	21	0.467(0.220)	0.354(0.304)	0.156(0.129)	0.272(0.113)	0.326(0.140)
NFS	62	0.440(0.253)	0.423(0.353)	0.273(0.270)	0.369(0.260)	0.378(0.233)

Note 01: P&E- Power & Energy; PL- Plantations; MN-Manufacturing; C&E- Construction & Engineering; BF&I- Bank Finance & Insurance; BF&T- Beverage Food & Tobacco; L&P- Land & Property; H&T- Hotels & Travels; OP- Oil Palms; C&P- Chemicals & Pharmaceuticals.
Note 02: Standard deviation of the variavles are provided in the parenthesis

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The findings OLS regression model presented in Panel A of Table 4 inform the model is significant at 1% alpha level with the Adjusted R^2 of 14.4%. Size, leverage and sector variables are significant predictors for general sustainability disclosure index. Age, profitability and corporate governance measures are not significantly related GSDI. Larger and highly levered firms tend to disclosure more General Sustainability Disclosers than smaller and low levered firms in Sri Lanka. The coefficient for sector dummy variable is negative showing that financial banking and insurance companies tend to report the General Sustainability information than the firms in other sectors.

Economic Sustainability Disclosers Index (ECSDI)

Panel B of Table 3 portrays that all predictors employed except age and profitability significantly predicts the extent of economic sustainability disclosers though the regression model is significant at 10% with less Adjusted R^2. Despite that size, leverage and corporate governance measures are significant only at the significant level of 0.01, sector dummy variable is significant at 0.01. Again, the coefficient for sector dummy variable is negative implying that companies in financial banking and insurance sector discloses less information on economic impacts that they are creating based on GRI measures. Interestingly, the board size, the proxy used for corporate governance, significantly predict the economic sustainability disclosers. Companies with relatively more directors tends to report less on information relevant to economic sustainability. Conflicts of views that may potentially surface in a larger board of a company may impede the volume of economic impacts that companies may report.

Environmental Sustainability Disclosers Index (ENSDI)

Regression model for GSDI (see Panel C of Table…) is significant at 0.05 level (p=0.030) and the adjusted R2 of 10%. Deferring from the both models discussed above, only leverage and sector dummy variables are the significant predictors in the model. Highly levered firms tend to report Companies' leverage has significant and positive relationship with the extent of environmental sustainability disclosers.

Social Sustainability Disclosers Index (SSDI)

The measures that represented firms size (p value is 0.036), leverage (p=0.037), corporate governance (0.071) and sector attachment (p=0.001) significantly relate to social sustainability disclosers of listed firms in Sri Lanka.

Table 4: OLS Regression Model

	Parameter estimate	SE	*t*-stat	*p*-value (two-tailed)
Panel A: $GSDI_i = \beta_0 + \beta_1 LogSIZE_i + \beta_2 LogAGE_i + \beta_3 PRO_i + \beta_4 LogLEV_i + \beta_5 LogCGO_i + \beta_5 DS_i + \varepsilon_i$				
β_0	-.329	.434	-.757	.451
SIZE	.106	.051	2.069	.042**
AGE	.021	.092	.228	.820
PRO	.010	.079	.130	.897
LEV	.127	.042	3.043	.003***
CGO	-.269	.229	-1.172	.245
DS	-.219	.085	-2.582	.012***
	n	83		
	Adj R^2	0.144		
	SE	0.2262262		

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	F-value	3.242		
	p- Value	0.007***		

Panel B: $ECSDI_i = \beta_0 + \beta_1 LogSIZE_i + \beta_2 LogAGE_i + \beta_3 PRO_i + \beta_4 LogLEV_i + \beta_5 LogCGO_i + \beta_5 DS_i + \varepsilon_i$

β_0	-.268	.625	-.429	.669
SIZE	.148	.074	2.003	.049**
AGE	-.100	.132	-.752	.454
PRO	.043	.114	.380	.705
LEV	.113	.060	1.885	.063*
CGO	-.595	.330	-1.803	.075*
DS	-.329	.122	-2.686	.009***
	n	83		
	Adj R^2	0.078		
	SE	0.3258371		
	F-value	2.131		
	p- Value	0.060*		

Panel C: $ENSDI_i = \beta_0 + \beta_1 LogSIZE_i + \beta_2 LogAGE_i + \beta_3 PRO_i + \beta_4 LogLEV_i + \beta_5 LogCGO_i + \beta_5 DS_i + \varepsilon_i$

β_0	-.096	.437	-.220	.827
SIZE	.076	.052	1.482	.143
AGE	-.037	.093	-.397	.693
PRO	-.011	.080	-.138	.891
LEV	.101	.042	2.400	.019**
CGO	-.313	.231	-1.358	.179
DS	-.281	.086	-3.290	.002***
	n	83		
	Adj R^2	.100		
	SE	.2278283		
	F-value	2.484		
	p- Value	.030**		

Panel D: $SOSDI_i = \beta_0 + \beta_1 LogSIZE_i + \beta_2 LogAGE_i + \beta_3 PRO_i + \beta_4 LogLEV_i + \beta_5 LogCGO_i + \beta_5 DS_i + \varepsilon_i$

β_0	-.150	.415	-.360	.720
SIZE	.105	.049	2.138	.036**
AGE	-.067	.088	-.758	.451
PRO	-.002	.076	-.028	.978
LEV	.085	.040	2.124	.037**
CGO	-.401	.219	-1.830	.071*
DS	-.274	.081	-3.370	.001***
	n	83		
	Adj R^2	.114		
	SE	.2164238		
	F-value	2.707		
	p- Value	.020**		

Panel E: $OVSDI_{it} = \beta_0 + \beta_1 LogSIZE_i + \beta_2 LogAGE_i + \beta_3 PRO_i + \beta_4 LogLEV_i + \beta_5 LogCGO_i + \beta_5 DS_i + \varepsilon_i$

β_0	-.215	.371	-.580	.563
SIZE	.101	.044	2.319	.023**
AGE	-.028	.079	-.351	.727
PRO	.004	.068	.053	.958

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LEV	.107	.036	2.988	.004***
CGO	-.342	.196	-1.745	.085*
DS	-.258	.073	-3.552	.001***
	n	83		
	Adj R^2	.161		
	SE	.19327		
	F-value	3.559		
	p- Value	.004***		

Firms size measured by natural log of company's total assets predicts all sustainable discloser indices tested except environmental sustainability disclosers (ENSDI***).*** This finding goes with that of many previous disclosure studies. Increased sustainability disclosure by larger firms tends to results in due to necessity (e.g. increased pressure), feasibility (e.g. availability of resources) and utility thereof (e.g. purported benefits through sustainability disclosure). Large firms

often engage in volume of activities causing environmental consequences. Therefore, these companies are generally subjected to increased social pressure for environmental and social sustainability of their operations and thus are expected to shoulder relatively more social and environmental responsibilities (Gao et al., 2005; Ho & Taylor, 2007; Uyar, 2012). On the other hand, management of larger firms are more inclined towards introducing innovation and setting exemplary actions that may inspire the small firms. This tendency too operates in favor of resulting more sustainability disclosures by larger firms (Dinithi & Qian, 2019)

Age of the companies fail to significantly relate to any of the sustainability disclosure indices under the study. As older and established firms may possess experience, legitimacy and leadership they may be expected to and may contribute to the sustainable considerations more than their younger counterparts. Empirical literature as well provide mixed evidence. Firms' age has been found positively and significantly predicting corporate and sustainability disclosers (Delaney and Huselid 1996) while there are studies reporting significant negative relationship between firm age and sustainably disclosures (e.g. Liu & Anbumozhi, 2009; Rettab et al., 2009). However, Okoye & Adeniyi (2018) could not find a significant relationship between age of the firm and sustainability disclosure and our finding is consistent with this.

Surprisingly, profitability is not a significant predictor even in a single disclose prediction model we tested. The premises that profitable firms disclose more information thereby signaling positive impression with shareholders (Alsaeed, 2006) or as a device for external assurance (Waddock and Graves (1997); were failed to be not be established through our finding. Thus, our finding contradicts with many papers reporting positive or negative relationship between profitability and sustainability disclosures However, the finding is consistent with that of Reverte, 2009; Coffie et al., 2018).

Our results also indicate that operating with relatively in a high leverage (debt to equity ratio) condition has significant and positive relationship with sustainability disclosure indices. This relationship is found to prevail in all regression models we tested. Sustainability disclosers, as voluntary contents signal the ability of the entity to honor the accountability it has on economic, environmental and social sustainability. Ability of a livered entity to honor its wider accountability on economic, environmental and social sustainability has the potential to enhance the trust that lenders have on it with respect to repayment of the loan and interest

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when they become due. This leads to easy access to debt capital, reduced agency cost and lower cost of capital. Therefore, levered firms tend to disclose more voluntary information *via* sustainability reporting.

Prior discloser studies that are based on the agency theory generally report the same result that leverage has a positive influence on the extent of sustainability disclosures. Many other studies (e.g. Ho & Taylor, 2007; Naser et al., 2006) also report similar positive relationship between financial leverage and the extent of voluntary disclosures. The belief that agency theory may not apply to Asian markets in the same manner as it does in Anglo-American developed economies, due to the unique institutional contexts of Asian countries (Chang et al., 2017), was not supported by the findings of our study study.

The board size that proxied corporate governance is significantly predicting the extent of sustainability disclosures measured by ECSDI, SOSDI and OVSDI at significance level of 1%. However, board size failed to explain the extent of disclosures in relation to environmental sustainability (ENSDI). Accordingly, economic and social considerations prevail over environmental topics when boards influence the sustainability reporting of their firms. This mixed result may signal the boards' existing order of priorities in sustainability agenda in the contexts of Sri Lanka's post war development scenario.

We also discovered that there was a significant negative correlation between sector dummy variables and the three different sustainability disclosure index results for our research. In contrast to the findings by Dinithi and Qian (2019) who found no association between a firm's sustainability disclosures and their industrial classification in a sample of firms based in Sri Lanka, we agree with other empirical studies conducted in other jurisdictions (e.g. Chapple and Moon, 2005; de Grosbois, 2012; Tuan, 2012). The findings of our research indicate that financial sector firms have a lower level of sustainability disclosures than firms in other sectors. As one of the lowest environmentally impacting industries physically (Dinithi and Qian, 2019) and having a low stakeholder expectation for environmental sustainability, the financial sector discloses less about sustainability.

CONCLUSION

We examined the extent of sustainability-related disclosures among publicly traded companies in Sri Lanka by using disclosure measures based on the Global Reporting Initiative (GRI) standards. As per our knowledge, it is one of only a handful of Sri Lankan studies examining sustainability reports through the lens of GRI. Our study contributes to an increased comprehension of both the characteristics and the factors influencing sustainability reporting practices of Sri Lankan listed companies toward the aim of increasing private sector accountability regarding sustainable development. Additionally, our study adds to the current body of knowledge concerning sustainability reporting by providing empirical data form a developing nation.

Our findings reveal that the greatest amount of disclosure related to the economic aspect of sustainability was through the Economic Sustainability Disclosure Index (ECSDI); conversely, the Environmental Sustainability Disclosure Index (ENSDI) had the smallest amount of disclosures related to the environmental aspect of sustainability. Although sustainability reporting practices are becoming increasingly prevalent among listed companies in Sri Lanka (Dinithi & Qian, 2019), environmental aspects of sustainability continue to receive significantly less attention. A possible explanation for this preference may relate to Sri Lanka's historical emphasis on post-war economic recovery and social stability relative to environmental concerns.

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The sample included firms representing ten sectors at the Colombo Stock Exchange (CSE): Power & Energy (P&E), Plantations (PL), Manufacturing (MN), Construction & Engineering (C&E), Banking, Finance & Insurance (BF&I), Beverage, Food & Tobacco (BF&T), Land & Property (L&P), Hotels & Travels (H&T), Oil Palms (OP), and Chemicals & Pharmaceuticals (C&P). Sector-wise differences in sustainability disclosure practices were very evident. Of the sectors studied, the Power & Energy sector reported the highest levels of sustainability disclosures across all three dimensions: economic, environmental, and social; whereas, the Land & Property sector had the lowest levels of sustainability disclosures in each of the above-mentioned categories. The ECSDI proved to be the most widely disclosed sustainability dimension in Power & Energy, Plantations, and Hotels & Travels sectors, indicating that these sectors are vital to the nation's economy. Conversely, disclosures related to GRI general standards — measured via the General Sustainability Disclosure Index (GSDI) — were more common in Manufacturing, Construction & Engineering, Banking, Finance & Insurance, Beverage, Food & Tobacco, and Chemicals & Pharmaceuticals sectors. Again, however, ENSDI was identified as being the least disclosed sustainability category in nearly every sector analyzed. Regression analysis further supported that firms' classifications by industry — specifically whether they fall under the financial sector or other — significantly impacts the degree of sustainability disclosures made. Relative to firms operating in environmentally sensitive industries, firms classified as financial institutions typically report lower levels of sustainability information. This can be attributed to potentially less stakeholder pressure and lower direct environmental impact associated with their respective operations.

This study examined a number of variables commonly researched empirically in past studies to determine what drives sustainability disclosure practices among listed firms in Sri Lanka. Findings show that there exists a statistically significant positive relationship between firm size — as measured by total assets — and the scope of general, economic, social, and overall sustainability disclosures. This relationship can be attributed to greater public exposure and higher stakeholder pressures experienced by larger firms — leading them to report more thoroughly about their sustainability performance. Firm size did not affect environmental sustainability disclosures as measured through ENSDI. These findings — along with generally low levels of environmental disclosure observed among Sri Lankan listed firms — suggest that environmental responsibility is not a significant component of how firms prepare and report their accounts regardless of firm size. Furthermore, the findings may also imply that the current regulatory and institutional environment in Sri Lanka does not create sufficient pressure or incentive for firms to include environmental considerations in their accountability frameworks compared to economic and social dimensions of sustainability.

The results also indicate that there was no correlation for firm age or profit levels across all three sustainability disclosure indexes. Their results differ from many studies that have established both high profitability and mature firm status (i.e., firm age) as key factors affecting firms' propensity to report their sustainability performance. Possible explanations include the fact that most of the companies in Sri Lanka are still voluntarily disclosing some level of sustainability data and thus likely have limited influence on investment decisions made by investors using the local stock exchange. Additionally, as GRI has been recently implemented in Sri Lanka, it is likely too early to see how this will impact corporate governance practices regarding sustainability reporting. The researchers were able to find support for the idea of signaling theory that

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firms with higher debt-to-equity ratios disclose more sustainability related information. They were able to demonstrate that board of director consideration towards economic and social aspects of sustainability outweighs board of director consideration of environmental aspects when determining the content of corporate sustainability reports. Board of director emphasis on economic and social aspects of sustainability may be due to the focus of current development priorities in Sri Lanka's post-conflict economy. However, these priorities could shift in response to changes in the country's socioeconomic and regulatory environments.

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