

# Determinants of Social and Environmental Disclosures in Sri Lankan Listed Companies

Sujenthini.S<sup>1</sup> and Rajeshwaran. N<sup>2</sup>

<sup>1,2</sup> Department of Commerce, Eastern University

## Abstract

Social and Environmental disclosure is a recent trend of reporting practice of the firms which present not only the financial information but also the social information. Objectives of the study are to identify the extent and types of social and environmental disclosures of Sri Lankan public listed companies and examine the determinants of social and environmental disclosure of listed companies. By reviewing 296 companies' annual reports published in recent year, out of them, 34% of (100) companies were selected by using proportionate stratified random sampling according to business sector as a sample to carry out the study. A checklist was prepared according to GRI guideline (version 3) to score the data. Descriptive statistics and Bivariate test were used to analyze the study. Overall results of the descriptive study illustrate that there is low level of social and environmental disclosure practice exists in Sri Lankan listed companies. Result of the correlation indicates that Age of the firm negatively correlated with social and environmental disclosure. While Firm Size, profit and leverage are weak positively related with social and environmental disclosure. It is concluded that Firm Size, Profit, and Leverage determine the level of social and environmental disclosure. The findings from this research could provide relevant insights to the Sri Lankan listed companies.

**Keywords:** Social and Environmental Disclosure, Global Reporting Initiative, Sri Lankan listed companies

## Introduction

The relative significance of equity markets in national economies is growing and individual investors are becoming more active in those markets. As a result, public disclosure, investor protection, shareholder value, and stock market-driven forms of corporate governance are becoming more progressively essential (Frederick Choi & Gary Meek, 2011). Globalization invites the firms which are moving to adopt new technology advancement and creates high competitiveness to achieve the public popularity (Chen and Bouvain, 2009; Ziek, 2009). It has been criticized for creating social problems. Pollution, resource depletion, wastage, product quality and safety, the rights and safety of workers, and the power of large corporation are mainly discussed issues have become the focus of increasing attention and concern on social and environmental reporting (Adams, 2002). In Sri Lanka however, the concept of social responsibility has not been much developed at present even though there is neither prescribed professional Standard nor legal framework addressing the issues of social and environmental reporting. Thus, most business organizations in Sri Lanka, disclose only financial information although there is an increasing trend of stakeholder's concern and demand for environmental management and sustainable development information of their business organizations (Rajapakse, 2003).

### **Problem Statement**

Some firms misuse the term “social and environmental disclosures”, and provides only good information regarding the social and environmental activities which enhance their reputation in order to satisfy the shareholders (Yingjun Lu, MAcc 2012). Even though Sri Lankan government established several laws and regulations to monitor the companies’ performance for protecting social and environmental circumstances, There is not mandatory to disclose companies’ social and environmental performance embedded in annual report. Meanwhile the Institute of Chartered Accountants of Sri Lanka does not have any special standard regarding social and Environmental disclosures. Consequently, statement users face difficulty to compare, cross-check, realizes the accuracy and fairness of the environmental information provided in the annual reports. Because there are no proper guidelines imposed by law and Accounting standards, (Rajeshwaran and Ranjani, 2014).

### **Research Questions**

1. What are the extent of social and environmental disclosures in listed companies in Sri Lanka?
2. What are the factors that determine corporate social and environmental disclosures in listed companies in Sri Lanka?

### **Research Objectives**

1. To identify the extent of social and environmental disclosures in Sri Lankan Listed companies.
2. To examine the factors that determines the corporate social and environmental disclosures in listed companies in Sri Lanka

### **Theoretical Framework**

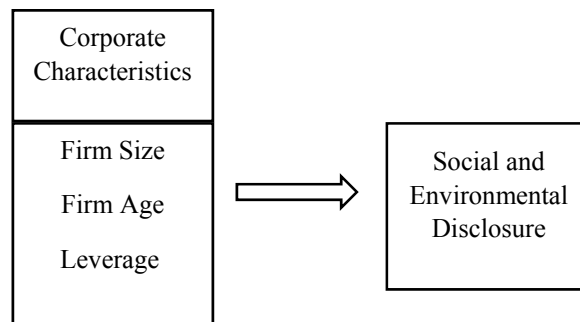


Figure 1: Theoretical Model  
(Source: Indra Abeysekara 2013)

### **Methods**

#### **Check list**

Using the Global Reporting Initiative framework (version 3), a scoring system was developed to determine the quality of the disclosures. GRI was selected as the basis for the coverage of disclosures as it is currently considered best practice reporting consider it most accurate to compare the reporting of the sample companies to the most current, up-to-date and comprehensive framework available. Hence, it is also possible to assess the quality and scope

of the disclosed information on one variable. In this case, it is necessary to assign weights (values) and define scores that vary according to the kind of analysis.

### Measures

Clarkson et al. (2008) Toms, (2002) and Van Staden & Hooks (2007) developed a 5-point scale to assess the quality of disclosure, this quality scale as the following,

Scale	Description
0	No disclosure
1	Specific endeavor in non-quantitative terms
2	Quantified performance data
3	Quantified performance data relative to bench marks
4	Quantified performance data at disaggregate level

### Sample Size

As of 3<sup>rd</sup> August 2015, 296 companies are listed on the CSE, representing twenty business sectors. Out of that 34% of the population which is 100 companies selected as a sample for this study. Proportionate stratified random sampling technique used for selection of the sample. These 100 companies represented 20 different industry sectors.

### Main Study

In Sri Lankan context, it is impossible to use other means of measures like, corporate reputation indicators, data produced by measurement entities (Wijesinhe 2012). Therefore, Annual reports of the companies were used as an instrument to collect the data.

### Method of data analysis

Data has been presented using tables. In addition, descriptive analysis and correlation analysis were used to analyses the data. Collected data were evaluated according to the criteria given in table below.

Table 2.1 Decision Criteria for quality of social and environmental disclosure

Range	Decision attributes
$1 \leq X_i \leq 2.5$	Low level
$2.5 < X_i \leq 3.5$	Moderate level
$3.5 < X_i \leq 5.0$	High level

(Source: Developed for this study)

$X_i$ - Mean

Table 2.2 Decision Criteria for Correlation analysis

Range	Decision attribute
r=0.5 to 1.0	Strong positive
r=0.3 to 0.49	Medium positive relationship
r=0.1 to 0.29	Weak positive relationship
r=-0.1 to -.29	Weak negative relationship
r=-0.3 to -0.49	Medium negative relationship
r=-0.5 to -1.0	Strong negative relationship

(Source: Developed for this study)

### Findings of the study

Table 3.1: Overall dimension of social and environmental disclosure

Social and Environmental disclosure dimension	Mean	S.D
Labor practice and decent work performance indicators	3.37	4.52
Human rights performance indicators	1.85	5.09
Society performance indicators	1.1	2.24
product responsibility performance indicators	1.26	2.79
Environmental indicators	2.54	4.7

(Source: Survey data)

Overall dimension of social and environmental disclosure show that there is low level social and environmental disclosure in listed companies and standard deviation reveals that there is dispersion from mean.

Table 3.2: Descriptive analysis of Quality of Social Disclosure

	Mean	Standard deviation
Social Disclosure	7.58	14.64

(Source: Survey data)

According to Table 3.2, it is noted that the overall Social disclosure out of value of 180, mean value is 7.58 and standard deviation is 14.64. It shows that there is large dispersion and social disclosure in Sri Lanka is very low.

Table 3.3: Descriptive analysis of Quality of Environmental Disclosure

	Mean	Standard Deviation
Environmental Disclosure	2.54	4.7

(Source: Survey data)

Table 3.3, shows that the overall quality of Environmental disclosure out of 120, mean value is 2.54 and standard deviation is 4.7. This is around 2% of total environmental disclosures. It indicates dispersion of data and disclosure of Quality of environmental information is still in low level.

Table 3.4: Descriptive analysis of Quality of overall Social and Environmental disclosure

	Mean	Standard Deviation
Social and Environmental Disclosure	10.12	19.34

(Source: Survey data)

Table 3.4, shows that the overall Social and Environmental disclosure out of 300 value, mean value is 10.12 and standard deviation is 19.34. It indicated that there is dispersion and quality of Social and Environmental Disclosure is very low level in Sri Lanka and there is a high dispersion among the companies regarding social and environmental disclosure.

Table 3.5: Correlation between firm age and social and environmental disclosure

		Firm Age
Social and Environmental disclosure	Pearson Correlation	-0.080
	Sig. (2-tailed)	0.428
	N	100

(Source: Survey data)

Coefficient of correlation (r) is less than 0.5 (moderate) and it can be identified as weak negative relationship ( $r=-0.080$ ,  $p>0.05$ ) between Firm Age and Social and Environmental Disclosure.

Table 3.6: correlation between firm size and social and environmental disclosure

		Firm Size
Social and Environmental disclosure	Pearson Correlation	0.270
	Sig. (2-tailed)	0.007
	N	100

(Source: Survey Data)

Coefficient of correlation (r) is less than 0.5 and it can be identified as weak positive relationship ( $r=0.270$ ,  $p<0.05$ ) between Firm Size and Social and Environmental Disclosure.

Table 3.7: correlation between leverage and social and environmental disclosure

		Leverage
Social and Environmental Disclosure	Pearson Correlation	0.161
	Sig. (2-tailed)	0.110
	N	100

(Source: Survey Data)

Coefficient of correlation (r) between Social and Environmental Disclosure and Leverage is less than 0.5 and it can be identified as weak positive relationship ( $r=0.161$ ,  $p>0.05$ )

Table 3.8: correlation between profit and social and environmental disclosure

		Profitability
Social and Environmental Disclosure	Pearson Correlation	0.049
	Sig. (2-tailed)	0.627
	N	100

(Source: Survey Data)

Coefficient of correlation (r) between Social and Environmental Disclosure and Profit is less than 0.5 and it can be identified as weak positive relationship ( $r=0.049$ ,  $p<0.05$ )

## Conclusion

### Objective 1

This study is attempted to assess the type and extend of social and environmental disclosures in listed firms in Sri Lanka, the result have been obtained from descriptive analysis can concluded that quality of social and environmental disclosure is very low level in Sri Lanka.

### Objective 2

Under the objective of examine the factors that determine the corporate social and environmental disclosures in listed firms in Sri Lanka, the result have been obtained through correlation analysis to examine the relationship of four independent variables such as firm Age, Firm Size, profit (ROA) and Leverage on Social and Environmental Disclosure. According to the finding, the correlation show weak negative relationship between Firm Age and social and environmental disclosure, while Firm Size, Profit (ROA), and Leverage show weak positive relationship with social and environmental disclosure. It is concluded that Firm Size, Profit, and Leverage determine the level of social and environmental disclosure.

## Reference

- Adams, C., A. (2002). Internal organizational factors influencing corporate social and ethical reporting: Beyond current theorizing. *Accounting, Auditing and Accountability Journal* Vol. No.15 (2), pp. 223-250.
- Chen, S. and Bouvain, P. (2009). Is corporate social responsibility converging: A comparison of corporate responsibility reporting in the USA, UK, Australia and Germany. *Journal of Business Ethics*, Vol. No.87, pp. 299-317.
- Clarkson, P.M., Li, Y., Richardson, G.D., and Vasvari, F.P., (2008). Revisiting the relation between environmental performance and environmental disclosure: an empirical analysis, *Accounting, Organizations and Society*, 33, 303-327.
- Frederick D. S. Choi & Gary K Meek, (2011). *International Accounting*.
- Indra Abeysekera, and James Guthrie, (2005). "An empirical investigation of annual reporting trends of intellectual capital in Sri Lanka." *Critical Perspectives on accounting* Vol. No16.3, pp. 151-163.

- Kirushanthini, V. and Paranthaman, T (2015). Comparative Study on the Factors Influencing on Effectiveness of Internal Auditing Practice between Private and State Banks in Eastern Province.
- Rajapakse, B. (2003). Accountants, Accounting and Environmental Reporting: Review of Accountants' Attitudes on Environmental Reporting in Sri Lanka, Abstract book, First international conference on business management of developing countries, University of Sri Jayewardenepura, 48.
- Rajeshwaran N. and R. P. C. Ranjani (2014). Managers' perceptions of stakeholder and purpose of response towards corporate environmental disclosure in Sri Lanka, 11<sup>th</sup> International Conference on Business Management (ICBM), Faculty of Management Studies and Commerce, University of Sri Jayewardenepura, Sri Lanka.
- Wijesinghe K.N., (2012). Current Context of Disclosure of Corporate Social Responsibility in Sri Lanka. *Procedia Economics and Finance*, VI. No.2, pp. 171-178.
- Yingjun Lu, MAcc. (2012). Corporate Social and Environmental Disclosure Practices: Evidence from China. University of Wollongong.