

The Level of Environmental Disclosures in Annual Reports and Firm -specific attributes of Sri Lankan Listed Companies.

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Abstract

Since this is an era of environmental degradation in the wake of continually depleting ozone layer, climate change & global warming, environment consciousness in entities' activities has risen in recent years promoting the need for the environmental communication. Thus environmental disclosures entails informing the public on how successful a firm is in minimizing its negative impacts on the environment. The purpose of this study is to examine the association between firm specific attributes & environmental disclosures & environmental disclosure practices of Sri Lankan listed companies. These objectives are addressed through investigating the compliance with environmental aspects of GRI G.4.0 guidelines employing content analysis in the annual reports of 254 companies covering 20 sectors for the year 2018. Moreover, association between firm specific attributes & environmental disclosure level are analysed through Ordinary Least Square regression model. The study found that overall level of environmental disclosures is at a lower level in Sri Lankan listed firms. Also of the 20 sectors analysed, plantation sector depicts the highest level (19%) while Investment trust sector depicts the lowest environmental disclosure level (1%). Further, regression results imply that size & ISO 14001 were found to be as significant in determining the level of environmental disclosures while there were no any significant association between shareholder power, creditor power, financial performance, firm age & environmental disclosure level. The study will adds value to the existing body of literature on environmental disclosures, regulators, policymakers & stakeholders who are highly involved in, interested in & affected by the environmental disclosures.

Keywords: *Environment Disclosure, Firm – Specific attribute, Listed Companies*

Introduction

Sri Lanka is an emerging country, which is progressing to build up a “Blue Green Era” by streamlining the communication network and empowering the public on the importance of conserving and protecting environment. This was initiated with the aim of developing the Sri Lankan economy in making a clean and green environment. Transparency and disclosure represent one of the pillars of corporate governance. Disclosures are considered to be a strategic tool for a firm as a result of financial scandals happened due to the lack of improper corporate disclosures. As suggested by Owusu-Ansah (1998) disclosures are the communication of information, whether financial or non-financial quantitative or otherwise concerning a company's financial position and performance. Hence with the increasing demand of stakeholders and due to various environmental catastrophes financial reporting expanded its limited scope into incorporating of environmental information on a voluntary and mandatory basis.

This study typically attempts to bridge the existing gap between stakeholder's interest on information and the extent of disclosures in annual reports in CSE listed companies in Sri Lanka. As majority of the studies of the recent Sri Lankan studies focused on the Manufacturing sector in Sri Lanka (e.g., Aruppala & 5 Perera, 2013; Jariya, 2015; Sameera & Weerathunga, 2013) this study attempts to investigate the extent and determinants of environmental disclosures with reference to all the sectors in Colombo Stock Exchange to give a much broader view for the decision makers considering the relative significance of capital markets in national economies and the active role of individual investors in those markets. Moreover international studies (e.g., Kent & Chan, 2003; Pervan & Visic, 2012; Razeed, 2010) have focused on the theories that drive the environmental disclosures but few Sri Lankan studies (e.g., Jariya, 2015; Rajapakse, 2003) have given their priority in their studies to explain the environmental disclosure practices incorporating theoretical perspectives. In vein this study specifically concentrates on legitimacy theory and stakeholder theory as the need of a body of literature with proper theoretical foundation remains vacant unto some extent. Accordingly to address the theoretical and

methodological gap in the existing body of environmental disclosure literature in Sri Lankan context, this study attempts to investigate the level of environmental disclosures and the association between firm specific attributes and the level of environmental disclosures in annual reports of Sri Lankan listed companies.

Primary Question

Is there any significant association between the extent of environmental disclosure and firm-specific attributes in CSE listed companies?

Primary Objective

To investigate whether there is any significant association between the extent of environmental disclosure and firm-specific attributes in CSE listed companies.

Literature Review

Manager's perceptions regarding stakeholders' value and purpose of response relate to companies' environmental disclosure has been investigated by Rajeshwaran and Ranjani (2014) using 99 companies for the year 2013. Questionnaire has been addressed to the executives responsible for the environmental management and reporting and 84% of responses from these managers were then being contrasted with the quality of environment disclosures, measured by GRI guidelines. Descriptive statistics, correlation and regression analysis were employed to analyze the data. Results show that there is a moderate association between manager's perception on various stakeholders and purpose of responses. Further results indicate that core purpose of disclosing environmental information by companies is maintaining legitimacy.

Jariya (2015) investigated the level and determinants of environmental disclosures in annual reports of 30 listed manufacturing companies for the year 2012/13. The level of disclosure is measured by a checklist of 18 items of information. Content analysis and statistical analysis, correlation analysis, multiple regression and descriptive statistics analysis were used to analyze the data for the study. Results indicate that 50.63% of the companies provided corporate environmental information in their annual reports. Of the determinants selected firm size is positively associated with the level of environmental disclosure and profitability and listing age has not been significantly influencing factors for environmental disclosure.

Another study by Jariya (2015) has been conducted in order to examine the extent and content of environmental information disclosure provided in the annual reports of companies listed on Colombo Stock Exchange (CSE) in Sri Lanka with the aim of testing whether the size of the company determines the level of disclosure of environmental information with a sample of 60 listed companies in 17 different sectors for the year 2011/12 employing the content analysis. Findings of the study reveal that 41 companies (62.29%) provided environmental information in their annual reports and the level of disclosure varies across the industries. It is identified that the highest level of environmental disclosure items are reported under the sustainability reporting. Also findings show that maximum disclosures across all the industries can be seen for the theme "Green product" while the lowest disclosed theme is "Spills". Further it is indicated from the study findings that the relationship between amount of environmental disclosure and the size of the firms are significantly negative.

Extent and determinants of social and environmental disclosures of Sri Lankan listed companies are examined by Sujenthini and Rajeshwaran (2016) by selecting 100 companies representing 20 different sectors. A checklist based on Global Reporting Initiative (GRI) guideline (version 3) has been developed to score data in to the study. Data was analyzed using descriptive statistics and bi-variant test. Results indicate that there exists a low social and environmental disclosures practice in Sri Lankan listed companies. And further correlation results indicate that age of the firm is negatively correlated with social and environmental disclosure. Firm size, profitability and leverage are being positively related with social and environmental disclosures. As per the studies in the Sri Lankan context also has provided mixed results regarding the factors affecting the environmental disclosures in annual reports.

Methodology

Population

Population under consideration of this study is all quoted companies representing 20 business sectors in Colombo Stock Exchange (CSE). Currently 296 companies are listed in the Colombo Stock Exchange (CSE). All companies in Colombo Stock Exchange (CSE) were selected for the purpose of this research due to the lack of attention on all sectors regarding the environmental disclosures of annual reports in Sri Lanka and majority of the studies (e.g., Aruppala and Perera, 2013; Jariya, 2015; Sameera & Weerathunga, 2013) were confined only on examining the environmental disclosure on of manufacturing sector companies in Sri Lanka. Hence it emphasized the need for a broader view on environmental disclosure which is able to generalize the findings to all companies to assist decision makers.

Sample and Sampling Technique

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Sample of this study consists of 254 firms representing each 20 sectors for the period of 2017/2018. Sample represents about 88% of the population under consideration. The overall study is based on 254 observations. Sample is determined based on the convenient sampling technique which relies on the collection of data from the population which are conveniently, readily available for the researcher to reach. This sampling technique has also been adopted by prior researchers (e.g., Jariya, 2015) for the purpose of selecting sample in their study.

Data collection method

Data were collected mainly through the secondary data sources in which researcher widely utilized the company annual reports in collecting data on the disclosures of environmental aspects by companies for the year 2017/2018 representing the latest annual report data to make the study more contemporary and up to date. Annual reports have been widely used in the analysis of corporate social reporting analysis by various authors for their credibility (Jariya, 2015). Further details were obtained from company websites and Colombo Stock Exchange website.

Results and Finding

Table 01: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.426 ^a	.182	.162	.16823	1.778

Source: Survey Data (2019)

Table 02: ANOVA Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.552	6	.259	9.138	.000 ^b
	Residual	6.990	247	.028		
	Total	8.542	253			

Table 03: Regression Coefficients

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	-.314	.116	-2.701	.007
	SP	.000	.001	-.563	.574
	CP	.000	.000	.736	.462
	ROA	.000	.000	-.146	.884
	AGE	.000	.000	-.792	.429
	SIZE	.028	.007	4.002	.000
	ISO	.133	.033	3.987	.000

Table 05: Summary of results of hypothesis

Hypothesis	Statistical Tool	Validation
Ha ₁ : There is a significant association between shareholders' power and extent of environmental disclosures.	Regression analysis	Reject
Ha ₂ : There is a significant association between creditors' power and extent of environmental disclosures.	Regression analysis	Reject

Ha ₃ : There is a significant association between firm financial performance and extent of environmental disclosures.	Regression analysis	Reject
Ha ₄ : There is a significant association between firm age and extent of environmental disclosures.	Regression analysis	Reject
Ha ₅ : There is a significant association between firm size and extent of environmental disclosures.	Regression analysis	Accept
Ha ₆ : There is a significant association between ISO 14001 certification and extent of environmental disclosures.	Regression analysis	Accept

Source: Survey Data (2019)

Conclusions

In an area of where environmental concerns is highly debated this study aims to investigate the association between firm specific attributes & environmental disclosure level & environmental disclosure practices of 254 sample companies across 20 sectors listed in the CSE for the year 2018. Firm specific attributes considered in this study are shareholder power, creditor power, financial performance, firm age, and firm size & ISO 14001 certification. Researcher found that shareholder power, creditor power, financial performance, firm age are not significantly associated with environmental disclosure level where Ha₁, Ha₂, Ha₃, Ha₄ are rejected accordingly. However firm size & ISO 14001 certification were found as significant firm specific attributes in determining the level of environmental disclosures of listed firms & they are positively associated with environmental disclosure level. Hence Ha₅ & Ha₆ are accepted accordingly. Furthermore researcher found that highest level of compliance with environmental aspects of GRI guidelines has been recorded by the Plantation sector companies while Investment Trust companies recorded the lowest level of compliance with GRI guidelines. Overall, researcher conclude that the level of environmental disclosure of firms in Sri Lanka in accordance with environmental aspects of GRI guidelines is at a very lower level in year 2018.

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