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## SUSTAINABILITY REPORTING PRACTICES IN SRI LANKA (SPECIAL REFERENCE TO GRI-G4 FOLLOWING COMPANIES)

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### ABSTRACT

Sustainability Reporting (SR) appeared as a novel concept in the modern world with the compliance of companies towards sustainability practice. It is further identified through literature that no prior studies explicitly deal with SR practices in Sri Lanka. The purpose of this study is to explore the current SR practices in the Sri Lankan context with reference to GRI-G4 guidelines. Thorough content analysis was conducted by using 42 Sustainability Reports collected from the Sustainability Discloses Database (SDD). Identification of compliances was done by categorizing indicators as the reported indicators, not reported indicators, and the not applicable indicators. The findings of the content analysis depict that the information disclosed under ninety-two GRI indicators does not fully comply with the GRI – G4 Guideline. The results further highlighted that the firms follow GRI-G4 guidelines under economic, environment & social categories while deviations are visible within the subcategories from highest rate to lowest. This study contributes to extending the literature on SR Practice in Sri Lanka whereas it has implications to numerous sectors. As an emerging trend, the national level policy makers can implement frameworks to ensure companies' contribution to SR by providing proper understanding of how and to why major deviations should be mitigated to comply with GRI-G4 Guidelines.

**Keywords:** *Global Reporting Initiative (GRI), Sustainability Discloses Database (SDD), Sustainability Reporting (SR)*

### 1 INTRODUCTION

The search for competitive gain is a priority for firms that operate in a complex global environment in achieving long term stability. Businesses are becoming conscious by reorienting their activities and procedures to sustainable development (Garg, 2015). In present situation, sustainability is a vital approach to the businesses to succeed in the competitive business world and

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retain in the market in the long run. Accordingly, Sustainability Reporting (SR) has been introduced as a reporting subject for companies worldwide, addressing the goal of creating a sustainable economy, environment and society except the financial information (Ching & Gerab, 2014). According to Jones et al and Uyar (as cited in Kuzey & Uyar, 2016) SR has become popular, particularly in the last decade, appearing as a result of the evolution of environmental and corporate social responsibility reports. SR is based on two methods such as voluntary practice and mandatory practice. In some countries in Europe, SR is mandatory (Dilling, 2014) while in Sri Lanka it is not compulsory, as in many other nations around the globe. Voluntary SR by Sri Lankan businesses is likely to demonstrate structural diversity and disclosures can differ from low to elevated (Dissanayake, Tilt, & Xydias-lobo, 2016). Worldwide GRI, is a key guideline for reporting sustainability activities. GRI guidelines as a systematic framework for SR helps companies to move from either a social or environmental based sight of sustainability to a more integrated view (Dissanayake et al., 2016). GRI introduced the fourth generation of its SR rules in May 2013: the GRI G4 Sustainability Guidelines which is the latest version of GRI guidelines. With the increasing trend in SR practices both in the global as well as in the Sri Lankan context (Sooriyaarachchi, 2018), articles by Dissanayake et al., (2016) have mentioned that developing countries lack researches regarding SR practices than developed countries. Hence the objective of this study is to fill the literature gap by identifying what are the current SR practices in Sri Lankan companies comparing to GRI-G4 guideline which will facilitate different stakeholders in decision making.

## **2 LITERATURE REVIEW**

Bhatia and Tuli (2017) who have aimed to examine the relationship between SR by companies selected corporate specific attributes relating to Indian perspective. It highlights that the scope of SR differs from company to company and industry to industry. This study concluded that companies with large size, older age, having multinational operations and belonging to Software, IT and ITES and Oil and Gas industry have significant sustainability disclosure. Moreover, Joseph (2010) has examined the extent level of SR by analyzing 139 Malaysian local authority websites. Results revealed that the overall disclosure level is low despite the fact that websites have special capabilities, fast and an efficient way to report sustainability information. Ching and Gerab (2014) in their study on SR using GRI indicators tried to verify the level of adherence to GRI indicators. Hence, it has shown there is no well-established world standard framework to SR. Also, results showed that, in general, less than 50% of the GRI indicators are fully reported and 40% of them are not reported at all. Study by Kuzey and Uyar (2016) examined the determinants of SR and its impact on firm value, findings indicate that SR is value relevant and companies preparing

reports better manage their liquidity than those who don't. This relevancy might play an important role in motivating companies that do not prepare reports. Cankaya and Yilmaz (2017) in their content analysis investigated the content of 96 sustainability reports prepared by 42 companies in Turkey according to the Global Reporting Initiative (GRI) guidelines by 2015. Result shows disclosures on strategy and profile were more than disclosures on management approach and performance indicators in Turkey. Other authors have examined number of articles dealing with GRI and they found considerably less number of literature relating to GRI latest version (G4). Petr and Jaroslav (2015) have concluded in his study the number of articles dealing with the GRI during years 2002-2014 significantly increased.

In Sri Lankan context few studies have been conducted by different authors relating to sustainability concept and SR practices. Among those studies, Swarnapali (2017) studied on corporate sustainability to bring a better understanding to the field of corporate sustainability. The results show that the field is still evolving and distinct methods were used to describe, evaluate and theorize the sustainability of corporations. Overall, the evaluation shows that there is lack of widely accepted definition of sustainability. Swarnapali (2018) point out that firms that follow a sustainability disclosure policy have larger boards, a higher proportion of independent directors and more female directors. Specifically, Dissanayake et al., (2016) have carried their research on SR in Sri Lanka to examine the application level of GRI-G3 guideline on SR practices and the possible drivers of SR. Results shows a significant difference in the extent and quality of SR between the top 30 and bottom 30 public listed companies. Further results indicate that there is a major focus on social indicators, despite the poor environmental record in the country. Sooriyaarachchi (2018) analyzed the current state of SR in Sri Lanka, the trends in SR in Sri Lanka, the relationship between organizational financial performance and the state of SR and the relationship between organizational environmental performance and the state of SR.

Based on the national and international reviews, it is identified that no prior studies explicitly deal with SR practices compared to GRI-G4 guideline in Sri Lanka although Dissanayake et al., (2016) explored companies' compliance and application level with GRI -G3 guideline. Further Petr & Jaroslav (2015) have suggested in their study to implement more studies and grow up amount of literatures relating to SR practices base on latest version of GRI guideline through quantitative and qualitative content analysis. The researcher aims to fill this literature gap through this study.

### **3 METHODOLOGY**

This study focused on Sri Lankan companies who practice SR and GRI-G4 guidelines as the research context. This study is based on positivist paradigm

in which percentages and quantified results were generated through data analysis. Further, this study is based on deductive approach as the researchers follow the framework of GRI-G4 than GRI-G4 model. Based on secondary data collected from 297 company's annual reports registered on CSE including 20 sectors identified the companies who follow SR. out of which research identified 42 companies which are registered on SDD to identify the compliances and deviations of SR compared to GRI-G4 guidelines. Through a content analysis by taking 42 registered companies on SDD for GRI G4 Practices, researchers examine the compliances and deviations of current SR practices compared to guidelines in Sri Lanka. Following part presents the results of the analysis.

## 4 DATA ANALYSIS AND RESULTS

### 4.1 The Existing Level of SR and GRI-G4 Practice

As seen in Table 1, 161 companies out of 297 registered companies have maintained the SR records within their annual reports which stand for 54%. Out of which only 54 companies maintain GRI-G4 guideline.

**Table 1: The Contribution of CSE Registered Companies for SR and GRI-G4 Practice**

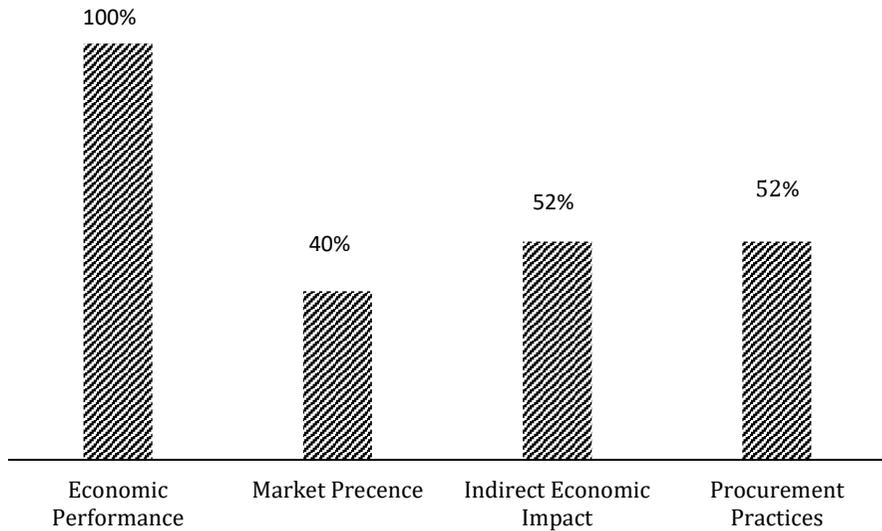
No of Registered Companies on CSE	No of Registered Companies on CSE for SR	Percentage (%)	No of Registered Companies on SDD for GRI-G4 Practice	Percentage (%)
297 Companies	161 Companies	54%	54 Companies	34%

*Source: (Compiled by the researcher through annual reports Colombo Stock Exchange Sri Lanka 2017)*

Furthermore, this study referred only (42) company's annual report (registered on SDD) with GRI-G4 guideline's checklist as others does not support with the latest information.

### 4.2 Economic Category

According to GRI-G4 guideline economic category was categorized under four sub category and nine GRI indicators.



**Figure 1: The Contribution Level of Registered Companies on SDD for Economic Aspect**

Figure 1 presents the economic performance sub category is reported by all 42 registered companies with a 100% contribution. The least number of companies (17) have focused on market presence as a 40%. Only 22 companies out of 42 companies report on indirect economic impact and procurement practices which stands at 52%.

**Table 2: Contribution Levels of the Companies for GRI Indicators Relating to Economic Aspect**

Sub Category	GRI Indicator	
	Highest Rate	Lower Rate
Economic Performance	<b>EC 3 - 93%</b>	EC 4 - 38%
Market Presence	EC 5 - 29%	<b>EC 6 - 26%</b>
Indirect Economic Impacts	EC 8 - 48%	EC 7 - 38%
Procurement Practices	EC 9 - 52%	

*Source: (Secondary Data – Sustainability Disclosures Database, 2016/17)*

Table 2 represents most of the companies (39) out of 42 companies reported EC3 indicator. It means 93% registered companies of SDD are mainly focused to report the related obligations in their annual report. The lowest no of companies (Only 11 companies) focused to report on senior management hired from the local community at significant locations of operation (EC6-26%).

### 4.3 Environment Category

Environment category was separated into 12 sub categories and 34 indicators.

**Table 3: Contribution Level of the Companies for GRI Indicators Relating to Environment Aspect**

Sub Category	GRI Indicator	
	Highest Rate	Lower Rate
Materials	EN 1 & EN 2 - 57%	
Energy	<b>EN 3 - 90%</b>	EN 7 - 21%
Water	EN 8 - 60%	EN 9 - 29%
Biodiversity	EN 11 - 33%	<b>EN 14 - 14%</b>
Emissions	EN 16 - 55%	EN 20 - 21%
Effluents & Waste	EN 23 - 71%	EN 26 - 17%
Product & Services	EN 27 - 40%	EN 28 - 17%
Compliance	EN 29 - 52%	
Transport	EN 30 - 19%	
Overall	EN 31 - 36%	
Supplier Environmental Assessment	EN 32 - 33%	EN 33 - 24%
Environmental Grievance Mechanisms	EN 34 - 33%	

*Source: (Secondary Data – Sustainability Disclosures Database, 2016/17)*

According to the contribution results in Table 3, the most disclosed indicator of all environmental sub categories is EN3 (90%) which concentrated to report energy consumption within the organization. In other respect, EN 14 (14%) is the most undisclosed indicator with least concentration on total number of IUCN Red List species and national conservation list species with habitats in areas affected by the operations of the organization, by level of extinction risk: Critically endangered, Endangered, Vulnerable, near threatened and least concern

### 4.4 Social Category

In GRI-G4 guideline, social category was divided into three sub categories and those sub categories have been divided into 30 indicators and again these 30 indicators were classified into 48 indicators.

**Table 4: The Contribution Level of Companies for GRI Main Indicators of Social Category**

Sub Category	Number of main indicators	Main Indicator	Company Contribution	GRI Indicator	
				Higher Rate	Lower Rate
Labor Practice & Decent Work	8	Employment	98%	<b>LA 1 - 93%</b>	LA 3 - 43%
Human Rights	10	Child Labor	52%	HR 5 - 52%	
Society	7	Local Communities	74%	SO 1 - 71%	<b>SO 2 - 29%</b>
Product Responsibility	5	Product & Service Labeling	79%	PR 3 - 62%	PR 4 - 40%

*Source: (Secondary Data – Sustainability Disclosures Database, 2016/17)*

The contribution results in Table 4 show that the mostly disclosed indicator of all social sub indicators is LA1 (98%). This indicates companies give more attention to report about new employee recruitments, employee turnover by age group wise, gender wise and region wise. Least disclosed indicator is SO2 (29%) where companies have considered the operations generated activities based on actual and potential negative impact on local communities and it is also for the reporting.

#### **4.5 Not Applicable Indicators**

Further companies highlight some indicators as not applicable indicators relating to economic, environment and social category. Four companies have mentioned some economic category indicators, six companies relating to environment category indicators and nine companies relating to social category indicators as not applicable indicators.

#### **4.6 Not Reported Indicators**

As seen in Table 5, most of the companies have stated some indicators as not reported under social category and environment category. It stands at 17% level. Related to economic category, found that only three companies have not reported some economic indicators (7%).

**Table 5: List of Not Reported Indicators (Specially Mentioned)**

Main Category	Indicator	No. of Companies Out of 42 Companies	Percentage (%)
Economic	EC2, EC5, EC8, EC9	3	7%
Environment	EN2, EN4, EN5, EN7, EN8, EN11, EN12, EN13, EN14, EN15, EN17, EN18, EN20, EN21, EN22, EN24, EN25, EN26, EN28, EN29, EN30, EN31, EN32, EN33	7	17%
Social	HR1, HR2, HR3, HR6, HR7, HR8, HR9, HR10, HR11, HR12, LA4, LA5, LA8, LA10, LA12, LA13, LA14, LA15, LA16, PR1, PR3, PR4, PR5, PR6, PR7, PR8, SO1, SO2, SO4, SO5, SO6, SO8, SO9, SO10, SO11	7	17%

*Source: (Secondary Data – Sustainability Disclosures Database, 2016/17)*

## 5 DISCUSSION OF THE FINDINGS

According to analysis of the study, in Sri Lankan context there's a low level GRI-G4 practice and a moderate SR practice. This finding is in line with the available literature (Sooriyaarachchi, 2018) who found there is an upward trend in the state of SR in SL. However, through this study mainly identified the compliances and deviations of SR practices compared to GRI-G4 guideline. Generally, all companies (42 companies) have reported economic and social main categories in their annual reports but only 41 companies have reported the environmental main category. The economic context therefore appears to be a significant factor influencing SR development in Sri Lanka. Especially, in this study the researcher identified what are the reported indicators by 42 companies in their annual reports in main category wise and sub category wise and also found the contribution of companies for all 91 indicators as a percentage. Among the nine indicators and four sub categories of economic main category, economic performance sub category was the most disclosed indicator and it had been given a more concentration by Sri Lankan companies. Under the economic performance sub category EC3 (93%) becomes the most disclosed indicator but EC6 (26%) has become the most undisclosed indicator. Generally, energy sub category has been reported in mostly regarding environment main category. According to contribution of each indicator in environment category, EN3 (90%) is the most disclosed indicator by Sri Lankan companies however EN14 (14%) has become the most undisclosed indicator. In relation to social main category most of the companies have given

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attention to labor practice & decent work sub category. Specially, LA1 (93%) is a highly disclosed indicator and SO2 (29%) is a mostly undisclosed indicator.

After going through the annual reports in detailed base on content analysis, found a specific reporting style from different companies while they are reporting relevant indicators, they considered some as not relevant indicators for their own companies. It is differed from one company to another. Thus, it named as not applicable indicators. The nine (9) companies (21%) out of the forty-two (42) companies have reported some indicators as not applicable indicators in their annual reports under the three main categories. Apart from that found that some indicators as not reported. Only eight companies (19%) have specially mentioned some indicators as not reported. By considering above mentioned results, it is identified that these findings are newest to SL context as Sri Lanka has not conducted any studies relating to GRI latest version. Therefore, the results showed that, in general, 34% of Sri Lankan companies disclose GRI G4 practices while there were no fully reported indicators by any companies.

## **6 CONCLUSION & CONTRIBUTIONS**

The study attempts to reveal that Sri Lankan companies have extended the SR practice up to 54% level. As Sri Lanka in a moderate level in SR practices, analysis reveals 34% of companies out of the 161 companies were following G4 guideline given a less attention to GRI-G4 guideline. The results indicated that the companies complied with G4 guideline under three major categories as reported indicators. According to economic aspect, 42 companies have complied with the economic performance sub category which indicates a 100% fully complied with G4 guideline. The least number of companies (17 companies -40%) have reported the market presence sub category according to G4 guideline. Under environmental category, a large number of companies (38) have complied with energy sub category and least number of companies (8) has given a less attention to the transport sub category relating to G4 guideline. Under social category, majority (41 companies) reported the employment main indicator and training & education main indicator. A low compliance (3 companies) to the security practices, indigenous rights and assessment which are included in human right category. Further researcher identified what are the not applicable indicators, not reported indicators and reported indicators compared to G4 guideline.

This study facilitates in filling the literature gap relating to Sri Lankan context GRI latest version. Also, this study helps future researchers to identify the deficiencies related to SR with G4 guideline in literature. Based on this study academicians can develop theories, models and concepts relating to SR. This study is expected to provide awareness on SR and its importance to academicians and all of the other information users. In Sri Lankan context SR

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concept is not mandatory therefore there is no such special governing body or regulatory to force others for doing SR practice. However, in SL context CEA (Central Environment Authority) has been established as a governing body to make rules & regulations, policies and planning regarding environmental or sustainable activities which enables them to make and change rules & regulations, planning and policies for organizations. Apart from that this study is relevance to policy makers in Sri Lankan capital market. The outcome of this study encourages firms to make a conscious attempt to devise an effective internal governance mechanism that would inspire and persuade policymakers to commit themselves to sustainability endeavors and reform their disclosure practices accordingly. Through this study, local and foreign investors can identify which companies are demonstrating sustainability in compliance with GRI reporting in SL context. Apart from that if CSE want to increase the attraction of local and foreign investors then CSE can be more responsible about relevant guidelines to improve reporting non reported indicators and further improve other indicators when companies are reporting the sustainability practices.

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