IMPACT OF CORPORATE GOVERNANCE ON LEVEL OF SUSTAINABILITY REPORTING OF SRI LANKAN LISTED COMPANIES

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ABSTRACT

This study investigates the relationship between corporate governance and level of sustainability reporting of Sri Lankan listed companies. In this study corporate governance was measured in terms of board independence, board size, dual leadership, female directorship, availability of CSR committee and cross directorship. The level of sustainability reporting was assessed in terms of GRI G4 guidelines. The study used regression analysis to study the relationship between the two. It is found in the study that there is a significant association between proportionate of independent directors, role duality and availability of CSR committee with the voluntarily practiced sustainability reporting disclosures. This study further suggests that sustainability reporting is also positively influenced by firm size and growth and younger firms are likely to disclose more sustainability disclosures. Hence, based on these findings the study concludes that corporate governance mechanisms have a positive impact on the level of sustainability reporting of listed Sri Lankan companies.

Key Words: *Corporate governance, Sustainability reporting, GRI guidelines*

INTRODUCTION

Since the development of corporate social responsibility (CSR) in 1950s, it was tremendously debated whether the organizations should engaged in CSR activities and whether they publicly disclose their accountability related to CSR. Among the people who argued on the above matter Milton Friedman; the noble prize winning economist, argued that ‘there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it engages in open and free competition without deception or fraud.’ (Friedman, 1970). Notwithstanding this perspective of organizations criticized by arguing that companies should have social accountability and practice ethical behaviour on business operations. (Freeman, 1984; Elkinston, 2001) and concern on the expectations of broad range of stakeholders in a holistic perspective without limiting to the shareholders motive of maximizing profits. (Deegan, 2010)

Organizations’ corporate governance, ethical behaviour, corporate responsibility was intensively taken in to consideration by society after the collapses of mega corporates during early 2000s, Specifically the fall of Enron, HIH Insurance, Worldcom, and Parmalat. (Pedrini, 2007). Those mass destructions in the corporate world led the companies to create a trend of providing relevant information to capital providers and other stakeholders. (Clarke and Dean, 2007). Corporate analysists revealed to the world that, the major reason for these collapses were the non-availability of good governance and ethics rather than auditing failures (Parker, 2005). These incidents provided the basement for imposing new regulations related to the governance of organizations and to increase accountability. In parallel development of environmental and social regulations resulted in providing more information to the stakeholders to re-establish the general society trust. For instance, the Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines, ISO 14001, the Accountability Assurance Standards 1000 and 1000S, Social Accountability (SA) 8000 and the International Standard on Assurance Engagement (ISAE) 3000 require companies to prepare sustainability reports. Besides, there are several enactments introduced in developed countries to urge organizations to practice environmental and social friendly strategies and to make related disclosures. For instance, in the United States, ‘The National Environment Policy Act 1970’ (NEPA 1970), the ‘Energy Policy Act 2005’, the ‘American Recovery and Reinvestment Act 2009’ and a provision in the ‘Sarbanes Oxley Act 2002’that expect organizations to consider eco-social issues, such as by calculating environmental costs and other disclosures (De Villiers, Naiker and Staden, 2011).

When considering the reasons for organizations to practice sustainability reporting, we can list down several factors such as good corporate governance, pressure from stakeholders, and desire to improve transparency, sustainability performances and to show the ethical behaviour of the business. Among the said factors, this research is carry out to determine the impact of corporate governance on sustainability reporting. Practicing good corporate governance within organization may lead to have proper sustainability reporting in several ways. Strengthen the organizational structure with sustainability committees, non-executive directors and ethnically and sexually diverse board structures will add a different viewpoint for organizational decision-making. Said corporate governance variables will enhance the independence and knowledge diversity, which will steer the organization to achieve more sustainability goals instead of limiting to short-term financial performances.

Agency theory, which is the base theory in corporate governance suggests that the mechanism of directing and controlling a company will influence firms to disclose information in order to reduce agency cost and information asymmetry. (Brennan and Solomon, 2008, Haniffa and Cooke, 2005). Further legitimacy theory suggests that firms disclose sustainability information in order to gain legitimacy to operate in the society and to gain strategic importance to firms. (Adams *et al.*, 2010, Haniffa and Cooke, 2005)

In summary extant literature like, Chambers *et al.* (2003), Baskin & Gordon (2005) and Thorpe & Prakash-Mani (2003) found that sustainability reporting in developing countries are varied and lower compared to developed countries. Therefore due to adequate literature has not attended by developing countries particularly in the Asian context and as discussed in previous chapter that, there is no research carried out to measure the impact of corporate governance on sustainability reporting on Sri Lankan context except evaluating these two concepts distinctly, this study will contribute to fulfil the above research gap. Furthermore Waris, et al. (2017) has concluded that in developing countries pressure from public for sustainability disclosures are lesser compared to developed countries and due to that lesser practice of sustainability reporting can be found in developing countries. According to meta-analysis of 200 studies carried out by Fifka (2013) has suggested that, researchers paid more attention to sustainability reporting in developed countries compared developing countries. Additionally, adaptation to Global Reporting Initiative (GRI) guidelines is a voluntary process in Sri Lanka, considering the above facts it is worthwhile to examine the reason behind this. Hence, this study examines whether the corporate governance practices would impact on the sustainability reporting practices of Sri Lankan listed companies. Accordingly, the objectives of the study are two-fold: (a) To examine the level of sustainability reporting in Sri Lankan listed Companies based on extent of compliance to GRI G4 guidelines and (b) to examine the relationship between corporate governance practices and the level of sustainability reporting of firms listed on the Colombo Stock Exchange (CSE).

This study is extremely important to every stakeholder on the practical as well as theoretical backgrounds. The concept sustainability reporting extends the economics performance of companies to social and environment performance of companies due to the expansion of accountability towards vast level of stakeholders rather than limiting to capital providers.

Theoretical contribution through this study can be stated as follows. This is the first study to empirically test the association of board characteristics and sustainability reporting in Sri Lanka. Further it contributes to the existing knowledge on the relationship between corporate governance and sustainability reporting in emerging economies and Asian context, since most researches on this regards has conducted based on developed economies (De Villiers and Van Staden, 2010; Branco and Rodrigues, 2008; Adams *et al*, 1998). Further this study grounded on the agency theory to measure the level of impact of corporate governance on sustainability reporting.

This study contributing to the practical context as a policy level implication regarding the corporate governance on the company. Under the top level policy regarding the corporate governance are more powerful deficits the sustainability reporting in line with that. Under the applicable of the corporate governance such as dual directorship, board size, board independence, CSR committee etc. use as the supportive to the strong sustainability reporting implications. Other than that on the corporate governance relationship with the sustainability reporting on the based on Sri Lankan listed companies use as the future researches for the getting basis for the policy level implication on the sustainability reporting.

Section 2 of the study presents the review of literature. Section 3 of the study presents research methodology and section 4 presents analysis and discussion and finally the summary and conclusion based on the findings of the study on section 5.

LITERATURE REVIEW

The concept of Corporate Governance and its measures.

Corporate governance is generally defined as, the system by which companies are directed and controlled. (Cadbury, 1992) Extending this view, The Organization for Economic Corporation and Development (OECD) (1999) defines corporate governance as follows.

"*The corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it provides the structure through which the objectives of the company are set, and means of attaining those objectives and monitoring performance."*

It is a concept which evolves due to agency problem between stakeholders and the management of the organization. Objectives of corporate governance include eliminating or minimizing conflicts of interest between stakeholders and guaranteeing that the assets of the organization are utilized efficiently and effectively in the best interests of investors and other interested parties. Understanding about corporate governance practices in different markets is important for various reasons. As example, equity holders in emerging countries willing to invest in companies with good corporate governance. (Gill, 2001) Since ownership and management of a company is different, shareholders needs to bear agency cost in order to ensure good faith and monitor the performance of the management. In order to ensure the good governance of the company, shareholders appoint directors to the board as their agents. By accepting to undertake task on behalf of them, an agent becomes accountable to the shareholders whom they are employed. Board of directors discharges their accountability by financial reports and non-financial reports published by the company. These reports highlight how Board of directors try to meet the needs of its stakeholders and extent of its performance. Even though corporate governance has direct impact of financial reporting, impact on non-financial reporting such as sustainability reporting, environmental reporting etc. is debatable.

Strength of the corporate governance can be measured by using several characteristics of its board and its members. Those characteristics are mainly based on 'Code of Best Practice on Corporate Governance (2017), which has been published by ICASL together with the SEC for voluntarily compliance of listed companies in conjunction with the compulsory rules on corporate governance that have been incorporated into the CSE Listing Rules. In the previous studies conducted on corporate governance, Board duality, Chairperson with cross-directorships, Family members in the board, Non-executive director is a chairman taken as the measures of corporate governance in order to identify the relationship between corporate governance and voluntary disclosers. (Cooke, 2002) Further proportion of female directors, proportion of female directors in family-owned firms, proportion of foreign directors, proportion of independent directors on the board have been taken as the measure of corporate governance in order to evaluate the relationship with extent of CSR practices adopted by the company. (Muttakin, 1997) Board committee, Independent directors, Separate chair is used as measures of corporate governance and discloser list has been prepared in order to verify the measures of corporate governance against the sustainability reporting. (Natalia Ortiz-de-Mandojana, 2014)

Sustainability Reporting and its measures.

Even though literature and experimental researches on sustainability reporting have developed significantly in past decades, it provides evident that reporting and performance of sustainability are still in the beginning stage and largely consist with small improvement in sustainability reporting. (KPMG, 2015) Sustainability reporting is all about disclosing the contribution to sustainability development. It is defined as *development that meets the needs of the present without compromising the ability of future generations to meet their own needs*. (Brundtland, 1987)

Companies report its sustainability performance by voluntarily generated sustainability reports. By using such reports, they try to inform their stakeholders regarding the environmental, governance and social aspects of their activities, which aims to reduce informational asymmetries among the company and its interested parties. (Brammer, 2006) Due to the voluntary nature of the sustainability reporting, companies willing to disclose only good news and they hide bad sustainability practices which disable the ability of stakeholders to analyse the current sustainability performance of the company. (Gray, 1995) In order to reduce the opportunistic behaviour and enhance the quality of the reporting, corporate governance practices can be used. Even though sustainability reporting is still voluntary, pressure of corporate governance may persuade companies to become more accountable for its sustainability performance and to disclose high-quality information. Therefore high level of corporate governance is positively associated with sustainability reporting.

Recent initiatives on environmental, social and literature on sustainability reporting have emphasize the need to have a standardized reporting procedure and performance measurement methodology (ACCA, 2004). Some initiatives had a requirement to publish sector wise such as social, environment and economy specific performance indicators alone with the overall performance measures (PWC, 2002). According to the earlier literature, GRI reporting framework can identified as widely acknowledged leader in sustainability reporting (Mahoney, et al., 2013). The history of GRI guidelines at glance, it was founded in Boston in 1997 by Coalition for Environmentally Responsible Economies (CERES) and the Tellus Institute (GRI, 2018). Wide range of sustainability philosophies and resulted diversity in reporting practices gave rise to the foundation of globally accepted sustainability reporting practice called 'GRI' (Dennis, et al., 2001). The GRI guidelines recommends users to present financial statements according to three axes of triple bottom line. Therefore, guidelines, principles and indicators prescribed in the GRI provide adequate measuring and reporting of economic, environmental, and social performances (Milne & Gray, 2013). Current version of GRI guidelines known as G4 GRI Guidelines, published in 2013. G4 guidelines enhance the reliability and relevance of information furnished through financial reports by giving more consideration on presentation of material information on organizational activities and key stakeholders. GRI guidelines has developed with an intention of facilitating vast number of stakeholder groups with sustainability information that they seek for decision-making. They are intended to be commonly applicable on any industry, sector, organizations of any type, size and operated in any geographical location around the world. (CRISÓSTOMO, et al., 2017) According to statistics among world largest 250 corporations, 93% report on their sustainability performances and 82% of them has adopted GRI guidelines (GRI, 2018). Above literature has led us to use GRI Guidelines as the measurement of sustainability reporting.

Factors impacting on Sustainability Reporting

Factors influencing sustainability reporting are diverse and broadly categorize to three parts such as corporate characteristics (includes firm size, financial/economic performance, industry group, price, risk and share trading volume.), general contextual factors (includes country, media pressure, stakeholder expectations and social, economic and cultural factors.) and internal factors related to corporate governance. Giannarakis (2014), finds that the company's size, the board commitment to CSR and profitability were found to be positively associated with the extent of CSR disclosure, while financial leverage is related inversely with the extent of CSR disclosure. But this research was based only on the presence or absence of CSR items in CSR disclosure, and it ignored the quality dimension which can lead to misinterpretation. The results had not been globally generalized as the sample was based on US companies for 2011. (Giannarakis, 2014) To identify the association between corporate governance characteristics such as board size, board independence, dual chairman and CEO, audit committee, largest shareholders, foreign ownership, managerial ownership, government ownership and the extent of corporate social responsibility disclosure, research was conducted and identified that government ownership and audit committee have positive significant relationship with CSR disclosures. Out of them government intervention has more impact because government interventions may pressure company to disclose more on CSR. Further this study reveals that having audit committee and government intervention may reduce the agency problem. (Roshima Said, 2009)

There is a negative relationship between Beta risk and level of social responsibility and positive relationship between active strategic posture and level of sustainability disclosures has been identified. (Roberts, 1992) Further positive relationship has been identified between the length of management decision horizon and level of disclosure. (Trotman, 1981)Aparna Bhatia (2015), found 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. However, company's profits, leverage, growth and advertising intensity are negatively related with the extent of sustainability disclosure. Other variables are found to be insignificant. (Aparna Bhatia, 2015) Further this research was based on annual reports on 2010/2011 which is only the one year. There for to obtain sufficient knowledge, information related to period of time should be analysis.

As per the literature, out of the three broad categories affecting to sustainability reporting, corporate governance has more impact on sustainability reporting than corporate characteristics and general contractual factors. Therefor it is important to study the relationship between corporate governance and sustainability reporting separately.

Relationship between Corporate Governance and Sustainability Reporting.

In 2002, Haniffa and Cooke conducted a research to identify the relationship between a number of corporate governance, cultural and firm-specific characteristics and the extent of voluntary disclosure in the annual reports of Malaysian companies. His Survey covers 167 companies that published their annual reports during the year ended 31st December 1995. From this study he identified that corporate governance characteristics such as Companies with non-executive director as a chairperson disclose less than companies with a chairperson who is an executive director and companies with more family members on the board disclose less. (Cooke, 2002)

Further in 1997, Mohammad Badrul carried out a research which aims to investigate the relationship between firm size, profitability, board diversity (namely, director gender and nationality) and the extent of corporate social responsibility (CSR) disclosures within a developing nation context. He has taken dataset of 116 listed Bangladeshi non-financial companies for 4 years period. A Corporate Social Responsibility disclosure checklist was used to measure the extent of CSR disclosures in the annual reports and a multiple regression analysis to examine its relationship with firm characteristics and two board diversity features such as female and foreign directorship. Results of this study indicate that female directorship has a negative association with CSR disclosures, where foreign directorship has a positive impact on CSR disclosures. Meanwhile when family ownership is higher and there are more female directors on the board. (Muttakin, 1997)

In 2014, Matilde Morales-Raya conducted research to show that the effectiveness of corporate governance in improving firms' environmental sustainability depends on the national institutional context. He used sample of 210 firms from 14 countries in North America and Europe and showed that regulatory pressures discourage independent directors and separate board chairs to promote environmental sustainability whereas normative pressures have the opposite effect for these two governance mechanisms. (Natalia Ortiz-de-Mandojana, 2014) Further in 2006 AnsKolk identified that the convergence of sustainability reporting, corporate governance in to traditional reporting practices due to increased accountability pressures on management of the large global companies. It calls for transparency from two different angles. Accountability requirements in the context of corporate governance which expand to staff related and ethical aspects. And the other one is sustainability reporting that has broaden from environment to social and financial issues. The article examines how sustainability reporting of fortune global 250 companies incorporates corporate governance aspects. Therefore it reflects variety of practices across different countries. (Kolk, 2006)

This study was conducted by Azlan Amran, Shiau Ping Lee and Susela Selvaraj using a sample 113 firms and data were collected using annual reports, Sustainability reports issued by organizations in the Asia-Pacific region from the CorporateRegister.com database and GRI report list in order to identify factors that drive an organization's Sustainability Reporting Quality. Research study was concluded by giving, the level of Sustainability Reporting Quality in the Asia-Pacific region has room for improvement and there is significant variation in the board size of organizations. (Azlan Amran, 2013) In 2016 ShamimaHaque, Craig Deegan & Robert Inglis identified the gap between what information stakeholders expect, and what Australian corporations disclose. Research were conducted using data which were collected by Annual Reports, Sustainability Reports, questionnaire and interviews. According to the research findings companies do not disclose enough information about climate changes through their corporate reporting process. (Shamima Haque, 2016)

In contrast to the above researches, In 2005, Afzalur Rashid conducted a research to investigates whether the ‘corporate governance practices’ has any influence on corporate social responsibility (CSR) reporting by listed firms in Bangladesh which resulted there is no any relationship with corporate Governance and CSR. Under the findings more of the Bangladesh firms owns by family business and more firms not rely on the corporate governance regulation and not even scandalized structure or method for reporting sustainability in their annual report. Also under the developing country more firms not comply fully with accounting standards and therefore fair information disclosures cannot get 100% by their accounting figures. (Rashid, 2005)

Gaps in knowledge of previous literature and applicability to Sri Lankan context.

The studies conducted by Haniffa and Cooke (2002), Badrul (1997), Matilde Morales-Raya (2014), Kolk (2006), Amran and Susela (2016) finds that factors such as company’s size, board commitment to CSR, profitability, foreign directorship, board independence, dual chairman and CEO, audit committee, largest shareholders, foreign ownership, managerial ownership and government ownership are having positive relationship with level of sustainability reporting and factors such as financial leverage, companies with more family members on the board, female directorship are having inverse relationship between corporate governance.

However, previous studies have not carried out a comprehensive analysis as to identify the level of sustainability reporting. Those studies used predetermined basis to measure the sustainability such as availability of CSR committee, sustainability report in the annual report etc. The results of the Giannarakis research conducted in 2014 was based only on the presence or absence of predetermined CSR items in CSR disclosure, and it ignored the quality dimension which can lead to misinterpretation. The results had not been generalized as the sample was based on US companies for 2011. (Giannarakis, 2014). Further some researches such as Rashid in 2005, based on Bangladeshi companies and they have taken information only from annual reports which were manipulated and not audited. (Rashid, 2005).

Most of the previous researches were conducted based on developed countries in Europe and America. There are no studies carried out in the Sri Lankan context in order to identify the relationship among corporate governance and sustainability reporting though some studies have focused on different dimensions of corporate governance and sustainability reporting. In 2011, Senaratne has carried out research on reforms of corporate governance in Sri Lanka (Senaratne, 2011). Further research on corporate governance and postcolonialism has been performed by Manawaduge, De Zoysa and Rudkin (2018). In 2017, Gunarathne and Senaratne has performed a research on Diffusion of integrated reporting in an emerging South Asian (SAARC) nation (Gunarathne & Senaratne, 2017). Since Sri Lanka is a developing country which has voluntary guidelines for sustainability reporting, most of the companies tend to follow GRI guidelines. There is no published study as to the relationship between corporate governance and sustainability reporting in Sri Lankan context. Therefore, this study attempts to fill the research gap exists as to the relationship corporate governance practices and level of sustainability reporting in Sri Lankan listed companies. This study further extends its contribution by developing index based on GRI G4 guidelines to assess the level of sustainability reporting of Sri Lankan companies. Under the broad issue examined in the study, the following two research questions are being addressed:

1. To what extent sustainability reporting practices of Sri Lankan listed companies has complied with GRI G4 guidelines?
2. What type of a relationship exists between corporate governance practices and level of sustainability reporting of these companies?

RESEARCH METHODOLOGY

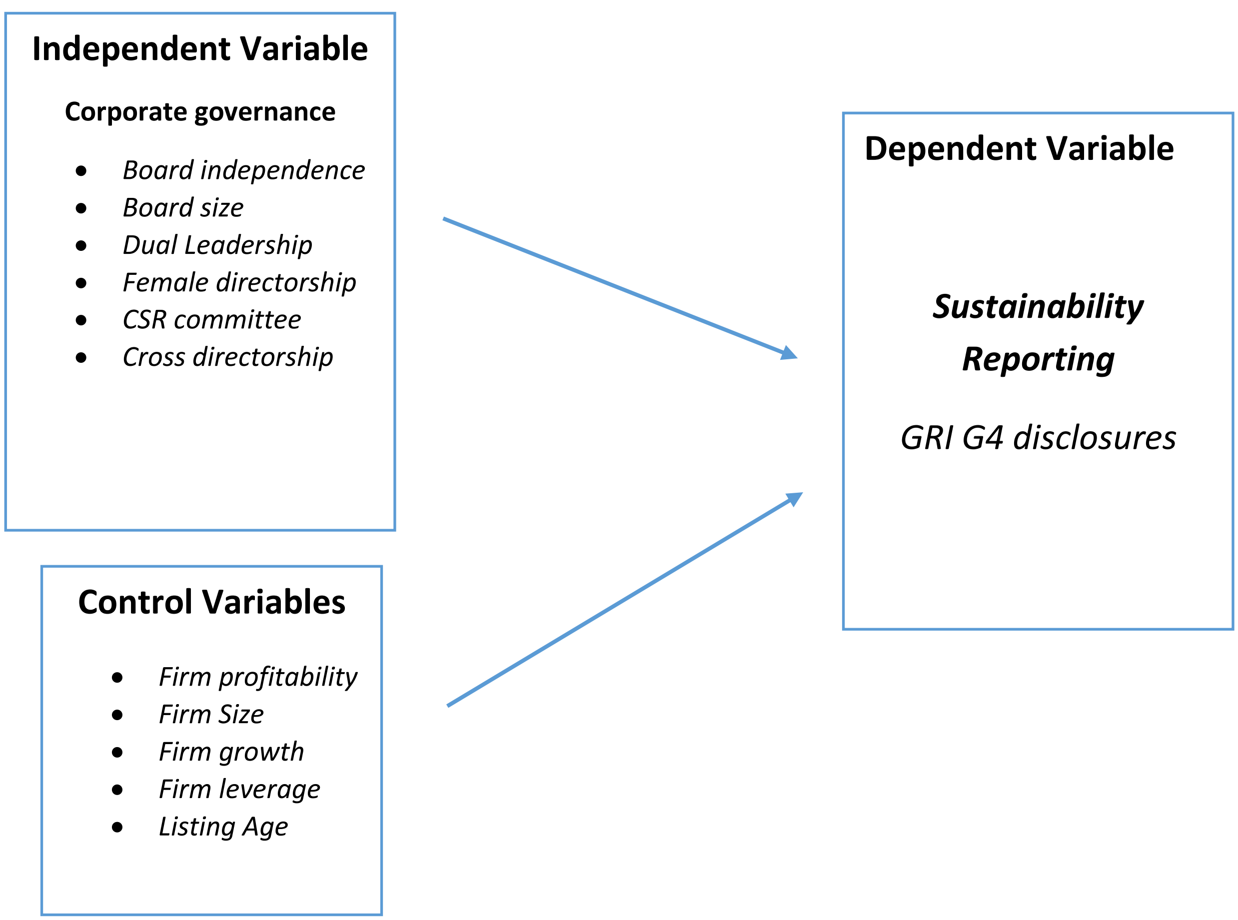
Overview

Research design and methods, population related to this study, selected sample, and methods of gathering data and techniques of analysing data would be presented in this section.

Research study is designed to investigate the relationship between corporate governance and sustainability reporting. Cross sectional design is used to selection of sample and collection of data in order to measure quantitative relationship between corporate governance and sustainability reporting. Content analysis is used to construct a measure of the sustainability reporting, using data from published latest annual reports which includes sustainability disclosures.

Research is designed to conduct under quantitative approach. Through the research, we expect to perform a content analysis based on number of words used for each standard disclosure item in order to address the said research gap.

Conceptual model of the study



Concept	Variable	Indicator	Measure
Corporate Governance	Board independence	Proportion of independent directors in the board	Percentage of independent directors
	Board Size	Number of directors in the Board	Natural log of number of directors
	Dual Leadership	Dichotomous: CEO, Chairman separated or combined	Chairman & CEO roles are combined = 0 Chairman & CEO roles are separated = 1
	Female directorship	Existence of female directors in the board	Boards without female directors = 0 Boards with female directors = 1
	CSR committee	Existence of CSR committee in organization structure	No CSR committee = 0 CSR committee available = 1
	Cross directorship	Proportion of directors with cross directorship	Percentage of directors on the board with directorships in other companies.
Control Variables	Firm profitability	Net income (PAT) as a percentage of equity	Net income/equity (3 years average)
	Firm Size	Total assets of the company	Natural log of total assets (3 years average)
	Firm growth	Proportion of market value of shares on equity value	Market value of shares/book value of equity
	Firm leverage	Debt equity ratio	Long term debt/book value of equity
	Listing Age	Listed number of years	Number of listed years
Sustainability reporting	GRI G4 disclosures	‘G4 1’ to ‘G4 – PR9’ (140 disclosure titles)	Based on availability of disclosures

Development of Hypothesis

Board Composition

Board composition can be defined as ‘the proposition of non-executive or in otherwise called outside directors to the total number of directors.(Haniffa & Cooke, 2002) Based on the agency theory it suggests that increasing number of non-executive directors in the board will help to mitigate the agency problem by monitoring and controlling the behaviours and decisions taken by other directors. (Jensen & Meckling, 1976) Therefore literature on this aspect reveals that boards with a higher proportion of independent directors has an excessive influence on management to disclose more information to reduce agency cost.

Notwithstanding the control angle, which is based on agency theory, another set of empirical evidences has emphasise the importance of having non-executive directors on the board based on the resource dependency theory. According to Tricker research conducted in 1984 said that non-executive directors provide ‘additional windows on the world (Tricker, 1984). This is because of that the non-executive directors create a link to external environment due to their expertise, prestige and contacts (Haniffa & Cooke, 2002).

Conversely high proportionate of non-executive directors in the boards may have drawbacks such as withdraw boards attention from value adding activities of the business, excessive monitoring, lack of real independence and lack of business knowledge. Above said reasons may have a negative impact on organizations voluntary sustainability disclosures though the entity has a high proportionate of non-executive directors (Haniffa & Cooke, 2002).

Empirical evidences on this hypothesis is mixed. Studies carried out by Haniffa and Cooke (2002) and Boesso (2007) identified no relationship between board independence and sustainability disclosures. However a negative association has been identified in Eng and Mak (2003) and Barako and Brown (2008) where as a positive relationship has identified in Chau and Gray (2010) and Barako and Brown (2008) studies.

In Sri Lankan context Listing rules imposed by CSE requires listed companies to maintain minimum of 2 or one third of total directors, whch ever is higher as non executive directors in the board. Further the importance of non executive directors are highlighted since non executive directors are working as evaluators of other directors and no invlment in day to day business management. Based on the above discussion we hypothesis that,

H1: There is a positive association between board independence and sustainability reporting.

Board size

Empirical evidences on this variable can be explained under two views. Some of the studies have argued that having larger boards results in inefficiencies in managing the business and incurring high agency costs, although the facts are as above when determining the relationship between board size and sustainability reporting, it has revealed that there is a positive association between these two variables (Laksmana, 2008; Ntim & Soobaroyen, 2013; Said, et al., 2009). Though the smaller boards are highly efficient they are influenced by the management, as a result of that previous researches has emphasised that having larger boards will increase the board expertice as well as the sustainability reporting. (Laksmana, 2008; Said, et al., 2009) Based on the above discussion we hypothesis that,

H2: There is a positive association between board size and sustainability reporting

Role Duality

The position of chairperson is also considered as important in increasing the board effectiveness. Board independence can be further strength by separating responsibilities of chairman and CEO and this will result in increasing the motive of voluntarily disclose information. Agency theorists has argued in favour of role duality when CEO is also chair of the board, it compromises the board effectiveness and independence (Haniffa & Cooke, 2002).

Alternatively, some researchers has argued that the separation of roles is not mandatory since companies has succeeded to operate effectively with combined roles. Furthermore when the role is combined CEO has the full potential and power to lead the organization only towards the set organizational goals and have less interferences (Haniffa & Cooke, 2002). Based on the stewardship theory some are argued that the directors are acting as the guardians of corporate resources and wish to their best to the company. Therefore based on the said stewardship theory in contrast to agency theory suggest that there is no issue though the company is having combined roles (Rechner & Dalton, 1991)

Chau and Gray (2010) reported a positive association between role duality and sustainability reporting whereas Gul and Leung (2004) found a negative relationship between these two variables. Furthermore Haniffa & Cooke (2002) and Barako, et al. (2006) have reported no relationship between these two variables.

In Sri Lankan context Code of Best Practice on Corporate Governance published by Sri Lanka Institute of Chartered Accuntants and the Central bank directions requires companies to separate the roles of CEO and Chairman of the board inorder to balance the authority and increase accountability. Based on the above discussion we suggest that,

H3: There is a positive association between dual leadership and sustainability reporting.

Gender Diversified Board

Empirical evidences have suggested in line with agency theory that a homogeneous board has narrower ability to understand complexities in the environment compared to a heterogeneous board. (Carter, et al., 2003) Furthermore, it has revealed that board diversity will increase the independence and improves the firm legitimacy as it can negotiate with wider stakeholder group and strength relationship between organization and external environment. (Ntim & Soobaroyen, 2013)

Adams and Ferreira (2009) and Carter, et al. (2003) suggested that there is a positive relationship between female directorship and extent of voluntary sustainability reporting. Farrell and Hersch (2005) have argued as appointment of female directors as an act of legitimation. Ntim & Soobaroyen (2013) found no relationship between gender divrsity and sustainability reporting.

In Sri Lankan context there were extended discussions have been carried out on increasing gender equility in recent history. Therefore we are interested to explore the relaionship between these two variables and we have hypothesised that,

H4: There is a positive association between proportion of female directors in the board and sustainability reporting.

Existence of CSR committee.

Availability of CSR committee will have an impact on organizations strategic direction and they will act in a manner that leads to achieve CSR goals. Organization with a CSR committee is expected to conduct more sustainability developing activities than organization, which does not have such committee. Adnan, et al.(2010) suggests that an organization with environment committee are disclosing more information on greenhouse gas emission than, those without such committee. Therefore we expect that an organization with CSR committee will lead to have more sustainability reporting than those without, and based on the above findings we hypothesis that,

H5: There is a positive association between existence of a CSR committee and sustainability reporting.

Cross Directorship by Board Members.

Cross directorship means when directors are seated on more than one board. Haniffa & Cooke, (2002) suggests that cross directorship will increase the transparancy of infrmation and accountability as they can make comparisons between other organization practces. Lorsch and Maclver (1989) suggests that ‘serving on a board is a way to see how somebody else is doing the same thing you are doing’. Therefore cross directorships held by members of the board will have greater motive to disclose more information since they have greater access to information in more than one company.

In the context of Sri Lankan listed companies cross directorship can be commonly visible but the relationship between these two variables is unknown. Since cross directorship can be enhance voluntarily sustainability reporting through enhanced transparency, we hypothesised that,

> *H6: There is a positive association between proposition of board of directors with cross directorship and the sustainability reporting.*

Control Variables

Giannarakis (2014); Haniffa and Cooke (2002); Elijido-Ten (2007), finds that the company's size, the board commitment to CSR and profitability were found to be positively associated with the extent of CSR disclosure, while financial leverage is related inversely with the extent of CSR disclosure. Therefore firm size, firm leverage, firm growth and listing age were identified as the control variables of the study.

Population, study sample and sources of data

The population of the study represents all entities listed on the CSE. When the sample was selected companies listed in the sectors of Banking, finance and insurance, investment trust and diversified holdings were excluded due to the reasons mentioned below. Fifty two companies which covers seventy five percent of the total market capitalization as at 31 March 2017 have been considered as the sample and referred annual reports which published in the year ended 2017 financial statements.

Finance companies including banks and Insurance companies: These types of companies adopt the corporate governance regulations imposed by the Central Bank of Sri Lanka, which are different and much tighter than that of other listed entities.

Investment Trust: These are the companies that gather money from other investors and reinvest them in portfolios. Since the business nature is very different to a normal business, it is appropriate to exclude investment trust from study sample.

Diversified holdings: Diversified holding sector represents the holding companies of various other companies listed in different business sectors of CSE. Since research directly focuses on the subsidiary companies of these holding companies, this sector has been excluded to avoid double counting.

Once the companies in these sectors are excluded, the remaining companies were hundred and eighty four. Of which, fifty two companies that represent seventy five percent of the total market capitalization as at 31 March 2017 have been considered as the sample.

Sources of data

The main source of data for this research study is the published annual reports for the period ended 31 March 2017. Data relating to sustainability reporting and corporate governance level of each company have been obtained from the annual report disclosures.

Data analysis Tools

Under the objective one, the level of sustainability reporting of the companies was measured based on GRI G4 guidelines and the index can be referred in annexure I. Thereafter, corporate governance characteristics of the sample companies were measured based on six criteria named, number of independent directors on the board, separation of CEO and Chairman roles, size of the board, availability of female directors, availability of CSR committee and cross directorship.

Under the objective two, the statistical techniques of Statistical Package for the Social Sciences (SPSS) were used. In this case we analysed the data collected from annual reports and CSE website by using multiple regression, normality tests based on skewness, kurtosis. The regression analysis was used to measure the relationship between corporate governance practices and sustainability reporting.

ANALYSIS AND DISCUSSION

The population for the study is taken as all listed entities in CSE excluding banks, finance companies, insurance companies, investment trusts and diversified holdings. The analysis and discussion have been done by addressing the objectives of the study.

Level of sustainability reporting of Sri Lankan listed companies

There are 140 disclosure requirements according to GRI – G4 guidelines and out of which on average, a given company has adopted 50.15 voluntary disclosures based on the research data collected. Further, this number of disclosures made by a company can be within the range of 25 to 75 (As the standard deviation of the sample is 25). Further, the average adoption of GRI disclosures of the selected companies as a sample can be varied by 3.539 from the population as the standard error of mean is 3.539.

When it comes to skewness of the sample distribution, the distribution has a skewness of 0.569 which tells that distribution has a positive skewness. However the skewness does not indicate a substantial asymmetrical distribution as it is below +1 level of skewness. When it comes to spread of the number of GRI disclosures made by different companies, it number of items disclosed by a given company is closer to mode value of the distribution as the Kurtosis is -0.02.

DESCRIPTIVE STATISTICS: VOLUNTARY DISCLOSURE INDEX

Mean	50.15	Skewness	0.569
Standard deviation	25.518	SE skewness	0.33
SE mean	3.539	Kurtosis	-0.002
Minimum	6	SE kurtosis	0.65
Maximum	113	Z-test skewness	1.724242424
K–S Lilliefors	0.068	Z-test kurtosis	-0.003076923
K–S Significance	0.2		

Corporate Governance practices in Sri Lankan Companies

<u>Corporate Governance Characteristics</u>

On average, independent directors represent 40.61% of the board of directors and this average representation can be varied between 24% and 56% as the standard deviation is 16%. When it comes to separation of CEO and Chairman roles, there is 71.15% range within which, these roles are separated. On average, the representation of female directors in the board of directors is 46.15%. However this average representation can be varied significantly as the standard deviation is 50%. To have a CSR committee in a company may have a chance of 55.77%. The average representation of directors with cross directorship 58.77%. However this cross directorship representation can be varied from 21% to 95% as the standard deviation for this variable is 37%.

Firm Specific Variables (Control Variables)

Average percentage of net income to book value of equity is 26.08% and minimum and maximum value of this ratio can be -16.07% (Loss making situation) and 349.37%. Market to book value of equity can be on average 23.39%. Generally the leverage of the companies selected for sample can be 33.58% on average. However minimum and maximum leverage of a given company can be 5.81% and 565.49%. Further a company in CSE is listed for 31 years on average and minimum age of a listed company is four years and maximum of 72 years.

Variables	Mean	Median	Minimum	Maximum	SD
Corporate governance characteristics					
Percentage of independent directors	0.4061	0.3750	0.2000	1.1250	16%
Natural log of Directors	2.0999	2.0794	1.3863	2.8332	29%
Whether Chairman and CEO separated	0.7115	1.0000	0.0000	1.0000	46%
Availability of female directors in the board	0.4615	0.0000	0.0000	1.0000	50%
Availability of CSR committee	0.5577	1.0000	0.0000	1.0000	50%
Percentage of directors with cross directorship	0.5877	0.6696	0.0000	1.0000	37%
Firm Specific (Control Variables)					
3 year average of net income/BV of equity	0.2608	0.1349	-0.1607	3.4937	52%
Natural log of total assets 3 year average	23.3915	23.2943	21.5222	25.6853	88%
Long term debt/book value of equity	0.3358	0.0581	0.0000	5.6549	86%
MV / BV of equity	3.4881	1.2641	0.2294	35.6953	708%
Number of listed years	30.9231	33.0000	4.0000	72.0000	1632%

The relationship between corporate governance practices and the level of sustainability reporting

Regression Analysis

According to multivariate regression analysis for Model 1, Percentage of independent directors ($p<0.05$) have positive relationship with GRI disclosures and availability of female directors in the board ($p<0.05$) have a negative impact on GRI disclosures. This results is in consist with the previous studies (e.g. Adams and Ferreira (2009); Carter, et al. (2003); Haniffa and Cooke (2002) and Boesso (2007)). But this results consist with the previous studies (e.g. Eng and Mak (2003) and Barako and Brown (2008)) .Other variables show no significant impact with GRI disclosure (Model 1). The results of role of duality in line with Haniffa and Cooke (2002) and Barako, et al. (2006), natural log of directors results inconsistent with who found Laksmana, 2008; Ntim & Soobaroyen, 2013; Said, et al., 2009 positive relationship with board size and sustainability reporting. Our results found on availability on CSR committee suggests as such research by Adnan, et al.(2010), an organization with environment committee are disclosing more information on greenhouse gas emission than, those without such committee.

Linear Regression Equation

The following table shows the linear regression analysis of the dependent variables.

Independent variables	Predicted sign	Coefficients	t-statistics	VIF
Corporate Governance				
Percentage of independent directors	+	0.138	0.863	1.414
Natural log of Directors	+	0.222	1.431	1.335
Whether Chairman and CEO separated	+	0.113	0.727	1.336
Availability of female directors in the board	+	-0.089	-0.601	1.224
Availability of CSR committee	+	0.356	1.876	2.000
Percentage of directors with cross directorship	+	-0.051	-0.279	1.829
Firm Specific (Control Variables)				
3 year average of net income/BV of equity		0.245	1.061	2.963
Natural log of total assets 3 year average		0.223	1.450	1.315
MV / BV of equity		-0.157	-0.684	2.937
Long term debt/book value of equity		0.062	0.418	1.232
Number of listed years		-0.259	-1.642	1.385

Constant	-150.11
Std. Error	24.46
R^2	28%
F value	1.22

Based on the above information linear regression equation

$$I = -150.11 + .138X_1 + .222X_2 + .113X_3 - .089X_4 + .356X_5 - .051X_5 + .245X_7 + .223X_8 - .157X_9 + .062X_{10} - .259X_{11}$$

Where,
I = GRI index
X1 = Percentage of independent directors
X2 = Natural log of number of directors
X3 = If chairman & CEO roles are combined = 0, if chairman & CEO roles are separated = 1
X4 = If board without female directors = 0 If boards with female directors = 1
X5 = If no CSR committee = 0, if there is a CSR committee
X6 = Percentage of directors on the board with directorships in other companies
X7 = Net income/equity (3 years average)
X8 = Natural log of total assets (3 years average)
X9 = Market value of shares/book value of equity
X10 = Long term debt/book value of equity
X11 = Number of listed years

Note
X1-X6 = Variables for cooperate governance factors
X7-X11 = Variables for firm specific factors

Correlation Matrix

In the correlation matrix, sustainability reporting (# of GRI Disclosures) has a statistically significant positive association with percentage of independent directors, CEO-Chairman duality and availability of CSR committee. The association between sustainability reporting (# of GRI Disclosures) and boards with female directors & percentage of directors with cross directorship are negative and statistically significant ($p<0.05$). Among the firm characteristics, Percentage of directors with cross directorship has a significant positive association with Availability of CSR committee and negative association with 3 year average of net income/book value of equity, CEO-Chairman duality and natural log of total assets 3 year average. Furthermore, number of listed years and long term debt/book value of equity has significant negative association. Accordingly, evidence of bivariate associations among the proposed variables in the correlation matrix provides a basis to continue with multivariate analysis. Moreover, the correlation coefficients of variables indicate that multi collinearity is not a problem.

Correlation Matrix

Spearman's rho	# of GRI Disclosures	Percentage of independent directors	Natural log of Directors	Whether Chairman and CEO separated	Availability of female directors in the board	Availability of CSR committee	Percentage of directors with cross directorship	3 year average of net income/BV of equity	natural log of total assets 3 year average	MV / BV of equity	long term debt/book value of equity	number of listed years
# of GRI Disclosures	1	0.987**	0.157	0.226*	-0.310*	0.207*	-0.062*	-0.103	-0.019	0.234	-0.011	0.118
Percentage of independent directors	0.987**	1	-0.163	0.226	0.316*	-0.214	-0.068	-0.103	-0.016	0.233	-0.005	0.111
Natural log of Directors	0.157	-0.163	1	0.175	0.01	0.056	-0.23	0.123	0.327*	0.014	0.226	0.139
Whether Chairman and CEO separated	0.226*	0.226	0.175	1	0.079	-.311*	-.336*	0.202	0.231	0.199	0.179	-0.15
Availability of female directors in the board	-0.310*	0.316*	0.01	0.079	1	-0.108	-0.134	0.026	-0.013	-0.023	-0.146	-0.086
Availability of CSR committee	0.207*	-0.214	0.056	-0.311*	-0.108	1	0.580**	-0.055	-0.254	-0.125	0.035	0.18
Percentage of directors with cross directorship	-0.062*	-0.068	-0.23	-0.336*	-0.134	0.580**	1	-0.111	-0.453**	0.083	0.023	0.055
3 year average of net income/BV o equity	-0.103	-0.103	0.123	0.202	0.026	-0.055	-0.111	1	-0.058	0.432**	-0.075	-0.127
natural log of total assets 3 year average	-0.019	-0.016	0.327*	0.231	-0.013	-0.254	-0.453**	-0.058	1	-0.196	0.224	-0.095
MV / BV of equity	0.234	0.233	0.014	0.199	-0.023	-0.125	0.083	0.432**	-0.196	1	0.004	0.015
long term debt/book value of equity	-0.011	-0.005	0.226	0.179	-0.146	0.035	0.023	-0.075	0.224	0.004	1	-0.365**
number of listed years	0.118	0.111	0.139	-0.15	-0.086	0.18	0.055	-0.127	-0.095	0.015	-0.365**	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

SUMMARY AND CONCLUSION

This study examined the corporate governance characteristics on sustainability reporting. A sample of 52 companies which covers more than seventy five percent of total market capitalization excluding diversified holdings, investment trusts and bank and finance companies from CSE in Sri Lanka was selected for this study. The results show that there is a positive relationship between proportionate of independent directors, Separation of chairman and CEO role and availability of CSR committee with the voluntarily practiced sustainability reporting disclosures. But there is a negative relationship in female participation on board, and cross directorship holding directors with sustainability disclosures. We hypothesised as there is a positive association between female directors and sustainability reporting and a negative association between availability of cross directors and sustainability reporting based on existing research findings. However these findings are contradictory with findings in Carter, et al (2003) and Ntim and Soobaroyen (2013), Lorsch and Maclver (1989), Haniffa and Cooke (2002). Possible reason for such a contradiction may be the reason that the population used for the research is relates to Sri Lanka which is a developing country.

Therefore we can conclude that the impact of corporate governance on the sustainability reporting, practices such as representing the board by more independent directors, seperation of chairman and CEO and availability of CSR committee contribute to have more compliance with sustainability reporting by the companies.

Major implications from this study can be discussed as follows. This is the first study from Sri Lanka to examine whether sustanability reporting is influenced by board characteristics. This study also provides information about board characteristics of Sri Lankan listed companies. It is commendable that Sri Lankan Listed companies are voluntarily undertaking sustainability reporting practices in the absence of mandatory disclosure requirements and the concept is relatively new to Sri Lankan listed companies. The corelationship between size of the firm, board size and sustainability reporting can be found in this study and suggests that large firms are likely to have large boards and these factors are likely to describe whether the sustainability reporting has positively influenced. From an agency theorist view point large firm need to be governed effectively and reletively requires a large board to disclose more sustainability reporting aspects and to reduce agency costs. Further emperical studies on this regards has revealed that corporate governance mechanism plays a major role in small and underdeveloped capital markets to disclose more sustainability reporting disclosures with a motive of gaining investors, lenders and creditors trust and more finances in to the business. Further it should be noted that this study is focus on the binary variables of all the identified corporate governance factors and do not taken into account the effectiveness of those corporate governance factors or the quality of corporate governance disclosure presented in financial statements. Hence, it need to be further debated on the facts of effectiveness of corporate governance factors and the quality of sustainability reporting disclosures in future studies.

However, the study has following limitations: Most countries develop their own codes of governance practices that must be adopted by specific companies within that jurisdiction. Therefore, when it is trying to generalize the results of this study, focusing only on listed companies will not be able to predict the relationship between corporate governance and sustainability reporting of all type of companies. Accordingly the external validity of the research is lower.

During this study, researcher use a quantitative approach to find out the results of this study. Therefore, researcher will have to assign numerical measurements to qualitative variables that are relating to corporate governance and sustainability reporting. In a situation like this, measurements of the variables can be biased and the results may not reflect the actual relationship between these two concepts.

Further the research is mainly based on the data included in annual reports of the companies listed in Colombo Stock Exchange. Data included in annual reports can be changed over the time. Due to the lack of time in conducting research, researcher cannot assess the change and stability of the results of study. Identifying variables of qualitative topics such as corporate governance cannot be limited so easily. Therefore researcher cannot accurately define the scope of the study, hence the results of the study may also be scoped in an inaccurate manner.

ANNEXURE I: GRI G4 DISCLOSURE INDEX

#	Description of the GRI disclosure	#	Description of the GRI disclosure
1	Statement from senior decision-maker	71	Energy consumption outside of the organization
2	Key impacts, risks, and opportunities	72	Energy intensity
3	Name of the organization	73	Reduction of energy consumption
4	Activities, brands, products, and services	74	Reductions in energy requirements of products and services
5	Location of headquarters	75	Water withdrawal by source
6	Location of operations	76	Water sources significantly affected by withdrawal of water
7	Ownership and legal form	77	Water recycled and reused
8	Markets served	78	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas
9	Scale of the organization	79	Significant impacts of activities, products, and services on biodiversity
10	Information on employees and other workers	80	Habitats protected or restored
11	Collective bargaining agreements	81	IUCN Red List species and national conservation list species with habitats in areas affected by operations
12	Supply chain	82	Direct (Scope 1) GHG emissions
13	Significant changes to the organization and its supply chain	83	Energy indirect (Scope 2) GHG emissions
14	Precautionary Principle or approach	84	Other indirect (Scope 3) GHG emissions
15	External initiatives	85	GHG emissions intensity
16	Membership of associations	86	Reduction of GHG emissions
17	Entities included in the consolidated financial statements	87	Emissions of ozone-depleting substances (ODS)
18	Defining report content and topic Boundaries	88	Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions
19	List of material topics	89	Water discharge by quality and destination
20	Explanation of the material topic and its Boundary	90	Waste by type and disposal method
21	Restatements of information	91	Significant spills
22	Changes in reporting	92	Transport of hazardous waste
23	List of stakeholder groups	93	Water bodies affected by water discharges and/or runoff
24	Identifying and selecting stakeholders	94	Extent of impact mitigation of environmental impacts of products and services.
25	Approach to stakeholder engagement	95	Reclaimed products and their packaging materials
26	Key topics and concerns raised	96	Non-compliance with environmental laws and regulations
27	Reporting period	97	Significant environmental impacts of transporting products and other goods and materials for the organizations operations and transporting members of the workforce
28	Date of most recent report	98	Total environmental protection expenditures and investments by type.
29	Reporting cycle	99	New suppliers that were screened using environmental criteria
30	Contact point for questions regarding the report	100	Negative environmental impacts in the supply chain and actions taken
31	Claims of reporting in accordance with the GRI Standards	101	New employee hires and employee turnover
32	GRI content index	102	Benefits provided to full-time employees that are not provided to temporary or part-time employees
33	External assurance	103	Parental leave
34	Governance structure	104	Minimum notice periods regarding operational changes
35	Delegating authority	105	Workers representation in formal joint management–worker health and safety committees
36	Executive-level responsibility for economic, environmental, and social topics	106	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities
37	Consulting stakeholders on economic, environmental, and social topics	107	Workers with high incidence or high risk of diseases related to their occupation
38	Composition of the highest governance body and its committees	108	Health and safety topics covered in formal agreements with trade unions
39	Chair of the highest governance body	109	Average hours of training per year per employee
40	Nominating and selecting the highest governance body	110	Programs for upgrading employee skills and transition assistance programs

41	Conflicts of interest	111	Percentage of employees receiving regular performance and career development reviews
42	Role of highest governance body in setting purpose, values, and strategy	112	Diversity of governance bodies and employees
43	Collective knowledge of highest governance body	113	Ratio of basic salary and remuneration of women to men
44	Evaluating the highest governance body’s performance	114	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening
45	Identifying and managing economic, environmental, and social impacts	115	Employee training on human rights policies or procedures
46	Effectiveness of risk management processes	116	Incidents of discrimination and corrective actions taken
47	Review of economic, environmental, and social topics	117	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk
48	Highest governance body’s role in sustainability reporting	118	Operations and suppliers at significant risk for incidents of child labour
49	Communicating critical concerns	119	Operations and suppliers at significant risk for incidents of forced or compulsory labour
50	Nature and total number of critical concerns	120	Security personnel trained in human rights policies or procedures
51	Remuneration policies	121	Incidents of violations involving rights of indigenous peoples
52	Process for determining remuneration	122	Operations that have been subject to human rights reviews or impact assessments
53	Stakeholders’ involvement in remuneration	123	New suppliers that were screened using social criteria
54	Annual total compensation ratio	124	Negative social impacts in the supply chain and actions taken
55	Percentage increase in annual total compensation ratio	125	The management approach and its components
56	Values, principles, standards, and norms of behaviour	126	Operations with local community engagement, impact assessments, and development programs
57	Mechanisms for advice and concerns about ethics	127	Operations with significant actual and potential negative impacts on local communities
58	Evaluation of the management approach	128	Operations assessed for risks related to corruption
59	Direct economic value generated and distributed	129	Communication and training about anti-corruption policies and procedures
60	Financial implications and other risks and opportunities due to climate change	130	Confirmed incidents of corruption and actions taken
61	Defined benefit plan obligations and other retirement plans	131	Political contributions
62	Financial assistance received from government	132	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices
63	Ratios of standard entry level wage by gender compared to local minimum wage	133	Assessment of the health and safety impacts of product and service categories
64	Proportion of senior management hired from the local community	134	Incidents of non-compliance concerning the health and safety impacts of products and services
65	Infrastructure investments and services supported	135	Requirements for product and service information and labelling
66	Significant indirect economic impacts	136	Incidents of non-compliance concerning product and service information and labelling
67	Proportion of spending on local suppliers	137	Approach to stakeholder engagement Key topics and concerns raised
68	Materials used by weight or volume	138	Incidents of non-compliance concerning marketing communications
69	Recycled input materials used	139	Substantiated complaints concerning breaches of customer privacy and losses of customer data
70	Energy consumption within the organization	140	Non-compliance with laws and regulations in the social and economic area

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