

MULTI ACTORS' PERSPECTIVES ON ENVIRONMENT, SOCIAL, AND GOVERNANCE REPORTING IN LISTED COMPANIES IN SRI LANKA

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Abstract

This study explores multi-actors' perspectives on Environment, Social, and Governance (ESG) reporting in Sri Lankan listed companies. While most studies have explored the perceptions of managerial and non-managerial stakeholders regarding ESG reporting in developed countries, there is a scarcity of research in developing countries. Only a few studies have yet addressed the phenomenon of ESG reporting in Sri Lanka by analysing the multi-actors' perspectives. On the other hand, most previous studies have primarily investigated internal organizational factors that influence ESG reporting using a quantitative method. In this study, ESG reporting was assessed through the perspectives of multi-actors. Qualitative methodology is used to analyze the participants' perspectives following an interpretivist approach. Using semi-structured in-depth interviews, exploratory data was collected related to the research topic. Participants for the sample were selected based on engagement with ESG activities, knowledge, and personal experience. Interviewees participated in face-to-face and online interviews via Zoom. Thematic analysis was performed to identify the common themes from the respondents' explanations. Awareness, reporting guidelines, stakeholders' demands, top management commitment, capturing information, and education are the major themes identified in ESG reporting in listed entities. The study contributes to understanding the phenomenon of ESG reporting and it presents findings that may be useful for theory and practice. Finally, the study provides empirical evidence for regulatory authorities and policymakers on the actions and methods for developing ESG reporting in listed companies in Sri Lanka.

Keywords: ESG Reporting, Multi-Actors, Perspectives, Thematic Analysis

JEL Classification: G31

1 Introduction

Environmental, Social, and Governance (ESG) reporting is becoming more important as economies become increasingly interconnected through global trade and investment. Disclosure of company information is essential for investors and other stakeholders to make decisions regarding capital allocation (Alareeni & Hamdan, 2020). Socially responsible investors are keen to know ESG factors to assess their investment decisions and how the company conducts business (Atan et al., 2016). Due to frequent financial scandals, many companies adopt ESG reporting in response to stakeholder pressure and as part of their business strategy (Alareeni & Hamdan, 2020). This commitment to ESG reporting has been reinforced by the United Nations Sustainable Stock Exchange (UNSSE), which has set a target for all listed firms to disclose their ESG impact by 2030 (Sustainable Stock Exchanges, 2015). This has led to a noticeable increase in ESG reporting recently. However, significant variations in the extent and consistency of these disclosures persist among different countries (Elzahar et al., 2015).

Previous studies have focused on delineating the factors influencing disparities in ESG reporting content, primarily in developed countries, leaving a research gap in developing nations (Dissanayake et al., 2016; Nuskiya et al., 2021; Shen et al., 2023). Institutional settings in developed countries are generally quite different from those in developing and emerging countries (Mudiyanselage, 2018). Developing markets with their inherent characteristics, such as cultural specificity and political instability, deserve special attention. In developing countries, disclosure primarily entail enumerating CSR or philanthropic initiatives, while comprehensive sustainability reporting is relatively less prominent (Dissanayake, Kuruppu, et al., 2021). Nevertheless, in the context of developing countries, listed companies are currently in the process of embracing ESG reporting.

As a developing country, Sri Lanka has the challenge of achieving high economic growth through protecting the environment, eliminating social issues, and good governance (Dissanayake et al., 2016). There is a tendency in Sri Lankan companies to engage in sustainability reporting (Thoradeniya et al., 2015), and disclosure of ESG practices remains voluntary in nature (Beddewela & Herzig, 2013; Swarnapali, 2020). Nevertheless, ESG reporting level and quality of reporting remain low in Sri Lanka (Beddewela & Herzig, 2013; Mudiyanselage, 2018; Nuskiya et al., 2021) and receive less attention (Dissanayake et al., 2016).

Previous Sri Lankan studies emphasized the necessity of doing more comprehensive studies about sustainability or ESG reporting in different research scopes to broaden the voluntary disclosure literature (Dissanayake, 2021; Swarnapali, 2020). Many studies were inclined to use quantitative methods to examine ESG reporting (Shen et al., 2023). Few studies have examined multi-actors' perspectives on ESG reporting qualitatively in Sri Lanka. While these limited studies provide some indication of the factors influencing ESG reporting in the country, further research is necessary to establish more robust conclusions. Given the lack of studies in developing countries (Mahmood et al., 2019), this study's primary objective was to explore the views of multiple actors on the current state of ESG reporting in Sri Lankan listed companies. Further, the study examines the drivers that influence ESG reporting.

The paper is organized as follows. The second section discusses the theoretical framework along with a literature review of empirical studies. The third section describes the methodology used for the analysis. Subsequently, the fourth section presents the results and discussion. Finally, the paper presents the conclusion.

2 Theoretical and Literature Review

Previous studies have predominantly employed different theoretical frameworks in the context of ESG reporting. Building on prior studies, the study formulated a mixed theoretical framework, incorporating diverse socio-economic and socio-political perspectives relevant to ESG.

2.1 Theoretical Review

From a theoretical point of view, several theories have been used to explain a firm's motivations for ESG reporting. There is no dominant theory that can explain the ESG phenomenon. Prior studies examined the factors determining ESG reporting and identified various theoretical approaches (Baldini et al., 2018). Stakeholder, legitimacy, and institutional theories have been propagated in explaining ESG reporting. These theories consider the organization as part of a broader social system that can influence other parties in the social system and their expectations (Azizul Islam & Deegan, 2008). A key concept highlighted by the theories is that a firm's relationship is intertwined with various stakeholders, and their pressure compels them to engage

with ESG. Social and political theories offer valuable theoretical viewpoints on CSR practices compared to purely economic theories (Gray et al., 1995).

The flagship of these theories is the stakeholder theory proposed by Freeman (1984). The essence of the theory states that firms have a relationship with stakeholders, and their responsibility goes beyond the pure welfare of shareholders. Freeman (2010) stated that organizations could perform well by prioritizing stakeholders' interests. Legitimacy is also vital for firms to ensure sustainability (Aouadi & Marsat, 2018). Central to legitimacy theory is the proposition that businesses are bound by both implicit and explicit social contracts, necessitating responsible and transparent operation (Campbell et al., 2003). This perspective assumes that companies must meet societal expectations to maintain their operational continuity (Burhan & Rahmanti, 2012). However, society comprises diverse groups with varying levels of influence over firms. Accordingly, management publishes information about their activities and what they need to know (Burhan & Rahmanti, 2012). Stakeholder theory considers specific stakeholder interactions and pressures, while legitimacy theory focuses on interactions with society (Chan et al., 2014).

Institutional theory is useful for understanding how and why institutional influence exists within and around companies. Further, it explains how social choices are made, facilitated, and directed by the power of the institutional environment (Contrafatto, 2014). It motivates to adopt responsible practices according to society's shared values and beliefs (Atan et al., 2016). Deegan (2009) stresses that considering the institutional and legitimacy theories together explains the factors influencing social responsibilities. Legitimacy theory discusses how a firm uses ESG to legitimize its relationship with "society," while institutional theory examines extensive changes in a firm's practice of bringing legitimacy to its organization. Nuskiya et al. (2021) have explored the determinants of ESG reporting by following agency, legitimacy and stakeholder theories.

2.2 Environmental, Social and Governance Reporting

ESG factors, commonly referred to as environmental, social, and governance considerations, constitute a term employed in capital markets to characterize a company's non-financial performance (Atan et al., 2017). While sustainability literature emerged in the early 1980s, research focus on ESG gained momentum in the late 1980s (Neu et al., 1998; Saudagaran et al.,

2020). The vast majority of extant studies were in developed countries (Bhattacharyya, 2014; Naeem et al., 2022; Nuskiya et al., 2021). Emerging countries are still in the early stages of the implementation of sustainability reporting and corporate governance when compared to developed countries (Buallay & Al-Ajmi, 2019; Nuskiya et al., 2021). ESG research predominantly centres on developed nations, resulting in a gap in comprehending the factors influencing ESG reporting in developing countries. Developing countries have their own unique sustainability challenges, which are not about developed countries. Transparency and accountability are important aspects of sustainability and thus, sustainability reporting is vital in developing countries (Correa & Larrinaga, 2015). Whether social disclosure is mandatory or voluntary substantial differences can be seen between firms concerning the extent and nature of reporting (Brooks & Oikonomou, 2018).

2.3 Factors Influencing ESG Disclosure

The factors influencing ESG reporting have remained unclear in developing countries (Dissanayake, Kuruppu, et al., 2021). Comprehending the nation-level variables impacting companies' ESG performance is important (Mooneepen et al., 2022). Most prior studies have been quantitative in nature and limited to secondary data analysis using content analysis. Limited studies have explored factors influencing ESG reporting through the views of stakeholders actively engaged in ESG activities. Lu and Abeysekera (2014) investigates the stakeholders' power and corporate characteristics on corporate social and environmental disclosure, developing a joint theoretical framework of legitimacy and stakeholder theories. Accordingly, the determinants or drivers of engaging social reporting include firm size, industry classification, and firm age. The study by Tamimi and Sebastianelli (2017) revealed that society influences at large to engage with ESG disclosure. Further, they suggested doing in-depth analysis and longitudinal, empirical research to theorize the motivating factors for reporting better.

Few studies have qualitatively explored ESG reporting in the Sri Lankan context. CSR in Sri Lankan firms shows structural diversity and contains disclosers varying from low to standard levels (Dissanayake et al., 2016). Thoradeniya et al. (2015) revealed that management attitudes, stakeholders' pressure, and their capacity influence sustainability reporting. Strong and effective regulations, awareness, and education are important to encourage organizations committed to

sustainability (Wijethilake et al., 2017). The findings are consistent with those of Dissanayake, Kuruppu, et al. (2021) who identified knowledge and education, lack of awareness, absence of initiatives, additional costs, and time constraints as barriers to sustainability reporting. Market competition, education, government, and culture influence the diffusion in a developing country (Thoradeniya et al., 2021). They suggested enriching the existing literature using semi-structured interviews or in-depth case studies. Previous studies have identified various factors that are context-dependent. However, there remains an insufficient investigation into the causes of inadequate sustainability reporting in Sri Lanka (Beddewela & Herzig, 2013). Prior literature emphasizes the significance of in-depth studies aimed at exploring the factors that influence ESG reporting (Mooneepen et al., 2022). This study aims to fill the gap by exploring the perspectives of multi-actors on the ESG reporting of listed companies in Sri Lanka.

3 Methodology

3.1 Research Design

This study employed qualitative methodology based on an interpretivist approach to explore the multi-actors' perspectives regarding ESG reporting. The interpretivist approach attempts to investigate certain phenomena based on an understanding of human experience (Khan et al., 2021). Within the interpretivist framework, thematic analysis serves to elucidate the impact of social, cultural, and structural contexts on individual experiences. It enables the construction of knowledge through the interplay between the researcher and research participants (Braun & Clarke, 2006). Accordingly, the study applies thematic analysis to explore the perspectives of different research participants, emphasizing both similarities and disparities, which lead to the identification of unforeseen insights (Nowell et al., 2017).

3.2 Data Collection

The study employed a purposive sampling method to select the respondents. This method is widely employed in qualitative research to identify and select cases that provide rich information concerning the phenomenon under investigation. Given the intricate and multifaceted nature of ESG reporting, purposive sampling allows us to deliberately choose participants who possess the

necessary knowledge, experience, or involvement with the ESG aspects relevant to the study. The participants were carefully selected based on the criteria set previously. Accordingly, having relevant experience, the ability to best represent or possess extensive knowledge about the phenomenon, their willingness to voluntarily participate in the research, and provide the relevant and required information (Bowen, 2008; Moser & Korstjens, 2018). In this case, the key informants were individuals who demonstrated a deep understanding of various aspects concerning ESG reporting in general, as well as specific aspects relevant to organizations. The sample adequacy is confirmed by saturation and replication (Bowen, 2008).

Table 1. Profile of Participants

Interviewee	Position	Nature of the listed entity (GICS classification)
INT 01	Head- Sustainability reporting	Consumer services
INT 02	Head- Sustainability reporting	Consumer services
INT 03	Finance Manager	Food, Beverage, and Tobacco
INT 04	Head- Sustainability reporting	Capital Goods
INT 05	Partner (Chartered Accountant)	Audit Firm
INT 06	Former President	Chamber of Commerce of Sri Lanka
INT 07	Senior Vice-President (Research & Strategy)	Colombo Stock Exchange
INT 08	Finance Manager	Food, Beverage, and Tobacco

Source: Authors generated

Data collection continued until reaching data saturation, ensuring the inclusion of diverse viewpoints and comprehensive, unbiased information. In this study, diverse stakeholder groups were considered, and the sample was saturated to uncover research themes effectively. As data saturation was reached after the seventh interview, a total of eight informants were interviewed. This decision was based on the understanding that further interviews would yield redundant information with limited additional contribution to the emerging themes or concepts. The use of saturation and replication techniques successfully facilitated the selection of relevant ESG reporting information from stakeholders, ensuring the accuracy, comprehensiveness, and

reliability of the data. The profile of the participants is presented in Table 1. On average, each interview lasted about sixty (60) minutes.

Semi-structured in-depth interviews were conducted in English, allowing for flexibility in exploring the research phenomenon comprehensively. The interview guide was designed based on the knowledge gathered from previous literature. Researchers developed a detailed interview guide to ensure consistency and standardization across interviews, aiming to reduce the risk of bias during data collection. Participants received the interview guide and consent letter before engaging in face-to-face and online interviews. Initially, general and broad questions were asked to familiarize the discussion. The participant's perceptions, values, and experiences were shared, and several questions were added to get a deeper understanding. The interview process was in-depth and time-consuming. Qualitative research primarily addresses 'how' and 'why' questions and explores them in more depth and detail (Saunders et al., 2012). All interviews were recorded with the participants' permission.

3.3 Data Analysis

In this study, we follow the steps of thematic analysis proposed by Braun and Clarke (2006) six-phase guide. Figure 1 shows the process of thematic analysis. As a first step in the data analysis process of the study, data familiarization began with listening to the recordings and reading transcriptions multiple times to identify the common topics, sections, and phrases. After listening to and reading all the recordings and transcripts, the information was divided into different topics and assigned codes to identify primary concepts, ideas, and recurring patterns within the data. Each data point was meticulously assigned suitable preliminary codes, highlighting the phrases and sections of their ideas. Codes related to subthemes were extracted and reviewed several times before being grouped into subthemes. Finally, subthemes were merged into the major themes.

Quotations from the participants are mentioned for better interpretation. Several steps have been taken to ensure reliability and validity. Semi-structured interview guide has been used to focus on the research and allow for follow-up questions. Interviewees may exaggerate the level of ESG reporting to put their company in a positive light. However, this was not a problem as the interviewees were generally very open about their shortcomings. After carefully listening to the

recordings several times, a coding table was created to identify patterns in the data. The utilization of structured procedures in data collection and analysis, along with the incorporation of a semi-structured interview guide, contributed to enhancing the reliability of the research.

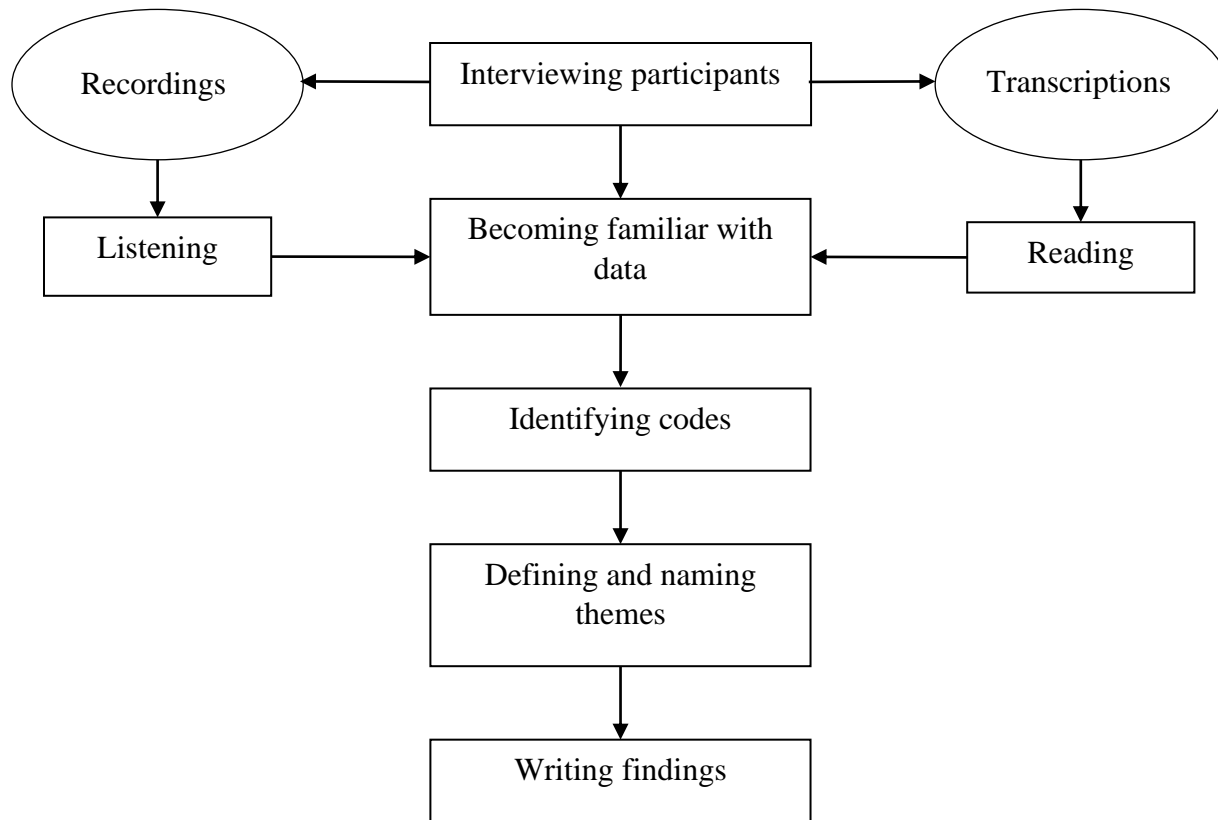


Figure 1: Process of the thematic analysis

The analysis process began with open coding to identify primary concepts, ideas, and recurring patterns within the data. Each data point was meticulously assigned suitable preliminary codes. The subsequent step involved organizing the initial codes into broader categories or themes, and elucidating connections between related concepts to reveal overarching patterns and trends. Further, the identification of subthemes enriched the understanding of each major theme, contributing to a comprehensive analysis.

4 Findings and Discussions

This section focuses on analyzing the interviewees' views on ESG reporting in Sri Lanka. According to the analysis six themes were identified in relation to the research objective of the study. The previous studies revealed that the level of ESG reporting of listed companies in Sri Lanka is not satisfactory (Fernando & Pandey, 2012; Fernando et al., 2015). To identify the extent of participants' awareness and understanding of ESG reporting, they were asked to provide their views on the concept. Although they offered a range of answers, they clearly understood the concept. Therefore, they have a good knowledge of ESG reporting practices, which was a good basis for a productive discussion.

4.1 Generating Themes

Table 2 presents the themes extracted from the initial analysis. Sub-themes are derived from the words and phrases (codes). The sub-themes were integrated to make major themes while providing supporting evidence. The analysis process was conducted systematically to ensure the rigour and reliability of the derived themes. Cross-verify the identified themes with the original data to ensure the accuracy and reliability of the analysis. The research team held regular meetings to deliberate on any disparities in the coding process, with the aim of achieving consensus. The approach for identifying themes, subthemes, and codes is presented in Table 2.

Table 2. Themes emerging from the analysis

Themes	Sub-themes
Awareness	<p><i>Insufficient Knowledge</i>: little awareness of the general public, even investors, non-financial information is not taken into account, training programs</p> <p><i>Increasing awareness</i>: little awareness, awareness programs</p> <p><i>Incomplete Understanding</i>: importance and potential benefits, ignore materiality, management understanding</p> <p><i>Confusion on ESG matters</i>: reporting positive consequences, not disclosing all information, reporting social activities, awareness programs</p>

	<i>Use of non-financial information:</i> investment decisions, lack of interest, investor preference
ESG reporting guidelines	<i>Should be mandatory:</i> transparency problem, voluntary nature <i>Standards or framework:</i> minimum information, following GRI guidelines, fear of bad image, guidelines provide guidance, less environmental information due to lack of guidelines <i>Variations in reporting:</i> less information, more information <i>Proper monitoring system:</i> processes, systems, protocols, and policies <i>Consistency:</i> consistently reporting, and evaluating, GRI guidelines
Stakeholders' demand	<i>Less attention to stakeholders' requirements:</i> reporting selected information, understanding requirements, <i>Stakeholders ask for ESG information:</i> demand of international investors, local stakeholders have no clarifications, no questions, <i>Giving priority to financial information:</i> not interest, only financial information, no awareness <i>Using ESG information for investment decisions:</i> not important, aware of the importance
Top management commitment	<i>Strong stewardship toward ESG reporting:</i> strong leadership, top management support <i>Board members' decisions:</i> introducing strategies and techniques, changing the organization's behaviour, having board-level oversight, top-down commitment <i>Senior management commitment:</i> creating lasting change
Capturing information	<i>Difficulty in collecting data:</i> no proper process, checking the accuracy, need trained technical team, measuring guidelines, understanding the data, qualitative nature, time-consuming <i>Less information:</i> confidentiality, legal barriers

Company environment does not support: activities are isolated, not enough knowledge, no convenient process, a challenging task

Framework or guidelines: deciding a framework, understanding the data, keeping consistency of data, comparability

Education

Education in non-financial reporting: Universities and educational institutions programs, graduate with non-financial reporting, accounting education

Changing education system: need a well-developed education system, changing curricula and syllabuses

Changing the system: education system, companies' internal system, reporting process

Source: Authors generated

4.2 Multi-Actors' Perspectives on ESG Reporting

Based on the main actors' perspectives, the following themes and exemplar quotations are presented below. There was a consensus among the interviewees regarding the following themes.

Theme 1: Awareness

Awareness of ESG reporting means understanding what is happening and why. The following quotes are the responses from interviewees on the awareness of board members, management, investors and customers. Participants mentioned that stakeholders' awareness and knowledge of ESG reporting is generally low in Sri Lanka. An interviewee explained this issue:

“Sri Lankan stakeholders do not have good knowledge about ESG. The public, even investors also have very little awareness.”(INT2)

Although all interviewees had some understanding of ESG issues, few interviewees had narrow perspectives on ESG reporting and saw it as an additional burden on the company. However, other participants' thinking was more positive, and there was a sense of change from the perspective of solving issues or achieving benefits. As a result, some companies provide the minimum information, while others provide more information based on the awareness of the management. A respondent's typical comments are as follows:

“The reporting practices are determined by how management understands them. Management decides where they go with their understanding level. It is also necessary to conduct training programs, seminars, and workshops for improving awareness of the employees” (INT4)

Interviewees generally indicated that stakeholders' influence in ESG reporting depends on awareness. For people with little or no understanding and interest in ESG information, it is easy to understand that the majority of stakeholders are not interested or unable to influence companies (Mahmood et al., 2019). Some interviewees presented their views on this issue. It seems the interviewees generally indicated:

“I think that increasing the awareness of society in general and company management in particular about the importance and potential benefits of ESG reporting is a very important driver for improving the level of ESG reporting in Sri Lanka. The concept of materiality which decides what to report is ignored in practice as stakeholders have less awareness .” (INT5)

Less awareness of ESG among the management is the main obstacle inhibiting ESG reporting. The reporting level is relatively low in developing countries (Mahmood et al., 2019) and management does not have a better understanding of ESG reporting. Many interviewees confirmed that a lack of awareness and knowledge about ESG among corporate managers could lead to less reporting. Interviewees revealed that many Sri Lankan companies and stakeholders are interested only in financial information. A participant opined that:

“Most investors are looking at the financial information, not for non-financial information. In the absence of investors' interest in non-financial information, companies provide initial information most probably regarding social activities.”(INT1)

CSE has a significant role in implementing awareness programs for listed entities in Sri Lanka. Participant from CSE explained their contribution to awareness as follows:

“We also implemented several awareness programs for universities, professional bodies, investors, and society in general. We understand that public awareness is a good step to promote ESG reporting.” (INT 7)

According to stakeholder theory, ESG reporting creates accountability and transparency in the organization and empowers stakeholder participation. On the other hand, it is also clear that institutional coercive and mimetic pressures push companies to engage in ESG reporting to gain legitimacy. Unawareness of stakeholders is an issue that creates a legitimacy gap between the company and society (Mahmood et al., 2019). Participants highlighted that some companies

follow Global Reporting Initiatives (GRI) guidelines with a good understanding and report core elements of it. However, many companies do not follow the guidelines because of the reporting process and its requirements are not recognized by many companies. Participants would like to see their organization implement ESG training and awareness programs for staff.

Theme 2: ESG reporting guidelines

Guidelines and standards continue to be developed to streamline sustainability reporting worldwide. According to Mahmood et al. (2019), standards and guidelines indicate organizational transparency and accountability. The interviewees indicated that if society does not force the use of ESG, companies will not respond to it. Here, the government is a key driver that can influence ESG reporting. On the other hand, the lack of legal requirements in Sri Lanka is another obstacle to ESG reporting. Overall, participants preferred ESG reporting to be mandatory for listed companies in Sri Lanka. For example, one respondent's idea is as follows:

“ESG reporting should be mandatory. Companies report many aspects of ESG, but transparency is a problem because of its voluntary nature.”(INT1)

Although companies disclose some ESG information, their transparency is an issue because companies report voluntarily under non-mandatory status. In their view, the SEC, CSE, or other professional bodies should have a strong monitoring process to improve accountability instead of voluntary practice. Nevertheless, listed entities should comply with GRI guidelines as the most popular guidelines. Some companies provide the minimum information, while others provide more information. Participants mentioned it as follows:

“Companies report minimum information to comply with listing rules requirements. That is the very bottom of the level. Beyond this, some companies address stakeholders' requirements and provide in a structured, concise, and clear manner according to the guidelines.”(INT1)

Organizations are reluctant to report certain information, such as environmental impacts, legal matters, and employee-related disclosures. The following interviewee reflected on that.

“We fear bad publicity for certain areas, such as waste disposal and environmental consequences we do not perform well. So we do not disclose these negative aspects... but if there are guidelines and regulations, we have to follow them. Regulatory bodies may impose simplified GRI guidelines.”(INT3)

Participants are of the view that the implementation of regulations and the provision of guidelines could enhance the ESG reporting of listed entities. This may align with Posadas et al. (2023) who explain that legislative requirements for sustainability reporting have led to more companies producing non-financial reports. Companies have to adjust their reporting process according to the guidelines or framework if a mandatory requirement exists. According to some interviewees, establishing a local standard is essential, or at the very least, customizing the Global Reporting Initiative (GRI) is imperative.

“It should be a proper monitoring system to identify ESG issues. Accordingly, companies develop processes, systems, protocols, and policies. So companies can consistently report ESG information if there are guidelines. Professional bodies should intervene in this matter by introducing a reporting framework, and evaluating their reporting.”(INT2)

Participants stressed the importance of implementing an effective monitoring system to yield more accurate disclosures. Providing guidelines with regulatory intervention provides the scope and quality of ESG reporting. Mahmood et al. (2019) emphasize that effective and standardized sustainability reporting regulation fosters institutional transparency through the interplay of coercive, mimetic, and normative forces. Interviewees suggest regulatory changes by introducing proper guidelines such as GRI guidelines.

Theme 3: Stakeholders' demands

Stakeholders, in general, have limited access to information about the environmental and social performance of listed firms in Sri Lanka, as ESG reporting is still voluntary. Recognition of the importance of ESG reporting has led some companies to perform well and subsequently disclose their performance using GRI guidelines. But, they reveal only the elements where they work well and hide evidence from areas where they work poorly. Participants said that an organization should be responsive to stakeholder demands as they control critical resources. Companies provide information on stakeholder requirements.

“Companies need to understand what stakeholders want from ESG reporting and make sure we can deliver our data to them.” (INT7)

As societal expectations change, organizations respond to stakeholders' demands and expectations in order to acquire or maintain legitimacy (Arvidsson, 2023). Nevertheless, limited awareness appears to have a marginal impact on the probability of companies embracing ESG

reporting in Sri Lanka. According to the participants' view, understanding of the ESG concept of Sri Lankan stakeholders is very low, and they prioritize financial information. However, another obstacle revealed by the interviews is that ESG reporting may not be perceived favourably by its target stakeholders. Interviewees' typical comments are the following:

“International investors analyze with their intelligence. Even though they take publicly disclosed information, they use their due intelligence before investing money. So they would send the questionnaires and request clarifications based on the information we already disclosed. In fact, this helps us decide what information we should disclose more about stakeholder interests.”
(INT1)

“We publish ESG information every year, but stakeholders are not interested in reading it. Who is asking for clarifications? or who asks questions? We have no feedback from them. Requesting clarifications can provide us with insights into their specific needs and expectations.”(INT2)

“The users of company reports do not demand ESG information because they are unaware of the importance of such information. Therefore, they do not pay attention to such information. Only financial information is concerned.”(INT4)

However, at present, stakeholders are increasingly concerned about social and environmental issues. Stakeholders can force companies to disclose ESG information. Absence of stakeholder demand for ESG information, companies may disclose little or remain silent. However, companies should understand the stakeholders' requirements to increase the number of users of non-financial information.

Theme 4: Top management commitment

Interviewees indicated that the commitment of board members and management is a strong internal driver for determining ESG reporting. They stated that top management commitment is important to drive and integrate the ESG agenda into overall business strategy and corporate culture. The interviewees pointed out the following:

“According to my experience, top management support and strong leadership are important to move towards embedding ESG practices in our organization. In my organization, it is very high, and they provide strong stewardship toward ESG reporting.”(INT4)

From an internal perspective, top management commitment is very important in improving corporate responsibility (Beddewela & Herzig, 2013; Dissanayake, Tilt, et al., 2021). The top management has a major role in ESG reporting. According to the interviewees:

“I believe board members and CEO should provide strong leadership towards incorporating ESG into business strategies. ESG practice should come from the top as the finance department can not decide whether to prepare.”(INT7)

“Top management commitment is crucial when introducing and applying ESG reporting practices. There are different strategies and techniques for changing organizational behaviour, but we know that senior management must be committed to creating lasting change. Therefore, their decisions, especially board members, will affect the disclosure level and quality.”(INT 3)

Therefore, based on the above discussion, board members and top management can play a very positive role in improving the level of ESG practices. They should understand and agree with management on important ESG matters. The board of directors is ultimately responsible for overseeing the company's corporate reporting. Board-level oversight of relevant aspects of ESG indicates how companies can meaningfully implement ESG reporting.

Theme 5: Capturing information

Participants explicitly mentioned that capturing information is one of the obstacles to ESG reporting as difficult to quantify them. ESG information is more qualitative and, therefore, harder to measure ESG performance. It is a challenging task to track and report them (Maione, 2023). At the same time, it says that there is a lack of credibility in ESG information. Although many organizations may have systems in place to track social and governance data, environmental reporting is complex. Companies need to implement controls and policies around data collection and capture.

“We have a challenge in developing processes to capture information. The process of gathering information, checking the accuracy, and reporting that information takes some time. Environmental information such as carbon, energy, waste, and water is difficult to capture. We should have a technical team for that. In this regard, companies face a problem of expertise in measuring and gathering information.”(INT2)

On the other hand, obtaining robust ESG data is a difficult task for any organization. It is very difficult to implement, report and integrate ESG information into the system.

“There are no convenient processes to gather information, and ... also we don't have enough knowledge and measurements. Gathering information is also a challenging task as each activity is isolated.” (INT4)

In their view, many companies have failed to grasp the systematic nature of ESG reporting. ESG data is particularly challenging to monitor because it cannot be quantified. One of the participants highlighted the inconvenience of collecting and reporting the ESG data.

“Selecting a framework, understanding the data, and keeping the data consistent, accurate, and comparable is a big challenge for the company. Most of this data is qualitative and can not be quantified.” (INT 5)

They commonly stressed that some social data could not be revealed due to confidentiality or legal implications. These kinds of perspectives influence ESG reporting negatively. According to a participant’s view:

“Sometimes, we have to face some barriers when disclosing information.... for example.. salary structure of executives in Sri Lanka...This information is confidential. As well companies hesitate to report environmental-related information due to legal reasons.... But Western countries, they discussed quite openly.”(INT1)

Participants' quotes imply that capturing some social and environmental information is a difficult task due to the lack of knowledge and some attitudes. Companies are not encouraged to report all impacts of the activities due to uncomfortable in reporting the negative consequences of their activities. Sri Lanka's challenges in capturing ESG information highlight broader issues related to transparency, indicating the need for standardized and reliable reporting frameworks. This may affect global investor confidence and the integration of ESG considerations into investment decisions.

Theme 6: Education

Education is a major factor influencing individual beliefs (Thoradeniya et al., 2015). Participants elaborated that education is an important driver for ESG reporting. The educational background of managers, employees, and society determines the information to be reported. Participants emphasized the importance of studying non-financial reporting in their tertiary education. Recent studies have shown that employees or business professionals do not engage in sustainability due to the lack of teaching in tertiary education (Dissanayake, Kuruppu, et al., 2021; Mahmood et al., 2019). Consistent with this view, an interviewee stressed that academic institutions should take serious initiatives toward such practice.

“Educational institutions, particularly universities, should produce graduates with an education in financial and non-financial reporting. They will be a member of professional bodies or may work as an accountant or members of the company’s management... I think the well-developed education system enhances ESG reporting.”(INT2)

The majority of respondents stressed that the curriculum of academic institutions such as universities and other professional institutions is expected to meet both academic standards and professional qualification requirements. The head of sustainability reporting of a manufacturing company expressed his opinion on how changes should be made.

“I believe that the entire system, including the education system, should be changed to focus their attention on ESG reporting. Curricula and syllabuses of the universities should be changed to the needs of the country, particularly in accounting education. Companies' internal environment should be changed to improve the process of reporting ESG activities.” (INT 4)

A participant from CSE emphasized that they intervene in university study programs. Another idea from the discussion is the absence of research in this field. They emphasized that the research studies' findings may help develop ESG practices in the country. INT8 explained:

“There is very little attention given to ESG studies in the country, and companies do not take ESG reporting more seriously. I think scholars in the accounting domain can improve their knowledge of ESG reporting by conducting research.” (INT8)

In recent years, the tendency to conduct research in this field has increased but is still limited in Sri Lanka (Dissanayake, 2021). The study done in Pakistan by Mahmood et al. (2019) highlighted the lack of education and research in universities. Gaining a deeper understanding of the importance of ESG reporting can enhance a companies’ competitiveness. Addressing this barrier in Sri Lanka can contribute to the global drive towards sustainable and responsible business practices, fostering a more knowledgeable workforce capable of driving positive change within the global business landscape.

5 Conclusion

Exploring the phenomenon of ESG reporting in Sri Lanka has provided additional insights into corporate reporting. As presented above, participants stressed that stakeholders’ awareness drives the need for financial and non-financial information. Awareness creates an invisible bond in ESG

reporting (Wijesinghe, 2012). In developing countries, a lack of knowledge/awareness and resources is particularly relevant to the absence of sustainability reporting (Beddewela & Herzig, 2013; Dissanayake, Kuruppu, et al., 2021). The study highlights the need for educational institutions to equip graduates with ESG knowledge, while emphasizing the direct role of the government in fostering the development of ESG reporting practices.

As per participant perspectives, ESG reporting is notably influenced by the absence of comprehensive guidelines and regulations, aligning with the conclusions drawn by Belal and Cooper (2011). Stakeholder demand or pressure for non-financial information is not the same for different contexts. Stakeholders' expectations vary from country to country depending on the cultural and social context (Hossain et al., 2016). Participants underscored the limited influence of stakeholder demands or pressures on ESG reporting within our context. Therefore, it is unclear how much ESG reporting in a developing country context helps publicize their image and legitimize their corporate initiatives. Management commitment or support influences the determination of the level of ESG reporting in Sri Lanka. Nevertheless, senior managers or boards of directors do not always seem to grasp the concept, which is not clearly defined or understood by organizations or stakeholders in developing countries (Hossain et al., 2016). Without top management's commitment, commencing ESG practices is difficult (Beddewela & Herzig, 2013). The comprehensive nature of the reporting process presents further challenges in data collection, with participants citing the absence of clear frameworks and trained personnel.

The findings of this research suggest the role of the government and other relevant authorities such as SEC, CSE, Chamber of Commerce, CA Sri Lanka, and Chartered Financial Analyst (CFA) in increasing the ESG reporting level. Education has a significant influence on ESG reporting. Lack of qualifications and training in the field of ESG was the most important reason for limiting ESG reporting. Another reason is the lack of knowledge due to the limited research studies on ESG issues (Dissanayake, Kuruppu, et al., 2021; Thoradeniya et al., 2015). As participants emphasized, changing attitudes (Dissanayake, Kuruppu, et al., 2021) and improving stakeholders' awareness (Dissanayake et al., 2019) are other important considerations in developing ESG reporting of listed companies. The findings also support earlier literature indicating that companies are striving to be more responsive to sustainability reporting but have not yet achieved a satisfactory standard (Dissanayake, Kuruppu, et al., 2021). Getting to the desired level of reporting requires addressing these issues that arise with reporting practices.

This study makes several contributions to the area of ESG in developing countries. First, this is one of the few qualitative studies conducted to explore the causes that affect ESG reporting in Sri Lanka. Thus, these findings offer valuable qualitative evidence for interpreting ESG reporting practices in other developing nations. In contrast to existing research primarily conducted in developed countries, this study provides unique insights into stakeholders' perspectives on ESG reporting in a developing country. Secondly, the findings can be integrated by managers into their decision-making processes. Thirdly, policymakers and capital market regulators can make decisions on formalising the ESG reporting for companies. The findings suggest implications for policymakers and regulators in terms of promoting and facilitating the adoption of consistent sustainability reporting protocols. Furthermore, creating partnerships between educational institutions and businesses can facilitate the sharing of knowledge and best practices, fostering a collaborative environment for the dissemination of ESG principles. Encouraging research and development in the field of sustainable business practices and incentivizing companies to invest in ESG education for their workforce can significantly contribute to the advancement of sustainable development goals in Sri Lanka and globally. Further, a better understanding of these challenges faced in ESG reporting enables company management to improve sustainability strategies and decision-making processes.

Overall, a concerted effort by both companies and policymakers to address these factors can promote responsible business practices, enhance corporate transparency and attract sustainable investments in the country. A limitation of this study is that only those involved in ESG activities and the reporting process were interviewed. Including a broader set of stakeholders will provide further insight into ESG reporting. Future research is, therefore, focused on the perspectives of managerial and non-managerial stakeholders to present a more balanced view of ESG reporting in developing countries.

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