

How do public companies respond to national challenges through sustainability reporting? – The case of Sri Lanka

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Abstract

Purpose – The purpose of this paper is to explore how sustainability reporting is shaped by the global influences and particular national context where businesses operate.

Design/methodology/approach – The paper uses both content analysis of published sustainability information and semi-structured interviews with corporate managers to explore how sustainability reporting is used to address unique social and environmental challenges in a developing country – Sri Lanka. The use of integrative social contracts theory in investigating sustainability reporting offers novel insights into understanding the drivers for sustainability reporting practices in this particular country.

Findings – The findings reveal that managers' perceptions about usefulness of sustainability reporting, local contextual challenges and global norms influence the extent to which companies engage in sustainability reporting and the nature of sustainability information reported. In particular, Sri Lankan company managers strive to undertake sustainability projects that are beneficial not only to their companies but also to the development of the country. However, while company managers in Sri Lanka are keen to undertake sustainability reporting, they face different tensions/expectations between global expectations and local contextual factors when undertaking sustainability projects and reporting. This is also showcased in what is ultimately reported in company annual reports, where some aspects of sustainability, e.g. social, tend to focus more on addressing local concerns whereas other disclosures are on issues that may be relevant across many contexts.

Research limitations/implications – Important insights for government and other regulatory authorities can be drawn from the findings of this study. By capitalising on the strong sense of moral duty felt by company managers, policymakers can involve the business sector more to mitigate the social and environmental issues prevalent in Sri Lanka. The findings can also be used by other developing countries to enable pathways to engage with the corporate sector to contribute to national development agendas through their sustainability initiatives and projects.

Originality/value – While the usual understanding of developing country's company managers is that they try to follow global trends, in Sri Lanka, this research shows how managers are trying to align their responsibilities at a national level with global principles regarding sustainability reporting. Therefore, this paper highlights how both hypernorms and microsocial rules can interact to define how company managers undertake sustainability reporting in a developing country.

Keywords Sustainability reporting, Sri Lanka, Integrative social contracts theory (ISCT), Developing country

Paper type Research paper

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1. Introduction

Companies are facing increased pressure from shareholders and regulatory authorities to respond to social and environmental concerns, and consider them as part of their business models (Maroun, 2018). As business entities continue to increase their level of operations across international borders, their conduct on the sustainable development front instigates even greater concern. These pressures have been elevated further by the introduction of the Sustainable Development Goals (SDGs) adopted by all United Nation's member countries in 2015 (Tilt *et al.*, 2020). Annual reports, social reports, social and environmental reports or sustainability reports are the typical avenues used to communicate the social, environmental and economic performance of companies (Abeydeera *et al.*, 2016). International sustainability reporting standards setters such as the Global Reporting Initiative (GRI) or International Integrated Reporting Council are the most common global frameworks adopted to produce sustainability reporting narratives and have been well investigated. These reporting standards allow global principles of sustainability to be reported on in many countries rather than adhering to separate reporting standards.

However, despite the increasing popularity of corporate sustainability and corporate social responsibility (CSR), there are still significant uncertainties about how companies should undertake such initiatives and how this should feature in external reporting to manage stakeholders (Nave and Ferreira, 2019), especially in developing countries. Most prior research has focused on the extent and quality of social and environmental disclosures by companies in developed countries, although these disclosures vary significantly in terms of "different motivations" behind them (Mahmood and Uddin, 2020). While the increasing trend of such reporting continues even in developing countries, local expressions of sustainability reporting vary, especially by organisations operating in developing economies (Jamali and Karam, 2018). The main reason for this variation is because developing countries are very different from developed countries in terms of their contextual settings, economic development, social goals and cultural and environmental constraints. Developing countries are predominantly less industrialised nations with a relatively low per capita income (World Trade Organization, 2014). Many African, Asian and Latin American countries fall into this category and are trying to overcome various contextual problems they face by improving their political, financial, education, labour and cultural systems.

The influence of contexts on corporate practices may seem "obvious" but when it comes to sustainability reporting by businesses, the inter-relationships between local issues, management views, global expectations and business goals become paramount. Factors such as country of origin, time, specific events, regulation and media pressure are commonly considered in prior literature as key influences on sustainability reporting (Abdalla and Siti-Nabiha, 2015). However, as Tilt (2018) notes, existing literature in this area on lesser developed country contexts underrepresents economic, political and geographical circumstances and their impact on sustainability reporting. This lack of depth has reduced opportunities in improving social and environmental outcomes for these countries and sustainable development on a global scale. A nuanced understanding of the context where business entities operate is an important element in effectively disseminating sustainability information leading to a sustainable future (de Villiers *et al.*, 2014; Tilt, 2016). Organisations from different countries have diverse perspectives on the importance of being perceived as socially and environmentally responsible by the public and, hence, their extents of sustainability reporting differ (Birth *et al.*, 2008).

As economies of developing countries constantly change, some countries, such as Sri Lanka, the country of focus in this study, have experienced more rapid economic growth and companies in these nations are more likely to adopt sustainability practices in response to factors such as globalisation, economic growth and foreign investment (Syeliya Md *et al.*, 2015).

Also, these countries may embrace sustainability reporting to gain access to foreign loans and aid from international lending institutions (Bhattacharyya, 2014). In addition, the ability to fulfil the population's needs tends to exceed the respective governments' capabilities in these countries (Jamali and Mirshak, 2007). Therefore, there is urgency to develop structures and institutions that can contribute to betterment of social and environmental conditions (Sharma and Kelly, 2016). Many developing countries are still grappling with significant inequality, poverty, unemployment and basic education and health challenges. Subsequently, managers of local companies experience a raft of unique macro-level conditions along with other global expectations relevant to sustainability initiatives they may undertake, and thus, are relevant to any external social and environmental reporting that takes place.

Given these differences in contexts, and increased level of business operations across international borders, it is necessary to understand how local sustainability issues in emerging economies are placed in the global phenomenon of sustainability reporting and/or sustainable development. Previous research confirms that sustainability reporting has risen over the years including adoption of frameworks such as GRI (Qian *et al.*, 2020). However, what is less known is whether emphasis is placed, by senior-level corporate managers, on undertaking sustainability reporting merely for credibility/legitimacy purposes or if there is some level of integration between prioritising global norms with overcoming the social and environmental issues experienced in the contexts where these large businesses operate. It is important to understand these relationships, as a key aim of sustainability reporting by corporations is to aid sustainable development in individual countries as well as contribute to global imperatives such as the United Nations SDGs. Therefore, this study explores the reporting–management nexus, investigating the views and perceptions of senior-level managers on translating broader CSR thinking to real sustainability disclosure practice as showcased by their corporate communication on sustainability.

As mentioned above, this study focuses on Sri Lanka, a country which faces different economic, social and environmental challenges (these are discussed in detail in Section 4) and opportunities than many other developing countries in the South Asian region. For example, the year 2009 marked the end of the 30-year war in Sri Lanka and the country have the opportunity to take advantage of its peacetime stability, educated workforce (constant literacy rate over 95%) and “giving nature” (based on the most recent World Giving Index) of the population. Subsequently, the Sri Lankan economy has been burgeoning significantly and a large number of foreign companies have started to invest in Sri Lanka (The World Bank, 2013). Most of these foreign companies already have established sustainability practices and this is likely to encourage Sri Lankan firms to further embrace sustainability practices in their overall management systems. In this study, we examine how the sustainability reporting of business entities is shaped by the local conditions prevailing in Sri Lanka, as well as the other global behaviours expected of businesses, which are considered as hypernorms. By doing so, this paper contributes to understanding how context is an important factor influencing how managers behave and think, and how the “sustainability thinking” of managers is linked to the “sustainability doing” of the companies in this unique country.

This paper draws on integrative social contracts theory (ISCT) conceptualised by Donaldson and Dunfee (1994) to guide the exploration of how sustainability reporting was executed during the period 2012–2015. ISCT involves managers considering firms' obligations towards the local community and environment at a micro level as well as universal moral principles. Sri Lanka is a country that has recovered from a prolonged civil war and the country is eager to recover. Therefore, it faces a unique atmosphere within the local context while is also aiming to align their practices with global changes. In this regard, ISCT provides a useful theoretical framework for this paper to analyse the sustainability

reporting practices by publicly listed companies (PLCs) in Sri Lanka. ISCT also provides a means to explore the perceptions of top managers' actions regarding sustainability reporting within these listed companies. The approach taken by the top managers is a significant factor that contributes to the overall position of the companies' stand on sustainability reporting and how well contextual issues can be addressed through sustainability reporting (Jollands *et al.*, 2015).

This study makes several contributions. Firstly, this study adds to the existing literature on sustainability reporting in developing countries broadly and in Sri Lanka more specifically, where the literature is still limited. Secondly, this study highlights the importance of recognising the influences of local and global contexts, which is crucial to understanding sustainability reporting practices and the driving forces behind them in developing countries. Thirdly, this paper uses ISCT to theorise and understand the findings, which has not been used to examine sustainability reporting studies previously. Fourthly, practical implications are illustrated for Sri Lankan government institutions so that better integration between the corporate sector and administrative bodies may help in overcoming the social and environmental problems in the country. Also, the findings suggest that the main global reporting/standard setters for sustainability reporting could leave some space for interpretation of the international standards so that issues significant at local contexts are paid attention to and reported on. In the long run, this is likely to lead to meaningful reporting on sustainability as well as SDGs in developing countries.

The rest of this paper is organised as follows. Section 2 presents the literature around the research problem and information which led to the pursuit of the current research. The theoretical framework is introduced in Section 3. This is followed by the context of Sri Lanka and research method of this study and empirical results in Sections 4 and 5. Findings are discussed in Section 6 and finally conclusions are made based on the discussion of findings in the last section.

2. Contextual background and literature review

The focus of this literature review is on studies that have focused on the relevance of context for sustainability reporting and the studies that have specifically focused on South Asia because of their relevance to investigating the development of sustainability reporting in Sri Lanka. Given that corporate sustainability is a global phenomenon, which is acted upon in local contexts, concerted efforts from business entities and governments are required to accentuate sustainability practices through intended or subtly evolving development-related sustainability (Dobers and Halme, 2009). As noted by Ioannou and Serafeim (2012), while the political, education, labour and social systems continue to be refined, large companies should take on a greater role in the social and environmental performance of their corporations because of the extensive power they possess as social players. Further, these countries face significant social and environmental problems because of civil wars, natural disasters, poverty, exploitation, corruption and political instability. Hence, challenges faced when undertaking sustainability practices also vary (Hilson, 2012). For instance, some include infrastructure development vs environment, employment creation vs high labour standards and strategic philanthropy vs political governance. Examples of themes for CSR or sustainability projects undertaken in these countries include, tackling HIV/AIDS, improving working conditions, provision of basic services, supply chain integrity and alleviation of poverty. Consequently, these countries are likely to face aggravated social and environmental problems arising from development projects stemming from increased globalisation and foreign investment (Budhwar and Debrah, 2013).

When referring to the prior literature on sustainability reporting in developing countries, the key theme that comes across is the patterns of sustainability reporting (Amran *et al.*,

2017; Das *et al.*, 2015). In terms of investigating what is reported, the focus has been on social and environmental disclosures rather than the economic aspect of sustainability reporting (Mahmood *et al.*, 2019). Also, the same or similar constructs and theories applied in developed countries tend to be used (de Villiers, 2003; Tilt, 2018). Therefore, many previous studies have focused on articulating findings based on general contextual factors such as key stakeholders, social and political events rather than delving deeper into a holistic view of global and local factors that contribute to sustainability reporting in a specific country or context. While these findings are significant, they may not allow researchers or practitioners to understand the true meaning of empirical results. For instance, low environmental disclosures by South African companies because of the prevalent socio-political situation (de Villiers and Van Staden, 2006) may not be the same cause for low environmental disclosures in a South Asian or a Sub-Saharan country. Moreover, corporate managers in emerging economies at times may feel uncertain about how best to deal with new pressures in a dual form coming from a global platform as well as from within the local context where they carry out their business (Ismaeel and Zakaria, 2019). Hence, at times they may succumb to global expectations rather than focusing on local requirements, which may be beneficial at a national level in these countries or vice versa, but these aspects have barely been investigated in the corporate sustainability reporting literature to date. In addition, prior studies solely focusing on drivers of sustainability reporting do not have adequate breadth in explaining organisational input towards sustainability reporting and/or development, in these countries. Thus, this aspect is still under-represented in the existing literature especially when there is a lack of external pressures from within the local settings and sustainability reporting is voluntary (de Villiers, 2018).

Addressing sustainability reporting is a matter of wide significance because of its implications on sustainable development broadly and achieving SDGs (Tauringana, 2020). Thus far, studies focusing on countries in South Asia have been very limited where sustainability reporting is yet to be adopted systematically (Dissanayake *et al.*, 2020). For the eight countries in South Asia, studies on sustainability reporting have focused on a handful of countries, notably India, Bangladesh and Nepal. For example, while India is one of the top emerging economies in the world, the extent of research into CSR or sustainability reporting in India has been low (Jain and Winner, 2016). However, this is slowly changing with the increasing number of studies being published (Sen and Das, 2013; Shirodkar *et al.*, 2016) and because of the positive influence of large corporations on sustainability reporting (Jaysawal and Saha, 2015; Majumdar and Saini, 2016). On the other hand, in Bangladesh, there is a lot of research over a longer period but generally on small samples (Belal, 1999, 2000, 2001). Some contextual influences include the importance of the garment industry (Islam and Deegan, 2008; Hossain *et al.*, 2017) and its relationship with labour practices, community involvement, health and education. A handful of studies have explored this topic in Nepal, for example, a study by Biggs and Messerschmidt (2005) examined social responsibility practices of the handmade paper industry and a couple of other studies have investigated the CSR reporting practices in the banking sector of Nepal, which is also a key industry for the country (Chalise, 2015; Upadhyay-Dhungel and Dhungel, 2013). Once again, these studies focus on society-related projects carried out by businesses and that the information is reported to enhance the company image, which showcases the significance of business benefits of sustainability reporting. Existing studies in South Asian countries reveal that narratives are most prevalent in the sustainability reporting literature. In terms of what is disclosed, the obvious focus is on social issues compared to environmental or economic aspects of sustainability with the exception of a very few studies (Yadava and Sinha, 2016). However, none of the previous literature has investigated beyond the

sustainability information reported to understand the relationships between the contextual issues in Nepal and sustainability reporting. So, in summary, the literature from this region lacks investigation into the relationship between local context and sustainability reporting.

While the number of sustainability reporting studies in South Asia continues to increase, only a few studies have examined this topic in Sri Lanka. As confirmed in previous studies by [Rajapakse \(2009\)](#), [Senaratne and Liyanagedara \(2012\)](#) and [Wijesinghe \(2012\)](#), a positive incremental trend of CSR disclosures over the years is observed in Sri Lanka. [Fernando and Pandey \(2012\)](#) and [Fernando *et al.* \(2015\)](#), who explored environmental and social practices by the largest companies listed on the Colombo Stock Exchange (CSE), note that Sri Lankan companies are more likely to engage in activities related to the social aspect of sustainability. Studies have explored the influence of the GRI framework on the extent of sustainability reporting and indicates that companies which follow these guidelines tend to communicate extensively on sustainability issues ([Dissanayake *et al.*, 2016](#); [Dissanayake *et al.*, 2019](#)). A similar trajectory can also be observed for corporate sustainability reporting by multinational subsidiaries operating in [Beddewela and Herzig \(2013\)](#). Notably, these companies are more concerned with providing data to their relevant head offices. The only study to address the ongoing debate about whether CSR reporting is linked to financial performance of Sri Lankan companies is by [Hettiarachchi and Gunawardana \(2012\)](#), which reveals some relationship.

A few more studies have been carried out to identify factors stemming from management of business entities regarding pursuance of sustainability reporting. For example, a study by [Fernando and Almeida \(2012\)](#) observed moral dimensions of CSR and the findings suggest strategic CSR initiatives can be worthwhile and result in increasing profitability and generation of publicity. Another study on the garment industry examined the factory management perspectives on CSR in Sri Lanka by conducting interviews ([Perry *et al.*, 2015](#)). The same element of sustainability reporting was investigated by [Thoradeniya *et al.* \(2015\)](#) who found managers' attitudes towards sustainability reporting, and their capacity to control sustainability reporting, influence their intentions to engage in sustainability reporting. This indirectly affects the actual reporting efforts of the company. Thus, they conclude that managers' psychological factors are important in determining sustainability reporting and that most of these companies viewed CSR in terms of compliance rather than doing anything beyond the requirements of laws and regulations. On a different note, [Alawattage and Fernando \(2017\)](#) explored how corporate social and environmental accountability practices in a post-colonised context were shaped by western imperialism to a larger extent. They further state that although a nation's development was a priority for the companies, standards such as the GRI tend to frame local experiences of sustainability in a limited way. Hence, they argue that this leads to "colonial mimicry" and "imitation".

However, only one study ([Alawattage and Fernando, 2017](#)) has explored the meaningful relationships between the contextual settings and managerial attitudes. This may be because sustainability reporting has matured as a global practice in terms of regulation and motivations. Nonetheless, as shown by [von Alberty-Alhtaybat *et al.* \(2020\)](#), local norms and requirements influence practice as well. This was somewhat shown through investing convergence and standardisation of sustainability reporting by scholars such as [Chen *et al.* \(2015\)](#). Therefore, as suggested by [Marano *et al.* \(2017\)](#), the mixed influences of different contextual setting influences, along with global norms, need to be examined carefully in developing countries where both drivers feature strongly. Also, the other notable factor is that previous studies all examine a particular element regarding sustainability reporting, e.g. issues of disclosure, GRI influence, psychological factors of managers, multinational corporation's (MNC) subsidiaries' involvement or bearing of financial performance. Yet, there is still a lack of

in-depth studies, which hampers the opportunity to reach plausible conclusions. Most studies used secondary data sources or surveys to derive their conclusions rather than interviews or fieldwork. Therefore, unanswered questions remain about why the social aspect of sustainability is the focus in Sri Lanka despite the prevalence of environmental challenges, how senior managers perceive sustainability reporting and how local and global factors influence sustainability reporting. Moreover, in many of the aforementioned studies, an important missing element is the failure to link the findings to the current contextual settings of the countries. While all these countries face constant development changes, each nation faces different challenges which are explicitly considered in this study. Therefore, this study will fill this gap in research by undertaking a longitudinal study of sustainability reporting along with insights from “actors participating in practice” in Sri Lanka, and linking the disclosures with the country’s current settings and global views on sustainability reporting. Hence, ISCT as a theoretical framework will be used to investigate the local application of the global notion of sustainability reporting in Sri Lanka.

3. Theoretical framework

ISCT involves managers considering a firm’s obligations towards the local community and environment at a micro level as well as at a macro level (Maignan and Ferrell, 2004). Sri Lanka is a country rapidly developing after a prolonged civil war and the business sector in the country is eager to align with global trends through their business practices. While the business entities face a unique atmosphere within the local context, they are also aiming to align their practices with global changes. In this regard, ISCT provides a useful theoretical framework for this paper to analyse the sustainability reporting practices by the PLCs in Sri Lanka.

ISCT provides a realistic and meaningful approach to principle-based decision-making. The basis for this theory stems from the notion of the existence of an implicit social contract between society and businesses Donaldson and Dunfee (1994). This process involves managers considering firms’ obligations towards the local community and environment as well as universal moral principles or hypernorms. In other words, ISCT explores whether managers vary their ethical attitudes when they are within certain national borders or if they remain consistent irrespective of national borders. As suggested by Spicer *et al.* (2004), ISCT provides a normative approach to sustainability/CSR reporting because of the inclusion of aspects such as universalism and relativism. Continuous pressure exists between the two extremes of constructing an international standard or prototype of sustainability reporting and evaluating sustainability reporting on a country by country basis. However, the principles of ISCT offer an intermediate position in which sustainability reporting is consistent across countries regarding the overarching aims and yet allows differences to showcase based on the contextual factors that influence sustainability reporting in particular nations (Robertson, 2009). This approach parallels well with ISCT’s view of “moral free space” which gives specific communities the right to define moral norms for themselves (Donaldson and Dunfee, 1994). Country differences in sustainability reporting are more likely to take place within this moral free space, which enable companies and other stakeholders to negotiate the “moral rules” which apply within that particular context (Donaldson and Dunfee, 1999).

ISCT acknowledges the indirect responsibilities of the businesses towards the community and environment where they operate (Garriga and Melé, 2004). Therefore, ISCT integrates the socio-cultural context as well as the normative aspects of management in explaining sustainability related decision-making by the companies. According to Donaldson and Dunfee (1994), responsibility related to sustainability/sustainable development stems from consent and

they have identified two levels of consent. The first level of consent is associated with macrosocial rules or “hypernorms”, and the second level is associated with microsocial rules. Of these two, macrosocial rules or hypernorms are so significant that they cannot be ignored by the business entity. This perspective, while possessing some common ground with the concept of organisational legitimacy, offers a nuanced perspective on the way that moral actions take place at different levels within organisations. Therefore, hypernorms are an aggregation of economic, political, religious, philosophical and other aspects that make up the global norms of a particular notion or concept. On the other hand, microsocial rules encompass the norms that are present within the particular industry sectors, local communities and local contexts. These two sets of rules may interact and shape each other in unique ways.

To be legitimate in the eyes of all the important stakeholders, companies have to comply with practices at both global and local levels. Usually the common standard practices stemming from industry bodies, professional associations and other relevant authorities provide necessary guidance regarding voluntary business practices. Nevertheless, there is room for certain problematic practices to be seen as the norms and ISCT’s inclusion of hypernorms is regarded as a safe-guard against these practices (Spicer *et al.*, 2004). However, Douglas (2000) questions whether the idea of a social-contract embedded in ISCT only applies to certain types of more liberal societies and if there can ever be consensus about the hypernorms and the microsocial norms in different contexts. Moreover, Malan (2016) says that for particular principles or values to be known as hypernorms, they should relate to existing standards, philosophies and legal frameworks in a particular context. This may mean that certain global frameworks can be seen as hypothetical macro contracts within the context, and if their application is extensive, then these global frameworks will be regarded as part of the hypernorms.

Hence, ISCT facilitates the local application of the global notion of sustainability reporting in a country which strives to achieve significant economic goals against the backdrop of a prolonged war. Given the voluntary nature of sustainability reporting and unique context of Sri Lanka, this paper argues that senior managers are likely to use the process of sustainability reporting to achieve economic and reputational success while at the same time to navigate a moral free space. In addition, as taking on a sustainable development stance is not so common in the corporate sector in emerging economies, management direction and competencies are crucial in cultivating sustainable corporate practices and subsequent sustainability reporting (Wesselink *et al.*, 2015). Therefore, this paper explores the way that senior managers conceptualise the reasons for undertaking sustainability reporting within the Sri Lankan context, providing a sense of which moral rules are most prevalent in this setting.

4. Context of Sri Lanka

Sri Lanka, formerly known as Ceylon, is a lower-middle-income country and located in the centre of the Indian Ocean in a strategic position, next to the fast-growing Indian Sub-continent. Sri Lanka is situated at the crossroads of major air and shipping routes connecting South Asia, the Far East and the Pacific with America (Peebles, 2006). The recent economic growth of the country has elevated per capita income significantly, which has enabled the country to be moved to lower-middle-income status on the list of Poverty Reduction and Growth Trust eligible countries. The focus on economic growth, and increased foreign direct investment, inadvertently has and will bring with them social and environmental concerns, as the country develops (Pratten and Mashat, 2009).

Social issues in Sri Lanka mainly stem from two national crises that the country faced spanning many years. The ethical conflict that turned into a civil war and lasted three decades is one of the longest civil wars in the world (Winslow and Woost, 2004). In addition to the civil war, Sri Lanka was one of the victims of the Boxing Day tsunami in 2004, again

one of the worst natural disasters in history. Apart from the many lives lost and missing persons, civilian suffering from national crisis events extends well beyond the period of active crisis (Bandara and Naranpanawa, 2007). There are two long-term consequences from these two national crises: poverty and unemployment. This has affected the youth of the country the most, and according to the Department of Census and Statistics survey data of 2019, 32.5% of total unemployed are below 29 years of age.

Associated with poverty and unemployment, health problems, particularly chronic kidney disease (CKD), are another major concern in rural Sri Lanka. Most of those living in poverty-stricken provinces are farmers and many of the CKD victims are male farmers and agricultural labourers (Dharmaratne, 2015; Gunatilake *et al.*, 2015). Over 1,000 CKD patients are hospitalised per month in Sri Lanka and 300 deaths recorded per year. The death rate, however, is actually higher than this because many of the victims die at home (Karunasena and Kannangara, 2013). Despite the increasing spread of CKD, its root cause has still not been definitely established. Some evidence suggests that water quality is a contributory factor in the development of the disease. Hence, lack of clean drinking water and extensive use of low-quality fertilisers are regarded as major factors in CKD's spread in this country (Wimalawansa, 2014).

Also, Sri Lanka's high population density and efforts in improving the standard of living have placed excessive pressure on the natural environment of the country. Sri Lanka is considered as a country rich in bio-diversity (Samarakoon and Rowan, 2008). It has been identified as one of the 34 countries with biodiversity hotspots in the world and is also home to very delicate ecosystems such as the rainforest, coral reefs and mangrove wetlands (UNESCO, 2012). However, it is evident that biodiversity has significantly reduced because of human and industrial activities and both the government and private sectors are responsible for the environmental degradation in the country (Loganathan *et al.*, 2013). Apart from industrial waste, other issues facing Sri Lanka include deforestation in the wet zones, development of wetlands, soil degradation, the destruction of coral reefs, the over use of toxic chemicals and the impact of industry on plant diversity (Geekiyanage *et al.*, 2015). Hence, there is a growing need to promote private/corporate sector involvement in environmental protection for this country.

Nonetheless, at the national level, there are also two aspects that differentiate Sri Lanka from the rest of its counterparts in the South Asian region. They are the publicly financed and delivered universal health-care and education systems provided to all citizens. On the health front, the public health system has resulted in commendable health indicators such as low maternal and infant mortality and elimination of communicable diseases such as malaria (Kumar, 2019). Free education adopted in 1945 granted mass primary and secondary education to all. Subsequently, this has contributed to a constant literacy rate of over 95% over many years in adult male and female citizens despite acute levels of poverty present in some parts of the country (Cole, 2017). Thus, in comparison to its counterparts in the region, Sri Lanka has a higher proportion of female participation in the labour force closing in on the gender gap prevalent in many developing countries. Overall, Sri Lankan social indicators rank among the highest in South Asia and can be compared favourably with the other countries in the middle-income category (The World Bank, 2020). In addition, the World Giving Index produced by Charities Aid Foundation has reported that Sri Lanka ranks among the highest scoring countries over the past decade in terms of giving behaviour: helping a stranger, donating money to charities and contributing personal time to philanthropic work (CAF, 2021). Sri Lanka is the only South Asian country to reach this status and is one of the three middle-income countries other than Myanmar and Indonesia

(Charities Aid Foundation, 2019). This clearly shows that the nation-wide philanthropic culture is being developed in this country.

Another important nation-wide change is the new government in Sri Lanka and its economic strategies to be followed in the next five years. A focus on multi-faceted economic strength, local competitiveness, international trade and investments, and a knowledge-based social market economy built on social justice principles are developing (Presidential Secretariat of Sri Lanka, 2019). The current president's manifesto for national development for a stable country outlines a broad mandate describing policies which range from economic development, combatting unemployment and alleviation of poverty (The Official Website of the President of Sri Lanka, 2020). Importantly, various measures to combat significant social and environmental issues are included. For instance, specific measures are detailed regarding agri-chemicals, which cause fatal CKD, and implementation of environmental laws without reservation to all offenders. These issues may have been sidelined by the preceding governments' concentration on rehabilitation of the physical infrastructure because of the national crises events the country faced for a prolonged period of time. Under the new regime, the focus of development in this country has gradually shifted towards sustainable growth at the national level (Government of Sri Lanka, 2020).

To synthesise, there are inherent and ever-changing contextual background (i.e. economic, social and environmental policy changes introduced by the new government) and national challenges (i.e. impact of the prolonged war, spread of CKD, high population density and serious environmental destruction) prevalent in Sri Lanka. These unique development and challenges at the country level are likely to have a significant impact on corporate managers' views on sustainability reporting. Corporate managers, because of a combination of international and local influential factors, are likely to focus on the success of their companies while also contributing to the development of Sri Lanka as a nation. Drawing on ISCT and the context of Sri Lanka discussed, this study explores the rationales behind the main issues reported as sustainability information in the annual reports of listed companies in Sri Lanka. Specifically, this paper explores how the contextual setting influences the state of sustainability reporting in Sri Lanka while keeping up the overarching objectives related to sustainability reporting expected from businesses across the globe.

5. Methods

The study involves two stages of investigation. For the first stage of the study, content analysis was undertaken to analyse the various economic, social and environmental information reported by the Sri Lankan PLCs in their annual reports for the period 2012–2015. The initial sample chosen was the top 100 companies of the 297 listed on the CSE as of 14th March 2015. The final sample for the study includes 84 companies, which had some sustainability information in their annual report for at least one of the four years (2012–2015). This provides 336 instances where the companies have communicated sustainability information in their annual reports. The final sample of companies represents 28.3% of the total number of PLCs in Sri Lanka at the time the study was conducted. The annual reports were then downloaded from the CSE database or individual company websites, and imported to NVivo for analysis.

Content analysis is a commonly used method of collecting narratives from the text of different documents widely used in previous studies on sustainability reporting (Habib-Uz-Zaman *et al.*, 2011). Words represent a greater amount of detailed description and are consistent with their use in previous literature (Al-Tuwaijri, 2004). Initial themes were defined from prior literature on social, environmental and economic categories. Then, a pilot

study of 60 annual reports was undertaken to develop the process of content analysis and understand about the themes present in the annual reports. The final coding list comprises three main themes in each aspect of sustainability (social, environmental and economic). Each of these three aspects is further subdivided into a set of distinctive informational items or topics. The three economic aspect themes include: economic performance; market presence; and indirect economic impacts (Fonseca *et al.*, 2011; Zahid and Ghazali, 2015). The three social aspect themes include: labour practices and human rights; product responsibility; and local communities (Gao, 2011; Guthrie *et al.*, 2008; Hackston and Milne, 1996; Medrado and Jackson, 2015; Zahid and Ghazali, 2015). The three environmental aspect themes include: energy; emissions, effluents and waste; and other environmental disclosures (Nobanee and Ellili, 2015).

For the second stage of the study, interviews were conducted to understand how managers viewed sustainability reporting and how different factors within Sri Lanka and outside of the country influenced managers to communicate on sustainability information in their annual reports. Prospective interviewees were first identified through purposive and snowball sampling where the target population is selected based on their fit for the purpose and conformed to clear inclusion criteria. Specifically, the interviewees had to hold significant roles in which they make key decisions related to what is communicated in their annual reports regarding sustainability/CSR and be actively involved in sustainability engagements/projects. Four of the interviewees were from MNC subsidiaries and the rest were from local companies. Fifteen face-to-face interviews were conducted with senior-level managers of listed companies in Sri Lanka during the course of two months from December 2015 to January 2016. These senior-level corporate managers were selected from the 84 companies in the final sample of phase 1.

Significant challenges existed in gaining access to these interviewees as the interviewees represented some of the prominent Sri Lankan PLCs. These 15 interviews comprised the final sample that could be feasibly included within this study, noting that further interviews would have enabled greater confidence in reaching theoretical saturation. Moreover, salient studies in sustainability reporting have also used a low number of interviewees to draw insights into different contexts (Lodhia, 2015; Mahmood and Uddin, 2020). The interviews were then analysed according to the three main themes of perceptions of sustainability reporting in Sri Lanka, contextual influences on sustainability reporting and global influences on sustainability reporting (Table 1).

An extensive amount of field notes were taken during and soon after each interview. All field notes and recorded interviews were then transcribed. This led to the creation of a database of interview data derived explicitly from the interviews or implicitly expressed during the interview. The analysis of interviews is based on thematic analysis, and followed the process adapted from the qualitative analysis method discussed by Bryman (2015). The analysis is based on five main themes that emerged from the interviews, which are discussed in the results section. NVivo 11 software was used for managing and coding the interviews. The software allowed the data to be organised and sorted appropriately, and identify themes easily.

6. Findings and discussion

The findings of key relationships and influences on the sustainability reporting process are summarised and illustrated in Figure 1, followed by detailed explanations in subsequent sections.

6.1 Sustainability reporting

As noted earlier, content analysis was undertaken on the economic, social and environmental aspects of corporate reporting to identify what companies are reporting on and examining

Table 1.
Interviewee details

| Code of company | Industry of company | Type of company (local/MNC subsidiary) | Designation of the interviewee |
|-----------------|------------------------------------|--|---|
| 001 | Financials | Local | Manager: corporate finance |
| 002 | Industrials and telecommunications | Local | Assistant manager: sustainability, enterprise risk and management |
| 003 | Industrials and telecommunications | Local | Manager: sustainability and corporate communications |
| 004 | Consumer goods and health care | MNC subsidiary | Not provided |
| 005 | Industrials and telecommunications | MNC subsidiary | Chief manager: human resources |
| 006 | Financials | Local | Manager: sustainability and CSR |
| 007 | Financials | Local | CSR and sustainability officer |
| 008 | Financials | Local | Vice president: administration and services |
| 009 | Utilities and materials | MNC subsidiary | Manager: finance and planning |
| 010 | Consumer goods and health care | MNC subsidiary | Corporate communications specialist |
| 011 | Diversified holdings | Local | General manager: finance |
| 012 | Financials | Local | Manager: finance department |
| 013 | Diversified holdings | Local | Manager: sustainability |
| 014 | Industrials and telecommunications | Local | Chief financial officer |
| 015 | Consumer goods and health care | Local | Company director |

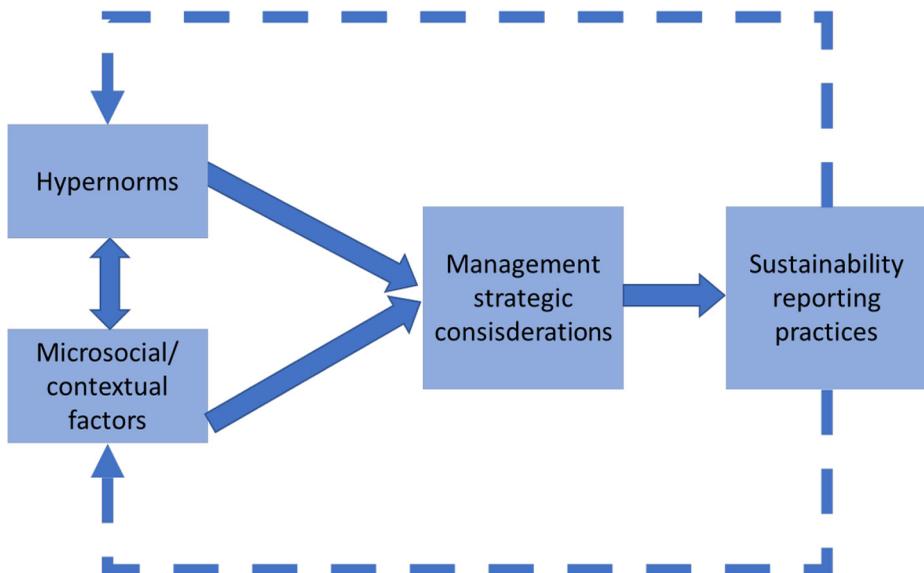


Figure 1.
The key relationships/
influences on the
sustainability
reporting process

them for evidence of information related at local and global levels. Content analysis will illustrate how sustainability reporting is driven by global and local influences at varying levels.

6.1.1 Global influences. Overall, the sustainability information communicated is driven by requirements expected at a global level. For instance, the social theme includes

disclosures on labour practices and human rights, product responsibility and local communities. Employee and human rights information constitutes a significant part of the social aspect disclosures made by the sample companies. It ranks as the most disclosed information category as all the different industry sectors face some amount of pressure for improved social performance and well-being of their employees. The environmental dimension of sustainability reporting concerns an organisation's impacts on living and non-living natural systems, including ecosystems, land, air and water. These are also key themes relevant at a global level irrespective of where the companies operate. The following are examples of what was disclosed by the companies for the environmental aspect:

Company introduces many conservation measures at the operational location in Trincomalee. In Trincomalee, furnace oil consumption for lubricant production has been reduced by synchronising boiler operations with the Lube Blending kettle. Further, energy consumption at each operating unit is measured and efforts are made to reduce consumption (Lanka IOC PLC, 2015 – environmental aspect, theme: energy).

Cinnamon Grand Colombo in keeping with its promise of being a sustainable five-star city hotel decorated the premises with unique decorations made out of discarded plastic bottles and cups. The décor was based on a three-month collection of 3,500 plastic bottles and 8,000 plastic cups (Asian Hotels and Properties PLC, 2015 – environmental aspect, theme: emissions, effluents and waste).

Relatively less environmental information is reported by the PLCs, even though businesses operating in different industries are viewed as the main contributors to environmental pollution and other concerns in the country. Although the principles of ISCT (Donaldson and Dunfee, 1994) suggest that an intermediate position can be taken, the companies have not delved into the actual environmental problems in Sri Lanka. Rather, they are selective and have only chosen to address those typical environmental issues that are visible in the global arena. This suggests that the managers may not always address indirect responsibilities of companies for the local context to the same extent as with the overarching aims or the hypernorms. Specifically, when it comes to an area such as sustainability, this may be accentuated with the three sub-sets (economic, social and environmental) and the relevance of addressing them in various contexts. According to prior literature, developed countries have been keen on producing environmental disclosures as opposed to information on employees, community impacts and social issues (Patten and Zhao, 2014). One of the main reasons for this is that companies from environmentally sensitive industries such as chemical, metals, paper and petroleum play significant roles in the economies of these countries and hence, the demand for environmental information is greater, especially from environmental lobby groups.

The lack of attention given to important environmental issues by the Sri Lankan PLCs is, however, comparable to their counterparts in other developing countries in South Asia such as India and Bangladesh (Hossain *et al.*, 2017). Also, with more importance given to social issues as noted above, inevitably, companies could be expected to reduce the disclosure of less in demand topics such as those concerning the environment. This is noteworthy given that Sri Lanka is a country with one of the highest population densities (331.9 people per square kilometre) in the world (United Nations, 2016). High rates of population growth and urbanisation, violent ethnic clashes and widespread incidence of poverty pose challenges for effective environmental management. Although improvements have been witnessed in all major indicators of human development in recent years, Sri Lanka still faces a multitude of environmental problems. Most evident are those of air pollution, vehicular pollution, deforestation, solid waste disposal problems, soil erosion, land degradation, loss of

biodiversity and wildlife, industrial pollution, coastal erosion and problems associated with tourism (Geekiyana *et al.*, 2015). Thus, other reasons for this low level of environmental reporting are likely to be related to the lack of awareness about the grave environmental problems Sri Lanka faces similar to other developing countries, and the poor enforcement of prevalent rules and regulations governing these issues.

6.1.2 Local contextual influences. The companies also attempt to showcase the importance of communicating their social responsibility by reporting on different projects and activities to demonstrate respect for local communities. This includes their rights and specific customs, and projects for the quality of local community life undertaken by them during the year. This means the companies pay much attention to changes in the surrounding civic environment and make efforts to make the local community aware of firm commitment towards them. Frequently addressed initiatives include community educational and information dissemination programmes, community and livelihood development, disaster relief, creating awareness about diseases, donations made in terms of cash and equipment and funding and sponsorships.

Apart from the abovementioned activities and projects, the companies have especially extended their strong support for various initiatives specifically affecting Sri Lanka at present, i.e. post-war recovery and the CKD epidemic. As illustrated below, they have taken efforts to uplift the livelihoods of children, families and soldiers affected by the war that was prevalent in the country for nearly three decades. Also, there are other projects conducted for the benefit of ex-LTTE (Liberation Tigers of Tamil Eelam) combatants, mainly focusing on rehabilitation and vocational training. The following are a few examples of what was disclosed by the companies on these activities:

In 2012, we pledged monetary assistance for one year, towards the upkeep of Attidiya Mihindu Seth Medura, a residential facility that provides professional healthcare services to disabled war heroes. The Bank also participated in welfare programmes of Ragama Ranaviru Sevana and donated an IT Lab for Joint Services Language Training Institute, Kotmale (Commercial Bank of Ceylon PLC, 2012).

Screening of over 1,500 participants in 6 rural villages in Anuradhapura Over 150 individuals detected with CKD and referred to the Renal Unit for treatment Public awareness raised in 6 rural villages in Anuradhapura (National Development Bank PLC, 2014).

Employment support for the rehabilitation of former LTTE fighters: an initiative to harness the job skills of ex-LTTE cadres through National Apprentice and Industrial Training Authority (Access Engineering PLC, 2014).

This result is similar to the findings of previous research by Fernando *et al.* (2015), who observed CSR practices in Sri Lanka and stated that Sri Lankan businesses are more likely to engage in socially related activities and hence, disclose more information on this aspect. However, it has to be noted that Fernando *et al.* (2015) only captured what the companies do for their local communities. Some other studies also reveal that companies in similar contexts, such as Bangladesh, place greater emphasis on disclosures relating to employees and human rights (Amran *et al.*, 2017; Das *et al.*, 2015). The main reasons for this are the prevalence of employee-related issues of concern in the garments and textile sector as well as other issues of child labour, human rights and equal opportunities of major export-oriented companies in Bangladesh. On face value, this does not apply to Sri Lanka, as business entities have maintained suitable business practices in terms of employee well-being and health and safety for a long time. Sri Lanka was an early recipient of trade benefits such as US generalised scheme of preferences (GSP) and European Union (EU) GSP+ in the South Asian region when they were first introduced (Abayasekara, 2013); these benefits express minimum standards

Sri Lankan garment companies need to satisfy. The beneficiary countries of these trade benefits must conform to, and effectively implement, 27 core international conventions on human and labour rights, sustainable development, environment and good governance for the entitlement of these benefits (Wardhaugh, 2013).

However, Sri Lanka lost all of these concessions in 2010 because of claims of violations of human rights as a result of the civil war which ended in 2009, and which has adversely affected the business sector and economy of Sri Lanka. Therefore, the predominance of social disclosure is likely to be because it is essential for Sri Lankan PLCs to continue to showcase their commitments in ensuring employee rights and health and safety in the workplace to attract consumers, investors and trade partners, especially from other countries so that the companies comply with the global norms of sustainability reporting as denoted by ISCT (Donaldson and Dunfee, 1994). Since the end of the civil war, the EU has lifted all sanctions on Sri Lankan exports.

Among the social disclosures made by the companies, two distinct items of disclosure are related to CKDs and community welfare programs undertaken for the rehabilitation of ex-LTTE cadres who were involved in the civil war. Engagement in such activities and subsequent reporting of them in the annual report indicates that the large businesses in Sri Lanka are looking beyond what is directly relevant for their daily business practices and attempting to contribute to the local context surrounding the company. The measures needed to address both these matters consume great amounts of resources of the Sri Lankan Government amid other challenges. Moreover, while governments have traditionally assumed sole responsibility for the improvement of the living conditions of the population, society's needs have exceeded the capabilities of governments to fulfil them, especially in developing countries (Jamali and Karam, 2018). Therefore, improvement of living conditions is unlikely to materialise in these countries without active business sector participation within the framework of responsible business practices and senior managers aligning themselves with the notion of a moral duty to the stakeholders who are living in this particular context.

An organisation's economic performance is fundamental to understanding the organisation and its basis for sustainability. Mostly this information is already well reported in the annual financial accounts and reports. When it comes to the economic aspect of sustainability reporting, the focus is on measuring the economic outcomes of an organisation's activities and the effects of these outcomes on the wider economy. However, what is reported less frequently, but often desired by readers of sustainability reports, is the organisation's contribution to the sustainability of the economic systems in which it operates (Orazalin and Mahmood, 2018). Likewise, this lack of attention on the economic aspect is apparent in the existing literature from developed as well as developing countries (Mahmood *et al.*, 2019). Information disclosed under the theme of economic performance also concerns coverage of an organisation's defined benefit plan obligations and significant financial assistance received from the Government of Sri Lanka. Such disclosures on economic performance are likely to be found from communications from other companies operating in different parts of the world, as reporting of such information applies commonly irrespective of the country setting as shown by Yadava and Sinha (2016).

The second phase of the solar lighting project in Halmillawa was carried out during the year with 11 street lamps, 11 domestic units and 8 solar powered lanterns provided for houses with inadequate electrical wiring (John Keells Holdings PLC, 2012).

However, in Sri Lanka, of the three themes covered under the economic aspect, companies mostly disclosed information about indirect economic impacts in all four years. This theme includes disclosures about development and impact of infrastructure investments and

services provided primarily for public benefit. Disclosure of information about this theme is perhaps less likely to be prominent for a company operating in a developed country. While developing infrastructure is a macro vision within the national development agenda, Sri Lankan PLCs appear to view it as the responsibility of corporate stewards to develop infrastructure in the surrounding areas that they function in. This highlights how managers perceive what is important in negotiating the moral free space, which enables them to create “micro-contracts” which are relevant to the settings and managers’ taking a sustainable stance, which is not so common in emerging economies (Wesselink *et al.*, 2015).

Information about interactions in specific markets includes policy, practices and proportion of spending on locally based suppliers at significant locations of operations, procedures for local hiring and proportion of senior management hired from the local community. Narratives such as the following example are provided in the annual reports of companies.

As a five-star hotel operation, we have the scope to make a significant contribution to build linkages in the supply chain, with ripple effects to the economy. We maintain strong links with our local suppliers accounting for over 98.5% of the cost incurred on purchases in the reporting year. We recognised the importance and give preference to local suppliers wherever possible and viable. Supplier payments during the year under review are set out below (Asian Hotels and Properties PLC, 2012).

This kind of information reported by the large companies indicates that their managers are well aware of what is required of them for the betterment of the country. For instance, many districts in Sri Lanka face acute levels of poverty (Department of Census and Statistics Sri Lanka, 2019) and proactive measures undertaken by the companies to recruit locals is likely to have a long lasting impact on reducing unemployment, which will have a positive effect in lowering poverty levels.

The preceding sections have highlighted key contextual issues in Sri Lanka relating to economic, social and environmental aspects. Each aspect has showcased a limited number of “problems” that are unique to Sri Lanka, and which the companies have chosen to address as part of their sustainability efforts. Given the magnitude of these as part of the contextual landscape, the senior-level managers of the listed companies are unable to ignore these issues and hence have found ways to engage with them in the public sphere. As suggested by the principles of ISCT, these companies are trying to achieve an intermediate position in which sustainability reporting is consistent across the globe regarding some of the overarching aspects and yet allows differences based on the contextual factors and the microsocial rules that influence sustainability reporting in particular nations. The dynamic between hypernorms and microsocial rules will be explored further in the findings from the interviews, where managers’ views of how they make choices between the global and local expectations are explored.

6.2 Management perceptions on sustainability reporting

Interviews with senior managers help to triangulate data and identify particular influences and focusses. The analysis of the interviews with senior managers suggests that firms consider a mix of local and global factors which lead to the ultimate themes in reporting of sustainability information, as discussed in the following sections.

6.2.1 Local contextual influences. Previous research suggests the national institutional context influences the propensity of businesses to undertake sustainability projects and reporting (de Villiers *et al.*, 2014). Further, developing countries need to pay particular attention when developing sustainability concepts and strategies for the businesses because

of the volatile national socio-cultural environments and economic conditions prevailing in these countries compared to developed countries. The problems faced by developing economies, such as poverty, require solutions that are different from those that are implemented in developed economies (Jamali and Karam, 2018). Furthermore, businesses in developing countries often provide social services that are deemed to be the governments' responsibility elsewhere. Therefore, issues prioritised for sustainability projects are often different in developing countries (Rajapakse, 2009). As shown by the following quotes from both local and global companies, the interviewees believe it is beneficial for government authorities and policymakers to stimulate the companies' sustainability projects and activities in alignment with the national development projects (emphasis added). This is not often seen in previous research on developed economies, where the interviewees perceived that when initiating sustainability strategies for their companies, they should pay attention to linking them to the national development policy and future roadmap of Sri Lanka. This implies the willingness of the corporate sector to engage in national development strategies.

As a developing country, we have a responsibility to do something for our future generations and create a culture in Sri Lanka and influence other entities in Sri Lanka to carry out sustainability projects and then report about them (Interviewee 007).

We believe overall if we can make a slight change or make contribution, that will *help the Sri Lankan society and in turn it is good for business* because we want people to be able to do what they are actually capable of (Interviewee 009).

As Sri Lankan business entities, the interviewees perceive that collaboration between government and businesses is essential in taking the sustainable development of Sri Lanka to the next level. They also specifically note the importance of a longer-term focus:

While some companies in Sri Lanka have clear focus areas, wildlife reservation to road safety, other companies may do short term projects only for reporting purposes. *Since they have the required resources, these companies can focus on long term projects which we will be more beneficial to the company as well as the people of the country* (Interviewee 010).

Another interviewee suggests sharing knowledge and experience is important as it is not adequate to only be concerned about the individual companies' success, but it is important to work together for the national development of the country.

We are considered as one of the pioneering companies in Sri Lanka to introduce sustainability reporting (taking initiative) and to sustain that status as change makers and to share the information with our peers is important for us. It is important to share knowledge because at the end of the day it is not just about our company or our customers, but how *Sri Lanka develops as a country* (Interviewee 005).

The intergenerational aspect was also mentioned:

As a developing country, *we have a responsibility to do something for our future generations* and create a culture in Sri Lanka and influence other entities in Sri Lanka to carry out sustainability projects and then report about them. And we received great support from our top management for these activities (Interviewee 007).

Similarly, a few interviewees emphasised that they are concerned more about the national development of Sri Lanka because it is better to have the involvement of the government in their projects.

We have been in Sri Lanka for over 150 years and are transparent in what we do. *We are a respected company in Sri Lanka.* So we have been undertaking our operations in the correct way.

We have been doing sustainability reporting for many years now. Since *we have to exist in Sri Lanka, we have to create value for the people in Sri Lanka. Our company believes that for a company to be successful and create value over time for shareholders, it must also create value for society* (Interviewee 010).

Actually we have to fall in line with the development road map of the government. What we do should be aligned with the future plans of the country. So we have given priority to education through our CSR trust that was formed in 2004 [..] Annually the bank allows up to 1% of its profit after tax for the CSR trust and 70% of the trust is used for education. We focus on the rural schools where so many underprivileged students are studying. As a bank we earn profits by serving the people in the community so we give something back to them (Interviewee 001).

So in that sense, it is different from other banks according to how I see because it has not had commercial benefit as the sole driver. So *the bank was more development oriented, benefiting the national economy, and profit was not one of the key elements*. So we always believed in adopting good practices (Interviewee 008).

It seems the interviewees generally indicated that they feel a form of “national pride” and a sense that they need to be involved in the collective responsibility for improving the well-being of society in their country. This is not something commonly cited in prior literature even in developing countries, although [von Alberti-Alhtaybat et al. \(2020\)](#) agree that local requirements influence corporate practices greatly. As deduced by ISCT ([Garriga and Melé, 2004](#)), Sri Lankan companies are taking an intermediate position in which sustainability reporting is aligning with overarching aims of sustainability reporting and allowing unique social and environmental issues to be portrayed because of the contextual setting of Sri Lanka. This approach parallels well with ISCT’s view of “moral free space” ([Robertson, 2009](#)), which gives the companies the opportunity to define sustainability norms for themselves by trading off between global and local sustainability priorities. As noted by [Donaldson and Dunfee \(1999\)](#), country differences in sustainability takes place within this “moral free space”, without necessarily going against the global norms of sustainability. Importantly, there were no differences in the perceptions of managers of local units of MNCs regarding the kind of sustainability information published in their annual reports or how they respond to local contextual issues of Sri Lanka while paying attention to global hypernorms.

These views have translated into practice and communication of sustainability information reported in company annual reports as shown by the analysis in Section 6.1. For instance, various sustainability initiatives, such as health camps, road safety projects and awareness camps about diseases, indicate that these large corporations are keen to align the corporate sector with the economic, social and environmental development of Sri Lanka. Also, development and impact of infrastructure investments and services provided primarily for public benefit were seen as popular topics of disclosure among the companies, as information on this was consistently provided throughout all years. As noted by [Jamali and Karam \(2018\)](#), the partnerships between regulatory authorities, the Sri Lankan Government and the corporate sector are likely to bring benefits to the companies as well as Sri Lanka in the long run. Thus, the overall perception towards sustainability appears to be positive and acknowledges the indirect responsibilities of the businesses towards the community and environment where they operate as presumed by ISCT ([Spicer et al., 2004](#)).

6.2.2 Global influences. The interviewees also believe the global trend of sustainability reporting motivated them to start reporting. The following remarks by the interviewees indicate some typical views of how they should be directing their business activities to keep up with what is happening on a global scale.

Two interviewees from the financials industry shared the following thoughts:

*Globally corporates are expected to serve the communities regarding issues like pollution and global warming and other issues which have mounted to be crisis situations in the recent years. Therefore, we have a stake in what is happening in the society and environment. If the people do not recognise the bank as responsible, they will point a finger and say even though they earn profits by interacting with the society and environment they are not doing something at large for the society. Therefore, we have to look *people, planet and profits* (Interviewee 001).*

So throughout the years *we saw the global trend in sustainability reporting* and we wanted to better ourselves. So the bank formed a separate sustainability division. So to adopt the global trends our bank wants to focus more on sustainability reporting. So we always focus on developing our *sustainability team* (Interviewee 007).

These quotes suggest that firms are aware of global messages and where businesses are heading globally. Interviewees from the industrials and telecommunications industry and consumer goods and health-care industries shared similar comments:

The global trends contributed to this decision and the group chairman had the vision where the businesses were heading (Interview 005).

So in that sense, it is different from other banks according to how I see because it has not had commercial benefit as the sole driver. So *the bank was more development oriented, benefiting the national economy and profit was not one of the key elements*. So we always believed in adopting good practices (Interviewee 008).

As the demand for heightened levels of sustainability reporting continues to rise, authorities such as the World Bank, Organisation for Economic Co-operation and Development, International Monetary Fund and the United Nations actively encourage businesses to publish sustainability information (Baughn *et al.*, 2007). This was noted by some interviewees, for example:

For us the most important stakeholder is the external donor agencies. We get credit lines from them for our loans. They pay particular importance to sustainability reporting. If they do not feel we are not engaged in sustainability reporting they may go to other competitors (Interviewee 006).

Similarly, a manager from a diversified holdings company stressed the importance of aligning sustainability reporting according to global standards such as the GRI framework and considered that to be novel, which sets them apart from other companies operating in the same sphere:

[...] we are a top corporate so *we want to be a benchmark in the corporate sector*. And we have started so many things in this country. When things catch on we slowly step down and look at other areas. *So even GRI we started reporting in 2002 when no body was aware in Sri Lanka*. We want to be the pioneer and we want our company to go from strength to strength. *We look at new technology and new techniques and we embrace such things* (Interviewee 004).

These findings resonate with those of Alawattage and Fernando (2017), which points out that text such as from the GRI may be used by companies in developing countries to position themselves as *better* compared to their counterparts.

6.2.3 Role of senior management. For sustainability reporting to reach success in a company, it must have senior-level corporate management commitment (Beddewela and Fairbrass, 2016). As noted in the context section of this paper (evidenced by the findings of the recently published World Giving Index, 2019), the prevalence of corporate philanthropy

driven by individual values in Sri Lanka is seen more widely compared to other countries. This factor may be a key influencer in the context of Sri Lanka.

We brought in sustainability reporting due to the board of directors' initiatives [...] Even if the concept of sustainability reporting starts as a personal belief, it becomes part of the business in a big business like our company. Then, it is implemented only if the rest of the higher management believes in it as well. So that top level mind set is very important for sustainability reporting. For us from the beginning we had a lot of support from the chairman itself (Interviewee 013).

We are fortunate to have had *visionary leaders who set the trend for us to continue in this way*. We look at sustainability as part of our business so it is permeated in all aspects of our business (Interviewee 012).

All interviewees felt that their values aligning towards the needs of Sri Lanka were an essential and powerful driver that led the company in the right direction. It is part of the responsibility of the management to set the company's future goals in alignment with sustainability reporting. Especially, as many of the managers are aware of the impact of universal services provided by the government of Sri Lanka but realise that more needs to be done to take Sri Lanka to the next level of economic development overall. Hence, the interviewees suggest that their roles have evolved to engage with "implicit contracts" (Maignan and Ferrell, 2004, p. 6) held with members of specific communities, such as the development agenda set by the government.

Sri Lanka is a developing country. *If you look at our top management also, they have worked hard up to the top starting at very lower levels in the bank. They are also not from affluent families and have benefited from similar initiatives like the free education offered by the government. They have also faced hardships in life so when they reach the top they never forget the life they led when they could not afford the tuition fees and so on. So they strongly believe they have to give something back to the society (Interviewee 001).*

Other interviewees indicated that senior-level management's influence is important to direct the employees at lower levels to embed sustainability reporting as part of their work.

The Chairman and the Board of Directors have to fully support the sustainability initiatives in order to take sustainability reporting forward. So *what they believe is important*. They have to believe that by being sustainable we can do well financially too. Also, we have to understand that there is a conflict of interest. They have to balance between financial targets and sustainability targets. At the end of the day the top management has to balance everything. *Our CEO believes in sustainability reporting and has given due prominence (Interviewee 006).*

The top management, from the chairman has to believe in this type of work. *Otherwise, we cannot influence the lower staff to carry on the work*. We all share the same views (Interviewee 015).

Several interviewees even go further, suggesting that sustainability reporting is more than a simple account of what they do, but should be incorporated into other aspects of the business. They claim that sustainability reporting is a key part of the companies' overall business strategies and they introduce new practices as needed. For these reasons, the importance of issuing a sustainability report would never diminish to the point where they would stop reporting. They see that sustainability is inseparable from their company strategies and the way businesses are conducted and positioned in the market for differentiation and gaining competitive advantage.

Our corporate sustainability strategies are not isolated strategies but integrated with other business strategies. We undertake strategic CSR so we focus on our *philosophy* and the *way we do business*.

It is important to have a proper sustainability strategy and review them, without limiting to statements in the annual report. It is important to have relevant targets (Interviewee 007).

Strategic sustainability is important because your organisation should be sustainable as a result of sustainability reporting over a period of years (Interviewee 013).

We have been doing sustainability reporting for more than four years. *Nobody forced us to do this.* We do it voluntarily and we thought it is good, that it will *force us to take a new direction and guide us to adopt good practices* (Interviewee 008).

As expressed explicitly by a manager responsible for sustainability reporting, their companies make full use of the data collected and take the initiative to bring about changes to existing practices when necessary. This kind of *thinking* suggests the longevity of reporting for these large PLCs, rather than treating it as an isolated task.

[. . .] we have substantial data with thirty indicators from energy to carbon to effluents from the environmental side. Injury rates, lost days, training from labour. So, we have lots of data which helps us to see trends. *This helps us to mitigate and change plans accordingly. All this data goes to the top. In case something has to be included they will allow it from the CAPEX and this has become part of operations* (Interviewee 002).

These managers have also realised that their companies can gain from sustainability reporting in the long run. However, company managers taking on a wider “moral” role is of great importance to developing countries such as Sri Lanka, where the governments of these countries alone cannot solve all the social and environmental problems affecting the population. Therefore, understanding the managers’ mindset about sustainability reporting provides valuable insights into corporate sustainability reporting processes of different companies and potential opportunities for changes in sustainability reporting behaviour.

We pay attention to what is happening around the world and the best practices we can learn from them and we are always open to those. In an evolving business environment we cannot limit ourselves to only our values and stick to them. Of course, our values are central to us and what drives us. *Beyond that, we have to see how to better ourselves and what better use we can use of our resources and how much you can impact the others through your business activities* (Interviewee 005).

It is important that we also look at what other companies do and we actually do that. *That is more or less to decide how best we could address some of the unaddressed issues in the society as a corporate citizen so that we feel that we have diverted funds and resources and efforts towards problems and gaps in society which are not addressed.* So if there are certain initiatives for example where many other companies are also contributing then we might again take a step back. *The whole idea is trying to address certain gaps in the society that are not properly addressed* (Interviewee 009).

The findings suggest that, in the Sri Lankan context, managers are not simply trying to conform to global hypernorms and create microsocial implicit contracts at a minimum standard. Rather, they are proactively trying to align the needs of the context, and Sri Lankan communities within the global hypernorms. How managers interpret these global hypernorms within their own corporate boundaries will likely differ according to the development of moral free spaces within country contexts. In countries which are more “open” and “free”, where stakeholder engagement is increasing such as Sri Lanka, managers may possibly be more receptive to the needs of national contexts and negotiate implicit microsocial contracts accordingly. However, in countries where moral free space is constrained, through political or cultural means, the way that hypernorms interact with

contextual factors will likely be very different in terms of how it encourages/produces sustainability reporting practices. This highlights the importance of understanding context when exploring sustainability reporting practices.

Taking these together, the results show that managers' perceptions, local micro-social concerns, as well as global hypernorms, collectively play a part in the sustainability reporting practices in Sri Lanka. The influence of global and local contextual considerations were also apparent in the information included in the annual reports as sustainability information where some aspects of sustainability dealt with issues at a more global level and some at a local level.

7. Conclusion

By using ISCT, this paper offers a novel perspective on how the global hypernorms of sustainability reporting as well as local microsocial/contextual considerations are important drivers for sustainability reporting. Prior studies have mainly focused on iterating the significance of particular contexts in shaping sustainability reporting practices (de Villiers *et al.*, 2014; Tilt, 2018) and/or distinct areas of sustainability reporting such as the motivations and barriers experienced in developing countries (Dissanayake *et al.*, 2020; Qian *et al.*, 2020). Hence, the findings of this paper contribute to the existing literature by expanding on senior-level management's strategic considerations for sustainability reporting and delving into interrelationships between global and local contextual factors. Subsequently, the findings add to the existing literature on Sri Lanka and developing countries where ISCT is used to discuss the prevalent alignment of existing sustainability challenges and creating solutions for these issues.

The combined analysis of the sustainability information reported in the annual reports of companies and the views shared by the senior managers provides fresh perspectives into the key social and environmental issues that the business entities pay attention to. In particular, the paper explains how senior company managers appear hopeful that through the different sustainability projects their companies initiate, they are able to contribute to Sri Lanka's growth to a certain extent and also align with global expectations for social, environmental and economic accountability through sustainability reporting. As ISCT suggests, pragmatic businesses usually achieve these outcomes at varying levels and at times may face conflicts in deciding whether to focus on global expectations or local contextual obligations. Managers also may shift their perceptions of sustainability reporting between the global hypernorms, which can be applied at a universal level, and the specific contextual factors of a particular country at varying levels. This highlights the importance of understanding context in relation to how sustainability reporting practices are shaped rather than generalising them as developed/Western, developing or Asian countries.

The results of this study present important implications for policy/regulation developments for the Sri Lankan Government so that better integration between the corporate sector and administrative bodies can lead to overcoming the social and environmental problems in the country. This study presents important implications regarding the development of a nation set against the backdrop of a war for three decades, which brings about a fresh perspective regarding how sustainability reporting is viewed and executed by businesses. This kind of contextual setting has rarely been considered in prior literature. Management's intentions to contribute to the national development plans of the Sri Lankan Government, which are underway at present to rebuild the country, is an important finding that does not emerge strongly from other studies on sustainability reporting. Senior managers clearly understand that Sri Lanka's progress towards economic viability is essential for their own businesses' survival and success. This results in them taking a more socially conscious role by engaging in the "moral free space"

within Sri Lanka to understand present needs of the context and execute relevant long-term sustainability projects such as aiding infrastructure development and procuring from local suppliers. Such projects by large companies take away at least some of the government's burden to reach growth milestones. The desire to support government in this way is also linked to a sense of national pride felt by the people of Sri Lanka, as demonstrated through the interviews with managers. This is unique to this particular setting. By capitalising on the strong sense of the moral duty felt by senior company managers to stakeholders and communities in Sri Lanka, the business sector can be involved in mitigating some of the economic, social and environmental issues prevalent in Sri Lanka. Hence, this study moves beyond initial investigations of what companies report on to provide deeper insights into other aspects such as why the Sri Lankan context is substantially different from other developed, or even developing countries. Also, the findings suggest that the main global reporting/standard setters for sustainability reporting could leave some space for interpretation of the international standards so that issues significant at local contexts are paid attention to and reported on. In the long run, this is likely to lead to meaningful reporting on sustainability as well as SDGs.

These results can also be used by other developing countries to enable creation of pathways to incentivise private sector firms to align with local and national development agendas. This study clearly reveals through empirical evidence from senior-level corporate managers of Sri Lanka's most successful companies that sustainability reporting can be integrated with other business practices that support overcoming of existing social and environmental issues in the country. For this reason, the findings of this study can be used to encourage non-reporting companies to engage with sustainability by providing subsidies or other incentives so that further sustainable economic growth can be experienced with joint efforts from the government (s) as well as the business sector. Further research is necessary to understand how global hypernorms and microsocial contextual norms manifest through sustainability reporting in other country contexts. Also, as future research, a number of interviews with personnel from different functional areas in different industry sectors could be conducted to understand if their respective functional areas and industry norms influence their views on sustainability reporting, along with the global and local influences found in this study. This kind of future research has the potential to strengthen our understanding of how deeply context influences practice, and therefore, how regulation and/or voluntary reporting regimes need to be adapted for the needs of various regions and localities.

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Further reading

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