Factors Affecting Quality of Sustainability Reporting: Evidence from Banking Industry in Sri Lanka

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Abstract

Sustainability reporting (SR) has been identified as a rapidly expanding area of modern corporate reporting. It is crucial in the current setting to explore the elements determining the quality of SR in Sri Lanka. Therefore, the study aims to identify the factors influencing the quality of SR in Sri Lanka. The sample of the study consists of ten commercial banks in Sri Lanka listed on the Colombo Stock Exchange. Secondary data was acquired from each commercial bank's annual reports over a six-year period from 2016 to 2021 in conducting the study. The quality of SR was evaluated using content analysis. This study applied the comprehensive approach developed by Permatasari, Gunawan, and El-Bannany (2020) to measure the quality of SR. Profitability, leverage, company size, and sustainability committee were the independent variables of the study. This analysis reveals that the most important elements influencing SR quality are company size, profitability, leverage, and the sustainability committee. Furthermore, the current study contributes significantly to expanding knowledge in the field of SR.

Keywords: Sustainability reporting; Quality of sustainability reporting; Company size; Profitability; Leverage; Sustainability committee

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Introduction

In recent decades, companies all across the world have adopted SR as a standard practice (Deegan, 2002; Haider et al., 2013; KPMG, 2020; Owen & O'Dwyer, 2004; Seguí-Mas et al., 2016; Trencansky & Tsaparlidis, 2014; Simnett, 2012). Therefore, SR has been identified as a rapidly expanding area of modern corporate reporting. Moreover, SR is becoming a more popular topic in industry and academia since the late 1990s (Hahn & Kühnen, 2013; Ong, 2016; Vinke, 2014). SR is widely used in organizations to communicate corporate responsibility and accountability to stakeholders (Channuntapipat, 2016). Accordingly, SR is a systematic technique for collecting and presenting sustainability data to management and stakeholders like employees, shareholders, local communities, customers, NGOs, investors, and financial analysts. It encompasses three dimensions, namely, environmental, social, and economic issues, in this growing area of corporate reporting. Practicing SR allows companies to share their values, performance, and practices related to sustainability activities through a separate report or by dedicating only a section or some pages of their annual report to sustainability (Abdullah et al., 2018).

In the last few decades, although SR is not mandatory, stakeholders such as shareholders, employees, investors, customers, creditors, lenders, and suppliers have begun to pressure companies to report issues of sustainability (Beddewela & Herzig, 2013; Garg, 2017; Genoud & Vignau, 2017; Simnett, 2012; Tînjală et al., 2015). Investors now realize that sustainability is a platform for advanced and disciplined management and a critical success factor in an organization (Garg, 2017). As a result, many businesses are voluntarily disclosing their social and environmental performance and management (KPMG, 2020; Park & Brorson, 2005; Swarnapali, 2020). Hence, most companies publish sustainability reports as either stand-alone sustainability reports or integrated reports (Senaratne & Liyanagedara, 2009). SR is an excellent tool for responding to diverse stakeholders with varying economic, environmental, and social performance, influencing an organization's success (Visscher, 2016). Customers, employees, investors, and other stakeholders increasingly demand that businesses be more transparent about their sustainability efforts (Meijer, 2016). Therefore, by disclosing voluntary sustainability information, companies are trying to enhance transparency, benchmark against other companies, demonstrate competitiveness, increase brand value, encourage employees, and support corporate information and control processes (Dissanayake et al., 2019; Visscher, 2016). Even while the quantity of reports has increased, their quality has been questionable. It is possible to disclose sustainability information without engaging in those activities; some disclosures may be exaggerated. Hence, Ong (2016: p.1) stated "such disclosures also differ in quality and hinder comparison." It means some companies do not always conduct business in a socially and environmentally responsible manner. This implies that such businesses do not invariably operate according to the norms and values of society (Meijer, 2016). Still, SR is mainly criticized for lack of credibility, clarity, and consistency (Bebbington et al., 2014; Boiral & Gendron, 2011; Boiral & Heras-Saizarbitoria, 2020; Meline, 2006; O'Dwyer & Owen, 2005). Furthermore, prior research revealed a steady increase in SR, although the quality and quantity of reporting are quite low (Beddewela & Herzig, 2013; Senaratne & Liyanagedara, 2009). Therefore, studying the quality of the SR is vital.

Furthermore, it is not surprising that nearly all previous investigations relating to SR have been conducted in a European context without shading light on the rest of the world (KPMG, 2008). Furthermore, a recent study by Meutia et al. (2020) has recognized that most SR research is conducted in developed countries (seventy percent) while the remaining thirty percent focuses on developing countries. Previous studies also reveal that sustainability reporting is still at an early stage (Hummel & Schlick, 2016) in developing countries (Dissanayake et al., 2016) compared with developed Western countries. Specifically, Meutia et al. (2020) identified that few studies, such as (Al-Shaer and Zaman (2019), Dong et al. (2020), Drempetic et al. (2020), and Montecalvo et al. (2018) examine the factors affecting SR. Therefore, this also highlighted that there is still a broader niche for future research, and this issue can be studied further. Compared to other areas of the world, Sri Lankan researchers have paid less attention to SR (Dissanayake et al., 2016; Jariya, 2015). Although SR has become a relevant area for research, capturing worldwide attention, the overall level of SR disclosure practice of listed companies in Sri Lanka could be more satisfactory. Since very little empirical research has been conducted on SR in the Sri Lankan context, there appears to be an empirical gap. As a result, studying the factors influencing the quality of SR in Sri Lanka is critical in the current situation. This study seeks to investigate the factors influencing the quality of SR of listed companies in Sri Lanka's banking sector.

The remainder of the paper is structured as shown below. The following section thoroughly explains and discusses the findings of the prior studies in this field of study. And then, empirical evidence related to this study is discussed and the research hypothesis is developed following established theories, concepts, and findings from prior research. Then, the methodology of the study is presented. The following section mainly focuses on the data analysis and the interpretation of the study's findings. Finally, conclusions are drawn from the study's findings. Additionally, the final section makes recommendations for future research directions.

Research Question

What factors affect the quality of the SR of listed companies in the banking sector in Sri Lanka?

How do corporate size and profitability, leverage, and sustainability committees affect the quality of the SR of listed companies in the banking sector in Sri Lanka?

Literature Review

Sustainability reporting is the most important issue in 21 Century in the World (Channuntapipat, 2016). Hence, most of the companies are engaged with sustainability reporting. According to the KPMG Survey (2020), they have highlighted that currently, 80% of companies worldwide report on sustainability. The current scenario has given significant weight to the SR concept at the global level and in recent years (Boiral & Heras-Saizarbitoria, 2020; Seguí Mas et al., 2016). Therefore, researching this field is very important within the existing literature, and it has emerged as an essential field of study, attracting worldwide attention.

SR has become vital to both developed and developing countries (Girón, et al., 2020).Sri Lanka is a developing country with different cultural and economic backgrounds. Hence, the

criteria set in developed countries can not apply directly to developing countries (Kuzey & Uyar, 2017) like Sri Lanka. As Heenetigala et al. (2015) mentioned, it is required to establish generally accepted criteria for the assurance of non-financial information. According to the prevailing literature, it is highlighted that many companies are currently issuing sustainability reports (KPMG, 2020; Mock et al., 2007). While several studies have examined SR in developed countries, few have examined it in developing countries (Mudiyanselage, 2018; Pinilla-Urzola, 2011), like Sri Lanka. According to Dissanayake et al. (2016) and Beddewela & Herzig (2013), Sri Lanka, like some other countries, does not mandate SR. Mudiyanselage (2018) noted an abundance of empirical research on board participation in sustainability and social responsibility disclosures. Still, the problem was that most of these studies paid attention to developed economies. As a result, she emphasized the scarcity of references to sustainability that apply to developing economies (Mudiyanselage, 2018). Therefore, there are many avenues for further research in developing countries.

Further, when considering the Sri Lankan context, there needs to be evidence of a comprehensive study regarding sustainability. Hence, this study will evaluate the current SR scenario in listed companies in the banking sector of Sri Lanka. The motivation of this study is to fill this empirical and knowledge gap. Hence, under this backdrop, more research still needs to examine SR in the Sri Lankan context and study the factors affecting the quality of SR. Therefore, this study gives excellent support to the expansion of knowledge in the field of SR by offering comprehensive empirical research in Sri Lanka. Dissanayake et al. (2019) also highlighted that further investigations are needed in this area, mainly focusing on the quality of SR in developing countries.

Empirical Evidence

Much prior research has studied the factors that affect the extent and SR quality in an organization (Fernández-Feijóo-Souto et al., 2012; Dissanayake et al., 2019; Kiliç & Kuzey, 2017; Ong, 2016; Persson & Vingren, 2017). For example, Ong (2016) conducted research based on 72 companies in the metals and mining and energy and utility sectors to identify the links between the degree of sustainability disclosures and the characteristics of companies. According to the results of this study, there is a positive and statistically significant correlation between sustainability disclosures and a company's financial performance, size, percentage of independent directors, number of multiple directorships, and percentage of women on the board. Kilic and Kuzey (2017) also looked into the factors that affected the publication of sustainability reports, and their results show that while leverage is not a significant factor, being on the Corporate Governance Index (CGI), having a sustainability committee, company size, industry, and profitability are all. The factors influencing Swedish SOE sustainability disclosures were researched and reported by Persson and Vingren (2017). They conclude that state ownership and business size are the only factors significantly impacting SOE sustainability disclosures. Furthermore, in 2019, Dissanayake et al. investigated the critical business characteristics that influence SR using data from public listed companies in Sri Lanka. The two most important company factors related to SR by Sri Lankan public listed firms are the size of the corporation and the use of the GRI criteria. As previously discovered, neither ownership nor the industry

sector impacted on the breadth of SR over the study period. As a result, it is vital to investigate the factors influencing the quality of SR in Sri Lanka.

Hypothesis Development

Company Size

Previous research has widely recognized positive and significant effect of corporate size on SR (Kiliç & Kuzey, 2017; Ong, 2016). Further, they suggest that the probability of issuing a sustainability report is positively associated with firm size. These comply with the research findings of Fernandez-Feijóo-Souto et al. (2012) and Ong (2016). In terms of size, according to Dissanayake et al. (2019), Fernandez-Feijóo-Souto et al. (2012), and Kiliç and Kuzey (2017), the level of disclosure, which influences the quality of SR, is predicted to be determined by company size. According to the previous results, the following hypothesis was developed:

H1: There is an impact of company size on the quality of SR.

Profitability

There are some different arguments about the relationship between profitability and SR. Fernández-Feijóo-Souto et al. (2012) identified that profitability has no relationship with SR quality in their study. This finding also complies with Clarkson et al. (2008). They examined the association between environmental performance and disclosure and revealed that profitability has no association with environmental disclosure. Furthermore, Kiliç and Kuzey (2017) discovered a strongly negative association between ROE and SR quality. According to Moneva et al. (2007), financial performance and the quality of SR have a favourable but insignificant relationship. Similarly, highly profitable businesses provide high-quality cooperative SR information (Martínez-Ferrero et al., 2015). Instead, there are contradictory findings about the relationship between profitability and SR quality. As a result, the following theory was developed:

H2: There is a relationship between profitability and the quality of SR.

Leverage

According to Fernandez-Feijoo-Souto et al. (2012), there is no association between leverage and SR quality. Leftwich et al. (1981), cited in Fernandez-Feijoo-Souto et al. (2012), highlight that when firm debt increases, demand for information also increases. Hence, companies with higher debt levels are expected to provide a better quality SR. Based on these findings, the following research hypothesis was developed:

H3: There is a relationship between leverage and the quality of SR

Sustainability Committee

A sustainability committee is typically responsible for assessing sustainability policies and conducting internal audits of sustainable company practices (Damen, 2016). Some businesses have established a special sustainability committee because it allows them to plan, implement, and

methodically review sustainability policies (Liao et al., 2015). Moreover, according to Biswas et al. (2018), the sustainability committee can to assist businesses in formulating strategies to enhance their social and environmental performance. In addition, a sustainability committee positively affects both social and environmental performance (Biswas et al., 2018). Likewise, Dienes et al. (2016) reported that sustainability committees improve SR inside an organization. Considering this variable, (Kilic & Kuzee, 2017) found that sustainability reporting has a positive and substantial association with the sustainability committee (Nazari et al., 2015). Companies with expanded special committee responsibilities are more likely to provide better SR and transparency.

H4: The existence of a sustainability committee enhances the quality of SR

Methodology

Population and Sample Selection

Licenced Commercial Banks (LCBs) and Licenced Specialized Banks (LSBs) dominate Sri Lanka's banking industry and account for nearly all of the country's total assets. The banking sector of Sri Lanka comprises 24 licensed commercial banks and six are licensed specialized banks (CBSL as of September 30th 2021). Out of the 24 Licensed Commercial Banks, two of them are fully owned by the government, and the other banks are owned by the domestic private sector and foreign sector. Although there were 11 domestic private commercial banks, one was not listed on the Colombo Stock Exchange until 2021. The study's sample was selected using the purposive sampling method. Therefore, the study sample consists of 10 domestic private commercial banks. The study's sample was selected using the purposive sampling method. From the total number of banking sector companies in Sri Lanka, the final sample includes 38% of domestic private commercial banks.

Data Collection

For social and environmental reporting, researchers have looked at how businesses interact with society and disclose information (Persson & Vingren, 2017, p. 19). Company annual reports are a source of data and an instrument for monitoring SR. Secondary data was gathered from each commercial bank's annual reports over a longitudinal period of six years from 2016 to 2021 to perform this study. Therefore, 60 observations were made to gather data for the study.

Operationalization

Independent Variables

Four independent variables are utilized in the study.

Company Size

In previous studies, different measures such as market capitalization, the number of employees, total assets, and total sales are used to measure the company size (Biswas et al., 2018; Kiliç & Kuzey, 2017; Nazari et al., 2015). In this study, the natural log of total assets is employed

to determine the company's size, and this measure has been frequently utilized in prior studies. For example, the natural logarithm of total assets was used to calculate the firm size (SIZE) (Biswas et al., 2018).

Profitability

Return on Assets (ROA) was utilized to proxy for profitability in this study. ROA is calculated as the ratio of net income to total assets (Biswas et al., 2018; Nazari et al., 2015).

Leverage

Most studies used the ratio of total liabilities to total assets to measure leverage (Biswas et al., 2018; Kiliç & Kuzey, 2017). Therefore, this study used the ratio of total liabilities to total assets to measure leverage.

Sustainability Committee

The Sustainability Committee is measured as a dummy variable (Biswas et al., 2018; Kiliç & Kuzey, 2017) equal to 1 if there is a sustainability committee and 0 otherwise. The dummy variable indicates the presence of a sustainability committee (Biswas et al., 2018).

Dependent Variable

Quality of Sustainability Reporting:

The GRI Sustainability Reporting Guidelines (the G4 Guidelines) establish "reporting principles, standard disclosures, and an implementation manual that allow any size, sector, or location to generate sustainability reports" (GRI, 2013, p. 15). The GRI has set reporting guidelines for sustainability reports to assure the accuracy of the information provided. The quality of sustainability reporting is the study's dependent variable. The quality of the information in the sustainability report is assessed using content analysis. To assure the quality of the information in sustainability reports, this study uses the concepts for defining report quality criteria published by the GRI G4 guidelines (GRI, 2013). The six principles are balance, comparability, accuracy, timeliness, clarity, and reliability. These principles are necessary for achieving transparency and enabling stakeholders to make good and fair performance assessments and take relevant measures (Permatasari et al., 2020).

The quality of sustainability reporting has been analyzed by content analysis in prior studies. A compound measurement tool was developed by Beest et al. (2009:p.2) to "assess the quality of financial reporting in terms of the underlying fundamental qualitative characteristics; relevance and faithful representation and the enhancing qualitative characteristics; understandability, comparability, verifiability, and timeliness." This study uses this approach. Beest et al. (2009) noted that the measurement tool contributes to a more accurate evaluation of the quality of financial reporting information by operationally assessing qualitative characteristics.

A comprehensive approach developed by Permatasari et al. (2020) is the most recent instrument for measuring the quality of SR, as found in table 1. Moreover, they underlined that

this measurement assists academics in evaluating the quality of reports and providing more reasonable judgments that practitioners may use to study the report's content (Permatasari et al., 2020). Hence, this study applied this approach to measure the quality of SR.

Table 1. Instrument for Measuring the Quality of Sustainability Reporting

Principle	Description	Operationalization
Balance	To what extent does the company, in the discussion of the SR, highlight the positive events as well as the negative events?	1=emphasis on positive events 2= negative events only mentioned 3= emphasis on positive events, but negative events are mentioned, no negative events occurred 4= balanced positive/negative events 5= impact of positive /negative events also explained
Comparability	To what extent does the company provide a comparison of the results between the current period and previous periods?	1 = no comparison; 2 = only with previous year; 3 = with 2 previous years; 4 = 2 previous years + description of implications; 5 = > 2 previous years + description of implications
Accuracy	To what extent are valid and complete explanations (or data) provided to support information disclosure in the SR?	1 = only described qualitative information; 2 = general explanation; 3 = specific explanation; formula explained, etc; 4 = comprehensive argumentation; 5 = comprehensive argumentation with supporting data
Clarity 1	To what extent does the presence of graphs and tables clarify the presented information?	1 = no graphs; 2 = 1 – 2 graphs; 3 = 3 – 5 graphs; 4 = 6 – 10 graphs; 5 = > 10 graphs
Clarity2	What is the size of the glossary?	1 = no glossary; 2 = less than 1 page; 3 = approximately one page; 4 = 1 – 2 pages; 5 = > 2 pages
Reliability	To what extent does the company provide	1 = no description related to CG indicators; 2 = number of CG indicators

information on CG?	disclosed less than 25% of the total CG indicators;
	3 = number of CG indicators disclosed 25% to 50%;
	4 = number of CG indicators disclosed 50% to 75%;
	5 = number of CG indicators disclosed >75% of the total CG indicators.

Source: Permatasari, Gunawan, and El-Bannany (2020, p. 255-257)

The measurements of the variables are shown in Table 2.

Table 2: Measurement of Variables

Variables	Measurement
Quality of SR	Balance, comparability, accuracy, timeliness, clarity, reliability. Measurement by Permatasari et al. (2020)
Company size	Natural log of total assets of the company
Profitability	Return on assets (ROA)
Leverage	Total liabilities/Total assets
Sustainability Committee	Dummy Variable (1 if a firm had a sustainability committee, 0 Otherwise)

Source: Literature survey

Data Analysis

The study utilized the Pooled Ordinary Least Square (OLS) linear regression method. To a large extent of literature (Malone & Rose, 2006), OLS linear regression is used to test the effect of two or more variables. The regression model is illustrated in equation one. It was developed to identify the impact of corporate size, profitability, leverage, and sustainability committee on the quality of SR.

$$SRQ_{it} = \alpha_{it} + \beta_{1it}CZ + \beta_{2it}PRO + \beta_{3it}LEV + \beta_{4it}SC + u_{it} \qquad (1)$$

In equation one, SRQ denotes the quality of SR, measured by a comprehensive approach developed by Permatasari et al. (2020). α denotes a constant term, and β denotes the regression coefficient. CZ reflects the company size, which indicates the natural log of the company's total assets. Profitability is represented by PRO, which is measured by ROA. LEV denotes leverage, measured by the ratio of total liabilities to total assets. Further, SC expresses the Sustainability Committee. u expresses the random error term.

Furthermore, the collected data was analyzed using the content analysis method to measure the quality of the sustainability disclosure. The content analysis method is commonly used to assess the degree of disclosure. The reporting quality is determined by the score obtained from a disclosure index. As there is no specific guideline or standard to assess the quality of sustainability information in Sri Lanka, Permatasari et al. (2020) used it as the most recent tool for assessing the quality of SR. This tool consists of six principles: balance, comparability, accuracy, timeliness, clarity, and reliability. Further, this measurement model was built in accordance with GRI G4 recommendations.

Results and Discussion

Descriptive Analysis

Table 3 summarizes the descriptive statistics relating to the sample data. It provides a quantitative summary of the sample variables. According to the summary statistics of variables, company size is the natural log of the company's total assets, which ranges between 4.73 and 6.29 and with an average of 5.6. Regarding the profitability, (ROA) ranges between 0.06-2.22 with a mean of 1.15. The table further shows that leverage ranges from 0.82- 0.95 with a mean of 0.90.

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Return on Assets	60	.06	2.22	1.15	0.49
LCS	60	4.73	6.29	5.6	0.41
Leverage	60	.82	.95	.90	0.03
SR committee	60	0	1	.30	.46
SRQ	60	11.00	27.00	17.98	4.8
Valid N (listwise)	60				

Source: Authors' computation

Before running the regression, we must check the assumptions to identify the appropriate proposed model. First, we must explore the scatter plots of each pair of variables and Pearson Correlation Coefficients to understand the relationships. Table 4 shows the Pearson Correlation Coefficients for the variables.

A multicollinearity diagnostic was performed to determine whether our model's independent variables are highly correlated. According to Table 4, Pearson correlation coefficients, SRQ negatively correlates with ROA. There is also a correlation between the other three explanatory variables: leverage, SR committee, and company size. It indicates that the Pearson correlation coefficients were below 0.9, and there is no evidence of extreme values.

Table 4. Correlations

	SRQ	Return on Assets	Leverage	SR committee	LCS

Pearson Correlation	SRQ	1.000			
	Return on Assets	-.067			
	Leverage	-.056	.534***		
	SR committee	.284**	.242**	.448***	
	LCS	.396***	.472***	.450***	.328**	.
Sig. (1-tailed)	SRQ	.	.306	.334	.014	.001
	Return on Assets	.306	.	.000	.031	.000
	Leverage	.334	.000	.	.000	.000
	SR committee	.014	.031	.000	.	.005
	LCS	.001	.000	.000	.005	.

Note: ***$P<0.01$, **$P<0.05$; N=60

Source: Authors' computation

In addition, considering the Tolerance values and Variance Inflation Factors (VIF), it indicates that the Tolerance values are higher than two and VIF values are smaller than four, which are within the expected range, preventing multicollinearity. Therefore, this emphasizes that the proposed model is appropriate for multiple regression analysis.

Before we interpret the results and outputs of the regression analysis, residual analysis was carried out to check the model assumptions. Table 5 indicates the results of Kolmogorov- tests to examine whether the data follows a normal distribution. Since p values >0.05, the assumption that the random errors are normally distributed is reasonable.

Table 5. Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	**df**	**Sig.**	**Statistic**	**df**	**Sig.**
Standardized Residual	.059	60	.200[*]	.990	60	.904

*. This is a lower bound of the true significance

a. Lilliefors Significance Correction

Source: Authors' computation

Model Summary

Table 6 presents the model in which the item of interest is the R^2 statistics, which is 0.34 with a statistical significance of $P<.000$. This result indicates that this model can explain 34% of the total variation in SRQ. It means that a 34% variance of SRQ is affected by company size,

profitability, leverage, and sustainability committee (R2=0.34, P<0.000). The Durbin-Watson statistic was 1.225 which means that the independence of the observations has been met.

Further, table 6, the results of the F test, indicates whether the overall regression model provides an excellent fit to the data. The results of the F test demonstrate that the independent variables statistically significantly predict the dependent variable, $F_{(4, 55)} = 6.954$ P<.000. This result indicates that the regression model is a good fit for the data.

Regression Results

Company Size

Table 6 summarizes the regression results of the variables from 2016- 2021. According to the above table, regression results reveal a positive relationship between company size and SRQ (β=6.44, P=.000). Based on the regression result; therefore, H1 is accepted. Further, this finding complies with the significant number of prior studies (Fernández-Feijóo-Souto et al., 2012; Ong, 2016) in which firm size influences the quality of SR. This finding reveals that prominent banks are paying attention to the quality of sustainability reporting.

Profitability

As illustrated in table 6, the β value for ROA is -2.27 (β=--2.27, P=0.099). This result shows that an increase in ROA decreases SRQ. It indicates that if profitability increases by 1%, SRQ decreases by 2.27% when other variables are constant. It explains that banks with high profitability may tend to disclose low-quality sustainability information. This result shows that the negative relationship between profitability and SRQ is statistically significant at the 10% significant level, supporting H2. According to previous studies, this result is consistent with Kiliç and Kuzey (2017) but contrary to Moneva et al. (2007) and Martínez-Ferrero et al. (2015).

Leverage

Further regression results explain that leverage has a negative relationship (β=-52.61, P=0.032 with SRQ in selected commercial banks at the 5% significance level. It shows that the quality of SR is expected to decrease with increasing leverage. This result supports H3 since it reveals that leverage significantly impacts SRQ. As illustrated in the table, our results differ from some previous studies. For example, Fernández-Feijóo-Souto et al. (2012) revealed no relationship between leverage and SR quality.

Sustainability Committee

Further, it illustrated that the SR committee has a positive relationship with SRQ. β value for the SR committee is 3.14 (β=3.14, P=0.019). It indicates a statistically significant relationship between the SR committee and SRQ at the 5% significance level. Thus, H4 is accepted. This result consists of the findings of Biswas et al. (2018), Dienes et al. (2016), Kiliç and Kuzey (2017), and Nazari et al. (2015).

Table 6. Regression Results

Model	β	t	Sig.
R2=0.34, F=6.954, P=.000			
(Constant)	30.989	1.498	.140
Return on Assets	-2.272	-1.678	.099
Leverage	-52.613	-2.195	.032
SR committee	3.137	2.417	.019
LCS	6.441	4.179	.000

a. Dependent Variable: SRQ

Conclusions and Implications

Studying the factors affecting the quality of SR in developing nations is vital in the current scenario. Hence, this study enables us to identify the factors affecting the quality of SR of listed commercial banks in Sri Lanka. This study confirms that company size, profitability, leverage, and SR committee significantly affect SR quality. Furthermore, it reveals that although there are geographical, economic, and political differences between developed and developing countries, the factors affecting the quality of SR are the same among these countries. In addition, these findings provide an excellent contribution to the current literature in SR since there is a dearth of research in this field. Moreover, the results of the study have some implications for managers; by understanding the factors that influence companies' decisions to disclose environmental and social-related activities, managers can develop strategies to encourage and support reporting practices. Similarly, the research findings can help managers identify the motivations and drivers that lead companies to engage in sustainability reporting, allowing them to leverage this communication tool to enhance the company's image and build trust among stakeholders.

In the case of the study focused on the banking sector in Sri Lanka, there are some of the inherent limitations. First, the study's primary focus on the banking sector in Sri Lanka restricts the generalizability of its findings. The specific characteristics, dynamics, and contextual factors of the Sri Lankan banking industry may differ from those in other countries or even within different sectors of the same country. Therefore, the findings of this study may not be directly applicable to other industries. Second, this study focuses on selected factors affecting sustainability reporting in the banking sector in Sri Lanka and may overlook other potentially influential factors. While the identified factors within the context of the study are essential, there may be additional variables or contextual factors that could impact sustainability reporting quality but were not considered in the research. Therefore, it encourages future researchers to address these limitations by conducting studies across different industries, countries, and contexts.

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