Factors influencing Zimbabwe Listed Companies’ Corporate Sustainability Disclosure Practices

Abstract

The purpose of this study is to explore factors driving sustainability disclosure practices of companies listed on the Zimbabwe Stock Exchange (ZSE), being an ongoing DPhil project. Being guided by a multi-theoretical perspective, the research will employ a mixed methods approach and adopt a descriptive survey research design. Document analysis will be used to establish sustainability reporting practices and factors influencing such practices by all listed companies in Zimbabwe. A questionnaire survey will be used to determine how key stakeholders perceive Zimbabwe sustainability disclosure practices. The study provides a detailed understanding of a specific research context (sustainability disclosure in Zimbabwe listed firms) that has not been explored in prior literature. The research results will therefore have implications for regulatory bodies, accounting professionals and academics from a developing country perspective.

Key Words: sustainability, disclosure, multi-theoretical perspective, Zimbabwe

Introduction

This study primarily pertains a new practice of reporting in accounting called sustainability accounting by focusing on factors driving sustainability disclosure practices of companies listed on the Zimbabwe Stock Exchange (ZSE). This is as result of the fact that corporate stakeholders are now demanding sustainability information in order to evaluate the sustainability performance of organisations when making investment decisions (Joseph, 2016; Habek and Womak, 2015). Firms are communicating about sustainability issues through issuing sustainability reports (Habek, 2013) as separate stand-alone reports or incorporated in financial reports (Habek and Womak, 2015;
Lynch, Lynch and Casten, 2014). According to Sen and Das (2013) these reports reveal a firm’s policies, objectives, management issues, and sustainability performance and future sustainable developments. Although sustainability reporting is not mandatory, it makes stakeholders aware about the firm’s efforts towards sustainable development (Bhatia and Tuli 2014), thus eliciting a positive reaction from them. It also increases the firm’s reputation which attracts long term capital (English and Schooley, 2014). Reporting on sustainability issues has a profound impact on a company’s financial performance as it enables firms to increase stock price (Khaveh, Nikhasemi, Haque and Yousefi, 2012) and obtain better profit margins (Dilling, 2010). This is peculiarly indispensable in the context of developing nations where development of sustainability disclosure practice is still very slow.

Although sustainability reporting is not mandatory, previous researches (Bhatia and Tuli, 2014; Siji, 2013; Mukherjee, Sen and Pattanayak, 2010) conclude that such reporting is becoming a normal practice amongst listed firms globally. There are, however, differences in corporate sustainability reporting across the globe (Isa, 2014). For example, Romero, Lin, Jeffers, and DeGaetano (2014) claim that sustainability reporting is only widely practiced in developed countries. Further, a survey by KPMG (2011) revealed differences in the nature, amount, quality and content of sustainability information reported by firms among countries. This difference in reporting calls for a need to establish the nature and extent of sustainability disclosure practices in individual countries. To date, numerous guidelines have been developed to help on sustainability reporting. However, there is no consistency and internationally recognised sustainability reporting framework yet (Lynch et al., 2014; Romero et al., 2014). Further, the practice of sustainability reporting is still voluntary.

Previous researches investigated factors influencing the disclosure of sustainability information by listed firms the world over. However, there has been little research in this field globally (Romero et al., 2014) and the results of these studies show some overlaps and disparities for the factors as well as the supporting theories (Habek and Womak, 2015; Mahomed and Faouzi, 2014; Wangombe, 2013; Ali and Rizwan, 2013). As a result, a lot of researchers concluded that more research need to
be carried out in this area (Isa, 2014; Krongkaew-arrea and Sethasakko, 2013; Li, Toppinen, Tuppura, Puumalainen and Hujala, 2011).

There are numerous reasons for choosing Zimbabwe for this study. Firstly, there seems to be growing interest in corporate sustainability reporting in Zimbabwe. Second, Zimbabwe is a developing country with the one of the largest stock exchanges in Sub-Saharan Africa after South Africa. Thirdly, ZSE firms operate under numerous regulatory guidelines for industrial practice. Examples of regulatory bodies include Environmental Management Agency (EMA), Consumer Council of Zimbabwe (CCZ), and Institute for Sustainability Africa (INSAF), Securities and Exchange Commission (SEC), indigenous accountancy bodies and Companies Act. The existence of such a regulatory environment makes studying factors driving sustainability disclosure practices of companies listed on the (ZSE) an interesting one. The aim of this research is therefore to provide insights into the disclosure of sustainability information by listed firms in the context of a developing country, Zimbabwe. The specific objectives of the proposed research are to:

- examine the corporate reporting regulatory framework for sustainability reporting in Zimbabwe
- derive a theoretical framework for use in explaining sustainability disclosure practice in Zimbabwe
- establish the nature and extent of sustainability disclosures made by Zimbabwe listed firms
- determine factors influencing sustainability disclosure practices of Zimbabwe listed firms
- find out the perception of key stakeholders on the significance of undertaking sustainability reporting practices by Zimbabwe listed firms

The paper firstly discusses the definition of sustainability disclosure practices, before reviewing previous researches on sustainability reporting. Next, a discussion on theoretical approaches is done revealing the proposed research’s chosen approach. This is followed by a critical discussion on
methodological choices for the study. Lastly, some reflections concerning possible contributions and limitations of the study are highlighted.

**Definition of Sustainability Disclosure Practices**

Sustainability reporting has been previously studied as social accounting; social and environmental reporting; non-financial reporting; corporate social reporting; corporate social responsibility reporting; triple bottom line reporting; Environmental, Social and Governance (ESG) reporting; or sustainability accounting (Zainab et al., 2015; Chadha, 2014; Bhatia and Tuli, 2014). The various synonyms for sustainability reporting used in these previous researches would imply that the aspect might have been studied narrowly and/or differently. Therefore findings from these previous studies may no longer be relevant. A more encompassing and current definition from the GRI’s guidelines covers the key performance areas of environmental, social, economic, and governance performance (English and Schooley, 2014). This study seeks to fill a conceptual gap where the sustainability concept that was investigated previously seem to have been narrowly and variously defined and therefore understood differently. This study intends to provide a more encompassing definition of sustainability reporting, undertake a similar investigation and compare results. Hence, this research makes practical and effective use of the current GRI definition with the hope of coming up with new findings.

**Previous Researches on Sustainability Reporting**

Several studies examined the extent and nature of environmental reporting using content analysis. Goyal (2014) and Mukherjee et al. (2010) studied firms in sectors that had the greatest impact on the environment whilst Ullah, Yakub and Hossain (2013) and Yusoff, Othman and Yatim (2013) sampled top listed firms. Common findings were variations in level of disclosure with firms in high polluting industries having higher disclosure. Most studies recommended further research in order to increase consciousness for more disclosure.
Research concerning Corporate Social Responsibility (CSR) disclosure measured the level of corporate social disclosure in listed firms’ annual reports and covered both emerging and developed economies. For instance, content analysis by Naser and Hassan (2013) and Rouf (2011) revealed low disclosure of corporate governance as well as CSR information particularly in emerging economies. These researches were however limited by their consideration of only one year as well as the subjectivity inherent with content analysis.

A few studies focused on sustainability reporting in one type of industry, using GRI and content analysis. For example, Andelin et al. (2013) studied real estate firms in Sweden and Finland that were found on the GRI database and Isa (2014) examined food and beverage firms listed on the Nigerian Stock Exchange. Goswami and Lodhia (2013) made a qualitative investigation of disclosures by Australian Councils using content analysis and interviews. Goswami and Lodhia’s (ibid) result was analytical rather than statistical generalisation. The main feature of these three researches was that their results were limited to the one type of industry studied and therefore cannot be generalised.

Other studies had a global context. For instance, Siji (2013) examined the sustainability reporting practices of selected European and Indian companies for a period of one year and found out that European Companies were far ahead in their sustainability reporting practices than Indian companies. Faisal et al. (2012) studied some of the world’s largest companies in 24 diverse countries and concluded that firms in high profile industries disclosed more sustainability information.

The majority of previous researches seem to focus on disclosures by firms in a single jurisdiction. For example, Bhatia and Tuli (2014) had the most detailed descriptive analysis of sustainability reports for Sensex Companies in India at three levels of company, industry and category-wise.
Habek (2013) examined sustainability reporting practices of listed firms in Poland using an evaluation questionnaire that was developed by Deloitte Touche Tohmatsu. The scorecard questionnaire however had the weakness of subjectivity and chances of misinterpretation of the assessment criteria. Zainab et al. (2015) used more recent data (2014 annual reports) to determine CSR disclosures of listed firms in Malaysia. However, for all the above studies, the samples consisted of firms in different industries, therefore this might limit inferences of the results to some extent.

Previous researches on factors influencing sustainability reporting practices seem to show some overlaps and disparities for the factors as well as the supporting theories. Most researchers, using regression models, concluded that organizational size and industry type were influential but profitability was not (Kuzey and Uyar, 2016; Zainab et al., 2015; Isa, 2014; Naser and Hassan, 2013; Ragini, 2012; Yao et al., 2011 and Wang and Song 2011). On the contrary, Rouf (2011) and Hussainey, Elsayed and Razik (2011) found that profitability was an essential factor while size, gearing and liquidity did not matter. However, the two studies did not use any theory to support their predispositions. Other studies concentrated on corporate governance attributes. For instance, using regression model, Rouf (2011) found board composition and existence of audit committee as main determinants. Dagiliené (2014) and Adnan, van Staden and Hay (2010) reinforce that national culture and the existence of a sustainability committee on the board influence the quality of reports. Zainab et al. (2015) and Yao et al. (2011) add ownership structure as a vital factor whilst Kuzey and Uyar (2016) found otherwise. Agency, institutional, legitimacy and resource theories were either used singly or in combination in these studies. These results would suggest that a multi-theoretical framework would eliminate the overlaps and disparities in the findings on factors influencing sustainability disclosure.
Several other smaller studies that utilised interviews and questionnaires found different factors. For example, Goswami and Lodhia (2013) concluded that normative institutional influences drove sustainability reporting in Australian Local Councils while Krongkaew-arreya and Setthasakko (2013) found supportive organisational design and attitudes towards CSR as important. Habek and Wolniak (2015) cite different factors, including level of knowledge of company management, specific reporting legal regulations, and sustainability concept maturity in the individual country. Thus disparities in the findings from use of quantitative and qualitative methods would imply that use of a mixed method approach might yield new findings.

This literature review has shown several gaps into which the current study fits. Firstly, there are mixed findings. Romero et al. (2014: 71) conclude that these mixed findings might be as a result of researchers using varying definitions of sustainability, geographical effects, inconsistent variables, and the evolution of sustainability concept over time. It seems that in most developing countries many issues remain unsearched. As indicated above, most research findings of sustainability disclosure practices involve firms in developed countries while findings involving firms in developing countries are few and findings involving listed firms in Zimbabwe are rare. There seems to be a methodological gap where the majority of previous studies on corporate sustainability disclosure used mostly textual analysis. Lastly, it seems another gap is time bound. The majority of the previous studies used a single year for analysis ignoring the fact that sustainability reporting changes over time. Therefore, this study will attempt to close this gap by employing a mixed method approach and a five-year period longitudinal study.

**Theoretical Approaches**

Several theoretical approaches have been used by previous researchers either as stand alone or in a combination. These include stakeholder, legitimacy, institutional, signalling, resource based view, agency (positive accounting) and capital need theories.
The stakeholder theory views corporate disclosure as a tool used by management to manipulate the information needs of employees, investors, shareholders, consumers, government and other stakeholder groups (Mukherjee et al., 2010). Managers use sustainability information to manipulate the most influential stakeholders so as to gain their support which is needed for the firm’s survival. According to stakeholder theory, sustainability reporting is a means to address the pressing requirements of the stakeholders of a company. Hence, stakeholder theory provides a suitable theoretical perspective to analyse how the needs of different stakeholders are the driving force behind ZSE firms’ sustainability reporting practices.

Toukabri, Ben and Jilani (2014) opine that corporate social disclosure is best explained by the legitimacy theory. The legitimacy theory gives a wide-ranging perspective on accounting disclosure, as it clearly recognises that there is a social contract between business firms and society in which the firms consent to carry out diverse activities in a manner conforming to the standards of behaviour of society (Mukherjee et al., 2010). Firms fulfil their part of the contract by reporting on sustainability issues arising from their activities. This in the end guarantees the firms to remain in existence. According to Kamal (2013) sustainability reporting can prevent future regulatory requirements that would conflict with the company’s strategies.

Institutional theory seems to be widely used to explain what motivates firms to adopt particular accounting practices. Previous researches have applied institutional theory to explain how institutional pressure influences accounting disclosure practices (Goswami and Lodhia, 2013). According to Kamal (2013), a company operates within social values and norms and as a result of that, conforms to pressure from various institutions in order that it can be accepted in society. Institutionalisation motivates an organization to reshape and transform its structure, objectives and its way of operations. Hence, application of institutional theory may be useful to understand the
factors driving sustainability reporting practices in ZSE firms and to find out what these firms are reporting as sustainability issues.

According to Gosh (2013), the resource based view theory holds that firms produce sustainability disclosure so as to bring into existence unique resources which other firms will not imitate. Chen and Roberts (2010) add that a firm that possess the correct resources issues sustainability reports in order to maintain the unique resources that are necessary for business survival and growth.

Signalling theory (voluntary disclosure theory) also completes the explanation of voluntary disclosure by firms (Shehata, 2014). The researcher asserts that for capital markets, the managers know more than potential investors, a situation referred to as information asymmetry problem or “lemon problem”. Shehata (ibid) reinforces that listed firms signal specific information to investors which enhances a favourable reputation and thereby attracting investments. Firms voluntarily disclose more information than the mandatory ones as a signalling means that they are the best companies in the market.

Mukherjee et al. (2010) point to agency theory (or positive accounting theory) as a theoretical framework of great significance that explains variations in voluntary corporate disclosure. It views a firm as a connection of contracts among different kinds of economic agents who exploit immediate opportunities inside efficient markets. Shehata (2014) reinforces that the agency relationship results in the information asymmetry problem in which managers can gain access to information more than other stakeholders. According to agency theory, voluntary disclosure is another means of reducing agency costs. Toukabri et al. (2014) conclude that agency theory is used frequently to examine in detail the structure of the influences of accounting choices.
The capital need theory is used to explain how voluntary disclosure assists firms to raise capital (Shehata, 2014). It would seem that competition for capital among firms drive them to increase their voluntary disclosure. When investors are able to interpret the firm’s economic opportunities for success through voluntary disclosure, it results in reduction in the firm’s cost of capital (Shehata, 2014).

It would give the impression that the literature corroborates the various theories, despite their contrasting predictions. The discussion on theoretical framework has revealed lack of a single theory and/or theoretical framework that explains the practice of sustainability reporting. Recent researches have therefore advocated for a multi-theoretical perspective to provide an enhanced holistic understanding of sustainability reporting practices (Wangombe, 2013). Accordingly, the discussion on theoretical framework will be used to derive an appropriate multi-theoretical framework for use as a theoretical lens to influence how researchers perceive the phenomena of sustainability disclosure and the differences in sustainability reporting across jurisdictions.

**Research Methodology and Design**

This study will employ both interpretivist and positivist paradigms because of their suitability to the nature of the research problem, the researcher’s psychological attributes and worldview (Albassam, 2014). While interpretivism aims at developing an understanding by enquiring into the network of social phenomena, positivists concentrate on measuring social phenomena (Bryman, 2012). A quantitative approach will be used to measure the level of sustainability disclosure and identify factors influencing sustainability reporting practice. On the other hand, a qualitative approach is needed to interpret the statistical findings through establishing stakeholders’ awareness and appreciation level of the importance of sustainability reports. This research will therefore make use of a mixed methods approach. The descriptive survey research design will be adopted in this
study. As indicated by Leedy and Ormad (2010), descriptive research seeks to determine the answers to who, what, when, where and how questions. Its major purpose, as designed, is to describe characteristics of a population or a phenomenon. Descriptive survey research design will be chosen because the sampled elements and the variables that will be studied will simply be observed as they are without making any attempt to control or manipulate those (Zikmund, Babin, Carr and Griffin, 2013).

The population of firms for content analysis of sustainability reports will comprise all the 65 Zimbabwe listed firms. The population of survey research participants will consist of these stakeholder groups: financial managers and auditors of listed firms, accounting academics, investors, and environment and consumer groups, creditors, financial analysts, stockbrokers and regulators. A population of approximately 8,268,916 will be relevant. This is 86.4% of adult population (aged 15 years and above) in Zimbabwe that are able to read and write (UNESCO Institute for Statistics, 2016). They therefore have the capacity to understand, interpret and use company reports. Zimbabwean population is expected to reach 16,466,801 in the beginning of 2018 according to the latest United Nations estimates (United Nations Department of Economic and Social Affairs: Population Division, 2017).

Companies listed on the ZSE (65) are relatively small in number, hence all companies will be included in the survey. The main criteria that will be used for sample selection will be firms that will have been listed from 2014 to 2018. The other criteria will be to exclude suspended and merged firms, firms with no yearly data available and firms that will have been recently listed (2017 - 2018). Questionnaire participants will be drawn from each of the various stakeholder groups. The study intends to engage research participants who are contactable, have relevant knowledge and have a key role to play in current and future sustainability reporting practice. Contact with participants will be by obtaining their details from their various associations. The researcher will try to get as many respondents from each group as is possible using either e-mail, phone call or personal contact.
The size of sample of listed firms is determined by the number of firms that will meet the selection criteria described above. The size of sample for questionnaire survey will be obtained using stratified sampling from the various stakeholder groups. Yaro Yamani formula will be used to determine the sample size as follows:

\[ n = \frac{N}{1 + (Ne^2)} \]

From a population of approximately 8,268,916 Zimbabweans, a sample size of 400 and above will be considered as adequate.

Two methods will be utilised in this research to gather the data, namely textual analysis and survey questionnaire approach. No single method can address all research objectives at the same time (Cooper and Schindler, 2014). Thus using both methods would enable the researcher to develop a fuller and richer picture of these companies’ sustainability disclosures. This is unlike previous studies on corporate sustainability disclosure that either used textual analysis only (Bhatia and Tuli, 2014; Siji, 2013; Ragini, 2012), questionnaires only (Habek and Wolniak, 2015) and interviews (Goswami and Lodhia, 2013; Krongkaew-arreya and Setthasakko, 2013).

The textual analysis of annual reports by way of content analysis will be used to establish sustainability reporting practices and factors influencing such practices by listed companies in Zimbabwe. Content analysis is a popular method among studies on corporate sustainability disclosure (Bhatia and Tuli, 2014). It allows corporate sustainability reporting to be systematically classified and compared and is useful for determining trends (Ragini, 2012). Content analysis accepts unstructured data and is unobtrusive.

The Questionnaire survey aims to determine how the key stakeholders perceive Zimbabwe corporate reporting in general and sustainability reporting in particular. In this way, it will complement the quantitative findings from content analysis. The questionnaire is the most popular method that has been used in previous studies for investigating individuals’ views on corporate disclosure issues (Bryman, 2012). Collis and Hussey (2009) reinforce that stakeholders’
perspectives are best investigated by utilising either interviews or questionnaires. The questionnaire is a readily adaptable tool for business research. It enables a large number of respondents to be covered by a research. Using questionnaires will enable responses to be gathered in a standardised format thereby ensuring more objectivity and easiness during analysis stage than interviews. Lastly, questionnaires will present a quick way to gather data particularly in this study where there will be a lot of closed questions.

The GRI index of voluntary disclosure on sustainability to be used in this research consist of the performance indicators. Each disclosure item will be scored as one if it is disclosed in the sustainability report or zero if it is not reported on. The general information on the background of the participants will be coded 1, 2, 3 and so on. A standard Likert-type scale would be used throughout the rest of the questionnaire. The study participants would be required to tick one of five choices from strongly agree to strongly disagree with corresponding values of 5 to 1.

The amount of sustainability communication will be measured through the number of words in the report, length of the report, visuals used, colour of the report and calculation of disclosure scores. The relationship between sustainability reporting score and each of the explanatory variables will be estimated using multiple regression analysis. This study will employ the mean as the key statistical measure in analysing participants’ attitude with respect to research questions and a one-way ANOVAs test for calculating the differences in population means.

Significance and Limitations of the Study

Inadequate corporate disclosures seem to make ZSE market less attractive resulting in failure to attract investors. There is therefore a need to study the present status of the sustainability reporting practices within companies listed on the ZSE and how to increase the depth and scale of the commitment of Zimbabwe companies towards sustainability reporting. From an academic point of view, there is need to advocate for corporate disclosure practices that create an enabling environment that will make capital markets more attractive to investors.
Previous literature reveal that there have been many studies undertaken in Europe, USA, Australia and other developed countries. As a result, it may not be proper to generalise the findings of these studies to less developed countries such as Zimbabwe because the stage of social and economic development of a country is an important factor affecting sustainability reporting practices (Kuzey and Uyar, 2016). Compared to other continents, research studies on sustainability reporting in emerging economies of Africa is very limited and seems to receive little attention. In particular, there has been little work that has studied how Zimbabwean companies satisfy stakeholder needs for sustainability information. Conclusions from this study will therefore enrich literature about sustainability.

Sustainability reporting is a recent development which needs further and continuous research. Although several research studies show that sustainability reporting is a necessary development, the number of studies is still limited, even in developed countries. Companies in developing countries therefore provide a favourable circumstance for academics to carry out researches on the growth of corporate sustainability reporting in developing countries. Researchers may use this favourable circumstance also to find out if Zimbabwean companies provide similar corporate sustainability information provided by companies in both developing or developed countries. The findings will contribute to corporate sustainability reporting literature for developing countries.

Should corporate sustainability reporting be found to be of great significance, this researcher will advocate for significant developments in accounting curricula. The accounting reports will need a strategic focus; longer- term outlook; prospective analysis; and reports on wider system of business performance measurement than what is currently offered. This will enable educational institutions to prepare the accounting student for a much more challenging role in industry.
There are specific issues in this research that give rise to implications for further research. Focusing on a small area (ZSE firms) is likely to elicit more detail, but leaving out non-listed firms makes the ZSE less representative. Future studies therefore need to involve non-listed firms, as they also immensely contribute to the Zimbabwean economy and are worthy of being studied. However, it is very difficult to gather data for these firms. Apart from that, the study depends on the listed firms’ annual reports as the chief source of sustainability data and does not consider other sources. The use of questionnaires will reduce this limitation. The perceptions of key stakeholders may not necessarily reflect the real state of affairs of corporate sustainability disclosure practice. Therefore, the data from the questionnaires will be triangulated with other sources.

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