ESG Indicators of Sustainability Reporting in Emerging Georgia: Application Levels, Determinants and the Impact

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Abstract

In a monumental sense, non-financial information is gaining an equal importance compared to financial information. Such a shift is conditioned by investors and stakeholders' gradually increasing demand on companies' impact on the environment and the society. The purpose of this study is to investigate the application levels, determinants and impact of sustainability reporting in emerging Georgia. In line with the Corporate Sustainability Reporting Directive, we build a novel scorecard covering environmental, social and governance aspects of sustainability disclosure. Based upon a unique, hand-collected sample of approximately 100 firm-year observations of Georgian publicly admitted entities from 2018 to 2020, we show that on average the level of sustainability reporting is limited (33%), with significant variations across sectors, but not in time. Among the three pillars of sustainability disclosure, reporting on the environment (climate change, resource use and circular economy, biodiversity and ecosystems) is the least popular. Consistent with resource-based theory, multivariate analysis shows that larger (more resourceful) entities, and those operating within the financial and construction (environment-sensitive) sectors, report more on sustainability issues. Once a sustainability reporting practice is adopted (e.g., a separation of waste), it is likely to remain/boilerplate across the next year(s). Finally, piecewise regression results confirm a significant and positive impact of sustainability reporting on firm performance (profitability) for the entities disclosing sustainability information and not subject to extremely large losses. The findings can encourage local entities to incorporate sustainability perspectives in annual reports thus building trust in capital markets and wider society, forming the basis of capital market development.

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