

Sustainability Reporting and Financial Performance: A study of Selected Listed Companies in Sri Lanka

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Abstract

Sustainability Reporting is an emerging concept followed by the organizations all over the world. The overall objective of the organizations is to grow consistently and sustain for a long period of time. Sustainability Reporting indicates the act of quantifying, evolving and being responsible to all stakeholders for the performance of the organizations towards their goal of achieving sustainability. In today's changing and complicated business world, Sustainability practices are likely to have an impact on corporate profitability and financial performance of the organizations. Therefore, this study intends to examine the impact of Sustainability Reporting on Financial Performance of Listed Companies in Sri Lanka. Return on Assets is used as dependent variable to measure the Financial Performance whilst Economic Performance Disclosure Index, Environmental Performance Disclosure Index and Social Performance Disclosure Index are used as independent variables to measure the level of Global Reporting Initiative (GRI) based Sustainability Reporting. This study considers 39 companies listed on Colombo Stock Exchange for the period from 2016 to 2019. This study uses secondary data gathered from the annual reports of these companies. The data is analysed by means of descriptive statistics, correlation analysis and regression analysis using the software E views 8. The results of the regression analysis show that Environmental Performance Disclosure and Social Performance Disclosure significantly impact on the Return on Assets of the company whereas Economic Performance Disclosure shows an insignificant impact on Return on Assets. Correlation analysis indicates that there is an insignificant relationship between Sustainability Reporting as a whole and Return on Assets at 5% significant level. However, while considering each of the independent variables, Social Performance Disclosure has a significant negative relationship with Return on Assets. Further, Economic and Environmental Performance Disclosures have insignificant relationship with Return on Assets. The findings of the study have an important implication for the management of the companies and other interested parties. Further researches can be extended by choosing more time periods of data and choosing other indicators of financial performance.

Keywords: Financial Performance, Global Reporting Initiative, Sustainability Reporting.

INTRODUCTION

Sustainability Reporting is an emerging concept followed by the organizations all over the world. The overall objective of the organizations is to grow consistently and sustain for a long period of time. They are generally established for the purpose of maximizing stakeholders' welfare while remaining profitable. The competitive advantage is the first priority of these organizations that operate in a complex global environment. The activities of these organizations have an impact on the environment where the business operates as well as the environment outside their operating boundaries.

Growing concerns over degradation of environment, depletion of resources, global warming changes in climate and human rights violations have induced more Sustainability practices by the companies (Sheldon & Park, 2011) and have compelled the organizations to react to these issues (Adams & Frost, 2008). This modern way for operating the businesses takes into consideration the well-being of the society than considering just the development of economy. Further, the stakeholders' accountability demands above the shareholders' interests have made the companies globally to realize the consequence of the sustainability practices and problems (Dodds & Kuehnelt, 2010; Boiral, 2013) and lead them towards the issuance of standalone Sustainability reports that is becoming as a key way for producing the information about Sustainability performance initiatives to the stakeholders (Al Farooque & Ahlu, 2017).

Moreover, these organizations are getting awareness about their ability to make contribution to the Sustainable Development through redesigning their operations and processes. This ensures that the organizations are in a position to derive economic benefits which are adequate to assure the business's viability or survival. In recent times, Sustainability has become a major issue concerned by the organizations around the world. At the World Commission on Environment and Development (WCED), Brundtland, (1987) defined sustainability as "meeting the needs of the present generation without compromising the ability of future generations to meet their own needs". The World Business Council for Sustainable Development, (2002) defined Corporate Sustainability as "the commitment of business to contribute to sustainable economic development, and to work with employees, their families, the local community and society at large to improve their quality of life".

Over the past years, the investors' interest on the organizations' non-financial performance has increased significantly. The concept of Corporate Sustainability has been getting an increased importance, because of the regulations implemented and the improvement in the level of awareness of the interested parties. Nowadays, the companies should bear the responsibility of various positive

and also the harmful negative impacts of their activities on the society and environment where they are doing their businesses.

In addition, the companies should make sufficient disclosures about the impacts in a Sustainability Report which is most appropriate and provides a clear description about their structure of corporate governance, the approach of stakeholders' engagement and the economic, environmental and social performances (these are also called as "triple bottom line aspects" which include people, profits and planet). It is a way of reporting the value in place an organization following economic, environmental and social performance practices. This report communicates a detailed representation of the indicators about the Sustainability performances of the organization concerned including both the positive and negative impacts.

The Global Reporting Initiative (GRI), (2011) defines Sustainability Reporting as "the act of quantifying, evolving and being responsible to all stakeholders for the performance of the organizations towards their goal of achieving Sustainability". This is broadly trusted and recommended by the researchers that in the present dynamic and complicated business world, the corporate Sustainability practices are having an impact on corporate profitability and financial performance.

The subject of financial performance should also be focused in a clear manner. However, defining and measuring the concept of financial performance is a difficult part in the studies. Generally, Financial Performance is an indicator which measures how well an organization can use its assets from its core business and can make revenues. This can also be used as a common scale of a company's overall financial health for a given period (Kenton, 2019).

The present idea tells that long term profits for the shareholders are ascertained by means of organizations' management those are following both economic and Sustainability practices (Michael & Gross, 2004). In this way, Sustainability Reporting and its impact on Financial Performance have become as an important area for conducting a research in recent past and this paper attempts to explore the impact and the relationship between them.

Research problem

Sustainability Reporting is voluntary practice in most of the countries and GRI which a principle based organization providing just the guidelines to follow and not mandatory rules and companies are given the freedom for determining what should be disclosed and what should be omitted in Sustainability Reports (Sooriyaarachchi, 2018). According to Global Reporting Initiative facts and figures (2018), Sustainability Reporting framework issued by GRI is currently used by multinational firms, NGOs, governments, small and medium enterprises (SMEs), and industry groups in more than 90 countries all over the world. This is as a result of the demand for the organizations to follow the

transparency in how they deal their economic, environmental and social activities as those activities have an impact on their stakeholders.

However, there are criticisms that companies in Sri Lanka do not release Sustainability Reports using GRI index except mentioning some information on the annual reports and website (Senaratne & Liyanagedara, 2009) as they do not do more in relation to the Sustainability. In addition, an expectation gap exists between the information needs of the stakeholders related to Sustainability Reporting and the disclosed information in the annual reports of the companies in the context of Sri Lanka (Senaratne & Liyanagedara, 2009; Wijesinghe, 2012; Sooriyaarachchi, 2018). Dissanayake, et al., (2018) explored that in Sri Lanka, bigger companies are at the top in disclosing Sustainability information and increasingly make use of the guidelines of GRI in conveying Sustainability information than smaller companies.

This study identified the above as a research problem and, to minimize the expectation gap in relation to the Sustainability Reporting and encourage the companies to disclose more Sustainability information, the researcher identified the Financial Performance and the direction of its reaction to the Sustainability Reporting as motivational tools.

Further, still it is not clear what impact Sustainability Reporting is actually having on the strategies of the organization, processes and the outputs (Hubbard, 2008). The extant literatures show that most of the previous researches conducted on Sustainability Reporting and Financial Performance are either contradictory or inconclusive or showing positive and sometimes negative results.

While considering the above problems, this study aims to identify the impact of Sustainability Reporting on Financial Performance of Selected Listed Companies in Sri Lanka.

Research Questions

The researcher has developed the following research questions for this study:

RQ₁: Does Sustainability Reporting impact on Financial Performance of Listed Companies in Sri Lanka?

RQ₂: Is there any relationship between Sustainability Reporting and Financial Performance of Listed Companies in Sri Lanka?

Research Objectives

The researcher derived the following as the objectives of this study:

To examine the impact of Sustainability Reporting on Financial Performance of Listed Companies in Sri Lanka.

To identify the relationship between Sustainability Reporting and Financial Performance of Listed Companies in Sri Lanka.

LITERATURE REVIEW

Theoretical Review

Agency Theory:

The agency theory is based on the principal-agent relationship which lies between the shareholders who are the owners of the organizations and managers. Explicitly, information asymmetry and conflict of interest exist between managers of the companies who are the inside people and the shareholders and other stakeholders who are the outside people. Reporting about the Sustainability activities in the disclosure part provides an accurate assessment of the company to the investors and finance providers, helps the firm to attract new investors and supports to receive financing at a lower cost (Jizi, et al., 2014). Sustainability Reporting helps to reduce information asymmetry, risk predicted by the investors, cost of capital to the firm and increases efficiency of market (Dhaliwal, et al., 2011; Warren & Thomsen, 2012).

Legitimacy Theory:

According to the legitimacy theory, Sustainability Reporting is a strategy suitable to achieve acceptance of the society (Ching & Gerab, 2017), to legitimise the business processes of the company (Ching & Gerab, 2017; Deegan & Blomquist, 2006), to create a positive and good image (Kent & Monem, 2008) and to enhance the reputation of companies (Oliveira, et al., 2010). As a responsible corporate citizen, adopting GRI standards helps the companies to obtain legitimacy by establishing their commitment towards the norms (Al Farooque & Ahlu, 2017; Nikolaeva & Bicho, 2011).

Stakeholder Theory:

The stakeholder theory is a theory which is one of the most dominant theories used in the prior literatures to explain Sustainability Reporting. It is commonly used to explain the voluntary reporting practices. The investors and employees are the stakeholder groups who are the influencing people impacting the transparency in Sustainability Reporting of companies (Fernandez-Feijoo, et al., 2014). In this way, quality Sustainability Reporting can be considered as a way of giving response to the different needs and some interests of stakeholders of the companies (Odrizola & Baraibar Diez, 2017).

Empirical Review

Sustainability Reporting:

Sustainability Reporting is not a compulsory requirement in most of the countries and also in Sri Lanka. Although, Sustainability Reporting is a practice followed voluntarily, number of companies issuing these reports is growing fast both in the global context and in the Sri Lankan context (Sooriyaarachchi, 2018). Changes in the climate is one of the challenges confronted by the business community and society. To face this kind of problem, organizations are involved in various Sustainability performances and transmit the information about these activities as disclosures in the Sustainability Reports (Dobrovnik, et al., 2018).

Companies can make an impact on the flow of information to produce a particular information to the stakeholders about their Sustainability activities that makes it very difficult to get insight into the activities of the company, since the control on the information in a voluntary environment depends on the company's management (Herold, 2018). Sustainability Reporting has been developed dramatically across different economies of different countries all over the world. This combined system for reporting of economic, environmental and social activities provides a detailed analysis of the practices of the companies related to the Sustainability. Voluntary or mandatory guidelines have been issued by different companies to enhance environmental, social and economic disclosures around the world. According to Global Reporting Initiatives (GRI), the popular framework used all over the world is Sustainability Reporting to disclose Sustainability practices of the companies (KPMG, 2017).

Financial Performance:

The subject of financial performance has obtained a significant attention from researchers in strategic management and different areas of business (Jat, 2006). It was the core consideration of entrepreneurs and managers in all the organizations, since financial performance is important in high performance firms which are successful because of their efficiency and effectiveness in the management of their business operations and their contributions are beneficial to the stakeholders' wealth.

One of the indicators used by the businesses usually are the financial ratios to assess a firm's financial performance (Lin & Liu, 2005). The financial information about the business operations of a company are normally reported in annual financial statements and the financial ratios constitute dividing one item by another item which are in the financial statements. A reference for the analysis of the financial performance of an organization is seem to be the financial ratios.

Various types of measurements for financial performance are used by different researchers, they are accounting based measurements like ROA, ROE, PBT, etc. and market based measurements such as Stock Returns, Share Prices, MVA, etc. (Aggarwal, 2013).

Sustainability Reporting and Financial Performance:

This section reviews prior empirical studies conducted on the impact of Sustainability Reporting on Financial Performance. Using the measure of social performance, Hillman and Keim, (2001) identified a positive impact of customers and employees on the financial performance of the organizations measured based on shareholder wealth, in their study on the topic of stakeholder management, shareholder value and social problems in relation to bottom line.

Ngwakwe, (2009) established that increased investment in Sustainability indicators such as waste management, development of community and health and safety of employees leads to an increase in ROA, decrease in the money spent on penalties, fines and compensations and improvement in the relationship with interested parties, in his study which aimed to show a relationship between sustainability practice and firm performance in Nigerian manufacturing companies.

Kapoor and Sandhu, (2010) examined the impact of Sustainability Reporting on Financial Performance in terms of profitability and growth and, noticed that a significant positive impact of Sustainability performance on ROA, but insignificant positive impact on growth among Indian companies.

Olawale, (2010), in his study, which examined the Environmental Sustainability practices of small and medium enterprises in South Africa, indicated that a positive relationship exists between sustainability performances and profitability.

In a study, Olayinka and Temitope, (2011) examined the relationship between Sustainability Reporting and Financial Performance measures in Nigeria and concluded that a positive and significant relationship lies between them.

A slightly positive but not statistically significant results was identified by Buys, et al., (2011) between GRI Sustainability Reports and ROA and ROE in South African context. Even though, they stated that no evidence is there to prove that GRI following companies are more profitable in terms of ROE.

Venanzi, (2012) found out that there is no significant relationship between social ratings on employees, customers, environment, community, business ethics, suppliers and controversies and the ROA, ROE and Return on Sales of the organizations in European context. He explored that this relationship is specific to the organization and companies do not have same responsibility to the society and towards all stakeholders, but invest highly in important and influencing interested parties.

Ameer and Othman, (2012) conducted their study based on the Top Global Corporations, observed a positive and bi-directional relationship between sustainability practices measured using scores on four indices- environment, diversity, community and ethics and financial performance measured using ROA, Sales Revenue Growth (SRG), PBT and Cash Flows from Operations.

A study based on Japanese manufacturing firms conducted by Hidemichi, et al., (2012) concluded that toxic chemical management is a key aspect for companies to improve financial performance. They found out that environmental performances increase ROA through both Return on Sales and capital improvement.

A significant positive impact of Sustainability disclosures on ROA, ROE and Tobin's Q has been identified by Ghosh, (2013) in his study of sustainability and financial performance conducted in the context of India.

However, Aggarwal, (2013) analysed whether sustainable companies are more profitable and ascertained that sustainability practices have significant however varying impact on financial performance of the Indian listed companies. He revealed that sustainability activities as whole has no significant effect on financial performance. Moreover, sustainability performances influences some financial measures positively, such as PBT, ROA and Growth in Total Assets while others negatively such as, ROE and Return on Capital Employed.

Bäckström, et al., (2015) explored a positive relationship between sustainability performance index based on the disclosures of those activities and ROA in Sweden context.

Asuquo, et al., (2018) examined the impact of Sustainability Reporting on financial performance of listed brewery firms in Nigeria to determine the relationship between them. From the findings of their study, they revealed that economic, environmental and social performance disclosures have no significant impact on ROA of the companies.

METHODOLOGY

Research methodology is a plan of action that gives direction to carry out a research in a systematic and efficient manner. There are mainly three basic approaches to research, such as quantitative, qualitative and mixed method approach (Bryman, 2008). Quantitative approach includes some methods that are related to identify the sample and population, collection and analysis of data, presentation of the results, interpretation of the results, and writing the research in a way consistent with other survey or experiments. On the other hand, qualitative approach concerns the subjective assessment of opinions, attitudes and behaviours and research conducted in that situations are a function of the impressions and insights of the researcher (Kumar & Phrommathed, 2005). In mixed method approach, researchers using qualitative as well as quantitative methods to analyse the data.

This study adopts quantitative research approach which is the suitable approach for collecting the related data for analysing and finding the results of the study as a mathematical value, since numerical values and secondary data is used in this study. Quantitative content analysis is used to measure the Sustainability Reporting of each company based on the secondary data from annual reports.

Data Collection

The data collection can be done in two methods which are primary data and secondary data. Primary data are the data that are collected by a researcher from the sources first time while secondary data are those data that have been collected already by someone else (Hox & Boeijs, 2005).

This study is related with secondary data collection. The researcher collects data from the annual reports of selected companies listed in Colombo Stock Exchange (CSE) for the period between 2016 and 2019. The information relating to Sustainability Reporting and Financial Performance are collected for the purpose of this study. The sources of data include the annual reports and websites of the CSE and the companies.

Sampling

CSE has 290 companies representing 20 Global Industry Classification Standard (GICS) industry groups as at 20th January 2020 (CSE, 2020). However, the study covers only thirty nine (39) listed companies for the period from 2016 to 2019. Those companies have been selected based on a criteria, that is, the companies which are publishing GRI Sustainability Reports in their annual reports have been selected for the purpose of this study.

Table 1: Sample Selection

Number of companies over the years from 2016 to 2019	290
Less: Companies do not come under any GICS industry groups	(6)
Less: Companies which were listed during the period	(3)
Less: Companies do not have GRI Sustainability Reports	(213)
Less: Companies have the year-end of 31 st December	(13)
Less: Companies which have changed the year-end	(1)
Less: Companies do not have GRI reports for all the 4 years	(15)
Total sample size	39

Source: CSE Sri Lanka

Conceptualization

Figure 1 establishes the conceptual framework developed by the researcher in this regard. It illustrates the concepts and variables identified in the research problem for the purpose of identifying the operational definition for this study.

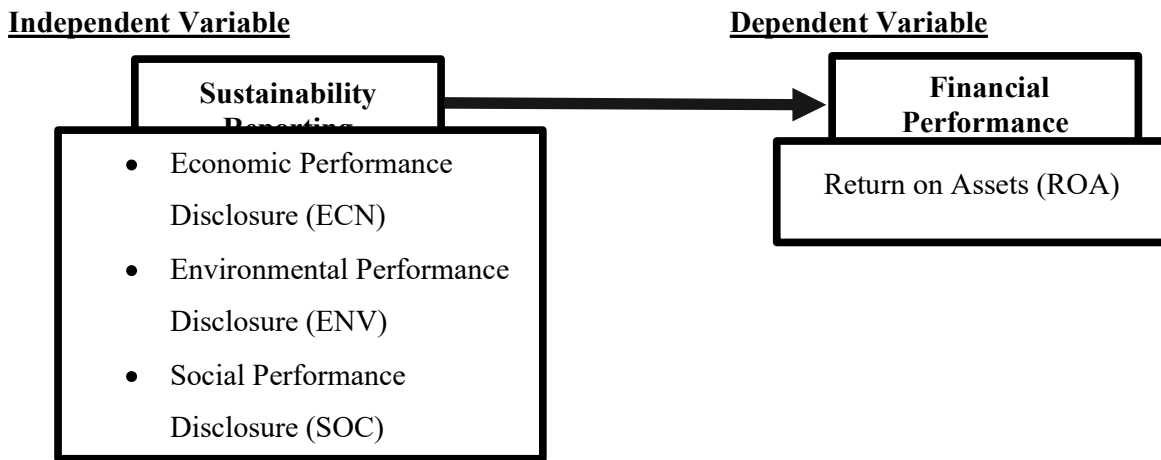


Figure 1: Conceptual Framework

Hypotheses Development

H_1 : There is a significant impact of Sustainability Reporting on Return on Assets.

H_{1a} : There is a significant impact of Economic Performance Disclosure on Return on Assets.

H_{1b} : There is a significant impact of Environmental Performance Disclosure on Return on Assets.

H_{1c} : There is a significant impact of Social Performance Disclosure on Return on Assets.

H_2 : There is a significant relationship between Sustainability Reporting and Return on Assets.

H_{2a} : There is a significant relationship between Economic Performance Disclosure and Return on Assets.

H_{2b} : There is a significant relationship between Environmental Performance Disclosure and Return on Assets.

H_{2c} : There is a significant relationship between Social Performance Disclosure and Return on Assets.

Model Specification

$$ROA = \beta_0 + \beta_1 SR + e \quad (1)$$

$$ROA = \beta_0 + \beta_1 ECN + \beta_2 ENV + \beta_3 SOC + e \quad (2)$$

Where,

ROA	= Return on Assets
SR	= Sustainability Reporting Index
ECN	= Economic Performance Disclosure Index
ENV	= Environmental Performance Disclosure Index
SOC	= Social Performance Disclosure Index
β_0	= Constant
β_1, β_2 and β_3	= Coefficients of Performance Disclosure Indices
e	= Error Term

Sustainability Reporting Index

*Sustainability Reporting Index or Economic Performance Index or Environmental Performance Index or Social Performance Index = Total Occurrence Score divided by Total Level of Disclosure Score * 100*

DATA ANALYSIS

Descriptive Statistics

Table 2 illustrates the descriptive statistics for SR and its variables, ECN, ENV and SOC and also the financial performance measuring variable ROA. Mean is the average value of the data set. Maximum and minimum indicate the maximum and minimum values of the data set. Standard deviation explains how an individual data in a data set varies from or spread from the mean value. The average value of ROA of the companies under study is 4.78%. ROA varies among the companies from -10.64% to 17.41%. The standard deviation of ROA is 5.51%. It means that there is a low possibility of variance in the data set from the mean value for ROA.

Averagely, 49.11% of economic performance disclosures, 42.56% of environmental performance disclosures and 47.55% of social performance disclosures were reported by the companies under study. The mean value of overall SR is 45.96%. It means out of the total 77 performance indicators, companies reported about 35 performance indicators averagely. The maximum values are 96.10%, 92.3%, 96.67%, 97.06% for SR, ECN, ENV and SOC respectively. The minimum value of ECN, ENV and SOC is 7.69%, 0.00% and 5.88% respectively. The standard deviation of ECN, ENV and SOC is 24.49%, 25.04% and 20.52% respectively. It indicates that there is a high possibility of variation in the data set from the mean value for all three performance disclosures. It clearly shows that ECN has high disclosure rate which is 49.11% among those three performance disclosures.

Table 2: Descriptive Statistics for SR, ECN, ENV, SOC and ROA

Variable	ECN	ENV	SOC	SR	ROA
Mean	49.1124	42.5641	47.5490	45.9623	4.77815
Maximum	92.3077	96.6667	97.0588	96.1039	17.4199
Minimum	7.69231	0.00000	5.88235	7.79221	-10.6418
Std.Dev	24.4888	25.0443	20.5213	20.9672	5.50892

Source: Results from the panel data analysis

Correlation Analysis

Correlation analysis is used to examine the relationship between independent variables and dependent variables of the study. As shown in Table 3, the probability values indicate that there is an insignificant relationship exists between SR and the dependent variable ROA at 5% significant level since the probability value is higher than 0.05 ($p > 0.05$) which is statistically insignificant at 5% significance level. The correlation coefficient value indicates that there is a very weak negative relationship exists between SR and ROA as the r values is -0.087. It means that Sustainability practices do not contribute to the financial performance measured by ROA of the companies. Aggarwal, (2013) found out that Sustainability practices as a whole do not have a significant relationship with financial performance of companies. Therefore, the finding of this study is consistent with prior research findings.

Table 3: Correlation Analysis of SR and ROA

	SR	ROA
SR	1.000000 -----	
ROA	-0.087154 0.2793	1.000000 -----

Source: Results from the panel data analysis

The correlation analysis of all variables included in the study is shown in Table 4. The probability value indicates that there is an insignificant relationship exists between ECN and ROA as the p value (0.2627) is greater than the significance level 0.05 ($p \text{ value} > 0.05$). The correlation coefficient value indicates that there is a very weak negative relationship exists between ECN and the dependent variable ROA as the r value of ROA is -0.0902. Further, the probability value shows that there is also an insignificant association exists between ENV and ROA ($p=0.8757$) at 5 % significant level. The r value explains that there is a very weak positive ($r=0.013$) relationship exists between ENV and

ROA. Whereas, the probability value of SOC and ROA shows that there is a significant relationship exists between those two variables as p value which is 0.0306 is lower than the significant level 0.05. The r value of -0.173 indicates that there is a weak negative relationship exists between them. Therefore, if the social performance disclosures increase, the ROA will be reduced as there is a negative relationship. This result is consistent with the findings of the researchers Burhan and Rahmanti, (2012), who found out that only social performance disclosures have a significant association with financial performance.

Table 4: Correlation Analysis of Variables

	ECN	ENV	SOC	ROA
ECN	1.000000 -----			
ENV	0.575288 0.0000	1.000000 -----		
SOC	0.746461 0.0000	0.763408 0.0000	1.000000 -----	
ROA	-0.090225 0.2627	0.012628 0.8757	-0.173163 0.0306	1.000000 -----

Source: Results from the panel data analysis

Pooled OLS Regression Model Analysis

Impact of Sustainability Reporting on ROA:

Table 5 shows that p value of SR is 0.2793 which means that there is an insignificant impact of SR on ROA exists among the companies as the p value is higher than the significant level of 0.05. The adjusted R-squared value of 0.001152 indicates that 0.1% of variance in ROA is determined by the change in SR and remaining 99.9% of variance in ROA is determined by other factors. Hence, overall Sustainability Reporting does not have a significant impact on financial performance measured by ROA. This is in line with the extant literature, the findings of the researchers Karaman, et al., (2018); Asuquo, et al., (2018).

Table 5: Model Summary of Sustainability Reporting on ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.830632	1.064939	5.475088	0.0000
SR	-0.022899	0.021092	-1.085684	0.2793
Dependent Variable	ROA		R-squared	0.007596
Observations	156		Adjusted R-squared	0.001152

Source: Results from the panel data analysis

Impact of ECN, ENV and SOC on ROA:

Table 6 displays that adjusted R-squared value of the SR variables is 0.065 which means that 6.5% of observed variability in the ROA can be explained by the variance in those three variables. It means that 6.5% of influence is created by ECN, ENV and SOC whereas remaining 93.5% (approximately) of impact is made by the factors which are not depicted in the model recommendation. The p value of F-statistics is 0.004077 which means that all the independent variables (ECN, ENV and SOC) jointly affect the ROA significantly at 5% significance level as the p value is lower than 0.05.

Based on the results of the coefficient estimation for each SR proxies, there is an insignificant impact of ECN ($t=0.719$) on ROA exists as the p value which is 0.4733 is higher than the significance level. There is a significant impact of ENV ($t=2.88$) on ROA exists as the p value which is 0.0046 is lower than the significance level ($p \text{ value} < 0.05$). There is also a significant impact of SOC ($t=-3.383$) on ROA exists at 5% significant level as the p value which is 0.0009 is lower than the significance level of 0.05. The coefficient values of ECN which is 0.018876 and ENV which is 0.076115 indicate that they positively impact on the dependent variable of ROA. Whereas, the coefficient value of SOC which is -0.134213 indicates that SOC negatively impacts on ROA.

Table 6: Model Summary of ECN, ENV and SOC on ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	6.993071	1.094613	6.388623	0.0000
ECN	0.018876	0.026255	0.718941	0.4733
ENV	0.076115	0.026448	2.877917	0.0046
SOC	-0.134213	0.039675	-3.382787	0.0009
Dependent Variable	ROA		R-squared	0.083373
Observations	156		Adjusted R-squared	0.065282
Prob(F-statistic)	0.004077			

Source: Results from the panel data analysis

Hypotheses Testing

H_1 : There is a significant impact of Sustainability Reporting on Return on Assets.

It includes three sub hypotheses:

H_{1a} : There is a significant impact of Economic Performance Disclosure on Return on Assets.

H_{1b} : There is a significant impact of Environmental Performance Disclosure on Return on Assets.

H_{1c} : There is a significant impact of Social Performance Disclosure on Return on Assets.

According to Table 5, H_1 is not supported as the p value (0.2793) is greater than 0.05. Based on the results indicated in Table 6, H_{1a} is not supported as the p value (0.4733) is higher than the significance level of 0.05. Whereas, H_{1b} (p value=0.0046) and H_{1c} (p value=0.0009) are supported as the p values are statistically significant at 5% significance level.

H_2 : There is a significant relationship between Sustainability Reporting and Return on Assets.

It includes three sub hypotheses:

H_{2a} : *There is a significant relationship between Economic Performance Disclosure and Return on Assets.*

H_{2b} : *There is a significant relationship between Environmental Performance Disclosure and Return on Assets.*

H_{2c} : *There is a significant relationship between Social Performance Disclosure and Return on Assets.*

According to Table 3, H_4 is not supported as the p value (0.2793) is higher than 0.05 which means SR as a whole has statistically insignificant relationship with ROA. Based on the results indicated in Table 4, H_{2a} and H_{2b} are not supported as the p values (0.2627 and 0.8757 respectively) are statistically insignificant at 5% significant level. However, H_{2c} is supported as the p value (0.0306) is lower than 0.05 significance level.

Regression Model

Based on the results of regression analysis, the models are suggested as follows:

$$ROA = 5.830632 - 0.022899 * SR + e \quad (1)$$

$$ROA = 6.993071 + 0.018876 * ECN + 0.076115 * ENV - 0.134213 * SOC + e \quad (2)$$

CONCLUSION AND RECOMMENDATION

Findings

The findings of the study are summarized as follows:

Pooled OLS Regression analysis described that Sustainability Reporting as whole does not have any significant impact on Financial Performance of the companies at 5% significance level. However, while considering the impact of each independent variable on each dependent variable, ENV and SOC have significant impact on ROA at 5% significance level. Whereas, ECN have an insignificant impact on ROA at 0.05 significance level. Therefore, it could be concluded that SR as a whole does not have a significant role in deciding the financial performance of companies. This results is in consistent with the previous study by (Hussain, 2015).

Correlation analysis indicated that there is no significant relationship between Sustainability Reporting as a whole and Financial Performance of the companies. However, SOC is significantly associated with ROA at 5% significance level. In contrast, ECN and ENV do not have a significant

association with ROA. This result is consistent with the findings of the researchers, Burhan & Rahmanti, (2012), who found out that only social performance disclosures have a significant association with financial performance.

Discussion on the Results of the Study

Even though most of the theories and also the previous researchers explain that there is a positive relationship between Sustainability Reporting and Financial Performance, this study provides a contradictory results (negative relationship) and the R-squared values are also very low.

The reason for this is, the companies in Sri Lanka are at their initial stage of their Sustainability Reporting. A longer time frame is needed to show a positive relationship between these two variables. Therefore, an exact conclusion about the relationship and impact cannot be entered using the above results as this shows a negative relationship between those variables.

Directions for Future Researches

The dependent variables that are used to measure the financial performance especially the market based ratios which were not considered in this study and other financial ratios can be used by the future researchers in their study to identify the relationship they have with the Sustainability Reporting.

This study only uses the GRI based sustainability reports published by the companies in their annual reports. However, management may use other form of disclosure formats in their annual reports and also in other communication ways like websites and magazines. The annual reports are considered as the least valuable source for the information about sustainability practices, however, reports and websites provide higher level of information in relation to sustainability (Frost, et al., 2005). Therefore, future researchers can use those information too in their study.

It is recommended that the research can be extended to more companies and different time periods to include the dynamic and emerging disclosure practices. Because, this research findings cannot be generalized to future periods as the Sustainability Reporting is an emerging concept.

In this study, researcher does not include any control variables that may have significant impact on the Financial Performance of the companies. Therefore, future studies should consider these variables too.

Recommendations

The findings of the study demonstrate that higher level of Sustainability practices leads to the lower level of financial performance of the companies in Sri Lanka.

Therefore, it is suggested that companies in Sri Lanka and their management should consider how to manage and reduce their cost for this Sustainability practices while increasing their Sustainability related activities.

In addition, Sustainability disclosures reduce the information asymmetries and help to increase the financial performance by attracting more investors from outside and in any other ways. Anyhow, the companies in Sri Lanka do not have adequate disclosures related to Sustainability performances (Sooriyaarachchi, 2018). Therefore, increasing the level of Sustainability Reporting fills the expectation gap of all the stakeholders and finally will lead to higher financial performance.

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