SUSTAINABILITY REPORTING BASED ON GRI STANDARDS AND CORPORATE FINANCIAL PERFORMANCE: A STUDY ON SELECTED LISTED COMPANIES IN SRI LANKA

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Abstract

Sustainability Reporting (SR) is followed by the organizations in the contemporary world. The main objective of the organizations is getting growth consistently and sustaining for a long period of time. In today's changing and complicated business world, the Sustainability related activities have an impact on Corporate Financial Performance (CFP) of companies. Therefore, this study intends to examine the impact of SR on CFP of Listed Companies in Sri Lanka. Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) are used as dependent variables to measure the CFP whilst Economic Performance Disclosure Index (ECN), Environmental Performance Disclosure Index (ENV) and Social Performance Disclosure Index (SOC) are used as independent variables to measure the level of Global Reporting Initiative (GRI) based SR. This study considers the companies listed on Colombo Stock Exchange (CSE) for the period from 2016 to 2019 and 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 Pooled OLS model regression analysis show that ENV and SOC have significant negative impact on ROA, while ECN has insignificant impact on ROA. Further, ECN and ENV have an insignificant impact on ROE. However, SOC have significant impact on ROE. Similarly, ECN, ENV and SOC also have a significant impact on NPM at 5% significance level. Based on the correlation analysis, the results show that only SOC have significant negative relationship with ROA and NPM at 5% significance level. 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 CFP.

Keywords: Financial Performance, Global Reporting Initiative, Sustainability Reporting

1. Introduction

Sustainability Reportingis followed by the organizations in the contemporary business world to report Sustainability practices of the companies and the objective of the organizations is getting growth consistently and sustaining for a long period of time. The stakeholders' accountability demands above the shareholders' interests have made the companies globally to realize the consequence of the Sustainability practices and problems(Boiral, 2013) and lead them towards the issuance of standalone Sustainability reports.

Sustainability report 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. GRI has devised a standard set for SR, including the social, environmental and economic perfor mance of companies. The guidelines provide a framework of principles and guidance together with a list of disclosures and Sustainability Key Performance Indicators for voluntary use by public, private and not for profit organizations in reporting their Sustai nability practices

Further, this is broadly recommended by the researchers that Sustainability practices are having an impact on profitability and financial performance. 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). In this way, SR and its impact on Corporate Financial Performance have become as an important area for conducting a research in recent past and this paper attempts to find out the impact and the relationship between them.

2. Research problem

SR is a voluntary practice in most of the countries. GRI provides the guidelines to follow and companies can determine what should be disclosed in Sustaina bility Reports (Sooriyaarachchi, 2018). According to Global Reporting Initiative facts and figures (2018),GRIbased SR is currently used by companies in more than 90 countries all over the world. This is to have the transparency in how they deal their economic, environmental and

social activities. 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 SR and the disclosed information in the annual reports of the companies in the context of Sri Lanka(Senaratne & Liyanagedara, 2009; Sooriyaarachchi, 2018).This study identified the above as a research problem and, to minimize the expectation gap in relation to the SR and encourage the companies to disclose more Sustainability information, the researcher identified the CFP and the direction of its reaction to the SR as inducing tools.

Further, even though most of the theories say that there is a positive relationship between SR and CFP, still it is not clear what impact SR actually has on the strategies of the organization, processes and the outputs (Hubbard, 2008). The extant literatures show that most of the previous researches conducted on SR and CFP 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 SR on CFP of selected listed companies in Sri Lanka.

3.   Research Questions

RQ1: Does Sustainability Reporting impact on Corporate Financial Performance of Listed Companies in Sri Lanka?
RQ2: Is there any relationship between Sustainability Reporting and Corporate Financial Performance of Listed Companies in Sri Lanka?

4.   Literature review
4.1. 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. Information asymmetry and conflict of interest exist between managers of the companies and the shareholders and other stakeholders. Reporting theSustainability 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, Salama, Dixon, & Stratling, 2014). Therefore, there is a relationship between SR and CFP in terms of agency theory.

Legitimacy theory

According to the legitimacy theory, SRis a strategy suitable to achieve acceptance of the society(Ching & Gerab, 2017), to legitimise the business processes of the company (Ching & Gerab, 2017), to create a positive and good image and to enhance the reputation of companies. As a responsible corporate citizen, adopting GRI standards helps the companies to obtain legitimacy by establishing their commitment towards the norms. Therefore, SR will lead the company to get good market coverage and will have an impact on its CFP in terms of legitimacy theory.

4.2. Empirical review

Sustainability reporting based on GRI standards

Sustainability reporting based on GRI standards mean, companies in their annual reports include a report mentio ning all the KPI set by GRI and indicate whether they have followed those activities. This helps the organizations to disclose their Sustainability perfor mances to their stakeholders, enables the companies to meet the expectations of stakeholders in relation to Sustainability. When the companies follow these disclosure guidelines, it would result in an increased transparency and encourage the companies to report their economic implications, social and environmental performances. 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. GRI provides a common reporting framework that is consistent with the sustainability issues.

Corporate financial performance

CFP means how well an organization is operating in terms of financially, which means how much profit is earned by the company and how well the assets are utilized, etc. It has obtained a significant attention from researchers in strategic management and different areas of business(Jat, 2006). One of the indicators used by the businesses usually are the financial ratios to assess a firm's financial performance. The financial information about the business opera tions of a company are normally reported in annual financial statements and the financial ratios constitute dividing one

item by another item which is in the financial statement. Various types of measurements for CFP are used by different researchers, they are accounting based measurements like ROA, ROE, PBT, etc. and market based measure ments such as Stock Returns, Share Prices, MVA, etc. (Aggarwal, 2013).

Sustainability reporting and corporate financial performance

This section reviews prior empirical studies conducted on the impact of SR on CFP. Kapoor and Sandhu (2010) examined the impact of SR onCFP 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)examined the Environmental Sustainability practices of small and medium enterprises in South Africa and indicated that a positive relationship exists between Sustainability performances and profitability.

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.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 CFP measured using ROA, Sales Revenue Growth (SRG), PBT and Cash Flows from Operations.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 CFP 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 CFP of the Indian listed companies. He revealed that Sustainability activities as whole has no significant effect on CFP. 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. Yahya and Ghodratollah (2014) investigated the

impact of Sustainability disclosure measured by economic, social and environmental indices on the CFP measured by ROA, ROE and Price Earnings ratio of companies listed on the Tehran stock exchange and the analysis produced inconsistent results. They found out that Sustainability had significant effects on ROA, ROE and Earnings per Share.

Okpa et al. (2017) revealed that while Sustainability disclosure has a significant impact on ROA and ROE, it does not have significant impact on NPM of the companies listed on the Nigeria Stock Exchange. They recommended that companies should while following economic performance disclosure, increase their environmental and social initiatives and investments to improve their bottom lines and values. Asuquo et al. (2018) examined the impact of SR on CFP of listed brewery firms in Nigeria to determine the relationship between them. They revealed that economic, environmental and social performance disclosures have no significant impact on ROA of the companies.

A mixed results with different measures of company performance was indicated by Jones(2005) between GRI based SR index and market adjusted returns, other financial ratios, and financial distress probability scores in Australian context. Karaman, Kilic, and Uyar(2018) analysed the effect of SR on performance of the companies and found out that SR does not have a significant role in enhancing the performance in aviation industry.Brammer, Brooks, and Pavelin (2006) identified a negative relationship between Social performance disclosure and stock return in UK context.

5. Methodology

This study adopts quantitative research approach since numerical values and secondary data is used in this study. Quantitative content analysis is used to measure the SR of each company based on the secondary data from annual reports. Descriptive statistics like mean, standard deviation, maximum and minimum were used to explain about the data set. Correlation analysis to find out the relationship between variables and pooled regression analysis to find out the impact were also used in the study.

5.1. Data collection

This study is related with secondary data collection. The researcher collects data from the annual reports of selected companies listed in CSE for the period between 2016 and 2019. The information relating to SR andCFP are collected for

the purpose of this study. The sources of data include the yearly publications of the CSE, the annual reports and websites of the CSE and the companies.

5.2 Validity and reliability

The variables used in the study are supported with previous studies and data are collected from the reliable sources which are the annual reports of companies published on CSE website. As those annual reports are published after being audited, the researcher believes those information are reliable.

5.3 Sampling

CSE has 290 companies representing 20 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 has been selected based on a criteria, that is, the companies which are publishing GRI Sustainability Reports in their annual reports has 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 31st December	(13)
Less: Companies which have changed the year-end	(1)
Less: Companies do not have GRI reports for all the four years	(15)
Total sample size	**39**

Source: CSE Sri Lanka

6. Conceptualization

Figure 1 establishes the conceptual model 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.
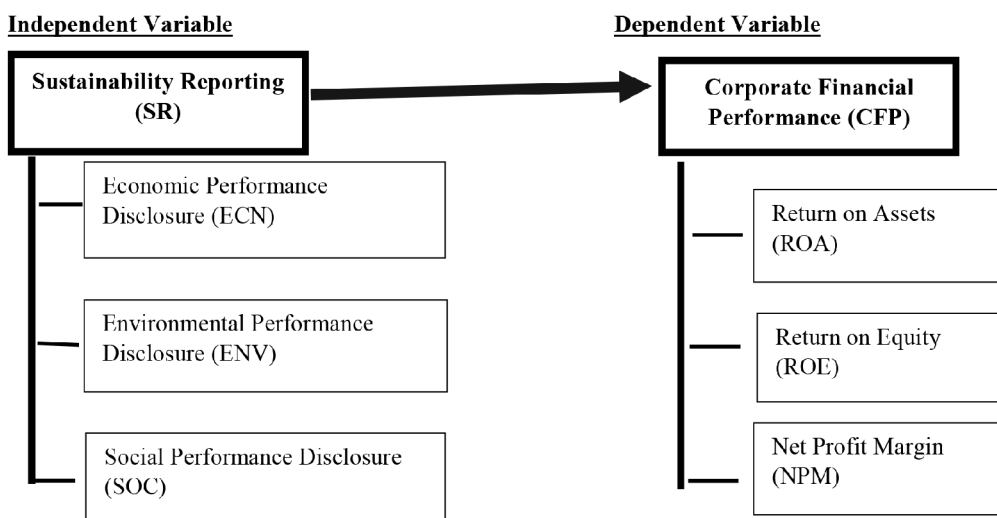
Independent Variable

Dependent Variable

| Sustainability Reporting (SR) | | Corporate Financial Performance (CFP) |

- Economic Performance Disclosure (ECN)
- Environmental Performance Disclosure (ENV)
- Social Performance Disclosure (SOC)

- Return on Assets (ROA)
- Return on Equity (ROE)
- Net Profit Margin (NPM)

Figure 1: Conceptual model

7. Operationalization

Table 2: Operationalization of variables

Key Concept	Variables	Indicators	Measurement	Sources
Sustainability Reporting (Independent Variable)	Economic Performance Disclosure	It indicates what economic performances were followed (13 KPI).	Economic Performance Disclosure Index (Total occurrence Score divided by Total level of economic disclosure*100)	(Hussain, 2015; Burhan &Rahmanti, 2012)
	Environmental Performance Disclosure	It indicates what environmental performances were followed (30 KPI).	Environmental Performance Disclosure Index (Total occurrence Score divided by Total level of environmental disclosure*100)	(Hussain, 2015; Burhan & Rahmanti, 2012)

	Social Performance Disclosure	It indicates what social performances were followed (34 KPI).	Social Performance Disclosure Index (Total occurrence Score divided by Total level of social disclosure*100)	(Hussain, 2015; Burhan & Rahmanti, 2012G)
Corporate Financial Performance (Dependent Variable)	Return on Assets (ROA)	It indicates the profitability of a firm in relation to its total assets.	$\dfrac{\text{Net Income}}{\text{Total Assets}} * 100$	(Ching et al., 2017)
	Return on Equity (ROE)	It indicates the return of a firm in relation to its shareholders' equity.	$\dfrac{\substack{\text{Net Profit after} \\ \text{interest, tax and} \\ \text{Preference dividend}}}{\text{Sharholders' Equity}} * 100$	(Ching et al., 2017)
	Net Profit Margin (NPM)	It indicates the portion of profit left after all expenses have been met.	$\dfrac{\text{Profit for the year}}{\text{Sales Revenue}} * 100$	(Ching et al., 2017)

Source: Author constructed

8. Hypotheses development

H$_1$: There is a significant impact of SR on CFP.

H_{1a}: *There is a significant impact of SR on ROA.*

H_{1b}: *There is a significant impact of SR on ROE.*

H_{1c}: *There is a significant impact of SR on NPM.*

H$_2$: There is a significant relationship between SR and CFP.

H_{2a}: *There is a significant relationship between SR and ROA.*

H_{2b}: *There is a significant relationship between SR and ROE.*

H_{2c}: *There is a significant relationship between SR and NPM.*

9. Model specification

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

$$ROE = \beta_0 + \beta_1 SR + e \ (2)$$

$$NPM = \beta_0 + \beta_1 SR + e \ (3)$$

$$ROA = \beta_0 + \beta_1 ECN + \beta_2 ENV + \beta_3 SOC + e \ (4)$$

$$ROE = \beta_0 + \beta_1 ECN + \beta_2 ENV + \beta_3 SOC + e \ (5)$$

$$NPM = \beta_0 + \beta_1 ECN + \beta_2 ENV + \beta_3 SOC + c \ (6)$$

Where,

ROA = Return on Assets

ROE = Return on Equity

NPM= Net Profit Margin

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

10. Data analysis
10.1.Descriptive Statistics

Table 3illustrates the descriptive statistics for SR and its variables, ECN, ENV and SOC and also the CFP measuring variables, ROA, ROE and NPM. The average value of ROA, ROE and NPM of the companies under study is 4.78%, 9.97% and 16.55% respectively. ROA varies among the companies from -10.64% to 17.41%. ROE varies among the companies from -50.92% to 40.21%. NPM varies among the companies from the minimum value of -85.979% to the maximum value of 91.144%. The standard deviation of ROA, ROE and NPM is 5.51%, 13.1% and 29.48% respectively. It means that there is a high possibility of variance in the data set from the mean value for ROE and NPM.

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 performance disclosure has high disclosure rate which is 49.11% among those three performance disclosures.

Table 3: Descriptive statistics for SR, ECN, ENV, SOC and ROA

Variable	ECN	ENV	SOC	SR	ROA	ROE	NPM
Mean	49.1124	42.5641	47.5490	45.9623	4.77815	9.96646	16.5523
Maximum	92.3077	96.6667	97.0588	96.1039	17.4199	40.2083	91.1446
Minimum	7.69231	0.00000	5.88235	7.79221	-10.6418	-50.9183	-85.9786
Std.Dev	24.4888	25.0443	20.5213	20.9672	5.50892	13.1003	29.4769

Source: Results from the panel data analysis

10.2 Correlation Analysis

Correlation analysis is used to examine the relationship between independent variables and dependent variables of the study.

The correlation analysis of all variables included in the study is shown in Table 4.The probability values indicate that there is statistically an insignificant relationship exists between ECN and each of the dependent variables ROA, ROE and NPM as the p values (0.26, 0.98 and 0.94) are greater than the signifi cance level 0.05 (p values>0.05). The correlation coefficient values indicate that there is a very weak negative relationship exists between ECN and the dependent variables ROA and ROE as the r values of ROA and ROE are -0.0902 and -0.001 respectively. There is a weak

positive relationship exists between ECN and NPM as the r value is 0.0054. Further, the probability values show that there is also statistically an insignificant association exists between ENV and each of the dependent variables ROA (p=0.87), ROE (p=0.52) and NPM (p=0.97) at 5 % significant level. The r values explain that there is a very weak positive (r=0.013) relationship exists between ENV and ROA, a very weak positive (r=0.051) association exists between ENV and ROE and a very weak negative (r=-0.003) relationship lies between ENV and NPM. 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 0.03 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. Hence, the companies would not prefer to involve in Social related activities. In addition, the p value of SOC and ROE indicates that there is an insignificant association exists between those two variables (p=0.46) as it is higher than 0.05. The r value explains that there is a weak negative association exists between those variables (r=-0.06).

It means, if the SOC increases, ROE will be reduced slightly. The p value of 0.04 shows that there is a significant relationship lies between SOC and NPM at 5 % significant level. The r value of -0.163 shows that there is a weak negative relationship exists between those two variables. 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 CFP.

Table 4: Correlation analysis of variables

	ECN	ENV	SOC	ROA	ROE	NPM
ECN	1.000000					

ENV	0.575288	1.000000				
	0.0000	-----				
SOC	0.746461	0.763408	1.000000			
	0.0000	0.0000	-----			
ROA	-0.090225	0.012628	-0.173163	1.000000		
	0.2627	0.8757	0.0306	-----		
ROE	-0.001031	0.050746	-0.059327	0.732400	1.000000	
	0.9898	0.5293	0.4619	0.0000	-----	
NPM	0.005399	-0.002682	-0.162727	0.665779	0.493409	1.000000
	0.9467	0.9735	0.0424	0.0000	0.0000	-----

Source: Results from the panel data analysis

10.3. Pooled OLS Regression Model Analysis

Impact of ECN, ENV and SOC on ROA Table 5 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 on ROA exists as the p value which is 0.4733 is higher than the significance level. There is a significant impact of ENV on ROA exists as the p value which is 0.0046 is lower than the significance level (p value<0.05). There is also a significant impact of SOC 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 indicate that SOC negatively impacts on ROA.

Table 5: 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		Adjusted R-squared	0.065282
Observations	156		Prob(F-statistic)	0.004077

Source: Results from the panel data analysis

Impact of ECN, ENV and SOC on ROE
Table 6 illustrates that adjusted R-squared value of the SR variables is 0.010459 which means that 1.05% of observed variability in the ROE can be explained by the variance in those three variables. It means that 1.05% of influence is created by ECN, ENV and SOC whereas remaining 98.95% (approximately) of impact is made by the factors which are not depicted in the model recommendation. The p value of F-statistics is 0.204936 which means that all the independent variables (ECN, ENV and SOC) jointly affect the ROE insignificantly at 5% significance level

as the p value is higher than 0.05 (Model is insignificant).

Based on the results of the coefficient estimation for each SR proxies, there is an insignificant impact of ECN on ROE exists as the p value which is 0.4307 is higher than the significance level. There is also an insignificant impact of ENV on ROE exists as the p value which is 0.0662 is greater than the significance level (p value<0.05). There is a significant impact of SOC on ROE exists at 5% significant level as the p value which is 0.0467 is lower than the significance level of 0.05. The coefficient values of ECN which is 0.050753 and ENV which is 0.119761 indicate that they positively impact on the dependent variable of ROE. In contrast, the coefficient value of SOC which is -0.194661 indicate that SOC negatively impacts on ROE.

Table 6: Model summary of ECN, ENV and SOC on ROE

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	11.63225	2.678264	4.343206	0.0000
ECN	0.050753	0.064239	0.790067	0.4307
ENV	0.119761	0.064712	1.850692	0.0662
SOC	-0.194661	0.097076	-2.005238	0.0467
Dependent Variable	ROE	Adjusted R-squared	0.010459	
Observations	156	Prob(F-statistic)	0.204936	

Source: Results from the panel data analysis

Impact of ECN, ENV and SOC on NPM
Table 7 shows that adjusted R-squared value of the SR variables is 0.079528 which means that 7.95% of observed variability in the NPM can be explained by the variance in those three variables. It means that 7.95% of influence is created by ECN, ENV and SOC whereas remaining 92.05% (approximately) of impact is made by the factors which are not depicted in the model recommen dation. The p value of F-statistics is 0.001358 which means that all the independent variables (ECN, ENV and SOC) jointly affect the NPM signifi cantly at 5% significance level as the p value is lower than 0.05 (Model is significant).

Based on the results of the coefficient estimation for each SR proxies, there is a significant impact of ECN on NPM exists as the p value which is 0.0157 is lower than the significance level. There is also a significant impact of ENV on NPM exists as the p value which is 0.0171 is lower than the significance level (p value<0.05). Moreover, there is

also a significant impact of SOC on NPM exists at 5% significant level as the p value which is 0.0001 is lower than the significance level of 0.05. The coefficient values of ECN which is 0.340626 and ENV which is 0.338553

indicate that they positively impact on the dependent variable of NPM. In contrast, the coefficient value of SOC which is -0.852585 indicate that SOC negatively impacts on NPM.

Table 7: Model summary of ECN, ENV and SOC on NPM

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.95271	5.812209	4.465206	0.0000
ECN	0.340626	0.139407	2.443383	0.0157
ENV	0.338553	0.140433	2.410773	0.0171
SOC	-0.852585	0.210669	-4.047035	0.0001
Dependent Variable	NPM	Adjusted R-squared	0.079528	
Observations	156	Prob(F-statistic)	0.001358	

Source: Results from the panel data analysis

11. Hypotheses testing

H1: There is a significant impact of SR on CFP.

H1a: There is a significant impact of SR on ROA.

Based on the results indicated in Table 4, there is a significant impact of ENV (p value=0.0046) and SOC (p value= 0.0009) on ROA as the p values are statistically significant at the 5% significance level. Therefore, H1a is partially supported.

H1b: There is a significant impact of SR on ROE.

Based on the results indicated in Table 5, there is a significant impact of SOC (p value=0.0467) on ROE as the p value is statistically significant at the 5%

significance level. Therefore, H1b is partially supported.

H1c: There is a significant impact of SR on NPM.

Based on the results indicated in Table 6, there is a significant impact of ECN (p value=0.0157), ENV (p value= 0.0171)and SOC (p value=0.0001) on NPM as the p values are statistically significant at the 5% significance level. Therefore, H1c is supported.

Hence, H1 partially supported.

H2: There is a significant relationship between SR and CFP.

H2a: There is a significant relationship between SR and ROA.

As shown in Table 3, there is a significant

relationship between SOC and ROA as the p value is statistically significant at the 5% significance level (p value= 0.0306). Therefore, H2a is partially supported.

H2b: There is a significant relationship between SR and ROE.

As shown in Table 3, there is an insignificant relationship between ECN (p value=0.9898), ENV (p value= 0.5293) and SOC (p value=0.4619) and ROE as the p values are statistically insignificant at the 5% significance level. Therefore, H2b is not supported.

H2c: There is a significant relationship between SR and NPM.

As shown in Table 3, there is a significant relationship between SOC and NPM as the p value is statistically significant at the 5% significance level (p value= 0.0424). Therefore, H2c is partially supported.
Hence, H2partially supported.

12. Regression model
Based on the results of regression analysis, the model is suggested as follows:

$$ROA= 6.993071 +0.018876*ECN + 0.076115*ENV -0.134213*SOC + e \ (4)$$

$$ROE= 11.63225+ 0.050753*ECN + 0.119761*ENV -0.194661*SOC + e \ (5)$$

$$NPM= 25.95271 + 0.340626*ECN + 0.338553*ENV -0.852585*SOC + e \ (6)$$

13. Conclusion and recommendation
13.1. Findings
Pooled OLS Regression analysis described that, ENV and SOC have significant impact on ROA and SOC have significant impact on ROE at 5% significance level. Whereas, ECN have an insignificant impact on ROA at 0.05 significance level. While both the ECN and ENV have an insignificant impact on ROE, all the three independent variables (ECN, ENV and SOC) have a significant impact on NPM. Therefore, it could be concluded that SR as a whole has a partial role in deciding the CFP in Sri Lankan companies.

Correlation analysis indicated that SOC is significantly associated with ROA and also with NPM at 5% significance level. It means that if SOC increases ROA and NPM will be reduced. In contrast, ECN and ENV do not have a significant association with ROA and NPM. All the three independent variables (ECN, ENV and SOC) do not have significant relationship with ROE at 0.05 signifi cance level. 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 CFP.

13.2.Discussion on the results of the study

The results are inconsistent with some of the researchers who found a positive and significant relationship between SR and CFP (Kapoor &Sandhu, 2010). The reason for the negative and insignificant association identified in this study may be,the time frame of research which influences the results. Thus, this research needs longer time frame in evaluating the relationship between economic, environ mental and social disclosure and company's performance as this considered only four years of data. Further, even though legitimacy theory strongly suggests to report Sustaina bility, it explains this concept as a problematic one as expectations of the society is dynamic and ambiguous one. As Sri Lankan companies are at the initial stage of SR, it leads to the expectation gap in the society and hence, the CFP may not be improved when increasing the Sustainability practices. After the fulfilment of this gap only, we can expect the positive relationship between SR and CFP.

13.3.Directions for future researchers

The dependent variables used to measure the CFP especially the market based

ratios which are not considered in this study and otherfinancial ratios can be used by the future researchers. This study only uses the GRI based Sustainability reports published by the companies in 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 levels of information in relation to Sustainability (Frost, Jones, Loftus, & Van Der Laan, 2005). Therefore, future researchers can use those information too in their study.

It is recommended that the research may 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 SR is an emerging concept. This study does not include any control variables that may have significant impact on the CFP of the companies. Therefore, future studies should consider these variables too.

13.4.   Suggestions

The findings of the study demonstrate that higher level of Sustainability

practices leads to the lower level of CFP of the companies in Sri Lanka. Therefore, the companies in Sri Lanka and their management should consider how to manage and reduce cost for this Sustainability practices while increasing Sustainability related activities. Further, Sustainability disclosures reduce the information asymmetries and helps to increase the CFP by attracting more investors from outside. Anyhow, the companies in Sri Lanka do not have adequate disclosures related to Sustainability performances (Sooriyaarachchi, 2018). Hence, increasing the level of SR fills the expectation gap of all the stakeholders and finally will lead to higher CFP.

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