Sustainability Reporting and Its Impact on Financial Performance: A Study of the Sri Lankan Financial Sector

De Silva, P.O.,
University of Sri Jayewardenepura, Sri Lanka.
pethmidesilva@gmail.com

Abstract

Purpose: Sustainability reporting is a voluntary endeavor which involves publishing accounts that reflect the economic, environment and social performance of an organization (Isenmann and Kim, 2006). The absence of a compulsory set of sustainability reporting rules and standards have caused variances in reporting practices among the companies which consequently it has influenced on business value creation process differently. Therefore the purpose of this study is to identify whether there is a significant difference in sustainable disclosures among the financial institutes and how sustainability reporting influence on institutional performance.

Methodology: The disclosure index derived from the Global Reporting Initiative (GRI) guidelines which consist of 119 parameters is used to evaluate the content of the reports of listed banks and financial sector companies. An analysis results in a comparison between GRI guidelines and Generation four (G4) framework. Furthermore, the study investigated the causal relationship between the level of disclosures and financial performance. Data is obtained from annual reports compiled with the Security Exchange Commission (SEC), and companies' websites analyses using SPSS 16 data analysis package.

Analysis and Discussion: The results conclude that there's no significant difference in sustainability disclosures between listed banks and financial institutes and the amount of the disclosures have no significant influence on institutes' financial performance. Furthermore, the study confirmed that there's no significant difference between G4 framework disclosures (Adopted in 2016/2017 reporting period) and GRI guidelines (Adopted in 2017/2018 reporting period).

Research limitations/ implications: The sustainability theories and framework may provide a sensible explanation for sustainability reporting practices in Sri Lanka

Originality/value: The businesses including financial institutes consume scarce resources. But poor attention has been paid in reporting their accountability towards the sustenance. Therefore it is in need of recognizing sustainable responsibility.

Keywords: Corporate Disclosures; Financial Institutions; Sustainability/Integrated Reporting; Financial Performance

1.0 INTRODUCTION

Sustainability, as a contemporary topic associated with the conservation of scarce resources, while upgrading the standard of living of the current generation, has raised a significant global concern (James, 2014). In the modern business era, it has become the rule of thumb in gaining a competitive advantage since it safeguards the business capacity in the value creation process. The integration of three dimensions; economic, environmental, and social uplift the business' efficiency, effectiveness and transparency and lead businesses towards long-term success (Michael and Gross, 2004). So, integrated reporting which communicates combination and the role of each pillar in confirming the sustenance of the business processes are being endorsed across the globe (Albetairi, et al., 2018).

The Global Sustainability Standards Board features a modular, robust structure, and exemplifies the best practice for global reporting on a range of interrelated economic, environmental and social effects. GRI 101 (2016) defines meeting with the sustainability reporting standards (GRI Standards) inspires firm accountability, manage risk, seize new opportunities and protect the environment, improve the society while thriving economy by improving governance, reputation, stakeholder relations, and building trust.

UsenkoandZenkina (2010) highlight the inability of financial performance measures in ascertaining the company's impact on the economy, environment, and society. Simply, the financial regulatory framework ignores the positive-negative environmental and societal externalities. It stimulates research on environmental, social, and sustainability reporting frameworks applicable to the financial sector. Importantly, by nature, the financial sector does not directly cause a negative impact on the environment and society as its involving in-service function (Nwobu, et al., 2017). However, the implication of banking operations with a diversified customer pool create demand for transparent disclosures for a broad range of stakeholders.

1.1 Objective

The objective of this study is to examine the sustainability report content which integrates aforementioned three pillars and sustainability practices of Colombo stock exchange listed banks and finance companies, and to measure the association of level of disclosures with the firm performance i.e. Return on Assets (ROA) and Return on Equity (ROE) of banking and finance companies. Secondly, it overlooks the trends of integrated reporting comparing 2017 with 2016 level of disclosures in the banking sector.

1.2 Theoretical Framework

1.2.1 Legitimacy Theory

Legitimacy is defined by Lindblom (1994) as the condition where the company's value system is compatible with the societal value system. This theory emphasizes the importance of meeting social expectations and standards to safeguard the long-term position. Align with the theory Faisal, et al., (2012) argues that sustainability reporting strengthen the firm's operative license in the society while reducing the risk. This explains the two-way relationships where the company stick to the social boundaries which are perceived as legitimate to gain the continual support from the society. (Khan, et al., 2013). However, the company has the discretion to operate within its institutionalized policies and constraints, but the failure to confirm the societal value of self-practices may threaten the firms' survival(Oliver, 1991). Lindblom (1994) further claims as if there's a disparity between the company's actual value and the expected value the company's legitimacy may jeopardizeresulting a legitimacy gap. Therefore, the communication of the true value to the society by adopting a globally accepted disclosure strategy is vital

1.2.2 Agency Theory

The theory explains principal-agent relationships between internal, connected and external stakeholders. Agency conflict which arises due to information asymmetry destructs the smoothness of the relationship. An adequate level of sustainable disclosures bridges the gap between insiders and the outsiders (Shamil , et al., 2014; Dhaliwal, et al., 2011).

1.2.3 Stakeholder Theory

Freeman (1984) stipulates the stakeholder theory which endorses firms accountability towards a range of stakeholders, i.e. suppliers, employees, community, environment etc. Harmoni(2013) explains that integrated reporting reinforces the firm's relationship with the society it operates.

2.0 LITERATURE REVIEW

The scope of literature covers the existing surveys on the level of sustainability disclosures and the association between sustainability disclosures and firm's performance because firm's environmental and societal concerns over the financial concerns have been extensively debated in the literature.

AbeywardanaandPanditharathna (2016) pinpoint that there's no consensus between the firms about the level of voluntary disclosures including economic/ social performance. An empirical study conducts in Malaysia analyzing sustainable disclosures of 15 commercial banks reveals that social disclosures dominate the sustainability reporting framework (Harun, et al., 2013). The findings further explain banks tempt to disclose more on labour conditions and decent work. Yang andYaacob (2012) describe that external pressure has promoted the level of social disclosures. Additionally, a survey conducts in the Mauritian banking industry using five disclosure index indicates human resource as the most favorite theme since the human resource is the most important asset in the service industry (Ramdhony, 2015)

Moreover, the study of 12 commercial banks listed on the Dhaka stock exchange concludes that societal information is most extensively addressed with respect to the extent of financial reporting (Khan, et al., 2010). The scholars classify GRI requirements into 5 components as environmental, labour practices and decent work, product responsibility, human rights, and the society. However, society disclosures lead with a percentage of 100% compared to 91.6% of labour practices and decent work disclosures.

In contrast, a survey conducts taking a sample of 26 listed private banks in Dhaka Stock Exchange divulges, outstandingly, energy reduction, and greenhouse gas emission disclosures report the status of 94.9% and 92.3% respectively (Akter, et al., 2017). The investigation of environmental disclosure trends via content analysis of annual reports published by 17 Ghana Stock Exchange Listed firms expose that the level of disclosures are very low and it is strongly associated with the environmental sensitivity ($p= 0.032$) (Welbeck, et al., 2017).

$H1_a$: There's asignificant difference in the level of sustainable disclosures between banks and financial institutions.

Empirical study performs covering thirty banks enlisted in Bangladesh Chittagong Stock Exchange (CSE) and Dhaka Stock Exchange (DSE) has presented a year on year (2011-2015) analysis which emphasizes the yearly differences in sustainability reporting practices. Disclosure levels vary as; 0%, 3.33%, 6.67%, 6.67% and 10% from year 2011 to 2015 (Mahmud, et al., 2019). Sobhan, et al. (2011) perform trend analysis in two banks over ten years in Bangladesh presents a significant increase in the level of disclosures over the period of 2000 to 2009. Moreover, content analysis conduct in a sample which comprised of 20 Malaysian financial institutes over the period of 2008-2011 reveal an improvement of information disclosures with the passage of time (Darus, et al., 2015).

$H2_a$: There's a significant difference between sustainable disclosures across the years.

Daub (2017) asserts that the quality of sustainable reporting depends on both qualitative and quantitative information, and on the level to which company succeeded economically along with the social and environmental efficiency and effectiveness. Therefore, a substantial amount of researches have been conducted recently to determine the relationship between sustainability reporting and the firm's performance.

The enormous studies provide evidence for a significant positive relationship between sustainability reporting and firm performance. According to Baumunk (2009), the primary advantage of sustainable disclosures is boosting demand for the firm's products and services. Consequently, the increase in demand increases the firm's return. Furthermore, Preston andO'bannon, (1997) explain social responsibility disclosures create higher value for stakeholder and craft internal capabilities while minimizing cost which leads the firm towards better financial results.

A study performs in Jordanian Islamic banks obtaining data from 2008-2014 ascertains the statistically significant relationship between the dimensions of sustainability with financial measures such as; ROA and ROE (Zyadat, 2017). A field survey conduct in 60 Nigerian manufacturing companies listed in Nigerian Stock Exchange and registered in Corporate Affairs Commission, administering questionnaire with financial statement analysis identifies a significant difference between environmental responsible firms and irresponsible firm's performance (Ngwakwe, 2010). So, it establishes a positive relationship between sustainability driven business practices and ROA. Similarly, A panel data regressions analysis perform by Yılmaz (2013) in Turkey banking industry finds a significant financial result with some social indicator disclosures. Jones (2005) develops an index score based on GRI to determine the relationship between sustainability disclosures and financial performance which is measured by financial ratios and market adjusted returns study results mixed positive outcomes with different measures.

A study design in Greece identifies that the banks which adhere to GRI guidelines and who include in sustainability indices outperform in the market due to their environmental and social performance and these guidelines have created demand for sustainability reporting in terms of environmental and social performance (Skouloudis, et al., 2011).

All the studies that have been performed in relation to the impact of sustainable disclosure on financial performance do not produce consistent results. There is contrary evidence which shows no or negative relationship between variables. Aupperle, et al. (1985) relationship analysis between sustainability disclosures and profitability on companies enlisted in Forbes figure out no relationship between variables. Pearson correlation analysis and chi-square test fail to establish a relationship between the amount of social, environmental disclosures and finical performance ($p > 0.05$) in the study conduct by Murray, et al. (2006) using data of UK top 10 companies over 10 years period (1988-1997). Lopez, et al., (2007) divides 110 firms quoted in the Dow Jones Sustainability Index into two group to determine the impact of sustainability on the performance. The study derives negative results concluding that there is a negative impact on the performance. Similarly, Buys, et al. (2011) take data from McGregor BFA database from 2002-2009 to investigate the economic performance of sustainability reporting. T-test analysis performed to conclude that there’s no relationship between sustainability reporting and performance.

$H3_a$: Level of sustainable disclosures (economic/ environmental and social disclosures) havean association with the bank’s financial performance.

2.1 Sri Lankan context

Wijesinghe (2012) conducts a study in 75 companies which represent 14 industries to identify the current social responsibility reporting framework. As a result, GRI guidelines are used and the study shows a low level of disclosures in sustainability components including; governance, economy, environment, and society in Sri Lankan companies

Annual reports, sustainability reports and website content analysis of sixty public listed companies in Sri Lanka to examine the relationship between sustainability reporting /sustainability key performance indicator (KPI) reporting and company-specific characteristics namely; company size, company age and financial performance and the study affirm that company size as the most significant factor that effect on sustainability KPIs (Dissanayake, et al., 2016). In contrast to Wijesinghe (2012) large-scale corporations disclose the high level of disclosures to exploit performance benefits.

The in-depth interviews conducted with eighteen top managers of subsidiaries by Beddewela&Herzig (2013) seek out the reasons for the low level of social responsibility disclosures in the Sri Lankan context. Institutionalized processes along with the internal legitimacy distract the companies from social reporting.

However, the literature is lacking specific focus on Sri Lankan finance sector. Therefore the study fills the gap contributing to the literature by performing content analysis and considering the potential relationship between sustainability disclosures and the economic performance of listed banks and financial institutes in Sri Lanka as a developing economy in the Sri Lankan Content.

3.0 RESEARCH METHODOLOGY

3.1 Sampling and Data Collection

The central bank of Sri Lanka provides a list of registered banks and financial institutes. The list is comprised of 26 local banks and 43 financial companies. However, out of this 69 companies, 2 are state-owned and only 11 banks and 28 finance companies are listed in the Colombo Stock Exchange, All Share Price Index. The study sample consists of 2 state-owned banks, 10 private banks, and 20 finance companies which are selected based on the accessibility to the financial statements with sustainability reports. Hence, the data employed in this study are sourced from the annual reports and sustainability reports of selected banks and financial companies. Furthermore, the study considers annual reports and sustainability reports issued by the banks over two years 2016-2017 since the companies have been moved from G4 framework (2016-2017 reporting period) to GRI framework (2017-2018 reporting period)

3.2 Key Variables

Author has defined the variables considering the Sri Lankan context and they are listed below;

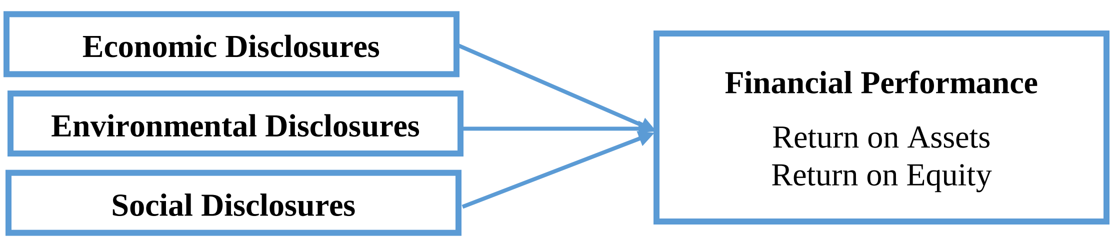


Figure 1: Conceptual Framework

3.2.1 Sustainability Reporting Index

SR index score is derived from the consolidated set of GRI Sustainability Reporting Standards which is effective from 2018. Accordingly, 56 general standards, 13 economic standards, 23 environment standards, and 27 social standards are used. The total compilation of each component convert to 100% scale using the following formula;

$$Score\ (s) = \frac{Amount\ of\ compilation\ (n)}{Number\ of\ standards\ considered} \times 100\%$$

However, the new set of standards is only applied in the sustainability reports published for 2017/2018 reporting period. Therefore, the alternative index is developed only for the banks based on previous reporting guidelines (G4 guidelines) to perform a comparative analysis between years 2017/2018 reporting period with 2016/2017 reporting period. (General 59 standards: $= \frac{n}{59} \times 100\%$, Economic 13 standards: $s = \frac{n}{13} \times 100\%$, Environment 26 standards : $s = \frac{n}{26} \times 100\%$,

Social 30 standards: $s = \frac{n}{30} \times 100\%$.

3.2.2 Return on Assets (ROA)

ROA indicates the profitability of the firm relative to the total assets employed in the firm (Kabajeh, et al., 2012). It is widely used as a comparative measure because it substantially depends on the industry considered. It asses how effective firm is in converting the amount invested in the assets through equity or debt financing into net income (Saragih, 2018). Consistent with the prior research (Garg, 2015; Griffin and Mahon, 1997; Zyada, 2017:Alshehhi, et al., 2018) ROA computes as;

$$ROA = \frac{net\ income + interest\ expense\ (PBT)}{Average\ total\ assets}$$

3.2.3 Return on Equity (ROE)

ROE as a profitability ratio measures the amount of profits returned as a percentage of shareholders investments(Kabajeh, et al., 2012). It reveals the company's profit generation ability with the shareholder equity. ROE is a useful ratio in comparing company net income with the others in the industry. It illustrates the efficiency and effectiveness of the company turning money into gains for the investors(Saragih, 2018). Consistent with the prior research (Zyada, 2017; Alshehhi, et al., 2018) ROE computes as;

$$ROE = \frac{Net\ Income\ adjusted\ for\ tax}{Shareholder\ equity}$$

3.3 Data Analysis

Descriptive statistical analysis, independent sampling test, paired sampling t-test, correlation and regression analysis are performed to analyze the data collected on the aforementioned variables in order to conduct the analysis. Moreover, the Statistical Package for Social Sciences Version 16 (SPSS 16) is used to analyze the data.

4.0 FINDINGS AND ANALYSIS

The banks and finance companies degree of adherence to the global reporting initiatives in 2017 is depicted in table 1.[2]

Table 1: Application of GRI Guidelines (Reporting Period 2017-2018)

2017 - GRI Initiatives								
	General - 56 standards		**Economic - 13 Standards**		**Environment - 23 Standards**		**Social -27 standards**	
	Compliance	Score	Compliance	Score	Compliance	Score	Compliance	Score
Banks								
Commercial Bank	42	75%	7	54%	4	17%	21	78%
Peoples Bank	38	68%	8	62%	4	17%	21	78%
PABC	31	55%	2	15%	0	0%	11	41%
Amana	28	50%	1	8%	0	0%	7	26%

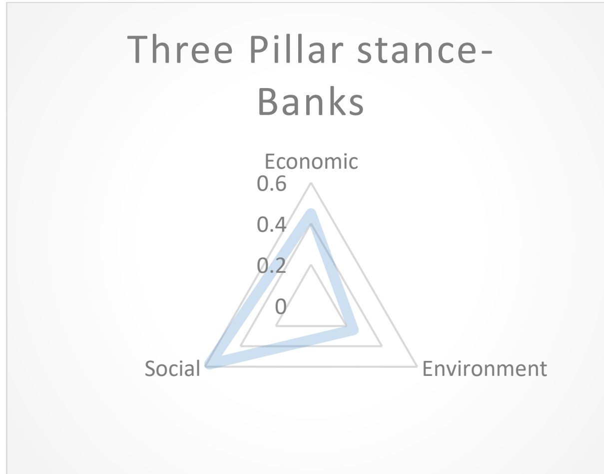
[2] The author has considered 56 general disclosures, 13 economic disclosures, 23 environmental disclosures and 27 social disclosures presented in the GRI guidelines. The number of standards satisfied by each institute is presented under the compliance column and score is awarded based on the degree of compliance using the SR index presented in the pg.08

Sampath Bank	56	100%	11	85%	17	74%	21	78%
DFCC	33	59%	3	23%	0	0%	6	22%
HNB	52	93%	6	46%	3	13%	8	30%
MBSL	32	57%	6	46%	5	22%	12	44%
NSB	44	79%	9	69%	1	4%	22	81%
NTB	45	80%	2	15%	9	39%	11	41%
Seylan Bank	45	80%	9	69%	22	96%	27	100%
BOC	44	79%	6	46%	1	4%	19	70%
Finance Companies								
AMW	32	57%	4	31%	1	4%	9	33%
Arpico Finance	42	75%	6	46%	8	35%	14	52%
Asia Asset	31	55%	0	0%	1	4%	8	30%
Asian Alliance	38	68%	2	15%	6	26%	14	52%
Associated Motors	34	61%	0	0%	1	4%	9	33%
Bimputh	32	57%	4	31%	1	4%	9	33%
CDB	40	71%	10	77%	9	39%	20	74%
Commercial Credit	40	71%	10	77%	1	4%	18	67%
LB Finance	56	100%	8	62%	12	52%	12	44%
LOLC	40	71%	10	77%	1	4%	18	67%
Peoples Leasing	52	93%	13	100%	23	100%	24	89%

Vallible Finance	31	55%	0	0%	1	4%	8	30%
Central Finance	32	57%	4	31%	1	4%	9	33%
BRAC Lanka Finance	32	57%	4	31%	1	4%	9	33%
Colombo Trust	32	57%	4	31%	1	4%	9	33%
Commercial Leasing	31	55%	0	0%	1	4%	8	30%
Orient Finance	32	57%	4	31%	1	4%	9	33%
Softlogic Finance	31	55%	0	0%	1	4%	8	30%
The Finance	32	57%	4	31%	1	4%	9	33%
Mercantile Investments and Finance PLC	52	93%	13	100%	24	100%	24	89%

The study presents that banks mostly report social indicators including; terms and conditions of employment, manager-employee relations, occupational health and safety, training and education, diversity, equal opportunities, non-discrimination and compliance with the labour laws, which are associated with the employee well-being. Moreover, social disclosures cover interactions with local communities, ethical marketing, and labeling practices, supplier assessment, and customer privacy.

Figure 2: Economic, Environmental and Social Performance of Banks

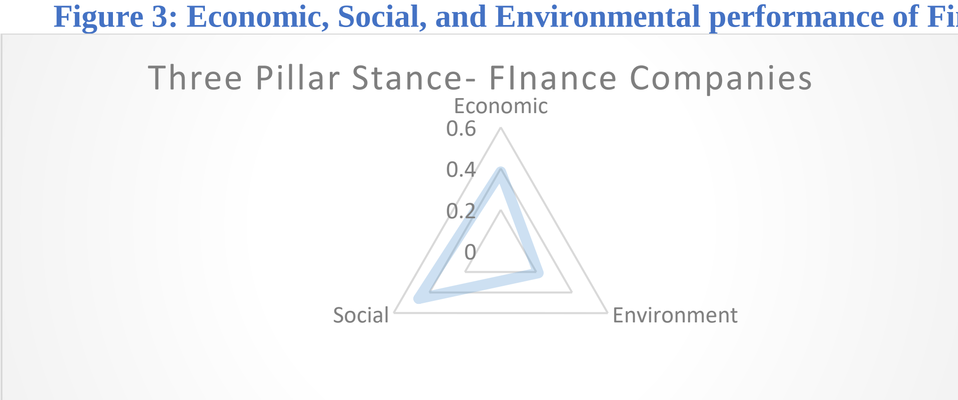


The economic disclosure stands behind the social disclosures. Even though banks disclose their direct economic impact and economic value it has failed to disclose the market presence, indirect economic impact, procurement practices, and anti-corruption policies.

Banks reporting on environmental disclosures are very poor. Banks are reluctant to disclose information on energy consumption, gas emission, effluents of waste, and supplier environmental assessment.

The study presents a similar trend in the financial companies, it discloses more on social performance but less on environmental performance.

Figure 3: Economic, Social, and Environmental performance of Finance Companies



[3] The aggregate of compliance of economic, social and environmental disclosures by banks and finance companies are considered separately to construct the figure 2 and 3 graphs

Table 2: Application of G4 Guidelines (Reporting Period 2016-2017)

2016- G4 Standard system								
	General - 59 standards		Economic - 13 standards		Environment - 26 standards		Social -30 standards	
	Compliance	Score	Compliance	Score	Compliance	Score	Compliance	Score
Commercial Bank	49	0.875	7	0.5384615	3	0.115384615	18	0.6
Peoples Bank	45	0.8035714	8	0.6153846	2	0.076923077	19	0.633333
PABC	39	0.6964286	3	0.2307692	1	0.038461538	11	0.366667
Amana	30	0.5357143	3	0.2307692	1	0.038461538	6	0.2
Sampath Bank	57	1.0178571	13	1	26	1	30	1
DFCC	30	0.5357143	3	0.2307692	1	0.038461538	8	0.266667
HNB	31	0.5535714	5	0.3846154	7	0.269230769	9	0.3
MBSL	57	1.0178571	9	0.6923077	26	1	27	0.9
NSB	52	0.9285714	9	0.6923077	2	0.076923077	19	0.633333
NTB	49	0.875	2	0.1538462	10	0.384615385	13	0.433333
Seylan Bank	48	0.8571429	13	1	26	1	30	1
BOC	33	0.5892857	3	0.2307692	2	0.076923077	20	0.666667

As aforementioned consolidated integrated reporting standards are introduced in the year 2016 and it's effective from 2018. Therefore in the 2016-2017 reporting period companies applied G4 guidelines. Banks compliance with the G4 guidelines is presented above. The level of disclosures follows the similar pattern as 2017. Mostly bank discloses their social performance. Then economic performance and enviromental disclosures stand at the last.

Table 3: Descriptive Statistical Analysis of level of disclosures between banks and finance companies

Group Statistics					
	Sector	**N**	**Mean**	**Std. Deviation**	**Std. Error Mean**
Economic	Banks	12	44.8708	24.72908	7.13867
	Finance Companies	20	38.461	33.20287	7.42439
Environmental	Banks	12	23.9125	30.99327	8.94699
	Finance Companies	20	20.6535	30.67382	6.85887
Societal	Banks	12	57.4075	26.16573	7.5534
	Finance Companies	20	45.9245	20.19436	4.5156

Social disclosures of the banks reported the highest mean score of 57.41 ($\sigma = 26.17$). Similarly, finance companies also reported the highest mean score with the social disclosures ($\mu=45.92$, $\sigma = 20.19$). The mean scores of all three pillars indicate no significant difference between banks and Finance Companies.

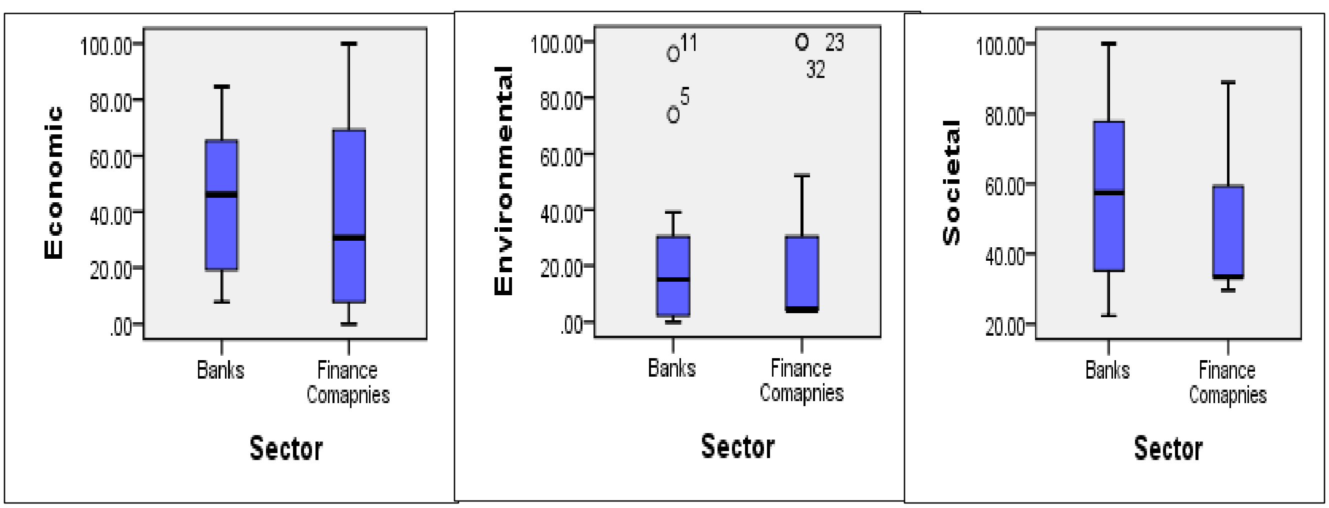


Figure 4: Presentation of reporting practices differences in the box plot

The box plot graphs endorse the descriptive statistical results. However, 2 banks and 2 finance companies (Sampath Bank, Seylan Bank, Peoples Leasing Finance Company and Mercantile Investment) present as outliers due to their level of environmental disclosures compared to others in the sector.

Independent Sample T-Test is performed to determine whether there is a statistically significant difference between banks and finance companies.

Table 4: Independent sample test

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Economic	Equal variances assumed	1.390	.248	.578	30	.568	6.40983	11.09013	-16.23924	29.05890
	Equal variances not assumed			.622	28.417	.539	6.40983	10.29962	-14.67403	27.49369
Environmental	Equal variances assumed	.000	1.000	.290	30	.774	3.25900	11.24341	-19.70310	26.22110
	Equal variances not assumed			.289	23.108	.775	3.25900	11.27354	-20.05607	26.57407
Societal	Equal variances assumed	3.305	.079	1.393	30	.174	11.48300	8.24069	-5.34674	28.31274
	Equal variances not assumed			1.305	18.872	.208	11.48300	8.80025	-6.94459	29.91059

Levene's Test with a p-value of 0.248 for economic disclosures indicates that variances are equal across the two groups (Banks and Finance Companies). The t= 0.578 with a p-value of 0.568 ($p>0.05$) deduce that there is no statistically significant difference in economic disclosures between banks and finance companies. Test results are similar to environmental and social disclosures. Levene's Test p values of 1.000 and 0.079 confirm the assumption of equal variances are assumed. Then, the respective t values 0.029 and 1.393 with p-values of 0.074 and 0.174 concludes that there's no statistically significant difference in the amount of environmental and social disclosures between banks and finance companies. Each variable 95% Confidence Interval for mean values contain zeros; Economic -16.2392 : 29.05890, Environmental -19.70310 : 26.22110 , and Social -5.34674 : 28.31274, ratify that the results are not significant at the given significance levels.

Paired Sample T-Test results are analyzed to compare the banks' sustainability content between two years 2016/2017 and 2017/2018.

Table 5: Paired Sample Correlation Analysis

Paired Samples Correlations				
		N	Correlation	Sig.
Pair 1	Economic 2017 and Economic 2016	12	.882	.000
Pair 2	Environmental 2017 and Environmental 2016	12	.827	.001
Pair 3	Social 2017 and Social 2016	12	.784	.003

2017 economic, environmental, and social disclosures and 2016 economic, environmental, and social disclosures are statistically correlated with the respective r values of 0.882, 0.827, and 0.784 (p-values 0.000, 0.001, and 0.003).

Table 6: Paired Sample Test

Paired Samples Test										
		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Economic 2017 and Economic 2016	-5.13000	14.42134	4.16308	-14.29288	4.03288	-1.232	11	.244
Pair 2	Environmental 2017 and Environmental 2016	-10.38250	23.19655	6.69627	-25.12088	4.35588	-1.550	11	.149
Pair 3	Social 2017 and Social 2016	-.92583	17.85186	5.15339	-12.26836	10.41670	-.180	11	.861

The economic disclosures (t = -1.232, p> 0.05) environmental disclosures (t = -1.550, p> 0.05) social disclosures (t = -.180, p> 0.05) are not significantly differ between two years.

Table 7 ascertains the relationship between the level of disclosures and the financial performance.

Table 7: Pearson Correlation Analysis

		General	Economic	Environmental	Societal
ROE	Pearson Correlation	.240	.141	-.061	.137
	Sig. (2-tailed)	.185	.442	.741	.454
	N	32	32	32	32
ROA	Pearson Correlation	-.010	.015	-.034	-.135
	Sig. (2-tailed)	.955	.935	.854	.463
	N	32	32	32	32

**. Correlation is significant at the 0.01 level (2-tailed).

Economic disclosures with ROE / ROA results p-value of 0.185 and 0.442 respectively, which indicate that the level of disclosures do not statistically influence on performance. Likewise, the degree of environmental and social disclosures do not significantly influence financial measures; ROA and ROE with respective p- Values of 0.741 and 0.454.

Table 8: Linear Regression Analysis

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.900	3	.967	.750	.531[b]
	Residual	36.073	28	1.288		
	Total	38.973	31			

a. Dependent Variable: ROA

b. Predictors: (Constant), Societal, Environmental, Economic

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	140.787	3	46.929	.750	.531[b]
	Residual	1751.283	28	62.546		
	Total	1892.071	31			

a. Dependent Variable: ROE

b. Predictors: (Constant), Societal, Environmental, Economic

The regression model developed to measure the association of level of general, social, environmental, and social disclosures fails to ascertain a relationship with the financial measures (ROA and ROE) with p values of 0.531 and 0.531

5.0 DISCUSSION

Majority of the banks and finance companies in Sri Lanka adhere to the Consolidated GRI Sustainability Reporting Standards issued by the Global Sustainability Standards Board (GSSB). Sustainability reporting practices are concentrated on the social disclosures rather environmental risk disclosures. Similar results have been observed in Malaysian Banking sector by Harun, et al. (2013). The issues bothering on employee/ community investment such as training and development, equal opportunities, defined benefit plans, employee health and safety and interactions with the local community has gained more attention in terms of sustainability disclosures (Khan, et al., 2010; Nwobu, et al., 2017). The precedent statement reflects the poor understanding of environmental risk associated with contemporary environmental issues such as global warming, climate change, waste disposal etc. Therefore, Sri Lankan banking and finance sector disclosures are inconsistent with the disclosures produce by Dhaka Stock Exchange-listed banks (Akter, et al., 2017).

The comparative analysis of two level of disclosures; G4 standards and GRI standards over two years period 2016/2017 and 2017/2018 shows no improvement over the period. 2016/2017 level of disclosures is equal to the 2017/2018 level of disclosures. Therefore, the findings of the study do not agree with the (Mahmud, et al., 2019; Garg, 2015; Sobhan, et al., 2011).

Because of the growing interest in reporting economic, social, and environmental performance, the study is concerned with measuring the relationship between sustainability disclosures and financial performance. It concludes that the level of disclosures has no correlation or association with the financial performance measure. Aupperle, et al., (1985) report the similar results in a study of firms listed in the Forbes. Investigation of UK top 10 companies over 1988-1997 period fail to ascertain a relationship between the variables since p-value > 0.05.

6.0 CONCLUSION

The study aims to discover the pattern of sustainability disclosure practices of companies in the finance sector in Sri Lanka. The results elucidate that financial companies are more interested in social disclosures than disclosing indirect economic impact and environmental performance. Moreover, the study confirms that there is no improvement in the level of disclosures over the period of time. In addition, the analysis reveals sustainability disclosures of a firm create no impact on the Return on Equity and Return on Assets. Therefore, the findings resulted in rejection of the hypotheses developed.

7.0 RECOMMENDATIONS

Regulators continuous monitoring of sustainability disclosure practices is required to maintain a balance between each layer/pillar. Besides, banks and financial institutes require self-governance in order to contribute towards social, economic and environmental performance. Reporting on sustainability does not provide immediate benefits, enhanced transparency, reduced risk, increased stakeholder involvement will produce benefits in the long-run.

This paper provides inference for future studies. Future scholars can determine causes for sustainability reporting while analyzing the disclosures over the extended period. Additionally, cross-sectional analysis across the different industries can be performed by identifying challenges encountered by banks in reporting social, economic and environmental performance.

8.0 REFERENCES

Abeywardana, N. L. E. &Panditharathna, K. M., 2016. The extent and determinants of voluntary disclosures in annual reports: evidence from banking and finance companies in Sri Lanka. Accounting and Finance Research , 5(4), p. 147.

Akter, N., Siddik, A. B. and Mondal, S. A., 2017. Sustainability Reporting on Green Financing: A Study of Listed Private Commercial Banks in Bangladesh. *Journal of Business and Technology (Dhaka),* 12(2), pp. 14-28.

Albetairi, H. T. A., Kukreja, G. and Hamdan, A., 2018. Integrtaed Reporting and Financial Performance: Empirical Evidences from Baharaini Listed Insurance Companies. *Accounting and Finance Research,* 7(3), pp. 102-110.

Alshehhi, A., Nobanee, H. and Khare, N., 2018. The Impact of Sustainability Practices on Corporate Financial Performance: Literature Trends and Future Research Potential. *Sustainability,* Volume 10.

Aupperle, K. E., Carroll , A. B. and Hatfield, J. D., 1985. An Empirical Examination of the Relationship between Corporate Social Responsibility and Profitability. *he Academy of Management Journal,* 28(2), pp. 446-463.

Baumunk, J. A., 2009. Sustainability reporting and XBRL.

Buys, P., Oberholzer, M. and Andrikopoulos, P., 2011. An Investigation of the Economic Performance of Sustainability Reporting Companies Versus Non-reporting Companies: A South African Perspective. *Journal of Social Science,* 29(2), pp. 151-158.

Darus, F., Mad, S. and Nejati, M., 2015. Ethical and Social Responsibility of Financial Institutions: Influence of Internal and External Pressure. *Procedia Economics and Finance,* Volume 28, p. 183 – 189 .

Daub, C. H., 2017. Assessing the Quality of Sustainability Reporting: An Alternative Methodological Approach. *Journal of Cleaner Production,* 15(1), pp. 75-85.

Dhaliwal, D. S., Li, O. Z. and Tsang, A., 2011. Voluntary non-financial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *The Accounting Review,* 86(1), pp. 59-100.

Faisal, F., Tower, G. and Rusmin, R., 2012. Legitimising Corporate Sustainability Reporting Throughout the World Journal. *Australasian Accounting, Business and Finance Journal,* 6(2), pp. 19-34..

Freeman, R. E., 1984. *Strategic Management: A Stakeholder Approach.* London: Financial Times Prentice Hall.

Garg, P., 2015. Impact of Sustainabilty Reporting on Firm Perfromance of Companies in India. *International Journal of Marketing and Business Communication,* 4(3), pp. 38-45.

Global Sustainability Standards Board (GSSB), 2016. *GRI 101 Foundation.* Amsterdem: s.n.

Griffin, J. J. and Mahon, J. F., 1997. The Corporate Social Performance and Corporate Financial Debate: Twenty Five Years of Incomparable Research. *Business Society,* 36(1), pp. 5-31.

Harmoni , A., 2013. *Stakeholder-Based Analysis of Sustainability Report: A Case Study on Mining Companies in Indonesia.* s.l., s.n.

Harun, A., Rashid, A. A. and Alrazi, B., 2013. Measuring the quality of sustainability disclosure among the Malaysian commercial banks. *World Applied Sciences Journal,* 28(13), pp. 195-201.

Isenmann, R. & Kim, K. C., 2006. Interactive Sustainability Reporting - Developing Clear Target Group Tailoring and Stimulating Stakeholder Dialogue. in Schaltegger, S., Bennett, M. & Burritt, R., eds. pp. 535-555.

James, M. L., 2014. The Benefits of sustainabilty and Integrated Reporting: An investigation of Accounting Major's Perception. *Journal of Legal, Ethical and Regulatory Issues,* 17(2), pp. 93-113.

Jones, S., 2005. Notes of the University of Sydney Pacioli Society: Sustainability reporting in Australia: An empirical overview. *Abacus,* Volume 41, pp. 211-216.

Kabajeh, M. A. M., Nu'aimat, S. M. A. and Dahmash, F. N., 2012. The Relationship between the ROA, ROE and ROI Ratios with Jordanian Insurance Public Companies Market Share Prices. *International Journal of Humanities and Social Science* , 2(11), pp. 115-120.

Khan, A., Muttakin, M. B. & Siddiqui, J., 2013. Corporate Governance and Corporate Social Responsibility Disclosures: Evidence from an Emerging Economy. *Journal of Business Ethics,* 114(2), pp. 270-223.

Khan, H.-U.-Z., Islam, M. A., Fatima , J. K. and Ahmed, K., 2010. Corporate sustainability reporting of major commercial banks in line with GRI: Bangladesh evidence. *International Journal of Law and Management,* 52(2), pp. 82-109.

Lindblom, C. K., 1994. *The Implication of Organization Legitimacy for Corporate Social Performance and Disclosure.* New York, s.n.

Lopez, M. V., Garcia, A. and Rodriguez, L., 2007. Sustainable Development and Corporate Performance: A Study Based on the Dow Jones Sustainability Index. *Journal of Business Ethics,* Volume 75, pp. 285-300.

Mahmud, S., Biswas, T. and Islam, N., 2019. Sustainability Reporting Practices and Implications of Banking Sector of Bangladesh according to Global Reporting Initiative (GRI) Reporting Framework: An Empirical Evaluation. *International Journal of Business and Management Invention,* 6(3), pp. 1-14.

Michael, B. and Gross, R., 2004. Running Business Like a Government in The New Economy Lessons for Organizational Design and Corporate Governance. *Corporate Governance* , 4(3), pp. 32-46.

Murray, A., Sinclair, D., Power, D. and Gray, R., 2006. Do Financial Markets Care About Social And Environmental Disclosure? ? Further evidence and exploration from the UK. *Accounting, Auditing and Accountability Journal*, 19(2), pp. 228-255.

Ngwakwe, C. C., 2010. Environmental Responsibility and Firm Performance: Evidence from Nigeria. *International Journal of Economics and Management Engineering,* 2(10), pp. 1055-1062.

Nwobu, O. A., Owolabi, A. and Iyoha, F. O., 2017. Sustainability Reporting in Financial Institutions: A Study of The Nigerian Banking Sector. *Journal of Internet Banking and Commerce,* 22(S8).

Oliver, C., 1991. Strategic responses to institutional processes. Academy of Management

Review, 16(1), pp. 145-179.

Preston, L. E. and O'bannon, D. P., 1997. The corporate social-financial performance relationship: A typology and analysis. *Business Society,* 36(4), pp. 419-429.

Ramdhony, D., 2015. Corporate Social Reporting by Mauritian Banks. *International Journal of Accounting and Financial Reporting,* 5(2), pp. 2162-3082.

Saragih, J. L., 2018. The Effects of Return on Assets (ROA), Return on Equity (ROE), and Debt to Equity Ratio (DER) on Stock Returns in Wholesale and Retail Trade Companies Listed in Indonesia Stock Exchange. *International Journal of Science and Research Methodology,* 8(3), pp. 348-367.

Shamil , M. M., Shaikh, J. M., Ho, P. and Krishnan, A., 2014. The influence of board characteristics on sustainability reporting : Empirical evidence from Sri Lankan firms. *Asian Review of Accounting,* 22(2), pp. 78-97.

Skouloudis, A., Evangelinos, K., Nikolaou, I. and Filho, W. L., 2011. An overview of corporate social responsibility in Greece: perceptions, developments and barriers to overcome. *Business Ethics: A European Review,* 20(2), pp. 205-226.

Sobhan, F. A., Zainuddin, Y., Amran, A. and Baten, A., 2011. Corporate sustainability disclosure practices of selected banks: A trend analysis approach. *African Journal of Business Management,* 5(7), pp. 2794-2804.

Usenko, L. and Zenkina, I., 2010. Modern Trends and Issues of Corporate Reporting Data Disclosures on Organization ACtivities. *Mediterranean Journal of Science,* Volume 7, pp. 212-220.

Welbeck, E. E., Owusu, G. M. Y., Bekoe, R. A. and Kusi, J. A., 2017. Determinants of environmental disclosures of listed firms in Ghana. *International Journal of Corporate Social Responsibility,* pp. 2-11.

Yılmaz, I., 2013. Social Performance vs. Financial Performance: CSR disclosures as an indicator of Social Performance. *International Journal of Finance and Banking Studies,* 2(2), pp. 56-65.

Zyada, A. A. H., 2017. The Impact of Sustainability on the Financial Performance of Jordanian Islamic Banks. *International Journal of Economics and Finance*, 9(1), pp. 55-63.

Appendix A

Disclosure Index		
G4 Guidelines	GRI Guidelines	
General Disclosures		
G4-3	102-1	Name of the organisation
4	102-2	Activities, brands, products and services
5	102-3	Location of headquarters
6	102-4	Location of operations
7	102-5	Ownership and legal form
8	102-6	Markets served
9	102-7	Scale of the organisation
10n11	102-8	Information on employees and other workers
12	102-9	Supply chain
13	102-10	Significant changes to the organisation and its supply chain
14	102-11	Pecautionary Approach
15	102-12	External initiatives
16	102-13	Membership of associations
1	102-14	Statement from senior decision-maker
2	102-15	Key impacts, risks, and opportunities
56	102-16	Values, principles, standards, and norms of behaviour
57	102-17	Mechanisms for advice and concerns about ethics
58		Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisation's integrity including whistle-blowing mechanisms or hotlines
Governance 34	102-18	Governance structure
35	102-19	Delegating authority
36	102-20	Executive-level responsibility for economics, environmental and social topics
37	102-21	Consulting stakeholders on economic, environmental and social topics
38	102-22	Composition of the highest governance body and its committees
39	102-23	Chair of the highest governance body
40	102-24	Nominating and selecting the highest governance body
41	102-25	Conflicts of interest
42	102-26	Role of highest governance body in setting purpose, values and strategy purpose, values and strategy
43	102-27	Measures taken to develop and enhance the collective knowledge of the highest governing body on economic, environmental and social topics
44	102-28	Processes and actions taken in response to evaluation of the performance of the highest governance body's in respect to governance of performance economic, environmental and social topics
45	102-29	Identifying and managing economic, environmental, and social impacts
46	102-30	Effectiveness of risk management processes
47	102-31	Review of economic, environmental, and social topics
48	102-32	Highest governance body's role in sustainability reporting
49	102-33	Communicating critical concerns
50	102-34	Nature and total number of critical concerns
51	102-35	Remuneration policies
52	102-36	Process for determining remuneration
53	102-37	Stakeholders' involvement in remuneration
54	102-38	Annual total compensation ratio of highest paid individual
55	102-39	Percentage increase in annual total compensation ratio of highest paid individual
24	102-40	List of stakeholder groups
	102-41	Collective bargaining agreements
25	102-42	Identifying and selecting stakeholders
26	102-43	Approach to stakeholder engagement
27	102-44	Key topics and concerns raised
17	102-45	Entities included in the consolidated financial statements
18	102-46	Defining report content and topic boundaries

19	102-47	List of material topics
20		Material Aspect boundaries within the organization
21		Material Aspect boundaries outside the organization
22	102-48	Restatements of information
23	102-49	Changes in reporting
Reporting Cycle	102-50	Reporting period
29	102-51	Date of most recent report
30	102-52	Reporting cycle
31	102-53	Contact point for questions regarding the report
	102-54	Claims of reporting in accordance with the GRI Standards
32	102-55	GRI content index
33	102-56	External assurance
Economic Disclosures		
EC 1	201-1	Direct economic value generated and distributed
EC 2	201-2	Financial implications and other risks and opportunities due to climate change
EC 3	201-3	Defined benefit plan obligations and other retirement plans
EC 4	201-4	Financial assistance received from government
EC 5	202-1	Ratios of standard entry level wage by gender compared to local minimum wage
EC 6	202-2	Proportion of senior management hired from the local community
EC7- I0irect Ec	203-1	Development of infrastructure and service supported
EC8	203-2	Significant indirect economic impacts
EC 9	204-1	Proportion of spending on local suppliers
SO 3	205-1	Operations assessed for risks related to corruption
	205-2	Communication and training on anti-coruption policies and procedures
SO 5	205-3	Confirmed incidents of corruption and actions taken
	206-1	Legal action for anti competitive behaviour , anti trust and monopoly practices
Environmnetal Disclosure		
EN 1	301-1	Materials used by weight or volume
EN 2		Percentage of materials used that are recycled input materials
EN 3	302-1	Energy consumption within the organisation
EN 4	302-2	Energy consumption outside the organization
EN 5	302-3	Energy intensity
EN 6	302-4	Reduction of energy consumption
EN 7/ EN 27	302-5	Mitigation of environment impact of product and service
	304-1	Operational sites owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas
	304-2	Significant impacts of activities, products and services on biodiversity
	304-3	Habitats protected or restored
	304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations
EN 15	305-1	Direct (Scope 1) GHG emissions
EN 16	305-2	Energy indirect (Scope 2) GHG emissions
EN 17	305-3	Other indirect (Scope 3) GHG emissions
EN 18	305-4	GHG emissions intensity
EN 19	305-5	Reduction of GHG emissions
EN 20	305-6	Emissions of ozone-depleting substances (ODS)
EN 21	305-7	Nitrogen oxides (NOx), sulphur oxides (SOx) and other significant air emissions
EN 22	306-1	Water discharge by quality and destination
EN8	306-2	Waste by type and disposal method
EN 10		Percentage and total volume of water recycled and reused
EN 25	306-4	Transport of hazardous waste
EN 9	306-5	Water bodies affected by water discharges and/ or runoff
EN 31		Total environmental protection expenditures and investments by type
EN 32	308-1	New suppliers that were screened using environmental criteria
EN 34		Number of grievances about environmental impacts filed, addressed and resolved through formal grievance mechanisms

Socieatal Disclosures		
LA 1	401-1	New employee hires and employee turnover
LA2	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees
LA 3	401-3	Parental leave
LA 4	402-1	Minimum notice periods regarding operational changes
LA 5	403-1	Workers representation in formal joint management-worker health and safety committees
LA 6	403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities
LA 7	403-3	Workers with high incidence or high risk of diseases related to their occupation
LA 8	403-4	Health and safety topics covered in formal agreements with trade unions
LA 9	404-1	Average hours of training per year per employee
LA 10	404-2	Programs for upgrading employee skills and transition assistance programs
LA 11	404-3	Percentage of employees receiving regular performance and career development reviews
LA 12	4051-1	Diversity of governance bodies and employees
LA 13	405-2	Ratio of basic salary and remuneration of women to men
LA 16		Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms
HR3	406-1	Incidents of discrimination and corrective actions taken
HR4	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk
HR 5	408-1	Operations and suppliers at significant risk for incidents of child labour
HR6	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour
SO 1	413-1	Operations with local community engagement, impact assessments, and development programs
SO2	413-2	Operations with significant actual or potential negative impact on local communities
SO 10	414-1	New suppliers that were screened using social criteria
PR 1	416-1	Assessment of the health and safety impacts of product and service categories
PR 2	416-2	Incidents of non-compliance concerning the health and safety impacts of products and services
PR3	417-1	Requirements for product and service information and labelling
PR4	417-2	Incidents of non-compliance concerning product and service information and labelling
PR 6		Sale of banned or disputed products
PR7	417-3	Incidents of non-compliance concerning marketing communications
PR5		Results of surveys measuring customer satisfaction
PR8	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data
PR 9	419-1	Non-compliance with laws and regulations in the social and economic area