THE IMPACT OF SUSTAINABILITY REPORTING PRACTICES ON FINANCIAL PERFORMANCE FROM POWER AND ENERGY SECTOR ORGANISATIONS IN SRI LANKA

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Abstract

Sustainability reporting integrates the organisation's economic, environmental and social performance towards achieving better financial performance and has become a contemporary issue due to the absence of a precise model or a rigid regulatory framework in this arena. The main objective of this study is to examine the impact of sustainability reporting practices on the financial performance of power and energy sector organisations in Sri Lanka. Another objective of this study was to determine the level of sustainability reporting practices in power and energy sector organisations. Sustainability disclosures were measured using social, economic, and environmental sustainability initiatives, and the company performance was measured through Return on Assets (ROA) and Sales Growth (SG). This study was based on ten power and energy companies listed in CSE in Sri Lanka and Government corporations in the power and utility sectors. The sustainability disclosures in the annual reports of the selected companies for the past nine years (2012-2020) were analysed. Accordingly, the author derived a disclosure index from the Global Reporting Initiative (GRI) guidelines, which consist of 91 parameters to evaluate the content of the reports of organisations in the power and energy sector. The analysis of the study's data has been done by employing the panel data analysis research technique. Descriptive statistics have been used to assess the level of sustainability reporting, and correlation matrix and panel data analyses were used to determine the impact of sustainability reporting on financial performance in power and energy sector organisations in Sri Lanka. Based on the research findings of the study, it was concluded that there is a negative association between the level of sustainability reporting and Return on Assets (ROA) as well as Sales Growth (SG). Finally, sustainability reporting disclosure does not affect a firm's financial performance (ROA and Sales Growth) in power and energy sector organisations in Sri Lanka. It is recommended that future research can be further improved by using mixed research methods.

Keywords: Global Reporting Initiatives, Financial Performance, Sustainability Reporting, Power, And Energy Sector Organisations

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Introduction

Sustainability reporting has evolved over many decades mainly because of the changing expectations of users of sustainability information (Dissanayake & Ajward et al., 2019). Traditional financial reporting, comprising mainly economic activities, is losing its relevance due to the growing importance of social and environmental issues. Thus, corporate reporting that gives a complete picture of firms' performance towards the triple bottom line (economy, society, and environment) is gaining momentum. Such reporting is called corporate sustainability (CS) or triple-bottom-line reporting. It is also an intrinsic element of integrated reporting, a recent development combining financial and non-financial performance analysis (Global Reporting Initiatives, 2020).

The absence of sustainability reporting is one of the concerns of stakeholders. It may damage the reputation of the firm in society, and it will lead to a loss of public faith. In this context, there is a research debate regarding the role of sustainable reporting in optimising the firm's financial performance. When considering sustainability practices in literature, many of the studies have been done based on the perspective of developed countries cited in Dissanayake, (2016). There is a dearth of research in developing countries cited in Dissanayake, (2016). Also, found that the average level and quality of disclosure are the highest for Japanese firms, followed by India and South Korea. However, in the case of Indonesia, the average score is meagre.

Furthermore, found a significant difference in overall sustainability disclosure between the Asian countries. Moreover, investigated sustainability reporting in different regions of the world and examined the social and environmental aspects of the sustainability performance of companies in fifteen Asian countries. They concluded that Asian companies appeared to be reporting less than European companies. Bodhanwala and Bodhanwala (2018) found a significant positive relationship between sustainability reporting and firm performance measures in Indian firms. This is an example of the South Asian Region.

When considering the Sri Lankan context, limited studies have been undertaken on sustainability reporting practices. Dissanayake et al. (2019) stated that since sustainability reporting practice is a non-mandatory requirement, there may be considerable variations from high to low in sustainability reporting practices in the corporate sector in Sri Lanka. Athukorala & Tilakasiri, (2018) mentioned that sustainability reporting practices are limited to the banking, finance, and insurance sectors in Sri Lanka. Moreover, power and energy companies significantly impact the environment and our society. Therefore, each company is responsible for reducing impacts and guiding the industry to more sustainable practices. So, energy firms disclose sustainability information to stakeholders to determine their environmental performance. Finally, no prior studies explicitly dealt with the impact of sustainability reporting on the financial performance of power and energy sector companies in Sri Lanka. Hence, investigating this unresolved issue is very important for economic decision-makers. To fill this gap, the current study is trying to examine the impact of sustainability reporting on the financial performance of power and energy sector companies in Sri Lanka.

The identified research gap leads to **research on the** question, "**Do sustainability reporting practices impact the financial performance of organisations in the power and energy sector in Sri Lanka*?"*** The researcher researched to answer the following sub-questions based on the main question: a) What is the level of sustainability reporting practices of organisations in the power and energy sector in Sri Lanka? b) What is the relationship between sustainability reporting practices and the financial performance of organisations in the power and energy sector in Sri Lanka? c) How does sustainability reporting impact key financial indicators such as sales growth return on assets? The main objective of

this research is to examine the adoption of sustainability reporting practices and their impact on the financial performance of power and energy sector organisations in Sri Lanka. To achieve this, the study sets the following sub-objectives: a) To ascertain the current level of sustainability reporting practices of organisations in the power and energy sector in Sri Lanka. b) To examine the relationship between sustainability reporting practices and the financial performance of organisations in power and energy sector in Sri Lanka. c) To assess the impact of sustainability reporting on key financial indicators such as sales growth returns on assets.

Literature Review

This section reviews the key concepts in existing theoretical and empirical literature related to the impact of sustainability reporting practices on the financial performance of organisations.

Theoretical Review

Theoretical literature review can be classified into the following sections: Stakeholder theory versus shareholder theory, Agency theory and legitimacy theory.

The stakeholder theory is one of the most dominant theories applied in the previous literature to explain voluntary sustainability reporting behaviour. According to the stakeholder theory, business entities are responsible to all other groups with a vested interest in the business apart from shareholders, whose sole objective is value creation through profit maximisation.

Agency theory is a separation of ownership and control of the company that explains the relationship between principals and agents. In this relationship, the principal hires an agent to perform work. Agency conflict, which arises due to information irregularity, destroys the smoothness of the relationship. An adequate level of sustainable disclosures bridges the gap between insiders and outsiders.

Legitimacy theory emphasises that organisations continually attempt to ensure that they are perceived as functioning within the bond and norms of the society in which they operate. Legitimacy theory implies that a social contract exists between a business organisation and its respective societies.

Empirical Review

There are several studies investigated this relationship. However, the evidence on sustainability reporting and financial performance seems to be inconsistent since it provides contradictory findings. Some scholars have found that there is a positive impact on sustainability reporting on financial performance as other scholars found there is a negative impact on sustainability reporting and financial performance (Buallay, 2019) and studied the relationship between corporate sustainability and firm performance disclosure in Asian countries. The study found that the average level and quality of disclosure are the highest for Japanese firms, followed by India and South Korea. However, in the case of Indonesia, the average score is very low. Further, the study found a significant difference in the disclosure of overall sustainability as well as components of sustainability between the countries.

Further, examined the sustainability reporting and financial performance of publicly listed Malaysian companies. The regression results suggested that economic, social and environmental sustainability reporting positively affects a company's financial performance, especially on ROE and ROA. Moreover, Bodhanwala and Bodhanwala (2010) examined the impact of corporate sustainability on firm profitability in India. The study reveals a significant positive relationship between sustainability and firm performance measures (return on invested capital, return on equity, return on assets and earnings per share).

In addition to the above, Fazle et al. (2021) identified that there is a negative relationship between sustainability reporting practices and return on equity as well as earnings per share in financial companies within the Nordic region (Sweden, Denmark, Finland and Norway) for the years including 2015–2019. However, the above authors identified a positive relationship between sustainability reporting practices and return on assets. In the context of Indian non-financial firms, Aggarwal (2013) studied the impact of CSP on financial performance over a study period of two years and reported a positive but insignificant impact of CSP on financial performance measured by return on assets (ROAs) and growth in total assets. Further, Rahi et al. (2021) found that only partially social performance disclosure is associated with a company's financial performance. Economic performance disclosure and environmental disclosures do not significantly influence a company's financial performance in companies listed in the Indonesian Stock Market.

Hence, the conclusions arrived at appear mixed and often contradictory. According to the above studies, different outcomes arose with respect to the association between sustainability reporting and financial performance. Therefore, it can be concluded that the external literature provides mixed evidence of the relationship between sustainability reporting and a firm's financial performance in other countries.

Prior studies provide no clear conclusion on the impact of sustainability on company performance and are an unresolved issue. Especially in Sri Lanka, a limited number of studies are available, and the studies are restricted to investigate a few sectors only, like, banking and finance sectors. Further, the power and energy sectors are critical to the supply of infrastructure facilities in the country. No previous studies have investigated the impact of sustainability reporting on financial performance in the power and energy sector in Sri Lanka. Hence, investigating this unresolved issue is very much crucial for economic decision-makers. Further, this study represents an important contribution to the Sustainability Reporting literature in Sri Lanka.

The following hypotheses were developed based on past literature review to achieve the research objectives.

H1: There is a significant association between sustainable reporting and financial performance, estimated via sales growth.

H2 = There is a significant association between sustainable reporting and financial performance via Return on Assets (ROA)

Research Methodology

Conceptual Framework

Figure 1 shows the conceptual framework of the study, which presents sustainability reporting and firm size as the independent variables and the financial performance of the organisation as a dependent variable, which can be measured through ROA and sales growth.

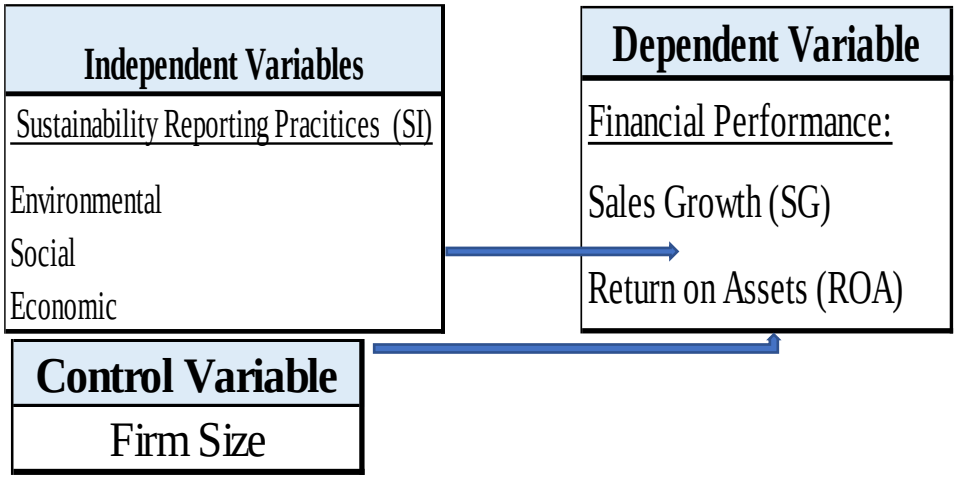

Figure: 1
Source: Author's Conceptual Framework

Research Philosophy

The research philosophy applied in current study was positivism, since this study is more focused on finding a single truth. A positivistic research philosophy is "a deductive approach which uses quantitative data", whereas the phenomenological methodology uses qualitative data (Bullay,2020). Therefore, a positivistic research philosophy was adopted for this study, as it allowed us to gather and analyse secondary quantitative data and test the research hypotheses.

Population and Study Sample

This study consists of all the power and energy companies listed in CSE in Sri Lanka and government corporations in power and utility sectors for the period of 09 years commencing 2012 to 2020, and it is considered the population of this study since the population consists of 10 organisations, the sample is treated as the same population.

Data Collection and Analysis Method

Secondary data was obtained for this study from annual publications by organisations in the power and energy sectors for nine years commencing 2012 to 2020. Most of the annual reports prior to 2012 were not available for selected organisations.

Sustainability reporting was analysed based on a sustainability index, which was self-developed based on the GRI guidelines. Each reporting element will be ranked 1 to 3, and points will be assigned based on the disclosure level. All 91 indicators used under economic, environmental, and social categories were scored under this scale for each company for the nine years. The outcome of the sustainability index will be statistically evaluated and based on the statistical interpretation. The researcher will conclude the level of sustainability reporting framework adoption by the power and energy sector organisations in Sri Lanka.

Measures of central tendency and dispersion such as mean, median and standard deviation were estimated to assess the level of sustainability reporting in power and energy sector organisations in Sri Lanka, which is the first objective of this study. Next, correlation and regression analysis were performed for the second objective of this study, which was to find out the impact of sustainability reporting on financial performance.

Panel Data Analysis

Panel data combines cross-sectional and time-series data used in economics to provide substantial information about economies. This model is the most appropriate methodology for the present study because it uses both cross-sectional and time-series data for the nine years between 2012 and 2020. To determine the relationship between sustainability reporting practices and the firm size with the financial performance, the multiple regression equations are as follows:

(01) The relationship between sustainability reporting and firm size with the sales growth

$$SG = c + \beta 1SR + \beta 2FS$$

(02) The relationship between sustainability reporting and firm size with the return on assets.

$$ROA = c + \beta 1SR + \beta 2FS$$

Note: Definitions of the above variables in the equations are given in Table 3.3

c ***= The intercept of the Regression , β1- β2 = Coefficient of variables***

SG = Sales Growth, ROA = Return on Assets

SR = Sustainability Reporting, FS = Firm Size

Data Analysis, Findings and Discussions

This section elaborates on the findings of the descriptive analysis, correlation and regression analysis.

Descriptive statistics

This section presents the descriptive statistics of both independent and dependent variables, that is, Sustainability Reporting Practices (Sustainability Index), Total Assets (TA), Return of Assets (ROA), and Sales Growth (SG) of both listed and government organisation of power and energy sector in Sri Lanka throughout 2012 to 2020 (See table 1)

Table1: Descriptive Statistics of all variables.

	ROA	SALES_GR...	SUS_INDEX	TOTAL_ASS...
Mean	0.045751	0.146322	0.375783	115559.1
Median	0.049795	0.116957	0.375458	9450.817
Maximum	0.300326	1.392336	0.582418	953306.0
Minimum	-0.504001	-0.903243	0.146520	795.9718
Std. Dev.	0.126987	0.304200	0.116718	246987.9
Skewness	-1.535183	0.737720	0.022924	2.403486
Kurtosis	8.846343	7.138471	1.901502	7.300284
Jarque-Bera	163.5258	72.38950	4.532996	155.9978
Probability	0.000000	0.000000	0.103675	0.000000
Sum	4.117625	13.16895	33.82051	10400320
Sum Sq. Dev.	1.435181	8.235833	1.212465	5.43E+12
Observations	90	90	90	90

Source: Author's calculation

In this study, the total number of observations was 90. Table 1 shows that the mean values for Return of Assets, Sales Growth, Sustainability Reporting Index and Total Assets are 0.04575, 0.1463,0.3757 and 115559.1, respectively. The standard deviation of ROA was 0.1269, with a minimum value of -

0.5040 and a maximum value of 0.3003. The minimum value for Sales Growth was -0.9032, the maximum value was 1.3923, and the standard deviation was 0.3042. For the independent variable of the sustainability reporting index, the maximum and minimum values were 0.5824 and 0.1465, with a standard deviation of 0.1167, respectively. Further, the other independent variable of Total Assets minimum value was 795.9718, the maximum value was 953306.0, and the standard deviation was 246987.9

Correlation matrix

The correlation matrix between dependent variables and independent variables is shown in Table 2

Table2: Correlation analysis

Variable	SI	TA	ROA	SG
SI	1			
TA	-0.014644253	1		
ROA	0.115435518	-0.366170874	1	
SG	-0.121292565	-0.100302944	0.06405386	1

Source: Author calculation

As per the correlation results in Table 2, there was a negative correlation between independent and dependent variables except for the sustainability reporting with ROA. Accordingly, the correlation between sustainability reporting and ROA was 0.115435518, and sustainability reporting and sales growth was -0. 0121292565. Further correlation between total assets and ROA was -0.366170874, and total assets and sales growth was -0.100302944. There was no strong correlation between the above variables since these balances are not close to the -1 or

Regression analysis

Regression analysis on the sustainability reporting and firm size with the return on assets.

Table3: Pooled Model- (Return on Assets)

Dependent Variable: ROA
Method: Panel Least Squares
Date: 03/31/23 Time: 16:29
Sample: 2012 2020
Periods included: 9
Cross-sections included: 10
Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.022399	0.042882	0.522335	0.6028
SUS_INDEX	0.119783	0.107791	1.111245	0.2695
TOTAL_ASSETS	-1.87E-07	5.09E-08	-3.679614	0.0004

R-squared	0.146200	Mean dependent var	0.045751
Adjusted R-squared	0.126572	S.D. dependent var	0.126987
S.E. of regression	0.118678	Akaike info criterion	-1.392033
Sum squared resid	1.225358	Schwarz criterion	-1.308706
Log likelihood	65.64150	Hannan-Quinn criter.	-1.358431
F-statistic	7.448689	Durbin-Watson stat	0.841581
Prob(F-statistic)	0.001033		

Source: Author calculation

The R square for the pooled model was 0.146200. Thus,15% ROA is explained by independent variables. The Sustainability Index was found to have a positive relationship with ROA and is not significant because its p-value is greater than 5%. Further, total assets were found to have a negative

relationship with ROA. However, the total asset was significant because its p-value is less than 5%. Overall, this model is appropriate since the P value of the F-statistic is less than 5%.

Table4: Random-effect model-(Return on Assets)

Dependent Variable: ROA
Method: Panel EGLS (Cross-section random effects)
Date: 03/31/23 Time: 17:03
Sample: 2012 2020
Periods included: 9
Cross-sections included: 10
Total panel (balanced) observations: 90
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.071720	0.052765	1.359226	0.1776
SUS_INDEX	-0.004034	0.117322	-0.034387	0.9726
TOTAL_ASSETS	-2.12E-07	1.07E-07	-1.973742	0.0516

Effects Specification	S.D.	Rho
Cross-section random	0.080888	0.4172
Idiosyncratic random	0.095609	0.5828

Weighted Statistics

R-squared	0.043450	Mean dependent var	0.016771
Adjusted R-squared	0.021461	S.D. dependent var	0.096273
S.E. of regression	0.095234	Sum squared resid	0.789054
F-statistic	1.975947	Durbin-Watson stat	1.244927
Prob(F-statistic)	0.144803		

Unweighted Statistics

R-squared	0.131196	Mean dependent var	0.045751
Sum squared resid	1.246891	Durbin-Watson stat	0.787812

Source: Author calculation

The R square for the random effect panel least square was 0.043450. Thus,4% ROA is explained by independent variables. The Sustainability Index was found to have a negative relationship with ROA and is insignificant because its p-value is more significant than 5%. Further, total assets were found to have a negative relationship with ROA, and total assets also were not significant because their p-value is greater than 5%. The probability F statistic tests whether the overall regression model is a good fit for the data and which is below 5%. Overall, this model was not appropriate since the P value of the F-statistic is greater than 5%.

The Hausman test selected the most appropriate model from the fixed and random effect models. The null hypothesis is a random effect model, while the alternative hypothesis is a fixed effect model.

Table5: Hauseman test (Return on Assets)

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.319946	2	0.5169

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
SUS_INDEX	-0.020035	-0.004034	0.003215	0.7778
TOTAL_ASSETS	-0.000000	-0.000000	0.000000	0.4842

Source: Author calculation

Based on the Hauseman test results show that the p-value is insignificant since its value is greater than 5%. Therefore, we should accept the null hypothesis the random effect model and reject the alternative hypothesis, the fixed effect model.

A regression analysis on the sustainability reporting and firm size with the sales growth is needed.

Table6: Pooled Model (Sales Growth)

Dependent Variable: SALES_GROWTH
Method: Panel Least Squares
Date: 03/31/23 Time: 16:39
Sample: 2012 2020
Periods included: 9
Cross-sections included: 10
Total panel (balanced) observations: 90

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.281111	0.109767	2.560980	0.0122
SUS_INDEX	-0.320018	0.275917	-1.159834	0.2493
TOTAL_ASSETS	-1.26E-07	1.30E-07	-0.964431	0.3375

R-squared	0.025134	Mean dependent var	0.146322
Adjusted R-squared	0.002724	S.D. dependent var	0.304200
S.E. of regression	0.303785	Akaike info criterion	0.487773
Sum squared resid	8.028831	Schwarz criterion	0.571100
Log likelihood	-18.94978	Hannan-Quinn criter.	0.521375
F-statistic	1.121530	Durbin-Watson stat	1.818763
Prob(F-statistic)	0.330445		

Source: Author calculation

The R square for the pooled model was 0.025134. Thus,2.5% sales growth is explained by independent variables. The Sustainability Index was found to have a negative relationship with sales growth and was not significant because its p-value is greater than 5%. Further, total assets were found to have a negative relationship with sales growth, and total assets also were not significant because their p-value is greater than 5%. Overall, this model is not appropriate since the P value of the F-statistic is greater than 5%.

Table7: Random-effect model (Sales Growth)

Dependent Variable: SALES_GROWTH
Method: Panel EGLS (Cross-section random effects)
Date: 03/31/23 Time: 16:49
Sample: 2012 2020
Periods included: 9
Cross-sections included: 10
Total panel (balanced) observations: 90
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.268201	0.119114	2.251627	0.0269
SUS_INDEX	-0.285660	0.296805	-0.962451	0.3385
TOTAL_ASSETS	-1.26E-07	1.53E-07	-0.822914	0.4128

Effects Specification	S.D.	Rho
Cross-section random	0.063888	0.0430
Idiosyncratic random	0.301352	0.9570

Weighted Statistics

R-squared	0.018325	Mean dependent var	0.123465
Adjusted R-squared	-0.004242	S.D. dependent var	0.298092
S.E. of regression	0.298724	Sum squared resid	7.763542
F-statistic	0.812007	Durbin-Watson stat	1.884372
Prob(F-statistic)	0.447302		

Unweighted Statistics

R-squared	0.024960	Mean dependent var	0.146322
Sum squared resid	8.030262	Durbin-Watson stat	1.821784

Source: Author calculation

The R square for the random effect panel least square was 0.018325. Thus,1.8% sales growth is explained by independent variables. The Sustainability Index was found to have a negative relationship with sales growth and was not significant because its p-value is greater than 5%. Further, total assets were found to have a negative relationship with sales growth, and total assets also were not significant because their p-value is greater than 5%. Overall, this model was not appropriate since the P value of the F-statistic is greater than 5%.

The Hausman test selected the most appropriate model from the fixed and random effect models. The null hypothesis is a random effect model, while the alternative hypothesis is a fixed effect model.

Table8: Hauseman test (Sales Growth)

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.489476	2	0.7829

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
SUS_INDEX	-0.089829	-0.285660	0.080596	0.4903
TOTAL_ASSETS	-0.000000	-0.000000	0.000000	0.8654

Source: Author calculation

Based on the Hauseman test results show that the p-value is insignificant since its value is greater than 5%. Therefore, we should accept the null hypothesis the random effect model and reject the alternative hypothesis, the fixed effect model.

Discussion

The study aimed to identify the impact of sustainability reporting practices on the financial performance of power and energy sector organisations in Sri Lanka. The level of sustainability reporting practices was achieved through descriptive statistics as per Table 9, depicted below. According to the median level of sustainability, reporting practices were identified as 0.375458 or 37.5% in the power and energy sector. Thus, 37.5% is the average level of sustainability reporting (SR Index) in Sri Lanka from 2012 to 2020 in the power and energy sector organisations in Sri Lanka (both listed and government corporations). This result is consistent with the findings of Eranga (2021), according to whom 35%-50% of the sustainability reporting practices of selected public companies in Sri Lanka had published sustainability reports.

Further, there are three dimensions in sustainability reporting practices: economy, environmental and social. This study has further analysed the level of sustainability reporting practices in each aspect separately.

Table9

	ECONOMY	ENVIRMENTAL	SOCIAL	SUS_INDEX
Mean	0.504938	0.317320	0.397222	0.375783
Median	0.518519	0.269608	0.423611	0.375458
Maximum	0.777778	0.666667	0.590278	0.582418
Minimum	0.148148	0.127451	0.145833	0.146520
Std. Dev.	0.138519	0.157519	0.101563	0.116718
Skewness	-0.306517	0.578176	-0.516412	0.022924
Kurtosis	2.413609	1.875576	2.511475	1.901502
Jarque-Bera	2.698748	9.755548	4.895190	4.532996
Probability	0.259403	0.007614	0.086501	0.103675
Sum	45.44444	28.55882	35.75000	33.82051
Sum Sq. Dev.	1.707682	2.208276	0.918036	1.212465
Observations	90	90	90	90

Source: Author calculation

According to table No. 9, the median economic disclosure level was 0.518519 or 51.9% in the power and energy sector. The further median level of environmental disclosure was identified as 0.269608 or 26.9%, and the median level of social disclosure was identified as 0.423611 or 42.3% in the power and energy sector. As per the above analysis, the highest level of disclosure has been done in the economic aspect and the lowest level in the environmental aspect in power and energy sector organisations. To achieve the main objective of this study, the impact of sustainability reporting practices on financial performance was measured using a correlation and regression analysis. As per the correlation results in Table 9, there was a negative correlation between independent and dependent variables except for the sustainability reporting with ROA. Accordingly, the correlation between sustainability reporting and ROA was 0.115435518, and sustainability reporting and sales growth was -0. 0121292565. Further correlation between total assets and ROA was -0.366170874, and total assets and sales growth was -0.100302944. The above variables had no strong correlation since these balances are not close to -1 or 1. A regression result is obtained based on panel data regression analysis using the random effect method as the chosen model for return on asset. Above Table summarises the model for the return of assets and interest in the R square statistic, 0.043450. This suggests that independent variables such as the sustainability reporting index and total assets predicted 4.3% of the variations in the return on assets.

The Sustainability Index was found to have a negative relationship with ROA and is insignificant because its p-value is greater than 0.05. Further, total assets were found to have a negative relationship with ROA, and total assets were also insignificant because their p-value was greater than 0.05. The probability F statistic tests whether the overall regression model is a good fit for the data and which is below 0.05. Overall, this model was not appropriate since the P value of the F-statistic is greater than 0.05. Further, regression result is obtained based on panel data regression analysis using the random effect method as the chosen model for sales growth. Last Table summarises the model for sales growth and interest, with the R-square statistic of 0.018325. This suggests that 1.8% of the variations in the sales growth were predicted by independent variables such as the sustainability reporting index and total assets. The Sustainability Index was found to have a negative relationship with sales growth and is significant because its p-value is greater than 0.05. Further, total assets were found to have a negative relationship with sales growth, and total assets were also insignificant because their p-value was greater than 0.05. The probability F statistic tests whether the overall regression model is a good fit for the data and which is below 0.05. Overall, this model was not appropriate since the P value of the F-statistic is greater than 0.05.

Conclusion

Sustainability Reporting Index (SI) has a negative and insignificant relationship with ROA and Sales Growth, based on the coefficient values of -0.004034 and -0.285660, respectively, suggesting the financial performance of power and energy companies in Sri Lanka is not driven by the Sustainability Reporting Index (SI). Further, Total Assets (TA) have a negative and insignificant relationship with ROA and Sales Growth, based on the coefficient values -.2.12 and -1.26, respectively, suggesting the financial performance of power and energy companies in Sri Lanka is not driven by Total Assets (TA). The results show that for each unit increase in the sustainability reporting index (SI), there is a decrease in return on assets by 0.004034 times the unit and a sales growth by 0.285660 times the unit. A further one-unit increase in total assets decreases the return on assets by 2.12 and the sales growth by 1.26. The following regression equation can be derived from the available data for predicting the return on assets and sales growth from the above results.

ROA = 0.071720 - 0.004034 (SI) - 2.12 (TA)

SG = 0.268201 - 0.285660 (SI) -1.26 (TA)

Where,

ROA = Return On Asset

SG = Sales Growth

SI = Sustainability Reporting Index

TA = Total Assets

However, the model explains that an increase in the sustainability reporting index and total assets does not affect the return on assets and sales growth. Furthermore, the sustainability index is negatively affected for all dependent variables: return on assets and sales growth. Further, total assets are negatively affected by all dependent variables: return on assets and sales growth.

Therefore, the findings resulted in the rejection of the hypotheses developed. The findings are in line with the literature review. The results obtained by Silva (2018) are consistent with this result of the study. Silva (2018) has concluded that there is no significant influence on institutes' financial performance from the sustainability disclosures in the listed banks and financial sector companies in Sri Lanka. Further, Kengatharan (2020) has concluded that sustainability disclosure in listed

manufacturing companies in Sri Lanka significantly negatively impacts financial performance. Moreover, Amina Buallay (2019) found that sustainability reporting positively affects the operational, financial and market performance in the manufacturing sector. However, on the other hand, sustainability reporting negatively affects the banking sector's operational, financial and market performance. This research contributes to the scarce literature and compares the level of sustainability reporting and its impact on performance in the manufacturing and banking sectors, two significant sectors in the global financial markets. Further, Rahi et al. (2021) found that only partially social performance disclosure is associated with a company's financial performance and economic performance disclosure and environmental disclosures do not significantly influence a company's financial performance in companies listed in the Indonesian Stock Market. Based on these results, it is concluded that there is a negative association between the sustainability reporting and total assets with Return on Assets (ROA) and Sales Growth (SG). Finally, sustainability reporting disclosure and total assets do not affect a firm's financial performance (ROA and Sales Growth).

The results have significant implications for policymakers, regulators and government authorities, as they can recognise the effect of sustainability reporting as the negative relationship between sustainability reporting disclosures and financial performance. Therefore, managers, directors, and investors should focus more on fulfilling and assessing sustainability practices and disclosures to drive the performance of the entities. Moreover, sustainability reporting is unpredictable in Sri Lanka compared with other established countries due to the absence of adequate application and inconsistent sustainability reporting practices. It was found that some firms reported economic, social, and environmental sustainability in previous years but did not report in the next year. Therefore, Sri Lankan companies should be encouraged to improve and upsurge alertness of the reputation of sustainability performance. Further, it was discovered that political influence, weather conditions, and government decisions all directly impact the financial performance of Power and Energy sector organisations. Furthermore, pricing formulas that have not been developed to allow for cost-reflective tariffs directly impact the financial performance of Power and Energy sector organisations in Sri Lanka.

Along with that, this study fulfils the gap by expanding this topic into various sectors, including banks, insurance and finance, plantations, diversified, construction and engineering, beverage, food and tobacco, telecommunications, and trading and manufacturing companies considering GRI latest guidelines in Sri Lankan capital market context. Therefore, managers, directors, and investors should focus more on fulfilling and assessing sustainability practices and disclosures to drive the performance of the entities.

Recommendation

Future research could use mixed research methods (quantitative and qualitative) supporting secondary data analysis with some primary sources, such as interviews with firms' managers, which might allow for a better understanding of motivations behind sustainability practices. This research can be further improved by incorporating a large range of variables that measure organisational financial performance to the selected few key variables used in this study. Furthermore, future research could examine the relationships between sustainability reporting and company non-financial performance in the Sri Lankan context. This also affected non-financial performance factors such as employee satisfaction, employee turnover, customer satisfaction, shareholder satisfaction and management attitude.

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