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

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Abstract

The sustainability reporting which integrates the organization's economic, environmental and social performance towards achieving better financial performance has become a contemporary issue due to the absence of a precise model or a rigid regulatory framework in this arena. 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. Accordingly, the author derived a disclosure index from the Global Reporting Initiative (GRI) guidelines which consist of 119 parameters to evaluate the content of the reports of listed banks and financial sector companies. Analysis provided 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. To serve this purpose, data was obtained from annual reports in the Security Exchange Commission (SEC), and companies' websites then analyzed quantitatively using SPSS 16 data analysis package.

The results of the study conclude that there's no significant difference in sustainability disclosures between listed banks and financial institutes and the number of disclosures has no significant influence on institutes' financial performance. Furthermore, the study confirmed that there's no significant

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difference between G4 framework disclosures (Adopted in 2016/2017 reporting period) and GRI guidelines (Adopted in 2017/2018 reporting period). Thereby, the study witnessed that businesses including financial institutes consume scarce resources, while paying poor attention in reporting their accountability towards the sustenance. Therefore, it needs recognizing sustainable responsibility.

Keywords

Corporate Disclosures; Financial Institutions; Financial Performance, Sustainability/Integrated Reporting

Introduction

The 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 has caused variances in reporting practices among the companies. Consequently, it has influenced on business value creation process differently.

Moreover 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 uplifts the business' efficiency, effectiveness and transparency and leads 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) recognizes the sustainability reporting standards (GRI Standards) as inspire firm accountability, manage risk, seize new opportunities, protect the environment,

improve the society while thriving economy by improving governance, reputation, stakeholder relations, and building trust.

Usenko and Zenkina (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 the society as it is involving in-service function (Nwobu, et al., 2017). However, the implications of banking operations with a diversified customer pool create demand for transparent disclosures for a broad range of stakeholders.

Likewise, the studies which examined sustainability reporting models adapted by the countries and the relationships between sustainability components and financial performance have questioned the true purpose of implementing sustainability reporting practices in the value creation process. Consequently, the commitments towards implementing voluntary reporting practices in a developing country like Sri Lanka can be influenced by the absence of a fixed model, recognized listing platform and the cost.

Therefore, the objective of this study is to examine the sustainability report content which integrates aforementioned three pillars and sustainability practices of the listed banks and finance companies that operate in the Colombo Stock Exchange, 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.

Literature Review

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 strengthens 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 jeopardize resulting a legitimacy gap. Therefore, the communication of the true value to the society by adopting a globally accepted disclosure strategy is vital.

Agency Theory

The theory explains principal-agent relationships between internal, connected and external stakeholders (Ross, 1973). 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).

Stakeholder Theory

Freeman (1984) stipulates the stakeholder theory which endorses firm's 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.

Hypotheses Development/ Empirical review

The scope of literature covers the existing studies on the level of sustainability disclosures and the association between sustainability disclosures and the firm's performance.

Abeywardana and Panditharathna (2016) pinpoint that there's no consensus between the firms about the level of voluntary disclosures including economic/ social performance. An empirical study conducted in Malaysia analyzing sustainable disclosures of 15 commercial banks and revealed that social disclosures dominate the sustainability reporting framework (Harun, et al., 2013). The findings further explain banks tempt to disclose more on labor conditions and decent work. Yang and Yaacob (2012) describe that external pressure has promoted the level of social disclosures. Additionally, a survey conducted in the Mauritian banking industry using five disclosure indexes

indicates human resource as the most favorite theme since it 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, labor practices and decent work, product responsibility, human rights, and the society. However, society disclosures lead with 100% compared to 91.6% of labor practices and decent work disclosures.

In contrast, a survey conducted with 26 listed private banks in Dhaka Stock Exchange reveals that energy reduction, and greenhouse gas emission disclosures report 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 exposed that the level of disclosures are very low and they are strongly associated with the environmental sensitivity (Welbeck, et al., 2017).

Likewise, the inconsistencies in previous researches resulted in developing the following hypothesis.

$H1_a$: There is a significant difference in the level of sustainable disclosures between banks and financial institutions.

An empirical study performed covering thirty banks listed in Bangladesh Chittagong Stock Exchange (CSE) and Dhaka Stock Exchange (DSE) has presented a year on year (2011-2015) analysis emphasizing the yearly differences in sustainability reporting practices. According to that, disclosure levels are varying from year 2011 to 2015 (Mahmud, et al., 2019). Sobhan, et al. (2011) performed a trend analysis in two banks over ten years in Bangladesh, presented a significant increase in the level of disclosures over the period of 2000 to 2009. Moreover, content analysis conducted in a sample which comprised of 20 Malaysian financial institutes over the period of 2008-2011 reveals an improvement of information disclosures with the passage of time (Darus, et al., 2015).

As discussed above the studies which have been conducted over decades have been produced mixed results. Therefore, the following hypothesis is developed to analyze further.

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

Daub (2017) declares that the quality of sustainable reporting depends on the use of 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 number of researches have been conducted recently to determine the relationship between sustainability reporting and the firm's performance.

Most of the studies provided 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 rise of demand increases the firm's return. Furthermore, Preston and O'bannon, (1997) explained 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 performed in Jordanian Islamic banks obtaining data from 2008-2014 ascertains a statistically significant relationship between sustainability and financial measures such as; ROA and ROE (Zyadat, 2017). A field survey conducted with 60 Nigerian manufacturing companies listed in Nigerian Stock Exchange and registered in Corporate Affairs Commission, identifies a significant difference in performance between environmental responsible firms and irresponsible firms (Ngwakwe, 2010). So, it establishes a positive relationship between sustainability driven business practices and ROA. Similarly, a panel data regressions analysis performed 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 and found mixed positive outcomes with different measures.

A study in Greece identified that the banks which adhere to GRI guidelines and include 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 haven't produced consistent results. There were some contrary evidences which shows no or negative relationships between variables. Aupperle, et al. (1985) analyzed the relationship between sustainability disclosures and profitability among the companies enlisted in Forbes and figure out no relationship between variables. Similarly, it was failed to establish a relationship between the amount of social, environmental disclosures and financial performance ($p > 0.05$) in the study conducted by Murray, et al. (2006) using the data in UK top 10 companies over 10 years period (1988-1997). Lopez, et al., (2007) divided110 firms quoted in the Dow Jones Sustainability Index into two groups to determine the impact of sustainability on the performance and found a negative impact. Similarly, Buys, et al. (2011) investigated the economic performance of sustainability reporting using data from McGregor BFA database from 2002-2009 and found that there's no relationship between sustainability reporting and performance.

The aforementioned studies have been produced contradictory results. Thereby, the following hypothesis is developed to study further.

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

Sri Lankan context

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

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

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. According to that, institutionalized processes along with the internal legitimacy distract the companies from social reporting.

However, the literature is lacking 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.

Methodology

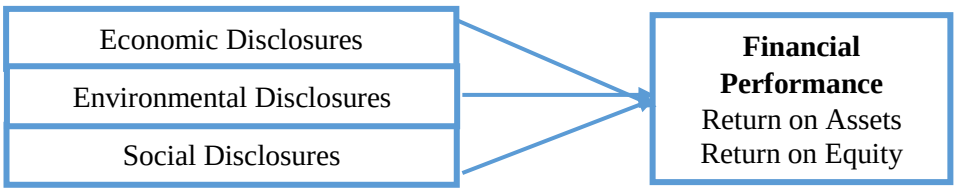
Sampling and Data Collection

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. Among them, 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 (13 banks) over two years 2016-2017 and 2017-2018 reporting period, because the companies have been shifted from G4 framework (2016-2017 reporting period) to GRI framework (2017-2018 reporting period) during the period.

Key Variables

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

Figure 1: Conceptual Framework



Sustainability Reporting (SR) 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 converts 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: $s = \frac{n}{30} \times 100\%$).

Return on Assets (ROA)

ROA indicates the profitability of the firm relation 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 assesses 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;

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

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;

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

Data Analysis

Descriptive statistical analysis, independent sampling t-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.

Findings and Analysis

The degree of adherence to the global reporting initiatives of the banks and finance companies in 2017-2018 is shown in table 1.

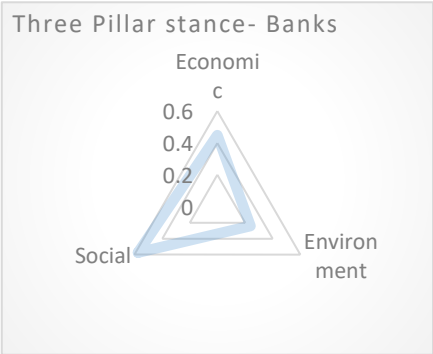
Table 1: Application of GRI Guidelines (Reporting Period 2017-2018)

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%
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 mostl report social indicators including; tern and conditions of employment, manage employee relations, occupational health and safety, training and education, diversity, equal opportunities, non-discrimination and compliance with the labor laws, which are associated with the employee well-being. Moreover, social disclosures cover interactions with local communities, ethical marketing, and labeling practices, supplier assessment,

Figure 2: Economic, Environmental, and SocialPerformance 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, which discloses more on social performance but less on environmental performance.

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

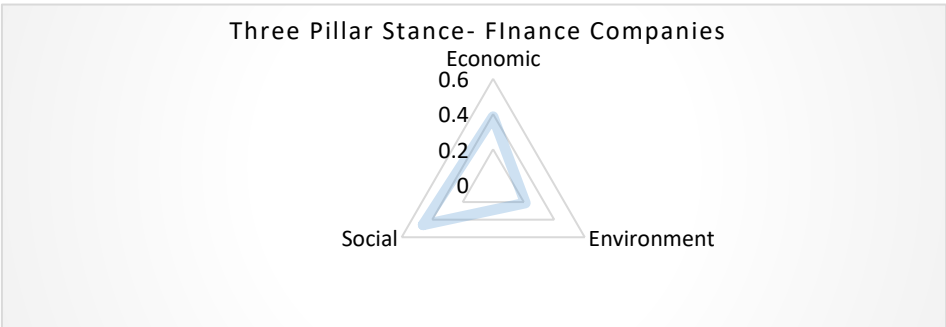


Table 2: Application of G4 Guidelines (Reporting Period 2016-2017)

	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	0.5384	3	0.1153	18	0.6
Peoples Bank	45	0.8035	8	0.6153	2	0.0769	19	0.6333
PABC	39	0.6964	3	0.2307	1	0.0384	11	0.3666
Amana	30	0.5357	3	0.2307	1	0.0384	6	0.2
Sampath Bank	57	1.0178	13	1	26	1	30	1
DFCC	30	0.5357	3	0.2307	1	0.0384	8	0.2666
HNB	31	0.5535	5	0.3846	7	0.2692	9	0.3
MBSL	57	1.0178	9	0.6923	26	1	27	0.9
NSB	52	0.9285	9	0.6923	2	0.0769	19	0.6333
NTB	49	0.875	2	0.1538	10	0.3846	13	0.4333
Seylan Bank	48	0.8571	13	1	26	1	30	1
BOC	33	0.5892	3	0.2307	2	0.0769	20	0.6666

Though aforementioned consolidated integrated reporting standards were introduced in 2016, it effectively practiced from 2018. Therefore, in the 2016-2017 reporting period companies applied G4 guidelines. Banks compliance with the G4 guidelines is presented above. Year on year analysis is performed in the banking sector since the reports are comprised of a large amount of disclosures.

The level of disclosures follows the similar pattern as 2017. Mostly bank discloses their social performance. Then economic performance and environmental disclosures stand at the last.

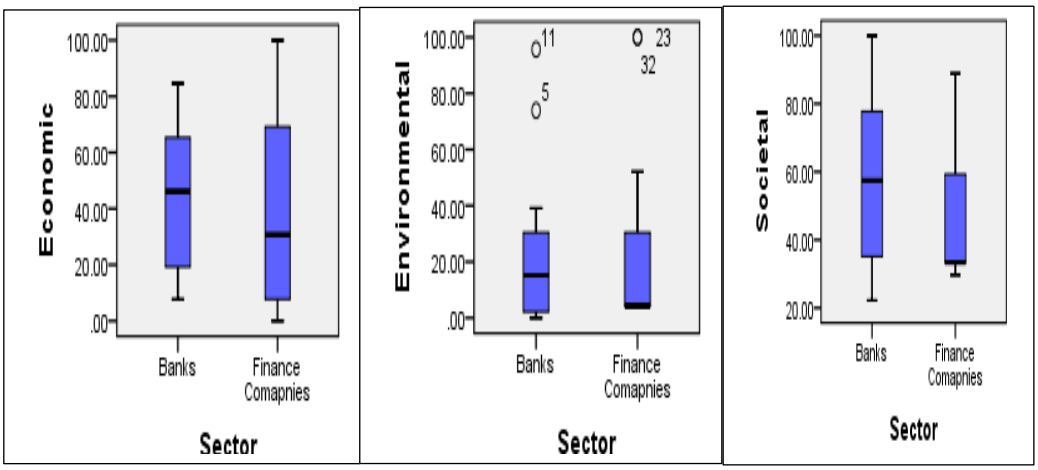
Table 3: Descriptive Statistical Analysis of Level of Disclosures between Banks and Finance Companies

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

Table 3 presents average level of economic, environmental and societal disclosures between banks and finance companies along with their deviation from the mean value.

Social disclosures of the banks reported the highest mean score of 57.41 (σ = 26.17). Similarly, finance companies also reported the highest mean score with the social disclosures (μ=45.92, σ = 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 since it compares the mean values of two independent groups and determines whether the mean values are significantly different using statistical evidence. To perform the analysis banking sector economic, environmental and societal disclosure level (group 1) is compared with the finance companies economic, environmental and societal disclosure level (group 2) by developing a dichotomous scale indicating banks as 1 and otherwise as 0.

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 varia assumed	1.390	.248	.578	30	.568	6.409	11.0901	-16.239	29.058
	Equal variances not assumed			.622	28.41	.539	6.409	10.2996	-14.674	27.493
Environmental	Equal variances assumed	.000	1.00	.290	30	.774	3.259	11.2434	-19.703	26.221
	Equal variances not assumed			.289	23.10	.775	3.259	11.27354	-20.056	26.574
Societal	Equal variances assumed	3.30	.079	1.39	30	.174	11.483	8.24069	-5.3467	28.312
	Equal variances not assumed			1.30	18.87	.208	11.483	8.80025	-6.9445	29.910

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 4: Results of 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 5: Results of Paired Sample t-Test

Paired Samples Test									
		Paired Differences							
					95% Confidence Interval of the Difference				
		Mean	Std. Deviation	Std. Error Mean	Lower	Upper	t	df	Sig. (2-tailed)
Pair 1	Economic 2017 and Economic 2016	-5.13000	14.42134	4.1630	-14.2928	4.03288	-1.232	11	.244
Pair 2	Environmental 2017 and Environmental 2016	-10.3825	23.19655	6.6962	-25.1208	4.35588	-1.550	11	.149
Pair 3	Social 2017 and Social 2016	-.92583	17.85186	5.1533	-12.2683	10.4167	-.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 6: Results of 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 does not statistically influence on the performance. Likewise, the degrees 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 7: Results of 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**.**

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 produced 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.

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.

Implications

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, but 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.

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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