

SUSTAINABILITY REPORTING AND FINANCIAL PERFORMANCE: EVIDENCE FROM LISTED COMPANIES IN SRI LANKA

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Abstract

The disclosure of how an organization's operations affect the economy, environment, and society is known as sustainability reporting. In the past, organizations caused problems by using natural resources without limits. But as the situation changed, it became important to preserve resources for the next generation. This concern led to a shift from traditional financial reporting to sustainability reporting. The main objective of this research study is to explore the relationship between the sustainability reporting and the financial performance of the organizations listed in Sri Lanka. It particularly focuses on the economic, environmental, and social dimensions of sustainability. The data for the analysis purpose was collected using 50 non-financial companies listed on the Colombo stock exchange over five years. The purpose of the study is to examine how financial performance, as determined by return on equity and return on assets, is impacted by sustainability reporting standards. As the research findings the social sustainability reporting has no effect on the ROE, but economic and environmental sustainability reporting do have impact on the ROE. Further, ROA is not affected by economic sustainability reporting but affected by both social and environmental sustainability reporting.

Keyword: Sustainability Reporting, ROA, ROE

1 Introduction

Disclosure of the impact of organizational activities on the economy, environment, and society is known as sustainability reporting, triple bottom line reporting, or corporate social responsibility (CSR) reporting, which influences the company performance, especially the financial performance (Eranga & Wijesinghe, 2021). Sustainability reporting emphasizes CSR, indicating that organizations have to take responsibility for their business operations and its impact on the economic, environmental, and social aspects. Over many years, the investors' concern about the

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non-financial performance of the organizations has significantly increased. Organizations tend to show their sense of responsibility towards the organizations, environment and society in order to get acceptance from society. Companies utilize the investments of the stakeholders to thrive in their organization and are bound to maximize their wealth. Similarly, organizations extract the resources of society and the environment, and there is a responsibility to give back to society and the environment. Organizations are accountable for the effects of their operations to the community and the environment (Kowsana & Muraleethran, 2021). As such, the stakeholders' requests for sustainability information and reporting are rising, and this can strengthen a company's competitive edge (Kasbun et al., 2016). Hence, reporting has evolved to meet the fluctuating needs of the users.

Financial reports are major reports that indicate the financial performance of the organization, which is recorded as financial information. Future financial performance would be impacted by the financial information presented today. The financial analysts hugely rely on the financial information to analyze the financial performance and forecast the nature of the share prices (Uthayakumar & Ayodya, 2018). The financial reports are not sufficient to make judgments about the company's performance. During business operations, society and the environment are impacted by the company's activities and/or vice versa. Therefore, in order to fully comprehend the company's entire performance, its social and environmental performance must be disclosed. The integration of sustainability dimensions and their impact on the products and services of the company, with not only the financial data but also the non-financial data, supports the decision-making. Sustainability report can be issued as a stand-alone report or as a part of an integrated report (Ioannou & Serafeim, 2012). For all parties involved, sustainability reporting ought to be fair, reasonable, and even transparent. Sustainability reporting is used as a strategic tool to improve long-term success, stakeholder trust, and financial performance. Many people think that sustainability reporting has a big impact on financial success. This is because when companies adopt environmentally friendly practices, promote diversity and engagement among employees, and maintain ethical governance standards, they can reap numerous benefits. These benefits include saving costs through efficient resource use, improving brand reputation, which can lead to capturing a larger market share, and attracting new investors interested in environmentally, socially, and governance (ESG) conscious investments (Daub, 2007).

Yet, the path to financial prosperity through sustainability reporting is not always paved with gold. Measuring the direct impact of sustainability initiatives on financial metrics can be a slippery slope, and attributing financial improvements solely to sustainability efforts can be a perilous oversimplification (Freeman, 1984). The relationship between sustainability reporting and financial performance is difficult to comprehend and evaluate when sustainability reporting procedures of organizations differ in terms of quality and consistency. Establishing the relationship between sustainability reporting and financial performance is particularly difficult because of data scarcity, resource limitations, and changing regulatory frameworks. Even though the necessary steps are taken in promoting sustainability reporting practices through the Colombo Stock Exchange, the inconsistent reporting standards and limited data on some sustainability aspects have made it challenging to reach conclusive findings (Garg, 2015).

Due to resource constraints, inadequate financing, and research infrastructure, sustainability reporting is limited in developing nations compared to developed countries (Kasbun et al., 2016). Further, immediate socio-economic needs and lack of awareness about sustainability reporting principles, a lower interest in research on this concept, are highlighted. The research on sustainability reporting is limited, it is because of a lack of stringent regulatory frameworks for sustainability reporting. To address these challenges and enable more studies on sustainability reporting in underdeveloped countries, investments in capacity building, awareness-raising campaigns, and improving data accessibility are necessary. According to the previous literature reviews, the degree of relationship between sustainability and financial performance is ambiguous and erratic. It highlights the need for additional study to determine how sustainability reporting affects businesses' financial performance in underdeveloped nations like Sri Lanka. In previous literature, it is identified a contradiction in the relationship between sustainability reporting and the financial performance of the organizations. Some studies have mixed relationships (Eranga & Wijesinghe, 2021), positive relationship (Bayoud, 2012), negative relationships (Brammer, 2006), and some studies shows a relationship, but they are not significant (Jones, 2005) between sustainability reporting and financial performance of the companies.

In today's globalized economy, sustainability has become a cornerstone of corporate success. While Sri Lankan companies are embracing the trend of sustainability reporting, a crucial question

remains unanswered: Does robust reporting translate to better financial performance? This study delves into this intriguing puzzle, examining whether a company's commitment to comprehensive and detailed sustainability reporting, encompassing specific practices and disclosure areas, correlates with stronger financial outcomes as measured by ROA and ROE. By addressing this knowledge gap, this research aims to empower both companies and policymakers in developing countries to leverage sustainability reporting as a strategic tool for enhancing not only financial performance but also stakeholder trust and long-term success.

2. Literature Review

2.1 Sustainability

It was believed that the world and all of its natural niches were open for unrestricted usage. The groups that caused this tragedy of the commons tended to use the world's resources excessively (Jiao et al., 2023). But over time, the sustainability of resources for future generations became relevant. Moreover, the COVID-19 pandemic made sustainability a worldwide topic of discussion (Jung & Kim, 2023). There is no universal definition for the term sustainability due to its nature of changing (Sakalasooriya, 2021). According to Sakalasooriya (2021), the "capacity to endure" is the simplest definition of sustainability. Depending on the field of application and the subject discipline, this meaning changes. The most recent definitions for sustainability were introduced by the United Nations at the Human Environment Conference in 1972. From the perspective of the United Nations, sustainability is defined as preserving the ecological systems' ability to uphold and improve the standard of social systems. Sustainability embodies a philosophy, methodology, or set of practices aimed at optimizing resource utilization to ensure there is an ample supply to meet the needs of both current and future generations (Grant, 2010). This concept has undergone redefinition within various disciplines, including business sustainability, career sustainability, urban sustainability, product sustainability, and fiscal sustainability (Peterson, 2022). Dissanayake et al., 2024 defined corporate sustainability with a systematic review as "corporate sustainability is the integration of economic, environmental, and social sustainability".

2.2 Sustainability Reporting

The activity of measuring, revealing, and being accountable to internal and external stakeholders for organizational performance towards the aim of sustainable development is known as sustainability reporting, according to the GRI sustainability reporting principles (Global Reporting Initiative, 2006). To put it simply, sustainability reporting is the process by which businesses involved in productive economic activity disclose and communicate their ESG goals (Ramanathan & Isaksson, 2023). Organizations in the world are rapidly adapting to sustainability reporting. In 1993, only 12% of the top 100 companies in 52 countries provided sustainability reports, but by 2020, this figure had significantly increased to 80%, according to a KPMG survey on sustainability reporting by businesses (Abeysekera, 2022). Nevertheless, as per Ramanathan & Isaksson, the concept of sustainability reporting practices is under development. Reporting on sustainability seeks to show how it contributes to sustainable development (Beyne et al., 2021). This may involve sacrificing profits to account for the costs of benefiting both society and the environment. Companies assess the outcomes of sustainability efforts and audit related data using various methods.

According to the International Institute for Management Development (2024), economic sustainability is the process of fostering long-term economic growth and development without endangering the capacity of future generations to meet their requirements. "Operating results or company profits as the main objectives of business activities" is what the economic dimension refers to (Nugrahani & Artanto, 2022, p. 217). Researchers state that businesses that reveal their social responsibility can boost their value and win over more investors, who will value their disclosures more than those that don't (Nasih et al., 2019). According to Nugrahani & Artanto, aspects of economic sustainability include how an organization affects the financial status of the stakeholders of the organization. Simplifying processes to increase productivity, cutting down on inefficient activities, and cutting down on process and service time are all actions.

The stakeholder theory explains the accountability towards a range of stakeholders i.e., suppliers, employees, community, environment, etc. (Freeman, 1984 as cited in Silva, 2019). Something that pertains to every aspect of human existence is referred to as the environmental dimension. Businesses' profitability is positively impacted by their disclosure of environmental factors

(Akuntansi et al., 2010). Businesses that effectively convey the intensity of their surroundings will gain the trust and attention of stakeholders, increasing their awareness of environmental issues.

The legitimacy theory explains a condition of compatibility of the value system of the business organization and the societal value system (Lindholm, 1994 as cited in Silva, 2019). This stresses the importance of addressing the expectations of society. On the hand, the legitimacy theory drives the organizations to rethink whether the business practices are in line with the social rules and norms (Clarissa & Rasmini, 2018). Clarissa & Rasmini state that businesses can improve their performance and increase their profits if society accepts them. A good reputation draws in top talent, increasing productivity and lowering turnover, as well as devoted customers, increasing sales. Additionally, it improves connections with regulators and investors, which expands investment options and lowers compliance risks. In general, societal values that are in line with business goals foster a positive atmosphere that promotes profitability and success. The social dimension of the business involves the company's consideration of stakeholders' interests, as the company's survival depends heavily on community support. Businesses must be dedicated to pursuing social responsibility to maximize the benefits from their operations that affect society (Suharni et al., 2014).

2.3 Sustainability Reporting in Financial Perspective

Sustainability reporting is completely distinguishable from financial accounting, with no standardized methods for accounting for sustainability topics. Instead, it focuses on the release of data points, often without detailed time periods or aggregation, and includes data from the entire value chain, even outside the company's control (Wagenhofer, 2024). Unlike financial accounting, which is governed by accruals and aggregation, sustainability reporting emphasizes long-term goals and progress toward them. Recent initiatives, like the European Sustainability Reporting Standards (ESRS) in the EU and the International Sustainability Standards Board (ISSB), aim to standardize sustainability disclosures globally (Wagenhofer, 2024).

Sustainability reporting provides insights into environmental, social, and governance (ESG) issues, which are increasingly important for assessing long-term financial risks and opportunities. Financial accounting must integrate these ESG factors, particularly in areas like financial instruments, environmental damages, and impairment of assets (Rauter, 2020). While financial

reporting tends to focus on risks, sustainability reporting addresses both risks and opportunities, without adhering to the conservatism principle. The IFRS Conceptual Framework connects these two forms of reporting by linking the qualitative attributes of financial data to sustainability disclosures (Rauter, 2020)

2.4 Financial Performance

Financial performance is crucial for maximizing stakeholder value. To evaluate the financial performance of an organization the data taken from the financial statements is used, such as return on equity and return on assets. ROE measures the ability of a company to generate profits for shareholders, with a positive correlation between higher ROE and stock price. It can indicate efficient operations and increased shareholder returns (Simanullang et al., 2021; Tantra et al., 2022). ROE is influenced by factors such as management decisions and the number of outstanding shares, making it a key indicator for investors (Zhang et al., 2017).

On the other hand, ROA assesses the efficiency of using the assets of a company in generating profits (Wijaya, 2017). A higher ROA reflects better asset management and higher profit margins, signaling strong financial performance and attracting investors (Supriyadi, 2021; Sukmawati & Garsela, 2016). Both ROE and ROA are used to evaluate profitability and inform investment decisions, with a higher ROA also indicating better overall business potential (Choiriyah et al., 2021; Simanullang et al., 2021)

2.5 Relationship between Dimensions of Sustainability Reporting and Financial Performance

Economic, environmental, and social sustainability reporting are identified as the categories of sustainability reporting, which can play a significant role in shaping the financial performance of a company. The main concerns of the economic dimension are cost-efficiency, productivity, and profit maximization. These concerns are crucial for attracting investors and improving financial outcomes (Nugrahani & Artanto, 2022; Dewi & Sudana, 2015). Environmental sustainability reporting influences financial performance by fostering stakeholder trust, improving market value, and potentially increasing Return on Assets (ROA) due to environmentally responsible practices (Akuntansi et al., 2010; Nugrahani & Artanto, 2022). The social dimension emphasizes the

alignment of business practices with societal values, enhancing reputation, customer loyalty, and ultimately increasing profitability (Clarissa & Rasmini, 2018; Dewi & Sudana, 2015).

Prior research indicates that there is a positive relationship between sustainability reporting and the financial performance of the organization (Eranga & Wijesinghe, 2021; Lehenchuk et al., 2023). Therefore, the hypotheses suggest that the economic (H1), environmental (H2), and social (H3) dimensions of sustainability reporting positively impact financial performance, and overall sustainability reporting (H4) enhances a company's financial outcomes.

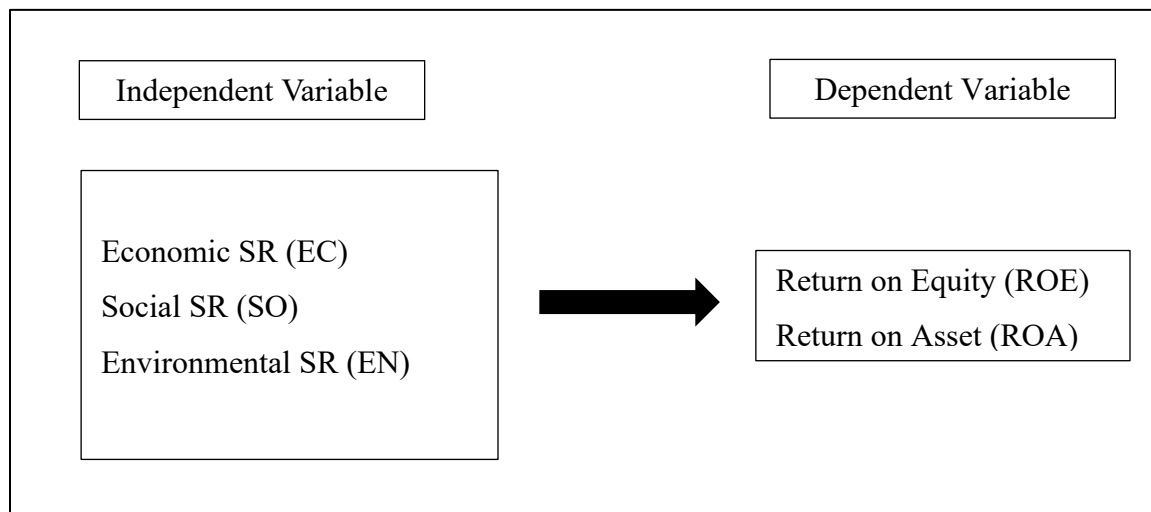


Figure 1. Conceptual Framework

Source: Author Developed

Accordingly, Figure 1 shows the conceptual framework of independent variables and the dependent variables.

3 Material and Methods

When it comes to the research methodology of the study, it is a quantitative methodology. Fifty non-financial companies listed on the Colombo Stock Exchange were chosen for this study. We selected only companies that engaged in sustainability reporting during the 2019-2024 period to ensure consistency and relevance in the data. The inclusion criteria required companies to

- (i) publish sustainability-related information in their annual reports,
- (ii) be listed throughout the study period, and
- (iii) belong to non-financial sectors to ensure comparability.

Companies with incomplete data or missing reports for any of the five years were excluded. Ultimately, 50 companies were included in the final sample. This timeframe captures recent trends and practices, allowing for a focused analysis of sustainability disclosure impacts in the current regulatory and corporate environment.

3.1 Data Collection and Content Analysis

Secondary data were extracted from publicly available annual reports published on the CSE and company websites. Annual reports over five years, from 2019/2020 to 2023/2024, were referred to and gathered the data necessary for the analysis. Content analysis was employed to quantify sustainability disclosures, following established guidelines and previous studies. The content analysis focused on three dimensions of sustainability reporting: economic, environmental, and social. The coding framework was developed based on Global Reporting Initiative (GRI) G3.1 standards and prior literature (Aggarwal, 2013; Daub, 2017; Griffin & Mahon, 1997; GRI, 2023).

To ensure reliability and consistency in the coding process three authors independently reviewed and coded the reports. A coding manual was developed to guide the coders on identifying and classifying relevant disclosure items. Inter-coder reliability was tested using Cohen's Kappa coefficient, achieving values above 0.80, indicating substantial agreement. Discrepancies between coders were resolved through discussion and consensus. The number of sentences related to each disclosure category was used to generate scores for each sustainability dimension.

3.2 Variables and Operationalization

The operationalization table summarizing variable definitions, measurement criteria, and sources is presented in Table 1.

Table 1. Operationalization

Variables	Operationalization	Reference
Independent Variables		
Economic Sustainability Reporting	Content analysis Based on number of sentences.	Aggarwal, 2013, GRI, 2023 Griffin, J. J. & Mahon, J. F., 1997, Daub, 2017
EC1	Distribution of revenues, Employee compensation and	

Variables	Operationalization	Reference
	benefits, investment made for employees.	GRI G3.1 Standard Disclosure: Performance Indicators
EC2	Compensation for causing damages (climate change, erosion, contamination, loss of animals' habitats).	
EC3	Spending on local suppliers, hiring local community as workers.	
EC4	Infrastructure investment and services for public benefits (commercials or engagement with community).	
Environmental Sustainability Reporting	Content analysis Based on number of sentences.	Aggarwal,2013, Abeywardana, N.L.E. & Panditharathna, K.M., 2016, Garg, 2015, Griffin, J. J. & Mahon, J. F., 1997
EN1	Practice 3R recycle, reuse and reduce, recycling waste, product and services are degradable/eco-friendly, has waste management system.	GRI G3.1 Standard Disclosure: Performance Indicators
EN2	Energy-saving initiatives for energy consumption, renewable energy.	
EN3	Water-saving initiatives, recycling water initiative, compensation for air, water and noise pollution.	
EN4	Green-tech oriented buildings, green-tech technologies; animals' habitats are protected, conserving environments, reforestation and rehabilitation, initiative to control greenhouse gas, other gas emissions.	
Social Sustainability Reporting	Content analysis Based on number of sentences.	Kleine, A., & Hauff, M., 2009, GRI, 2023, Preston, L. E. & O'bannon, D. P., 1997, Daub, 2017

Variables	Operationalization	Reference
SO1	Employment: equality in gender, no gender discrimination, occupational health and safety, concern on injuries, diseases, work-related fatality, provide training and educations to employees, concern on employees' family (handicapped children/spouse, etc.).	GRI G3.1 Standard Disclosure: Performance Indicators
SO2	Human rights; no discrimination among different races, religion or marital status, not engaging with child/illegal labors, securities are trained.	
SO3	Initiatives to provide comfort to community, helping less-fortunate communities, charity and donations.	
SO4	Marketplace; product and services responsibility, concern on product quality, true product/services labelling and information to customers, clients, stakeholders, etc.	
Dependent Variables		
Return on Equity (ROE)	Net income/average common stockholders' equity	Aggarwal,2013, Abeywardana, N. L. E. & Panditharathna, K. M., 2016, Byard, D., & Cebenoyan, F., 2007
Return on Asset (ROA)	Net income/average assets	Aggarwal,2013, Abeywardana, N. L. E. & Panditharathna, K. M., 2016, Byard, D., & Cebenoyan, F., 2007

3.3 Reliability and Validity

Prior to hypothesis testing, the reliability of the content analysis was assessed through inter-coder reliability, while the internal consistency of the measures was tested using Cronbach's alpha,

achieving acceptable values (above 0.70) for all dimensions. Content validity was established by following internationally recognized disclosure frameworks and consulting prior empirical studies.

3.4 Statistical Analysis

Descriptive statistics, correlation analysis, and multiple linear regression analysis were conducted using SPSS. The regression models were specified as follows:

$$\text{Model 1} - ROE_i = \beta_0 + \beta_1 EC_i + \beta_2 EN_i + \beta_3 SO_i + \varepsilon_i$$

$$\text{Model 2} - ROA_i = \beta_0 + \beta_1 EC_i + \beta_2 EN_i + \beta_3 SO_i + \varepsilon_i$$

Prior to model estimation, standard diagnostic tests were performed to verify the assumptions of linear regression, including tests for multicollinearity, heteroscedasticity, normality of residuals, and model specification.

4 RESULTS AND DISCUSSION

The sample consists of 50 non-financial companies across various industries listed on the Colombo Stock Exchange. The largest representation comes from the Food and Beverages and Diversified Holdings sectors, each accounting for 14% of the sample. Hotel and Tourism companies represent 12%, followed by Construction and Real Estate (8%) and Other Investments (8%). Several sectors, including Printing, Packaging and Equipment; Ceramics and Glass; Energy and Lubricants; and Agriculture, each contribute 6% to the sample. Smaller representations are observed in Telecommunication, Jewelry and Gems, Shipping and Logistics, and Healthcare sectors, each accounting for 4%, while Rubber and Apparel sectors have the lowest representation at 2% each. This distribution reflects a diverse sample that captures a broad cross-section of industries actively engaged in sustainability reporting within Sri Lanka. Table 2 presents the composition of the sample.

Table 2. Composition of the Sample

Type of Industry	Frequency	%
Printing, Packaging and Equipment	3	6%
Hotel and Tourism	6	12%
Food and Beverages	7	14%
Construction and Real Estate	4	8%

Ceramics and Glass	3	6%
Energy and Lubricants	3	6%
Telecommunication	2	4%
Jewelry and Gems	2	4%
Shipping and Logistics	2	4%
Healthcare	2	4%
Diversified Holdings and Conglomerates	7	14%
Rubber	1	2%
Apparel	1	2%
Agriculture	3	6%
Other investments	4	8%
Total	50	100%

4.1 Correlation

Correlation analysis was conducted to examine the strength and direction of the linear relationships between the three dimensions of sustainability reporting, economic (EC), environmental (EN), and social (SO) and financial performance indicators, namely Return on Equity (ROE) and Return on Assets (ROA). Table 3 shows the correlation test results.

Table 3. Correlation Test Results

Variables	ROE (r)	ROE (p-value)	ROA (r)	ROA (p-value)
Economic Sustainability Reporting (EC)	-0.229	0.01	0.243	0.04
Environmental Sustainability Reporting (EN)	0.005	0.041	-0.294	0.038
Social Sustainability Reporting (SO)	0.373	0.008	0.709	0

Pearson's correlation coefficients were used, with significance levels assessed at the 5% threshold ($p < 0.05$). The results show a weak but statistically significant negative correlation between economic sustainability reporting and ROE ($r = -0.229$, $p = 0.010$), suggesting that increased economic disclosures may be associated with lower returns on equity. Conversely, social sustainability reporting has a moderate positive correlation with ROE ($r = 0.373$, $p = 0.008$), indicating that higher levels of social disclosure are associated with improved equity performance. Interestingly, environmental sustainability reporting shows almost no correlation with ROE ($r = 0.005$), but the p-value (0.041) suggests weak statistical significance, warranting cautious interpretation.

For ROA, a positive correlation is observed with economic ($r = 0.243$, $p = 0.040$) and social sustainability reporting ($r = 0.709$, $p = 0.000$), implying that these dimensions may enhance asset efficiency. However, environmental sustainability reporting is negatively correlated with ROA ($r = -0.294$, $p = 0.038$), which may suggest that environmental efforts are not immediately contributing to asset-based profitability, possibly due to upfront costs or delayed returns. All reported correlations are statistically significant at the 5% level, indicating meaningful relationships that justify further investigation through regression analysis.

4.2 Regression Analysis

Regression analysis was used to examine the impact of sustainability reporting dimensions economic (EC), environmental (EN), and social (SO) on financial performance indicators: Return on Equity (ROE) and Return on Assets (ROA). By linearly combining the predictors, this technique generates a predicted value for the dependent variable (Palmer & O'Connell, 2009). In testing the hypotheses, two regression models were developed. Table 4 shows the summary results of Model 1.

Model 1: Predicting ROE

Table 4. Regression Test - Model Summary Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.680a	.462	.427	.75080

In this model, SO, EC, and EN are independent variables, and ROE is the dependent variable. This model demonstrates a moderate to strong correlation ($R = 0.680$) between the three independent variables (SO, EC, EN) and ROE. The R^2 value of 0.462 implies that 46.2% of the variation in ROE is explained by the sustainability variables. The adjusted R^2 (42.7%) confirms a good model fit even after adjusting for the number of predictors. Table 5 represents the ANOVA results of the Model 1.

Table 5. Regression Test - ANOVA Results- Model 1

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	22.261	3	7.420	13.164	.000b
	Residual	25.930	46	.564		
	Total	48.192	49			

The ANOVA table presents the overall relevance of the regression model in elucidating ROE through the use of environmental, social, and economic sustainability reporting. The F-statistic (13.164, $p < 0.001$) indicates that the regression model is statistically significant, meaning the independent variables collectively have a meaningful impact on ROE. The low residual mean square (0.564) supports the model's predictive strength.

Table 6 shows the coefficient test results of Model 1.

Table 6. Regression Test Coefficients - Model 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.167	.137		-1.213	.231
	EC	1.284	.245	.727	5.240	.000
	EN	.190	.212	.101	.897	.375
	SO	.370	.063	.792	5.881	.000
a.						

The coefficient tables show the effect of each independent variable on the ROE. Economic sustainability reporting (EC) has a positive and statistically significant effect on ROE ($p = 0.000$), suggesting that firms with higher economic disclosures tend to have higher shareholder returns. In addition, social sustainability reporting (SO) is also a strong predictor of ROE, with both the unstandardized (0.370) and standardized ($\beta = 0.792$) coefficients being significant at the 1% level. However, environmental sustainability reporting (EN) is not statistically significant ($p = 0.375$), despite showing weak positive influence. This finding diverges from correlation results and highlights the importance of controlling for other factors in multivariate models.

Model 2: Predicting ROA

Table 7 shows the summary results of Model 1.

Table 7. Regression Test - Model Summary Results- Model 2

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.820a	.673	.651	.08095

The model for ROA demonstrates a strong relationship ($R = 0.820$). The predictors explain 67.3% of the variation in ROA ($R^2 = 0.673$), and the adjusted R^2 (65.1%) supports a robust model.

Table 8 represents the ANOVA results of Model 1.

Table 8. Regression Test - ANOVA Results- Model 2

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.620	3	.207	31.526	.000b
	Residual	.301	46	.007		
	Total	.921	49			
a. Dependent Variable: ROA						
b. Predictors: (Constant), SO, EC, EN						

The F-statistic (31.526, $p < 0.001$) indicates high model significance, with a very low residual variance (0.007), further supporting the model's robustness.

Table 9 shows the coefficient test results of Model 1.

Table 9. Regression Test ANOVA Results-Model 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	.015	.015		1.047	.301
	EC	.041	.026	.168	1.549	.128
	EN	.094	.023	.360	4.106	.000
	SO	.055	.007	.856	8.157	.000
a.						

Social sustainability reporting (SO) has the strongest positive impact on ROA ($\beta = 0.856$, $p = 0.000$), emphasizing its role in enhancing operational efficiency and asset utilization. In addition,

Environmental sustainability reporting (EN) also has a significant positive effect on ROA ($p = 0.000$), suggesting that environmental investments contribute positively to asset efficiency. However, Economic sustainability reporting (EC) shows a positive but statistically insignificant relationship with ROA ($p = 0.128$), indicating limited short-term impact on asset-based Social sustainability reporting consistently shows a strong and positive relationship with both ROE and ROA, highlighting its critical role in enhancing both shareholder value and operational efficiency.

Economic sustainability reporting influences ROE positively but has no significant effect on ROA. Environmental sustainability reporting positively affects ROA but does not have a significant relationship with ROE. The differences between correlation and regression results emphasize the value of multivariate models in accounting for confounding variables and better isolating the independent effects of each sustainability dimension.

4.3 Results of the Hypothesis Testing

The present study sought to examine the influence of sustainability reporting—across its economic, environmental, and social dimensions—on the financial performance of non-financial companies listed on the Colombo Stock Exchange in Sri Lanka. The findings reveal important insights into how these three sustainability dimensions differentially affect two key financial performance measures: Return on Equity (ROE) and Return on Assets (ROA).

The results demonstrate that social sustainability reporting consistently and significantly improves both ROE and ROA, indicating that firms' attention to social concerns such as employee welfare, human rights, customer engagement, and community development directly enhance both shareholder value and operational efficiency. This is consistent with stakeholder theory (Freeman, 1984), which posits that meeting stakeholder expectations strengthens long-term firm performance, and with studies such as Sulbahri et al. (2021), who similarly found significant positive relationships between social responsibility and financial outcomes.

Economic sustainability reporting shows a significant positive effect on ROE but not on ROA. This suggests that initiatives like fair revenue distribution, local employment, and infrastructure investments may enhance shareholder profitability but do not immediately improve the firm's asset efficiency. This aligns with the notion that some economic sustainability investments yield long-

term strategic advantages that are more reflected in equity performance than in immediate operational returns.

In contrast, environmental sustainability reporting has a significant positive impact on ROA but no significant effect on ROE. This may reflect the cost-saving effects of environmental initiatives—such as resource conservation, waste reduction, and energy efficiency—that directly improve operational performance, consistent with the legitimacy theory (Lindblom, 1994). These findings partially align with prior work (e.g., Akuntansi et al., 2010; Nugrahani & Artanto, 2022) that suggests environmental disclosures may enhance operational effectiveness but are not always immediately reflected in shareholder returns.

Importantly, the findings differ across financial indicators, underscoring the need to consider multiple financial performance measures when evaluating the impact of sustainability reporting. The mixed results also reflect what many previous studies have emphasized: that the relationship between sustainability reporting and financial performance remains complex, non-linear, and context-dependent, especially in emerging markets such as Sri Lanka (Eranga & Wijesinghe, 2021; Kowsana & Muraleethran, 2021).

Overall, these findings contribute both empirically and theoretically. From a theoretical perspective, they reinforce stakeholder and legitimacy theories by showing that aligning business practices with stakeholder expectations and societal norms is not only ethically desirable but also financially beneficial. From a practical perspective, they suggest that firms prioritizing social responsibility may experience broader and more consistent financial benefits across multiple performance dimensions.

Table 10 shows the information on Hypothesis Testing.

Table 10. Hypothesis Testing

Hypotheses	Decision	
	ROE	ROA
H_1 : Economic dimension in sustainability report impacts the company's financial performance	Supported	Not Supported

H_2 : Environmental dimension in sustainability report impacts the company's financial performance	Not Supported	Supported
H_3 : Environmental dimension in sustainability report impacts the company's financial performance	Supported	Supported
H_4 : sustainability report impacts the company's financial performance	Supported	Supported

5 CONCLUSION

This study examined the relationship between sustainability reporting and financial performance in the context of listed companies in Sri Lanka. The analysis revealed that sustainability reporting does have significant and differentiated effects on financial performance, depending on the dimension of sustainability and the specific financial metric used. Social sustainability reporting has a strong and significant positive impact on both ROE and ROA. Economic sustainability reporting significantly improves ROE but does not significantly influence ROA. Environmental sustainability reporting significantly improves ROA but shows no significant relationship with ROE.

These results contradict the notion that financial performance is not statistically affected by sustainability reporting. On the contrary, our findings demonstrate that specific dimensions of sustainability reporting are statistically associated with financial performance. Therefore, all hypotheses were partially supported depending on the financial measure considered.

The findings underscore the importance for companies to invest strategically in comprehensive sustainability reporting—not only to meet regulatory or ethical standards but also to realize tangible financial benefits. Specifically, social and environmental reporting offer clear pathways for improving both operational efficiency and long-term profitability.

Theoretical Implications

The study contributes to the literature by empirically validating stakeholder theory and legitimacy theory in the context of a developing country. The results emphasize that sustainability reporting

enhances organizational legitimacy while simultaneously fulfilling stakeholder expectations, ultimately translating into improved financial performance.

Practical Implications

For policymakers and corporate managers, these findings highlight that integrating sustainability reporting into corporate strategy is not merely a compliance activity but a potential source of competitive advantage. Firms should allocate resources toward improving both the quantity and quality of disclosures in their social and environmental sustainability practices.

Limitations and Directions for Future Research

While this study provides important contributions, several limitations warrant further investigation. The sample is limited to non-financial firms listed on the Colombo Stock Exchange, which may restrict the generalizability of the findings. Future research could explore sector-specific dynamics, include financial institutions, or employ larger cross-country datasets to capture broader trends. In addition, longitudinal studies could better capture the delayed financial impacts of sustainability initiatives, particularly in relation to environmental investments, which may take longer to translate into financial returns.

Furthermore, future research may incorporate additional moderating or mediating variables—such as governance structures, ownership concentration, or institutional quality—to better understand how sustainability efforts are transformed into financial outcomes under different corporate or country-level conditions.

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