DOES SUSTAINABILITY REPORTING CAN BE USED AS A STRATEGY TO INCREASE FIRM'S GROWTH? EVIDENCE FROM NON-FINANCIAL COMPANIES LISTED ON COLOMBO STOCK EXCHANGE

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INTRODUCTION

Businesses nowadays operate in a globally dynamic environment. At the same time, today's dynamic business environment faces several threats that must be addressed and controlled for stakeholders' protection and future generations. These matters cannot be compromised as organizations are socially responsible for sustainability impact and environmental and mental issues because the entire corporate world depends on these resources to operate. In this respect, the current research argues that the objectives of corporate environmental and social reporting are to expand the social acceptance or legitimacy of organizational activities. However, nowadays, organizations are increasingly embracing sustainable reporting. According to the Global Reporting Initiative (GRI) (2021), with thousands of reporters in more than 100 countries, the practice of standardized sustainable reporting continues to enable organizations and their stakeholders to take action and make better economic, environmental, and social decisions for all. This is in response to increased demand from stakeholders for institutions to be more transparent about their economic, social, and environmental activities.

Sustainability reporting is the disclosure and communication of environmental, social, and governance (ESG) goals and an organization's progress towards them. Organizations can gain many advantages from sustainability reporting and often enhanced as processes that contribute to higher external and internal decision-making, greater transparency, simultaneous enforcement of financial stability, and better social sustainability. Moreover, it shows a complete picture of sustainable future performance as shown by economic and non-financial performance. Sustainability Reporting in Sri Lanka is encouraging as more corporates voluntarily adopt the GRI guidelines for social and environmental reporting. Currently, Sri Lanka faces several ecological problems, including land deprivation, pollution, and poor management of water resources, damage to biodiversity, coastal erosion, and inadequate industrial waste management (Dissanayaka et al., 2019). Accordingly, based on the contemporary importance, the availability of contradictory evidence, and the absence of studies in the study area, the main issue addressed in this study attempts to examine the level of sustainability reporting in Sri Lanka and to assess the impact of sustainable financial reporting on firm's growth in Sri Lanka.

Moreover, this study is relevant and valuable for policymakers and regulatory institutions in Sri Lanka. This study shows the impact of sustainability reporting on a firm's growth. The same kind of practice is also recommended for other countries' issues having similar backgrounds and problems.

METHODOLOGY

Since this study examines the impact of sustainability reporting on a firm's growth in non-financial companies listed in Sri Lanka, a quantitative research approach is suitable. In contrast, the same approach is used in similar studies (Dissanayake et al., 2019). The population of the study is the non-financial companies listed on Colombo Stock Exchange (CSE), and 147 listed companies from 229 in the non-financial sector were taken into the sample for five financial years from 2017 to 2022.

Figure 1 below indicates the conceptual diagram developed based on a comprehensive literature review.

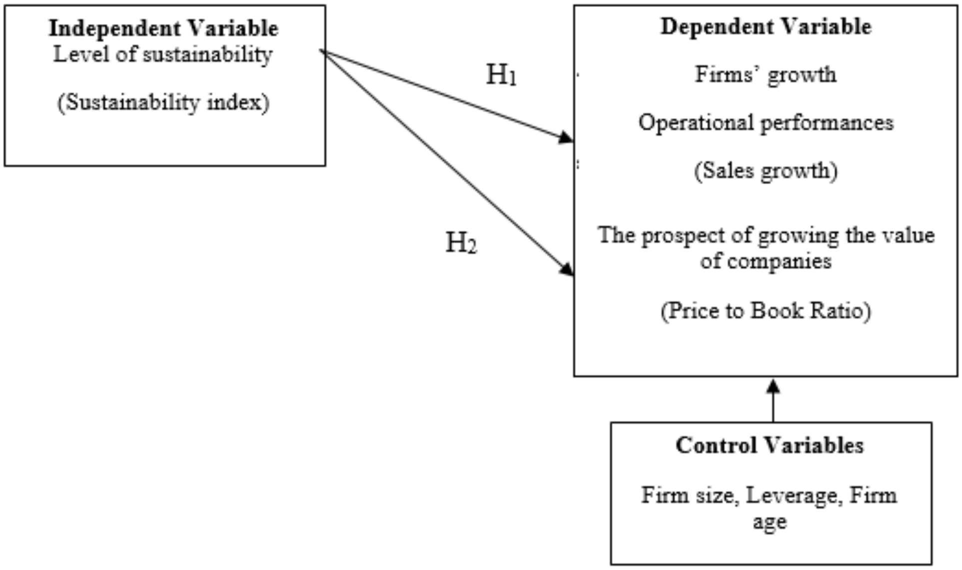

Figure 1 Conceptual Diagram

Accordingly, the following hypotheses were formulated.

H_1 - There is a significant impact of sustainable reporting on operational performance (estimated via sales growth) after controlling firm size, leverage, and firm age

H_2 - There is a significant impact of sustainability reporting on the prospect of growing the value of companies (estimated via price to book ratio) after controlling firm size, leverage, and firm age

Table 1 below illustrates the operationalization of the selected dependent, independent and control variables.

Table 1 Operationalization of variables

Variable	Measure	Extant literature
Independent Variable		
Level of Sustainability Reporting (***SR***$_{i,t}$)	Use Sustainability Reporting Index (Note 01)	Dissanayake et al., (2021); Cho and Chun (2016)
Dependent Variables		
Operational performances (***SG***$_{i,t}$)	Sales growth (Sales$_{i,t}$ - Sales$_{i,t-1}$)/Sales$_{i,t-1}$	Dhaliwal et al. (2014)
The prospect of growing the value of companies (***PBR***$_{i,t}$)	Price to Book ratio -(PBR$_t$) The ratio between share price and its book value of firm *i* for the period *t*.	Lulfs and Hahn (2014)
Control Variables		
Firm Size (***FS***$_{i,t}$)	Natural logarithm of total assets of firm *i* for the period *t*.	Bozzolan et al., (2015)
Leverage (***LEVE***$_{i,t}$)	Ratio of total debt at the end of the period to the total assets at the end of the period t of firm *i*.	Bozzolan et al., (2015)
Firm Age (***FA***$_{i,t}$)	The number of years firm *i* has existed since the firm's establishing year till period *t*.	Muttakin et al. (2015).

Note 01: Sustainability Reporting Index

This study used structured content analysis using the GRI G3 indicators, where a quantitative scoring strategy was adopted to gather data from annual reports based on weights adopted (Dissanayake et al., 2021). This weighing scale has four levels, with a maximum score of 3 being given for detailed quantitative disclosures related to indicators disclosed, a score of 2 being given for non-quantitative but specific disclosures related to indicators, a score of 1 being given for general qualitative disclosures, and a score of 0 being given for companies that had not disclosed any information related to the indicators. The advantages of measuring different levels of disclosures were the key driver for adopting this scale. Thus, for the five years chosen, each organization's scores for each of the 79 indicators utilized under the economic, environmental, and social categories were calculated using this scale.

In order to satisfy the objectives of this study, data cleaning and screening techniques (i.e., winsorization and treating of missing data), diagnostic test analysis (i.e., testing for linearity, normality, multicollinearity, and heteroskedasticity), descriptive statistics, Bivariate and Multivariate analyses were performed. The regression model that will be applied is as follows:

$$SG_{i,t} = \alpha + \beta_1 SR_{i,t} + \beta_2 FS_{i,t} + \beta_3 LEVE_{i,t} + \beta_4 FA_{i,t} + \varepsilon_{i,t} \text{.............(1)}$$
$$PBR_{i,t} = \alpha + \beta_1 SR_{i,t} + \beta_2 FS_{i,t} + \beta_3 LEVE_{i,t} + \beta_4 FA_{i,t} + \varepsilon_{i,t} \text{.........(2)}$$

The finding obtained by the application of these analysis strategies is discussed in the next section.

RESULT AND DISCUSSION

Table 2 shows the results of descriptive statistics.

Table 2 Descriptive Statistics

Variable	Observation	Mean	Median	Std. Dev.	Min	Max
SG_{it}	735	0.3571	0.2961	0.2810	.0001	1.6740
PBR_{it}	735	0.2859	0.2535	0.1921	.0400	0.6336
SR_{it}	735	0.6424	0.0127	0.8157	0.0000	2.1013
FS_{it}	735	19.9799	20.938	3.0568	13.9264	24.7694
$LEVE_{it}$	735	0.2989	0.2459	0.2166	0.0338	0.6893
FA_{it}	735	46.2707	40	23.5651	20	96

Definitions of these variables are indicated in Table 1.

The results of the descriptive statistics show that SG_{it} 's mean value is 0.3571, and the standard deviation is 0.2810. The result of the above indicates that the mean value of PBR_{it} is 0.2859 with a standard deviation of 0.1921. The positive value of PBR indicates the value of firms had a relatively high position, and it is helpful to companies' future investments. FS_{it}, has a mean of 19.9799. $LEVE_{it}$ registers a mean value of 0.2989, suggesting a debt on assets of 29.89%. The mean firm age is given as 46.72%.

As findings from the correlation analysis (Table 3) SR_{it} is positively correlated with SG_{it} at 1 present level of significance, which means if sustainability reporting increases, that affects the increase in sales growth. Also, the results indicate sustainability reporting is significantly negatively correlated with the price-to-book ratio at 1 present significance level, which means if the sustainability reporting increases, that affects the decrease in Price to book ratio.

Table 3 Correlation Analysis

Variable	SG_{it}	PBR_{it}	SR_{it}	FS_{it}	$LEVE_{it}$	FA_{it}
SG_{it}	1					
PBR_{it}	0.5321**	1				
SR_{it}	0.2069**	-0.1035**	1			
FS_{it}	0.1512**	-0.0995**	0.2969**	1		
$LEVE_{it}$	0.1441**	-0.0481	0.0997**	0.0324	1	
FA_{it}	-0.2066**	-0.0828*	-0.0902*	-0.0593	-0.0947*	1

Note: Definitions of these variables are indicated in Table 1.

*. Correlation is significant at the 0.05 level

**. Correlation is significant at the 0.01 level

There is a positive relationship between SG_{it} and FS_{it}, $LEVE_{it}$. FA_{it} correlated with SG_{it} as negatively significant at the 1 present level. There is a negative relationship between PBR_{it} and FS_{it}, $LEVE_{it}$ and FA_{it}.

Table 4 Regression Analysis results with Sales growth

Random effect regression model - SG_{it} (Model I)							
	Coefficient	Std. Err.	t	P value	R-sq	F value	Hausman test value
SR $_{it}$	0.0607	0.0239	2.54	0.011	0.0013	0.0004	0.2000
FS $_{it}$	0.0057	0.0060	0.94	0.349			
LEVE $_{it}$	0.0304	0.0561	0.54	0.588			
FA $_{it}$	-0.0023	0.0008	-2.97	0.003			
Cons	0.3042	0.1263	2.41	0.016			
Number of observations	735						
Number of groups	147						

Note: Definitions of these variables are indicated in Table 1.
*Dependent Variable is SG_{it}

The regression analysis revealed a significant positive relationship between SG_{it}, and SR_{it}, and an insignificant positive relationship between SG_{it} and FS_{it}, $LEVE_{it}$. Moreover, it implied a significant negative relationship between SG_{it} and FA_{it}. Lo and Sheu (2007) concluded that corporate sustainability is positively related to firm value when a firm's sales growth is relatively high. In difference, when a firm's sales growth is relatively low, the volume of the positive relationship is reduced. The higher the sales growth, the stronger the relationship between corporate sustainability and firm value.

Table 5 Regression Analysis results with Price to book ratio

Fixed effect regression model – PBR_{it} (Model II)							
	Coefficient	Std. Err.	t	P value	R-sq	F value	Hausman test value
SR $_{it}$	0.2325	0.1177	1.98	0.048	0.0411	0.0001	0.0013
FS $_{it}$	-0.0516	0.0125	-4.12	0.000			
LEVE $_{it}$	-0.0858	0.0526	-1.63	0.104			
FA $_{it}$	-0.0054	0.0027	-0.20	0.844			
Cons	1.2174	0.2695	4.52	0.000			
Number of observations	**735**						
Number of groups	**147**						

Note: Definitions of these variables are indicated in Table 1.
*Dependent Variable is PBR_{it}

The regression analysis revealed that there is a significant positive relationship between PBR_{it} and SR_{it} and a significant negative relationship between PBR_{it} and FS_{it}. And also, it implied that there is an insignificant negative relationship between PBR_{it} and $LEVE_{it}$, FA_{it}. Accordingly, Kuzey and Uyar (2017) presented the value relevance of GRI-based sustainability reporting and confirmed a positive relationship between sustainability reporting and firm value. If organizations care about sustainability issues, organizations must announce this by issuing sustainability reports. Doing so will improve their reputations while attracting individual and institutional investors.

According to the developed hypothesis H_1, sustainable reporting significantly impacts sales growth by controlling Firm size, Leverage, and Firm age. Moreover, according to coefficient results, H_1 is supported; therefore, a positive relationship exists between sustainable reporting and sales growth by controlling Firm size, Leverage, and Firm age. Past studies concluded that corporate sustainability is positively related to firm value when a firm's sales growth is relatively high. In difference, when a firm's sales growth is relatively low, the volume of the positive relationship is reduced. The higher the sales growth, the stronger the relationship between corporate sustainability and firm value.

According to hypothesis H_2, sustainable reporting significantly impacts the price-to-book ratio by controlling Firm size, Leverage, and Firm age. According to the coefficient result, a significant positive relationship exists between sustainable reporting and price-to-book ratio, while H_2 is supported. Past studies presented the value relevance of GRI-based sustainability reporting and confirmed a positive relationship between sustainability reporting and firm value. If organizations care about sustainability issues, organizations must announce this by issuing sustainability reports. Doing so will enhance their reputations while attracting individual and institutional investors.

CONCLUSIONS AND IMPLICATIONS

This study aimed to examine the impact of Sustainability Reporting on a Firm's growth in non-financial companies listed in Sri Lanka. Data for this study were collected from sustainability reports of non-financial companies listed on the Colombo Stock Exchange from 2016/2017 to 2020/2021. The study contributed to the existing literature by identifying the current state of sustainability reporting in Sri Lanka and the impact of sustainability reporting on a firm's growth in the Sri Lankan context. Furthermore, the research could cater to contradictory opinions in the existing literature. However, there are several limitations to the research. This research was conduct based on non-financial listed companies. Their sustainability reporting is a voluntary requirement; therefore, all companies may not provide sustainability reports. Moreover, the findings of this research might not apply to companies from countries where sustainability reporting is mandatory or companies that are not non-financial listed companies in the sample represent. Furthermore, this study can be further improved to identify the relationship between organizational social performance and the state of sustainability reporting. Future researchers can conduct their research on an extended sample of companies in Sri Lanka. Comparative sustainability reporting analysis can be conducted with other countries in the region. The GRI is based on the practices in developed countries, which can be strictly adopted in developing countries like Sri Lanka.

***Keywords*:** Firm's growth, non-financial companies, price to book ratio, sales growth, sustainability reporting

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