

**THE IMPACT OF FINANCIAL PERFORMANCE ON THE
SUSTAINABILITY PERFORMANCE OF THE LISTED
COMPANIES IN SRI LANKA**



BY

VARATHARAJAN SANDIYA

REG NO: EU/IS/2015/COM/53

INDEX NO: COM 1933



Project Report
Library - EUSL

**A Project Report Submitted to the Faculty of Commerce and Management,
Eastern University, Sri Lanka as a partial fulfillment of the requirement of the
Degree of Bachelor of Commerce Honors in Accounting and Finance [BComHons
(Accounting and Finance)]**

DEPARTMENT OF COMMERCE

FACULTY OF COMMERCE AND MANAGEMENT

EASTERN UNIVERSITY, SRI LANKA

2020

**PROCESSED
MAIN LIBRARY, EUSL**

ABSTRACT

The purpose of this research is to investigate the impact of financial performance on the sustainability performance of listed companies in Sri Lanka. The research evaluates the impact of Return on Equity, Return on Sales and Return on Assets as the financial performance on the sustainability performance including of Listed Companies in Sri Lanka. It was able to identify the level of disclosures on Sustainability performance is lower than the expectation and with the comparison of foreign listed entities. As the sustainability disclosure is not a mandatory part to be provided in annual reports and the number of voluntarily disclosing the performances are very low. Thus, out of 290 listed companies 20 Listed Companies with Sustainability reporting specially with regards to the past five years from 2015 to 2019 has been selected for the analysis purpose. All these companies follow either the GRI G4 or GRI guidelines. Then this study considers secondary data collected from the annual reports both from the Financial and Non-Financial reporting. For the purpose of analysis Descriptive statistics, Regression analysis and correlation tests have been conducted. The Findings show that there is a strong positive relationship between the financial performances including ROA, ROS and sustainability performances. At the same time the ROE consists of a negative impact on sustainability performance. By referring to the previous research findings it could be identified there is a bi-directional causality among the financial performance and sustainability performance. Thus, the consideration either on sustainability performance or on financial performance a company can achieve a positive vibe over the years.

Keywords: Return on Equity, Return on Asset, Return on Sales, Economical Performance, Environmental Performance, Societal Performance, GRI, Bi-Directional Causality

Table of Contents

	Page No
CHAPTER ONE	1
Introduction.....	1
1.1 Background of the Study	1
1.2 Problem Statement	5
1.3 Research Questions.....	5
1.5 Scope of the Study	6
1.6 Significance of the Study	6
1.7 Summary	7
CHAPTER TWO	8
Literature Review.....	8
2.1 Introduction.....	8
2.2 Theoretical Literature.....	8
2.2.1 Theoretical background of CS reporting.....	8
2.3 Empirical Literature	10
2.4 Financial Performance	10
2.3.1. Return on Sales as the measurement of Financial Performance	12
2.3.2. Return on Assets as the measurement of Financial Performance	13
2.3.3. Return on Equity as the measurement of Financial Performance	14
2.4. Sustainability	14
2.4.1. Economical sustainability	16
2.4.2. Environmental sustainability.....	17
2.4.3. Social sustainability	20
2.5. Triple Bottom Line	21
2.6. GRI.....	22
2.7. Sustainability reporting.....	24
2.8. Sustainability Performance	25
2.9. Chapter Summery	27
CHAPTER THREE	28
Conceptual Framework and Operationalization	28
3.1 Introduction.....	28
3.2 Conceptualization of Variables.....	28
3.3 Conceptualization of the Financial Performance	29
3.3.1 Return on Sales	29

3.3.2 Return on Assets	30
3.3.3 Return on Equity	30
3.4 Sustainability Reporting Index.....	30
3.5 Operationalization of Variables	31
3.6 Summary	32
CHAPTER FOUR.....	33
4.1 Introduction.....	33
4.2 Study Design.....	33
4.2.1 Research Method	33
4.2.2 Study Setting.....	34
4.3 Sample Design Population.....	34
4.3.1 Target Population.....	34
4.3.2 Sample and Sampling Technique.....	34
4.4 Data Collection Method.....	35
4.4.1 Secondary Data Collection.....	35
4.5 Methods of Measurements	35
4.6 Method of Data Analysis	36
4.7 Methods of Data Presentation and Analysis	36
4.7.1 Descriptive Analysis	36
4.7.2 Unit root test	37
4.7.3 Diagnostic Test	37
4.7.8 Regression Analysis.....	38
4.7.2 Regression Analysis and Evaluation.....	39
4.8 Summary	39
CHAPTER FIVE	40
DATA PRESENTATION AND ANALYSIS	40
5.1 Introduction.....	40
5.2 Data Analysis.....	40
5.2.1 Descriptive Statistics.....	40
5.3.2 Correlation Analysis	41
5.3.3 Unit Root Test.....	41
5.3.4 Diagnostic Test	42
5.4 Regression Analysis.....	42
5.4.2 Random Effect Model.....	42
5.4.3 Hausman Test.....	43
5.5 Summary	45

CHAPTER SIX	46
DISCUSSION	46
6.1 Introduction.....	46
6.2 Description of variables	46
6.3 Discussion on the impact of Return on Sales on the sustainability performance	47
6.4 Discussion on the impact of Return on Asset on the sustainability performance	47
6.5 Discussion on the impact of Return on Equity on the sustainability performance	50
6.6 Summary	51
CHAPTER SEVEN	52
Conclusions and Recommendation.....	52
7.1 Introduction.....	52
7.2 Conclusion of the Research Questions.....	52
7.2.1. The conclusion on the impact of Return Sales on Sustainability Performance of listed companies in Sri Lanka	52
7.2.2. The Conclusion on the impact of Return on Asset on Sustainability Performance of listed companies in Sri Lanka.....	53
7.2.3. The Conclusion on the impact of Return on Equity on Sustainability Performance of listed companies in Sri Lanka.....	53
7.3 Recommendations.....	53
7.3.1 Recommendations on the impact of Return on Sales on the sustainability performance	53
7.3.2 Recommendations on the impact of Return on Asset on the Sustainability performance	53
7.3.3Recommendations on the impact on Return on Equity on the Sustainability Performance	54
7.4 Implication for the Future Research.....	54
7.6 Limitations of the Study.....	55
7.7 Suggestions for Future Studies	55
7.8 Summary	55
REFERENCES	57
APPENDIX A	68
APPENDIX B	69
APPENDIX C	71
APPENDIX D.....	74
APPENDIX E	77