
Sustainability Reporting and Financial Performance: Evidence from Sri Lankan Material and Capital Goods Sectors

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A B S T R A C T

Sustainability reporting is likely to increasingly be the application of a corporate reporting practice, and stakeholders are seeking greater transparency about the Environmental, Social and Governance (ESG) performance of companies. The study looks at the effect of sustainability reporting on the financial performance of the companies listed in the Material and Capital Goods sectors of the Colombo Stock Exchange for the period 2020 to 2024. The ESG disclosure indices and the integrated Sustainability Reporting Disclosure Index are used to measure sustainability reporting, while Return on Equity (ROE) and return on assets (ROA) are used to measure financial performance. For the listed companies, the data were collected using a census approach; thus, 100 firm-year observations are included. The results were analysed through multiple regression analysis, and they indicate that environmental disclosures and governance disclosures do not significantly affect ROE or ROA. However, the effect of social disclosures is a significant positive effect on both ROE and ROA. The Sustainability Reporting Disclosure Index has a very strong positive correlation with both performance measures. Stakeholder theory appears to be supported by the findings, which indicate that stakeholders consider firms in terms of their broad sustainability efforts, not just individual measures, such as ESG. The research helps bridge the gap in the literature surrounding sustainability reporting by offering sector-specific evidence from Sri Lanka and emphasises how integrated sustainability reporting supports firms' financial performance.

Keywords: Financial performance, Material and Capital Goods sectors, Stakeholder Theory, Sustainability Reporting

1. Introduction

Sustainability Reporting (SR) has emerged as an important corporate reporting practice reflecting growing stakeholder demand for transparency regarding ESG aspects. Beyond traditional financial reporting, SR enables organisations to communicate their commitment to sustainable business practices and long-term value creation. Particularly, it refers to the disclosure of non-financial information relating to a firm's ESG activities (Abeyrathne &

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Illubethanne, 2023) to inform stakeholders about a firm's sustainable performance to make economic decisions (Xu et al., 2024). Increasingly, investors, creditors, regulators, customers, and other stakeholders consider ESG disclosures when evaluating corporate risk, value creation, and profitability (Eccles et al., 2014; Friede et al., 2015). Consequently, SR has evolved from a voluntary disclosure mechanism into a strategic tool that can influence company's performance through stakeholder trust (Siew et al., 2013).

Despite the growing prominence of SR, its relationship with financial performance remains inconclusive. Prior studies have reported mixed findings regarding the impact of sustainability disclosures on firm performance. For example, several studies suggest that SR enhances profitability, firm value, shareholder confidence, and long-term organisational performance (Almashhadani & Almashhadani, 2023; Bandara & Kumara, 2020; Hongming et al., 2020; Thayaraj & Karunarathne, 2021). In contrast, other studies report negative relationships between SR and financial performance (Celik, 2023; Weerathna et al., 2021). These contradictory findings suggest that the effectiveness of SR may vary across institutional, industrial, and socio-economic contexts. Such variations are particularly evident in developing countries like Sri Lanka where SR remains largely voluntary and is often undertaken for reputational reasons (Bandara & Kumara, 2020).

Although SR has received considerable scholarly attention, important research gaps remain. Existing studies have predominantly focused on banking and financial services (Almashhadani & Almashhadani, 2022; Buallay, 2020; Darshi et al., 2023; Felita & Faisal, 2021; Jayawardhana et al., 2025), consumer goods industries (Abdulwahab et al., 2023; Ofoegbu & Asogwa, 2020; Umar et al., 2021), and food and beverage sectors (Abeyratne & Morais, 2021; Arieftiara et al., 2022; Balasuntharam, 2021; Buallay, 2022; Menike, 2020; Wijesiri & Perera, 2022). Furthermore, studies conducted in Sri Lanka have largely examined the overall effect of SR on financial performance (Thayaraj & Karunarathne, 2021; Weerathna et al., 2021). Comparatively little attention has been given to environmentally intensive sectors such as the Material and Capital Goods sectors. These sectors are characterized by substantial resource consumption, environmental exposure, and stakeholder scrutiny, making sustainability disclosures particularly relevant. Furthermore, No exists regarding whether individual ESG dimensions exert different effects on financial performance within these sectors. Consequently, the sector-specific implications of sustainability reporting in the Sri Lankan context remain underexplored.

Drawing on the stakeholder theory (Freeman, 1984), this study aims to examine the impact of SR on the financial performance of listed companies in the Material and Capital Goods sectors of Sri Lanka during the period 2020–2024. Specifically, the study investigates the effects of ESG disclosure dimensions, as well as the Integrated Sustainability Reporting Disclosure Index (SRDI), on financial performance measured by ROA and ROE. The study contributes to the literature in three ways. First, it provides recent evidence from Sri Lanka, where SR practices remain largely voluntary. Second, it distinguishes between the effects of individual ESG dimensions and the overall sustainability reporting disclosure index, thereby offering a more nuanced understanding of how sustainability disclosures influence firm performance. Third, by focusing on the Material and Capital Goods sectors, the study provides sector-specific insights into SR within environmentally intensive industries.

The remainder of the paper is organized as follows. Section two reviews the relevant literature and theoretical foundation of the study. Section three describes the research methodology. Section four presents and discusses the empirical findings. Finally, Section five concludes the study and outlines implications, limitations, and directions for future research.

2. Literature Review

2.1. Sustainability Reporting

SR has become an increasingly important component of contemporary corporate reporting as organisations face growing pressure to demonstrate accountability for their ESG impacts. Sustainability is defined as meeting current needs without compromising the capacity of future generations to meet their own needs (Aifuwa, 2020), while SR is the disclosure of non-financial information systematically concerning an organisation's environmental, social and governance performance (Buallay, 2020). In addition, SR highlights a framework of non-financial performance to provide an assessment of the ethical impact and investments in companies (Garefalakis et al., 2025). SR creates greater transparency and accountability by encouraging organisations to communicate their sustainability efforts, impacts, risks, and opportunities with a variety of stakeholders (Dissanayake et al., 2016; Garefalakis et al., 2025). An increase in non-financial information demand from stakeholders is a driving force of the growing importance of SR. Traditional financial reporting primarily focuses on economic performance; however, investors, regulators, customers, employees, and communities increasingly require information regarding corporate environmental responsibility, social impacts, and governance practices when evaluating organisational performance and long-term value creation (Eccles et al., 2014; Garefalakis et al., 2025). Thus, SR has transferred from the voluntary disclosure's approach to become a strategic tool which allows to attract investment, minimise long-term risks and boost organisations' legitimacy (Eccles et al., 2014; Kotsantonis & Serafeim, 2019), fostering the engagement of stakeholders and corporate reputation (Siew et al., 2013).

ESG disclosures are typical for reporting within SR. Environmental disclosures discuss aspects of energy usage, emissions, waste management, water usage, and environmental compliance, whereas social disclosures refer to disclosures concerning employee welfare, occupational health and safety, training and development, diversity, customer welfare and community engagement. Board structure, executive remuneration, risk management, compliance and accountability are all touched upon in the governance disclosures. These disclosures can be viewed as a complete picture of a firm's sustainability performance and responsiveness to stakeholder expectations (Kotsantonis & Serafeim, 2019).

The Global Reporting Initiative (GRI) is one of many SR frameworks that has become the most popular one for achieving sustainability disclosure globally. Organisations use the GRI Standards as a set of guidelines to make their impacts on the environment, society, and governance visible and transparent to their stakeholders, in a consistent and comparable way. The framework provides accountability to reporting and helps stakeholders make decisions by improving the quality and comparability of sustainable information reporting (Global Reporting, 2025; Xu et al., 2024).

2.2. Empirical Background on Sustainability Reporting and Firms' Financial Performance

The link between SR and financial performance has drawn much research and interest in developed as well as in developing nations. But empirical evidence is mixed: some studies demonstrate positive, negative and insignificant associations between SR and firm performance. There is a well-documented body of research confirming that SR has a positive role in relation to financial performance. The findings of Hongming et al. (2020) for example, indicated that the disclosure of ESG was positive to the financial performance of Pakistani companies. Felita and Faisal (2021), meanwhile, concluded that SR enhanced the performance of the banks in Indonesia. Almashhadani and Almashhadani (2023) also found that the ROA

and ROE were significantly improved by the sustainability disclosures among the financial institutions listed in Bahrain. In Sri Lanka, Bandara and Kumara (2020) concluded a positive effect of SR on firm performance and Thayaraj and Karunaratne (2021) concluded that the sustainability disclosures are moderately linked with financial performance.

Despite this positive evidence, several studies have reported contradictory findings. For example, a negative relationship was observed between ESG disclosures and financial performance in developing countries (Garcia & Orsato, 2020). The same applies to Celik (2023), who found that improved financial results are not necessarily a result of SR. Eranga and Wijesinghe (2021) deduces in Sri Lanka that environmental, social and economic disclosures do not have a significant effect on company performance as reflected in ROA and Return on sales (ROS), as firm characteristics have been controlled. Additionally, Weeraratna et al. (2021) found that the contribution of SR to financial benefits was found to be weak in listed companies in Sri Lanka.

Based on the above discussion, the inconclusive results of previous studies indicate that the involvement of SR with financial performance is sensitive to the societal context and could differ based on industry, institutional context and expectations of stakeholders. In addition, the majority of past research has concentrated on the banking, financial services, and consumer goods and food, and beverage industries, with very little research studying environmentally intense industries like the Material and Capital Goods sectors. Moreover, little is known about the individual impact of disclosures for the ESG dimensions on financial performance. Hence, additional research is needed to gain insights into the relationship between the individual ESG components, and the effect of the whole of the ESG and the total effect of the SR on financial performance in the Sri Lankan perspective.

2.3. Stakeholder Theory and Hypothesis Development

This study is grounded in stakeholder theory, which provides a theoretical foundation for understanding the relationship between sustainability reporting and corporate financial performance. The stakeholder theory was first used by Freeman (1984) who defined stakeholders as the people or groups that either have the potential to influence, or be influenced by, the realisation of an organisation's goals. However, stakeholder theory goes beyond shareholder concepts and states that these businesses need to provide value for the stakeholders, including investors, employees, customers, suppliers, governments, local communities and society more broadly. It is suggested that the theory of how organisations respond effectively to stakeholder expectations is more likely to give them long-term success and sustainable competitive advantage (Freeman, 1984; Harrison et al., 2015).

SR is a crucial tool for transferring information about organisations' ESG initiatives to stakeholders. Such disclosures increase transparency, accountability, and interaction between firms and their stakeholders and help alleviate information asymmetry between management and its stakeholders (Eccles et al., 2014; Kotsantonis & Serafeim, 2019). According to the stakeholder theory, companies that offer the detailed sustainability information could have the better chances to gain the trust of stakeholders, build the legitimacy, and enhance corporate image and secure access to key resources required for future success (Donaldson & Preston, 1995; Freeman et al., 2010). This means that SR may contribute positively to financial performance.

Energy, emissions, waste management, compliance with environmental requirements and resource use is the information communicated through environmental disclosures. These disclosures direct the attention of environmental stakeholders such as regulators, local communities, environmental groups and socially responsible investors. The stakeholder theory

suggests that organisations with environmental legitimacy are likely to secure investor endorsement, face reduced regulation and regulatory risks and achieve stakeholder support (Buallay, 2020; Eccles et al., 2014). Previous empirical studies have also pointed out that environmental disclosure has a positive correlation with financial performance (Hongming et al., 2020; Menike, 2020). Thus, environmental disclosures are expected to positively influence financial performance.

H1: Environmental disclosures have a positive impact on financial performance.

Social disclosures include employee welfare studies, occupational health and safety, training and development, customer welfare disclosures, initiatives to embrace diversity, and community engagement statistics. Key stakeholder groups, including customers, employees and the local community, will be directly affected by these disclosures. According to the stakeholder theory, the organisations that establish a robust relationship with the interested parties can have the advantage of fostering raven loyalty among customers, employee adhesion, a positive reputation of the firm and operational efficiency (Donaldson & Preston, 1995; Freeman et al., 2010). Previous research has also shown a positive effect on firm performance resulting from social disclosures leading to improved relationships with stakeholders (Bandara & Kumara, 2020; Hongming et al., 2020; Thayaraj & Karunarathne, 2021). Hence, social disclosures are expected to positively influence financial performance.

H2: Social disclosures have a positive impact on financial performance.

Governance disclosures are designed to give information on how the board is organized, executive compensation, risk management systems, compliance processes and accountability processes. They are important because they minimise information asymmetry and bolster confidence in management decisions as they are especially needed by investors, shareholders and regulators. According to the stakeholder theory, when members of the organisation do their jobs well, they are more liable and responsible to one another and to the external environment, known as stakeholders or shareholders, and that such good job performance helps to support long-run organisational performance (Freeman et al., 2010; Harrison et al., 2015). Empirical evidence also suggests that good governance practices can improve firm value and financial performance (Buallay, 2020; Hongming et al., 2020). As such, governance disclosure is expected to positively affect the financial outcomes.

H3: Governance disclosures have a positive impact on financial performance.

While it is acknowledged that individual environmental, social and governance disclosures can impact a stakeholder's perception, stakeholder theory holds that these stakeholders will consider organisations as a whole entity and not disclosure alone. More importantly, in-depth SR reveals a more general commitment to stakeholders' interests and to responsible business practices (Eccles et al., 2014; Freeman et al., 2010). This means that individual disclosures might not yield as many benefits in terms of legitimacy, stakeholder trust and reputation as individual integrated SR. This reflects the overall sustainability commitment in the SRDI, which is the document that brings together information on the environment, social and governance dimensions of sustainability. Thus, a firm that has a higher SR is likely to have strong financial performance.

H4: SRDI has a positive impact on financial performance.

3. Methodology

This study adopts a quantitative research approach to examine the impact of SR on the financial performance of listed companies in the Material and Capital Goods sectors of Sri Lanka. The quantitative approach is appropriate because it enables the examination of relationships between SR disclosures and financial performance through statistical analysis. The study utilizes secondary data collected over a five-year period from 2020 to 2024. The study employed a census approach by including all companies listed under the Material and Capital Goods sectors of the Colombo Stock Exchange. Accordingly, the final dataset consisted of 20 companies, including nine firms from the Material sector and eleven firms from the Capital Goods sector. The five-year period generated 100 firm-year observations.

Secondary data were collected from publicly available annual reports, sustainability reports, and integrated reports published by the selected companies. Financial information was extracted from annual reports, while sustainability disclosure information was obtained through the content of sustainability-related disclosures reported by the companies. SR was measured using a SRDI developed based on the GRI framework. The index consisted of 18 disclosure indicators distributed equally across ESG, with six indicators representing each disclosure. Each disclosure item was assigned a score of one (1) if the relevant information was disclosed and zero (0) otherwise. The disclosure scores were aggregated to calculate the Environmental Disclosure Index (ENI), Social Disclosure Index (SOI), and Governance Disclosure Index (GOI).

The study employs financial performance as the dependent variable, sustainability reporting disclosures as the independent variables, and firm size as the control variable. Firm size was included as a control variable because larger firms generally possess greater resources, attract higher stakeholder attention, and are more likely to engage in SR activities than smaller firms. Table 1 represents how these variables are measured.

The impact of SR on financial performance was examined through regression analysis. The four-equation models were developed. Model 01 examines the effect of individual ESG levels on ROE, Model 02 observes the effect of integrated ESG levels on ROE, Model 03 examines the effect of individual ESG levels on ROA, and Model 04 studies the effect of integrated ESG on ROA. Each model includes firm size as a control variable. The models underlying the regression are stated as follows:

$$\text{Model 01 - ROE} = \beta_0 + \beta_1\text{ENI} + \beta_2\text{SOI} + \beta_3\text{GOI} + \beta_4\text{FS_LN} + \varepsilon$$

$$\text{Model 02 - ROE} = \beta_0 + \beta_1\text{SRDI} + \beta_2\text{FS_LN} + \varepsilon$$

$$\text{Model 03 - ROA} = \beta_0 + \beta_1\text{ENI} + \beta_2\text{SOI} + \beta_3\text{GOI} + \beta_4\text{FS_LN} + \varepsilon$$

$$\text{Model 04 - ROA} = \beta_0 + \beta_1\text{SRDI} + \beta_2\text{FS_LN} + \varepsilon$$

Where:

ROA =	Return on Assets	SRDI =	Sustainability Reporting Disclosure Index
ROE =	Return on Equity	SOI =	Social Disclosure Index
ENI =	Environmental Disclosure Index	β_0 =	Intercept
FS_LN =	Firm Size _ Natural Logarithm	GOI =	Governance Disclosure Index
β_1 – β_4 =	Regression Coefficients	ε =	Error Term

Multiple linear regression analysis was performed to test the proposed hypotheses and evaluate the impact of SR on financial performance. Two regression models were estimated using individual ESG disclosure (ENI, SOI, and GOI), while two additional models were estimated

using the integrated. In addition, an independent samples t-test was conducted as a supplementary analysis to determine whether SR practices differed between companies operating in the Material and Capital Goods sectors. Prior to regression analysis, diagnostic tests were conducted to assess the assumptions of normality, multicollinearity, autocorrelation, and homoscedasticity. The results indicated that the data were suitable for regression analysis.

Table 1: Operationalization of Variables

S/N	Variables	Notations	Measurement	Sources
01	<u>Independent Variables</u>			
	Sustainability Reporting Disclosure Index	SRDI	$SRDI = ENI + SOI + GOI + ESRDI$	(Hongming et al., 2020)
	Environmental	ENI	Number of Environmental Guidelines fulfilled by the company	(Eranga & Wijesinghe, 2021)
	Social	SOI	Expected number of environmental guidelines Number of Social Guidelines fulfilled by the company	(Eranga & Wijesinghe, 2021)
	Governance	GOI	Expected number of social guidelines Number of Governance Guidelines fulfilled by the company	(Eranga & Wijesinghe, 2021)
02	<u>Dependent variables</u>			
	Return on Equity	ROE	$ROE = \frac{\text{Net Income}}{\text{Total Shareholders' Equity}}$	(Eranga & Wijesinghe, 2021; Felita & Faisal, 2021) (Celik, 2023)
03				
	Return on Assets	ROA	$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$	
03	<u>Control Variable</u>			
	Firm Size	FS_LN	Natural logarithm of Total Assets	(Almashhadani & Almashhadani, 2023; Eranga & Wijesinghe, 2021)

* ESRDI – Expected Sustainability Reporting Disclosures Index

4. Results and Discussion

4.1. Descriptive Statistics

Table 2: Descriptive Statistics

Variable	Observations	Mean	Std. Deviation	Minimum	Maximum
ROE	100	17.48	10.44	-4.08	48.84
ROA	100	10.39	7.22	-1.84	32.16
ENI	100	77.83	22.97	33.33	100
SOI	100	83.33	20.10	33.33	100
GOI	100	78.00	17.55	50.00	100
SRDI	100	79.72	18.34	44.44	100
FS_LN	100	8.16	1.54	6.38	11.05

Note- ENI -Environmental Indicators / SOI -Social Indicators / GOI - Governance Indicators / SRDI – Sustainability Reporting Disclosures Index

Table 2 presents the descriptive statistics of the study variables. The mean ROE and ROA were 17.48% and 10.39%, respectively, indicating moderate profitability among the sampled firms. The average ENI, SOI, GOI, and SRDI were 77.83%, 83.33%, 78.00%, and 79.72%, respectively, suggesting a relatively high level of sustainability disclosure among companies in the Material and Capital Goods sectors. Among the ESG disclosures, social disclosures recorded the highest average score, indicating greater emphasis on social responsibility initiatives. Firm size exhibited moderate variation across the sample firms.

4.2. Testing the Regression Assumptions

Before regression analysis, diagnostic tests were conducted to assess normality, linearity, homoscedasticity, multicollinearity, and autocorrelation. Scatterplots of standardized residuals indicated no evidence of non-linearity or heteroscedasticity. Histograms showed approximately normal distributions of residuals. Multicollinearity was not a concern, as all tolerance values exceeded 0.30 and all VIF values were below 10. Durbin–Watson statistics ranged from 1.227 to 1.578, indicating no severe autocorrelation concerns. Overall, the diagnostic results suggest that the data were suitable for regression analysis.

4.3. Sustainability Reporting and Financial Performance

Table 3: Model 01 – Regression Results (Individual ESG Levels on ROE)

Variable	Unstandardized β	Std. Error	Standardized β	t value	Sig.	Tolerance	VIF
Constant	2.680	6.058	-	0.442	0.659	-	-
ENI	0.001	0.061	0.003	0.019	0.985	0.332	3.009
SOI	0.318	0.073	0.612	4.366	0.000	0.307	3.260
GOI	-0.003	0.068	-0.004	-0.039	0.969	0.460	2.175
FS_LN	-1.418	0.529	-0.209	-2.678	0.009	0.988	1.013
R ²	0.428						
F-Statistics	17.747				0.000		
Durbin Watson	1.578						

According to Table 3, the regression model is statistically significant ($F=17.747$, $p < 0.01$), confirming that the model fit is good. The R^2 value of 0.428 indicates that 42.8% of the variation in ROE can be explained by ESG individual disclosures after controlling firm size. Among the ESG disclosures, only social disclosure was found to have a significant positive effect on ROE, suggesting that firms placing greater emphasis on employee welfare, community engagement, and stakeholder relations tend to generate higher returns to shareholders. However, environmental and governance disclosures are not statistically significant, indicating that these dimensions, taken separately, have a minimal impact on ROE. The firm size, which was included as a control variable, is negative but statistically significant with ROE. Accordingly, it appears that large companies report lower ROE and small companies report better ROE.

Table 4 shows the effect of the SRDI on ROE. Accordingly, the model is also statistically significant ($F= 28.998$, $p < 0.01$), which indicates that the model fit is good. Also, the R^2 value of 0.374 indicates that the 37.4% of the variation in ROE can be explained by SRDI after controlling firm size. The coefficient of the SRDI is 0.566, which is statistically significant (P

< 0.01). This significant positive coefficient indicates that firms with higher overall sustainability disclosure levels tend to achieve superior shareholder returns. This finding suggests that stakeholders may evaluate sustainability performance holistically rather than through isolated ESG dimensions. Furthermore, firm size reports a negative, statistically significant coefficient ($p < 0.05$), indicating that larger companies report lower ROE.

Table 4: Model o2 – Regression Results (Integrated ESG Levels on ROE)

Variable	Unstandardized β	Std. Error	Standardized β	t value	Sig.	Tolerance	VIF
Constant	2.717	6.004	-	0.453	0.652	-	-
SRDI	0.322	0.046	0.566	7.030	0.000	0.996	1.004
FS_LN	-1.339	0.546	-0.198	-2.453	0.016	0.996	1.004
R ²	0.374						
F-Statistics	28.998				0.000		
Durbin	1.444						
Watson							

Table 5: Model o3 – Regression Results (Individual ESG Levels on ROA)

Variable	Unstandardized β	Std. Error	Standardized β	t value	Sig.	Tolerance	VIF
Constant	-0.833	4.309	-	-0.193	0.847	-	-
ENI	0.031	0.044	0.098	0.705	0.483	0.332	3.009
SOI	0.197	0.052	0.550	3.813	0.000	0.307	3.260
GOI	-0.018	0.048	-0.043	-0.367	0.715	0.460	2.175
FS_LN	-0.763	0.377	-0.163	-2.027	0.046	0.988	1.013
R ²	0.394						
F-Statistics	15.472				0.000		
Durbin	1.309						
Watson							

Table 5 shows the results for Model o3. This model is also statistically significant ($F = 15.472$, $p < 0.01$), indicating that the model fit is good. The R² value here is 0.394, indicating that the individual ESG dimensions can explain 39.4% of the variation in ROA. Among individual ESG disclosures, social disclosure remains significant even when ROA is used, indicating that higher social disclosures are associated with higher ROA, while environmental and governance disclosures are not statistically significant. Firm size is also negatively and statistically significant ($p < 0.05$), indicating that larger firms are associated with lower ROA.

Table 6: Model o4 –Regression results (Integrated ESG Levels on ROA)

Variable	Unstandardized β	Std. Error	Standardized β	t value	Sig.	Tolerance	VIF
Constant	-1.595	4.228	-	-0.377	0.707	-	-
SRDI	0.222	0.032	0.563	6.870	0.000	0.996	1.004
FS_LN	-0.697	0.384	-0.149	-1.814	0.073	0.996	1.004
R ²	0.351						
F-Statistics	26.187				0.000		
Durbin	1.227						
Watson							

Table 6 shows the results related to Model o4. This model is also statistically significant ($F = 26.187$, $p < 0.01$), indicating that the model fit is good. The R² value here is 0.351, which indicates that the overall ESG dimensions can explain 35.1% of the variation in ROA.

Accordingly, the overall effect of this SRDI on ROA is positive ($\beta = 0.563$, $p < 0.01$) indicating that integrated sustainability disclosure improves asset-based performance. Further, firm size is negative and statistically not significant. That is, firm size does not have a significant effect on ROA.

4.4. Independent Sample t-test Analysis

Table 7: Group Statistics

Variable	Sector	Observations	Mean	SD	Std. Error Mean
SRDI	Material	45	76.79	19.79	2.95
	Capital Goods	55	82.12	16.86	2.27

Table 8: Independent Samples t-Test

		F	Sig.	t	df	Sig. (2-tailed)	Mean difference	Std. Error difference
SRDI	Equal variance assumed	3.409	0.068	-1.454	98	0.149	-5.33	3.67
	Equal variance not assumed			-1.431	86.817	0.156	-5.33	3.72

An independent samples t-test was conducted to determine whether SR practices differed between firms in the Material and Capital Goods sectors. The results revealed no statistically significant difference in SRDI between the two sectors ($t = -1.454$, $p = 0.149$). Although firms in the Capital Goods sector reported slightly higher sustainability disclosure levels, the difference was not statistically significant. This finding suggests that SR practices are relatively similar across the two sectors.

4.5. Discussion of the Findings

The findings of this study indicate that social disclosures have a significant positive impact on both ROE and ROA, while environmental and governance disclosures do not exhibit a statistically significant relationship with financial performance when examined individually. However, the integrated SRDI demonstrates a significant positive effect on both financial performance measures. These findings provide important insights into how different SR disclosures influence firm performance within the Material and Capital Goods sectors in Sri Lanka.

The significant positive relationship between social disclosures and financial performance is consistent with stakeholder theory, which suggests that firms create value by responding to the expectations of key stakeholder groups (Freeman, 1984). Social disclosures report information about employee welfare, health and safety, training and development, customer relations and community engagement. Consequently, this can enhance trust between stakeholders, boost corporate image, and enhance employee-customer and customer-community bonds. As a result, companies that go in the direction of increasing their focus on social responsibility will see a better level of buy-in from their stakeholders which in turn translate into improved financial results. This study is in line with Bandara and Kumara (2020), Thayaraj and Karunaratne (2021) and Abeyrathne and Illubethanne (2023) who reported that social sustainability initiatives contribute positively to firm performance in the Sri Lankan context.

Contrary to that, there was no significant relation between ROE and ROA and environmental or governance disclosures. Minimal impacts of environmental and governance disclosures also could be attributed to the fact that environmental and governance disclosures might be perceived as compliance or symbolic reporting. Previous studies on sustainability and integrated reporting (Hirudika & Vijitha, 2025; Maama & Mkhize, 2020) suggest that some disclosures are adopted to satisfy stakeholder expectations and maintain organisational legitimacy rather than to communicate substantive improvements in organisational performance. Thus, environmental and governance disclosures may not be received warmly by the stakeholders, if taken on their own. This is corroborated by the findings, which suggest that the financial impact of SR can differ in institutional and socio-economic environments, and that there are also differences in the priorities of different stakeholders between developed and developing countries (Eranga & Wijesinghe, 2021; Garcia & Orsato, 2020). Another noteworthy finding of this study is that, when analysed in isolation, the effects of environmental and governance disclosures are not significant, whereas integrated Sustainability Reporting Disclosure Index (ISRDI) shows a significant positive relationship with ROE and ROA. Stakeholder theory is the way to explain these findings. Stakeholders rarely evaluate firms based on a single sustainability dimension; rather, they assess the organisation's overall commitment to responsible business practices. Because the SRDI reflects the aggregate of a company's environmental, social and governance initiatives, it gives a more rounded picture of the sustainability performance of a company. This may encourage more positive reactions to the sustainability profile of the firm than to the dimensions of disclosure. This interpretation agrees with Eccles et al. (2014) and Friede et al. (2015), who propose that sustainability-related benefits emerge from integrated organisational practices that strengthen stakeholder trust, legitimacy, and long-term value creation.

No statistically significant difference on SR practices was observed between firms from the Material and Capital Goods sectors of the study. Although companies in the Capital Goods sector reported slightly higher sustainability disclosure levels, the difference was not statistically significant. This indicates that there is a relative uniformity between the SR practices in the two sectors, perhaps due to some similarity in reporting and expectations set by the stakeholders in industrially similar sectors where environmental impacts are significant. Lastly, firm size in most of the models was found to have a negative correlation with financial performance. These findings indicate that on the operational side, larger firms might be more complex and that they might have higher costs in sustaining their sustainability initiatives than smaller firms and are less likely to translate sustainability disclosures into improved financial performance. The results have been subsequently echoed by Viduranga and Fernando (2022) which noted that better financial results do not necessarily come with increased ESG reporting even as firms grow larger in size.

5. Conclusions and Implications

This study examined the impact of SR reporting on financial performance. Accordingly, the findings indicate that social disclosures are significantly positively related to financial performance, while environmental and governance disclosures do not show a significant relationship with financial performance when analysed separately. But expressions of its integrated SRDI are found significant and positive on both measures of financial performance. The results indicate that the individual components of ESG are not equally effective in driving financial outcomes and that a holistic SR strategy can benefit outcomes in an organisation.

Theoretically the findings have proven to support the stakeholder theory, as the stakeholders can judge a firm not only based on the ESG disclosures, but instead they can look at the

commitment a firm makes toward sustainability generally. The significant effect of the integrated SRDI indicates that comprehensive SR strengthens stakeholder trust, legitimacy, and corporate reputation, which ultimately contribute to improved financial performance. Moreover, social disclosures share significance in the Sri Lankan context as they reflect the importance of initiatives that are more stakeholder-centered in that regard, especially in areas as that of employee welfare, community involvement, and customer relations.

The study also has some implications for corporate management, investors, and policymakers. The findings indicate that the firms need to adopt a comprehensive approach towards SR and not a selective or focused approach on any set of ESG dimensions. Taking a holistic approach to ESG as part of the broader business strategy should foster the greatest level of stakeholder trust and long-term value development for managers. For investors, the findings suggest that the SR could be a useful tool to signal the level of commitment of companies towards responsible programs of business and future performance. The findings in this study can also be referred to by regulators and policymakers for drafting guidelines and policies to encourage listed companies to engage in SR in Sri Lanka.

Despite its contributions, the study is subject to several limitations. First, the analysis is restricted to those companies falling into the Material and Capital Goods sector; this might limit the extent to which the findings of this analysis can be generalised to other sectors. Second, SR was documented based on the disclosures, meaning that it may not fully reflect the quality or effectiveness of the SR. Third, secondary data were used from the corporate reports only; this may possibly introduce reporting bias.

This study can be extended in the future by exploring different sectors of the Colombo stock exchange, expanding the measures of financial performance and investigating attributes of financial performance instead of the magnitude of the disclosures. Comparative cross-sectorial and country-level research might also yield the tools needed for gaining a deeper understanding of the effects of institutional and regulatory environments on the linkage between SR and financial performance. In addition, mixed-methods analyses may include larger quantitative analysis participant interviews/surveys to better understand the concerns of the stakeholders about SR practices.

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