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The Influence of Sustainability Reporting on Firms' Financial Performance with the Moderating Role of Board Independence: Empirical Evidence form Sri Lankan Listed Firms

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Abstract

Sustainability Reporting has gained prominence from the industrial developments in 1980s. One of the outcomes of industrial developments has been emergence of the link between economy, ethics and politics as well as an interaction between economic issues and moral and social issues. Consequently, managers of the business entities no longer purely focus on higher productivity, but also pay their attention on numerous environmental, ethical, social and cultural issues. Therefore, board governance practices (particularly independence of the board) have been highlighted for its paramount importance. This study aimed to investigate the link between sustainability reporting on the firms' performance with the moderating role of board independence. Accordingly, the first objective of the study was to examine the direct impact of the sustainability reporting on firms' financial performance and secondly, to examine the moderating impact of board independence towards this association between sustainability reporting on firms' financial performance. All the non-financial companies in the Colombo Stock Exchange were selected amounting to 174 for a four years period (2014 to 2017) and thereby six hundred ninety-six (696) firm-year observations have been used in the study. Using the Global Reporting Initiative (GRI) based index for measuring sustainability disclosures, it was found via the pooled OLS regression and panel regression analyses that such sustainability disclosures have a significant ($p<0.01$) positive association on firm financial performance. Furthermore, the results of panel regression analysis also indicated that greater availability of independent directors positively ($p<0.05$) moderated the relationship between sustainability disclosures and financial performance of firms, and this finding is consistent with the agency theory, which posits that a more independent board of directors can better monitor the firms due to their independency.

Key Words: *Sustainability Reporting, Global Reporting Initiative, Board Independence, Corporate Performance*

1. Introduction and Literature Review

Sustainability reporting can be regarded as a new trend incorporate reporting which integrates financial, environmental and social performance of the company into one report (Zwetsloot & Marrewijk, 2004). Sustainability reporting refers to the

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practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development (Global Reporting Initiative, 2006). It is a voluntary reporting practice which demonstrates the inclusion of social and environmental concerns in business operations as well as in the interaction with stakeholders (Marrewijk & Were, 2003). This idea of sustainability that has three dimensions stems from the triple bottom line concept which was coined by John Elkington in 1994. It is demanded and expected by investors, customers, employees, government and other stakeholders (Keeble et al., 2003). Sustainability reporting generates many benefits, for example, enhances transparency (Oliveira et al., 2010), improves stakeholders' relations (Morsing & Schultz, 2006), attracts long-term capital (KPMG, 2008), generates a favorable investment climate and manages corporate reputation (Glass, 2012). Sustainable reporting is an extensively debated subject in the extant literature, with studies focusing on two primary research directions. On one hand, the analysis focuses on the determinant factors of sustainable reporting, such as corporate governance (Ong & Djajadikerta, 2018), profitability, ownership structure, company size (Dienes, Sassen & Fischer, 2016), debt and liquidity (Kuzey & Uyar, 2017), or even board gender (Al-Shaer & Zaman, 2016). On the other hand, research focuses on the effect of reporting sustainable actions on the indicators of economic results, namely company value (Radhouane et al., 2018), cost of capital (El Ghoul et al., 2011) and operating performances (Bhatia & Tuli, 2017). Previous empirical studies reveal that publishing sustainability information can be seen as positive news and can therefore improve the firm's reputation (with positive effects of performance) and can help to avoid a decrease in share price (Bhatia & Tuli, 2017). Thus, certain studies as Bodhanwala and Bodhanwala (2018) identifies a positive relationship between sustainability and financial performance of the firm. Aras and Crowther (2008) identified that the conducting a sustainable activity allows companies to reduce their costs of capital by inducing investors to believe that the risk associated with their investment is lower. Moreover, Dhaliwal et al. (2011) provided evidence that the information published by firms with superior CSR performances generate a subsequent reduction in their costs of capital. However, Barth et al. (2017) analyzed annual reports of listed companies from South Africa, where integrated reporting is mandatory, and they identified a positive association between sustainability reporting and the companies' liquidity and cash flows. Thus, literature suggest that CSR is used to build a win-win relationship between corporations and shareholders by enhancing firms' performances (Brown & Fraser, 2006). However, contrary to aforesaid literature, Mathuva and Kiweu (2016) found a significant negative relationship between CSR and performance. While there are other studies that have found no significant relationship between these variables (Chen et al., 2015; Liu & Anbumozhi, 2009 and Stanny & Ely, 2008) as well.

Collapse of high-profile companies and financial crisis, upsurged the need of corporate governance to the world to mainly reduce the agency cost and thereby investors demand for corporate governance mechanism to be executed in a transparent manner (Beiner et al. 2004). Due to corporate scandals and financial crisis, corporate governance becomes more crucial for organizations which emphasize the investors' protection (Beiner et al., 2004). Corporate governance can be considered as an atmosphere where it promotes trust, moral values and judgement and faith in organization practices and decision making. Specifically, this acts as a valuable guide for organizations to maintain a long lasting positive and unbroken relationship with their stakeholders of the society including shareholders, government, professionals and all the stakeholder groups (Aras & Crowther, 2008). Mechanisms of corporate governance are implemented by the "agents" appointed by its owners. Hence the responsibility of planning and execution of effective corporate governance practices within the organization lies on the shoulders of these agents (Aras & Crowther, 2008). These agents are non-other than board of directors, who are considered as the engine of the organization (Jensen & Meckling, 1976). Brennan and Solomon (2008) mentioned that board of directors are the controlling party who decide upon the disclosures and this might be highly influenced by the characteristics of board of directors (Sheila et al., 2012) Jensen and Meckling (1976) stated that agency theory provides the platform to link board governance and voluntary disclosures. It is agency theory which suggests that monitoring role of board influence the firms to disclose information to reduce the agency cost and information asymmetry (Brennan & Solomon, 2008). Moreover, the theory suggests that corporate governance strengthen internal control system of the company and provide "intensive monitoring package" to reduce opportunistic behavior of managers and thereby enhance the level of voluntary disclosures (Jensen & Meckling, 1976). Legitimacy theory also finetunes the activities of board of directors since it extends the agency theory to other stakeholders who represent the societal interests. This theory paves the path to broaden the corporate governance activities and align firms' activities to kindle interest of wider stakeholders (Shamil et al., 2014).

Among many corporate board governance characteristics, board independence receives an importance role in sustainability reporting. It is argued that non-executive directors on board restrict the opportunistic behaviour of CEO and control the board (Jensen & Meckling, 1976). Moreover, these directors support to enhance monitoring of quality of information disclosing and minimising benefits gained from some information withheld. This may lead to transparency of information and enhance the public confidence of organizations (Jensen & Meckling, 1976). It is argued by Rashid et al. (2010) that independent directors might provide skills and knowledge for the betterment of the corporation and on the other hand those directors create platforms to reduce opportunistic behavior of managers. Many researchers have found out that appointment of outside directors significantly influence the better performances of corporation (Kaplan & Reishus, 1990; Byrd & Hickman, 1992). Moreover, Rosenstein and Wyatt (1990) argued that appointment of independent directors caused to escalation of share prices of corporations. Same results stated by Daily and Dalton (1992) and Tian and Lau (2001) who mentioned that independent director's impact positively on economic performances. However, literature on this area is mixed since few researchers could not find any systematic association between economic performances and independent directors (Baysinger & Butler, 1985: Chaganti et al., 1985: Rechner & Dalton, 1986). Apart from that it is said that board independence has significant impact on sustainability reporting. Ionel-Alina, Emil and Maria (2012) found that impact of independent directors on sustainability disclosure is considerable and their role enhances the transparency of environmental information and the objectivity. Lattemann et al. (2009) who have done a research using sample of 68 large firms from China and India found that there is significant and positive impact on sustainability and CSR disclosure. Similarly, Herda, Taylor and Winterbotham (2012) found significant positive relationship between non-executive directors and sustainability reporting among the largest 500 companies in USA. The authors mentioned that their findings support the suggestion of monitoring function of independent directors improves the transparency of organisation through voluntary disclosures. Ramadhan (2014) also supported the same finding of existence of significant relationship between independent directors on board and voluntary disclosure level. Since extant literature provides enough evidence on the impact of board independence on both financial performances and sustainability reporting, it can be argued that higher number of independent directors leads to higher level of sustainability reporting and thereby enhances firms' performances.

Gray et al. (2010), bear the idea that sustainable companies are likely to show better financial results in their performances. This is due to sustainability reports that pave path to identify whether company is sustainable or not and it will help to reduce costs associated with waste, liability and clean up (Gray et al., 2010). With reference to the extant literature, although the importance of sustainability reporting is immense which is benefited in different ways for an organization, still Sri Lankan firms have not shown much stimulation in this area (Liyanagedara & Senaratne, 2009). Thus, voluntary disclosure level is not at a satisfactory level in Sri Lanka compared to developed markets. Especially, the sustainability reporting is rather new chapter to Sri Lankan corporate sector (Shamil et al., 2014). Since sustainability reporting is not a mandatory requirement for listed companies in Sri Lanka, board of directors may not give a considerable weight to it (Dharmadasa, Gamage & Herath, 2014). Due to non-mandatory requirement, there are considerable variation in sustainability reporting in the corporate sector such as high to low (Dissanayake, Tilt & Xydias-Lobo, 2016). Since the primary task of any company is to oversee and exercise its control over the management in ensuring the stakeholders interests (Zhang, 2012), absence of sustainability disclosure is one of the necessities of stakeholders and may damage the image of the company in the society and loose its public faith. Lack of disclosure on sustainability creates an information asymmetry for stakeholders and this ultimately results in an inefficient resource allocation which has unfavorable impact on economy at the end (Mapparessa et al., 2017). In this situation, this paper investigates the role of sustainability in enhancing economic performances of corporations. Further, taking the paramount importance of board independence into consideration, this study aims to identify the behaviour of board independence as a moderating role to the relationship between sustainability reporting and firm performances. As there is dearth of studies which tested the effect of board independence over the relationship between sustainability and firm performances, findings of this study might contribute to extant literature with fruitful insights. Accordingly, based on the contemporary importance, availability of contradictory evidence and dearth of studies observed in the study area, the main issue addressed in this study is "Does board independence moderate the association between sustainability reporting on performance?". Based on this problem statement, as the first objective, the study attempts to measure the level of sustainability reporting and firms' performances among non-financial listed companies in Sri Lanka. Secondly, this study aims to investigate the association between sustainability reporting and firms' performances. Finally, it examines the moderating role of board independence over the aforesaid relationship.

2. Significance of the Study

According to extant research, there are concerns on sustainability reporting in terms of social and environmental indicators in Sri Lanka and considerable variation in the levels of reporting could be seen among large to medium scale corporations as well (Dissanayake, Tilt & Lobo, 2016). Moreover, most of the studies have used one-dimensional measure to capture the level of sustainability or consider the merely the availability of sustainability reports only. In contrast, this study uses a comprehensive sustainability index to measure its level using the Global Reporting Initiative (GRI) G3 framework for all the listed companies in Sri Lanka except financial firms. Apart from that, to the best of our knowledge, there is no study that has taken place in Sri Lanka to test the moderating role of board independence on the relationship between sustainability reporting and firm's performances. Thus, it is expected that this study will contribute to the extant local and international literature by filling these gaps observed. Moreover, findings of this study might provide fruitful insights to the policymakers and relevant decision makers.

3. Methodology

This section discusses the research approach, population, study sample, hypotheses, operationalization of variables and analytical strategies proposed.

2.1 Conceptual Framework

The conceptual framework based on the extant literature is shown in Figure 1 as follows.

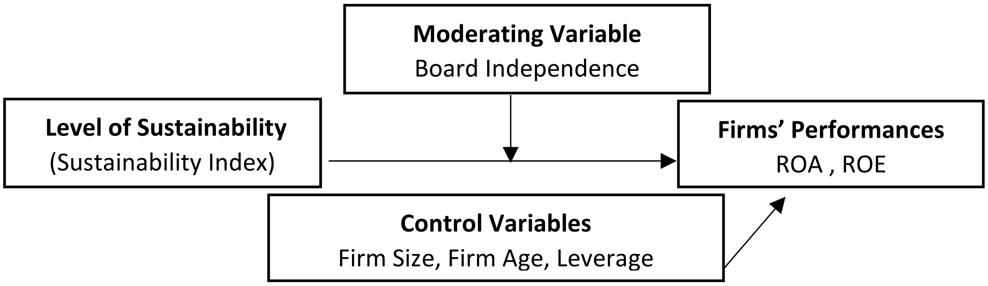

Figure 1: Conceptual Framework

Source: Author Constructed

This study used the quantitative research approach because it examines the current level of sustainability reporting and firms' performances as well as investigates the relationship between these two constructs, which is therefore deemed appropriate. Other studies too have used a quantitative approach in achieving similar objectives as of the current study (Cho & Patten, 2017; Hahn & Lulfs, 2014). As of 31st March 2017, there were 222 listed non-finance companies, which forms the population of this study. From those, 31 companies removed which have different financial period (31st December) and 17 companies were not taken due to unavailability of information. Thus, 174 companies have been selected as the final sample of the study for the period of 2014 to 2017 and thereby 696 observations were made.

3.2 Development of Hypotheses

Publishing sustainability information can be seen as positive news and can therefore improve the firm's reputation (Bhatia & Tuli, 2017). To this end, certain studies have identified that significant association between sustainable reporting and operational performance (Bodhanwala & Bodhanwala, 2018; Barth et al., 2017). Thus, in determining the impact of sustainable reporting on firms' performance, the following hypothesis is developed and tested in this study

H1: There is a significant association between sustainable reporting and economic performances of firms.

It is said that independent directors on board restrict the opportunistic behaviour of CEO and control the board (Jensen & Meckling 1976). Further, they are dedicated to monitoring of voluntary disclosures and thereby supports to increase public confidence as well. On the other hand, many researchers found that independent directors' impact positively on economic performances (Daily & Dalton, 1992; Tian & Lau, 2001). Thus, this research was designed to investigate the moderating role of independent directors to the relationship between sustainability reporting and performances and to achieve this, following hypothesis have been developed:

H2: The Board independence positively moderates the association between sustainability reporting and financial performance of firms.

3.3. Operationalization

Level of sustainability reporting ($SR_{i,t}$) was measured based on Global Reporting Initiative (GRI) G3 framework which is one of most comprehensive frameworks prevailing among other similar indexes which covers considerable area of sustainability via its indicators (Oritz & Martin, 2014) and it is currently the most widely accepted model in terms of Sustainability Reporting (Fuente et al., 2017). 79 indicators that consist of Economic, Environment and Social dimensions are considered for data collection on sustainability. The scale adopted from Al Tuwaijri, Christensen and Hughes (2004) was used to collect data where a maximum of 3 points was given for detailed *quantitative* disclosures related to indicators were made, while a score of 2 was assigned for non-quantitative but specific information related to indicators were disclosed, and lowest value of 1 was given for general qualitative disclosures, and finally a score of 0 was assigned for firms which has not disclosed any information related to the relevant indicators. Under dependent variables, the study used Return of Assets (ROA) to represent firm financial performance. $ROA_{i,t}$ was calculated as: (Net Income + Interest expenses) / Total Assets (Senanayake & Ajward, 2017) The board independence ($BI_{i,t}$), the moderating variable in the study was operationalized as the proportion of independent non-executive directors on the board to the total board of directors (Al-Shammari & Al-Sultan, 2010). In terms of control variables, the study used Firm size ($FS_{i,t}$) which was measured as the Natural logarithm of total assets for the firm *i* at the end of the period *t* (Kuzey & Uyar, 2017), Firm age ($FA_{i,t}$) which was operationalized as Number of years from incorporation for the firm *i* and until the end of the period *t* (Bhatia & Tuli, 2017) and Leverage ($LEV_{i,t}$) measured through 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)

3.4 Data Analysis Strategies

This section discusses the analytical strategies used in the study to achieve its objectives. Data cleaning and screening strategies were used before performing both the descriptive and regression analyses. Variables were winzorized in order to address the issue of outliers. Measures of central tendency and dispersion such as mean, median and standard deviation were estimated to assess the level of sustainability reporting and firms' performances to achieve the first objective of this study. Next, for the second and third objective of this study, which was to find out the impact of sustainability reporting on firms' performances, and the moderating role of board independence, correlation and multivariate regression analyses were performed.[4]

4. Data Analysis

Table 1 shows the measurements describing the distribution of values associated with the main variables included in the study. The variable of sustainability reporting ($SR_{i,t}$) shows a median and mean value of 7.1% and 35.2% respectively, which indicates a quite low value and high variation among the listed non-financial companies. Next, the average value of firm performance ($ROA_{i,t}$) is 0.064 and median value is 0.061. Further, it ranges between -0.01 to 0.147. Board independence ($BI_{i,t}$) is 66.8% on average signifying that the boards consist of 66.8% of independent directors. In terms of the control variables, mean value for firm size ($FS_{i,t}$) is 21.697 (natural logarithm). Average for the firm leverage ($LEV_{i,t}$) is 0.32, while Firm Age ($FA_{i,t}$) is 45.618 years on average among listed non-financial firms in Sri Lanka.

[4] In performing these analyses, several assumptions were tested for normality, multicollinearity, homoscedasticity and no anomalies were found.

Table 1: Descriptive Statistics

Variable*	Obs.	Mean	Median	Std. Dev.	Min	Max
$SR_{i,t}$	696	.352	0.071	.0443	.011	.256
$ROA_{i,t}$	696	.064	0.061	.05	-.01	.147
$ROE_{i,t}$	696	.072	.069	.083	-.067	.205
$BI_{i,t}$	696	.668	0.666	.196	0	1
$FS_{i,t}$	696	21.697	21.79	1.162	19.66	23.39
$LEV_{i,t}$	696	.32	0.31	.207	.03	.65
$FA_{i,t}$	696	45.618	35	29.365	16	106

*Definitions of these variables are presented in Section 3.3.

Table 2 presents the results of the correlation analysis on the relationships between the selected variables of the study. Accordingly, there is a significant *(p<0.05)* positive association between level of sustainability reporting ($SR_{i,t}$) and firm performance ($ROA_{i,t}$). Further, there is a significant *(p<0.05)* positive association between board independence ($BI_{i,t}$) and firm performance ($ROA_{i,t}$). Moreover, there is a significant *(p<0.05)* positive association between firm size ($FS_{i,t}$) and firm performance ($ROA_{i,t}$). However, there is a significant *(p<0.05)* negative association between leverage ($LEV_{i,t}$) and firm performance ($ROA_{i,t}$). Further, there is a significant *(p<0.05)* positive association between firm age ($FA_{i,t}$) and firm performance ($ROA_{i,t}$).

Table 2: Correlation Analysis

	$ROA_{i,t}$	$ROE_{i,t}$	$SR_{i,t}$	$BI_{i,t}$	$SR_{i,t}$ X BI_i	$FS_{i,t}$	$LEV_{i,t}$	$FA_{i,t}$
$ROA_{i,t}$	1							
$ROE_{i,t}$	0.917*	1						
$SR_{i,t}$	0.202*	0.194*	1					
$BI_{i,t}$	0.111*	0.045	0.054	1				
$SR_{i,t}$ X $BI_{i,t}$	0.232*	0.217	0.977*	0.197*	1			
$FS_{i,t}$	0.127*	0.093	0.424*	-0.076	0.414*	1		
$LEV_{i,t}$	-0.103*	-0.059	0.088	0.007	0.098*	0.099*	1	
$FA_{i,t}$	0.027*	0.021	-0.037	-0.031	-0.031	0.174*	-0.172*	1

The definitions of these variables are presented in Section 3.3.
*p<0.05; **p<0.01

Table 3 and 4 presents the ordinary regression analysis and panel regression analysis respectively. There is a systematic *($p<0.01$)* positive association between sustainability reporting ($SR_{i,t}$) and ROA ($ROA_{i,t}$) under both OLS regression and panel regression analysis. Furthermore, the results also indicated that greater availability of independent directors positively *($p<0.05$)* moderates the relationship (under the panel regression analysis) between sustainability disclosures and financial performance of firms. Moreover, the firm leverage ($LEV_{i,t}$) shows a systematic *($p<0.01$)* negative association between firm performance ($FP_{i,t}$) under both OLS and panel regression analysis. Thereby, it can be state that both hypothesis of the study are supported by the obtained results.

Table 3: OLS Regression Analysis

Models	*ROA* (Model 1)			*ROE* (Model 2)		
	Coeff.	Std. Error	VIF	Coeff.	Std. Error	VIF
$SR_{i,t}$	0.037**	0.002	1.17	-0.069	0.033	1.69
$BI_{i,t}$	0.007	0.501	1.08	-0.021	0.019	1.78
$SR_{i,t}$ X $BI_{i,t}$	0.099	0.303	1.36	0.182	0.055	1.35
$FS_{i,t}$	0.002	0.141	1.32	0.001	0.003	1.56
$LEV_{i,t}$	-0.032**	0.000	1.07	-0.033	0.015	2.26
$FA_{i,t}$	0.001	0.974	1.08	0.000	0.000	1.06
F Value		3.587***			2.633***	
Adjusted R^2		24.2%			11.2%	

The definitions of these variables are indicated under section 3.3
**p*<0.05; ***p*<0.01

Table 4: Panel Regression Analysis

Models	*ROA* (Model 1)		*ROE* (Model 2)	
	Coeff.	Std. Error	Coeff.	Std. Error
$SR_{i,t}$	0.299**	0.008	0.078	0.097
$BI_{i,t}$	0.001*	0.031	-0.0175	0.056
$SR_{i,t}$ X $BI_{i,t}$	0.053*	0.041	-0.126	0.142
$FS_{i,t}$	0.011	0.289	0.039	0.018
$LEV_{i,t}$	-0.114**	0.000	-0.185**	0.034
$FA_{i,t}$	0.001	0.451	0.004	0.002
F Value		5.59***		5.58***
Adjusted R^2		11.8%		0.09%
Prob>chi2		0.000		0.000

The definitions of these variables are indicated under section 3.3
**p*<0.05; ***p*<0.01

3. Discussion

The level of sustainability (mean: 35.2%; median: 7.1%) is still not at a satisfactory level among listed non-financial firms in Sri Lanka. However, this level is slightly higher than Pakistan and Bangladesh whose sustainability reporting levels are 32.71%and 22.3%, respectively (Muttakin, Khan & Subramaniam, 2015). Liyanagedara and Senaratne (2009) who have examined compliance to GRI guidelines among listed companies in Sri Lanka, presented in their research findings that level of compliance to GRI in disclosing sustainability is low among public listed companies and it varies largely among companies. This is true for the study since there is high standard deviation (0.443) recorded for level of sustainability disclosures in summary statistics. One of the main reasons for low level of sustainability reporting is the nature of the regulation over sustainability reporting in Sri Lanka. Since sustainability reporting is still non mandatory, companies might not pay considerable attention on this (Shamil et al., 2014).

Both OLS and panel regression showcase that sustainability reporting influences for better economic performances in a firm and this finding supported the first hypothesis of this study. This result is consistent with the Bhatia and Tuli (2017) as they identified that the publishing sustainability information can be seen as positive signal and can therefore improve the firm's reputation (with positive effects of performance) and further helps to avoid a decrease in share price. Further, Bodhanwala and Bodhanwala (2018) and Clarkson et al. (2013) found similar positive relationships between sustainability and financial performance. The main reason for this situation could be the fact that higher level of sustainability reporting uplifts the reputation of the entity and make a favorable impression on stakeholders which in turns improves the performances (Alipour et al., 2019). Besides that, Gray et al. (2010), bear the idea that sustainable companies are likely to show better financial results in their performances. This is due to sustainability reports that pave path to identify whether company is sustainable or not and it will help to reduce costs associated with waste, liability and clean up (Gray et al., 2010). Furthermore, the findings of this study indicate that board independence positively moderates the association between sustainability reporting and performances, which is consistent with Alipour et al. (2019) who found that board independence significantly moderates the aforesaid relationship. Similarly, Kao, Hodgkinson and Jaafar (2018) have also generated the same results by finding out that board independence significantly affects firms' performances in listed companies of Taiwan. Independent directors play no role in daily operations of the business but improves the monitoring of board members and subdue opportunistic behavior of directors. Independent directors put more pressure on managers to enhance sustainability reporting to align actions of the entity with societal values and expectations which ultimately increase organizational legitimacy (Haniffa & Cooke, 2005; Eng & Mak, 2003). In other words, independent directors play a significant role in implementing strategies to enhance voluntary disclosures to protect interest of different stakeholder groups and thereby influence performances of corporations (Klein, 2002). In terms of control variables, negative impact of leverage on firm performances is consistent with the results of Hovakimian et al. (2004) who stated that leverage may negatively affect performances in the long run. Similarly, Alipour et al. (2019) found out that firm leverage has negative impact on all the measurements of performances in listed Iranian countries over six years' period. However, this result is contradictory to Palaniappan (2017) who found no significant association between them.

4. Conclusion

It is debated in literature that sustainability reporting is expected to increase public confidence in organization and more trustworthiness in managing resources such as human, finance, etc. which have direct impact on performance of the entity. With the low level of sustainability reporting in Sri Lanka, investigating on influence of sustainability reporting on firm performances is contemporarily important. Since there's dearth of studies to examine the role of board independence as a moderator to the association of sustainability reporting and firm performances and considering the paramount

importance of it, this study expanded its scope to investigate the importance of board independence on the aforesaid relationship. All the listed non-financial companies amounted to 174 were used in the study which covered 16 sectors in Colombo Stock Exchange. According to descriptive statistics, the level of sustainability reporting in line with GRI G3 guidelines was not at a satisfactory level However, the level of board independence is at a satisfactory level, yet below the level of developed economies. Moreover, OLS regression analysis revealed that sustainability disclosures have a significant positive impact on firms' financial performance. Furthermore, it was evident that greater availability of independent directors positively moderated the relationship between sustainability disclosures and financial performance of firms which is a strong affirmation for agency theory. In terms of policy implications, it could be suggested that the regulators and the policymakers need to take necessary steps to promote sustainability disclosures among listed companies in Sri Lanka as it has a positive impact on economic performances of corporations from which stakeholders would gain numerous benefits. It should be noted that present study is limited to listed companies in Sri Lanka due to the convenience of access to reliable information, and thus this scope could be widened to non-listed companies in future studies. Further, source of data collection can be extended to different sources as such as standalone reports as well as corporate websites.

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