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A Study on Sustainability Reporting on Financial Performance of NSE listed Companies

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Abstract: This paper examines the effect of sustainability reporting on financial performance of NSE listed companies. Sustainability has potential to influence company performance. This study uses secondary data collected from company. This study is attempt to examine the relationship between sustainability reporting and financial performance. It consists of 20 Manufacturing & Service companies listed on National Stock Exchange (NSE) during the period of year 2016-2021. The independent variables are sustainability reporting, environmental contribution, and society contribution. The dependent variables are ROA (Return on Assets), ROE (Return on Equity), ROCE (Return on Capital Employees), Net Profit Margin and GTA (Growth to Total Assets). The result shows that sustainability reporting minor impact on company's performance.

Keywords: Corporate Sustainability, Financial Performance, Corporate Social Responsibility (CSR), Sustainability Reporting

INTRODUCTION

Financial performance is an important issue for company. Sustainable companies is a company that not only pay attention to the benefits, but also aware about environment and social around their company. In business and policy contexts, limits to sustainability are determined by physical and natural resources, environmental degradation, and social resources.

Sustainability report is a report that contains financial information and non-financial information that consist social and environment activities enabling the company to grow on an ongoing basis.

World Business Council for Sustainable Development (2002) defined Corporate Sustainability as "the commitment of business to contribute to sustainable economic development, and to work with employees, their families, the local community and society at large to improve their quality of life."

Financial performance is a description of the company's financial condition during the period concerning fund raising and fund distribution aspects, as measured by capital coverage, liquidity, and profitability indicators.

LITERATURE REVIEW

Geetabala and Borde Jyoti (2021), "Corporate Social Responsibility and Financial Performance: A Study on selected Indian public sector companies"- The main objective of the study is to understand the impact of corporate social responsibility on the financial performance of selected Indian PSU according to companies act 2013. Secondary data has been collected for the 10 public sector CSR companies in India for a period of five year from 2014-15 to 2018-19. The study shows that most of the selected public sector companies have average contribution of CSR is more or equal to 2% of the company's average profit. The study shows positive impact of CSR contribution on financial performance of the selected public sector companies, it depicts that the financial performance of the company increases with the increased CSR contribution.

Aggarwal, P. (2013), "Impact of sustainability performance of company on its financial performance: A study of listed Indian companies"- The interest of investors in Socially Responsible Investment (SRI) has grown substantially over last decade. Thus, sustainability has potential to influence company performance. The purpose of this paper was to find "whether sustainable companies are more profitable". The sample size was small (i.e. 20 companies). The time frame of research is short (i.e. 2 years). The study ignores control variables like age of firm, growth of firm, capital intensity, leverage, risk, R&D intensity, industry type, etc. Results, however, have been mixed and inconclusive.

Ramandeep Kaur & Trupti Dave (2021), "A Study on the Impact of Corporate Social Responsibility on Financial Performance of Companies in India"- The main aim of this study is to investigate the impact of corporate social responsibility (CSR) on the financial performance of selected companies listed in the BSE, formerly known as the Bombay Stock Exchange in India. This study is purely based upon the secondary data collected from companies' annual reports and sustainability reports for last three years ranging from 2016–2017 to 2018–2019. The results indicate that the involvement in socially responsible initiatives has a significantly positive effect on the financial performance of the firms.

Gaurav Jyoti & Ashu Khanna (2021), "Does sustainability performance impact financial performance? Evidence from Indian service sector firms" - This paper examines the impact of the firm's sustainable performance on the financial performance of service sector companies listed on the Bombay Stock Exchange. The study outcomes indicate a significant negative relationship between the Environment score with Return on Assets (ROA) and Return on capital employed (ROCE) of the selected companies. In contrast, only the Social score shows a significant negative association with the Return on equity. Environmental, social, and governance combined score is also negatively significant with the ROA and ROCE.

RESEARCH OBJECTIVE

- To find out relationship between sustainability reporting and financial performance.
- To know indicator financial performance of NSE listed company.
- To find the impact of sustainability reporting on financial performance.

RESEARCH METHODOLOGY

The study makes use of secondary data. The average data over a period of five years from FY 2016-2017 to FY 2020-2021 of 20 NSE listed companies. Five Accounting-based measure, namely, Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Net Profit Margin and Growth in Total Assets (GTA). Statistical tools like- descriptive statistics (mean, median and standard deviation), multiple regression and correlation are used to investigate the impact of sustainability reporting on financial performance of the company.

The financial data has been obtained from company's annual report, moneycontrol website, NSE (National Stock Exchange) website and National CSR Portal.

Hypothesis

Based on review of literature and keeping research objectives in mind, the following are the ten hypothesis have been formulated and are shown in table 1 below.

Table 1: Description of hypothesis

Sr. No.	Hypothesis
1	H01 = Environment & Society contribution has no impact on Financial Performance Ha1 = Environment & Society contribution has impact on Financial Performance

2	H06 = CSR Expenditure & CSR Spent has no impact on Financial Performance Ha6 = CSR Expenditure & CSR Spent has impact on Financial Performance

Note: Financial Performance represents the company's ROA, ROE, ROCE, Net Profit Margin and GTA.

Research Model

This study tests models using Multiple Regression Analysis as statistical tool in Ms Excel, in order to examine and analyze the relationship between corporate sustainability and financial performance. These models are described in the following section:

a. First Model: The first model aims at examining separately the impact of two major components of corporate sustainability (Environment and Society) on company's financial performance. The five regression equations to be tested in this model are as follows:

$ROA = a+b_1E_1 + b_2S_1$

$ROE = a+b_1E_1 + b_2S_1$

$ROCE = a+b_1E_1 + b_2S_1$

$\text{Net Profit Margin} = a+b_1E_1 + b_2S_1$

$GTA = a+b_1E_1 + b_2S_1$

b. Second Model: The second model intends to examine the impact of CSR Expenditure & CSR Spent of company on the financial performance. Five regression equations shall be tested in this model, which are as follows:

$ROA = a + b_1 \text{ CSR Exp.} + b_2 \text{ CSR Spent}$

$ROE = a + b_1 \text{ CSR Exp.} + b_2 \text{ CSR Spent}$

$ROCE = a + b_1 \text{ CSR Exp.} + b_2 \text{ CSR Spent}$

$\text{Net Profit Margin} = a + b_1 \text{ CSR Exp.} + b_2 \text{ CSR Spent}$

$GTA = a + b_1 \text{ CSR Exp.} + b_2 \text{ CSR Spent}$

DATA ANALYSIS AND RESULT

The descriptive statistics for various variables used in this study have been shown in table 2 below.

Table 2: Descriptive Statistics

5 Years (2016-2021) 20 Companies of NSE				
Variables	**N**	**Mean**	**Median**	**Standard Deviation**
ROA (%)	100	7.87	4.30	7.91
ROE (%)	100	17.23	14.53	13.58
ROCE (%)	100	17.62	12.20	17.44
Net Profit Margin (%)	100	13.88	12.36	6.62
GTA (in Rs.)	100	336040.15	100577.00	438742.78
CSR Expenditure (in Rs.)	100	171.77	119.60	182.99
CSR Spent (in Rs.)	100	827.47	107.59	4633.89
Environmental Contribution (in Rs.)	100	172056106.53	12750000.00	322194051.20
Society Contribution (in Rs.)	100	1574195009.15	915320450.50	1940990471.00

From the above table 2, it can be observed that the mean value of company's contribution towards environment is less than society contribution, this highlights that the company's contribution towards society is more than the contribution towards environment.

The results of first model regarding impact of two components (Environment contribution & Society Contribution) of sustainability on financial performance of company have been summarized in table 3 below.

Table 3: Summarized results of first model

Particulars	R	R2	Adjusted R2	Beta coefficient	p-value
ROA	0.303	0.092	0.073	8.567	0.218
ROE	0.283	0.080	0.061	15.995	0.183
ROCE	0.242	0.058	0.039	17.680	0.257

Net Profit Margin	0.240	0.058	0.038	7.912	0.182
GTA	0.303	0.092	0.073	-838268.567	0.031

From table 3, it can be observed most of p-values are more than 0.05 and most of the beta values are positive. The p-value for ROA, ROE, ROCE and Net Profit Margin is more than 0.05. Thus, second alternate hypothesis-Environment & Society contribution has impact on ROA, ROE, ROCE and Net Profit Margin, i.e. ha1, ha2, ha3 and ha4 respectively is rejected.

The p-value for GTA is 0.031 is less than 0.05. Thus, second alternate hypothesis- Environment & Society contribution has impact on GTA, i.e. ha5 is accepted.

The results of second model regarding impact of two components (CSR Exp. & CSR Spent) on financial performance of company have been summarized in table 4 below.

Table 4: Summarized result of second model

Particulars	R	R2	Adjusted R2	Beta coefficient	p-value
ROA	0.209	0.044	0.024	8.118	2.361
ROE	0.097	0.009	-0.011	18.104	7.817
ROCE	0.146	0.021	0.001	19.179	2.659
Net Profit Margin	0.367	0.135	0.117	12.614	1.649
GTA	0.599	0.359	0.346	99948.990	0.043

From table 4, it can be observed most of p-values are more than 0.05 and most of the beta values are positive. The p-value for ROA, ROE, ROCE and Net Profit Margin is more than 0.05. Thus, second alternate hypothesis- CSR Expenditure & CSR Spent has impact on ROA, ROE, ROCE and Net Profit Margin, i.e. ha5, ha6, ha7 and ha9 respectively is rejected.

The p-value for GTA is 0.043 is less than 0.05. Thus, second alternate hypothesis- CSR Expenditure & CSR Spent has impact on GTA, i.e. ha5 is accepted.

Result

There is an impact of sustainability reporting on the financial performance of the company. The study indicates that there is an minor influence of sustainability reporting on financial performance of NSE listed companies. The statistical result shows that as a whole there is no significant influence on financial performance. There is weak positive relation between sustainability reporting financial performance on NSE listed companies.

CONCLUSION

The study is an attempt to analyse the impact of Sustainability Reporting on the Financial Performance of the NSE listed Companies and examine the significance of the sustainability components with reference to their contribution to the firm's profitability.

There is a minor impact of the sustainability reporting on the profitability of the firms. The four sustainability variables, Environmental contribution, Society contribution, CSR Expenditure & CSR Spent variable have influenced growth to total assets of the companies, it indicates that by adopting sustainability measures will may lead to decrease in the profitability of the firms and thereby enhance their financial performance.

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