CHAPTER TWO

Impact of Firm Performance on Sustainable Growth in Financial Sector Companies Listed in Colombo Stock Exchange: PRAT Model Approach

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Abstract

The research explored the existing knowledge gap in the Sri Lankan context to shed light on the sustainable growth rate in Sri Lankan financial sector companies as it plays a crucial role in driving the economy. The study used PRAT model to examine the impact of firm performance on sustainable growth rate (SGR). Accordingly, the five firm performance indicators: net profit margin (P), retention rate (R), asset turnover (A), financial leverage (T), and financial liquidity (FL) were used as independent variables including firm size as a control variable. The study used a quantitative research approach, and the secondary data collected consisted of financial sector companies listed on the CSE from 2017 to 2021. The collected data was analyzed using a panel regression model. The random effects (RE) panel regression model statistically outperformed the fixed effects (FE) and pooled (POLS) models for Sri Lankan listed financial sector companies' data. The best-fitted RE one-way firm component regression showed that net profit margin, retention rate, asset turnover, and financial leverage play a positive and significant role in explaining the SGR and financial liquidity has a statistically insignificant negative relationship with SGR. According to Higgins' theory, 34.29% of Sri Lankan listed financial sector companies have demonstrated a lack of value for shareholders because their average sales growth rate (AAGR) exceeds the average sustainable growth rate (ASGR), whereas 65.71% of these companies have demonstrated excess cash because their AAGR is less than the ASGR, allowing the corporation to increase dividends, obtain stock returns, or make new corporate investments. Thus, managers, financial experts, and policymakers must focus on financial and operational decisions to ensure long-term viability in the financial sector.

Keywords: *Firm Performance, Higgins's theory, PRAT Model, Sustainable Growth Rate.*

1. Introduction

The concept of growth management is a critical area in financial planning. It is because growth is a concept that companies always try to maximize. Financial planning assists companies in formulating overall financial goals and developing a policy for what needs to be performed in the future. Long-term strategic planning is concerned with the firm's survival and growth, and actions made today will have long-term consequences. Sustainable growth is a crucial concept that companies strive to achieve always. Each company needs to prioritize sustainable growth because companies cannot last very long without it. This is directly influenced by firm performance factors. The idea of sustainable growth should be considered while planning for a strategic and long existence. The sustainable growth rate (SGR) is a key statistic to measure the causes of a business's success or failure and gives significant information to investors as well as managers (Arora et al., 2018). According to Altahtamouni et al. (2022), Growth is a control indicator used to analyze an organization's operational performance as well as its potential for controlling sources of finance. There is little question that some amount of expansion is essential for firms to survive and operate productively in the long term; however, being overly large is risky. The notion of sustainable Growth was introduced by Robert Higgins in 1977. He clearly defined Sustainable growth as the greatest rate company can increase sales without exhausting all its resources. He also stated that whenever a company's sustainable growth is identified executive can quickly determine whether the company's growth targets and financial policies are rationally attainable and then use the economists' predictions to find a better balance of growth and financial objectives of the company (Higgins, 1977).

Each company's useful financial information involves a combination of its operating aspects and financial aspects. Operating elements include the company's profit margin(P) and asset efficiency(A). Financial elements include capital structure (T) and retention ratio (R). The company's sustainable growth derivation has an outstanding value in that SGR would be the only sales growth rate that is acceptable with stable values of the four ratios called P, R, A, and T. When a company's sales rise at a level other than SGR, those ratios must change. It further happens when an organization grows faster than its SGR, it should either improve the operations of the company or start planning to change its financial policies. (Higgins, 2016)

The primary concern of the company's top management is achieving sustainable growth. However, attaining sustainable growth in a dynamic, competitive, and political environment is exceedingly difficult, specifically in today's extremely global context as well as the Sri Lankan context. The management of financial and operational tasks is now a key aspect that can affect the organization's ultimate success. Few studies have investigated the impact of

firm performance on sustainable growth rate. Those research findings also reveal conflicting viewpoints. It is difficult to find a clear picture of how firm performance affects SGR. In addition to that, little research has been conducted abroad. However, there are no appropriate studies in the Sri Lankan context that disclose the influence of firm performance on sustainable growth rates in the financial sector companies. Besides, the financial sector is a significant driver of each country's economy. There have been few studies that show the impact of company performance on the sustainable growth rate in the financial sector. As a result, the true impact of firm performance on sustainable growth rate in the context of Sri Lanka's financial sector is still unexplored. The problem arises as to whether the Company's PRAT component and Liquidity have a significant impact on the Sri Lankan financial sector companies. The current study investigates the firm's performance impact of SGR using PRAT model components as well as liquidity relevant to financial sector companies listed in the Sri Lankan context. The study significantly contributes to the existing literature on how firm performance indicators drive sustainability in the Sri Lankan context by providing insights towards the application of the PRAT model in emerging markets. The remainder of this study is organized as follows: Section 2 explores the previous literature by emphasizing the research gaps. Section 3 shows the research methodology. Section 4 comprehensively analyze and discusses findings and implications for theory and practice. Finally, section 5 concludes key findings.

Objectives of the Study

The major objective of the study is to examine the impact of firm performance on sustainable growth rate using PRAT model components in financial sector companies listed in CSE.

Specific Objectives

1. To examine the impact of operating performance indicators on the sustainable growth rate in financial sector companies listed in CSE.
2. To explore the impact of companies' financial policy indicators on the sustainable growth rate in financial sector companies listed in CSE.
3. To investigate the impact of financial liquidity on the Sustainable growth rate in financial sector companies listed in CSE.
4. To determine which classification and percentage of Sri Lankan listed financial sector companies are following Higgins' theory by comparing the average actual sales growth rate (AAGR) and the average sustainable growth rate (ASGR).

2. Previous Literature

2.1. Higgins Sustainable Growth Model

Sustainable growth is very useful in obtaining healthy company growth. Higgins (2016) states that if the corporation is willing to sell equities or borrow excessively, this boundary limits the amount of growth it can accomplish without stressing the company's resources. It is known as a sustainable growth rate. As equity rises, the company may obtain financing without changing its capital structure. The pace at which liabilities and equity expand jointly influences the rate at which assets rise. Therefore, it restricts the rate of sales growth of the company. The Rate at which the owner's equity improves is always what limits the rate at which revenue increases. So a company's sustainable growth rate equals its equity growth rate. This gives SGR Equations as follows,

$$SGR = \frac{R \times Earnings}{Equity_{BOP}} = R \times ROE$$

The performance levers are the same across all organizations. It emphasizes how an executive may impact the return on equity (ROE). The organization has three levers that control ROE. The levers of return on equity are as follows:

$$ROE = Profit\ Margin \times Asset\ Turnover \times Financial\ Leverage$$

$$ROE = \frac{Net\ Income}{Sales} \times \frac{Sales}{Asset} \times \frac{Asset}{Shareholder's\ Equity}$$

This implies that the levers by which executives influence the firm's financial success are limited and consistent from one organization to the next. It is the executive's responsibility to regulate these levers to guarantee an effective and reliable operation.

As above mentioned, Higgins (2016) states that the Sustainable Growth Rate (SGR) expression can be rearranged using the PRAT model as follows,

$$SGR = P\ R\ A\ T$$

$$SGR = Profit\ Margin\ (P) \times Retention\ Rate(R) \times Asset\ Turnover\ (A) \times Finacial\ Leverage\ (T)$$

Moreover, the author highlights that the Profit Margin (P) and Asset Turnover (A) reflect the company's operating performance, whereas the Retention Rate (R) and Financial Leverage(T) outline the company's primary financial policies. Accordingly, retention rate (R) shows the company's views towards dividend distribution, and financial leverage (T) indicates the company's financial leverage practices.

If the company's actual sales growth (AG) is higher than sustainable growth(SG)

According to Higgins (2016), overly large growth causes financial issues and makes it difficult for businesses to raise their debt capabilities. If the corporation's rate of growth is anticipated to slow down as soon as it hits maturity, the issue is merely temporary and may be resolved by more borrowing. The firm should change by absorbing cash towards the generation of cash flows in the future, at which point it will be able to finance the debts once the actual growth drops under sustainable growth.

If the company's actual sales growth (AG) is less than sustainable growth (SG)

An organization has a challenge with excessive cash flow if the firm experiences sustainable growth that exceeds actual growth. In this situation, the business can use less leverage for a slower balance increase, but cash must still be available. Like Higgins (2016), it is important to evaluate whether this issue is short-term or long-term; if it is, the organization can gather resources to foresee future expansion. However, if the issue persists over time, it may be a sign of industry stagnation. As a result, the organization should encourage fresh development or make new expenditures to expand, raise dividends, or repurchase shares.

2.2. Global Perspective of Sustainable Growth Rate

Every firm aims to achieve a great deal from the combination of operating and aspects into a single assessment. The rise in yearly sales is sufficient to be sustained by annual flows of corporate capital, showing how sustainable growth and financial policy are interdependent (Higgins, 2016). The computation of the firm's SGR must then concentrate only on the requirement that the growth of assets must match the growth of stockholders' equity. Alternatively, a rise in equity can fund new assets using retained earnings rather than new debt, which is required to finance new assets (Higgins, 2016; Higgins, 1977).

Growth is important for business, specifically for the firm's objective. It is because it allows the organization to sustain its performance without experiencing financial difficulties. Financial troubles or financial distress may leave a corporation with insufficient resource allocation to conduct its operation (Rahim, 2017). Bankers, Investors, and even analysts all find SGR to be appealing, and it is one of the company's surviving objectives. SGR must be assessed using a certain measure of an organization's performance. To assist stakeholders in making the best decisions, it is indeed necessary to identify the elements that impact the company's SGR. It is the main metric used by businesses to assess their effectiveness and profitability. The management of financial and operational tasks has become a crucial element that might affect the company's long-term expansion (Mat Noret al., 2020).

2.3. PRAT Model Components and Specific Firm Performance Indicators toward SGR

The sustainable growth rate (SGR) of an organization must be assessed using certain performance metrics. To assist stakeholders, such as internal or external management, in making the best decisions, those metrics can be defined by identifying the elements that have an impact on the company's SGR. Profitability, asset efficiency, and financial boundaries must all be considered in this situation, as they are significant variables that may affect the company's capacity to develop sustainably. His panel regression analysis discovered that both the operational and financial components in Higgin's PRAT model are extremely important variables affecting Saudi banking sector companies. Moreover, stated that the SGR is equivalent to the retention rate multiplied by the ROE because of blending the DuPont model and the retention rate (Altahtamouni, 2022).

Mat Nor et al. (2020) investigated factors affecting SGR differently using panel data analysis by separating positive ROE and negative ROE in Malaysian companies. The lowering of the dividend payout ratio and the company's asset turnover, as well as an increase in net profit margin, will enhance the SGR for firms with positive ROE. The companies with a negative ROE demonstrate that reducing the debt ratio and increasing profit margin will result in an enhanced company's sustainable growth rate.

The firm's net profit margin feeds its long-term sustainable growth. The findings are dependable all over the industry sectors and techniques for determining the sustainable growth rate. When realizing acceptable growth opportunities, companies that are unwilling to issue new equity can endorse their sale growth with a similar increase in assets funded by retained earnings. It depends on the level of profit performance of a firm (Verma, 2018).

Memon et al. (2011) determined that there is a significant association between ROA, current ratio, quick ratio, EPS, and SGR. Nevertheless, there is no proof of a link between firm size, ROE, and SGR in Pakistani pharmaceutical companies.

Utami et al. (2018) attempted to further explore Higgin's sustainable growth model by investigating whether there is a distinction between sustainable, actual, and balanced growth of the Indonesian firm engaged in manufacturing. The researcher categorized the samples into low-growth, medium-growth, and high-growth companies to evaluate them using one-way ANOVA and paired sample tests. The results show that businesses with more balanced growth also have higher dividend payout and price earnings and that higher net profit and higher asset turnover cannot be explained by strong sales growth. Higher balanced growth is thought to result in a decreased debt-equity ratio. However, this study discovered that businesses with higher SGR had more debt in their funding.

By the analysis of the issuers listed on the Indonesian stock exchange shows that SGR is significantly impacted by a company's financial leverage, which may improve a company's financial performance. As a result, the greater the leverage, the lower the level of the SGR; conversely, the lower the leverage, the greater the rate of the SGR. However, if the borrowing total exceeds the equity, the company's liquidity risk increases. The SGR significantly benefited from liquidity. The greater the company's liquidity, the greater the company's SGR. Furthermore, it highlighted that asset efficiency had a favorable influence on the SGR, proving that a corporation was efficient in utilizing assets to generate income. The study used firm size as a control variable, which revealed a significant and negative impact, which means the larger the firm size, the lower the SGR of the company (Sweetly et al., 2019).

Previous studies offer various viewpoints on the sustainable growth rate that is important to firm performance. According to the literature evaluation, it is necessary to go beyond looking at how firm performance indicators impact the sustainable growth rate in the corporate world. In a considerable number of studies, the results revealed a significant association between company performance and sustainable growth rate in the global context (Altahtamouni, et al., 2022; Amouzesh, Moeinfar, & Mousavi, 2011; Utami, Sulastri, & Muthiad, 2018). However, some scholars have argued that there is a negative correlation between company performance and sustainable growth rate. In Sri Lanka, there is no acceptable research to compare with the global context. That still represents a significant gap in the concept of sustainable growth rate literature in the Sri Lankan context that the researcher considered for the investigation as it contributes valuable insights to the interaction between sustainable growth and financial performance in emerging markets where the financial sector serves as a key driver of each country's economy. Few studies indicate the influence of firm performance on the sustainable growth rate in the financial sector. This study explores the impact of firm performance on the sustainable growth rate of the listed financial sector companies in Sri Lanka to fill the identified knowledge and contextual gap. Furthermore, this research sheds some light on the sustainable growth rate concept in the Sri Lankan context concerning the financial sector.

3. Methodology

3.1. Conceptual Framework

The study outlines the conceptual model using evidence from previous researchers. The independent variables of the study include the profit margin(P), asset turnover(A), retention rate(R), financial leverage(T), and financial liquidity(FL). The study investigated how these independent variables impact the sustainable growth rate in the Sri Lankan context from the financial sector.

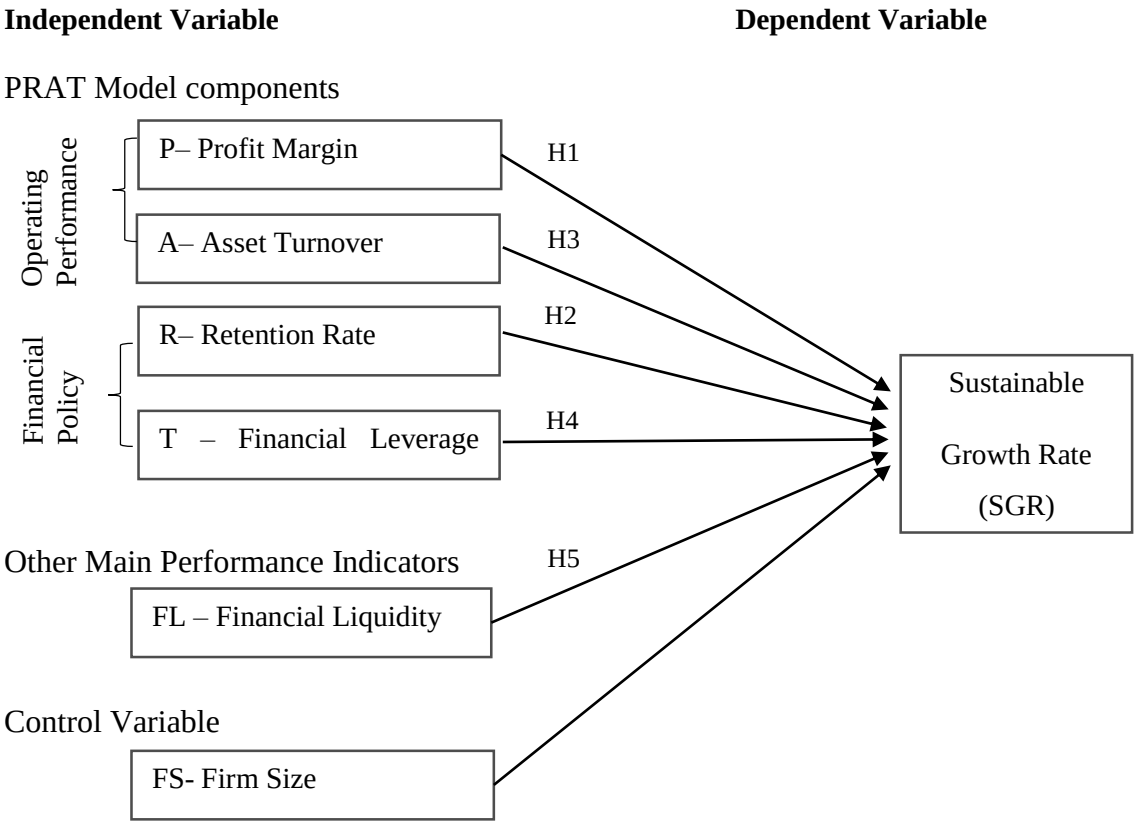

Figure 3.1: Conceptual Framework

The following hypotheses are developed based on the conceptual framework:

H1: There is a significant positive impact of profit margin (P) on sustainable growth rate (SGR).

H2: The retention rate (R) has a significant positive impact on the sustainable growth rate (SGR).

H3: Asset turnover (A) has a significant positive impact on the sustainable growth rate (SGR).

H4: Financial Leverage (T) has a significant positive impact on sustainable growth rate (SGR).

H5: There is a significant positive impact of financial liquidity (FL) on the sustainable growth rate (SGR).

3.2. Operationalization of Variables

The measurement scales used to measure the concepts that led to the research's conclusions and findings are referred to as operationalization. Table 3.1 summarizes the measurement scales of all variables used to achieve study objectives.

Table 3.1: Operationalization of Variables

Variable	Measurement	Source
Sustainable Growth Rate (SGR)	ROE * Retention Rate	(Sweetly et al., 2019) (Altahtamouni et al., 2022), (Mat Nor et. al., 2020), (Memonet al., 2011), (Rahim, 2017)
Independent Variables		
Profit Margin (P)	Net income / Sales	(Wijayawt et al., 2021) ,(Altahtamouni et al, 2022), (Mat Nor et. al., 2020), (Sweetly et al., 2019)
Retention Rate (R)	(1 - Dividend Payout Ratio)	(Altahtamouni et al, 2022)
Asset Turnover (A)	Sales / Total Asset	(Sweetly et al., 2019) (Altahtamouni et al, 2022), (Rahim, 2017), (Mat Nor et. al., 2020),
Financial leverage(T)	Total Asset / Equity	(Fonseka et al., 2012), (Altahtamouni et al, 2022), (Rahim, 2017), (Sweetly et al., 2019)
Financial Liquidity (FL)	Current Asset / Current Liability	(Rahim, 2017), (Guarigliaa et al., 2011)
Control Variable		
Firm Size	Log of Total Assets	(Mat Nor et. al., 2020), (Rahim, 2017)
Comparison of Average Sustainable Growth Rates and Sale Growth Rates		
Average Sustainable Growth Rate (ASGR)	Sum of Sustainable Growth Rates of the company/period	
Average Sales Growth Rate (AAGR)	Sum of sales Growth Rates of the company/period	

Source: Survey data

3.3. Research Approach, Population and Sample

The research is based on deductive reasoning and quantitative research approaches to determine how firm performance components of net profit, retention rate, asset turnover, financial leverage, and financial liquidity, as well as control variable of firm size, impact the company's sustainable growth rate in Sri Lankan financial sector firms. The study was done using secondary data. A purposive sampling method was used to pick the sample from the population according to the following standards: Losing companies and companies with a negative retention rate were eliminated from the sample, which consists of 35 out of 65 financial sector firms listed on the CSE from 2017 to 2021. The data source for this study is published annual reports of Sri Lankan financial sector firms listed on the CSE. The research

explores specific explanations or hypotheses to emphasize the link between independent variables and the dependent variable. The study used descriptive statistics, correlation analysis, and panel data regression to analyze the cross-sectional and time series data. The study's final research objective is to compare the average sustainable growth rate and the average sales growth rate across the financial sector companies to determine the proportion and category throughout using average value analysis according to theory.

3.4. Analytical Tools and Strategies

The researcher can implement a variety of techniques to examine the collected data set. All the cross-sectional data was analyzed using descriptive statistics, correlation analysis, and the panel data analysis method to analyze the cross-sectional and time series data. The researcher used EViews software as the primary analytical technique for the panel data regression analysis to determine the influence of firm performance indicators on the SGR. To achieve the fourth objective, the researcher used average value analysis using Slack by comparing the average actual sales growth rate (AAGR) and the average sustainable growth rate (ASGR).

Table 3.2: Analytical Tools and Nature of Data

Research Objectives	Analytical Tools	Nature of the Data
Preliminary objective	Descriptive Statistics and Correlation Analysis	cross-sectional and time series data
Objectives 1-3	Panel Data Analysis	cross-sectional and time series data
Objective 4	Average Values Analysis according to theory	Average values for each cross-section

Source: Survey data

4. Results and Discussion

4.1. Panel Data Screening, Cleaning, and Panel Unit Root Test

The Quantile-based outliers flooring method and the capping method remove outliers from the data set. For the lower values, the researcher used the flooring to the 10th percentile method, and for the greater values, capped to the 90th percentile. (Roy et al., 2021).

The Panel Unit Root test was used by the researcher to determine whether all the variables in the collected data are stationary or whether the process is a unit root. The study used the "intercept test equation", the "Levin, Lin, and Chu t*" (common root) method, and the "Im, Pesaran, and Shin W-stat" (individual root) method as a benchmark to analyze the stationarity in the panel data set.

This 4.1 table displays the EViews' "panel unit root test" findings for all variables (dependent, independent, and control) in the model. The results of the test show two outcomes

according to the "Levin, Lin, and Chu t*" (common root) method and the "Im, Pesaran, and Shin W-stat" (individual root) method for all variables.

Table 4.1: A Summary Table of the Unit Root Test Findings

Variables	At level	
	Levin, Lin & Chu t	Im, Pesaran and Shin W-stat
SGR	0.0000	0.0000
P	0.0000	0.0000
R	0.0000	0.0045
A	0.0000	0.0000
T	0.0000	0.0015
FL	0.0000	0.0042
LNFS	0.0000	0.0000

Source: Survey data

Note: SGR stands for Higgin's sustainable growth rate
P, R, A, and T stand for net profit margin (P), retention rate (R), asset turnover (A), financial leverage (T), and Financial Liquidity (FL), and LNFS stands for Firm Size

According to a summary of the unit root test findings, both methods of unit root tests have confirmed that all the variables in the data set are stationary at level. At a 5% confidence level, both the methods of unit root tests are significant. It is reasonable to conclude that the data set is steady at a level. These findings demonstrate that the quality of the data will not change as time passes.

4.2. Panel Regression Assumptions

It is critical to identify the preconditions before initiating the panel regression analysis. The study used several tests to determine whether or not the preconditions were violated. For that purpose, the researcher employed Heteroskedasticity, multicollinearity, and normality tests to detect the preconditions of panel analysis.

Multicollinearity Assumption

Multicollinearity exists when the study's independent variables in the panel regression are correlated with each other. The study used the variance inflation factor (VIF) test to find and evaluate if multicollinearity occurs among the independent variables within the model. The value of VIF in the accompanying table 4.2 is less than 10, which indicates that there are no multicollinearity problems with the variables being investigated. As a result, panel data analysis can be performed using the set of data.

Table 4.2: Variance Inflation Factors

Variable	VIF Value
P	1.3918
R	1.0067
A	1.6178
T	2.3510
FL	1.9850
LNFS	1.8509

Source: EViews Survey data

VIF > 10 indicates the existence of multicollinearity
Note: P, R, A, and T stand for net profit margin (P), retention rate (R), asset turnover (A), financial leverage (T), and Financial Liquidity (FL) respectively, and LNFS stands for Firm Size

Normality Test

Figure 4.1 statistics demonstrate that the Jarque Bera (JB) test's p-value in this scenario is 0.4596, indicating that the residuals of the study are normally distributed at the levels of significance of 5%, 10%, 20%, 30%, and 40%.

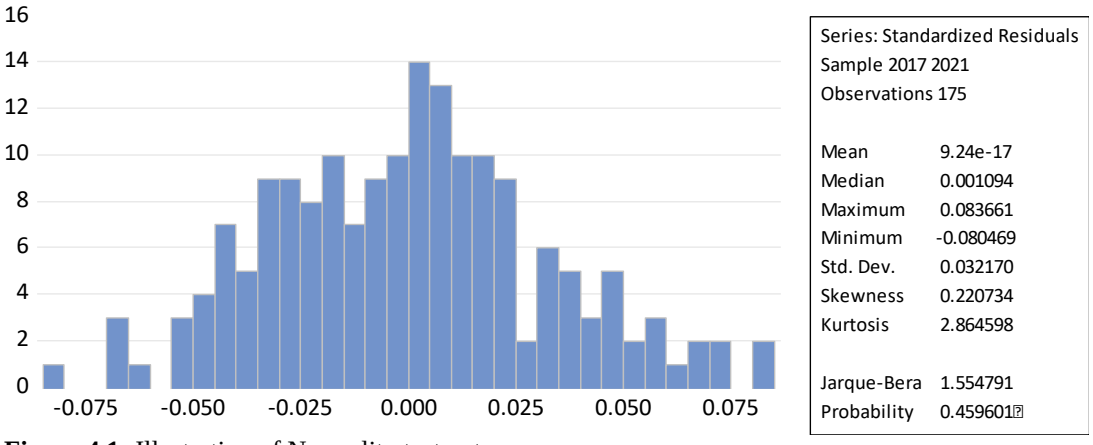

Figure 4.1: Illustration of Normality test outcome
Source: EViews Survey data

Heteroscedasticity Assumption

Table 4.3 summarizes the Heteroskedasticity test results for both the cross-section and period subject to panel data of financial sector companies from 2017 to 2021.

Table 4.3: Heteroskedasticity LR Test results for Cross-section and Period

Panel Cross-section Heteroskedasticity LR Test			
Null hypothesis: Residuals are homoscedastic			
	Value	Df	Probability
Likelihood ratio	135.7386	35	0.0000
Panel Period Heteroskedasticity LR Test			
Null hypothesis: Residuals are homoscedastic			
	Value	Df	Probability
Likelihood ratio	1.478776	35	1.0000

Source: EViews Survey data

The outcomes of the LR Assessment for both cross-section and period are displayed in Table 4.3. Heteroskedasticity in the cross-section test results of the LR Test demonstrates that residuals are heteroskedastic across the panel dataset's cross-section, denying the null hypothesis of homoscedasticity. The period test results of the LR Test demonstrate that residuals are heteroskedastic across the panel dataset's cross-section, accepting the null hypothesis of homoscedasticity. (Baltagi, 2013) suggests computing robust standard errors that account for the existence of heteroscedasticity problems. Therefore, the study computes robust standard errors for random effects regression models to determine the optimum regression coefficients. The researcher used The White-diagonal technique to robust standard errors and resistance to disturbances with an assumption of heteroskedasticity but did not correlate residuals from several observations. The study includes a small panel with only 5 years from 2017–2021, and the serial correlation test is not employed by the researcher because it is used in macro panels with large periods covering 20–30 years (Baltagi, 2013).

4.3. Best Fitted Model

The table 4.4 summarizes the statistics for the best model selection for the following analysis. The residuals obtained from the Redundant Fixed Effect Test (F-Test) show that the fixed effect model is more suitable than the pooled OLS. Lagrange Multiplier (LM) test statistics show that the random effect model is more suitable than the pooled OLS model. The Hausman Test statistics conclude that the random effect model is more suitable than the fixed effect (FE) model. Hence, the researcher employed a random effect model as the best-fitted model to investigate the impact of firm performance on the sustainable growth rate in financial sector companies in the Sri Lankan context.

Table 4.4: Summary of Model Specification Tests

Specification Test	Tested Hypothesis	Statistic	P- value	Selection
Redundant Fixed Effect Test (F-Test)	H0: Pooled OLS model is appropriate. H1: Fixed Effect model is appropriate	172.4427	0.0000	Fixed Effect Model
Lagrange Multiplier (LM) test	H0: Pooled OLS model is appropriate. H1: Random Effect model is appropriate	75.6001	0.0000	Random Effect model
Hausman Test	H0: Random Effect model is appropriate. H1: Fixed Effect model is appropriate.	11.3219	0.0789	Random Effect model

Source: EViews Survey data

Random Effect Model (RE)

According to the above section's findings, the researcher concluded that the best-fitted model is a random effect (RE) to investigate the impact of firm performance on the sustainable growth rate in Sri Lankan financial sector companies.The Random Effects (RE) model is a popular approach for investigating the influence of individual characteristics on the response variable of a panel data analysis. Table 4.5 shows the overall significance of the random effect (RE) model.

Table 4.5: Summary of the Overall Significance of the Random Effect (RE) Model

Random Effect Model -One Way			
R Square	**Adjusted R Square**	**F-Statistics**	**Prob (F-Statistics)**
0.7899	0.7824	105.2985	0.0000

Source: EViews Survey data

According to the table, the R square value in this analysis of panel data regression is 0.7899, which implies that firm performance predictive variables strongly explain the sustainable growth rate in financial sector companies in the Sri Lankan context. The probability value is 0.0000, which is less than 0.05, which implies that the predictive variables (P, R, A, T, FL, and LNFS) simultaneously influenced the dependent variable (SGR), and the effect was statistically significant.

The best-fitted random effect model results shown in Table 4.6 demonstrate the coefficients, robust standard error, t-statistics, and the significance of the firm performance variables on the sustainable growth rate concerning the financial sector companies in the Sri Lankan context.

Table 4.6: Results of the One Way: Random Effect (RE) Model

Variable	**Coefficient**	**Robust Std. Error**	**t-Statistic**	**Probability**
P	0.8645	0.0521	16.5871	0.0000*
R	0.1185	0.0184	6.4403	0.0000*
A	0.2984	0.0377	7.9015	0.0000*
T	0.0110	0.0014	7.7495	0.0000*
FL	-0.0028	0.0087	-0.3202	0.7491
LNFS	0.0058	0.0036	1.6196	0.1072
C	-0.3719	0.0973	-3.8222	0.0002*
Weighted Statistics				
R-squared	0.7899	Mean dependent var		0.0429
Adjusted R-squared	0.7824	S.D. dependent var		0.0487
S.E. of regression	0.0227	Sum squared resid		0.0869
F-statistic	105.2985	Durbin-Watson stat		1.5151
Prob(F-statistic)	0.0000			

* and ** indicate significance at 1% and 10%, respectively.
Note: SGR stands for sustainable growth rate.
P, R, A, and T stand for net profit margin (P), retention rate (R), asset turnover (A), financial leverage (T), financial liquidity (FL), and firm size (LNFS).
Source: EViews Survey data

According to the table 4.6 regressors, all the variables except financial liquidity has a significant positive influence on the sustainable growth rate (SGR) in listed financial sector companies in Sri Lanka. Based on Table 4.6 regressors' output, financial liquidity (FL) has an insignificant and negative influence on the sustainable growth rate of financial companies in Sri Lanka.

The control variable of firm size (FS) positively controls the effects of net profit margin (P), retention rate (R), asset turnover (A), financial leverage (T), and financial liquidity (FL) on sustainable growth rate (SGR). That means if firm size (LNFS) increases by one, that will cause an increase in the sustainable growth rate (SGR) by 0.0058. The p-value of this same variable shows 0.1072, so it can be concluded that this variable is statistically insignificant.

Regarding Sri Lanka, Table 4.7 clearly summarizes that the company performance indicators, namely, net profit margin (P), retention rate (R), asset turnover (A), and financial leverage (T) significantly affect the sustainable growth rate (SGR). Financial liquidity does not significantly explain the sustainable growth rate in the Sri Lankan context for financial sector companies.

Table 4.7: Significance and Relationship Nature of Predictor Variables

Variable	Expected Outcome	Relationship	Significant/ Insignificant
Net Profit Margin (P)	Positive and Significant	Positive	Significant
Retention Rate (R)	Positive and Significant	Positive	Significant
Asset Turnover (A)	Positive and Significant	Positive	Significant
Financial Leverage (T)	Positive and Significant	Positive	Significant
Financial Liquidity (FL)	Positive and Significant	Negative	Insignificant
Firm Size (LNFS)	Positive and Significant	Positive	Insignificant

Source: Survey data

The company's operating performance towards a sustainable growth rate

The study investigated the company's operating performance indicators through Hypotheses 1 and 3, which are namely, profit margin (P) and asset turnover (A). Table 4.7 summarizes that both variables positively and strongly influence the firm's sustainable growth rate (SGR) in the financial sector companies in the Sri Lankan context. This finding demonstrates that financial sector companies' profitability and asset productivity (asset turnover) have contributed significantly and positively to the sustainable growth rate in Sri Lankan financial sector companies. This finding is consistent with the findings of other investigations (Altahtamouni et al., 2022; Verma et al., 2018; Rahim et al., 2017). The researcher concludes that operating performance indicating variables are significant in the context of Sri Lankan

financial sector companies when exploring sustainable growth, according to the Higgins theory.

The company's financial policy indicators toward sustainable growth rate

Hypotheses 2 and 4 test the two financial policy indicators, namely, retention rate(R) and financial leverage(T). Retention rate (R) reflects the company's attitude regarding dividend distribution, whereas financial leverage (T) reflects the company's financial leverage practices. Fonseka et al. (2012) highlight that a company with greater leverage has a higher sustainable growth rate. By agreeing with that study, the researcher reveals that the retention rate (R) and financial leverage(T) of financial sector companies have significantly contributed to and positively impacted the sustainable growth rate of Sri Lankan listed financial sector companies, which show higher retention rate and financial leverage resulting higher sustainable growth of the company. This outcome is consistent with the findings of other studies, which demonstrate that the retention rate has a positive impact on sustainable growth. However, it has an impact on the long-term sustainable growth rate (Fonseka et al., 2012; Altahtamouni et al., 2022; Rahim, 2017). According to the Higgins theory, the researcher concludes that financial policy-indicating variables are important in the context of Sri Lankan listed financial sector companies when assessing sustainable growth.

The company's liquidity towards a sustainable growth rate

The developed hypothesis about liquidity towards sustainable growth is rejected. Because the findings in the Sri Lankan listed financial companies show contradictory outcomes. The financial liquidity (FL) of listed financial sector companies has negatively affected the companies' sustainable growth rate but has not significantly contributed. This finding is consistent with the findings of other investigations (Rahim, 2017). The study concludes that while evaluating sustainable growth for Sri Lankan financial sector companies, liquidity is not significant, and it shows the impact of negative impact on the sustainable growth rate (SGR). The outcome is different from the viewpoint of Sweetly et al. (2019), which suggests the sustainable growth rate (SGR) benefits significantly from liquidity with the bigger the company's liquidity, the higher the sustainable growth rate (SGR). The study outcome reveals that the higher the liquidity, the lower the sustainable growth, but it is not significant in the financial sector companies listed in Sri Lanka.

A comparison of average sales growth and sustainable growth rates

To achieve the last objective of the thesis, the proportion of Sri Lankan financial sector companies will be compared by comparing differences between the actual sales growth rate

and the sustainable growth rate following the Higgins theory. The researcher identified the difference between the average actual sales growth rate (AAGR) and the average sustainable growth rate (ASGR) as the "slack". The researcher employed a slack analysis to convey information about slack qualities that exist between the Average Actual Growth Rate (AAGR) and the Average Sustainable Growth Rate (ASGR) across the financial sector companies.

Figure 4.2 shows the graphical illustration of average sales growth rates (ASGR) and their average sustainable growth rates (SGR) across the financial sector companies in Sri Lanka.

Figure 4.2: Graphical Illustration of Average Sale Growth & Average Sustainable Growth Rate
Source: EViews Survey data

According to Higgins (2016), there may be variations in the company between real sales growth and sustainable growth. The discrepancy between actual and sustainable growth is referred to as slack AGR-SGR.' Positive slack indicates that the average actual growth rate (AAGR) exceeds the average sustainable growth rate (ASGR). If there is negative slack, it implies that the average actual sales growth rate (AAGR) is less than the average sustainable growth rate (ASGR). Positive slack implies a lack of value for shareholders, whereas negative slack suggests excess cash, which permits the corporation to enhance dividends, acquire stock returns, or make new business investments. Table 4.8 shows the summary of the Slack profiles of financial sector companies in the Sri Lankan context**.**

Table 4.8: Summary of Slack Profiles of Financial Sector Companies

Slack	Percentage Number of Companies	Number of companies
Positive Slack (AAGR > ASGR)	34.29%	12
Negatives Slack (AAGR < ASGR)	65.71%	23
Total Companies		35

Note: AAGR and ASGR are acronyms for average actual sales growth rate and average sustainable growth rate, respectively

Source: Survey data

As mentioned above, the researcher concludes that 34.29% of Sri Lankan financial sector companies have indicated a lack of value for shareholders as their average actual sales growth rate (AAGR) exceeds the average sustainable growth rate (ASGR). In contrast, 65.71% of these companies have faced excess cash as their average actual sales growth rate (AAGR) and is less than the average sustainable growth rate (ASGR) which permits the corporation to enhance dividends, acquire stock returns, or make new business investments.

5. Conclusion

The company's operating performance indicators and financial policy indicators positively and significantly impact the sustainable growth rate of financial sector firms in Sri Lanka. Moreover, the results of this investigation demonstrate that the effect of operating components highly impacts the sustainable growth rate rather than the financial policy indicators in financial sector businesses. It suggests that, in the Sri Lankan context, establishing the company's operating performance and profitability development strategies may significantly boost sustainable growth. The study discovered that financial liquidity had an insignificant negative impact on the sustainable growth rate in the context of Sri Lankan listed financial sector firms, whereas the control variable of firm size (LNFS) has an insignificant positive impact on the sustainable growth rate (SGR).

As a result, the study can conclude that the company's overall performance has significantly boosted the sustainable growth of financial sector companies listed on the CSE. Furthermore, the study shows that the PRAT model components act as significant indicators of sustainable growth in listed financial sector companies.

A sustainable growth rate is a useful financial instrument, especially for managers and financial professionals who are frequently exposed to assessing financial and operational decisions to sustain, improve, or reduce (Altahtamouni, et al., 2022). Moreover, this study recommends sustainable growth frameworks that would assess the various aspects of sustainable growth in Sri Lankan listed financial companies, which may be useful in

evaluating the level of sustainable growth in financial companies as well as formulating long-term plans. The tendency of financial sector organizations to achieve sustainable growth rates appears to be more driven by the company's profitability and asset productivity, which are prioritized differently due to different alignments with its objectives and constraints. Profit margin (P) and asset turnover (A) have a greater impact than financial policy indicators. The implications suggest that financial institutions and policymakers should prioritize operational needs while considering financial policies in financial planning to ensure the financial sector's long-term viability. Specifically, companies in the financial sector have greater flexibility in implementing diversification plans to increase the retention rate of the company or utilize greater financial leverage to achieve long-term sustainable growth. The findings help current and potential investors make decisions on which fundamental aspects of sustainable growth to consider while investing in the Sri Lankan listed financial sector companies. Future scholars may focus on analyzing other key operating and financial policy indicators that indicate company performance. Additionally, future research can be carried out utilizing various proxies, such as when determining a company's profitability. Other metrics like return on assets (ROA) and return on equity (ROE) can be used (Brealey, Myers, & Allen, 2020).

Numerous sustainable growth models can be found in the previous literature. This study focused exclusively on the Higgins sustainable growth model. Future scholars can explore the influence of company performance by comparing it to other sustainable growth models, such as Van Horne's and Zakon's models.

The current study concentrated on the financial sector, which is the key engine of the Sri Lankan economy. Future scholars can choose from a variety of industries that have had a significant effect on the growth of the Sri Lankan economy.

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