

Sustainability Reporting Disclosures and its Impact on Firms' Financial Performance: Evidence from Banking Industry in Sri Lanka

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Abstract

Introduction: In recent years, sustainability reporting has become a common practice of 21st-century businesses. Investor interest in socially responsible investing (SRI) has grown dramatically over the past ten years. Thus, this study aims to examine the effect of sustainability reporting disclosure on the financial performance of banks operating in Sri Lanka.

Methodology: Thirteen License Commercial Banks used as the sample for the study covering the period of 2014 to 2022. This study uses deductive approach and quantitative methods to analyze the data. The sustainability disclosures were analyzed under the categories of economic, environmental and social disclosures. Content analysis was used to collect the data on the sustainability disclosures, and the Global Reporting Initiative (GRI) directions were followed to identify the measurements under the economic, environmental and social disclosures. Return on Assets (ROA) and Return on Equity (ROE) are used as the measurements for financial performance.

Findings: The study reveals that total disclosure significantly impacts both ROA and ROE and social disclosure also significantly impacts ROA and ROE. However, economic and environmental disclosures show an insignificant impact on both the ROA and ROE in Sri Lanka's banking sector.

Conclusion: According to the result social disclosure is the most influencing factor for sustainability reporting practices on the financial performance in the banking industry in Sri Lanka. This means that the commercial banks operating in Sri Lanka pay more attention to sustainability reporting disclosure because of its significant impact on financial performance. Thus, it is crucial that banks prioritize social disclosures over economic and environmental dimensions. This is explained by the fact that social disclosures have a huge impact on the bank's overall financial performance.

Keywords: Corporate governance sustainability reporting, financial performance, GRI index