

Mixed Method Approach to Environment, Social and Governance Disclosure and Firm Performance

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Corporate transparency are expected by their stakeholders to be informative through both financial and non-financial information (Atan, Razali, Said, & Zainun, 2016). It has become a fundamental value and a signifier in today's business environment. It is important to incorporate Environment, Social and Governance (ESG) elements in the business to ensure long-term sustainability. Despite the large amount of previous studies, a consensus about the effect of ESG disclosure on firm performance is not agreed upon. Conducted in two phases, this thesis first explores the current status of ESG disclosure practices of the Sri Lankan listed firms by using ESG index. Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G3) are used as the basis of formulating ESG index. The study focuses on the ESG disclosures made in the annual reports by a sample of 125 companies listed in Colombo Stock Exchange (CSE) during the period from 2013 to 2018.

Secondly, this study empirically examines the impact of ESG disclosure on firm performance. Firm performance is measured by means of Return on Assets (ROA), Return on Equity (ROE) and Tobin's Q indicating operational, financial and market performance. Panel data regression technique is used to examine the impact of ESG on firm performance. Based on the results of the first phase, the second phase examines the factors that explains the extent and engagement of ESG disclosure a sample of 20 companies, including the companies which have higher ESG score and lower ESG score. Data is collected using questionnaire to identify the drivers and reasons for the differences in ESG disclosure level. Thematic analysis is used to analyses the data collected in the second phase. This study provides a methodological contribution to the literature by constructing a stakeholder driven disclosure index. Further, this study contributes to the literature by expanding the scope of existing literature on ESG disclosure in a developing country. The findings of the study help for companies to implement and disclose their ESG activities in order to improve the value of the firm. As well, this study provides insight on the importance of ESG initiatives which are useful for developing and improving ESG policies in Sri Lanka to comply with global environmental standards and guidelines.

Keywords: *Environment, Social and Governance (ESG) Disclosure, Sustainability Reporting (GRI) Guidelines, Firm Performance, Sustainability*

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