

The Relationship between Sustainability Reporting and Firm Performance: An Analysis of Sri Lankan Listed Companies

Madhushani, K.M.G.T.¹ and Lakshan, A.M.I.²

^{1,2}*Department of Accountancy, University of Kelaniya*

¹*madhushanit75@gmail.com*, ²*lakshan@kln.ac.lk*

Abstract

Sustainability reporting (SR) and firm performance (FP) are the two factors that essential to be studied in recent years. SR is the process whereby companies disclose their economic, environmental and social impacts on society and environment as a result of their daily business activities. FP is complex term which includes different shadows of meaning as long as it relates to organizational performance. The principal objective of this research is to ascertain the Relationship between SR and FP of Listed Companies in Sri Lanka. The specific objectives include ascertaining the relationships between SR and return on assets (ROA), SR and net profit margin (NPM), SR and earning per share (EPS), SR and return on equity (ROE). The sample of the study consists of 40 companies listed on Colombo Stock Exchange during the period of year 2016-2020. Secondary data collected from the annual reports of the sample companies. The independent variables are economic performance disclosure (ECN), environmental performance disclosure (ENV) and social performance disclosure (SOC). These variables are measured by means sustainability disclosure index. The dependent variables are ROA, NPM, EPS, and ROE and those used as a measure of economic, environmental and social performance. Specific findings in this study are: both ROA and EPS have positive relationship with ECN and SOC while ENV has a negative relationship. Both NPM and ROE have positive relationship with ECN, SOC, and ENV. This study has provided empirical validation that SR is beneficial and that if this reporting system is imbibed upon; there will be significant relationship on financial performance of companies.

Key words: *Sustainability Reporting, Firm performance, Global Reporting Initiative and Colombo Stock Exchange, Sri Lanka*