The Impact of Sustainability Reporting Practices on Firm's Financial Performance – Evidence from Banking Sector

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Abstract

The purpose of this study is to determine whether there is a direct correlation between business performance as determined by Return on Assets (ROA) and sustainability reporting, more specifically, disclosures made under the Global Reporting Initiative (GRI), and Sri Lankan licensed commercial banks. This study uses a quantitative methodology to evaluate 10 selected licensed commercial banks' sustainability reporting practices between 2017 and 2022. This research used secondary data, data taken from the financial reports, annual reports, and sustainability reports issued by the companies. The study uses a conceptual framework in which corporate financial performance (ROA) is the dependent variable and sustainability reporting techniques (GRI) is the independent variable. General Disclosures(GEDI), Economic Disclosures(EODI), Environmental Disclosures(ENDI), and Social Disclosures(SODI) are the four subcategories that make up the independent variable. These variables are measured by the disclosure index of Sustainability reporting guidelines from GRI G4. Firm size also functions as a control variable (CVTA). The GRI index and ROA have a statistically significant positive association (R^2=0.412) according to regression analysis results, demonstrating the positive impact of sustainability reporting on financial performance. Significant effects on ROA are notably caused by ENDI, SODI, and CVTA. On the other hand, there is no appreciable impact from GEDI or ECDI. The study admits its limitations despite its contributions to the literature, such as the sample's selectivity, the selection of independent variables being influenced by time and budget constraints, and the study's reliance on yearly reports as its main source of information.

Keywords: Sustainability Reporting, Firm Performance, Global Reporting Initiative (GRI), Banking Sector, Firm value,