

Impact of Financial Performance on the Sustainability Performance of the Listed Companies in Sri Lanka

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The slack resource theory establishes the proposition that financial performance (FP) generates sustainability performance (SP) through slack resources, claiming that better FP results in slack resources enabling firms to undertake sustainability activities on the economic, environmental, and social impacts of company operations and products. The phenomenon that the companies having better FP can afford to sustainability activities and reportage, and the variation in SP and reporting might have a link with variations in FP among companies needs empirical evidence for confirmation in the Sri Lankan context.

Therefore, this research, drawing on the slack resource theory, intended to investigate the impact of FP on the SP of listed companies in Sri Lanka. The study conceptualized a model with the support of the literature review by identifying Return on Sales (ROS), Return on Assets (ROA), and Return on Equity (ROE), as the three independent variables related to the concept of FP, and identifying the Sustainability Reporting level as the dependent variable representing the concept of the SP. Variables were measured with the data collected from 5 years (2015-2019) annual reports and sustainability reports downloaded from the website of the 20 companies selected, on a non-random basis, as the companies having published sustainability reporting by adopting GRI standards among the 290 companies listed in the Colombo Stock Exchange. The data were analyzed with the Panel Data Regression technique using STATA. The output of the Random Effect model indicated all the three independent variables have a significant positive impact on the SP. Therefore, it is concluded that the companies performing better in generating sales and earning operating income for the total investors and equity shareholders are inspired to perform more on sustainability activities in the Sri Lankan context. This study contributes to the literature that supports slack resource theory.

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