

Environmental Accounting Disclosure and Financial Performance: Evidence from Manufacturing and Service Sector in Sri Lanka

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Abstract

Purpose: The most challenging environmental issues that the world is facing today is the climate change and global warming which stem from business operations. Thus, the corporate sector has an obligation to safeguard the environment. The observation intends to examine the impact of environmental accounting disclosure on the financial performance of manufacturing and services sector companies listed in the Colombo Stock Exchange, Sri Lanka.

Design/Methodology/Approach: The methodology was a quantitative survey approach involving a sample of 28 manufacturing and 17 service companies over consecutive financial years from 2012 to 2022. The technique of content analysis was used to measure the level of environmental accounting disclosure (EAD). The Environmental Accounting Disclosure Index (EADI) was prepared based on the 8 environmental accounting disclosure items.

Findings: Analysis revealed that the level of EAD in the manufacturing sector is stronger than in the service sector. Panel data regression analysis revealed that there is a significant positive impact of EAD on the firm's financial performance of the manufacturing sector, but no significant impact on service sector companies.

Originality: The findings of this study will accommodate for significant policy implications. The corporate sector needs to create the ground for environmental accounting disclosure practices for stakeholder assessment of their performance. Similarly, the effective supervision of the government is important in ensuring the implementation of environmental disclosure that aligns with applicable regulations.

Keywords: Environmental Accounting Disclosure, Content Analysis, Manufacturing sector, Service Sector.