

Relationship between Sustainability Reporting and Corporate Financial Performance with the Moderating Effect of Corporate Governance: Evidence from the Banking Sector of Sri Lanka

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Abstract

The increasing prevalence of sustainability reporting, especially about environmental, social, and governance aspects, has caused a paradigm shift in corporate assessment methods as it recognizes the necessity of ethical business operations. This study examines how environmental, social, and governance aspects, financial performance and corporate governance interact in Sri Lanka's banking industry. The sample of the study consists of 11 licensed commercial and specialized banks in Sri Lanka with the data collection period spanning from 2013 to 2022. The results indicate that there is no significant relationship between financial performance and environmental, social, and governance disclosures. However, as the results show, corporate governance moderates the insignificant relationship between environmental, social, and governance disclosures and financial performance. The study adds an intriguing new component by incorporating corporate governance as a moderating variable. The way that corporate governance and environmental, social, and governance interact has a significant moderating impact on financial performance, which highlights how important governance frameworks are in determining the impact of sustainability policies on profitability. This unique contribution of this study sheds light on the complex relationships that exist between sustainability reporting, financial performance, corporate governance, and, especially in the context of Sri Lanka's banking sector. By highlighting the moderating impact of corporate governance and illuminating the intricacy of these interactions, the research offers a novel viewpoint. The ramifications are worldwide in scope and provide valuable perspectives for banks that aim to improve their financial performance in tandem with sustainability objectives. When creating regulations and policies that support sustainable banking practices, legislators and regulators may discover helpful advice. The study's final goal is to support the development of a more ethically and sustainably conscious business climate in Sri Lanka by highlighting the relationships between sustainability, corporate governance, and financial performance.

Keywords: Corporate Governance, Environment, Social and Governance Disclosures, Financial Performance, Moderating Effect, Sustainability Reporting