

Impact of environmental, social, and governance (ESG) reporting in the corporate performance of the companies listed in the Colombo Stock Exchange in the year 2020

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Integrating environmental, social, and governance (ESG) factors into investment decisions has gained high momentum. This has primarily led large-scale companies to disclose their ESG and sustainability activities. However, there are skeptics regarding the necessity of ESG reporting. Hence, this study aims to assess the correlation between ESG reporting and corporate performance in 2020 (incorporating 128 listed companies under the Colombo Stock Exchange in Sri Lanka that use ESG reporting). Data was sourced from their annual reports and quantified using the Refinitiv ESG methodology. An assumption that all themes are equally weighted is considered in ESG quantification since the weightings are not available/ calculated for Sri Lanka. Return on equity (ROE) is taken as the dependent variable to measure corporate performance. Statistical analyses, including scatter plot, regression and residual analysis, were conducted to measure the relationship using SPSS and excel software. However, the findings revealed that there is no substantial link by only having a R square value of 0.001, between ESG reporting and corporate performance in 2020. This may imply that ESG reporting is not as important for enhancing company performance. However, this study cannot be considered perpetually applicable due to the unprecedented global pandemic situation in 2020 (since the corporate performance varied greatly during the year causing ROE to reach negative values to high positive values). Additionally, factors such as the high influence of the greenwashing activities of the companies, the unsuitability of ESG quantification methodology for Sri Lanka, and the non-availability of the ESG score quantified data in Sri Lanka may have affected the results. Therefore, the study could be extended over more years, using control variables to reduce the higher variability, for perpetual usage. The ESG scoring for companies can be an immense contribution to future research.

Keywords: Corporate performance, ESG, Sri Lanka, Sustainability, ESG reporting

Acknowledgement: *Colombo Stock Exchange (for granting the list of companies for study), Department of Statistics, and zoology and environmental sciences are acknowledged.*

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