Management International Conference
Trieste, Italy • 7–10 June 2023

Sustainability Reporting and Company Profitability

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Abstract. Sustainability reporting is the disclosure and communication of a company's awareness, concerns and activities related to the sustainable development goals and the underlying three pillars of ESG: environmental, social and governance. It is intended to improve the company's reputation, relationships with various stakeholders, and risk management. Our research question addresses the relationships between the language used in sustainability reporting and company's financial performance. Specifically, we used textual analysis of sustainability reports to predict corporate profitability. We compiled a data set that includes 702 reports from 130 Slovenian companies between 2014 and 2020. We applied various textual analyses, such as sentiment analysis, readability test, and Latent Dirichlet allocation (LDA) analysis of words that co-occur in common topics in the corpus. We used regression analysis to estimate whether and how the indicators of sentiment, readability, and document length predict various financial performance indicators. The results are discussed and recommendations as well as caveats and opportunities for future research are provided.

Keywords: sustainability reporting, text analysis, readability, sentiment analysis, profitability.

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