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CAN SUSTAINABILITY REPORTING BE A FACTOR OF BUSINESS SUCCESS? THE CASE OF SERBIA

Bojana Novićević Čečević
Faculty of Economics, University of Niš, Serbia
✉ bojana.novicevic@ekonomski.rs
https://orcid.org/0000-0002-4269-0586

Vesna Janković Milić
Faculty of Economics, University of Niš, Serbia
✉ vesna.jankovic-milic@ekonomski.rs
https://orcid.org/0000-0002-9645-8598

Srboljub Nikolić
Military academy, University of Defence, Serbia
✉ srboljub.nikolic@yahoo.com
https://orcid.org/0000-0002-1941-5332

Abstract: *The aim of this paper is to examine the factors that influence business improvement by assessing company performance, measured as return on assets (ROA). The research sample consists of 99 companies listed among the most successful enterprises according to data from the Serbian Business Registers Agency. The data were collected for the period from 2020 to 2023. To achieve the defined research objective, statistical methods such as correlation analysis and multiple linear regression were applied. The research results indicate that sustainability reporting has a statistically significant negative impact on company performance. Additionally, both company leverage and size have a statistically significant negative impact, whereas sales have a positive effect on ROA.*

Keywords: *Performance, profitability, company indebtedness, sustainability reporting, sales revenue.*

1. Introduction

The goal of a company's operations is to efficiently utilize its tangible, intangible, and financial resources. Companies may sometimes acquire financial resources externally, all with the aim of maximize profit, maintain current liquidity, and

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ensure a healthy financial structure. The extent to which companies successfully use resources to achieve their objectives can be assessed based on various groups of indicators. A widely used measure of business performance is the evaluation of profitability, measured through return on assets, return on equity, net profit margin, and similar indicators. Consequently, managers and researchers face the challenge of identifying and considering factors that may influence long-term profitability.

In today's business environment, companies face an additional requirement related to allocating resources and reporting on sustainability. Through sustainability reporting, companies can manage and mitigate social and environmental risks associated with their regular activities. By publishing such reports and addressing sustainability issues, companies strengthen stakeholder trust in their operations, ultimately leading to an improved reputation and increased corporate value.

Following the introduction, the paper presents the Theoretical Framework, which provides an overview of previous research on the given topic and defines the research hypothesis. The next section outlines the applied research methodology, followed by an analysis of the research results and their discussion. The conclusions drawn from the study are presented at the end of the paper.

Theoretical Framework

The assessment of business performance, as well as the factors determining a company's success under different business conditions, has always been a subject of interest for numerous authors. One of the key measures of business success and sustainability is profitability, which reflects a company's ability to achieve stable performance in the future. The literature identifies various factors influencing business success and the achievement of a better performance. For the purposes of our research, we have selected sustainability reporting, company leverage (debt), achieved sales, company size, and tangibility.

Sustainability Reporting

Brewer et al. (2012) examined various indicators of financial efficiency (profitability, liquidity, and capital structure) to determine how these factors influence the financial health of agricultural enterprises. The authors concluded that large agricultural enterprises with higher levels of debt are more vulnerable to financial crises. Additionally, although small agricultural enterprises operate more securely, they did not achieve business improvement through increased activity, as was the case with larger enterprises. Profitability can be measured in various ways, such as Return on Assets (ROA), Return on Equity (ROE), net profit margin, and similar indicators.

Corporate social responsibility is now a key prerequisite for sustainable development and the enhancement of credibility, both for the state and for the companies operating within it. The importance of sustainable development was further emphasized with the adoption of the 2030 Agenda by the United Nations in 2015. This document, which came into effect in 2016, defines 17 Sustainable Development Goals (SDGs)**,** providing guidelines for member states and their

citizens over a 15-year period. Although not being a member of the European Union, the Republic of Serbia has committed to implementing these goals. In this context, the Accounting Law (*Official Gazette of the Republic of Serbia, No. 73/2019 and 44/2021*), as amended in 2021, prescribes that:

"*The analysis of the development and business results of a legal entity, as well as its position, should include financial and, where necessary, key non-financial performance indicators relevant to the specific industry, including information related to environmental and workforce issues. As part of this analysis, the annual business report includes references to the amounts presented in the regular annual financial statements, along with additional explanations of these amounts*."

Consequently, companies are faced with an additional requirement to operate both economically sustainably and socially responsibly. Although reporting is mandated, the specific format for compiling these reports is not strictly defined. As a result, sustainability reporting can either be incorporated into the annual business report or published as a separate document. In the Republic of Serbia**,** companies operating within a corporate group typically publish sustainability reports as standalone documents, publicly available on the group's website. Some companies have chosen to integrate sustainability reporting within their business reports. However, there are still companies that, despite the reporting obligation, do not disclose this information in any form.

Spence & Gray (2007) emphasize that sustainability reporting is a way for companies to present the social and environmental impacts of their economic activities to stakeholders and the broader community. Additionally, they viewed sustainability reporting as a means of ensuring organizational legitimacy, a tool for managing stakeholder relationships, or a process for creating a positive image (Usman, 2024).

Ariswari & Damayanthi (2019) and Werastuti et al. (2021) concluded in their research that sustainability reporting effectively moderates the relationship between profitability and company value. They also emphasize that comprehensive sustainability reporting can enhance company value when profitability is high.

The significance of sustainability reporting in moderating the relationship between profitability and company value has been explored by Juliana & Sembiring (2025). They concluded that transparent and comprehensive ESG reporting, including reports aligned with global standards such as GRI, can help companies in the coal sector mitigate the negative perception of their environmental impact. Aligning short-term profitability with a long-term sustainability strategy can be one way to attract investors and enhance competitive positioning.

Company Leverage

Company managers prefer using internal sources of financing, as noted by Hung & Albert (2002), borrow money from the money, and capital markets is a secondary option. However, research indicates that profitable companies tend to achieve positive business results through external financing sources. A statistically significant negative correlation between company leverage and profitability has been

demonstrated in studies by Rajan & Zingales, (1995), Goddard et al. (2005), and Rao et al. (2007).

Akhtar (2012) and Sarkar & Zapatero (2003) found in their research that there is a positive relationship between profitability and company leverage. Profitable companies are less likely to resort to borrowing, yet they achieve better business results. However, some studies have not identified a connection between leverage and company profitability. Long & Malitz (1986) and Fama & French (1998) concluded that there is no correlation between financial structure and company profitability. Moreover, they demonstrated that companies with the lowest leverage ratios also tend to prefer financing through equity issuance.

Sales

In their study on the relationship between capital structure and company performance, Dada & Ghazali (2016) concluded that there is a statistically significant positive relationship between sales and achieved performance. Specifically, an increase in sales leads to a rise in return on assets (ROA). This conclusion is logical, as higher sales results in increased net profit, thereby improving ROA, and vice versa. It is important to consider operating expenses as a key component in calculating net profit.

Company Size

Company size can be represented by various indicators such as asset value, number of employees, total sales, or business volume. The most commonly used determinant of size in the literature is the natural logarithm of total assets. Large companies use their size to increase efficiency, expand markets, and exploit economies of scale. Simnett (2012) emphasizes that management in large companies is more inclined to prepare sustainability reports. Companies use this opportunity to demonstrate corporate social responsibility and their commitment to environmental protection through sustainability reporting. Examining the impact of various factors on sustainability report verification, Shinta et al. (2023) conclude that profitability (ROA) and company size have a statistically significant positive effect on sustainability reporting. However, as companies grow larger, they may face inefficiencies that could impact their financial performance (Limonya et al., 2023).

Tangible Assets

Tangible assets represent the core assets that companies use to conduct their operations. This refers to physical resources owned by the company, such as equipment, buildings, inventory, and similar assets. The value of this variable is obtained by dividing tangible assets by the company's total assets. A higher proportion of tangible assets reduces risk for creditors, increasing asset value in the event of bankruptcy or liquidation. Therefore, the more tangible company’s assets, the greater ability to secure debt and disclose information about future profits (Dada & Ghazali, 2016).

In her study, Milošević (2023) established a weak, positive, and statistically significant relationship between tangible assets and profitability. However, Stančić

et al. concluded that in manufacturing companies, tangible assets have no impact on profitability. On the other hand, in the service sector, there is a relationship between tangible assets and profitability, but it is not statistically significant.

Based on the aforementioned considerations, we have defined the following hypothesis:

Hypothesis 1: Sustainability reporting, corporate leverage, sales, company size, and tangible assets have a statistically significant impact on the business performance of companies in the Republic of Serbia, measured by ROA.

2. Methodology of empirical research

The aim of this study is to examine whether factors such as sustainability reporting, corporate debt, sales, company size, and tangibility represent determinants that influence corporate profitability, measured through ROA (Return on Assets).

The initial basis for forming the sample was the list of 100 most successful companies by revenue in 2022. The list was compiled and published by the Serbian Business Registers Agency. The data for the analysis were collected for the period 2020–2023 from publicly available documents on the Agency's website and other official websites that assess corporate creditworthiness.

Table 1 Some Characteristics of the sample

Variables	Frequency	Valid %	Cumulative %
Type of Business Entity			
DOO	82	82,82 %	82,82
JP	5	5,05 %	87,87
AD	12	12,12 %	100
Region			
Belgrade	55	55.6%	55.6
Central Serbia	8	8.1%	63.6
Vojvodina	22	22.2%	85.9
Southern Serbia	4	4.0%	89.9
Western Serbia	7	7.1%	97.0
Eastern Serbia	3	3.0%	100.0
Sector			
Information and communication	4	4.0%	4.0
Wholesale and retail trade	34	34.3%	38.4
Transport	7	7.1%	45.5
Agriculture	1	1.0%	46.5
Processing industry	35	35.4%	81.8
Construction	7	7.1%	88.9
Electricity	7	7.1%	96.0
Mining	3	3.0%	99.0
Arts and entertainment	1	1.0%	100.0

Source: authors

Since the data for the last year of operation were unavailable for one company due to business closure, this company was excluded from the analysis. Consequently, the final sample consists of 99 companies, with a total of 396 observations.

Table 1 presents the structure of the observed sample based on the type, territorial affiliation, and business sector of the selected companies.

The enterprises analyzed in this study belong to the category of large enterprises. The ownership structure shows that limited liability companies dominate the sample, with a total of 82 out of 99 enterprises, accounting for nearly 83%. Joint-stock companies make up 12% of the sample, while the share of public enterprises is 5%.

The analysis of the sample based on the region where the enterprise is headquartered, indicates that the majority of enterprises are from the Belgrade region, with a total of 55, accounting for 55.6%. Twenty-two enterprises in the sample are headquartered in Vojvodina (22.2%), eight in Central Serbia (8%), and seven in the Western region (7%). The fewest enterprises are from Southern Serbia (four) and Eastern Serbia (three).

The majority of business entities analyzed operate in the manufacturing industry, with 35 companies (35.1%), and the wholesale and retail trade, with 34 companies (34.3%). The sample includes 7 companies from the transportation, construction, and electricity sectors. The information and communication sector comprises 4 companies, the mining sector 3, while the arts and entertainment and agriculture sectors each have 1 company.

The collected data was analyzed using the statistical software package IBM SPSS Statistics 21.0 (Statistical Package for the Social Sciences - SPSS, Version 21.0). The dependent variable is Return on Assets (ROA). Given that the objective of the research is to examine the impact of selected factors (sustainability reporting, corporate debt, sales, company size, and tangibility) on corporate profitability, the model definition included the following independent variables: the presence/absence of a sustainability report, corporate debt, sales, company size, and tangibility. These variables are among the most commonly used financial indicators influencing corporate profitability. The following table presents the variable used, their acronyms, and the method of calculation.

Table 1 Description of analysis variables

Variable	Acronym	Description
Return to assets	ROA	The ratio of net income to total assets
Sustainability reporting	SusRep	1 if reported, 0 if not
Debt	Dept	The ratio of total debt to total assets
Log of Sales	LOS	Natural logarithm of Total sales
Company size	Size	Natural logarithm of Total asset
Tangibility	Tang	Ratio of tangible assets to total asses

Source: authors

The empirical analysis of the selected variables consists of descriptive statistics, correlation analysis, and multiple regression analysis. The sample used in the analysis includes 100 companies operating in the territory of the Republic of Serbia, or 99 companies, as data for one company was not available for the observed period.

Based on previous research and with the aim of determining the factors that significantly influence the profitability of companies, the following model has been proposed:

$$ROA_{i,t} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon_{i,t}$$

$ROA_{i,t}$ – Dependent variable (ROA);
β_0 – Model constant;
βi – Regression coefficients;
X_1 – Sustainability reporting;
X_2 – Dept;
X_3 – Log of Sales;
X_4 – Company size;
X_5 – Tangibility;
$\varepsilon_{i,t}$ – Error term;
i – Company (i = 1, . . . , N);
t – Period (year from 2020 to 2023).

3. Research results and discussions

The descriptive statistics of the dependent and independent variables used in the analyzed model are presented in Table 3.

Table 2 Descriptive statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	396	- 0.60	0.79	0.06	0.110
SusRep	396	0	1	0.45	0.499
Dept	396	0.08	1.00	0.60	0.216
LOS	396	11.49	19.94	17.05	0.931
Size	396	13.63	20.79	16.98	1.175
Tang	396	0.00	1.00	0.38	0.236
Valid N (listwise)	396				

Source: Author's calculation

The average ROA value is 0.06, with a minimum value of -0.6 and a maximum of 0.79. The negative ROA value indicates that some companies experienced negative financial results in certain years.

Since the sustainability report does not have a strictly prescribed format, some companies have chosen to prepare it as a separate report, while others disclose sustainability and non-financial information within their business reports. Despite the reporting obligation on sustainability in the Republic of Serbia, some companies in the sample do not address any aspect of sustainability. Regarding the companies on the list, we found sustainability reports for 54 companies, either as part of a group or as independently prepared reports. Fifteen companies disclose sustainability and non-financial data within their business reports, while for 30 companies, we could not find any data proving that they address sustainability issues.

The debt ratio indicator has an average value of 0.60, meaning that 60% of total assets are financed through debt. The range of this indicator varies from 0.08 to 1.00, indicating that there are no companies in the observed sample where debts significantly exceed the value of total assets. The average value of LOS for the observed sample is 17.05, with a range from 13.63 to 20.79. The average company size value was 19.98, without significant deviations.

The average value of Tangibility is 0.38, indicating that nearly 40% of total assets in the observed companies consist of tangible assets. The maximum Tangibility value is 1, which occurs in companies where the entire asset base is composed of tangible assets.

Through the correlation analysis, we examined whether there is a relationship between the selected variables for the study, as well as the strength and direction of that relationship. Table 3 presents the correlation coefficient matrix.

Table 3 Correlation matrix

	ROA	SusRep	Dept	LOS	Size	Tang
ROA	1	-0,126 (0,006)	- 0,243 (0,000)	0,087 (0,042)	-0,072 (0,018)	-0,006 (0,454)
SusRep		1	-0,009 (0,429)	-0,153 (0,001)	-0,12 (0,008)	0,002 (0,488)
Dept			1	0,009 (0,426)	0,311 (0,000)	-0,380 (0,000)
LOS				1	0,255 (0,000)	-0,034 (0,250)
Size					1	0,424 (0,000)
Tang						1

Source: Author's calculation

The dependent variable ROA positively correlates with the variable LOS, while it has a negative correlation with the other variables in the model. However, the correlation established with the variable Tangibility is not statistically significant ($p > 0.05$), so this variable was excluded from further research.

To test for the multicollinearity, i.e., the potential interconnection between independent variables, we examined the variance inflation factor (VIF) for the independent variables and tolerance.

Tolerance indicates how much of the variance of a given independent variable is not explained by the variances of other independent variables in the model. When this value is very low, it suggests a high correlation with other variables, indicating multicollinearity.

VIF is the reciprocal of tolerance and shows how high correlation increases the instability of defined variables. Acceptable tolerance values are greater than 0.10, while VIF should not exceed 10. Table 4 presents the results of the multicollinearity test.

Table 4 Variance impact factors of variables (VIF).

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	SusRep	.968	1.033
	Dept	.894	1.119
	LOS	.912	1.097
	Size	.829	1.206
a. Dependent Variable: ROA			

Source: Author's calculation

For all variables that exhibit a statistically significant correlation with the dependent variable ROA, the tolerance and VIF values fall within acceptable limits. The obtained results of the multicollinearity test suggest that a further analysis with the selected variables can proceed.

Tab 5. Model Summary

Model	R	R Square	Adjusted R Square	Change Statistics	
				R Square Change	Sig. F Change
1	.345[a]	.119	.110	.119	.000
a. Predictors: (Constant), SusRep, Dept, LOS, Size					
b. Dependent Variable: ROA					

Source: Author's calculation

Based on Table 5, we can conclude that the proposed model is representative, with Sig = 0.0000, $p < 0.05$. The calculated coefficient of determination indicates that the independent variables explain 11% of the variance in ROA, while the F-statistic confirms the relevance of the independent variables in this model.

Table 6 Multiple regression model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.302	.120		2.513	.012
SusRep	-.030	.011	-.136	-2.813	.005
Dept	-.159	.026	-.312	-6.222	.000
LOS	.015	.006	.124	2.501	.013
Size	-.020	.005	-.217	-4.158	.000
a. Dependent Variable: ROA					

Source: Author's calculation

After conducting the analysis, the model can be presented as follows:

$$ROA = 0{,}302 - 0{,}030 * \text{SusRep} - 0{,}159 * \text{Dept} + 0{,}015 * \text{LOS} - 0{,}020 * \text{Size} + \varepsilon\_$$

The first variable in the model, sustainability reporting, has a statistically significant negative impact on the ROA of enterprises in the observed sample ($p < 0.05$). Sustainability reporting is a tool for informing the wider social community about the social, economic, and environmental aspects of their operations (Spence, 2007). Usman (2024), in his research, showed that 51% of the variance in sustainability reporting can be predicted by the combined effect of company size, board size, and profitability.

The variable Debt has a statistically significant negative impact on profitability growth measured by ROA ($p < 0.05$). This indicates that the higher level of company debt leads to lower ROA. Such results are in accordance with the research of Abor (2005) and Pradhan (2017), who also found a negative impact of leverage on company profitability.

Positive and statistically significant impact on profitability has variable Sales. Sales are one of the key parameters for improving company's operations. Consequently, numerous authors have studied its significance for corporate profitability. Positive relationship between sales and profitability was found in the models of Akinlo (2012) and Ramnoher (2020).

Firm size**,** as a variable in the presented model, has a statistically significant negative impact on achieved ROA ($p < 0.05$). the firm size is represented as the logarithm of total assets, indicating that companies with lower total assets achieve a higher return on assets. The obtained results are consistent with the research of Shepherd (1972) and Schneider (1991), who found that larger firms achieve lower profitability levels. However, numerous studies have shown that an increase in the firm size leads to an increase in ROA (Voulgaris & Lemonakis, 2014).

Given the initial research hypothesis, the obtained results indicate that it has been confirmed, except for the part related to tangibility. Namely, the correlation analysis established that there is no statistically significant relationship between tangibility and ROA, so this variable was excluded from further analysis, i.e., from the set of independent variables in the estimated regression model. Other independent variables — sustainability reporting, company dept, revenue, and company size — have a

statistically significant impact on ROA. The estimated model determined that sustainability reporting and company debt variables have a negative impact on profitability measured by ROA. For sustainability reporting and company debt variables, the identified direction of impact aligns with the previous research in this field. Regarding the variable company size, the literature presents varying results concerning the direction of its impact on profitability. The regression analysis led to the conclusion that the achieved revenue, as expected, has a significantly positive impact on company profitability, given that it is one of the elements for calculating net profit.

4. Conclusion

Measuring business performance, both in the Republic of Serbia and globally, represents a significant challenge in the modern business environment. The focus of this paper is to examine the factors that influence business success by applying appropriate statistical methods, such as correlation analysis and multiple linear regression. By analyzing publicly available financial reports and relevant literature, we have selected the most commonly used and relevant variable for assessing business performance, namely profitability: return on assets (ROA). Given that corporate social responsibility and sustainability reporting have been prominent topics in theory and practice in recent years, one of the variables certainly addresses this area. Through data analysis, we obtained information on whether companies, in addition to the existing legal obligation, prepare sustainability reports, report on non-financial performance within their business reports, or do not report at all. In addition to this, the independent variables include corporate leverage, company size (measured by the logarithm of total assets), sales revenue, and tangibility.

The data collection was based on the list "Top 100... Business Entities in 2022." This list ranked business entities in the Republic of Serbia according to four criteria: operating revenue, net profit, total assets, and equity. In our empirical research, we opted for the list of companies ranked by operating revenue. The correlation analysis indicated a certain degree of alignment between the dependent variable ROA and the independent variables, except for tangibility. Although a relationship was observed, it was not statistically significant. Based on this finding, the tangibility variable was excluded from further research.

The research results indicate that the sustainability reporting factor negatively affects the profitability of the companies in the sample. The companies with higher levels of debt have lower profitability, while those with lower levels of debt lead to better performance. In this regard, managers' attention should be focused on balancing internal financing sources and external borrowing. The sales revenue has a positive impact on the return on assets (ROA) of companies. This is also the only variable in the model that positively influences ROA. The companies with a higher amount of assets in our sample achieve a lower level of profitability.

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DA LI IZVEŠTAVANJE O ODRŽIVOSTI MOŽE BITI FAKTOR POSLOVNOG USPEHA? SLUČAJ SRBIJE

Apstrakt: *Cilj ovog rada jeste da ispita faktore koji utiču na unapređenje poslovanja kroz ocenu performansi preduzeća, merene pokazateljem povraćaja na imovinu (ROA). Istraživački uzorak čini 99 kompanija koje se nalaze među najuspešnijim preduzećima, prema podacima Agencije za privredne registre Republike Srbije. Podaci su prikupljani za period od 2020. do 2023. godine. Radi postizanja definisanog cilja istraživanja, primenjene su statističke metode, kao što su korelaciona analiza i multipla linearna regresija. Rezultati istraživanja ukazuju na to da izveštavanje o održivosti ima statistički značajan negativan uticaj na performanse preduzeća. Pored toga, kako zaduženost preduzeća, tako i njegova veličina, imaju statistički značajan negativan uticaj, dok prodaja pozitivno utiče na ROA.*

Ključne reči: *Performanse, profitabilnost, zaduženost preduzeća, izveštavanje o održivosti, prihodi od prodaje.*