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The Mediating Role of Environmental Management Accounting in Linking Environmental Strategy and Environmental Performance: A study based on Listed Manufacturing Companies in Sri Lanka

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Background: Despite increasing external environmental pressures, management accounting in manufacturing firms in Sri Lanka has yet to sufficiently denote environmental costs and externalities, prompting the adoption of Environmental Management Accounting (EMA) as a mechanism for enhancing the sustainability practices of companies. Despite the growing literature on EMA, empirical work examining the mediating role of the EMA construct between environmental strategy and environmental performance is lacking within the context of Sri Lanka.

Objective: This study seeks to better understand the mediating role of EMA on the direct relationship between environmental strategy and environmental performance among publicly listed manufacturing businesses in Sri Lanka.

Methods: A quantitative cross-sectional survey instrument was administered to all manufacturing firms (N=58) operating in Sri Lanka, who are listed on the Colombo Stock Exchange. Following data clean-up, valid responses (n=31) were analyzed using SPSS software. Reliability and validity were determined using Cronbach's alpha and factor analysis. Hypothesized relationships were explored using regression and mediation analyses.

Results: Environmental strategy was found to have a statistically significant positive effect on environmental performance ($\beta=0.64$, $p < 0.01$; $R^2=0.41$). Although the EMA adoption was rather moderate (mean=3.52), its mediating nature on the environmental strategy-environmental performance relationship was significant (indirect effect, $p < 0.05$), increasing the explained variance in environmental performance by 9%. Firms utilizing EMA practices generally reported several improvements in three key areas, such as emissions reductions, operational cost savings from waste reduction, and more efficient usage of energy and water.

Conclusion: Results validate that EMA continues to play an important role in the implementation of environmental strategy, which defines an organization's measurable performance outcomes. Although the sample itself may be limited and may be subject to a non-response bias, the findings obtained still illustrate support for both compliance and competitive advantage, and more importantly align with policy-level assessments to the Sustainable Development Goals Goal 12 (Responsible Consumption and Production), whilst further supporting Sri Lanka's National Sustainability Agenda.

Keywords: Environmental Management Accounting, Environmental Performance, Environmental Strategy