

Capital Is Not Enough: How Merger & Acquisition and Foreign Direct Investment Shape Corporate Sustainability in Sri Lanka

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ABSTRACT

Purpose: This study aims to systematically examine the relationship between Mergers and Acquisitions (M&A), Foreign Direct Investment (FDI), and corporate sustainability practices in Sri Lanka.

Method: This study employs a systematic literature review by synthesizing 21 academic and professional sources published between 2017 and 2026.

Findings: M&A activities in Sri Lanka are influenced by the regulatory framework and the quality of post-acquisition integration. Structured integration, human resource management, and effective corporate governance support corporate sustainability. Meanwhile, the relationship between FDI, economic growth, and technological innovation produces mixed findings, indicating that investment quality and domestic absorptive capacity are important factors. External shocks also affect environmental, economic, and social dimensions of sustainability.

Implications: M&A and FDI can contribute to corporate sustainability when supported by strategic alignment, effective governance, and adequate absorptive capacity.

Originality: This study integrates perspectives on M&A, FDI, corporate governance, and sustainability within the Sri Lankan context.

Keywords: Mergers and Acquisitions, Foreign Direct Investment, Corporate Sustainability, ESG, Sri Lanka.

JEL Classification: G34, F21, Q56

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1. INTRODUCTION

Changes in the global business environment have pushed companies in developing countries to seek strategies that strengthen competitiveness while sustaining long-term viability. In this context, Mergers and Acquisitions (M&A) and Foreign Direct Investment (FDI) have become two important mechanisms for business expansion and restructuring. M&A enables companies to expand markets, develop business networks, increase control over supply chains, and acquire new resources and capabilities through mergers or takeovers. FDI, meanwhile, provides access to foreign capital, technology, knowledge, and international networks that can support the development of the host economy. For a developing country such as Sri Lanka, both activities hold a strategic position because they relate to



efforts to increase economic growth, strengthen the corporate sector, and enhance connectivity with the global economy.

The role of FDI in Sri Lanka's economy has been demonstrated by several studies. [Maheswaranathan and Jeewanthi \(2021\)](#) found that FDI has a positive long-term relationship with Sri Lanka's economic growth: a 1% increase in net FDI inflows is associated with an increase in GDP of approximately 0.826439%. In the short run, FDI, capital investment, and bank credit to the private sector also have positive and significant effects on economic growth. These findings show that foreign capital can be one of the instruments supporting domestic economic activity. However, the relationship between FDI and economic growth is not always equally strong. Using an ARDL approach, [Samantha and Liu \(2017\)](#) found that FDI is positively related to Sri Lanka's economic growth in both the short and long run, but the effect is not statistically significant. These differing findings indicate that the presence of FDI does not automatically guarantee optimal economic impact, making the quality and characteristics of investment important considerations.

This issue becomes more relevant when the contribution of foreign investment is assessed not only by its ability to generate economic growth but also by its ability to create long-term capacity within domestic firms and the economy. [Adikari et al. \(2021\)](#) show that inward FDI has a negative coefficient on technological innovation in Sri Lanka, whereas education and research and development have positive and significant long-term effects. Foreign capital inflows therefore do not always directly increase domestic innovation capacity; the effectiveness of FDI depends heavily on the ability of host countries and firms to absorb, develop, and integrate the resources brought by foreign investors. More recent evidence also shows that FDI is related to Sri Lanka's economic growth ([Fernando, 2020](#)), that trade and foreign investment policy reforms have contributed to this growth ([Rathnasekara, 2022](#)), and that FDI is associated with the dynamics of both the formal and informal sectors ([Bhavan, 2023](#)). This shows that the evaluation of FDI needs to move beyond measures of capital flows and economic growth towards questions about investment quality and its contribution to sustainable corporate development.

M&A, on the other hand, is an important strategy for companies to expand, restructure, and gain competitive advantage. In the Sri Lankan context, [Dissanayake and Jayaratne \(2017\)](#) show that M&A can bring various supply chain benefits, including improved logistics control, product development, higher profits, stronger relationships with suppliers and distributors, and market expansion. Nevertheless, the M&A process also faces obstacles, including limited technology and financial resources, integration difficulties, lack of management commitment, and employee resistance. M&A success is thus determined not only by the decision to transact but also by the company's ability to manage post-transaction integration. This matters because the economic benefits of M&A may not be realised if organisational, human resource, and operational integration is not managed effectively ([Fidiana et al., 2023](#); [Suryaningrum et al., 2023](#)).

In modern business, the success of M&A and FDI is also inseparable from demands for corporate sustainability practices. Corporate sustainability is no longer concerned only with economic profit but also with how companies manage their social and environmental impacts and their governance. This shift in orientation means that corporate investment and restructuring must be viewed from a broader perspective. Companies that expand through M&A or receive FDI are expected not only to deliver financial performance but also to consider the effects on employees, the environment, stakeholders, transparency, and corporate governance. M&A and FDI can therefore be viewed as business activities with the potential to support sustainability, but they may also create risks if efficiency and short-term profit orientations dominate sustainability considerations.

The need to integrate sustainability into corporate activities is increasingly important because sustainability reporting and disclosure practices in Sri Lanka remain heterogeneous. [Dissanayake et al. \(2019\)](#) found that firm size and use of the Global Reporting Initiative (GRI) guidelines are the characteristics most relevant to the level of sustainability reporting among Sri Lankan companies; larger companies and those using the GRI guidelines tend to disclose more extensively. GRI-based sustainability reporting has also been linked to the financial performance of listed companies in Sri Lanka ([Kowsana & Muralieetharan, 2021](#)). Ownership structure and industry sector, by contrast, show no strong influence. These findings show that companies' ability to demonstrate sustainability commitment through reporting is still shaped by internal characteristics and the use of particular reporting frameworks. Corporate sustainability should therefore be positioned as part of corporate strategy and governance rather than merely a reporting activity.

Governance is becoming increasingly important in understanding the relationship between international business activities and corporate sustainability in Sri Lanka. [Nazliben et al. \(2024\)](#) show that Sri Lankan companies face several governance problems, including conflicts between majority and

minority shareholders, weak creditor protection, political connections, and window dressing in ESG disclosure. The quality of governance can therefore determine the extent to which corporate investment and restructuring produce sustainable benefits. Foreign capital inflows or acquisitions do not by themselves eliminate governance problems embedded in a company; rather, they can bring positive change if adequate monitoring, transparency, and accountability mechanisms exist. Sri Lanka's institutional and governance context must therefore be part of any analysis of the relationship between M&A, FDI, and corporate sustainability.

Besides governance, the success of post-M&A integration is strongly influenced by human resource factors. Organisational changes resulting from mergers or acquisitions can create uncertainty for employees and increase resistance to change. [Pubodhya and Rajapakshe \(2025\)](#), studying Sri Lanka's telecommunications industry, show that communication positively affects training, training positively affects leadership, and leadership and training positively affect M&A performance; their model explains 72% of the variation in M&A performance. This shows that the human dimension cannot be separated from M&A success. Corporate integration is not only a matter of combining assets and organisational structures but also a process of building capabilities, leadership, communication, and employees' readiness for change.

This perspective becomes even more relevant when M&A takes place in international environments characterised by uncertainty and different institutional features. [Amaranonta et al. \(2026\)](#) show that demand uncertainty and political uncertainty in host countries can affect multinationals' sequential acquisition decisions, and that regulatory efficiency can moderate the effect of political uncertainty on such decisions. Cross-border investment and acquisition decisions are thus determined not only by market potential but also by institutional conditions and the level of certainty in the business environment. In the Sri Lankan context, this is important because the success of FDI and M&A can depend on institutions' ability to provide certainty, protection, and a business environment conducive to long-term investment.

This discussion shows that M&A, FDI, and corporate sustainability in Sri Lanka are interrelated phenomena, but the relationships among them are not simple. FDI can support economic growth, but its contribution to domestic innovation has not always been positive. M&A can strengthen supply chains and expand markets, but integration can face technological, financial, managerial, and human resource constraints. At the same time, companies are required to improve sustainability and governance practices while institutional conditions still present various problems. Assessing the success of M&A and FDI solely through economic growth or financial performance indicators is therefore insufficient to explain their overall impact.

These problems point to a research gap that warrants further study. Studies of FDI in Sri Lanka have largely focused on economic growth, innovation, and macroeconomic factors, while M&A studies have mainly addressed transaction benefits, supply chains, integration, and firm performance. Research on corporate sustainability, in turn, has mostly highlighted sustainability reporting and firm characteristics. These three bodies of literature have not yet been fully integrated to explain how M&A and FDI may relate to corporate sustainability practices in Sri Lanka. In other words, a synthesis is still needed that links corporate transactions, foreign investment, governance, human resources, and sustainability within a single framework.

This gap is important because, as a developing country, Sri Lanka has institutional and economic conditions that differ from those of developed countries. The effects of M&A and FDI on sustainability cannot be separated from companies' ability to integrate resources, the quality of governance, human resource readiness, and the capacity of the business environment to accommodate investment and organisational change. A more comprehensive understanding is therefore needed to determine whether M&A and FDI genuinely drive sustainability practices or instead risk reinforcing a short-term orientation towards efficiency and profit.

Accordingly, this study aims to systematically examine the relationships among M&A, FDI, and corporate sustainability practices in Sri Lanka. It seeks to identify how M&A and FDI relate to corporate sustainability, the internal and external factors that influence these relationships, and how governance, human resources, corporate capacity, and institutional quality can determine the success of these processes. Through a systematic literature review, the study is expected to provide a more integrated understanding of the role of M&A and FDI in supporting corporate sustainability in Sri Lanka. It thus views corporate investment and restructuring not only from an economic perspective but also within a sustainability framework encompassing economic, social, environmental, and governance aspects.

2. LITERATURE REVIEW

2.1. Mergers and Acquisitions among Companies in Sri Lanka

Mergers and Acquisitions (M&A) are a corporate strategy for expansion, restructuring, market extension, and acquiring resources and capabilities not previously available internally. In Sri Lanka, M&A is linked to supply chain development and improved corporate competitiveness. [Dissanayaka and Jayaratne \(2017\)](#) show that M&A can increase control over logistics, support product development, improve profitability, strengthen relationships with suppliers and distributors, and expand markets. M&A therefore concerns not only changes in ownership but can also affect a company's operations more broadly.

Nevertheless, the benefits of M&A are not always realised automatically. [Dissanayaka and Jayaratne \(2017\)](#) identify obstacles such as limited technology and financial resources, integration difficulties, management commitment, and employee resistance. [Lye \(2022\)](#) also shows that M&A in Sri Lanka has the potential to support growth, market control, and shareholder wealth, but such transactions involve high complexity and risk. Clear transaction objectives and a strong integration strategy are therefore essential to M&A success.

M&A success is also related to a company's ability to manage human resources during integration. [Pubodhya and Rajapakshe \(2025\)](#) show that communication, training, and leadership are linked to M&A performance in Sri Lanka's telecommunications industry. Post-M&A integration is thus not only a matter of combining assets and organisational structures but also a change process requiring communication, employee capability development, and effective leadership.

2.2. Foreign Direct Investment and Economic Development in Sri Lanka

Besides M&A, FDI is a form of foreign corporate involvement in developing economies, providing the capital needed to support economic activity and corporate development. [Maheswaranathan and Jeewanthi \(2021\)](#) found a positive long-term relationship between FDI and Sri Lanka's economic growth, while [Samantha and Liu \(2017\)](#) found a positive relationship in both the short and long run, although the effect was not statistically significant.

These differing results show that the size of FDI flows is not always a sufficient indicator of the success of foreign investment. [Fernando and Rajapakshe \(2018\)](#) show that FDI has a positive effect on Sri Lanka's economic growth, but its contribution remains lower than that of domestic investment. The benefits of foreign investment are thus also shaped by domestic economic conditions and the country's ability to create an investment-friendly environment.

The quality of FDI is also an issue with respect to innovation. [Adikari et al. \(2021\)](#) found that inward FDI has a negative coefficient on technological innovation, whereas education and research and development have positive long-term effects. Foreign capital inflows therefore do not automatically increase domestic technological capacity, and the discussion of FDI must consider the ability of domestic firms and institutions to absorb the knowledge, technology, and resources brought by foreign investors.

2.3. Corporate Sustainability and Governance

In this study, corporate sustainability is understood as corporate practices oriented not only towards economic achievement but also towards social, environmental, and governance aspects. In Sri Lanka, sustainability practices still face various challenges. [Dissanayake et al. \(2019\)](#) found that firm size and the use of GRI guidelines are the characteristics most relevant to the level of sustainability reporting among Sri Lankan companies, with larger companies and GRI users tending to disclose more extensively.

Sustainability is also related to corporate governance. [Nazliben et al. \(2024\)](#) identify governance problems in Sri Lanka, including conflicts between majority and minority shareholders, weak creditor protection, political connections, and window dressing in ESG disclosure. Increases in corporate investment and expansion must therefore be accompanied by adequate governance so that economic benefits do not come at the expense of stakeholder interests and sustainability goals.

The relationship between social practices and firm performance is also complex. [Kengatharan et al. \(2020\)](#) found that economic, social, and environmental CSR activities have a significant negative relationship with firm performance measured by Tobin's Q among Sri Lankan manufacturing companies. Sustainability practices therefore do not always generate direct financial benefits, especially when companies still face limitations in managing sustainability activities effectively.

2.4. Integrating M&A, FDI, and Sustainability

The relationship between M&A and sustainability becomes more important in cross-border transactions. Jayasinghe and Rifat (2023) show that M&A driven by strategic growth objectives has a greater influence on targets' post-acquisition sustainability practices, and that the sustainability orientation of the acquirer and the acquirer's home country also affect the target's sustainability practices. The impact of M&A on sustainability is thus determined not only by the transaction itself but also by the acquirer's strategic motives and characteristics. This is consistent with evidence that the home-country cultural imprint of emerging-market multinationals affects their post-acquisition corporate social performance (Liou et al., 2021).

At the same time, institutional factors help determine cross-border investment and acquisition decisions. Amaranonta et al. (2026) show that demand and political uncertainty in host countries affect sequential acquisition decisions, while regulatory efficiency can moderate the effect of political uncertainty. This suggests that institutional quality is an important factor in understanding international business activity in developing countries. The available literature thus shows that M&A, FDI, and sustainability cannot be understood as stand-alone phenomena. M&A relates to expansion, integration, supply chains, and human resources; FDI relates to growth, innovation, and domestic economic capacity; and sustainability is influenced by firm characteristics, reporting, governance, and companies' ability to manage social and environmental aspects. However, most existing studies still address these dimensions separately, indicating the need for a literature synthesis that specifically links M&A, FDI, and corporate sustainability in the Sri Lankan context.

Based on this synthesis, the study uses a systematic literature review to identify patterns of findings, supporting and inhibiting factors, and the links between international business activities and corporate sustainability practices in Sri Lanka. The research focus is not on testing causal relationships statistically but on understanding how previous studies explain the relationships among M&A, FDI, governance, human resources, and sustainability.

2.5. Research Focus

Based on this literature review, the research focus is formulated in the following questions:

RF1: How do Mergers and Acquisitions (M&A) affect corporate sustainability practices in Sri Lanka?

RF2: How does Foreign Direct Investment (FDI) contribute to corporate development and sustainability in Sri Lanka?

RF3: What factors influence the success of M&A and FDI integration in supporting corporate sustainability practices in Sri Lanka, particularly in terms of governance, human resources, and institutional quality?

RF4: How do previous research findings demonstrate the links among M&A, FDI, and corporate sustainability practices in Sri Lanka?

3. RESEARCH METHOD

3.1. Research Design

This study uses a qualitative approach with a systematic literature review (SLR) to identify, select, and synthesise previous research on Mergers and Acquisitions (M&A), Foreign Direct Investment (FDI), and corporate sustainability practices in Sri Lanka. A qualitative approach is used because the study does not aim to test hypotheses or calculate relationships among variables statistically but to understand patterns, themes, and links among the findings of previous studies. Creswell and Poth (2018) explain that qualitative research is used to understand a phenomenon through the interpretation of relevant information, while Snyder (2019) positions the literature review as a research method for identifying, evaluating, and synthesising knowledge developed within a field.

3.2. Sample and Data Collection

The unit of analysis consists of scientific documents and publications relevant to the research topic. The identification and selection process yielded 21 sources meeting the relevance criteria regarding M&A, FDI, corporate sustainability, governance, human resources, and the Sri Lankan business context. The figure of 21 therefore refers to the number of sources forming the document sample, not to a research result. Information from each source was extracted by author, year of publication, title, publication outlet, research focus, method, and main findings. The reporting of the identification and selection process follows the PRISMA 2020 principles, which emphasise transparency in explaining

how studies are identified, selected, and synthesised (Page et al., 2021). The identity of the sources analysed is presented in Table 1.

Table 1. Identity of Journal Articles

No.	Title and Authors	Research Results
1	The Contribution of FDI and Financial Development on Economic Growth in Sri Lanka S. Maheswaranathan & K. M. N. Jeewanthi, International Journal of Engineering Technologies and Management Research, 8(1), 25–34, 2021	FDI has a positive long-term relationship with Sri Lanka's economic growth; a 1% increase in net FDI inflows raises GDP by about 0.826439%. In the short run, FDI, capital investment, and bank credit to the private sector have positive and significant effects on GDP.
2	The Impact of FDI on the Economic Growth of Sri Lanka: An ARDL Approach to Co-integration NPG Samantha & Liu Haiyun, International Journal of Innovation and Economic Development, 3(1), 70–82, 2017	FDI is positively correlated with economic growth in the short and long run, but the effect is not statistically significant. Sri Lanka needs to reform its FDI policy and increase greenfield investment, particularly in manufacturing.
3	Inward Foreign Direct Investment-Induced Technological Innovation in Sri Lanka? Empirical Evidence Using ARDL Approach	The coefficient of inward FDI on technological innovation is negative, whereas education and research and development (RDE) have positive and significant long-term effects. FDI alone is not sufficient to increase Sri Lanka's domestic technological innovation capacity.
4	Corporate Governance from Colonial Ceylon to Post-Civil War Sri Lanka Kamil K. Nazliben, Luc Renneboog, & Emil Uduwalage, Journal of Management and Governance, 28, 265–335, 2024	Sri Lankan companies face governance problems, particularly conflicts between majority and minority shareholders, weak creditor protection, political connections, and window dressing in ESG disclosure. Social factors, cultural norms, and ethical values also shape corporate governance practices.
5	Impacts of Mergers and Acquisitions on Supply Chains of Sri Lanka Praneeth Dissanayaka & Pradeepa Jayaratne, R4TLI Conference Proceedings, 2017	M&A brings benefits in the form of improved logistics control, product development, higher profits, relationships with suppliers and distributors, and market expansion. Obstacles include limited technology and financial resources, integration difficulties, management commitment, and employee resistance.
6	Factors Influencing Sustainability Reporting by Sri Lankan Companies Dinithi Dissanayake, Carol Tilt, & Wei Qian, Pacific Accounting Review, 31(1), 2019	Firm size and use of GRI guidelines are the characteristics most relevant to the level of sustainability reporting; large companies and GRI users tend to report more extensively, while ownership and industry sector show no strong influence.
7	A Technology Acceptance Model Extension of ERP Use in Sri Lanka's Pharmaceutical Industry Wasantha Rajapakshe & Sakila Romesh, International Journal of Pharmaceutical and Healthcare Marketing, 2026	Real-time reporting capabilities and regulatory compliance are the strongest positive predictors of decision-making effectiveness, and ease of use also has a positive effect. Industry-specific requirements have a negative effect, while user requirements and preferences are not significant. The model explains 82.5% of the variation in decision-making effectiveness.
8	Correction: Enhancing Mergers and Acquisitions (M&A) Performance: Analyzing the Role of Human Resource Practices in Sri Lanka's Telecommunication Industry Through Lewin's Change Management Model S. H. N. Pubodhya & Wasantha Rajapakshe, PLOS One, 21(4), 2026	This source is a correction/republishing of the 2025 research article and therefore produces no new empirical findings; the findings used still refer to Pubodhya and Rajapakshe (2025).
9	Enhancing Mergers and Acquisitions (M&A) Performance: Analyzing the Role of Human Resource Practices in Sri Lanka's Telecommunication Industry Through Lewin's Change Management Model S. H. N. Pubodhya & Wasantha Rajapakshe, PLOS One, 20(1), 2025	Communication positively affects training, while training positively affects leadership. Leadership and training positively affect M&A performance. Communication has no significant direct effect on M&A performance but an indirect effect through training and leadership. The model explains 72% of the variation in M&A performance.
10	Uncertainty, Institutional Quality and Strategic Commitment: US MNEs' Sequential Acquisitions in Emerging Economies Kantatouj Amaranonta, Asda Chintakananda, & Amonrat Thounrungraje, International Journal of Emerging Markets	Demand and political uncertainty in host countries have non-monotonic effects on sequential acquisition decisions. Regulatory efficiency moderates the effect of political uncertainty on staged acquisition decisions, whereas property rights protection does not.

No.	Title and Authors	Research Results
11	The Effect of Cross-Border Mergers & Acquisitions as a Driver of Better Corporate Sustainability Practices: A Study on the Post-Acquisition Context of Selected Target Firms from Sri Lanka and Sweden Buddhini Erosha Jayasinghe & Farjana Rifat, Master's Degree Project in International Business & Trade, 2023	M&A driven by strategic growth objectives has a greater influence on targets' post-acquisition sustainability practices. The sustainability orientation of the acquirer and the acquirer's home country also positively affect Corporate Sustainability Practices.
12	An Expert Discussion on the M&A Framework in Sri Lanka Shehara Varia & Praveeni Algama, Mergers & Acquisitions Expert Guide 2024, Corporate LiveWire	Sri Lanka's M&A framework is shaped by the Companies Act No. 7 of 2007, the SEC Act, the Takeovers and Mergers Code, the Colombo Stock Exchange Listing Rules, the Foreign Exchange Act, and sectoral regulations. Cross-border transactions face restrictions in certain sectors, and large transactions may require shareholder approval.
13	Cross-Border Mergers and Acquisitions in the Construction Industry: Structural Characteristics and Formation Mechanisms of the Inter-Regional Network Menglei Wu & Dongping Cao, Engineering, Construction, and Architectural Management	The cross-border M&A network has a scale-free and community-based structure. Cultural, political, geographical, and economic factors influence M&A ties. Short-term market-seeking and efficiency-seeking motives dominate over motives of long-term market access and technological assets.
14	Corporate Sustainability: A Comparative Analysis of Pre- and Post-COVID-19 Practices in Sri Lanka Dissanayake, H., Dissabandara, H., Ajward, R., & Perera, W., Dunakavics, 2025	COVID-19 affected the sustainability practices of Sri Lankan companies. Climate change mitigation initiatives and green energy use declined, while on the social side work flexibility decreased but collaboration with NGOs increased. Financial investment in sustainability activities also declined.
15	Review of Mergers & Acquisition Cases in Sri Lanka Lye, R. M., Sri Lanka Journal of Marketing, 8, Special Issue, 2022	M&A can support growth, market control, and shareholder wealth but involves high complexity and risk. Empirically, most M&A fails to achieve the expected results, so companies need clear objectives and a strong integration strategy.
16	Redefining FDI-Growth Relationship Under Liberalized Economic Policies: Empirical Evidence from Sri Lanka Fernando, P. J. S. & Rajapakshe, D. P., Sri Lankan Journal of Business Economics, 7, 2018	FDI has a positive effect on economic growth in both the short and long run, but its contribution remains far lower than that of domestic investment. Market liberalisation is needed to strengthen the FDI-growth relationship but is not sufficient because other socio-economic factors also play a role.
17	Sri Lanka's Strength as an International Industrial Location: A Theoretical Examination Rajaratne, M. & Tennekoon, P. W., Sri Lankan Journal of Business Economics, 7, 2018	Sri Lanka has only reached the early part of Stage II of the Investment Development Path, which is associated with low FDI and limited location-specific created assets. Infrastructure, workforce skills, industrial structure, political stability, industrial relations, economic policy, and governance hinder its attractiveness to international investment.
18	Factors Affecting Foreign Direct Investments: Evidence from Sri Lanka H. Y. Karunaratne, Wayamba Journal of Management, 14(1), 2023	External debt negatively affects FDI in the short run, while trade openness has a positive effect. Communication infrastructure has a positive and significant long-run effect on FDI. The political rights index is significant in the short run, whereas GDP growth and inflation are not significant. The civil war period of 1983–2009 had a significant effect on FDI.
19	Corporate Social Responsibility and Firm Performance: Evidence from Manufacturing Companies in Sri Lanka Kengatharan, L., Jeyan Suganya, D. F., & Sulochani, R. G. R., International Journal of Accounting & Business Finance, 6(1), 2020	Economic, social, and environmental CSR activities have negative and significant effects on firm performance measured by Tobin's Q, with coefficients of -0.176, -0.288, and -0.349, respectively. Firm size and financial leverage show no significant effect.
20	The Relationship between Foreign Direct Investment and Inflation: Econometric Analysis and Forecasts in the Case of Sri Lanka A. M. M. Mustafa, Journal of Politics and Law, 12(2), 2019	There is a significant long-run relationship between FDI and inflation in Sri Lanka. The relationship is negative, with an FDI coefficient of -0.102477, so increases in FDI are associated with lower inflation. There is unidirectional causality from FDI to inflation.

No.	Title and Authors	Research Results
21	Impact of Capital Structure Dynamics on Acquirers' Post M&A Performance: Evidence from a Frontier Market Gooneratne, D. W. & Buvanendra, S., International Journal of Accounting & Business Finance, 11(1), 2025	Based on 630 firm-year observations from 90 acquiring firms in Sri Lanka, changes in leverage have a negative and significant relationship with post-M&A financial performance. Leverage deficit is positively and significantly related to performance, while the equity multiplier is negatively and significantly related. Higher post-M&A leverage can raise the cost of debt, reducing performance and shareholder value.

Source: Previous research collected (2026)

3.3. Data Analysis

The analysis was conducted thematically by comparing and grouping the findings of the 21 sources according to the main research themes: M&A, FDI, corporate sustainability, governance, human resources, and institutional factors. The results for each group were then compared to identify similarities, differences, and research gaps, and this synthesis was used to answer the formulated research focus. A limitation of this method is that the findings depend on the quality and coverage of the available literature and do not produce new statistical tests.

Table 2. Synthesis of the 21 Sources Analysed

No.	Authors (Year)	Research Focus	Main Findings
1	Maheswaranathan & Jeewanthi (2021)	FDI and economic growth	FDI is positively related to long-term economic growth.
2	Samantha & Liu (2017)	FDI and economic growth	FDI is positively related to growth, but not statistically significantly.
3	Adikari et al. (2021)	FDI and technological innovation	FDI is not yet sufficient to raise domestic technological innovation.
4	Nazliben et al. (2024)	Corporate governance	Shareholder conflicts, political connections, and ESG disclosure problems are identified.
5	Dissanayaka & Jayaratne (2017)	M&A and supply chains	M&A can improve logistics, product development, profits, supplier relationships, and markets.
6	Dissanayake et al. (2019)	Sustainability reporting	Firm size and GRI use are related to the extent of sustainability reporting.
7	Rajapakshe & Romesh (2026)	ERP and decision-making	Real-time reporting and regulatory compliance support decision-making effectiveness.
8	Pubodhya & Rajapakshe (2026)	M&A and HR	A correction notice referring to the 2025 M&A study.
9	Pubodhya & Rajapakshe (2025)	M&A and HR	Training and leadership positively affect M&A performance.
10	Amaranonta et al. (2026)	M&A and institutions	Political and demand uncertainty affect acquisition decisions.
11	Jayasinghe & Rifat (2023)	M&A and sustainability	Strategic M&A and the acquirer's sustainability orientation support CSP.
12	Varia & Algama (2024)	M&A regulation	The regulatory framework governs M&A and cross-border transactions.
13	Wu & Cao (2026)	Cross-border M&A	Market-seeking and efficiency-seeking motives dominate.
14	Dissanayake et al. (2025)	Corporate sustainability	The pandemic affected corporate sustainability practices.
15	Lye (2022)	M&A cases	M&A can increase growth and market control but carries high risk.
16	Fernando & Rajapakshe (2018)	FDI and growth	FDI has a positive effect on growth, but its contribution is lower than that of domestic investment.
17	Rajaratne & Tennekoon (2018)	FDI attractiveness	Infrastructure, labour, politics, policy, and governance affect investment.
18	Karunaratne (2023)	Determinants of FDI	Communication infrastructure and trade openness support FDI.
19	Kengatharan et al. (2020)	CSR and firm performance	Economic, social, and environmental CSR activities are negatively related to Tobin's Q.
20	Mustafa (2019)	FDI and inflation	FDI has a negative long-run relationship with inflation.
21	Gooneratne & Buvanendra (2025)	M&A and capital structure	Increased leverage after M&A is associated with lower financial performance.

Source: Compiled from the 21 sources analysed (2026).

Based on the literature selection process, this study uses 21 sources as the secondary data analysed. These sources discuss M&A, FDI, corporate sustainability, governance, human resources,

technology, and institutional factors related to business activity in Sri Lanka. The identity and main findings of the 21 sources are presented in [Table 2](#).

[Table 2](#) shows that the literature analysed has diverse foci but can be grouped into several main categories. The first is M&A and corporate integration, covering research on supply chains, human resources, acquisition strategy, regulation, cross-border transactions, M&A cases, and capital structure. The second is FDI and economic development, covering economic growth, technological innovation, inflation, investment attractiveness, and FDI determinants. The third is sustainability and corporate governance, covering sustainability reporting, CSR, corporate sustainability, governance, and ESG disclosure. The fourth is supporting technology and infrastructure, relating to ERP use and decision-making effectiveness. This categorisation shows that M&A, FDI, and corporate sustainability in Sri Lanka are shaped by a combination of internal corporate factors and external institutional factors.

4. RESULTS AND DISCUSSION

4.1. Results

4.1.1. M&A and Corporate Integration

The synthesis shows that M&A can benefit market expansion, supply chains, product development, and firm performance, but these benefits depend heavily on successful integration. M&A can improve logistics control, product development, profits, relationships with suppliers and distributors, and market expansion in Sri Lanka ([Dissanayaka & Jayaratne, 2017](#)). A review of M&A cases in Sri Lanka also shows that such transactions can increase growth and market control but involve high complexity and risk, requiring clear transaction objectives and integration strategies ([Lye, 2022](#)).

Human resources are an important aspect of successful M&A integration. Communication, training, and leadership help build organisational capacity to cope with change after M&A, with training and leadership showing positive relationships with M&A performance ([Pubodhya & Rajapakshe, 2025](#)). In addition, a company's financial condition can affect post-acquisition results, as increased leverage after M&A is associated with lower financial performance of acquirers ([Gooneratne & Buvanendra, 2025](#)).

From a strategic perspective, M&A does not always have the same effect on corporate sustainability. M&A driven by strategic growth objectives and undertaken by sustainability-oriented acquirers is better able to support the target's sustainability practices ([Jayasinghe & Rifat, 2023](#)). Cross-border acquisition decisions are also influenced by political and demand uncertainty in host countries, with regulatory efficiency affecting staged acquisition decisions ([Amaranonta et al., 2026](#)). Sri Lanka's M&A regulatory framework further includes various company, capital market, and cross-border transaction provisions that must be observed ([Varia & Algama, 2024](#)).

4.1.2. FDI and Economic Development

The synthesis of the FDI literature shows a positive relationship between foreign investment and Sri Lanka's economic development, but its strength is inconsistent. FDI has a positive long-term relationship with Sri Lanka's economic growth, while capital investment and private-sector credit also contribute to growth in the short run ([Maheswaranathan & Jeewanthi, 2021](#)). Another study shows a positive relationship between FDI and economic growth in both the short and long run, although it is not statistically significant ([Samantha & Liu, 2017](#)).

A positive relationship is also found in research on liberal economic policies, although FDI's contribution remains lower than that of domestic investment ([Fernando & Rajapakshe, 2018](#)). Foreign investment therefore cannot be regarded as the sole determinant of Sri Lanka's economic development. The effects of FDI are also visible in innovation and macroeconomic conditions. FDI has not been sufficient to raise Sri Lanka's domestic technological innovation, whereas education and research and development have positive long-term effects ([Adikari et al., 2021](#)). Trade openness and communication infrastructure support FDI inflows, while external debt and political factors influence investment decisions ([Karunaratne, 2023](#)). FDI also has a negative long-run relationship with inflation in Sri Lanka ([Mustafa, 2019](#)).

4.1.3. Sustainability, Governance, and Supporting Factors

The synthesis shows that corporate sustainability practices in Sri Lanka are related to firm characteristics, reporting mechanisms, governance conditions, and changes in the business environment. Firm size and use of the GRI guidelines are characteristics related to the level of

sustainability reporting among Sri Lankan companies (Dissanayake et al., 2019). However, CSR activities do not always produce positive financial effects, as economic, social, and environmental CSR activities have been found to have significant negative relationships with Tobin's Q among Sri Lankan manufacturing companies (Kengatharan et al., 2020). Governance is also an important aspect of corporate sustainability practice. Problems such as conflicts between majority and minority shareholders, weak creditor protection, political connections, and window dressing in ESG disclosure reveal structural governance challenges among Sri Lankan companies (Nazliben et al., 2024). In addition, the COVID-19 pandemic affected corporate sustainability practices through reductions in climate change mitigation activities, green energy use, and financial investment in sustainability (Dissanayake et al., 2025).

Information technology can support corporate management and decision-making. Real-time reporting capabilities and regulatory compliance are important predictors of decision-making effectiveness in Sri Lankan pharmaceutical companies (Rajapakshe & Romesh, 2026), indicating that a company's information capacity can support the management of business activities and decision-making processes.

4.2. Discussion

The results show that the effect of M&A on corporate sustainability in Sri Lanka is conditional rather than automatic. M&A can bring benefits through market expansion, stronger supply chains, product development, and enhanced organisational capabilities, but this success depends on the company's ability to manage post-transaction integration (Dissanayake & Jayaratne, 2017; Lye, 2022). Strategic orientation is also an important differentiator, as M&A aimed at strategic growth and undertaken by sustainability-oriented companies is more likely to improve the target's sustainability practices (Jayasinghe & Rifat, 2023).

The success of M&A integration is further influenced by human resources and the company's financial condition. Training and leadership support M&A performance, so the integration process requires structured change management (Pubodhya & Rajapakshe, 2025). At the same time, increased leverage after an acquisition can reduce financial performance, so financial pressure may limit the company's ability to sustain long-term investment (Gooneratne & Buvanendra, 2025). Achieving post-M&A sustainability therefore requires a balance between strategic goals, people management, and financial capacity.

With regard to FDI, the results show that foreign investment can support Sri Lanka's economic growth, but its benefits are not always consistent and do not automatically increase domestic capacity. A positive relationship between FDI and growth is found in several studies, but there are also statistically insignificant results and evidence that FDI's contribution is lower than that of domestic investment (Maheswaranathan & Jeewanthi, 2021; Samantha & Liu, 2017; Fernando & Rajapakshe, 2018). FDI has also not been sufficient to raise domestic technological innovation, so the benefits of foreign investment depend heavily on the domestic economy's ability to absorb knowledge and technology (Adikari et al., 2021).

Institutional quality is an important factor in explaining these conditions. Infrastructure, trade openness, political stability, economic policy, labour, and governance affect the attractiveness and effectiveness of foreign investment in Sri Lanka (Karunaratne, 2023; Rajaratne & Tennekoon, 2018). In cross-border acquisitions, regulatory efficiency can also influence how companies respond to political uncertainty in host countries (Amaranonta et al., 2026). The success of FDI and international business activity is therefore determined not only by the amount of capital inflow but also by the quality of the institutional environment and domestic capacity to manage investment.

With respect to sustainability, the results show that corporate practices also face challenges related to governance and reporting capacity. GRI use and firm size are related to the extent of sustainability reporting, while governance problems such as shareholder conflicts, political connections, and ESG disclosure hinder improvements in the quality of sustainability practices (Dissanayake et al., 2019; Nazliben et al., 2024). The impact of the pandemic also shows that sustainability commitments can come under pressure when companies face external shocks (Dissanayake et al., 2025).

Overall, the synthesis of the 21 sources shows that the relationships among M&A, FDI, and corporate sustainability in Sri Lanka are multidimensional. M&A is influenced by transaction strategy, HR integration, capital structure, and regulation, while FDI is influenced by economic growth, innovation, trade openness, infrastructure, and institutional conditions. At the same time, sustainability practices are shaped by reporting, governance, CSR, technology, and companies' ability to cope with changes in the business environment. Corporate sustainability in Sri Lanka therefore cannot be explained solely

by the volume of M&A or FDI activity but must be understood through the interaction between internal corporate factors and the institutional conditions that shape the business environment.

5. CONCLUSION

The synthesis of 21 sources shows that M&A and FDI affect corporate sustainability in Sri Lanka through four layers: transaction motives, operational dynamics (human resources and capital structure), the structural governance context, and macro-institutional quality. Strategic, well-managed M&A by sustainability-oriented acquirers can improve CSP, although such success is constrained by existing governance weaknesses in Sri Lanka.

5.1. Implications

From a managerial perspective, M&A due diligence should assess strategic versus financial motives, sustainability orientation, the acquirer's home country, the type of integration planned, and the effect of capital structure changes on long-term sustainability investment. Regulators such as the SEC and the Board of Investment should strengthen protection against agency problems and ESG window dressing, encourage the adoption of global reporting frameworks (GRI), and enhance domestic absorptive capacity.

5.2. Limitations

This study is limited by its reliance on a synthesis of secondary literature without new statistical testing. Findings from qualitative studies with small samples must be generalised with caution. In addition, four of the 21 sources do not originate from Sri Lanka, so their application is analogical. Future research is encouraged to use large-scale quantitative surveys or panel analyses combining CSP, capital structure, and governance quality indicators for Sri Lankan companies that have undergone M&A.

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Abbreviations

M&A = Mergers and Acquisitions;
 FDI = Foreign Direct Investment;
 ESG = Environmental, Social, and Governance;
 CSP = Corporate Sustainability Practices;
 ARDL = Autoregressive Distributed Lag;
 GMM = Generalized Method of Moments;
 SEM = Structural Equation Modeling;
 TBL = Triple Bottom Line;
 RBV = Resource-Based View;
 GRI = Global Reporting Initiative.

Authors' contribution

RM contributed to the introduction, including the background and research focus. MFM prepared the literature review by examining relevant concepts and previous research. JBN was responsible for the research method, including the research design, source selection, data collection, and analysis techniques. BAE prepared the results and discussion and synthesised the findings from the literature. KPS prepared the conclusion, implications, and limitations. JP is responsible for revisions and final writing. All authors contributed input to the drafting and refinement of the article and approved the final manuscript.

Conflict of Interest

The authors declare that there are no financial or non-financial interests that could influence the preparation and results of this research, and therefore have no conflict of interest.

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