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IMPACT OF CORPORATE SOCIAL RESPONSIBILITY (CSR) ON FIRM PERFORMANCE IN SRI LANKAN LISTED COMPANIES

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ABSTRACT

Corporate social responsibility and Firm Performance is continuing discussion encountered by most of the commercial organizations. This study investigates the of economic, social and environmental disclosure and Firm Performance of listed companies in Sri Lanka. Thus, 30 listed companies with sustainability reporting are selected for the analysis purpose and all these companies follow the Global Reporting Initiative (GRI) guidelines. This study collected secondary data from the yearly reports, both from the financial section and sustainability reporting. Corporate social responsibilities variables are economic, social and environmental. Firm performance is measured by Tobin'sq and ROA. Statistical analysis purposes have conducted regression and correlation analysis. The findings show economic and social disclosures significant impact on tobin'sq. No significant relationship was identified between economic and social disclosure on ROA and association was recorded between economic and social disclosure and Tobin's Q. It is recommended to increase the disclosure of sustainability information of the CSE Listed companies in the future to arrive at a valuable finding. A future effort may intricate additional in making extra active quantity of the promotional of the firm social visions and actions that would encompass actual investors responses, not only contestants as the case in Fortune index, but also other stakeholders such as government, clients, suppliers, and non-governmental organizations.

Keywords: CSR, Economic, Environmental, Social, Return on assets.

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1. Introduction

CSR is which has recently focused among the worldwide economy and it has basically curtailed from the globalization of businesses and worldwide trade (Jamali and Mirshak, 2007). In the 21st century, maximizing the shareholders' wealth alone will not be sufficient to sustain and grow in the market as fulfilling stakeholders' interests are becoming crucial. Stakeholders demand a fair and transparent report to make future decisions as financial reports alone fail to provide a full picture of how well an entity is performing and this covers the way for sustainability disclosure.

Recent financial scandals like Enron and WorldCom have forced the corporate entities across the globe to formulate a broader strategy than being focused on the stockholder's wealth maximization (Becchetti et al., 2012).

In the dynamic business environment, entities are raising their interests toward the term "CSR Reporting" as they realize the real-world benefits of engaging in sustainable activities and in preparing the sustainability reports. Those benefits include increased public visibility as the public are frequently informed about the entity via media and this would strengthen the brand reputation while motivating the existing employees and encouraging new talents to enter the organization. Moreover, when an entity is positively perceived by the entire society, it acts as a competitive advantage over the rivals. Sustainability reports prepared by the organizations should be fair, transparent, and trustworthy which includes both positive and negative aspects of its sustainability performance to provide accurate information to the stakeholders.

Sooriyaarachchi, (2018) identified that companies have augmented of CSR the amount and the excellence of their sustainability exposes completed time. Even though this, there is a break among the present countrywide of sustainability explanation and predictable public of sustainability commentary in the Sri Lankan situation Therefore, it is obvious that the concept of sustainability reporting is intensely focused among the corporate sectors and it is rapidly evolving over the years.

Research Problem

Many studies have been directed by examining the CSR and other corporate performance attributes. However, several studies are based on established countries like European countries, Singapore, UK, and USA and very few studies can be found in relation to developing countries, and with regard to Sri Lanka not enough study has been done by the researchers (Jariya, 2015).

Developed nations have identified the benefits of preparing the CSR as numerous research have been carried out to inspect the association between CSR and firm performance (Gray et al., 1995; Campbell, 2000). On the other hand, developing countries are still in an infant level in such studies and hence they do not get the chance to recognize the benefits from CSR reporting. Therefore, researchers are interested more in investigating the CSR studies in recent years (Tilakasiri, 2012).

There is absence of investigation indication in Sri Lanka in relation to CSR, hence there is a research gap to be filled and a huge gap was identified between the expected levels of CSR actual level. Wijesinghe and Senaratne, (2011) identified the need to create consciousness between the companies and the community concerning the importance and advantages of producing sustainability reports.

Sri Lankan perspective, most of previous studies mainly focused on specific sectors of Colombo Stock Exchange (CSE) such as finance sector and manufacturing sector (Abeysinghe and Basnayake, 2015; Niresh and Silva, 2018; De Silva, 2018: Kengatharan et al., 2020) and not enough studies are available for the rest of the "Stand-Alone" sectors. Focusing on specific sectors limited the sample size in a narrower range. Therefore, the main motive of this research paper is to bridge the above-mentioned research gap and to enhance the awareness about the benefits and importance of the small and extended run not only amid the corporate executives but also to the stakeholders in Sri Lanka. Based on that the following questions are constructed to find the answers for the problem statement.

Is there an impact of Economic, Environmental and Social Disclosure on Firm Performance of CSE listed companies in Sri Lanka?

Research Objectives

- To identify the impact of Economic, Environmental and Social Disclosure CSR on Firm Performance of CSE listed companies in Sri Lanka.
- To evaluate the association between Economic, Environmental and Social Disclosure CSR and Firm Performance of CSE listed companies in Sri Lanka.

2. Literature Review

Corporate Social Responsibility (CSR) is an exact prominent subject in the present uncertain financial context. Further, this analytical study aims at capturing the existing position of CSR awareness, responsibility, and the stages of concert in the tea manufacturing corporations in Sri Lanka as well as determining the inspiration of the company's CSR on the social and economic aspects of smallholders and employees. Moreover, this study provides the impacts of company's CSR actions and the domestic and smallholder abilities, and the CSR awareness related to the tea industries. In this way, there prevails an optimistic correlation among the CSR ranks of the tea manufacturing company and the smallholders' and employers' socio-economic situation.

Elkington, (1998) the Triple bottom line model integrates the three aspects of economic, social, and environmental dimensions of sustainability and the inter-connection among them. This model aims to go beyond the shareholder wealth maximization to fulfilling societal and environmental aspects used to explain how the changes in the reliant variable were clarified by the autonomous variables in their study of the association between sustainability and financial concert (Ruf et al., (2001). According to the findings, sustainability concert has a optimistic outcome on monetary performance. As a outcome, the study supported of stakeholder theory by emphasizing that when stakeholders" expectations are met, shareholders gain economically as well.

Developing a clear understanding about a company's economic effects on the company's operations is an element of economic disclosure in CSR. For many years, economic disclosure of sustainability reporting has been an overlooked section where much attention was not paid into and hence it was misunderstood by many corporate bodies. The economic dimension was considered as similar to financial aspect of a company by including merely the financial figures like assets and liabilities. However, economic aspect of sustainability takes a broader view by including both direct and indirect economic activities which are relevant to stakeholders (Uddin, Hassan and Tarique, 2008).

Mobus, (2005) studied the effect of mandatory ecological performance disclosure on ecological regulatory performance using refining firms as a sample in the United States. The findings revealed that failure to comply with mandatory disclosure resulted in legal sanctions and penalties. Companies would disclose more environmental regulatory compliances, and thus legitimacy theory provides an explanation for the companies' immediate reaction after being fined for noncompliance.

According to agency theory, sustainability disclosure of an entity's key social and environmental aspects has a optimistic influence on agency cost in the form of condensed agency cost to the entity in relation to legislation and regulation. As a result, profitability will increase, ultimately increasing market value (Tagesson, Blank, Broberg and Collin, 2009).Environmental dimension of sustainability reporting is based on resource-based view where natural resources are to be protected and efforts should be taken to preserve and protect the environment.

Tilakasiri, (2012), investigated the association between sustainability reporting and company performance by developing a Corporate Social Responsibility framework as there were no such frameworks at that time in Sri Lanka. The results exposed optimistic association between sustainability reporting and firm performance emphasizing that sustainability reports play a important part in enticing and maintaining the stakeholder’s assurance to companies.

Madurasinghe and Jahfer, (2016) analytically examined the impact of sustainability reporting on financial performance among the ten selected banks in Sri Lanka over seven years period. Content analysis based on word counting method was charity to quantity the independent variable of sustainability reporting. The regression examination showed a positive impact of sustainability on ROA.
Kengatharan et al., (2020) said that a study to interpret the impact of CSR disclosures on Tobin’s Q and the study was conducted by using secondary data from 31 listed manufacturing companies in Sri Lanka. As per the regression analysis, each dimensions of sustainability had a negative impact on Tobin’s Q. The researcher noted that sustainability practices would attract future customers toward their firm, and this could ultimately increase firm value and the wealth of shareholders. The researcher remarked that including sustainability practices into entity’s core operation adds cost to the firm and thus it results in reduction in firm performance.

The researcher recommended all companies to disclose sustainability information to enhance the quality of reporting in Sri Lanka. The researcher further added a point that the reason for such low-level disclosure of sustainability reports is the non-existence have not yet developed any specific disclosure standard for such area.

3. Research Methodology

Therefore, the data was collected from annual audited reports published by CSE Sri Lanka. Since the data are collected from a source which has already undergone a statistical process for another purpose, it is called as secondary data. Tilt, (1994) pointed out that as per previous studies, information contained in annual reports have a higher credibility. Five years consequent data are collected starting from 2015 to 2019. This study incorporates all the sectors listed in CSE website, however, data for the 30 companies representing 10 sectors were selected for the study. The independent variables are social, environmental and economic disclosure. The dependent variables are ROA and Tobin's Q.

Conceptual Framework

The following figure illustrates the conceptual framework has been established by the researcher seeing the existing theories and research for the study

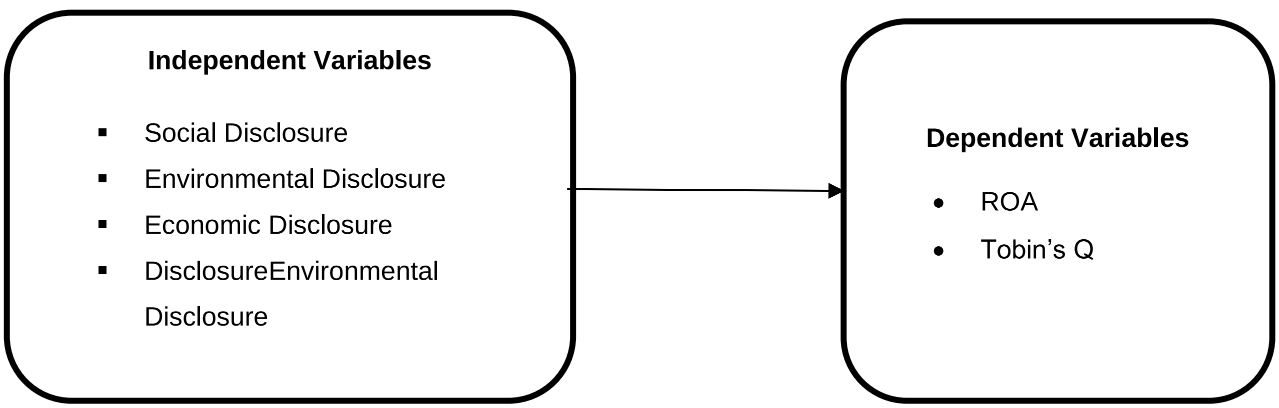

Figure 1: Conceptual Framework

Development of Hypotheses

The based on the objectives the researcher were developed the succeeding hypotheses.

H_1: Economic, Environmental and Social Disclosure has a significant impact on ROA

H_2: Economic, Environmental and Social Disclosure has a significant impact on Tobin's Q

H_3: There is a significant relationship between Economic, Environmental and Social Disclosure CSR and Firm performance

Model Specification

The study follows the panel model specification for the purpose of estimating whether CSR has an impact on the Firm performance.

Based on above developed hypotheses, the exact models can be tested.

$ROA_{it} = \beta_0 + \beta_1 ECO_{it} + \beta_2 ENV_{it} + \beta_3 SOC_{it}\ \varepsilon_{it}$ ……………………………………Model 01

$TOB_{it} = \beta_0 + \beta_1 ECO_{it} + \beta_2 ENV_{it} + \beta_3 SOC_{it} + \varepsilon_{it}$ ……………………………………Model 02

Where:

ECO : Economic Disclosure

ENV : Environmental Disclosure

SOC : Social Disclosure

ROA : Return on Equity

TOB : Tobin's Q

β_0 : Intercept of the Regression

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$: Co-efficient of variables

ε : Error Term

4. Analysis and Conclusion

This paper presents a comprehensive discussion about the analysis and hypotheses testing in an attempts to achieve the research objectives.

Unit Root Test

The Augmented Dickey-Fuller (ADF) test was used to recognize whether each variable encompassed in the study has a unit root or not. If unit root was present, it shows that there could be a possibility for the presence of a long-term association among the data set. The unit root test was conducted in E-views version 08 software for the stationary.

Each variable was tested for a unit root test using The Augmented Dickey-Fuller (ADF) Test. The alternative hypotheses were supported for all the variables, indicating that they are stationary.

Table 1: Unit Root Test Summary

Variables	t-Statistic	Prob*
ECO	6.3456	0.0000
ENV	5.9878	0.0000
SOC	6.8732	0.0000
ROA	7.5671	0.0000
TOB	3.4523	0.0000

(Source: Results of EViews 8)

Pearson Correlation Analysis

Correlation analysis measures the relationship or association among the variables and not the cause-and-effect relationships among the variables Taylor, (1990). The table 3, shows the forte and way of relationship among the independent and dependent variables considered for the study.

Table 2: Correlation Analysis

	ECON	ENVI	SOCI	ROA	TOB
ECON	1.00				
ENVI	0.5609 0.0000	1.00			
SOCI	0.5120 0.0000	0.4879 0.0000	1.00		
ROA	-0.0896 0.2457	-0.0579 0.0302*	-0.0217 0.5427	1.00	
TOB	0.2256 0.0301*	0.0689 0.2123	0.1428 0.0071*	0.0341 0.0000	1.00

(Source: Results of EViews 8)

Table 2 provides correlation analysis was used to find the relationship among corporate social responsibility and firm performance of the companies. The study found that economic and social are negatively correlated with firm performance ratios via return on assets. The above table portrays that there is a negative and weak association between environmental disclosure and ROA with significant p-value of 0.0.302. It denotes that economic disclosure has significant relationship with ROA. The findings of Thayaraj and Karunarathne, (2021), where the relationship among the variables was positive and significant.

Economic and social disclosure is positively correlated with Tobin'sq. The nature of relationship was significant with p-value of 0.0301 and 0.0071 this depicts that there is a significant optimistic association between the two variables. This indicates that disclosing sustainability information incurs some cost to the firm and thus the firm Tobin's Q could reduce. Further, environmental disclosure has recorded a negative and weak relationship with Tobin's Q with the insignificant p-value of 0.2123. This denotes that there are no significant association between the two variables. Cormier and Magnan, (2007), revealed the similar findings and highlighted that certain costs including research and development, product and process innovation, ecological efficiency and training and development are incurred in disclosing sustainability reports.

Multi Collinearity Test

VIF procedures how much the adjustment of an autonomous variable is influenced by its collaboration with other autonomous variables. This study utilized Variance Inflation Factor (VIF) Test to investigate if the problem of multicollinearity exists in the study. Bowerman and O'connell, (1990) generally, VIF value of above 10 can be an indicator of serious problem.The Multi Collinearity test results are as follows.

Table 3: Multi Collinearity Test

Variance Inflation Factors	
Variable	**Centered VIF**
ECON	1.971087
ENVI	2.070564
SOCI	2.280238

(Source: Results of EViews 8)

The above Table 3 signifies that there is no strong evidence of multicollinearity among the variables used in this study as the VIF centered values are less than 10. In this regard, regression analysis can be conducted.

Regression Analysis

Linear Regression model is used to examine the impact of, economic disclosure, environmental disclosure and social disclosure CSR on firm performance indicated as Return on Assets and Tobin's Q.

Table 4: Regression Analysis of ROA

Dependent Vari: ROA				
Vari	**Coeff**	**Std. Err**	**t-Stati**	**Proba.**
C	0.1256	0.012567	8.34567	0.0000
ECON	-0.003451	0.023451	-0.34567	0.2345
ENVI	0.005453	0.017543	1.7894	0.0453
SOCI	-1.5430	0.02187	0.13245	0.3421
R-squ	0.20678	Durbin-Watson stat		1.6721
Adjusted R-squ	0.18465			
F-stati	13.7856			
Pro(F-stati)	0.00000			

(Source: Results of EViews 8)

The above Table 4 indicates regression results. The economic and social disclosure P-value for this is greater than 0.05. From these results, the researcher concludes that there is an impact of economic and social disclosure on the return on assets. According to the table, the adjusted R^2 value is 0.18465 with a p value of 0.0000, which is less than 0.05. It shows that there is a significant impact of CSR variables on ROA. CSR variables have an adjusted R^2 of 18.46% influence on ROA. It also shows that there is an 81.54 percent variance in ROA. Durbin Watson's t-statistic shows a value of 1.6721, which is near to two and implies no serial correlation. According to the coefficient estimation for environmental disclosure, CSR significantly predicted ROA as its p value was less than 0.05.

Table 5: Regression Analysis of Tobin's Q

Dependent Vari: Tobin's Q				
Vari	**Coeff**	**Std. Err**	**t-Stati**	**Proba.**
C	1.4356	0.08923	12.4568	0.02356
ECON	-0.002345	0.00345	-1.4567	0.0112
ENVI	0.007891	0.00245	0.67845	0.3592
SOCI	0.008675	0.00237	0.04532	0.0456
R-squa	0.31342	Durbin-Watson stat	1.7891	
Adjusted R-squa	0.30231			
F-stati	22.3451			
Prob(F-stati)	0.00000			

(Source: Results of EViews 8)

The above table 5 indicates regression results. Economic and social disclosure the P-value for this is less than 0.05. From these results, the researcher concludes that there is an impact of economic and social disclosure on tobin'sq. Therefore, hypothesis one is supported. According to the table, the adjusted R^2 value is 0.30231 with a p value of 0.0000, which is less than 0.05. It shows that there is a significant impact of CSR variables on Tobin'sq. Adjusted R^2 30.23 % of influence is created by CSR variables on tobin'sq. It also shows that there is 69.77 % of the variance in ROA. Durbin Watson stat shows a value of 1.7891 which is near to two implies a no serial correlation. According to the coefficient estimation for economic and social disclosure CSR is significantly predicted tobin'sq as its p value is less than 0.05.

5. Conclusion

The findings from the study have a significant contribution to society, and we intend to communicate the results to CSR and performance across the world. Social responsibility matters, and thus we have a very significant ethical responsibility and concern to style this significant influence in society. Firms can improvement stronger care when they are professed as socially accountable from the participants' observations. Firms can, certainly, produce more provision from stakeholders when they are seen as informally accountable by Maignan and Ferrell (2004). Further support for this idea is stated in (Mukherjee & He, 2008).They argued that firms can create competitive advantage by being socially responsible In context with Sri Lanka, this study contributes to filling the research gap identified earlier in this study. It includes integration of economic disclosure along with environmental and social aspects, adhering to the GRI framework to measure sustainability reporting, increasing the sample size, and broadening the sample selection to all the sectors in CSE, which is helpful for the upcoming studies in this area.

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