

A Study on the Relationship between Corporate Financial Performance and Corporate Social Responsibility

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Abstract

As responsible corporate citizens, all businesses should contribute to social development of the country. A questionnaire-based survey research was carried out and the questionnaire was posted to all the 235 listed companies under the Colombo Stock Exchange and 104 had responded. The median turnover was Rs. 505 million with a maximum of Rs. 21,079 million and a minimum of Rs. 62 million. In terms of years in existence, there are very young companies (age 3 years) as well as very old companies (age 100 years) with a median of 15 years. In terms of the number of employees, there were small companies (141 employees) and very big companies (23,000 employees) with a median of 380 employees. On average, the companies spend about 6.6% of their turnover on CSR related activities, including training, research and community work. However, sustainability/CSR reporting, environmental auditing and community liaisons are weak, with less than one-fourth of the companies having community liaison committees, reporting sustainability/CSR and conducting environmental auditing. CSR activities and financial performance show significant correlations only in few relationships. Only employee relations and customer/supplier relations show significant positive correlations with financial performance. In addition to these two, community relations also show a significant positive correlation with perceived benefits of CSR. When three financial indices are considered separately, it is evident that return on sales has the strongest correlations with CSR activities and the weakest correlation with return on equity.

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