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Migration, International Trade and Market Behaviour

Regional and Local Economic Development

The Impact of Corporate Social Responsibility on Firm Performance: Special Reference to Consumer Services Companies Listed on Colombo Stock Exchange

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INTRODUCTION

Corporate Social Responsibility (CSR) is a concept aimed at promoting sustainable development by delivering benefits across economic, social, and environmental dimensions. Despite its potential advantages for all stakeholders, there remains a lack of consensus in the literature regarding the relationship between CSR initiatives and the business performance of consumer services companies listed on the Colombo Stock Exchange (CSE). In light of this gap, this study seeks to explore how corporate social responsibility influences the financial performance of consumer services companies within the CSE.

Diverse businesses employ various approaches to CSR, with an increasing trend towards voluntary initiatives geared at mitigating negative societal and environmental impacts. The global interest in CSR is on the rise, particularly with the proliferation of multinational corporations operating on a worldwide scale. While profit-driven enterprises typically prioritize financial gains to augment their wealth, some may assume that the costs associated with CSR initiatives are externalized to agencies rather than internalized by the businesses themselves.

Contrary to this assumption, numerous previous studies have underscored the positive impact of corporate social responsibility on business performance. Scholars such as Reverte.C (2009) and Mubeen & Arooj (2014) have established a positive relationship between CSR and firm performance. However, a review by Margolis and Walsh (2003) examined 95 experimental studies and found that in 53% of cases, CSR was considered an independent variable with a positive relationship with firm performance. In 24% of cases, the relationship was neutral, and in 5% of cases, it was negative. Given these divergent findings, it is imperative to conduct a thorough analysis of the impact of Corporate Social Responsibility on the firm performance of listed consumer services companies on the CSE. This study aims to contribute valuable insights into this relationship, providing a more nuanced understanding of how CSR initiatives may affect the financial performance of businesses in the consumer services sector.
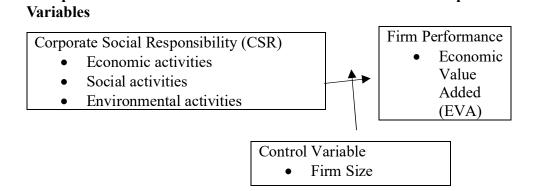
Companies that prioritize profit-making consistently aim to maximize earnings for wealth accumulation. Consequently, some businesses may perceive the expenses associated with Corporate Social Responsibility (CSR) initiatives as external costs. Despite occasional skepticism, a body of earlier research consistently reveals the influence of CSR on firm performance.

However, it's essential to recognize that a company's performance is intricately linked to its overall activities. While it is evident that CSR has some impact on a company's performance, there is a paucity of research investigating how CSR initiatives specifically affect the success of businesses in Sri Lanka. Therefore, the primary objective of this study is to explore the impact of CSR on the performance of consumer services companies listed on the Colombo Stock Exchange (CSE). Through this examination, the study aims to contribute valuable insights into the dynamics of CSR and its effects within the Sri Lankan business context.

1. METHODOLOGY
1.1 Conceptual Framework

Independent Variables   **Dependent Variables**

(Source: Developed by Researcher)

Population and sample

As of September 30, 2022, the Colombo Stock Exchange encompasses 294 companies spanning across 20 distinct business sectors. Notably, among these sectors, the focus of this study is on the consumer services sector. From this sector, a targeted sample of 29 consumer services companies listed on the Colombo Stock Exchange has been selected for further analysis. This specific subset of companies will serve as the basis for investigating the impact of Corporate Social Responsibility (CSR) on the financial performance of consumer services companies within the Colombo Stock Exchange.

Data Collection

The research exclusively relies on secondary data obtained from various sources. The primary data sources include the annual reports of the selected companies, covering a span of five financial years (2018, 2019, 2020, 2021, and 2022). The annual reports were accessed through the official website of the Colombo Stock Exchange, utilizing the available links for the specified years. Additionally, supplementary data and information have been gathered from the official websites of the sampled firms, along with various articles, papers, books, journals, and magazines.

It's noteworthy that the secondary data collection process prioritizes audited accounts, encompassing income statements and balance sheets of the concerned companies. This selection is based on the assumption that audited accounts provide a level of accuracy and reliability essential for the research objectives. Consequently, the researcher deems these data sources as reliable and accurate, forming a robust foundation for conducting the research.

DATA PRESENTATION AND ANALYSIS

Descriptive Statistic

Table 1: Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
EVA	145	.010	1.815	.40057	.377778
ECO	145	0	6	2.52	1.818
SOC	145	0	9	3.40	1.691
ENV	145	0	6	3.13	1.589
FS	145	8.597	11.936	9.71935	.598986
Valid N (list wise)	145				

The Economic Value Added (EVA) serves as the dependent variable in this study. Analyzing the provided table, authors find that the minimum EVA value is 0.010, while the maximum is 1.815. The standard deviation (SD) is 0.377778, and the mean EVA value is 0.40057. For economic activities, the range spans from a minimum value of 0 to a maximum value of 6, with a mean of 2.52 and a standard deviation of 1.818. Social activities exhibit a range from 0 to 9, with a mean of 3.40 and a standard deviation of 1.691. Environmental activities vary from 0 to 6, with a mean of 3.13 and a standard deviation of 1.589. Considering the control variable, firm size, the minimum value is 8.597, the maximum is 11.936, and the mean is 9.71935. The standard deviation for firm size is 0.598986. These statistical summaries provide a clear snapshot of the distribution and central tendencies of the

variables under consideration, laying the groundwork for further analysis in your study.

1.2 Correlation Analysis

Table 2: Correlation Analysis

		ECO	SOC	ENV	FS	EVA
ECO Pearson Correlation Sig. (2-tailed)		1 145	-.063 .664 145	.094 .413 145	.040 .753 145	-.031 .827 145
SOC Pearson Correlation Sig. (2-tailed)		-.063 .664 145	1 145	.077 .479 145	-.193* .046 145	.161 .111 145
ENV Pearson Correlation Sig. (2-tailed)		.094 .413 145	.077 .479 145	1 145	-.053 .649 145	-.192* .037 145
FS Pearson Correlation Sig. (2-tailed)		.040 .753 145	-.193* .046 145	-.053 .649 145	1 145	-.356** .000 145
EVA Pearson Correlation Sig. (2-tailed)		-.031 .827 145	.161 .111 145	-.192* .037 145	-.356** .000 145	1 145

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

The findings indicate certain correlations between variables: Firstly, the correlation between Economic Activities (ECO) and Economic Value Added (EVA) was statistically insignificant, as reflected by a Pearson correlation coefficient of -0.31. This suggests a negative and insignificant relationship between Economic Activities and EVA. Secondly, the correlation between Social Activities (SOC) and EVA was also statistically insignificant, with a Pearson correlation coefficient of 0.161, indicating a positive yet insignificant relationship between Social Activities and EVA. Thirdly, the correlation between Environmental Activities (ENV) and EVA was found to be statistically significant at the 0.05 level, with a Pearson correlation coefficient of -0.192. This suggests a negative and significant relationship between Environmental Activities and EVA. Lastly, the correlation between Firm Size and EVA demonstrated statistical significance at the 0.01 level, with a Pearson correlation coefficient of -0.356, indicating a negative and

significant relationship between Firm Size and EVA. These correlation results offer insights into the associations among the variables, emphasizing both significant and insignificant relationships that contribute to the overall understanding of the study's outcomes.

1.3 Regression analysis
1.3.1 Model summary

Table 3: Model summary

Model Summary					
Model			Adjusted	R Std. Error of the	
1	.520ᵃ	.271	.239	.252528	1.775
a. Predictors: (Constant), FS, ECO, ENV, SOC					

(Source-SPSS output)

Considering the value of R as 0.520, it can be inferred that there exists a positive linear correlation between Economic Value Added (EVA) and Economic (ECO), Environmental (ENV), Social (SOC), and Firm Size (FS) activities. The R square value of 0.271 indicates that 27.1% of the variability in EVA can be accounted for by the mentioned factors. However, it's noteworthy that approximately 72.9% of the variability in EVA is suggested to be influenced by other factors not included in the model. The Adjusted R Square, as per the table of model summary, is 0.239. Additionally, the Durbin-Watson statistics yielded a value of 1.775, falling between +1 and +3. This result suggests that the independence of observations has been satisfied, reinforcing the reliability of the study's data analysis.

ANOVA

Table 4: ANOVA

Model		Sum of	df	Mean Square	F	
1	Regression	2.478	5	.496	8.521	.000ᵇ
	Residual	6.706	115	.060		
	Total	9.183	120			
a. Dependent Variable: EVA						

The ANOVA table affirms the model's validity in examining the relationship between Economic Value Added (EVA) and the aggregate Corporate Social Responsibility (CSR) activities. The table reveals an F value of 8.521 with a significant value of 0.000. Consequently, at a 5% significance level, it can be statistically concluded ($p < .0005$) that there is evidence supporting the

acceptability of this model for analyzing the relationship between EVA and the overall CSR activities. The low p-value reinforces the significance of the model in elucidating the connection between Economic Value Added and the cumulative CSR initiatives.

1.3.2 Coefficient

Table 5: Coefficient

Coefficients						Collinearity Statistics	
Model	Unstandardized Coefficient B	Standardized Coefficients Std. Beta	Error	t	Sig.	Tolerance	VIF
1 (Constant) ECO	2.059 .009	.454 .014	.051	4.541 .618	.000 .538	.976	1.026
SOC	.002	.016	.006	.061	.952	.879	1.140
ENV	-.032	.016	-.166	-2.020	.046	.963	1.041
FS	-.187	.046	-.334	-4.087	.000	.963	1.041
a. Dependent Variable: EVA							

(Source-SPSS output)

Analyzing the table, we observe that the unstandardized coefficient, B1, for Economic Activities (ECO) is 0.009. This indicates that with each one-unit increase in ECO, there is a corresponding increase in firm performance of 0.009 times the unit. Similarly, B2 for Social Activities (SOC) is 0.002, meaning that for each one-unit increase in SOC, there is an associated increase in EVA of 0.002 times the unit. On the contrary, B3 for Environmental Activities (ENV) is -0.032, suggesting that for each one-unit increase in ENV, there is a decrease in EVA of 0.032 times the unit. Finally, B4 for Firm Size (FS) is -0.187, implying that for each one-unit increase in FS, there is a decrease in EVA of 0.187 times the unit.

Upon comparing the tolerance value and variance inflation factor (VIF), it is observed that the tolerance values are higher than 0.2, and the VIF values are less than 5. Therefore, the tolerance value and the VIF values fall within the expected range, preventing multicollinearity. Consequently, multiple regression analysis can be conducted. From the above results, it is evident that the regression equation for predicting EVA from ECO, SOC, ENV, and FS can be derived from the available data.

$EVA = 2.059 + (.009) ECO_{it} + (.002) SOC_{it} + (-.032) ENV_{it} + (-.187) FZ_{it} + \varepsilon$

Where;

EVA: Economic Value Added

ECO: Economic Activities

SOC: Social Activities

ENV: Environmental Activities

FZ: Size of the firm

ε: Error term

it: For firm i in period t

β: Intercept

1.3.3 Residual statistics

Table 6: Residual statistics

Residuals Statistics					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	-.00701	.69086	.30058	.144267	145
Residual	-.307589	1.028687	.000000	.237379	145
Std. Predicted Value	-2.133	2.706	.000	1.000	145
	-1.269	4.243	.000	.979	145
a. Dependent Variable: EVA					

(Source-SPSS output)

The residual statistics reveal important metrics such as the standard residual's minimum, maximum, mean, standard deviation, and the size of the sample. In this particular table, the maximum standard residual is indicated as 4.243, the minimum as -1.269, and the sample size is specified as 145.

2. CONCLUSION

The aim of this study was to assess the impact of corporate social responsibility on firm performance through multiple regression analysis, testing various hypotheses.

H1: There is a significant impact of CSR activities on firm's performance.

The analysis indicates a significant impact of corporate social responsibility on firm performance (p-value = .000, significance level 0.00). Consequently, the hypothesis is accepted, signifying that CSR activities exert a significant influence on firm performance.

H1a: There is a significant impact of economic activities on firm's performance

Contrary to the expectation, economic activities demonstrate a positive yet insignificant impact on firm performance (p-value = .538, significance level 0.05). Consequently, this hypothesis is rejected, suggesting that economic activities do not significantly affect firm performance.

H1b: There is a significant impact of social activities on firm's performance

Similar to economic activities, social activities exhibit a positive yet insignificant impact on firm performance (p-value = .952, significance level 0.05). Consequently, this hypothesis is rejected, indicating that social activities do not significantly impact firm performance.

H1c: There is a significant impact of Environment activities on firm's performance

Environmental activities reveal a negative yet significant impact on firm performance (p-value = .046, significance level 0.05). Thus, this hypothesis is accepted, highlighting a significant adverse impact of environmental activities on firm performance.

H1d: There is a significant impact of firm size on firm's performance

Firm size demonstrates a negative and significant impact on firm performance (p-value = .000, significance level 0.01). Therefore, this hypothesis is accepted, signifying a significant negative impact of firm size on firm performance.

Table 7: Result of testing Hypothesis

Hypothesis		Regression result (significant)	Accept/ Reject
H1	There is a significant impact of CSR activities on firm's performance.	.000	Accepted
H1a	There is a significant impact of economic activities on firm's performance	.538	Rejected
H1b	There is a significant impact of social activities on firm's performance	.952	Rejected

H1c	There is a significant impact of Environment activities on firm's performance	.046	Accepted
H1d	There is a significant impact of Firm size on firm's performance	.0000	Accepted

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