

Does Corporate Social Responsibility (CSR) Impact Financial Performance and Capital Structure Decision? Evidence from Sri Lanka

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ABSTRACT

Purpose: The purpose of the research is to identify the impact of Corporate Social Responsibility (CSR) on financial performance and capital structure decision making of listed companies in Colombo Stock Exchange of Sri Lanka (CSE).

Design / Methodology / Approach: Quantitative data analysis techniques used in this study to explain how the CSR activities affect financial performance and capital structure decision measures within listed companies on the Colombo Stock Exchange from 2018/2019 to 2023/2024. The study focuses on three key dependent variables: Return on Assets (ROA), Tobin's Q, and Capital Structure. Independent variables include CSR activities tailored towards the community, customers, employees, and environment, benchmarked against the Global Reporting Initiative (GRI) framework.

Findings: The findings reveal a positive relationship between CSR activities and financial performance indicators, indicating that companies practicing CSR tend to achieve better financial performance. Moreover, the analysis uncovers insights into how CSR practices influence capital structure decisions.

Implications and Limitations: This study highlights the strategic importance of integrating CSR into corporate strategies to enhance both financial performance and decision-making processes. However, it acknowledges limitations such as potential endogeneity issues, data availability constraints, and the need for further longitudinal research to capture the full impact of CSR on listed companies in the CSE.

Originality value: The empirical evidence on the relationship between CSR, firm performance, and capital structure decisions within the context of the CSE, this study contributes to the existing literature and offers valuable insights for practitioners, policymakers, and scholars. and offer practical implications for stakeholders, policymakers, and corporate practitioners seeking to integrate CSR into their business strategies for sustainable growth and value creation.

Keywords: *CSR, Community, Customer, Employee, Environment, Financial Performance, Capital Structure*