

Impact of Corporate Social Responsibility on Corporate Financial Performance: Evidence from CSE Enlisted Manufacturing Companies in Sri Lanka

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Corporate Social Responsibility (CSR) is considered as an approach that contributes to sustainable development by delivering economic, social, and environmental benefits to all stakeholders. However, there is no consensus in the literature on the relationship between CSR and financial performance of corporations. Hence this study endeavored to explore the impact of CSR on corporate financial performance referring to the manufacturing companies listed in the Colombo Stock Exchange in Sri Lanka. The Stakeholder Perspective Theory provides valid insights to develop a CSR scale and it was used to measure CSR whereas the Return on Assets and Return on Equity were used as the proxies for the Financial Performance of corporations. Further, the risk ascertained through the Debt-to-Equity ratio considered as the control variable. The sample of this study consisted of ten manufacturing companies listed in the Colombo Stock Exchange and the sample period spanned for five years from 2011 – 2018. Accordingly, the study used 50 firm-year observations for the analysis and this study was based on secondary data and quantitative approach. Descriptive statistics, correlation coefficient, and panel data regression analysis techniques were used to accomplish the objectives of the study. The results revealed that CSR had a significant positive impact on the corporate financial performance of listed manufacturing companies in Sri Lanka. Moreover, it revealed that the control variable of risk had a significant negative relationship with Return on Assets while an insignificant relationship with Return on Equity. This study recommends the companies to maintain CSR activities at optimum level for all stakeholders as it leads to improve financial performance.

Keywords: Corporate financial performance, Corporate social responsibility, Colombo Stock Exchange, Return on assets, Return on equity