

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

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Abstract

The purpose of this study is to find out the impact of CSR activities on firm performance of listed manufacturing firms on CSE. For this purpose 31 manufacturing companies consider as the sample listed in Colombo Stock Exchange as at 29th march 2016. The Tobin Q consider as the dependent variable of the study which for measured the firm performance and CSR activities considered as the independent variable. Those CSR activities divided in to three sub variables as economic, social and environmental activities, and the total CSR considered separately, as well as firm size, firm age and the firm leverage consider as control variables which are impacting on the dependent variable. The data collected from financial statements and website over five year from 2011 to 2015. Then the data represents the 155 observations. OLS linear Regression model is used to analyze data in relation to measure the impact. The results of regression model revealed that there is an insignificant positive impact of economic activities, social activities and environment activities on Tobin Q, however the result shows when take the total CSR as whole, it has a positive also significant impact on Tobin Q.

Keywords: Corporate social responsivity • Colombo stock exchange • Performance • Firm leverage

Introduction

Today's business world is much competitive than before. It is growing rapidly with the knowledge of every stakeholder. It means, for the sustainable growth of a company, they must conduct a good relationship not only with their suppliers and customers, but also with the government and every parties of the society. Therefore, the company should focus on the interest of parties outside of the company, in addition to the company's interest. Then, according to that view, the concept of Corporate Social Responsibility (CSR) has become a very important part in the business world.

The concept Corporate Social Responsibility (CSR) can originally referred to as Social Responsibility (SR), was discussed as early as the 1930's. However, it was not until the publication of Bowen's Social Responsibilities of the Businessman in 1953 that the concept became popularized and discussed in similar terminology as it is today. The conceptual definition of corporate social responsibility is deferent from one another. However, the corporate social responsibility can be simply defined as "the treatment of all stakeholders in a responsible and ethical manner". Also according the world business council for sustainable development (1999) mentioned that, corporate social Responsibility is "The continuing adjustment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" and medium [1]. In addition to them, according to the Global Reporting Initiative (GRI) Guide line, corporate social responsibility is generally understood as "being the way through which a company achieves a balance of economic

environmental and social imperatives at the same time addressing the expectations of shareholders". Bowen defines as CSR as it refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society at the county. From this publication and through the research that has followed onwards, the true definition of what CSR demands have been heavily debated. The focus of CSR has shifted from acknowledgement of social interest to having become an important part of a many companies overall strategic approach [2].

Methodology

When we take the concept of CSR, there are various opinions among various scholars. The famous economist and debater argued that the firms should not focus on CSR activities unless it acts as a value creator and comply with the wishes of the company's shareholders. The CSR make a strong relationship with the company's shareholders. Further, they concluded that a firm using CSR tend to lower its capital constraints through better access to bank loans. Another highlighted factor is to work actively with CSR is to increase the influence of various stakeholders. Due to those debates regarding CSR and its value creation capabilities, increase the interest among researchers to examine the impact of companies CSR activities on firm performance [3].

Other than that current business world engagement in CSR has become a common practice in most of the countries. But still, it is a debatable issue in some countries because to involve with CSR required some money and should grant a portion of a valuable resource. It may because to result of the lower profitable margin of the business. And, in this competitive market situation, that money and resources will be useful in generating more income than being socially responsible. Then, most of the companies do CSR activities to fulfil legal regulation and to enhance some reputation. So, there is uncertainty about CSR activities affects the business whether positively or negatively.

As the above mentioned in the world context there are many more researches on the topic to identify the impact of CSR activities on firm performance which obtained various results; positive, negative and neutral.

Regarding the CSR information, the common assumption in this field is that the efforts of companies in CSR are primarily motivated by a question

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Received: 21-Sep-2020, Manuscript No. Jbfa-22-001-PreQc-22; **Editor Assigned:** 23-Sep-2020, Pre QC No. Jbfa-22-001-PreQc-22 (PQ); **Reviewed:** 09-Oct-2020, QC No. Jbfa-22-001-PreQc-22; **Revised:** 23-Aug-2022, Manuscript No. Jbfa-22-001-PreQc-22 (R); **Published:** 30-Aug-2022. DOI: 10.37421/2167-0234.2022.11.420.

of image, which may ultimately have an impact on securities demand and overall firm performance of the firm. When a company doing CSR activities, they always think they can get more benefit from that. The fact that scholars view the relationship between CSR and firm performance differently makes the topic interesting. Similarly, the results of the meta-analysis of prove that more than 50% of the literature studying the relation between CSR and firm performance are positive.

Other than those, this study is conducted on a number of reasons. Firstly, most of the prior studies about CSR have focused on companies in developed countries and there are limited numbers of studies on CSR out of using the context of developing countries such as Sri Lanka. So, the effect of CSR may be different from developing countries to developed countries. And also the manufacturing sector is very special among the other sectors. Because it is directly involved with the economy of the country. Then, those research gaps were based on this study [4].

However, everything a company does more or less influence Company's performance in some way. It can be established that CSR affects a company's performance in one way or another. Nevertheless, in the Sri Lankan context, we have not found much research concerning how much CSR activities affect their firm performance. Therefore, we aim to study in what way CSR is impacting on the company's performance listed on the Colombo Stock Exchange (CSE).

According to the study objectives, this will attempt to answer the following questions have been identified.

Q1: Is there an impact of CSR activities on firm performance in listed manufacturing companies?

Q2: What is the nature of impact by each dimension of CSR activities on firm performance in listed manufacturing companies?

Results and Discussion

The topic of corporate responsibility has been captioned under many names, including strategic philanthropy, corporate citizenship; social responsibility etc. The society is the playgrounds where business activities are operating. And therefore the societal interests are of concern to businesses and firms.

Corporate Social Responsibility (CSR) arises in the 1950s as a field of business study in the United States. In the today's business world, every high level company and numerous small and medium- sized enterprises (SMEs) have some sort of statement of CSR in various kinds of reports. Information about a firm's CSR can be easily found in different channels, such as articles and reports in magazines and newspapers, product packaging, Internet and corporate annual reports [5,6].

In countries that are the members of European state have to follow the prescribed regulations about environment safety, maintaining better relationship in between workforce and the firm, giving equal opportunities to all the workforce of the firm at workplace, providing better health and safety facilities to the workforce at workplace are some of the regulations that have developed by European member state in early 20th century. By looking at the above statement we can conclude that the Government can also influence the organizations to implement Corporate Social Responsibility as the part of their strategies for the betterment of the general society and environment of the specific country (Table 1).

Conceptual framework

According to the conceptual framework independent variable is CSR activities and it will be consider with three dimensions; economic activities, social activities and environment activities. Dependent variable of this research is firm performance and it will be measured by Tobin Q. Other than those there are some control variables which is affect to the firm performance. They are firm size, firm age and firm liquidity (Figure 1).

Population and sample

There are 294 companies listed under 20 sectors on Colombo Stock Exchange (CSE) at 29th March 2018. Among all of them manufacturing sector consider as the population for this study. There are 40 listed manufacturing companies and considered all the companies as the sample because the population is small. But because of unavailability of data could take only 31 companies as the sample.

Analysis models

The research analysis involves both descriptive and inferential statistics. A well-known statistical package called "SPSS" (Statistical Package for Social Science) version 16 has been used to analyze the data researcher collected. The upper level of statistical package significance for hypotheses testing was set at 5% level. All statistical results were computed at the 2-tailed level and 1- tailed of significance.

The correlation Table 2 depicts correlation of each variable with other variables including dependent variable. The correlation value is lie between 1 and +1. -1 represents complete negative relationship while +1 represents perfect relationship between variable [7].

Table 2 shows the relationship between three categories of CSR, Tobin Q and control variables. According to that, there is a positive correlation between ECO, SCO and ENV with Tobin Q. The correlation coefficients are 0.222, 0.547 and 0.296 respectively. These relationships are significant, because the P values are less than 0.05, which are 0.001, 0.002 and 0.001 respectively.

According to the ANOVA Table 3, the F and significance values related to the Tobin Q are 4.106 and 0.003 respectively. Therefore at 5% significant level they can be statistically concluded that there is evidence that this model is acceptable to analyze the relationship between Tobin Q and Tobin Q and total CSR activities (TOT) (Table 3).

When considering total CSR and Tobin Q, TOT is affect to Tobin Q in 0.173 which means that one percent of total CSR creates Tobin Q increase by 0.173% if other variables are kept constant.

The T-test value is 2.585 which is positive also significant at 0.014, because the significance level $P < 0.05$ and value is less than 0.05. It implies that the impact of total CSR on Tobin Q is positive also significant (Table 4).

Regression has been used to determine the strength of relationship between dependent variable (Tobin Q) and independent variables (ECO, SCO, ENV and TOT). In here consider the selected three CSR activities separately. It means consider only economic activities, social activities and environment activities in above table.

According to the Table 5 reports that considering the value of R is 0.736 hence it can be calculated that there is a positive linear correlation between Tobin Q and selected independent variables (ECO, SCO and ENV). Value of R square 0.617 suggest that 61.7% variability of the Tobin Q can be explain by selected independent variables. As well as it is indicated that there are some other factors which are suggested 39.3% variability of Tobin Q. In other words selected independent variables are able to explain 51.8% variation of the dependent variable (Table 5).

Also, according to the ANOVA Table 6, the F and significance values related to the Tobin Q are 3.184 and 0.001 respectively. Therefore at 5% significant level they can be statistically concluded that there is evidence that this model is acceptable to analyze the relationship between Tobin Q and selected independent variables (ECO, SCO and ENV) (Table 6).

According to the Table 7 coefficient result of regression, the impact of ECO on Tobin Q is 0.169 which means that one percent of ECO creates Tobin Q increase by 0.169% if other variables are kept constant. The T-test value is 1.374 which is positive significant at 0.012 because the significance level $P > 0.05$ and value is higher than 0.05. It implies that the impact of ECO on Tobin Q is positive but insignificant (Table 7).

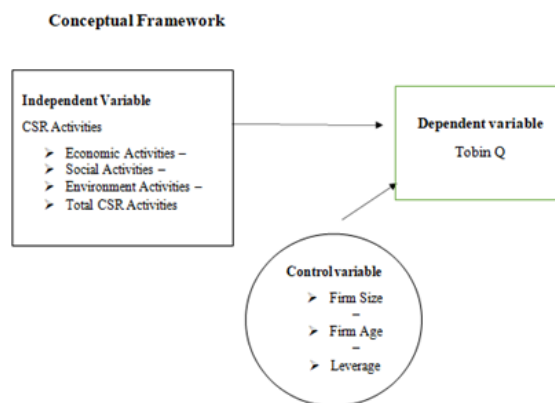


Figure 1. Conceptual framework independent variable.

Table 1. Descriptive statistics.

Variables	N	Minimum	Maximum	Mean	Std. Deviation
TOBIN	31	0.75	8.54E6	1.3865E5	1.05081E5
TOT	31	4.1	4.59E6	1.3090E6	1.88893E6
ECO	31	0	2.55E5	1.4409E5	1.12421E5
SOC	31	9	5.70E6	6.2267E5	1.78486E6
ENV	31	1.84	4.58E5	1.0872E5	1.37408E5
AGE	31	2	15.00	7.2000	3.45768
SIZE	31	3	7.86E5	2.5626E5	2.47126E5
LEV	31	58	2.54E6	3.9843E5	7.73270E5
Valid N (listwise)	31				

Note: TOT: Total CSR activities; ECO: Economic activities; SCO: Social activities; ENV: Environment activities.

Table 2. The relationship between CSR, Tobin Q and control variables.

Variables		TOBIN	TOT	ECO	SOC	ENV	AGE	SIZE	LVE
TOBIN	Pearson Correlation	1	.354*	0.222	.527**	0.196	-0.217	0.26	0.221
	Sig. (2-tailed)		0.016	0.138	0	0.192	0.148	0.081	0.141
	N	31	31	31	31	31	31	31	31
TOT	Pearson Correlation	0.354*	1	0.862**	0.664**	0.719**	-0.174	0.558**	-0.166
	Sig. (2-tailed)	0.016		0	0	0	0.246	0	0.271
	N	31	31	31	31	31	31	31	31
ECO	Pearson Correlation	0.222	.862**	1	.322*	.366*	-0.055	.455**	-0.135
	Sig. (2-tailed)	0.138	0		0.029	0.012	0.716	0.001	0.37
	N	31	31	31	31	31	31	31	31
SOC	Pearson Correlation	.527**	.664**	.322*	1	.539**	-.349*	.522**	-0.213
	Sig. (2-tailed)	0	0	0.029		0	0.018	0	0.154
	N	31	31	31	31	31	31	31	31
ENV	Pearson Correlation	0.296	.719**	.366*	.539**	1	-0.102	.446**	-0.094
	Sig. (2-tailed)	0.192	0	0.012	0		0.498	0.002	0.533
	N	31	31	31	31	31	31	31	31
AGE	Pearson Correlation	-0.217	-0.174	-0.055	-.349*	-0.102	1	-0.17	.632**
	Sig. (2-tailed)	0.148	0.246	0.716	0.018	0.498		0.26	0
	N	31	31	31	31	31	31	31	31
SIZE	Pearson Correlation	0.26	.558**	.455**	.522**	.446**	-0.17	1	-0.282
	Sig. (2-tailed)	0.081	0	0.001	0	0.002	0.26		0.058
	N	31	31	31	31	31	31	31	31
LVE	Pearson Correlation	-0.221	-0.166	-0.135	-0.213	-0.094	.632**	-0.282	1
	Sig. (2-tailed)	0.141	0.271	0.37	0.154	0.533	0	0.058	
	N	31	31	31	31	31	31	31	31

Note: TOT: Total CSR activities; ECO: Economic activities; SCO: Social activities; ENV: Environment activities; *Correlation is significant at the 0.05 level (2-tailed); **Correlation is significant at the 0.01 level (2-tailed)

Table 3. ANNOVA of predictors and dependent variables.

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	97.901	7	13.986	4.106	.003 ^a
	Residual	87.034	38	2.29		
	Total	184.935	45			

Note: a: Predictors

Table 4. Result analysis of separate activities.

Model	R	R square	Adjusted R square	Std. Error of the estimate
1	.786 ^a	.617	0.518	0.86

Note: a: Predictors

Table 5. Analysis of different variables.

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	27.456	6	4.576	3.184	.001 ^a
	Residual	17.018	23	0.74		
	Total	44.474	29			

Note: a: Predictors

Table 6. One sample test.

Test Value = 0						
	t	df	Sig. (2-tailed)	Mean difference	95% confidence interval of the difference	
					Lower	Upper
TOBIN	2.509	9	0.033	6.39E+05	62730.1357	1.21E+06
TOT	2.191	9	0.056	1.31E+06	-42300.098	2.66E+06
ECO	4.017	9	0.003	1.44E+05	62957.4986	225230.3014
SOC	1.103	9	0.299	6.23E+05	-654142.51	1.90E+06
ENV	2.502	9	0.034	1.09E+05	10425.5835	207016.6165
AGE	6.585	9	0	7.2	4.7265	9.6735
SIZE	3.279	9	0.01	2.56E+05	79479.407	433046.593
LEV	1.622	8	0.144	4.38E+05	-184707.84	1.06E+06

Note: TOT: Total CSR activities; ECO: Economic activities; SCO: Social activities; ENV: Environment activities.

Table 7. Extraction method of principal component analysis.

Component	Initial eigenvalues			Extraction sums of squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.327	41.583	41.583	3.327	41.583	41.583
2	1.602	20.021	61.605	1.602	20.021	61.605
3	1.2	15.002	76.607	1.2	15.002	76.607
4	1.014	12.677	89.285	1.014	12.677	89.285
5	0.718	8.981	98.265			
6	0.096	1.205	99.471			
7	0.031	0.384	99.854			
8	0.012	0.146	100			

As well as the impact of ENV on Tobin Q is -0.097 which means that one percent of ENV creates Tobin Q decrease by 0.097% if other variables are kept constant. The T-test value is -0.547 which is negative and also insignificant at 0.049 because the significance level $P > 0.05$ and value is higher than 0.05. It implies that the impact of ENV on Tobin Q is negative and insignificant [8].

H1c: There is a significant impact of environmental activities on Tobin Q

According to the analysis and interpreted data clearly shows the ENV

is negatively impacted with the Tobin Q. Also, it is insignificant at the model. So, H1b is rejected.

Other than those there is a positive impact of SIZE and LEV while AGE has negative impact at the model. There beta values are 0.935, 0.755 and -0.199 respectively. Also the impact of AGE and SIZE are significant at the model, because there P values are less than 0.05 which are 0.005 and 0.022. But the impact of LEV is not significant because its P value is higher than 0.05.

Conclusion

The objective of this study is examining the impact of CSR activities on firm performance. For this purpose selected the manufacturing companies listed in CSE in 29th march 2016 and 20 throughout six month check the five years period (2015-2018) financial statement and website to find out the CSR and firm performance of these companies.

In this study four sub hypothesis were formulated under one main hypothesis as, H1a: There is a significant impact of economic activities on Tobin Q, H1b: There is a significant impact of social activities on Tobin Q, H1c: There is a significant impact of environment activities on Tobin Q and H1d: There is a significant impact of total CSR activities on Tobin Q. According to chapter four, could identifies the relationship between selected dependant and independent variables.

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How to cite this article: Perera, Vidura. "The Impact of Corporate Social Responsibility on Firm Performance: Special Reference to Manufacturing Companies Listed on Colombo Stock Exchange." *J Bus Fin Aff* 11(2022): 001.