The Journal of ARSYM

A Publication of Students' Research of the
Annual Research Symposium in Management

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The Journal of ARSYM (JARSYM) is a refereed journal published bi-annually by the Faculty of Business Studies & Finance, Wayamba University of Sri Lanka. The aim of the JARSYM is to disseminate high-quality research findings on a variety of timely topics generated by the undergraduate and postgraduate researchers in the Wayamba University of Sri Lanka. Furthermore, it opens up avenues for the undergraduates involved in the industry to share their inventions, state-of-the-art discoveries and novel ideas. The main philosophy behind the JARSYM is to enhance the research culture within the faculty, thereby within the Wayamba University. All research articles submitted are double blind reviewed prior to publishing. Views expressed in the research articles are not the views of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka or the Editorial Board.

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Faculty of Business Studies and Finance

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The Journal of ARSYM (JARSYM) is a refereed bi-annual journal committed to publish undergraduate research papers of the Faculty of Business Studies and Finance, Wayamba University of Sri Lanka. The JARSYM publishes theoretical and empirical papers spanning all the major research fields in business studies and finance. The aim of the JARSYM is to facilitate and encourage undergraduates by providing a platform to impart and share knowledge in the form of high quality and unique research papers.

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THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY ON FINANCIAL PERFORMANCE OF SELECTED DOMESTIC COMMERCIAL BANKS IN SRI LANKA

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ABSTRACT

This paper aims to analytically explore the relationship between Corporate Social Responsibility (CSR) and financial performance among the ten selected domestic commercial banks in Sri Lanka. CSR is measured by using of financial performance is measured using one financial ratios namely; Return on Assets. For the measurement of CSR practices, a questionnaire related to corporate social responsibility was used. This is carried out to see to what extent CSR activities effect on the financial performance of each bank over five years of time. The results indicate that there is a significant positive relationship between Corporate Social Responsibility and Financial Performance.

Here the financial performance was dependent variable and aggregate CSR was the independent variable. Further, the aggregate CSR comprises of four main independent variables as employee related CSR, customer related CSR, Community related CSR, and environmental related CSR which contribute to determine main independent variable. The overall research study has been structured based on the conceptual framework built up with reference to literature. Ten top largest domestic Commercial Banks in Sri Lanka in terms of Market share by Assets and Deposits size at the end of 2019, which was arranged by the Central Bank of Sri Lanka have being selected to examine. A questionnaire and annual reports of banks were utilized to collect required data. The data was analyzed using Statistical Package for Social Sciences (SPSS) version 20.0. Factor analysis, bivariate analysis (mean, standard deviation and variance), correlation and hierarchical regression analysis were used to analyze the collected data. Especially hypotheses were tested using Pearson correlation coefficient (r) and hierarchical regression analysis. Consequently, the study concluded that there is a significant positive correlation between CSR activities towards various stakeholders and the banks' performance, except in case of Environment CSR. In addition, it demonstrates that there is a close linkage and a

complementary relationship among the variables. Further, this study reveals that overwhelming majority of respondent banks primary motivating force in determining whether banking organizations adopt CSR is "giving something back to the community".

Keywords: Corporate social responsibility, financial performance

1.   INTRODUCTION

Today most of the businesses are facing competitive business environments. It means competitions among the business organizations are high. This competitiveness is a common factor for the Banking Industry as well due to certain reasons. Low entry barriers to the market, increasing the globalization and developed technological infrastructure facilities are some factors that cause to increase this competition. Therefore, to win this competition, it is essential to add a competitive edge to the organization by increasing satisfaction levels of all its stakeholders. Corporate Social Responsibility (CSR) is increasingly being seen as an important strategy in achieving stakeholder satisfaction and for sustainable businesses. In developing a business enterprise requires not only investors who will invest in the company, but also a good relationship with the government, and society. The existence and impact of corporate activity are often contradictory and even detrimental to the interests of the other party. Therefore, the company should not only focus on the company's interests, but also the interests of parties outside the company. So, most of the organizations allocate significant amount of their resources on CSR activities to increase their profits by being a good corporate citizen.

Corporate social responsibility (CSR) has received increased attention from business, the media, and researchers. Becoming socially responsible for a firm and to improve the corporate performance can be associated with a sequence of bottom-line benefits. Nonetheless in numerous cases, it seems that the time frame of the costs and benefits can be out of alignment the costs are immediate, and the benefits are not often realized quarterly. Nevertheless, many benefits can be recognized as communally responsible firms have enhanced brand image and reputation, consumer's attraction, increase.

A large number of major corporations all around the world are adopting corporate social responsibility reporting. In 2002 KPMG produced a report showing that 45 percent of the 250 largest companies worldwide report corporate social responsibility. This was an upsurge from 35 percent in 1999. (Palmer, 2012) As per Friedman (1970), he has mentioned that each firm is different to each other when implementing the corporate social responsibility and its activities. The differences are depending on some unique factors such as the size of the specific firm, the involved industry, the firm's business culture, stakeholder demands, and so on. For successful implementation of such activities to enhance the social wellbeing, it is crucial that the

corporate social responsibility principles are playing a major role of the firm values and strategic planning. (Friedman, 1970)

This paper is aimed to analyze the relationship between corporate social responsibility and financial performance in selected commercial banks of Sri Lanka. The concept of corporate social responsibility indeed, takes on different meanings depending on the firm or group that uses it. The corporate social responsibility catches a place in the outline of intellectual forums and academic discussions. It should ensure the fact that, whether the corporate social responsibility is sufficiently spoken in the regular processes of corporate bodies, or in Sri Lanka what is the current assessing level of it etc. In the drives of the firms in the banking sector in several countries, is to gather the gains towards the competitiveness to grab the market and to sustain in it. Therefore, the responsibility must be based on their corporate objectives as an initial step. Strategies are formed according to the appraisal and requirement of the firm to perk up their performances. The agility or the aptitude of the firm to answer the circumstances presented by the economic doubts can be comprised by their corporate strategies. (Burritt, 2002)

In this context, there is a need to understand the business case for CSR as in the years to come, displacement of people for accommodating industries, large scale migration of people from rural to urban areas and the impact of industries on the communities and the environment are set to take Centre stage.

While there have been numerous studies in the west on the relationship between CSR and financial performance, there have been few studies in the Sri Lankan context. The existing studies in Sri Lanka are mostly limited to self - reported questionnaires on CSR, nature and characteristics of CSR, CSR policies of multi-nationals without any linkages with firm performance. Many studies have mainly relied on secondary data using content analysis. Most of the studies that have examined the relationship between CSR and financial performance for a set of industries except for a single industry. Certain studies have examined the CSR and Firm performance using primary data, but the scope of the study has been limited.

1.1   Research Question

There are number of studies which highlight the improvement of CSR reporting worldwide (Boessoand Kumar, 2006; Enquist, Damayanthi and Rajapaksha, 2009). Damayanthi and Rajapaksha (2009) emphasized, there is growing trend to report on listed companies in Sri Lanka and that in the banking and finance, insurance, plantation, food and beverage and tobacco sector the CSR reporting is mostly common. Because of that identifying the relationship between CSR disclosure and financial performance is very important in current condition. According to this research, the researcher's focus is to identify the relationship between CSR and

financial performance in domestic commercial banks in Sri Lanka. (A.M.I.P. Abeysinghe W., Relationship between Corporate Social Responsibility Disclosure and Financial Performance in Sri Lankan Domestic Banking Industry, 2015)

Specifically, the study sought to understand the inter-linkages among corporate social responsibility towards the employees, customers, community & environment, the impact of CSR on firm performance and the motivations for companies to engage in CSR. The research question is as follows.

•Is there any relationship between the CSR practices and Financial Performance of Selected Domestic Commercial Banks in Sri Lanka?

When we move into CSR, it considers CSR for all stakeholders. Stakeholders include shareholders, employees, customers, government, suppliers, financial institutes, and society (etc.). Developing countries are presently ready to identify the benefits of investing in the CSR. In addition, the present studies try to identify the return and/or benefits of investing money for CSR activities. However, the total return of the firm may increase under different internal and external reasons, such as managerial efficiency, employment morale, new technology, and other investments. The question being posed is what would happen to a company's performance when increasing and/or implementing CSR opportunities under the stakeholder relations? The present study looked at only the company's financial performance such as return on assets of selected Commercial Banks. Top largest domestic Commercial Banks in Sri Lanka in terms of Market share by Assets and Deposits size at the end of 2019, which was arranged by the Central Bank of Sri Lanka, will be taken to examine in this research.

1.2   Research Objectives

There are several research studies examining the relationship between CSR and Financial Performance of organizations. But most of the researchers have done regarding this matter by applying this into several numbers of companies in different industries but not for a specific industry, especially in the Sri Lankan context. It's difficult to researches in this area. After going through recent research studies conducted on this regard.

Based on the Sri Lankan context average of the listed companies spend about 6.6% of their turnover on CSR related activities, including training, research and community work but in the case of relationship between CSR activities and financial performance only in employee relations and customer/supplier relations have the most significant alliance with respect to CSR and community relations and

environment is not that much significant with perceived benefits of CSR. (S.I.Madurasinghe, 2016)

 A Sri Lankan researcher has developed a framework for CSR relevant to the Sri Lankan companies (Thilakasiri, 2012). It consists of six categories including employee relationship, customer relationship, educational, health related, community related and environment related activities. These disclosure criteria are gathered through a pilot test using 10 listed companies of the Colombo Stock Exchange (CSE) in different sectors including banking, finance and insurance, manufacturing and plantations. Other than that, a questionnaire was administered and an interview with the experts of the industry was conducted. This framework is the first framework developed related to the CSR. (A.M.I.P. Abeysinghe W. B., 2015)

Since there is a research gap in this field and it makes a demand for more and more researches on this regard to fill this gap. If there is a gap to bridge, the researcher has to construct research questions based on the problem statement stated above.

1. Is there a relationship between CSR and the Financial Performance of Domestic Commercial Banks in Sri Lanka?

2. What type of correlation exists among CSR towards Employees, Customers, Community and Environment?

3. What are the primary motivators/ drivers of CSR activities among domestic commercial banks in Sri Lanka?

The main purpose of the study is to examine the significant influences of stakeholders' corporate social responsibility on the firms' financial performance. This study looks at CSR activities towards employees, customers, community and environment,

The objectives of the study are:

1. To study the impact of Corporate Social Responsibility on firm performance as measured by financial parameters

2. To identify and empirically analyze the existence of correlations among CSR towards various primary stakeholders

3. To identify the factors that motivate companies to engage in CSR

2. LITERATURE REVIEW

2.1 Corporate Social Responsibility

Business generates wealth in a society and with this wealth becomes the power that shapes the culture and the morals of the society. This power and influence can be used positively to support the achievement of long-term development goals of the country. According to different researchers, CSR identified different aspects and it defines through the different findings and observations of the research studies. Some researchers defined CSR as a concept which companies incorporate social and environmental concern in business operations and in interaction with stakeholders on a voluntary basis (Sheham A M, 2011). According to those researchers, CSR is an umbrella term for a mixture of practices which include: (a) a responsibility for the organization's impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) a responsibility for the behavior of others with who do business (e.g. within supply chains); and that (c) management of its relationship with wider society, whether for reasons of commercial viability, or to add value to society. (A.M.I.P. Abeysinghe W. , Literature review, 2015)

In the view of Classon et al., the CSR concept includes economic, legal, ethical, and philanthropic expectations that a society has in relation to an organization. In another vision, companies are perceived as human communities using social practices in order to achieve common goals (Rendtorff, 2012)Holmes and Watts (1999) defined CSR as the continuing commitment 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. The initial definitions of the concept showed that, CSR refers to problems: economic, political, social, and ethical (Bowen, 1953). European Commission defines CSR (2001) in the Green Paper as "a concept according to which companies voluntarily decide to contribute to the attainment of a better society and a cleaner environment". (S.I. Nimsith, 2016).

CSR has been defined as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Green Paper Promoting a European Framework for Corporate Social Responsibility 2001). Helg (2007) also defines CSR as the set of standards to which a company subscribes in order to make its impact on society. (Olayinka Marte Uadiale, 2012)

2.2 Corporate Social Responsibility and Company Financial Performance

These major parts include CSR measurements, CP measurements, Studies on theoretical perspectives on CSR and finally the empirical evidences of previous studies on the relationship between CSR and CFP. Research into the relationship

between CSP and CFP began many years ago, and continues today Over the past 40 years, many studies (e.g, Griffin and Mahon 1997; Preston and O'Bannon 1997: Waddock and Graves 1997; Ruf et al. 2001) have examined the nature of this relationship and identified various relationships. CSR studies are open to criticism of their conceptual base and/or on methodological grounds because there is no reliable, conventional and effective definition for CSR Elsayed and Paton (2005) and Griffin and Mahon (1997) stated that this situation makes it extremely difficult to generalize the results of studies on CSR. It is valuable to identify the reasons why researchers have looked for relationships between the CSR and FP studies. A company's success depends on its long-term benefits, growth and survival. The factors important for the long-term success of a company may be identified by testing the long-term relationships between CSR and FP, CSR and stock market performance, and CSR and non-financial performances. Friedman (1980) expected the introduction of the profit maximizing view. In addition, Freeman (1982) pointed out that CSR is directly affected by company stakeholders such as employees, customers, and communities, as well as by the organization itself. Therefore, it is vital to identify the nature of the relationship between CSR and CP. Griffin and Mahon (1997) summarized three key Issue identified in the literature on this topic.

The first issue was the industry; some studies used multiple industries and others used a single industry for their analyses. The second Issue was the multiple dimensions used for measuring FP. The third issue was the CSR measures used. Margolis and Walsh (2003, p. 277) note, a simple compilation of the findings suggested there is a positive association, and certainly very little evidence of a negative association between a company's social performance and its financial performance. Benn & Bolton 2011) concluded that, they conclude that a useful starting point for researchers might be to get a better idea of how organizations actually benefit society, before pursuing a scientific analysis of the relationship between FP and CSR (p.11) Griffin and Mahon (1997) and Margolis and Walsh (2001) analyzed 147 research articles on the relationship between CSR and CP. Since then, a number of other studies relating to this area have been added to the literature (Tsoutsoura 2004; Coombs and Gilley 2005; Brine et al. 2006).

However, the main dilemma involved in these studies is that of the measurement of CSR and CP. Different results have been obtained in different studies of the relationship between CSR and CP. Research has revealed that the sample size, study period, methodology and scope are the major factors responsible for these differences. In addition, the measures of CSR and CP measurement used were crucial factors for these differences in results. The calculation of CP is not a major problem since there are several accounting measures, such as ROE, ROS and ROA, that may be used for measuring results. The most important problem is the calculation of CSR.

Therefore, in the following section particular attention will be devoted to various CSR measurements that have been utilized in previous studies.

2.3 Company Financial Performance Measurements

"Measuring CSR has always been a difficult task as there is little consensus about which measurement instrument to apply. In many cases, subjective indicators are used. Similarly, measuring financial performance is equally difficult as there is little consensus about which measurement instrument to apply. Many researchers use market measures (Alexander & Buchholz 1978; Vance 1975), others put forth accounting measures (Waddock et al. 1997; Cochran et al. 1984) and some adopt both of these (McGuire et al. 1988). These two measures, which represent different perspectives of how to evaluate a firm's financial performance, have different theoretical implications (Hillman & Keim 2001) and each is subjected to particular biases (McGuire et al. 1988). The use of different measures, needless to say, complicates the comparison of the results of different studies (Tsoutsoura 2004)**".** Moreover, Han and Suk (1998) used stock returns as a dependent variable to measure CP. These two methods show different perspectives on the evaluation of a company's CP and S. have different theoretical implications (Hillman et al. 2001). McGuire et al. (1986) stated that each method is subject to certain biases. The use of these two different methods of measuring CP means that it is difficult to compare the results of the different studies directly (Tsoutsoura 2004). A number of accounting measures have been used to evaluate CP, including ROE, ROS and ROA. The reason for using these three variables to measure CP is that these data are less likely to have been manipulated and are also the most widely used measurements of a company's performance (Yoshikawa and Phan 2003). In this study accounting measures such as ROA and ROE will be used to evaluate company performance. (Tilakasiri, Corporate Social Responsibility and Company Performance: Evidence from Sri Lanka , 2012)

2.4 Conceptualization of variables

Table 1: Definitions of Variables

Variables	Definitions of Variables
Corporate Social Responsibility	"Corporate Social Responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives ("Triple-Bottom-Line- Approach"), while at the same time addressing the expectations of shareholders and stakeholders. In this sense it is important to draw a distinction between CSR, which can be a strategic business management concept, and charity, sponsorships or philanthropy." (United Nations Industrial Development, n.d.)

Employee CSR	"CSR initiatives towards employees as practices providing a CORE family-friendly work environment; engaging in responsible human resource management, providing an equitable reward and wage system for employees, engaging in open and flexible communications with employees and investing in employee development." (Waddock, 1997)
Customer CSR	A strong record of CSR towards customers creates a favorable Customer CSR situation that positively boosts consumers' attitudes towards the company. ((J. García-Madariagaa, 2017)
Community CSR	In addition to the production of goods and services, society Community CSR expects that organizations will provide safety, improved lifestyle, employment, infrastructure, and environmental protection, without affecting cultural practices and benefits. These includes as Community related CSR. (Hohnen, 2008)
Environmental CSR	The environmental aspect of CSR can be defined as the duty to cover the environmental implications of the company's operations, products and facilities, eliminate waste and emissions, maximize the efficiency and productivity of its resources, and minimize practices that might adversely affect the employment of the country's resources by future generations. (Tilakasiri, Impact of Corporate Social Responsibility on the Financial and Non Financial Performance of Slelcted BSE Listed Companies, 2012)
Financial Performance	The level of performance of a business over a specified period of time, expressed in terms of overall profits and losses during that time. Evaluating the financial performance of a business allows decision-makers to judge the results of business strategies and activities in objective monetary terms." (Investor guide, n.d.)
Environmental CSR	The environmental aspect of CSR can be defined as the duty to cover the environmental implications of the company's operations, products and facilities, eliminate waste and emissions, maximize the efficiency and productivity of its resources, and minimize practices that might adversely affect the employment of the country's resources by future generations. (Tilakasiri, Impact of Corporate Social Responsibility on the Financial and Non Financial Performance of Slelcted BSE Listed Companies, 2012)

2.4.1   Financial Knowledge

The MSME owners' financial knowledge on the advanced category is positively statistically significant on the performance of firms. It further, reveals that they are aware of how to calculate the profit of a business, purposes of preparing each component of a financial statement (Menike, 2018). (Lusardi, 2011) has revealed that there is a link between the financial literacy and the low-cost borrowers, highest cost borrowers show very low levels of financial literacy, lack knowledge of basic financial concepts, which affect their business performance level.

2.4.2 *Financial Attitude*

Financial attitude is one of the most important factors affecting the financial literacy and thereby the wellbeing of the MSME. All factors of financial attitude are somehow true for them and they are at a satisfactory level. (Menike, 2018)

2.4.3 *Financial Behavior*

Spending habit, maintaining records, use of saving, managing money in a problem, financial services taken, planning of income and expenditure, searching of competitors' prices, gathering of information on financial knowledge and use of additional income are major aspects of financial behavior pillar. Notwithstanding the different levels of the MSME owners' financial knowledge, most of the owners are economical, maintain minimal records, deposit their savings into bank account, use their savings at the time of low income, plan for future, alert on competitors' prices, collect information to improve financial knowledge and prefer to deposit into fixed account when they have excess money (Menike, 2018).

Conversely, a good financial behavior enables the entrepreneur to have an understanding on the overall impacts of the financial decisions on business performance and also to make the right decisions related to the cash management, insurance, saving, business planning and book keeping (Oseifuah, 2010).

2.5 Operationalization of Variables

Concepts

The impact of corporate social responsibility on financial performance of selected domestic commercial banks in Sri Lanka is the main concept that is studied in this research.

Table 2: Operationalization of Employee CSR Initiatives

Employee CSR Initiatives	Extent of training and development in the organization		B6
	Extent of consultation/workers' participation in decision making	(Davenport, 2000)	B10
	Extent of commitment to health and safety of the workers		B1, B8
	Extent of employee benefit policies	(Waddock, 1997)	B2, B3, B4, B5, B7
	Extent of women representation in the Board of Directors		B9, B11

Table 3: Operationalization of Customer CSR Initiatives

Customer CSR Initiatives	Extent of resolving customer complaints	C1,C2,C4
	Lowest prices	C3
	Voluntary codes for advertising	C5
	(Davenport, 2000)	

Table 4: Operationalization of Community CSR Initiatives

Community CSR Initiatives	Donate to charity		B1
			B2
	Project with local community (sports, education, health)	(Davenport, 2000)	B3, B5,B6, B7,B8
	Employee volunteering		B4

Table 5: Operationalization of environmental CSR initiatives

Environment CSR Initiatives	To what extent is your firm involved in the following?		E1
			E2
	❖ Waste reduction		
	❖ Recycling	(Krishnan, 2004)	E3
	❖ Energy consumption		E4
			E5
	❖ Reduction of air pollution		E6
			E7

A number of studies have used market measures (Buchholz, 1978), while other studies have used accounting measures as ROS, ROE, ROA etc. (Paton, 2005)

This study uses ROA as the indicator of financial Performance of Organizations.

2.6 Conceptual framework

This research model is prepared to make an insight into the impact of corporate social responsibility on financial performance of commercial banks. The proposed structure of independent and dependent variables has been formatted as follows.
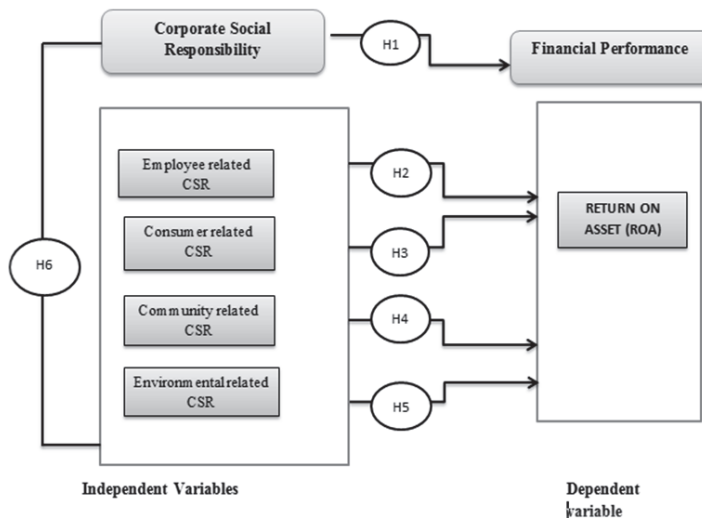
figure 1: conceptual framework (source: Tissakumara, 2020)

There are two variables, that can be identified in this research. They are independent (Employee CSR, Customer CSR, Community CSR, Environment CSR and overall Aggregate CSR) and dependent variable (CFP). Further, this chapter includes details for the questionnaire design. Based on the conceptual framework and research objectives researcher formulated following hypotheses

H_1	⟹	Favorable CSR towards stakeholders will have a positive impact on the Firm's financial performance
H_2	⟹	The favorable CSR towards employees will positively impact the firm's financial performance
H_3	⟹	The favorable CSR towards customers will positively impact the firm's financial performance
H_4	⟹	Favorable CSR towards community will have a positive impact on the Firm's financial performance
H_5	⟹	Favorable CSR towards environment will have a positive impact on the Firm's financial performance
H_6	⟹	There is a positive relationship among CSR towards various Stakeholders and aggregate CSR of the company

3. METHODOLOGY

The researcher has presented the methodological aspects of the current study. Under this, research design, sampling framework, data collection, measurement of the study has been described and presented herein.

The target population of this study can be considered as all the commercial banks which operate in Sri Lanka. According to the website of Central bank of Sri Lanka it states that there are twenty-six licensed commercial banks in Sri Lanka. (Source: CBSL website; as of 31st December 2019). A domestic commercial bank which is a representative of banking industry of Sri Lanka can be considered as sampling element (bank). The area of the study is limited to the domestic commercial banks of Sri Lanka. The current study chose domestic commercial banks as it deputes a major part of Sri Lankan Banking industry.

Non probability sampling technique was employed by the researcher. The researcher has used a sample of 10 respondents for the study based on personal judgment and convenience.

The researcher intends to use both primary and secondary data. The primary data are information collected through questionnaire survey especially for the study. Any data source other than survey returned data will be treated as secondary data which articles may include previous studies, books and journals, annual reports, CSR reports and published articles related to the subject. The secondary data used in this study pertains to the financial information which was obtained from annual reports of each bank through their web sites. In addition to that, CSR reports obtained from the companies were used to supplement the data obtained from the survey. Financial data used in this study was mainly from published data available in web sites.

Table 6: Measures Areas of CSR

CSR Items
Employee:
1. Extent of training and development in the organization
2. Extent of consultation / worker's participation in decision making
3. Extent of commitment to health and safety of the workers
4. Extent of employee benefit policies
5. Extent of women representation in the Board of Directors
Customer:
1. Consumer education of product and complaints related to product and services
2. Organization response to customer complaints
3. Policies on requirement lowest price standards
4. Grievance handling mechanism for consumer complaints.

5. Voluntary standards for advertising
Community:
1. Donate to charity
2. Projects with local community (sports, education, health)
3. Employee volunteering
Environment:
1. To what extent is your firm involved in the following?   • Waste reduction   • Recycling   • Energy consumption   • Reduction of air pollution

The first step of data analysis is to check the validity and reliability of the data. The reliability and validity tests were conducted using SPSS 20.0. The validity of the constructs was tested using Confirmatory Factor Analysis (CFA). These questions were retained as because they represented issues directly relevant to the stakeholder groups and each construct had a high inter-item consistency (>0.70). Statistical methods include frequencies and percentile, Pearson coefficient correlation, one sample T test, independent sample t- test.

Likert scale is used to measure the respondent's attitudes towards the certain statements, which the respondent is asked to agree or disagree. The Likert scale works well when measuring attitudinal information on a specific subject. In this study Pearson correlation coefficient is used to measure the strength of association of variables. Pearson correlation coefficient is the standard index of linear relationship. The Pearson r measures the strength of association (that is, the degree of relatedness) of two variables. Further, the hypotheses were tested using the Pearson product movement correlation coefficient (r) and regression analysis.

4. RESULTS AND DISCUSSION

4.1 Analysis of Demographic Characteristics

The main objective in this study is to identify the impact of Corporate Social Responsibility on Financial Performance of Selected Domestic Commercial Banks in Sri Lanka. In order to achieve this objective, the researcher collected data from 10 domestic commercial banks out of 26 Licensed Commercial Banks in Sri Lanka.

Table 7: Classification of Banks Based on form of Organization

	Form of the Organization	Responses		Valid Percentage
		N	Percent	
Valid	Private Limited Bank	8	80.0%	80.0%
	State Bank	2	20.0%	20.0%
Total		10	100.0%	100.0%

The table shows the sample composition based on form of organization. Accordingly, it can be seen that the sample consists mostly Private Limited Banks which was 80% (n=8) and the State Banks was only 20% (n=2).

Table 8: Classification of Banks According to with or without a Foundation for CSR activities

	Frequency	Percent
Have foundation for CSR	10	100.0
Don't have foundation for CSR	-	-
Total	**10**	**100.0**

Table shows the sample composition based on organizations instituted a foundation for CSR. Accordingly, it can be seen that the all the Domestic Banks instituted a foundation for CSR in the sample selected.

Table 9: Classification of Banks on the Average Amount Spent on CSR over the past five years (from 2015 up to 2019)

	Frequency	Percent
Below Rs.9.99 Mn	2	20.0
Rs.10 Mn < Rs.49.99 Mn	6	60.0
Rs.50 Mn < Rs.99.99 Mn	1	10.0
Above Rs.100 Mn	1	10.0
Total	10	100.0

Table shows the sample composition based on the average amount spent on CSR over the past 5 years of the period starting from 2015 up to 2019.According to the above table it shows most of the respondent banks average spending fall into the category of Rs.10 Mn < Rs.49 Mn. It represented 6 respondents and it takes 60% from the whole. Further, lowest respondents are present in the last two. Two of the banks spent on CSR below Rs.10 Mn. As a percentage that value was 20%.

4.2 Reliability of the research

The reliability of an instrument is the measure of consistency. The less variation an instrument produces in repeated measurements of an attribute, the higher is its reliability. The Cronbach's Coefficient alpha can be applied to measure the consistency of the questionnaire. This method is used to measure the reliability of the questionnaire between each field and the mean of the whole fields of the questionnaire. The normal range of Cronbach's Coefficient alpha is between 0.00 and +1. The higher value is the greater the consistency among the measures. According to the analysis the overall Cronbach's alpha of this study is 0.816. The table 13 below show the Cronbach's alpha of the CSR measures. The results show that the questionnaire was reliable.

Table 10: Cronbach's coefficient alpha (source: spss output, field survey)

No.	CSR Measures	No. of Items	Corrected Item–Total Correlation
1	Employee CSR	11	.870
2	Customer CSR	5	.955
3	Community CSR	8	.866
4	Environment CSR	7	.888
5	CSR Motives	8	.710

This section describes the analysis of empirical data collected through the questionnaire. The section in the chapter will cover the objective –wise analysis, the hypothesis testing and Regression analysis.

Company Information

A total of 10 banks were surveyed representative of banking sectors of the Sri Lankan economy. The companies comprised of government banks and private sector banks.

Aggregate CSR

Since all the variables of CSR were uniformly measured on a 5 point Likert scale ,it was decided to average the scores of the four measures of CSR into an aggregate score, namely the Aggregate CSR .This was considered as the comprehensive measure of CSR activities of the firm towards various stakeholders namely employees, customers, community, Environment CSR. Aggregation of all the CSR

measures were made on the basis of the confirmatory factor analysis (CFA) carried out on the four dimensions of CSR.

Firm Performance

A study by Griffin and Mahon (1997) has reviewed 51 studies on CSR –firm performance relationship and found that as many as 80 different types of financial performance measures were used. Firm size, return on assets (ROA), return on equity (ROE), assets size, return on sales are some of the frequently used and reliable financial measures are mainly lag indicators and capture the historical performance of the firm. The mainly reflect on the effectiveness of the business operations and the effectively on the management of tangible assets.

ROA is a robust measure of financial performance. It is an indicator of how profitable a company is relative to its total assets. ROA gives an idea on how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage. The formula for Return on Assets is:

= Net Income / Total Assets

The nature of banking operations and its distinctive business model causes the ROA to be much lower than that of other businesses. The norm for banks is not more than 2 % while in other industries it tends to be in the range of 10-20 %. Hence the banks resort growing their deposits and lending out these funds.

Objective 1:

To study the impact of Corporate Social Responsibility on firm performance as measured by financial parameters

Descriptive statistics show that the mean Aggregate CSR for Banks under study was 4.03, the minimum aggregate CSR score was 3.73 and maximum aggregate CSR score was 4.49. The table shows the t-value for all the variables measuring the Aggregate CSR. The means show that there is a fairly high level of Aggregate CSR among domestic commercial banks in Sri Lanka.

Table 11: Aggregate level of CSR

CSR Variables	Mean	t-value	p-value
Employee CSR	4.01818	16.685	.000
Customer CSR	3.84000	16.518	.000
Community CSR	3.80000	13.966	.000
Environmental CSR	3.67143	15.867	.000
The value of critical t value at df=9 and significant level 0.05 equal 2.0			

Objective 2:

To study the relationships among Aggregate CSR and CSR towards primary stakeholders.

Stakeholders are individuals, groups or entities (including the natural environment) that claim rights or interests in a company and in its past, present and future activities. Freeman (1984) drew a distinction between 'primary' and 'secondary' stakeholders. Primary stakeholders are those without whose participation an organization cannot survive (eg. employees, investors, communities, government and customers). Secondary stakeholders are those that are influenced by the organization's actions and those who have an interest in what the company does, but are not essential to its survival, although they may be able to help or harm the organization (eg, media, NGOS). The primary duty of the managers of the company is to create sufficient wealth, value or satisfaction for the primary stakeholders to ensure that they remain as part of the stakeholder system.

Primary stakeholders CSR towards various stakeholders such as employees, customers, community and environment were measured on the basis of responses received. The stakeholders have varied interests in the firm. Employee CSR is characterized by good working environment, health and safety conditions of the workers, employee benefits such as maternity and medical benefits. Customer CSR is evidenced by voluntary advertising standards etc.

Stakeholders include groups with quite different expectations. Organizations have to therefore understand the nature of a particular stakeholder and assess what priority to accord to the expectations of the stakeholder. The degree of influence and perceived interest determines the priorities accorded to the stakeholders.

The objective of the study was also to understand whether the CSR activities towards various primary stakeholders are in conjunction with each other. In that sense, the CSR activities are all complementary and are not contrary to each other.

4.3 Hypothesis Testing

H_1: Favorable Aggregate CSR towards stakeholders will positively impact the firm's financial Performance.

The correlations between the Aggregate CSR and firm's financial Performance as measured by Return on Assets were studied. This calculated ROA of each of the respondent bank in order to compare with CSR measures since this study has taken ROA for five years in each ten banks.

Table 12: correlation Matrix Between Aggregate CSR and Financial Performance

Correlations			
		Aggregate CSR	Average Return on assets
Aggregate CSR	Pearson Correlation	1	.700*
	Sig. (1-tailed)		.024
	N	10	10
*. Correlation is significant at the 0.05 level (1-tailed).			

The results show a positive correlation between Aggregate CSR and ROA (0.700). Aggregate CSR therefore leads to better financial performance. A favorable CSR towards various stakeholders bring in gains in the form of improved efficiency in operations, improved bank internal culture, enhance public image, develop new business etc. Satisfied employees contribute to the firm's performance through better productivity, reduced attrition and lesser training costs. Satisfied and delighted customers increase product sales through repeat purchases. Satisfied communities support the firm's expansion plans as they perceive benefits from businesses through increased employment opportunities. This in turn would reduce the public relations cost. Environmental initiatives lead to a better corporate image. The discussion of the results indicates that the alternative hypothesis that a favorable Aggregate CSR has a positive relationship with firm's financial performance among Sri Lankan banking industry is accepted.

H_2: Favorable CSR towards employees will positively impact the firm's financial performance an analysis of the relationship between Employee CSR and the firm performance is given below in Table 02.

Table 13: Correlations among employee CSR and ROA

Correlations			
		Employee CSR	Average Return on assets
Employee CSR	Pearson Correlation	1	.906**
	Sig. (1-tailed)	.000	.000
	N	10	10
**. Correlation is significant at the 0.01 level (1-tailed).			

A direct link between CSR towards employees and firm performance substantiates previous findings (Sayedeh Parastoo Saeidi a, February 2015)the results show significant positive correlation between employee CSR and financial performance (0.906). Sri Lankan banking industry has successfully integrated various employee related CSR activities in its human resource policies such as worker safety and health, collective bargaining procedures, involvement of workers in decision making etc., Attention on human resource management practices, including training and development of employees, their participation in problem solving, progressive remuneration policies and grievance handling procedures reduces the attrition rate, increases employee productivity and firm performance. (Huselid, Youndt et al, 1995,1996)

H_3: Favorable CSR towards customers will positively impact the firm's financial performance

A Positive correlation of 0.861 between Customer CSR and financial performance reiterates the importance of a favorable customer CSR. Satisfied and delighted customers increase product sales through repeated purchases.

Table 14: Correlation Matrix Between Customer CSR and ROA

Correlations			
		Average Return on assets	Customer CSR
Customer CSR	Pearson Correlation	.861**	1
	Sig. (1-tailed)	.001	.001
	N	10	10

**. Correlation is significant at the 0.01 level (1-tailed).

H_4: Favorable CSR towards Community will positively impact the financial performance of the firm

The correlations among the variables were also significant. A company's reputation of good corporate citizen makes it easier for it to receive support from local and state governments for establishing businesses. The findings of the study show a positive significant correlation of 0.337 in respect of Community CSR and financial performance.

Table 15: Correlation Matrix Between Community CSR and ROA

		Community CSR	Average Return on assets
Community CSR	Pearson Correlation	1	.337
	Sig. (1-tailed)	.000	.000
	N	10	10

H_5: Favorable CSR towards environment will positively impact the firm's financial performance

A favorable CSR towards environment increases financial (Ahmed et al, 1998). The findings of the study, however, show a very low correlation between Environment CSR and financial performance (0.036). Environmental awareness among Sri Lankan banks is still very low and with a few exceptions, organizations are reluctant to spend on environmental protection measures as it requires huge investment on it. The results show that Environmental CSR performance variables are not correlated among each other.

Table 16: Correlation Matrix Between Environment CSR and ROA

Correlations			
		Environmental CSR	Average Return on assets
Environmental CSR	Pearson Correlation	1	0.036
	Sig. (1-tailed)	.000	.383
	N	10	10

Objective 3:

To identify the factors that motivate companies to engage in CSR

In order to understand the key factors that are drivers/motivators for organizations to undertake CSR, respondents were asked to give their responses on a Likert Scale of 1 to 5 where 1-Strongly Disagree; 2- Disagree; 3- Neither agree nor disagree; 4- Agree; 5- Strongly Agree. Respondents were asked to give their responses on certain common drivers/motivators of CSR identified in previous research studies. An analysis of the responses revealed the following:

➤ Nearly 55% of the respondents felt that Pressure from buyers/suppliers was NOT a motivating factor for undertaking CSR.

- ➢ Nearly 90% of the respondents felt that personal values of owners and managers were the main motivating factor for undertaking CSR.

- ➢ Nearly 65% of the respondents felt that religious sentiments of the owners were NOT a motivating factor for undertaking CSR.

- ➢ Nearly 60% of the respondents felt that improving the image of the organization was a motivating factor for undertaking CSR.

- ➢ Nearly 70% of the respondents felt that giving publicity to the company was NOT a motivating factor for undertaking CSR.

- ➢ Nearly 81% of the respondents felt that giving back something to the community was a motivating factor for undertaking CSR. Respondents were undecided about improving shareholder value as a motivating factor.

- ➢ Only 30% of the respondents felt that CSR was being carried out to further business interests.

It can be seen from the above that 'personal values of owners/managers' were the main motivating factor for companies to undertake CSR activities. Another factor which scored high was 'giving something back to the community'.

4.4 Regression Analysis

To examine the influence of control variables namely, aggregate CSR and segregate CSR on the financial performance of the firms, hierarchical regression analyses were carried out.

4.4.1 Regression analysis for financial performance

In the regression analysis, aggregate CSR and segregate CSR variables were entered. The regression analyses in respect of various variables are given below in Table. The above results support the main hypothesis (H1) and its components (H1.1 to H1.4) except for H1.4 where the correlation has not been seen. In the hierarchical regression analysis, for both aggregate and segregate CSR (except Environment CSR) positively influenced the financial performance.

Table 17: Regression analysis of CSR variables and ROA

Dependent Variable (Financial Performance)	Independent Variable	Regression Equation
	Aggregate CSR (Emp + Cust + Com)	*FP = -.113+71(Emp)+1.06(Cust)+.03(Com)+e*
	Employee CSR	FP = -.086+.93(Emp)

Customer CSR	FP = -.111+1.063(Cust)
Community CSR	FP = -.111+.026(Com)
Env. CSR	Independent variable is not significant

FP = Financial Performance
Emp = Employee CSR
Cust = Customer CSR
Com = Community CSR
e = Random Error Term

Evaluation of the Model

The model summary generated from this analysis is as follows. After all the variables have been entered into four separate blocks, the overall model as a whole explains 92.1 percent of the variance (0.921 x 100). As the R squared change value is .000 (which is very low) environment CSR variable should be eliminated from the model. This means that, after the effect of the environmental CSR, it doesn't explain any additional variance in Aggregate CSR. Statistically significant contribution, as indicated by sig. F change is given by Employee, Customer, and Community CSR respectively. The ANOVA table indicates the model as a whole (includes 3 blocks of variables which excludes Environmental CSR) is significant (F =63.326, p<.0005).

Table 18: Evaluation Model Summery

Model Summary									
Mo Del	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig.F Change
1	.932ᵃ	.868	.852	.12658	.868	52.684	1	8	.000
2	.960ᵇ	.921	.898	.10478	.053	4.674	1	7	.001
3	.960ᶜ	.921	.882	.11312	.045	.006	1	6	.004
4	.960ᵈ	.921	.858	.12372	.000	.016	1	5	.503
a. Predictors: (Constant), Employee CSR									
b. Predictors: (Constant), Employee CSR, Customer CSR									
c. Predictors: (Constant), Employee CSR, Customer CSR, Community CSR									
d. Predictors:(Constant), Employee CSR, Customer CSR, Community CSR, Environment CSR									

Coefficient[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.113	.222		-.509	.001
	Employee CSR	.056	.334	.706	.168	.000
	Customer CSR	.474	.496	1.061	.957	.000
	Community CSR	.021	.142	.018	.049	.004
	Environment CSR	-.020	.156	-.044	-.128	.214

Dependent Variable: Average Return on assets

4.5 Major Findings

The study revealed that there is a significant positive correlation between CSR activities towards various stakeholders and the banks' performance, except in case of Environment CSR.

As per the analysis the variables of Aggregate CSR comprising of Employee CSR, Customer CSR, Community CSR and Environment CSR are closely interlinked, clearly underlying the fact that there is a complementary relationship among the variables. The correlation analysis was used to test the relationship. As the segregate CSR variables increase the Aggregate CSR variable also increases, so the hypothesis is accepted.

The CSR towards each of the stakeholders was positive thus ensuring that the aggregate CSR was also favorable. This implies that the banks were following favorable CSR policies towards all its primary stakeholders.

Two state banks scored very high on CSR expenditure. Their average annual spending on CSR is around Rs. 100 Mn or more.

A fact that came across was that the domestic commercial banks with higher market share by assets and deposit sizes were the highest spending banks on CSR strategies in Sri Lankan banking sector. Though these banks achieved a significantly higher market share they still engage on CSR strategies more and more in order to enhance and survive in the market.

All most all the banking organizations have a separated staff for CSR related activities. This shows the intent and commitment on the part of banking organizations towards CSR in Sri Lanka.

A majority of the respondents felt that 'personal values of owners/managers' & 'giving something back to the community' was the most important and major motivating forces in determining whether banking organizations adopt CSR.

Organizations are aware that in order to enter global markets, it is necessary to undertake CSR activities. Banks in Sri Lanka have identified the importance of factoring the CSR component to arrive at the credit rating score for companies. This has driven some of the banking organizations to undertake CSR.

5. CONCLUSION

The banking sector of Sri Lanka has a huge competition. Each and every bank is trying to accomplish their performance targets by implementing various strategies. In order to achieve these performance targets, definitely they have to fulfill their primary stakeholders' satisfaction. Generally, CSR is identified as being the method through which a company achieves a balance of economic, environmental and social practices whilst simultaneously fulfilling the expectations of both its shareholders and various other stakeholders. Corporate Social Responsibility is strategic when it yields business related benefits to the organization. This study has focused on the stakeholder approach to the business approach by linking CSR and firm performance.

Overall summary

The first objective of the study was to examine the relationship between CSR and financial performance of Domestic Commercial Banks in Sri Lanka. The study found that CSR activities have a positive impact on a firm's financial performance, and it is in the best business interests of the company to undertake CSR activities. While the correlation was significant for the CSR activities related to employee, community and customers, it was not statistically significant in case of Environment CSR. Though the banks have started focusing on environment through concepts like green banking, environmental pollution awareness programs etc. still it doesn't affect significantly on their financial performance.

The second objective of this study was to identify and empirically analyze the existence of correlations among CSR towards various primary stakeholders. CSR towards various stakeholders such as employees, customers, community and environment were measured. The stakeholders have varied interests in the firm. Stakeholders include groups with quite different expectations. Organizations have to therefore understand the nature of a particular stakeholder and assess what priority to accord to the expectations of the stakeholder. According to the analysis, Correlation Matrix between aggregate CSR and CSR towards various stakeholders indicated a more favorable correlation.

The third objective of this study was to understand the primary motivators/ drivers of CSR activities among domestic commercial banks. Spending significant sums on CSR initiatives and community work, many banks have not been able to get any resultant benefits; this is because their CSR spending was not directly linked to driving community support for their business plan. A vast majority of the banks have an orientation towards community development approach based on the argument that it needs to "give something back to the community". Banks have shown a tendency to concentrate on certain areas of community development; especially health and education as these are the most serious challenges faced by some of the remote areas in Sri Lankan communities. These areas of engagement have a strong public interface which may be beneficial to the banks.

5.1 Limitations of the study

The report focuses on the level of CSR activities at major domestic commercial banks. It is restricted to domestic commercial banks.

The study has focused on the level of CSK with respect to a few primary stakeholders namely; employees, customers, community and environment, The CSR activities towards other important internal stakeholders such as investors have not been covered. Similarly, some external stakeholders such as civil society groups, other companies are also not part of the study.

Another limitation is respondent may distort the real situation. (Understanding the questions incorrectly, completing the questionnaire carelessly and intentionally mentioning wrong answers)

The researcher collected data only from ten domestic commercial banks due to the cost and time limitation

5.2 Suggestions for future research

This study has focused on the relationship between CSR and domestic commercial banks under the classification of highest market share by assets and deposit size, using accounting-based measures only. Future research may investigate whether similar results are obtained using market based financial measures.

Also, studies could be carried out on a comparative analysis only on banking industry. Future researchers can carry out this study by analyzing various industries by taking higher number of organizations into account.

This will expand the sample and will enhance the reliability of future studies regarding CSR up to a greater extent. The CSR activities towards other important internal stakeholders (apart from employees, customers, community and environment) such as investors may also be considered by future studies. Similarly

studies may also look at some external stakeholders such as civil society groups and other companies.

Studies may also look at the influence of age of companies and the level of CSR activities. Future research may focus on socially responsible investing which integrates the personal values and societal concerns into investment decision making.

Not only the direct impact of CSR on financial performance of organization, but also future studies may attempt to analyze other CSR related areas such as the relationship between CSR and nonfinancial performances of organizations, impact of the shareholding pattern of the company on the CSR activities, and to examine the perceptions of managers towards CSR etc.

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