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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 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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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 Relationship Between Corporate Social Responsibility Practice and Financial Performance of Commercial Banks in Sri Lanka.

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Abstract

This study aims to examine the relationship between Corporate Social Responsibility (CSR) Practice and Financial Performance (FP) of commercial banks in Sri Lanka. Throughout this study used quantitative method with descriptive research approach. The researcher selected eight commercial banks listed in Sri Lanka from convenient sampling method for the period of 10 years starting from 2009 to 2018. Secondary data has been collected from audited annual reports and financial statements of commercial banks. Descriptive statistics, correlation analysis, regression analysis, ANOVA and hypothesis testing were used to analysis the collected data. Moreover the study used panel regression model to accomplish the primary objective. For measure financial performance used four profitability ratios, (Return on Asset, Return on Equity, Net Profit and Earning per Share) while CSR Expenses used to quantify explanatory variable with Firm Size, Leverage, and Capital intensity as control variables. For all four models, Results justified that alternative hypothesis rejected while null hypothesis accepted emphasized there is no relationship between Corporate Social Responsibility (CSR) and Financial Performance. Therefore Researcher have identified, CSR practices does not have a significant relationship between financial performances of commercial banks in Sri Lanka. Accordingly, the research concludes that, still commercial banks in Sri Lanka are not much incorporated with CSR activities which focus on influencing financial performance.

Key Word: *Corporate Social Responsibility, Financial Performance, Return on Asset, Return on Equity, Net Profit, Earning Per Share,*

1. INTRODUCTION

Corporate social responsibility is a concept which has become dominant in current business world. Every organization maintaining a policy concerning CSR and produces report annually reporting activities they conducted. These activities are not responsible by the laws but social wellbeing. According to Nimsith & Mafaza & Safna (2016) emphasized Corporate Social Responsibility (CSR) practices considered as the indicator of social performance and most of the organizations realized that and started creating a separate report called sustainability report to show how they contribute to the betterment of society.

As a result of industry revolution, business world dramatically changed. Financial system is one of the most significant components in the economic system in any country. Strong financial system leads to industrial development, direct and indirect employment and enhance gross domestic income. Therefore, commercial banks play a major role in financial system through financial intermediation. Corporate social responsibility (CSR) is an important concept to the banking industry due to the high competition and rapid changing business environment. Recently commercial banks focus on development programs on education of the country. Such as donations to underprivileged schools and primary schools, supporting infrastructure facilities, capacity development programs of the students by conducting seminars, support sports and cultural activities by providing sponsorships. Not only that but also focus on community and environment by donating funds to major hospitals for development purposes and support emergency situation in county due to bad environment conditions, finance for Eco-friendly products and promoting those products for betterment of the society. Therefore, Corporate Social Responsibility (CSR) practices act as dynamic turning point of banking business and it is better solution for integrating moral principle in banking industry. Recently banks put more weight on social responsibility practices with the intention of profitability.

According to the McWilliams and Siegel (2001) describe corporate social responsibility as "Doing all those activities which are not forced by law of primary benefits of the business but for the benefits of the society." Every organization has free mind of doing CSR activities with the intention of giving some benefits to the society rather than profit margins. In the modern concept of corporate social responsibility (CSR), it is stated that business enterprises in usual process of decision making should pay due consideration to the social interest of the peoples in the society (Wijesinghe and Senarathne, 2011). It doesn't give much sound effects allocated funds for every social activity, it must have interest and the requirement of the society. Otherwise allocating funds for social activities will not be efficient. It should have primary requirement and it should come through the need of the society.

Financial performance can be defined as the measurement of the financial positions of the organization over a specific time period. Moreover, it can used to measuring and analyzing the financial objectives of the firms to see whether they are accomplished or not. (Kotler, 2005).

The corporate social responsibility and financial performance of the banking sector become debatable topic in modern business world. Although a bank is profit generating institution they focus on social activities which does not directly gives benefits. The reason behind that numerically profits generations' short duration than the market and customer expansions. (Simpson and Kohers, 2002). The empirical studies conducted on Corporate Social Responsibility (CSR) and Financial Performance (FP) are never been in agreement, some studies resulted negative relationship between CSR and FP, some determine positive relationship, meanwhile some studies having neutral relationships. .e.g Nimsith & Mafaza & Safna (2016), Elif and Halil (2017), Cheung & Mak (2010).

The primary focus of this research study is to identify the relationship between corporate social responsibility practices and financial performance of commercial banking sector in Sri Lanka. So the measuring relationship between CSR and financial performance is vital for the banking industry. Due to limited past researches based on particular area in Sri Lanka, and empirical studies used different variables with different methodologies having controversial results.

Therefore, problem statement of this study is

- Are there any relationships between CSR activities & financial performance of the commercial banks in Sri Lanka?

2. LITERATURE REVIEW

Odetayp & Adeyemi & Sajuyigbe (2014) analyzed the impact of corporate social responsibility on profitability of Nigerian banks. Here the study used secondary data obtained from the annual reports as the source of data which published of each six (06) sample commercial banks quoted in Nigerian Stock Exchange, within the period of 10 years (2003-2012). That study used regression analysis to find the impact of CSR expenditure on profitability of the Nigerian banks. The results of regression analysis showed that there is a positive significance relationship between expenditure on corporate social responsibility and profitability of six sampled banks. And also the study concludes that the stakeholders theory that explained organizations have strict confidence and focus on each and every internal and external stakeholders rather that the owners of the company.

Ogolla (2009) conduct a study to identify the relationship between corporate social responsibility and financial performance of commercial banks in Kenya licensed by central bank in Kenya during the period of 2007-2011. The study used secondary data

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which was obtained from the audited annual reports of the central bank of Kenya during 05 consecutive years. The study used multiple regression model to determine the relationship between two variables corporate social responsibility and the financial performance. Financial performance as dependent variable and the CSR, capital intensity and the efficiency act as independent variables. One of the major finding of the study is there is no any strong relationship between the independent variable corporate social responsibility and the dependent variable financial performance. And also when commercial banks enhance the efficiency in banking services ultimately banks financial performance improves and having significant relationship between the two variables.

Wijesinghe & Seneratne (2011) conduct a study to discover the impact of disclosure of corporate social responsibility on corporate financial performance in Bank, Finance and Insurance Sector in Sri Lanka using sample of 27companies from the 33 listed companies in BFI sector for the period of 5 years from 2005 to 2010. The study used multiple regression model were applied to investigate the impact of disclosure of CSR on financial performance of bank, finance, insurance sector. Disclosure of CSR was measured and quantify by the GRI guidelines and financial performance quantify through accounting measures ROA and ROE. Empirical finding signify the overall level of CSR disclosure is at a lower level and there is a need of much improvement of Environmental, Social, Economic, and Governance disclosure sustainability. Finally conclude that there is a significant positive relationship between disclosure of CSR and the financial performance.

Nimsith & Mafaza & Safna (2016) examined the effect of corporate social responsibility on financial performance of banks in Sri Lanka for the period ranging from 2010 to 2014. The secondary data were collected from annual reports, newsletters, news articles, journals and corporate websites from 11 licensed commercial banks listed in central bank of Sri Lanka. The data were analyzed through regression analysis, correlation and hypothesis testing. The result of regression analysis emphasis that there is a positive impact between CSR and the financial performance (ROE, ROA, EPS and Net Profit). However the findings implied that there is a positive impact of corporate social responsibility for the financial performance of selected commercial banks of Sri Lanka, and justify that the CSR for the success of Commercial banks and it helps to improve the financial performance.

Iqbal & Ahmad & Bashir & Sattar (2014) studied the empirical relation between corporate social responsibility and its possible impact on firm's financial performance in banking sector of Pakistan during the period of 2005 to 2011. In this study used annual reports, corporate websites, as the source of secondary data to analysis the impact of CSR and FP. Simple Regression analysis were used to determine the impact of dependent variable (Net Profit Margin, EPS) and the independent variable (CSR). The study conclude that there is a positive relationship between the firm disclosure of corporate social responsibility and the firm's performance. Simply, when the firm allocating funds on social works (Donations), the entire society gets benefits of it, but it does not mean that society will not pay back to the firm. Society also pays to the firm in a different ways like, reputation or goodwill or good image of company in the mind of customer as well as investor. Ultimately the study suggest that all type of organizations not only banks but also other companies should have a sound CSR policy when society having a critical situations must ready to giving benefits to the society.

Elif and Halil (2017) conduct a study to identify the relationship between corporate social responsibility (CSR) and the firm performance in listed firms on Borsa Istanbul during the period of 2009 to 2011. The sample consist of 341 firms out of 1024 populations used content analysis of annual reports/websites of Turkish firms for any socially responsible activities. Primarily used regression analysis along with descriptive analysis with dependent variable (ROA) and independent variable (CSR) with Seven Control variables (Size, Liquidity, R&D, Risk, Growth, Leverage, and Net Sales). The study resulted a negative relationship between CSR and Financial Performance which means firms disclose more information regarding CSR activities in their annual reports and other publications have lower return on asset.

According to Adeneye (2015) empirically showed that there is a significant positive relationship between corporate social responsibility practice and company performance with the sample of 500 UK firms. The study were used descriptive statistics, regression analysis and correlation analyses to analysis data. Company performance measured by the market to book value (MBV) and return on capital employed (ROCE) both resulted positive relationship to the CSR, meanwhile size (SIZE) gets negative relationship between CSR. And also the study emphasis that the importance of implication for stakeholder theory of corporate social responsibility as shareholder wealth maximization. The study recommended corporate performance influenced by both MBV and ROCE in UK firms and CSR does not influence SIZE. So to achieve competitive advantage in the market UK firms should intensify more efforts in carrying out their corporate social responsibilities which increased ROCE and MBV.

The study is directed towards to identifying the impact of corporate social responsibility of financial performance of corporations which listed in Karnchi Stock Exchange Pakistan during the period 2010 to 2011. Secondary date was obtained from annual reports and corporate websites as source of data, sample of 156 textile, chemical, cement and tobacco sectors. The study used descriptive statistics, correlations, regression analysis, to evaluate the impact of dependent and independent variables. By conclusion corporate social responsibility (CSR) has no effect of financial performance (CFP). The result justify that CSR has negative effect on the market value of the share but no relationship to D/E behavior of the firm. Iqbal and Ahmad and Basheer and Nadeem (2012).

Abeysinghe and Basnayake (2014) studied the empirical relationship between corporate social responsibility disclosure and financial performance in Sri Lankan domestic banking industry. Six domestic commercial banks in Sri Lanka were examined as sample out of 12 populations during the period of five years stating from 2009 to 2013.GRI index were used to analysis quantitative data of CSR disclosure, and annual reports used to measure other variables. Moreover regression analysis, descriptive statistics, anova, correlation statistical tools were used to measure the relationship between CSR disclosure and the financial performance. The study resulted that there is a negative relationship between CSR disclosure and financial performance of selected domestic commercial banks. Especially the study found that time to time with the changes of macro and economic condition banks performance may vary and financial performance will not totally depend CSR. Meanwhile CSR disclosure in private banks higher than the state banks even though the firm size of private bank smaller than the state banks.

Tsoutsoura (2004) examined the relationship between corporate social responsibility and financial performance of S&P 422 firms out of 500 Firms populations during the period of five years starting from 1996-2000. The study used correlation, Cross-sectional time series regression analysis, descriptive statistics to determine the relationship between depended variable which measured by (ROA), (ROE), (ROS) and the independent variables (SIZE), (CSR), and (RISK). The empirical findings reveal that there is a significant positive relationship between corporate social responsibility and the financial performance.

Maqbool & Zameer (2018) conduct a study with the intention of finding the relationship between corporate social responsibility and financial performance of Indian banks. Data was sourced from annual reports of 28 Indian commercial banks listed in Bombay Stock Exchange (BSE) during the period of 10 years (2007 to 2016). Size, Age, Risk, Capital Intensity were incorporated as control variables meanwhile ROE, ROA, NP profitability indexes used as dependent variable measurement & CSR for Independent variable. The study used panel data set of sample 28 commercial banks out of 45 population, for the variable measuring panel regression model, descriptive statistics, and correlations used as methodology. The result showed that CSR positively impacts profitability of stock return. Further study confirmed that business can drive to higher level of profit margin with the help of integrate CSR and strategic planning of the company.

Niresh and Silva (2018) analyzed the Nexus between Corporate social responsibility disclosure and financial performance of Listed Banks, Finance and Insurance Companies in Sri Lanka during the period of 2010-2014. The study used content analysis of annual reports of listed banks, finance and insurance companies over 05 years period of time. Analyzed 33 Sample Company's cross sectional and time series data by using panel data analysis, multiple regression analysis, and Hypothesis testing. Corporate financial performance (CFP) measured through Return on Asset

(ROA) and Return on Equity (ROE) controlled by Size and Leverage. The authors found that there is a significant relationship between corporate social responsibility disclosure and future financial performance of listed banks, finance and insurance companies in Sri Lanka. The study evidence that when the company engaging disclosure of CSR activities on their publications that can be used as a tool for increase future organizational and economic performance.

Madurasinghe and Jahfer (2016) conduct an analytical study of corporate social responsibility and financial performance in banking sector of Sri Lanka. Simple regression analysis was employed by the researchers in testing the secondary data collected form the published audited annual reports, internet sources, journals, and publications of central bank over 07-year period of time commencing 2009-2015 of the selected banks. Employee relations, Environment, and Community involvement factors were considered as the dimensions of CSR and Company performance was measured by using Return on Asset (ROA) and Return on Equity (ROE). Especially independent variable CSR disclosure measured by using scoring method based on content analysis. According to the correlation and regression measurement, observed that corporate social responsibility has a positive relationship between the financial performance measured based on return on asset and return on equity during the seven years period.

Simpson & Kohers (2002) examined the linkage between corporate social responsibility and financial performance of the banking sector. Data was gathers from all national banks examined by Community Reinvestment Act Ratings (CRA), Sample of 385 banks during the period of 1993 to 1994. The linkage was measured by using liner regression analysis, dimensions of depended variable of financial performance were (ROA) and (Loan Losses), independent variable (CSR) and 14 other control variables. The empirical findings reveal that there is a positive linkage having corporate social responsibility and financial performance of banks.

Thilaksiri (2012) analysis the relationship between CSR disclosure and financial performance in the Sri Lankan context. Quantitative and Qualitative data was gather by using content analysis and the study utilized 28 CSR check-list items. Sample of 50 listed companies in combo stock exchange (CSE) were used as sample for the period of 06 years starting from 2004 to 2009. Employee, Community, Environmental, Customer, Educational and Health are dimensions used to measure for CSR Disclosure and Return on Asset (ROA), Return on Equity (ROE), Return on Sales (ROS) for measure Financial Performance with one Control variables (Firm Size). The empirical finding justified that there is a positive relationship between CSR disclosure and financial performance. Moreover, community relation disclosure was significantly positively associated with ROA and ROE. Negatively association was observed between health relations activities and performance, measured by ROA and ROE.

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The impact of corporate social responsibility on the financial performance of banks in Pakistan was investigated by Malik & Nadeem (2014) using content analysis. Data was sourced from annual reports of banks listed in Pakistan during the period of 2008-2012. To verify the relationship between CSR and financial performance researchers employed some dimensions, for CSR (Donations, Educations, Health, Social Welfare) and for Financial performance used accounting measures (EPS, ROA, ROE and Net Profit).The study found that there is a positive relationship between CSR and Financial performance of banks listed in Pakistan. Further in long term financial institutions which implementing of various strategies regarding CSR practices, enjoy higher profits margins. Moreover, the study emphasis that goodwill of the institutions, satisfaction of stakeholders, economic, political and social environments enjoy the outcomes of implementations.

Joseph & Michah (2016) analyzed the impact of corporate social responsibility on financial performance of listed Nigerian banks during the period of five years starting 2010 to 2014. The study used accounting and market based indices Earn per Share (EPS), Return on Capital Employed (ROCE), and Dividend per Share (DPS) in determining the impact of financial performance. Simple regression analysis was employed by the study in testing the secondary data collected from the annual published financial statement of the selected banks. The regression results showed that dividend per share (DPS) and Earn per share (EPS) have negative significant relationship with CSR meanwhile return on capital employed (ROCE) has a positive significant relationship between CSR. Finally, the study showed that financial institutions are not actively engage in CSR activities and disclosure in their publications related activities widely in Nigeria and it does not impact highly on their financial statements.

Adeneye (2015) conduct a descriptive study with the intention of finding the nexus between corporate social responsibility and company performance of 500 UK firms. Corporate social responsibility measured by using CSR index and company performance measured by using Market to Book Value (MBV) , Company Size (SIZE), Return on Capital Employed (ROCE). Relationship between CSR and Financial Performance measured by using descriptive statistics, regression and correlation analysis. Based on the quantitative data obtained from the sample 500 UK companies resulted a significant positive relationship between corporate social responsibility, on return on capital employed (ROCE) and market to book value (MBV). However negatively relations between CSR and Size. By simply corporate performance (ROCE) and (MBV) are influenced by corporate social responsibility in UK while CSR does not direct hit by Size of the company. The study recommended that UK firms, to improve (ROCE) and (MBV) as company performance should allocate more funds for CSR activities which can use as a strategy for competitive advantage.

Weber (2017) examined the connection between corporate sustainability and the performance of Chinese banks and whether any possibility to explore sustainability regulations implemented without decreasing the financial performance of the banking sector. Secondary data was obtained form annual report and corporate websites of the banks as sources of data, during the period of five years starting from 2009 to 2013. Panel regression model and Granger causality to analyze causes and effect which data available. Based on analyzed results, researcher came to know that there is no trade-off between corporate sustainability performance and financial performance but correlated positively. Moreover the study has been found that di-directional causality between financial performance and sustainability performance of Chinese banks. And suggest that based on institutional theory above interaction may be influenced by the Chinese green credit policy regarding financial institutions.

Ashraf, Khan, Tariq (2017) studied the impact of corporate social responsibility and financial performance of banks in various Asian countries during the period of 2010-2017, Sample of 17 Asian banks quantitative data was obtained from bank's annual reports measured and analyzed using E-views software. Multiple regression model, correlations, descriptive statistics models used to check the impact of CSR on financial performance. Financial performance was measured through Return on Assets (ROA), Return on Equity (ROE),Earn per share (EPS),Price earnings Ratio (PE) and Donations, Social Welfare, Education, Health, Environment Protection were used as dimensions for measuring CSR. They have found a positive and significant impact on financial performance of banks. Simply the study suggest that banks must pay more attentions on CSR practices while customers are payback to firm with different profitability seniors.

Weshah & Dahiyat & Abu Awwad & Hajjat (2012) conduct a study with the intention of finding the impact of adopting corporate social responsibility on corporate financial performance of 13 commercial banks listed in Jordanian Stock Exchange in 2011. Donation disclosed, Training expenses were utilized as the dimensions of measure CSR based on which data obtained from published annual reports of Jordanian banks. Financial performance were measured by accounting ratio Return on Asset (ROA) while Size, Risk, Advertising Intensity consider as control variables of the model. Hypothesis testing used to check the impact of CSR and financial performance. ROA were significantly linked with CSR where positively association with bank Size, Risk in the bank, and Advertising Intensity of the bank. The study emphasis that the importance of adoption CSR activities to improve financial performance of Jordanian banks.

Fauzi and Idris (2009) analyzed the corporate social responsibility and financial performance of Indonesian listed companies in Jakarta Stock Exchange in 2007. Sample of 220 State owned and Non-Sate owned companies consider for this study. Empirical findings signify that there is a positive relationship between corporate financial performance and corporate social performance.

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The effect of corporate social responsibility information disclosure in financial performance and Firm value in Banking Industry listed at Indonesian Stock Exchange were examined by Bidhari & Salim & Aisjah (2013) using positivism approach. Data was sourced from annual reports and financial statements of 15 banking companies listed at Indonesia stock exchange during the period of 2008-2011. The study employed path analysis, ANOVA, regression analysis, descriptive statistics to quantify the impact of CSR information disclosure and financial performance and firm value. Financial performance of the companies measured by using ROA,ROE,ROS and CSR information disclosure measured by using Tobin’s Q. Tobin’s Q resulted both ROA and ROE affected to the firm value but ROS did not affected to the firms value. Ultimately the study found positive significant relationship between CSR information disclosure and financial performance all measurements. The results indicate that while Indonesian banking industry improvement of CSR information disclosure have good chance of improve its financial performance. Further the study pointed out allocate funds for CSR disclosure information not an expenses to the company, but future investment with multiple benefits like increase firm value, improve shareholder value, increase reputation of the bank.

Cheung & Mak (2010) conduct a study to identify the relationship between Corporate Social Responsibility disclosure and Financial Performance of Global Finance Best Ranked banks during the period of 2006-2009. The study used Regression analysis to empirical data analysis of 57 sampled commercial banks that disclose corporate social responsibility activities in their firm publications. The empirical results justified that the relationship between CSR disclosure and financial performance of commercial banks is neutral.

Oeyono & Samy & Bampton (2011) examined the relationship between corporate social responsibility and financial performance of top 50 listed Indonesian corporations in 2008. Due to limitations of obtaining data, top 48 listed corporations got as sample for the study. Secondary data obtained from annual reports and corporate websites during five years periods. Global Reporting Initiatives GRI guidelines were used to measure corporate social responsibility (CSR) and two basic accounting measures, Earn per Share (EPS) and Earnings before Interest and Tax plus Depreciation plus Amortization (EBITDA) were measured financial performance of the corporations during the period of 2003 to 2007. The study focus GRI dimensions (Environmental, Economic, Labor Practices, Society, Human Rights and Product Responsibility) for the analysis. The empirical results showed that there is a positive relationship between CSR and Financial Performance.

The above-presented literature representing several countries and time periods shows different results on the relationship between corporate social responsibility and financial performance. Accordingly, this research paper attempts to contribute to the existing literature by revealing the relationship between CSR and financial performance of selected 08 Sri Lankan local banks for the time period 2009-2018 by developing and testing the following conceptual model.

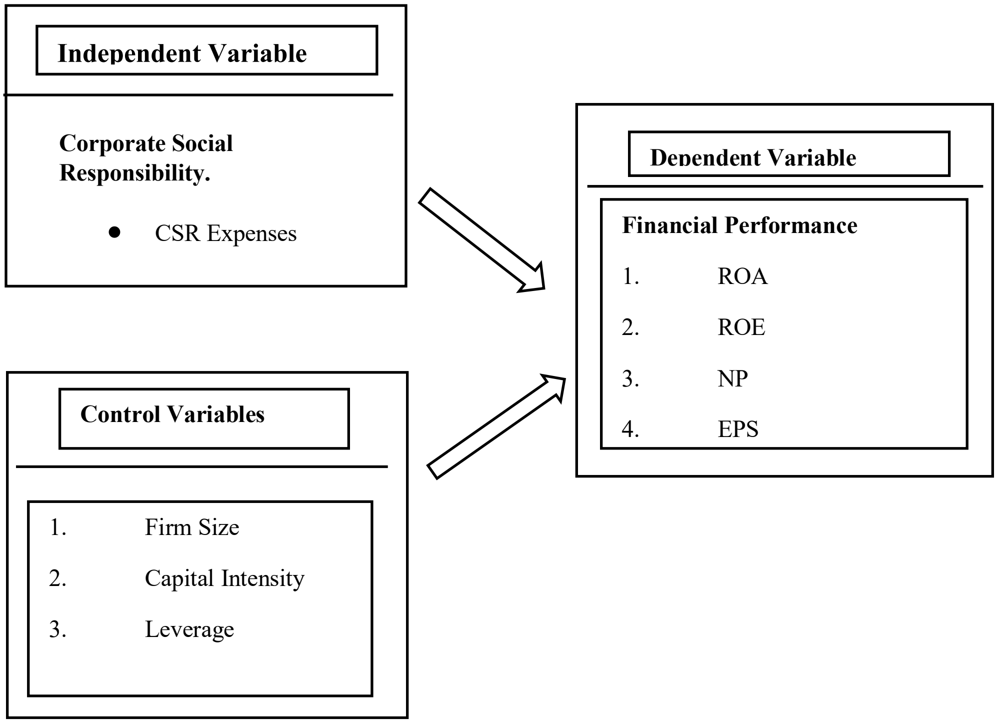

Figure 1. Conceptual Framework

Accordingly, hypothesis was developed as follows;

H0: There is no relationship between Corporate Social Responsibility (CSR) and Financial Performance.

HA: There is a relationship between Corporate Social Responsibility (CSR) and Financial Performance.

HA1: There is a positive and significant relationship between CSR and ROA (Return on Asset).

HA2: There is a positive and significant relationship between CSR and ROE (Return on Equity).

HA3: There is a positive and significant relationship between CSR and EPS (Earning per Share).

HA4: There is a positive and significant relationship between CSR and N.P (Net Profit).

This study based on quantitative research method. Numerical data obtained by various sources analyzed by using various mathematical and statistical methods. Quantitative data employed to identify the relationship between corporate social responsibility practices and financial performance of commercial banks; Return on Asset, Return on Equity, Net Profits and Earn Per Share (Dependent Variables) in commercial banks which CSR Expenses (Independent variable) with Firm Size, Capital Intensity, and Leverage (Control Variables) with the intension of the researcher is to identify the relationship between corporate social responsibility practice and the financial performance of commercial banks in Sri Lanka context. Therefore, this study design as descriptive research category.

Table 3.1 Operationalization

Variables	Calculation	Symbol	Type
Return on Asset	Profit before Tax/Total Asset	ROA	Dependent
Return on Equity	Profit after Tax/ Total Equity	ROE	Dependent
Net Profit	Net Profit after Tax/Net Sales	NP	Dependent
Earn Per Share	Net Profit/ No. of Equity Shares	EPS	Dependent
Corporate Social Responsibility	CSR Expenses	CSRE	Independent
Firm Size	Total Assets of the Firm	FS	Control
Capital Intensity	Total Asset/ Total Sales	CI	Control
Leverage	Total Liability/Total Asset	L	Control

Source: Developed by researcher

From the 26 populations 08 licensed commercial banks which licensed in CBSL consider as the sample for this study for investigate the relationship between corporate social responsibility practice and the financial performance of commercial banks in Sri Lanka. Here the researcher used convenient sampling method. Therefore 18 commercial banks eliminated from the sample due to insufficient information disclosure on CSR. Though some banks engage in CSR activities, but they do not disclose in numerical way is the one of major determinant for exclude from the sample.

Total Licensed Commercial Banks in Sri Lanka	26
(-) Uncompleted Data	(18)
Final Sample	08

According to above sample selection final sample consist with 08 licensed commercial banks in Sri Lanka. Those are Commercial Bank PLC, Hatton National

Bank PLC, Sampath Bank PLC, Seylan Bank PLC, National Development Bank PLC, Peoples Bank, Bank of Ceylon and DFCC Bank PLC.

4. RESULTS

4.1 Descriptive Analysis

Descriptive analysis is a major part of a statistics. This contain with a brief summary of information which quantitatively describe the features of collected data.

Table 4.1 present the descriptive statistics of variables in the regression model. In this table include the data of 08 commercial banks in Sri Lanka during the period of 10 years. 2009-2018.

Table 4.1 Descriptive Statistics

	Mean	Median	Maximum	Minimum	Std.Dev	Kurtosis
ROA	0.019666	0.018784	0.043586	0.006723	0.007108	5.449343
ROE	0.174328	0.162148	0.393631	0.051396	0.067697	5.036265
NP	0.365831	0.361631	1.133751	0.075291	0.142498	13.34754
EPS	1781.009	21.04654	18249.78	2.862296	4213.428	9.012567
CSR Expenses	9.416003	9.866088	12.01370	4.094345	1.721087	3.120082
Firm Size	19.95183	19.96806	21.54223	17.84826	0.835778	2.533426
Leverage	0.910128	0.917436	0.966558	0.627173	0.053528	16.24237
Capital Intensity	9.427960	9.297754	18.54456	5.733840	1.767607	10.75964

Source: E-Views 8

4.2 Correlation Analysis

Correlation analysis is a basic tool that used to determine strength and direction of liner relationship between two or more variables.

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Table 4.2 Summery of Correlation (ROA)

Independent Variable	r Value	p Value	Relationship
CSR Expenses	-0.103154	0.3752	Weak Negative
Firm Size	-0.461810	0.0000	Moderate Negative
Leverage	-0.602282	0.0000	Moderate Negative
Capital Intensity	0.013830	0.9056	No Relation

Source: Developed by Researcher

By reviewing table 4.2 summery of correlations, Firm Size and Leverage having Moderate negative & Significant relationship on Return on Asset. Capital Intensity presents no correlation related to the Return on Asset. While CSR Expenses indicates Weak Negative & Insignificant relationship with Return on Asset.

Table 4.3 Summery of Correlation (ROE)

Independent Variable	r Value	p Value	Relationship
CSR Expenses	0.453855	0.0000	Moderate Positive
Firm Size	0.422008	0.0001	Moderate Positive
Leverage	0.472361	0.0000	Moderate Positive
Capital Intensity	0.330292	0.0036	Weak Positive

Source: Developed by Researcher

According to the correlation results of table 4.3, CSR Expenses, Firm Size and Leverage having Moderate Positive & Significant relationship on Return on Equity. While Capital Intensity presents Weak positive significant correlation related to the Return on Equity.

Table 4.4 Summery of Correlation (NP)

Independent Variable	r Value	p Value	Relationship
CSR Expenses	0.064817	0.5780	No Relation
Firm Size	-0.174255	0.1322	Weak Negative
Leverage	-0.410209	0.0002	Moderate Negative
Capital Intensity	0.415299	0.0002	Moderate Positive

Source: Developed by Researcher

By reviewing table 4.4 summery of Correlations, there is no correlation between CSR Expenses and Net Profits. Meanwhile Firm Size represent Weak Negative Relationship. Thought Leverage and Capital Intensity having same p values correlations represents Moderate Negative and Moderate Positive respectively. Both Leverage and Capital Intensity variables are Significant other than CSR Expenses and Firm Size.

Table 4.5 Summery of Correlation (EPS)

Independent Variable	**r Value**	**p Value**	**Relationship**
CSR Expenses	0.273821	0.0167	Weak Positive
Firm Size	0.451845	0.0000	Moderate Positive
Leverage	0.334557	0.0031	Weak Positive
Capital Intensity	0.091180	0.4334	No Relation

Source: Developed by Researcher

Finally by reviewing table 4.5 summery of Correlation ,CSR Expenses, Firm Size, Leverage, and Capital Intensity having Significant Weak positive, Significant Moderate Positive, Significant weak positive and Insignificant No relation correlation with Earn per share respectively.

4.3 Regression Outputs

The regression analysis was performed to identify the impact of financial performance and CSR Expenses. Regression analysis outputs represents based on the data obtained from Hausman Test. According to tests performed reveal that, for (ROA) fixed effect model appropriate meanwhile other variables (ROE, NP and EPS) Random effect appropriate.

Table 4.6 Regression Outputs

Variable	ROA (Fixed)	ROE (Random)	NP (Random)	EPS (Random)
C	0.174857	0.077076	1.419984	-17730.54
Prob.	0.0000	0.6960	0.0003	0.0537
LG_CSR_Expenses	-0.000218	0.006073	0.012031	80.18792
Prob.	0.6793	0.1924	0.2038	0.6830
LG_Firm_Size	-0.003493	-0.015460	-0.008866	831.1699
Prob.	0.0093	0.1864	0.7021	0.0921
Leverage	-0.096790	0.280461	-1.438538	1475.570
Prob.	0.0000	0.1087	0.0000	0.8486
Capital_Intensity	0.000493	0.009697	0.033707	85.90192
Prob.	0.1967	0.0070	0.0000	0.5466
R Squared	0.610739	0.146985	0.372411	0.086482
Adj R Squared	0.543834	0.098928	0.337054	0.035016
F Stat	9.128540	3.058545	10.53283	1.680373
Prob. Stat	0.000000	0.022009	0.000001	0.164084
Durbin-Watson stat	1.693221	1.614849	2.110585	0.637058

Source: E-views 8

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4.4 Testing Hypothesis

HA1: There is a positive and significant relationship between CSR and ROA (Return on Asset).According to the analysis, there is no significant impact of CSR Expenses on ROA. So results conclude that HA1 rejected at 5% significance level (2-tailed)HA2: There is a positive and significant relationship between CSR and ROE (Return on Equity).The results of the analysis presents Insignificant & Positive impact of CSR Expenses on ROE. Therefore HA2 rejected at 5% significance level (2-tailed)HA3: There is a positive and significant relationship between CSR and EPS (Earning per Share).Results of the analysis stated that no significant and positive impact of CSR Expenses on NP. Therefore HA3 is rejected at 5% significance level. (2-tailed) HA4: There is a positive and significant relationship between CSR and NP (Net Profit). Results of the analysis shows positive but no significant impact of CSR Expenses on EPS. HA4 is rejected at 5% significance level. (2-tailed)

Table 4.7 Summery of Testing Hypotheses

Hypotheses	Result
HA1: There is a positive and significant relationship between CSR and ROA (Return on Asset)	**Rejected**
HA2: There is a positive and significant relationship between CSR and ROE (Return on Equity).	**Rejected**
HA3: There is a positive and significant relationship between CSR and EPS (Earning per Share).	**Rejected**
HA4: There is a positive and significant relationship between CSR and NP (Net Profit).	**Rejected**

Source: Developed by Researcher

5. DISCUSSION

The study intended to examine the relationship between Corporate Social Responsibility (CSR) Practice and Financial Performance (FP) in commercial banks in Sri Lanka. As an intermediary party in the financial market, banks play a crucial role in an economic by supporting for the economic growth and development. To optimize the wealth of the shareholder deeply affect profitability of the banks. Hence participating social activities by allocating portion of profits of the banks experienced opportunity cost but expected indirect benefits to the Stakeholders. In this study, concerned few profitability ratios to examined the Financial performance of commercial banks; Return on Assets (ROA), Return on Equity (ROE), Net Profits (NP) and Earn Per Share (EPS). One independent variable with three control variables CSR Expenses, Firm Size, Leverage, and Capital Intensity respectively. To accomplish the primary objective, researcher have selected 08 listed commercial banks in central banks of Sri Lanka as the sample. Widely used secondary data gathered from annual publications of each commercial banks in Sri Lanka period of 10 years (2009-2018). E-views 8 statistical package were used to data analysis.

The researcher used quantitative research design with descriptive statistics, correlations analysis, regression analysis and hypothesis testing. Descriptive statistics used to summarize the basic features of collective data set which provide important figures to have clear picture. The study used Mean, Median, maximum, minimum. Standard deviation kurtosis for analysis the collective information. This study used correlations analysis to identify the strengths and directions of the independent and control variables towards dependent variables. Results of correlations analysis showed different relationship with various strengths according to the each and every dependent variables.

For ROA CSR Expenses found weak negative relationship which means if CSR Expenses of the bank increases financial performance of the bank decreases. Meanwhile Firm Size and Leverage perform same results of Moderate negative relationship while Capital intensity shows no Relationship between Return on Asset. Though ROA provide Weak negative relationship between CSR Expenses, ROE shows Moderate Positive Relationship between two variables. Which shows both variables same pattern of changing. Considering all other control variables resulted moderate positive relationship but Capital Intensity differ as weak positive correlation. Net Profits (NP) correlation results shows complete different output, because it shows CSR Expenses and Net Profits have no relationship. Which means CSR is not the factor of determined net profits of the banks. And also Firm Size and Leverage receded Negative relationship between net profits while Capital Intensity shows Moderate positive relationship. When comes to EPS CSR Expenses, Firm Size, and leverage Recorded Weak positive, Moderate Positive and Weak Positive relationship respectively. Moreover, Capital Intensity shows there are no relation between two variables.

Recently, most of commercial banks (domestically/Internationally) focus on perform CSR activities to have competitive advantage on business. Majority of them conducting these practices with the intention of add value to the company. Though commercial banks practice variety of CSR activities beside of primary business, results could differ than the predictions. This study focus on to identify the relationship between CSR practices and financial performance of the commercial banks in Sri Lanka. Considering the findings of the investigations can conclude CSR practices does not have a significant relationship between financial performances of commercial banks in Sri Lanka. Banks invested massive funds on CSR activities with hope of growing financial performance. But according to the study reveal that could not drive such a favorable outcome. Hypothesis results justify that still in Sri Lankan scenario commercial banks engage CSR Practices with higher Social growth rather than financial performance. It could accomplish some other objectives rather than profits. Recently commercial banks invested various sectors like (Entrepreneur, Community, Education and Environment). By conclusion Commercial banks in Sri Lanka not much incorporate with CSR activities which focus on financial performance.

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