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Corporate Social Responsibility and Firm Performance of Licensed Commercial Banks in Sri Lanka

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Abstract

Corporate social responsibility (CSR) is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders. This concept has emerged over the past thirty years to occupy a significant role in certain aspects of the organizational theory. The purpose of this study is to examine the impact of CSR on firm performance from a developing country's environment. This study considered only 12 licensed commercial banks as sample and obtained secondary data from the financial statements of the licensed commercial banks in Sri Lanka for the period of 2012-2016. Consequently, the quantitative data were employed in the panel data regression model using E-Views software to scientifically analyse the data to identify the significant relationship between these two variables. The control variable is firm size, to be consistent with the previous studies in the literature review. The finding shows that there is no significant impact of social, economic and environmental variables on firm performance. Further the results reveal that there is a significant positive association between CSR and firm performance (ROA) whereas firm size has a negative association with firm performance (Tobin's Q).The study illustrates and provides some insights and builds on the literature in the area of CSR in a developing country's environment.

Keywords: Corporate social responsibility, Firm performance, Firm size

1. Background of the study

Corporate social responsibility (CSR) is a concept which has become leading in business reporting and companies integrate social and environmental concerns in their business operations and stakeholders on a voluntary basis. Every organization has a Policy concerning CSR activities and produces a report annually describing its activities and recognizing corporate activities. The other hand CSR is the relationship between global corporations, government of countries and individual citizens. More locally definition is concerned with the relationship between a corporation and the local society in which it resides or operates. Another definition is concerned with the relationship between a corporation and its stakeholders.

In modern concept of CSR states that the business enterprises is in their usual process of business decision making should pay due attention to the social interest of the people in the community. A company is not only an economic entity but a social and political entry also. Most of the decisions taken by the companies not only affect the stakeholders but also the stakeholders namely creditors, debtors, employees, and the society at large in one way or the other.

Corporate Social Responsibility (CSR), a concept that has been around for well over 30 years, has become prominent again recently. It overlaps with other such concepts as corporate citizenship, sustainable business, environmental responsibility, the triple bottom line, social and environmental accountability, business ethics and corporate accountability. It is highly contextual not only in terms of its corporate environment but also in terms of its national environment. Moreover, CSR is an essentially contested concept. Thus any definitions will necessarily be challenged by those who wish to contest the reach and application of any version of CSR.

Sri Lanka is developing economy, here Corporate Social Responsibility (CSR) play an important role in organizations. In Sri Lankan industry one can easily notice that a paradigm shift from corporate philanthropist to being socially responsible. The importance of CSR is increasing in Sri Lankan corporate scenario because organization have realize that ultimate goal is not profit making beside this trust building is viable and assert able with society able with societal relationship. Now a day, company has become more transparent in the balance sheet. They are displaying public reporting in their accounting. Companies are incorporating their corporate social responsibility initiative in their annual report. CSR accompanies commitment to integrating social and environmental considerations into business operation in a sustainable manner in order to balance the interests and welfare of stakeholders. Research within the scope of CSR generally explore how the application of such activities within the company, with a view disclosure in the annual report.

Today, management of banks has found the need to provide for the environment in which they operate and hence need to evaluate the corporate social responsibility engaged in by them on their performance. Therefore this research was based on the evaluation of the impact of corporate social responsibility on firm performance of banks in Sri Lanka.

2. Statement of the Problem

Managers of banks are often faced with the challenge of determining how socially responsible their banks are, particularly with the increased competition in the banking industry in Sri Lanka. Therefore, promoters of CSR have argued that organizations should integrate economic, social and environmental concerns into their business strategies, their management tools and their activities, going beyond compliance and investing more on human, social and environmental capital. However, the findings from prior studies which from developed economies have shown that there are mixed findings on the influence that CSR has on business success measured in terms of performance. The other hand most of the company measure only corporate financial performance but it is not enough to decide success of the business. In Sri Lankan economy social responsibility level is very lower.

By researching about the problems findings should be answered these questions. What are the CSR activities that banks appliance? What is relationship between Corporate Social Responsibility and Firm Performance? Finally is there any impact on firm performance by appliance corporate social responsibility for a bank? Corporate Social Responsibility (CSR) is the most popular term devised to describe the phenomenon of business responsibility to society. This study considers how it affects to the firm performance.

- To what extent Corporate Social Responsibility impacts on firm performance?

3. Objective of the Study

The objective of this study is to examine the impact of corporate social responsibility on firm performance of licensed commercial banks in Sri Lanka during the period of 2012 to 2016.

4. Literature review

Babalola (2012) examines the effect to CSR on firms' profitability in Nigeria. In this study, secondary data was collected from ten profitable firms randomly selected on the Nigeria Stock Exchange. Using regression analysis, the study found a negative relationship between firms' CSR performance measure with profit after tax and investment in CSR.

Erhemjamts and Venkateswaran (2013)carry out a study to determine the relationship between CSR, firm policies and performance in US. The study used a sample of 3,268 companies using KLD data. Using regression analysis, they found a positive relationship between CSR and firm s investment policies, organizational strategy and performance.

Ngwakwe and Collin (2009) carry out a study to determine the relationship between environmental responsibility and firm performance in Nigeria. They used a sample of 60 manufacturing companies. Using regression analysis, he found that sustainable practices of the 'responsible' firms are significantly related with firm performance. Based on the literacy review, the following hypothesis is developed.

Odhiambo and Patrick (2006) carry out a study on CSR as a strategic tool for stakeholder management in large scale enterprises in Kenya. In this study, a sample of 103 large scale enterprises was drawn using systematic stratified sampling method. A standard questionnaire was used to collect data and descriptive statistics used to analyze the data. The study found that CSR is perceived to have a huge positive effect on the publicity of the organization.

Siegel and McWilliams (2001) reveal conclude that there is an "ideal" level of CSR, which managers can determine via cost-benefit analysis, and that there is a neutral relationship between CSR and financial performance. Feng, Jagjit , and Saini (2015) find an improvement in firm performance with increases in both non-executive and executive compensation. Further, workforce-oriented CSR positively moderates the association between non-executive compensation and firm performance, and negatively moderates the association between executive compensation and firm performance.

Yanni and Yongrok (2014) investigate the mediating effect of organizational trust on the relationship between perceived corporate social responsibility (CSR) practices and firm performance. A total of 674 questionnaires were sent randomly to Chinese firms to obtain a total of 168 reliable responses. A confirmatory factor analysis was conducted for a validity test, and structural equation modelling was employed to test the mediating effect of organizational trust.

5. Methodology

The study obtained secondary data from the annual reports and financial statements of the commercial banks for the period of 2012-2016. These reports were used to derive the total assets and net income figures in order to calculate the Return on Assets (ROA).The financial statements were used for the year ended 31st December.

There are several suggested methods to select sample. The Research clearly mentioned what was the research population and how to select the research sample. According toNgechu (2014), population was defined as a set of events, people, services, and elements, group of households or things that were being investigated. In this study, the population consisted of all 26 licensed commercial banks operating in as per the CSE Supervision Report. The period of study is from 2012 to 2016.

This study has selected top 12 Licensed Commercial Banks. (National Development Bank PLC, Hatton National Bank PLC, DFCC Bank PLC, Commercial Bank, Nation Trust Bank, Sampath Bank PLC, Seylan Bank PLC, People’s Bank, Bank of Ceylon, Union Bank of Colombo PLC, Pan Asia Banking Corporation PLC and Amana Bank). But the research did not consider all the banks as they did not have five years annual report. Therefore the research considered only 12 licensed commercial banks in the Sri Lanka.

5.1 Conceptualisation

This conceptual model represents the relationship between corporate social responsibility and firm performance

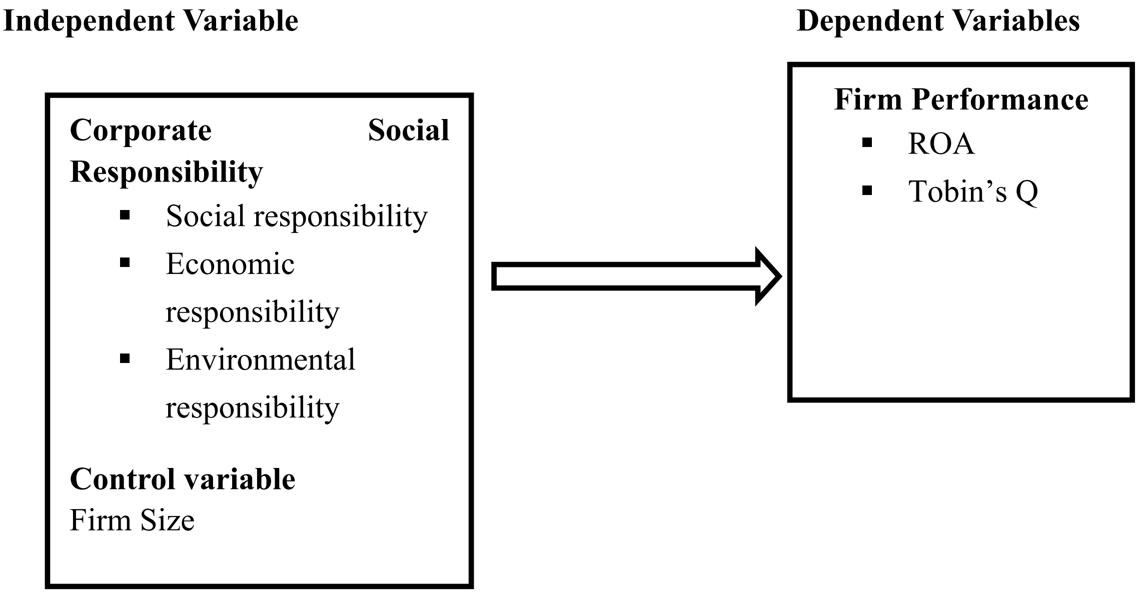

Figure 1. Conceptual Model

5.2 Operationalization

Operationalization represents measurements of corporate social responsibility variables and firm performance.

Table 1. Measurements of concepts and variables

Concept	Indicators	Measurement
Corporate Social Responsibility	Social responsibility	Global Reporting Initiatives (GRI) $\frac{\text{No of Observation}}{\text{Total No of Observation}}$
	Environmental responsibility	
	Economic responsibility	
Firm Performance	ROA	Net Income / Total assets
	Tobin's Q	$\frac{\text{Total market value of company}}{\text{Total assets (or book) value}}$
Control variable	Firm size	Log of total Assets

6. Empirical Analysis

Correlation coefficient measures the degree and direction of the relationship between corporate social responsibility and firm performance.

Table 2. Correlation Matrix

Correlations					
		CSR	Firm Size	ROA	Tobin's Q
CSR	Pearson Correlation Sig. (2-tailed)	1			
Firm Size	Pearson Correlation Sig. (2-tailed)	-0.275* 0.032	1		
ROA	Pearson Correlation Sig. (2-tailed)	0.249* 0.050	-0.175 0.180	1	
Tobin's Q	Pearson Correlation Sig. (2-tailed)	0.016 0.897	-0.390* 0.002	0.338* 0.008	1

Source: Research survey data

According to the survey finding P- value between corporate social responsibility (CSR) and Return on Assets (ROA) is 0.05 (P = 0.05) and value of correlation coefficient is 0.249* which indicates significant positive relationship between corporate social responsibility and firm performance (ROA).

According to the survey finding P- value between corporate social responsibility (CSR) and Tobin's q is more than 0.05 (P=0. 897>0.05) and value of correlation coefficient is 0.016 that indicates no significant relationship between corporate social responsibility and Tobin's Q. The value of correlation between firm size and firm performance (Tobin's Q) is -0.390* which is significant at 0.05 levels. Therefore there is a significant relationship between firm size and firm performance (Tobin's Q).

Regressions analysis has been used to measure the impact of independent variable (Total CSR) on dependent variables (Tobin's Q and ROA).

Table 3. Regression Coefficients for ROA

	Coefficient	Std. Error	t-Statistic	Prob.
Constant	1.763306	1.041943	1.692325	0.0960
CSR	0.801782	0.488541	1.641176	0.1063
Firm size	-0.083637	0.096148	-0.869879	0 .3880
R-squared	0.074481	Mean dependent var	1.318917	
Adjusted R-squared	0.042007	S.D. dependent var	0.877123	
S.E. of regression	0.858503	Akaike info criterion	2.581453	
Sum squared resid	42.01056	Schwarz criterion	2.686171	
Log likelihood	-74.44360	Hannan-Quinn criter.	2.622414	
F-statistic	2.293536	Durbin-Watson stat	1.415911	
Prob (F-statistic)	0.010149			

Source: Research survey data

The R^2 is 0.0744 which means that 7.44 % of the total variation in return on asset is explained by variation in corporate social responsibility activity. It is also indicating that corporate social responsibility is important in achieving adequate return on asset of the licensed commercial banks. Standard error associates with estimating ROA is 0.488541 %.Thus 0.488541 % means that the expected error for a ROA prediction is off by 0.488541 %.

Further, this model reveals that the coefficient for CSR and ROA is not significant at 0.05 levels which indicate this variable has no significant impact on ROA.

Table 4. Regression Coefficients for Tobin's Q

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Constant	7.683066	2.139512	3.591036	0.0007
CSR	-0.780303	1.003163	-0.777842	0.4399
Firm Size	-0.652769	0.197430	-3.306340	0.0016
R-squared	0.161166	Mean dependent var		0.877521
Adjusted R-squared	0.131733	S.D. dependent var		1.891846
S.E. of regression	1.762839	Akaike info criterion		4.020434
Sum squared resid	177.1332	Schwarz criterion		4.125152
Log likelihood	-117.6130	Hannan-Quinn criter.		4.061395
F-statistic	5.475714	Durbin-Watson stat		0.581303
Prob(F-statistic)	0.006680			

Source: Research survey data

According to the table 04, the R^2 is 0.161166 which means that 16.12% of the total variation in Tobin's Q is explained by variation in corporate social responsibility activity. It is also indicating that corporate social responsibility has no significance on Tobin's Q of the licensed commercial banks. Standard error associates with estimating Tobin's Q is 1.00316%.Thus 1.00316% means that the expected error for a Tobin's Q prediction is off by 1.00316%. Adjusted R squared is 0.1317. Based on the p value and coefficient CSR has no significant impact on Tobin's Q.

7. Conclusion

The relationship between a firm's CSR and firm performance has been getting the attention of both academics and practitioners. A clear evidence of a relationship or lack of it is an important issue for management. The focus of this paper is to investigate the impact of corporate social responsibility on firm performance. The approach focuses on the analysis of annual reports/websites of banks during the period of 2012-2016 for any socially responsible activities. This study uses three different CSR disclosure measures such as Social, Economic and political CSR disclosures. The finding shows that there is no significant impact of CSR variables on firm performance. Further the results reveal that there is a significant positive association between CSR and firm performance (ROA) whereas firm size has a negative association with firm performance (Tobin's Q).

The study proffers the following for further research: Some limitations of this research should be investigated in the future research. The data required for this study is sourced from annual reports. Future research could include other means of reporting to look into the extent of CSR disclosure and its relationship with financial performance. The sample size is assumed to be small and it limits the generalizability of the findings to Sri Lanka. Therefore, it could be taken to the next level by widening the number of firms included in the study.

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