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DISCLOSURE PRACTICES OF CORPORATE SOCIAL RESPONSIBILITY AND FIRM FINANCIAL PERFORMANCE: A STUDY OF LISTED BANKS IN SRI LANKA.

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Abstract

This study examines the disclosure practices of Corporate Social Responsibility (CSR) and firm financial performance of listed banks in Sri Lanka over the period of 2013-2017. A population of all 13 banks listed under Bank, Finance, and Insurance sector of CSE Sri Lanka was studied. The study made use of secondary data gathered from annual reports of banks. The data is analyzed by correlation and regression analysis using STATA (version 12) package. The result of regression analysis suggests that disclosure practices of corporate social responsibility significantly affect the Return on assets (ROA) of banks. And also disclosure practices of corporate social responsibility does not significantly affect Tobin's Q. Correlation analysis indicates that disclosure practices of corporate social responsibility have significant negative relationship with ROA while Tobin's Q has an insignificant positive relationship.

Keywords: Disclosure Practices of Corporate Social Responsibility, Return on assets (ROA), Tobin's Q.

1. Introduction

1.1Background of the study

At present, the business bodies cannot ignore the society, and the society cannot exist without business bodies in its own right. Therefore, there is a mutual relationship between business bodies and the society. Hence, the interdependence of the firm and the society can be beneficial for both business entities and the society as a whole. So, the managers of the companies should try to play an increasingly active role in the society, which is called "Corporate Social Responsibility" (Sandra A. Waddock and Samuel B. Graves, 1997).

There was not a clear relationship between CSR studies on financial performance. Peloza, (2009) reviewed 128 studies on CSR and financial performance and reported that 75 studies (about 58.6 percent) found a positive association between CSR and financial performance, 34 studies (about 26.7 percent) found a mixed or neutral association, and 19 studies (about 14.7 percent) found a negative association. Some researchers have denoted the inconsistency in results to be caused by differences in selecting methodologies, approaches and selection of variables (Kohers, 2002).

1.2 Research objectives

- To identify the association between the disclosure practices of CSR and firm financial performance of listed banks in Sri Lanka.
- To examine the impact of disclosure practices of CSR on firm financial performance of listed banks in Sri Lanka.

2. Literature Review

The previous empirical papers on the relationship between CSR activities and firm performance can be divided into qualitative and quantitative studies. The qualitative studies have often focused on the relationship between CSR and the firm's competitiveness, which in turn implies an increased financial performance. The quantitative studies on the other hand have mainly been conducted as either regression studies or event studies, which often have led to inconclusive results (Camelia-Daniela Hategan, Nicoleta Sirghi, Ruxandra-Ioana Curea-Pitorac, 2018). For example, Aupperle, (1985) and McWilliams & Siegel (2000) found that there is a neutral relation between socially-responsible activities and profitability, while Waddock and Graves (1997) found that CSR activities result in an improvement in firm performance. Negative correlations have also been found, however those have not been as common (Alessandra Distefano, Vincenzo Pisano, Marco Galvagno, 2016). Most of the critique pointed towards these studies has been related to the inconsistency of variables and methodology used in the research (Weber, 2008; McWilliams & Siegel, 2000). It has also been discussed whether there are missing factors in previous research and that this deficiency may lead to misleading results. Examples could be cultural differences of CSR importance, industry differences, and the causality between CSR and financial performance, or if a correlation actually is dependent on a hidden variable, such as R&D or advertising (Sang Jun Cho, Chune Young Chung, Jason Young, 2018).

There was little empirical evidence of previous research in banking industry in addition to manufacturing industry in Sri Lanka. Much of prior research in this area has concentrated on developed countries. Past research has shown inconsistencies results obtained by different researchers. Studies assessing the effects of CSR disclosures in a developing economy context are scant and less clear.

3. Methodology

3.1Research Methods

The quantitative research approach is employed to find out the findings of this research study. The study is related with secondary data collection. In this research the researcher collect data from the annual reports of related banks published during the year 2013 to 2017 is mainly used to collect information regarding CSR disclosures by each company. Population of the research includes all the 13 banks listed in CSE under bank, finance and insurance sector from 2013 to 2017.

3.2 Building Hypothesis

H_1: There is a significant association between disclosure practices of CSR and Financial performance.

H_1 a: There is a significant association between disclosure practices of CSR and ROA.
H_1 b: There is a significant association between disclosure practices of CSR and Tobin's Q.

H_2: There is a significant impact of disclosure practices of CSR on Financial performance.
H_2 a: There is a significant impact of disclosure practices of CSR on ROA.
H_2 b: There is a significant impact of disclosure practices of CSR on Tobin's Q.

3.3 Conceptualization

INDEPENDENT VARIABLE	→	DEPENDENT VARIABLE
Corporate Social Responsibility (CSR)		Financial Performance

Figure 3.1 Conceptualization

3.4 Operationalization

Table 3.1 operationalization

Key concept	Variable	Indicators	Measurement
Disclosure practices of CSR	CSR index	• Community Involvement • Human resources • Products and customers • Environment (Kilic, 2015)	$\sum_{j=1} rj \div n$ rj =1 if the j item is disclosed rj =0 if the item is not disclosed n= No of items
Financial Performance	Return on assets (ROA)	Its indicates how much profit a firm generates with its total assets (Simionescu, 2014).	$ROA = \frac{\text{Profit after tax}}{\text{Total assets}}$
	Tobin's Q	Tobin's Q indicates stock market value perception of current and future company earnings and growth potential (Wang, 2014).	Tobin's Q $= \frac{EMV + DEBT}{\text{Total assets}}$ Description: EMV : Equity Market Value = closing price of fiscal year end X number of outstanding shares) DEBT : Total Debt at end of fiscal year

4. Data Presentation and Analysis

4.1Correlation Analysis

According to table 4.2 The correlation results between CSR disclosure and ROA shows -0.3377 a negative correlation and a P-value is 0.0059, this means at 95% confidence level, the P-value of 0.0059 less that than 0.05, therefore, there is significant strong negative correlation between CSR disclosure and the ROA of the listed banks in Sri Lanka

The correlation results between CSR disclosure and Tobin's Q show a positive correlation of 0.0796 between the listed banks, the results showed a P-value of 0.5287, this means at 95% confidence level, the P-value of is more than 0.05 Therefore there is an insignificant positive correlation between CSR disclosure and Tobin's Q of the listed banks.

Table 4.2 Results of Correlation Analysis

	CSR	ROA	Tobin's Q
CSR	1.0000		
ROA	-0.3377**	1.0000	
	0.0059		
Tobin's Q	0.0796	0.2017	1.0000
	0.5287	0.1071	

Source: STATA Output.
* indicates a correlation significant at 95%

4.2 Regression Analysis

4.2.1Results of regression analysis: Disclosure practices of CSR and ROA

According to table 4.3 R square variables is 0.1141. This means that 11% of the variation in ROA is explained by the independent variable disclosure practices of CSR. P value is 0.0059 which is lower than 0.05. It shows that there is a significant impact of disclosure practices of CSR reporting on ROA. Adjusted r^2 value is 0.1000, which means that disclosure practices of CSR impact only by 10% on firm financial performance and remaining 90% are determined by other factors.

Table4.3 Results of panel regression Analysis

ROA	Coefficient	Std. Err	t	P>|t|
CSR	-32.3202	11.34876	-2.85	0.006
Cons	1.975974	0.278563	7.09	0.000
Number of obs	0. 00807	R-squared	0.1141	
F(1, 63)	8.11	Adj R-squared	0.1000	
Prob > F	0.0059	Root MSE	0. 807	

Source: STATA Output

4.2.2Results of regression analysis: Disclosure practices of CSR and Tobin's Q

Table 4.4 shows that R^2 value is 0.0063 which means that there is a variance of 6% in the variation in Tobin's Q is explained by the independent variable disclosure practices of CSR. And also indicated that p value is 0.5287 which is higher than 0.05. It shows that there is an insignificant impact of disclosure practices of CSR on firm financial performance. The adjusted R^2 value is -0.0094 which means that disclosure practices of CSR impact only by -0.9 % on firm financial performance and the impact is insignificant.

Table 4. 4 Results of panel regression Analysis

Tobin's Q	Coefficient	Std. Err	t	P>|t|
CSR	0.7533407	1.189029	0.63	0.529
Cons	0.0923758	0.0291855	3.17	0.002
Number of obs	65	R-squared	0.0063	
F(1, 63)	0.40	Adj R-squared	-0.0094	
Prob > F	0.5287	Root MSE	0. 08459	

Source: STATA Output

5. Conclusion and Recommendation

There is a significant association between and disclosure practices of CSR and accounting based sort term financial performances (ROA), There is an insignificant association between and disclosure practices of CSR and investment based long term financial performances (Tobin's Q). Hence, it can be concluded that there is asignificant association between disclosure practices of CSR and firm accounting based short term financial performance of listed banks in Sri Lanka and there is an insignificant association between disclosure practices of CSR and firm investment based long term financial performance of listed banks in Sri Lanka.

There is a significant impact of disclosure practices of CSR on accounting based short term financial performances (ROA). There is an insignificant association between and disclosure practices of CSR and investment based long term financial performances (Tobin's Q). Hence, it can be concluded that there is asignificant impact of disclosure practices of CSR and firm accounting based short term financial performance of listed banks in Sri Lankaand there is an insignificant impact of disclosure practices of CSR on firm investment based long term financial performance of listed banks in Sri Lanka.

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