Corporate Social Responsibility Disclosure Dimensions and Financial Performance: A Study of Selected Listed Banks, Finance and Insurance Companies in Sri Lanka

J.A. Niresh
Department of Finance and Accountancy
Vavuniya Campus of the University of Jaffna
E-mail: aloy157@gmail.com

W.H.E. Silva
Department of Accounting
University of Sri Jayewardenepura
E-mail: hilarysilva@yahoo.com

Abstract
In recent years, the level of enthusiasm on the part of academics and managers in issues related with Corporate Social Responsibility (CSR) has developed impressively to the point that CSR is considered a significant element capable of influencing the achievement of a deliberate strategy. The study is expected to find out the relationship between the dimensions of Corporate Social Responsibility Disclosure (CSRD) and future Financial Performance. For the purpose of the study, data is gathered from thirty-three companies and for the selection of sample, purposive sampling method is used. Data in connection to predictors is gathered from 2010 to 2014 and data in connection to outcome variables is collected from 2011 to 2015. In terms of the dimensions of CSR, individually they are not noteworthy with the exception of Educational CSR and Financial Performance; Environmental CSR and ROE; and Employee CSR and ROA, the findings uncover.

Keywords: CSRD, ROE, ROA, and CSR

1.0 Background of the Study

Developing countries expand rapidly and are growth markets for banks, while banks and other financial intermediaries play a key role in financial and economic development (Beck et al., 2010). However, the banking sector probably is not the most progressive industry with regards to the advancement of responsibility, as it seems to linger behind most other industries (Belu, 2009; Kolk, 2010). Especially, since the financial crisis, banks are being held accountable for the impact of their loans and investments on society (Coulson, 2009). As financial intermediaries play a crucial role within the economy (Beck et al., 2010), it is important to investigate if and how they account for corporate social responsibility (CSR).

Owing to corporate scandals and financial crises, regulators, academicians, investors and other stakeholders called for greater transparency from the business world. Greater corporate transparency means decreasing information asymmetry between managers and stakeholders by better information disclosure via media, websites, prospectuses, annual reports and sustainability reports.

Many corporations voluntarily disclose social information and these may take the form of management discussion in annual reports, or separate disclosure, such as stand-alone social, sustainability or environmental report. Largely, the format, content and detail of such disclosures are unregulated. The reporting entity decides what to report, how to report, what level of detail is required and where the information will be published (Uyar and Kilic, 2012a). As far as Sri Lanka is concerned, CSR reporting is not mandatory which suggests that organizations are voluntarily disclosing information to their stakeholders.

Sri Lanka is a country with a long history, dating back more than 2500 years. Buddhism is practiced by the majority of Sri Lankans and it preaches that people are responsible to each other. The other religions too preach the same. Therefore, the term “social responsibility” is not unfamiliar to Sri Lankans. Even though researchers have not yet identified exactly what CSR means in the Sri Lankan context and the benefits associated with it (Fernando, 2007). Focusing the study on Sri Lanka in general and on Banks, Finance and Insurance Sector in specific helps enriching the existing literature and bridging the research gap in a geographic and industrial context.

In the post financial crisis scenario of 2008 that dragged down the world’s economy, activities connected to CSR is a remedy that companies seek to improve their reputation (Burianova and Paulik, 2014). Many companies, especially in the banking industry, have lost their credibility in the eyes of the consumers as the crisis emanated from the financial markets. People’s trust towards banks with their money and investment eroded, halting the growth of economy. CSR has been found to be an avenue for companies in the banking industry to earn back their credibility (Cornett et al. 2014). Complex activities practiced by the banks are too intricate for the general public who are not familiar with the operations of that field. It is important, therefore, to illustrate to the people that they care about the society through activities that people understand about. In addition, increased customer mindfulness exert more pressure on organizations to not only look good but to also act well (Yeung, 2011).

The choice to focus the analysis on the Banks, Finance, and Insurance sector has several motivations. First, financial intermediaries are among the categories of firms that more commonly disclose CSR, increasingly from year to year (Vigano and Nicolai, 2009). The researchers believe it is important to investigate whether the efforts made by financial institutions to report their commitment to CSRD is appreciated. Second, research on CSRD and financial intermediaries is still very limited, despite the considerable interest shown by a number of associations that have developed frameworks and guidelines for social reporting in the banking sector. Third, the approach to CSRD by financial intermediaries has changed; they are now more careful in managing the direct and indirect risks arising from lending to firms exposed to environmental and social problems. Some authors argue that while, in the past, CSR issues did not seem to involve the banks because their production process and products were unrelated to risks and/or effects directly related to CSR, currently banks are increasingly exposed to the dynamics of CSR: either directly as companies themselves, or indirectly through financing activities of companies not considered ‘virtuous’ (Sarokin and Schulkin, 1991; Thompson and Cowton, 2004; Viganò and Nicolai, 2009). As Thompson and Cowton (2004) point out, banks are more susceptible than other companies to the risk of reputation indirectly linked to trade relations with other companies and therefore are more vulnerable to criticism from stakeholders and the negative reactions of customers.

We believe that this study offers several contributions to the scientific debate. First, it enriches the existing literature on the studies related to CSR dimensions and Financial Performance in emerging countries resulting in addition of more information to the existing pool of knowledge. Second, it contributes to filling the lacuna in literature on the relationship between CSRD dimensions and Financial Performance. In addition, the analysis can be considered a maiden attempt to assess the nexus between the CSRD dimensions and Financial Performance especially in the context of Sri Lanka using financial intermediaries. To the best of our knowledge, there are in fact no comprehensive empirical studies on the relationship between dimensions of CSRD and Financial Performance in the context of financial institutions in Sri Lanka.

2.0 Literature Review

2.1 CSR Practices in Sri Lanka

The corporate world has experienced an increased focus on the ethical behavior and responsibilities of businesses. This is evident in the shift in focus from shareholder value creation to stakeholder value creation, where companies are striving to balance their interactions with people, planet and profit. Sri Lanka is also no exception to it. This novel tendency is a consequence of the fact that progressively more power has been vested in stakeholders who demand transparency in organizational communications and expect companies to be accountable for their impacts. Companies must look at CSR as a term which encompasses both sustainability and good governance in a fully integrated manner.

The Institute of Chartered Accountants of Sri Lanka together with the Securities and Exchange Commission (SEC) launched the revised Code of Best Practice on Corporate Governance recently. It has been aimed at incorporating recent developments in the best corporate governance practices in the context of Sri Lanka. Good corporate governance is considered fundamental to an organization's competitiveness, growth and most importantly its sustainability. The revised code includes seven principles of sustainability reporting including economic sustainability, environmental sustainability, sustainable labor practices, society, product responsibility, stakeholder identification and formalization of sustainability reporting and disclosure. It aims to promote formal and regular reporting built on various established national and international reporting guidelines. Even though not mandated, corporates are encouraged to adopt this code in discharging their corporate governance responsibilities.

2.2 Studies related to CSR Disclosure and Financial Performance in the context of Financial Intermediaries

Weber (2017) analyzed the connection between sustainability performance of Chinese banks and their financial indicators to explore whether sustainability regulations can be implemented without decreasing the financial performance of banking sector. Annual reports and websites were used as the source of data and the researcher came to know that corporate sustainability performance and financial performance are not a trade-off but correlate positively. Further, bi-directional causality between Financial Performance and sustainability performance of Chinese banks has been found.

Weber, Diaz and Schwegler (2014) conducted a study to analyze the performance of the financial sector concerning corporate social responsibility and sustainability. The researchers analyzed the performance in the fields of sustainability reporting, business ethics and product responsibility, labor issues, environmental performance, community issues, and corporate governance. The study is based on more than 1800 firms including 400 organizations from the financial sector. The results suggest that financial sector performance is relatively low regarding corporate social responsibility (CSR) in general.

Hu and Scholtens (2014) investigated the corporate social responsibility (CSR) policies of commercial banks in developing countries using a sample of 402 banks from 44 countries. They also analyzed how bank and country characteristics connect with banks' CSR policies. The authors found that there is a significant difference regarding the CSR scores among individual banks and countries. They found a significant positive association between CSR policies and bank characteristics such as total assets and return on assets, as well as with country specific characteristics such as financial development and the ability of citizens to freely express their opinions. The openness of a country is negatively associated with banks' CSR policies.

Wu and Shen (2013) investigated the association between CSR and Financial Performance (FP) and deliberated the motives which propel banks to engage in CSR. Three motives, namely, strategic choices, altruism, and greenwashing, suggest that the relationship between CSR and FP is positive, non-negative, and non-existent, respectively. The researchers obtained their sample, which covered the years 2003-2009, from the Ethical Investment Research Service (EIRIS) databank and Bank scope database. The data consists of 162 banks of 22 countries. The banks were then classified into four types based on their degree of engagement in CSR. This study proposes the use of an extended version of the Heckman two-step regression, in which the first step adopts a multinomial logit model, and the second step estimates the performance equation with the inverse Mills ratio generated by the first step. The empirical results show that CSR positively associates with FP in terms of return on assets, return on equity, net interest income, and non-interest income. In contrast, CSR negatively associates with non-performing loans. Hence, strategic choice is the primary motive of banks to engage in CSR.

Sobhani, Amran and Zainuddin (2012) conducted a study to describe the status of disclosure practices of corporate sustainability in the annual reports and corporate websites of the banking industry in Bangladesh. It is revealed in the study that, to varying degrees, all listed banks practice sustainability disclosure in an unstructured manner in both the annual reports and corporate websites. The annual report surpasses the corporate website in the disclosure of all categories of Corporate Sustainability Disclosure (CSD) practices except product responsibility disclosure. Unlike the environmental and economic dimensions, issues concerning the social dimension are generally disclosed. Islamic banks disclose more sustainability information in comparison to conventional banks. It is also found that among the three generation, the older bank does not outperform the younger bank in terms of the sustainability disclosure.

Carnevale, Mazzuca, and Venturini (2012) conducted a study by applying the value relevance analysis to a sample of 130 European-listed banks to understand the relationship between social reporting and the value that the market attributes to banks that publicize their commitment to CSR through social reporting. The analysis of the entire sample does not provide evidence that investors attribute value relevance to social reporting. Cross-country analysis revealed that in some countries the social report is value-relevant, and positively affects the stock price; in others it remains value-relevant but negatively affects the stock price.

Scholtens (2011) investigated the CSR of insurance companies using a transparent framework. The researcher applied the framework to different types of insurers in more than 150 institutions from 20 countries worldwide and found noteworthy differences between various types of insurers and between countries. The results also suggest that social and ethical aspects of CSR are better integrated in the business activities of insurers than environmental aspects are. Financial conglomerates perform better than other types of insurers.

Wijesinghe and Senaratne (2011) carried out a study to identify the relationship between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP) focusing on Banks, Finance and Insurance (BFI) sector in Sri Lanka. Disclosure of CSR was measured in terms of GRI guidelines and Financial Performance as in terms of ROE and ROA. Findings of the study revealed that the overall level of CSR disclosure is at a low level and identified a significant positive relationship between CSRD with ROE and ROA. It is therefore claimed that the higher level of CSR disclosure yields the higher level of Financial Performance.

2.3 Spotting the Gap

CSR is predominantly viewed as a western phenomenon because of strong institutions, regulations and appeal systems which are frail in the developing countries (Chapple and Moon, 2005). Such frail norms pose a considerable challenge to organizations uncovering CSR in developing countries, including Sri Lanka. The connection among CSRD and Financial Performance has incited much enthusiasm among researchers particularly in the developed countries. The extant literature from Sri Lanka uncovers the existence of lack of information and mindfulness on CSRD among the Sri Lankan firms (Fernando, 2007). The proof exists for commitment in Sri Lanka, however the empirical examination of the connection between CSRD and Corporate Financial Performance is scant (Wijesinghe and Senaratne, 2011). The absence of empirical investigations on this issue could be one of the factors in explaining why Sri Lankan firms are less worried in disclosure. Organizations will not focus except if they see the advantages of disclosing. Thus, by utilizing CSRD as estimation of CSR practice, this study is a push to fill the gap by empirically looking at the connection between CSRD dimensions and Financial Performance at the industry level in Sri Lanka.

The banking sector is a unique industry in society and its role nowadays goes beyond bringing financial stability to the economy; it involves establishing new trends and strategies, providing necessary services for customers and reducing financial exclusion. The banking sector is at the heart of society and thus expected to be more socially responsible (Chambers and Day, 2009). There have been a very few exploratory researches in discovering the relationship between CSR disclosure and financial performance in the field of banking, a neglected area in the CSR literature in Sri Lanka.

Emerson (2003) argues that the level of commitment and interpretation of CSR varies within companies and across sectors (Acutt, Medina-Ross, and O'Riordan, 2004). Furthermore, Beurden and Gossling (2008) feel the need of an industry-specific study, which helps advancing the CSR research. Because, each industry can have different contexts, environment and stakeholder expectations which might influence findings. Sting Consultants, Sri Lanka reveal that the number of companies disclosing CSR is relatively high in Banks, Finance and Insurance sector in comparison to other sectors. All these aspects add value to the selection of Banks, Finance and Insurance sector as the choice of study. Abiding by these suggestions our research therefore focuses on industry specific study based on the listed companies belonging to the Banks, Finance and Insurance sector in Sri Lanka.

3.0 Methodology

3.1 Sample Design

The study is directed towards identifying the association between CSRD dimensions and Financial Performance of the listed firms belong to the Banks, Finance and Insurance sector in Sri Lanka. The choice of sample for the study is limited to those companies which revealed the data in connection to CSR constantly throughout the years from 2010 to 2014. Henceforth, purposive sampling technique has been put to use which brought about choice of 33 companies as sample.

3.2 Data collection

Secondary data has been utilized in this study and the observed data comprise of six-year time span from 2010 to 2015. Data in connection to CSRD was gathered from the companies' annual reports throughout the years from 2010 to 2014 and the data with respect to companies' Financial Performance was gathered over the years from 2011 to 2015.

Annual reports are mainly used to gather the data required for the study. Annual reports are perused by a range of various stakeholders and in this manner the data contained in the yearly reports has the ability to impact the readers (Deegan and Rankin, 1997). As indicated by Tilt (1994), annual reports are the most widely recognized mechanism for CSRD and for acquiring information on a firm. Relating to this, Holland and Foo (2003) expressed that organizations are observed to be progressively utilizing annual reports for unveiling information on their social activities.

3.3 Disclosure Framework

The study adopted the disclosure framework which has been developed by Tilakasiri, (2012) for the study named Corporate Social Responsibility and Company Performance: Evidence from Sri Lanka. It has been argued that the accepted practices of CSR fluctuate extensively among various nations. Chapple and Moon (2005) affirmed in an examination that there is no single pattern of CSR in Asian nations. Further, they proposed that CSR is reliant on national elements for every nation. In accordance with this, Matten and Moon (2004) uncovered that CSR practices differ from country to country because of dissimilarities in their social customs. All of these contentions demanded the researchers to adopt a framework that is pertinent to the Sri Lankan setting. Table 3.1 displays a snapshot view of the disclosure assessment framework used in the study.

Table 3.1: Disclosure assessment framework

Dimensions of Corporate Social Responsibility Disclosure Index	Number of Indicators
Community	6
Employees	7
Customers	3
Education	6
Health	3
Environment	3
Total number of reporting elements	**28**

Source: Authors' own systemization based on the adopted framework

3.4 Formulation of Hypotheses

The following hypotheses were formulated to arrive at the findings of the study;

H_1: Community CSR exhibits a significant positive association with ROA.
H_2: Community CSR exhibits a significant positive association with Financial Performance as measured by ROE.
H_3: Educational CSR and ROA are significantly and positively correlated.
H_4: Educational CSR and ROE are significantly and positively correlated.
H_5: Environmental CSR exhibits a significant and positive association with Financial Performance as proxied by ROA.
H_6: Environmental CSR shows a noteworthy and positive association with Financial Performance as measured by ROE.
H_7: There is a significant positive relationship between employee dimension of CSR and Financial Performance as characterized by ROA.
H_8: Employee CSR has a significant positive association with Financial Performance as estimated by ROE.
H_9: Health CSR exhibits a significant positive association with ROA.
H_{10}: Health CSR shows a noteworthy positive association with ROE.
H_{11}: Customer dimension of CSR is positive and significantly related to ROA.
H_{12}: Customer dimension of CSR is positively and significantly linked to ROE.

3.5 Research Model

The study follows the panel model specification for the purpose of estimating whether the dimensions of CSRD enhance the bottom line of the sampled firms in Sri Lanka. The panel data model is of the following form:

$$Y_{it} = \alpha_i + \beta_1 X_{1\ it-1} + \beta_2 X_{2\ it-1} + \beta_3 X_{3\ it-1} + \varepsilon_{it-1}$$

Where Y_{it} is the performance of firm i at time t, α_i is a constant term, β_1 and β_2 are the beta coefficients, X_1, X_2 and X_3 are the explanatory variables and control variables used in the study, and ε_{it-1} is the error term.

Based on the hypotheses formulated, the specific models to be tested are as follows:

The following models were formed to test the hypotheses ranging from 1 to 12.

$$ROA_{it} = \alpha_i + \beta_1 Comm_{it-1} + \beta_2 Hlth_{it-1} + \beta_3 Env_{it-1} + \beta_4 Edu_{it-1} + \beta_5 Emp_{it-1} + \beta_6 Cust_{it-1} + \beta_7 Size_{it-1} + \beta_8 Lev_{it-1} + \varepsilon_{it-1} \text{ (Model 1)}$$

$$ROE_{it} = \alpha_i + \beta_1 Comm_{it-1} + \beta_2 Hlth_{it-1} + \beta_3 Env_{it-1} + \beta_4 Edu_{it-1} + \beta_5 Emp_{it-1} + \beta_6 Cust_{it-1} + \beta_7 Size_{it-1} + \beta_8 Lev_{it-1} + \varepsilon_{it-1} \text{ (Model 2)}$$

In model 1, various dimensions of corporate social responsibility disclosure (community, health, environment, education, employee and customer) are incorporated together with all the control variables, and are tested for their individual effect on firm performance as measured by ROA. Model 2 uses ROE as the outcome variable and all the dimensions of corporate social responsibility disclosure are run in a single regression model.

Where;
ROE = Return on Equity; ROA = Return on Assets; Comm = Community; Hlth = Health; Env = Environment; Empl = Employee; Cust = Customer; Lev = Leverage.

3.6 Statistical Tools

Longitudinal study is considered the most appropriate approach for this study as it uses both cross-sectional and time series data. Two well-established panel models, Fixed Effects and Random Effects models, were employed in this study and the choice of selection was tested by employing Hausman test. Further, cross sectional dependency check was carried out to identify whether residuals are correlated across entities.

4.0 Analysis

4.1 Testing of the relationship between the dimensions of CSRD and ROA

Table 4.1 sets out the outcomes of the employed panel analysis using both, FEM and REM.

Table 4.1: Panel data analysis - Dimensions of CSRD and ROA as the outcome variable

Variables	Model 1	
	Fixed Effects Model	**Random Effects Model**
Constant	- 59.1207*** (- 4.75)	- 7.2076 (- 1.26)
Employee CSR	0.0897* (1.74)	0.0883 (1.64)
Community CSR	0.0047 (0.08)	0.1390** (2.59)
Health CSR	0.0488 (0.66)	- 0.0007 (- 0.01)
Educational CSR	0.1408*** (2.67)	0.1141** (2.05)
Environmental CSR	0.0912	0.0912

	(1.25)	(1.19)
Customer CSR	- 0.0157 (- 0.21)	0.0587 (0.75)
Log of Total Assets	0.0558*** (4.66)	0.0056 (0.97)
Leverage	0.0293 (1.25)	0.0003 (0.02)
	R^2 = 0.45 F-statistic = 12.90***	R^2 = 0.38 Wald Chi2 = 65.67***
Hausman test (χ2)	21.01***	

* Indicate significant at 10% level (P<0.1)
** Indicate significant at 5% level (P<0.05)
*** Indicate significant at 1% level (P<0.01)

By referring to table 4.1, it can be noted that Fixed Effects Model is superior than Random Effects Model. The Hausman test shows that individual effects were correlated with regressors in the model (Chi2 = 21.01, P<0.01). It indicates that there is a significant difference between coefficient estimates of both the models, thus leading to reject the null hypothesis that there is no significant difference between coefficient estimates. Hence, this difference suggests that random effects estimator is inconsistent.

In the regression model, the composite measure of corporate social responsibility disclosure index is substituted with individual dimensions of the CSRDI. The results in table 4.1 show that Health CSR, Community CSR, Customer CSR and Environmental CSR exhibit no significant association with ROA since the coefficient values are statistically insignificant. Educational CSR is positively and significantly correlated with ROA with a coefficient value of 0.1408 at P<0.01. In line with this, Employee CSR and ROA are significantly and positively correlated with a coefficient value of 0.0897 at P<0.1.

In terms of model fitness, the F value is found to be 12.90 which is statistically significant at 0.01 level. Further, the R^2 is discovered to be high as 0.45 exemplifies that 45% of the variations in ROA are explained by the variations in the dimensions of CSRD along with the control variables named log of total assets and leverage. Hence, it can be inferred that the variables used in this model are the better prognosticators of financial performance as measured by ROA.

4.2 Testing of the relationship between the dimensions of CSRD and ROE
The results of the employed models are tabulated as follows:

Table 4.2: Panel data analysis - Dimensions of CSRD and ROE as the outcome variable

Variables	Model 2	
	Fixed Effects Model	Random Effects Model
Constant	- 160.94*** (- 4.89)	- 41.3816** (- 2.59)
Employee CSR	0.0964 (0.71)	0.1077 (0.76)
Community CSR	0.0907 (0.60)	0.3856*** (2.72)
Health CSR	- 0.1184 (- 0.60)	- 0.1663 (- 0.82)
Educational CSR	0.2512* (1.80)	0.1828 (1.25)
Environmental CSR	0.4548** (2.35)	0.4240** (2.11)
Customer CSR	0.0789 (0.39)	0.2904 (1.41)
Log of Total Assets	0.1599*** (5.05)	0.0433*** (2.71)
Leverage	0.0611 (0.99)	0.0048 (0.09)
	R^2 = 0.50 F-statistic = 15.79***	R^2 = 0.45 Wald Chi2 = 91.70***
Hausman test (χ2)	23.09***	

* Indicate significant at 10% level (P<0.1)
** Indicate significant at 5% level (P<0.05)
*** Indicate significant at 1% level (P<0.01)

By referring to table 4.2 it is apparent that the individual effects were correlated with the regressors. The result of the Hausman test shows a Chi2 value of 23.09 and observed to be statistically significant at 0.01 level. Hence, the FEM is decisively more precise in the estimation process than the Random Effects Model.

With reference to the results of the dimensions of CSRDI and using FEM, Environmental CSR is positive and significantly related to ROE with a coefficient value of 0.4548 at 0.05 level. Further, Educational CSR is positively associated with ROE with a coefficient value of 0.2512 at P<0.1. Health CSR and ROE are negatively correlated but the association is revealed to be statistically insignificant. All other dimensions of CSR namely Employee CSR, Community CSR and Customer CSR are positively correlated with ROE but coefficient values are recognized to be immaterial. In terms of control variables, log of total assets is positively and significantly associated with ROE with a coefficient value of 0.1599 at $P<0.01$.

As far as model fitness is concerned, the F value of the FEM is discovered to be 15.79 at 0.01 level. The R^2 value of 0.50 reveals that 50% of the variability in the outcome variable is explained by the variability in the dimensions of CSRD and two other variables named log of total assets and leverage.

4.3 Testing of Hypotheses

Table 4.3: Validation of Hypotheses

Hypotheses	**Relationship between**	**FEM or REM**	**Coefficient**	**P value**	**Decision criteria**	**Supported or Not supported**
H_1	Community CSR and ROA	FEM	0.0047	0.934	P>0.1	Not supported
H_2	Community CSR and ROE	FEM	0.0907	0.548	P>0.1	Not supported
H_3	Educational CSR and ROA	FEM	0.1408	0.009	P<0.01	Supported
H_4	Educational CSR and ROE	FEM	0.2512	0.074	P<0.1	Supported
H_5	Environmental CSR and ROA	FEM	0.0912	0.214	P>0.1	Not supported
H_6	Environmental CSR and ROE	FEM	0.4548	0.020	P<0.05	Supported
H_7	Employee CSR and ROA	FEM	0.0897	0.084	P<0.1	Supported
H_8	Employee CSR and ROE	FEM	0.0964	0.480	P>0.1	Not supported
H_9	Health CSR and ROA	FEM	0.0488	0.513	P>0.1	Not supported
H_{10}	Health CSR and ROE	FEM	- 0.1184	0.548	P>0.1	Not supported
H_{11}	Customer CSR and ROA	FEM	- 0.0157	0.837	P>0.1	Not supported
H_{12}	Customer CSR and ROE	FEM	0.0789	0.696	P>0.1	Not supported

4.4 Testing of cross-sectional dependence

The study utilized the cross-sectional dependence test as it involved greater number of firms with less years (N>T). The following table shows the outcomes of the Pesaran's cross sectional dependence test:

Table 4.4: Results of Pesaran's cross sectional dependency test

Description	Model 1 (FEM)	Model 2 (FEM)
Pesaran's test of cross sectional independence	- 0.264	- 0.135
Probability (Pr)	0.7919	0.8925

By referring to table 4.4, it is obvious that no cross-sectional dependency was found across the companies in the preferred models used for the study. The P values are recognized to be statistically insignificant at all the levels. Hence, there is adequate evidence suggesting the non-presence of cross-sectional dependence in the ideal models used for the study.

4.5 Testing for Multicollinearity

The study employed Variance Inflation Factor (VIF) test in order to identify the existence of multicollinearity problem. There are not any hard and fast rules about what value of the VIF should be the cause for concern, but generally a VIF value of greater than 10 indicates a serious problem (Bowerman and O'Conell, 1990; Myers, 1990). Further, if the average VIF is substantially greater than one then the regression may be biased. As far as the value of tolerance is concerned, tolerance below 0.1 indicates a serious problem (Menard, 1995). The results are tabulated below;

Table 4.5: VIF and tolerance statistics - Dimensions of CSRDI, log of total assets and leverage as predictors

Predictors	Variance Inflation Factor (VIF)	Tolerance (1/VIF)
Educational CSR	1.80	0.56
Customer CSR	1.72	0.58
Community CSR	1.57	0.64
Employee CSR	1.59	0.63
Health CSR	1.34	0.75
Environmental CSR	1.24	0.81
Log of total assets	1.51	0.66
Leverage	1.33	0.75
Mean VIF	1.51	

By referring to table 4.5, it is apparent that no VIFs are greater than 10. Further, the mean VIF is greater than 1, though not considerably so. Hence it can be concluded that the models are not suffering from the multicollinearity issue.

5.0 Discussion

The results from the evaluation yield the following discussions.

5.1 Discussion on the association between Community CSR and Financial Performance

The association between Community CSR and Financial Performance was found to be positive, but proved to be statistically insignificant. Hence, hypotheses H_1 and H_2 were not supported suggesting that there is no significant association between Community CSR and Financial Performance.

Drawing on legitimacy theory, firms that engage in community CSR are likely to improve their performance due to social acceptance. But, the study did not find significant association between Community CSR and Financial Performance. Community CSR was the most disclosed theme by the sampled firms used in the study, even though it did not result in any profound benefits associated with it. Further, higher level of disclosure does not necessarily mean that stakeholders' expectations being met. There might be a huge gap between what is expected by stakeholders and what is actually disclosed by the sampled firms in relation to Community CSR. Therefore, managers of the listed firms which belong to the Banks, Finance and Insurance sector should identify the root cause for this insignificant association. Further, it can also be considered the base for further researches to identify whether financial outcomes vary across the quantum of disclosure in each dimension of the corporate social responsibility disclosure.

5.2 Discussion on the association between Environmental CSR and Financial Performance

In the study, it was found that there is a significant positive relationship between Environmental CSR and Financial Performance using ROE. Further, significant relationship was not found between Environmental CSR and ROA. Hence, it led the researcher to accept hypothesis H_6 and reject H_5, point towards that Environmental CSR and Financial Performance in terms of ROE are significantly and positively correlated. The results were proved to be consistent with the findings of Teoh et al., 1998; Lyon, 2007; and Zhang, 2013 who found a significant relationship between environmental disclosure and Financial Performance in the financial industry.
The supportive argument in favor of the finding in this study is the notion that being environmentally friendly will lead to competitive advantage which in turn will increase bottom line (Klassen and McLaughlin, 1996; Porter and Van der Linde, 1995). Because, there are growing expectations among stakeholders for businesses to be green, hence, reporting on Environmental CSR is inevitable. Further, when it comes to financial institutions, their activities are likely to have minimum environmental footprint since they are not involved in manufacturing operations. Even though, the significant point here is that environmental disclosures are more or less related to cost reduction or marketability of the organizations' products or services. It might be the possible underlying reason for the significant positive association between Environmental CSR and ROE.

The findings in relation to Environmental CSR and Corporate Financial Performance (ROE) were not in agreement with some other studies which did not detect any association between environmental reporting and financial performance. Suttipun and Stanton (2012c) argue that environmental activities are not the first priority of banking companies because operations of financing firms have no direct impact on the environment and therefore they are not disclosing environmental information in annual reports. This reasoning is supported by Jitaree (2015) who found no significant association between environmental disclosure and net profit margin for the financial industry whereas the association was found to be significant and positive among the firms in the non-financial industry. Since the finding in terms of ROE is not upholding the views of Jitaree (2015) and Suttipun and Stanton (2012c), it might be considered a research gap for further studies on how environmental CSR is associated with Financial Performance across financial and non-financial industries.

5.3 Discussion on the association between Customer CSR and Financial Performance

The findings of the study were contrary to that of intended as it is evident from the panel findings which reveal that Customer CSR is negatively correlated with ROA. Even though, this negative association was proved to be statistically insignificant. In terms of the association between Customer CSR and ROE, it was found to be positive and insignificant. Hence, the rejection of hypotheses H_{11} and H_{12} led to the conclusion that there is no significant relationship between Customer CSR and Financial Performance as defined by ROA and ROE. The underlying reason might be that the Customer CSRD was not well perceived by the stakeholders.

5.4 Discussion on the association between Educational CSR and Financial Performance

Educational CSR is positive and significantly associated with both the outcome variables - ROA and ROE, the findings reveal. Hence, hypotheses H_3 and H_4 were supported suggesting that Financial Performance can be improved if the organizations disclose more on Educational CSR in their annual reports. According to Rathnasiri (2003) and Fernando (2010), business organizations are likely to engage in Educational CSR activities as a part of their business strategies. Rong (2010) argues that government is the primary holder of this responsibility as the awareness on the importance of education and literacy is commonly witnessed among governments. He further stated that organizations can make use of Educational CSR to build positive reputation and to achieve their mission. Contrary to these views, Tilakasiri (2012) argue that the target group of Educational CSR are students, who do not yet participate in the economic development of the country and are not available as customers since they do not possess purchasing power. Therefore, the return on the investment on Educational CSR will not be reaped out immediately.

5.5 Discussion on the association between Employee CSR and Financial Performance

Findings reveal that there is a positive association between disclosure on human resources and ROE but evidenced to be statistically insignificant. Further, Employee

CSR is positive and significantly associated with ROA. Hence, hypothesis H_7 was supported whereas H_8 was not supported.

Majority of the reporting in relation to employees in the annual reports are covered by labor laws. The laws and regulations provide the foundation based on fair wages, working times and conditions and employee safety can be built upon. However, CSR is considered a voluntary activity and there are no rules or regulations related to its implementation (Lantos, 2001). Reporting based on laws is known as implicit CSR which will not yield any substantial benefits to the organizations (Matten and Moon, 2008). Because, stakeholders expect organizations to think of reporting beyond the statutory boundaries of reporting. This could be the possible underlying reason for the insignificant association between Employee CSR and Financial Performance as defined by ROE. Another form of CSR known as explicit CSR, which is perceived as voluntary CSR. Organizations should consider reporting beyond what is required by law as this is what represented via explicit CSR. Hence, true benefits of CSR can only be realized if the organizations adopt a disclosure mechanism based on explicit CSR.

5.6 Discussion on the association between Health CSR and Financial Performance

The results of the tests found that Health CSR show a positive relationship with ROA and negative relationship with ROE, yet both demonstrated to be statistically immaterial. Consequently, hypothesis H_9 and H_{10} were not upheld suggesting that there is no significant association between Health CSR and Financial Performance as defined by ROA and ROE. The negative relationship between Health CSR and ROE may be a sign that unveiling on Health CSR failed to add sufficient value to the bottom line of the banks, finance and insurance companies.

6.0 Conclusion

The future of business is intrinsically linked to strategic corporate responsibility. CSR can take three forms namely philanthropic CSR, transactional CSR and transformational CSR. Organizations are increasingly moving towards transformational CSR in the present era which has seen a shift from charity driven CSR to strategy driven CSR. It enables organizations to internalize a culture of corporate responsibility into their core business operations.

In terms of the dimensions of CSR, Educational CSR is positive and significantly associated with ROA and ROE. Hence, it can be concluded that future Financial Performance can be improved if the organizations prioritize Educational CSR in their annual reports. Environmental CSR exhibits a significant positive association with Financial Performance as defined by ROE. Further, Employee CSR is positive and significantly associated with ROA. Health and Customer CSR exhibit insignificant negative association with ROE and ROA respectively. Hence, it can be concluded that there is a mixed relationship between each dimension of CSR and Financial Performance in the case of sampled firms. This could be explained by the fact that there might have been a complex relationship between each dimension of corporate social responsibility disclosure and financial performance. It is possible that the degree of CSR disclosure for each of the sampled company is not similar and which might have resulted in the conflicting scenarios with respect to the sign of the coefficients and the significance levels. This is compounded by the fact that CSRD is not mandatory in Sri Lanka.

The regulating bodies of corporates in Sri Lanka, for example Colombo Stock Exchange (CSE), Ceylon Chamber of Commerce (CCC) and Securities and Exchange Commission encourage companies to adopt sustainability principles in their core business operations. The code of best practice on corporate governance issued by CSE and Securities and Exchange Commission provides the foundation for the business organizations in Sri Lanka based on which the sustainability principles can be built upon. Even though, it is not mandated, corporates are encouraged to report on sustainability. Further, the CCC annually awards the “Best Corporate Citizen” award to firms which excel in CSR. Accordingly, there are adequate mechanisms in place to inspire companies to adopt sustainability in their core business operations in Sri Lanka.

Regulations are increasing in various forms worldwide. Sri Lanka too is no exception to it. This cannot be considered a good news for companies as regulations limit the possibilities for innovation and companies will have to their time struggling to comply. Further, CSR is considered a voluntary activity and stakeholders expect the organizations to report beyond the statutory boundaries of reporting. Therefore, even when laws and regulations are in place, the true outcomes of CSR in whatsoever the form cannot be realized if the organizations limit their reporting based on laws and regulations. On that account, organizations in Sri Lanka should contemplate reporting beyond what is required by laws and regulations to reap the true benefits of CSR.

6.1 Future Research Directions

The study proffers the following for further research: Some limitations of this research should be investigated in 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 in the view of the fact that companies may report CSR activities in other medias, for example newspapers, promotional leaflets, websites and brochures. Information from other means of communication may show a comprehensive image of CSR disclosure in the Sri Lankan context. This study is restricted to two financial performance indicators and no indicators were utilized in relation to market performance. Hence, future studies could place more insight into this thought by adding market-based indicators. Further, this study is limited to the listed firms which belong to the Banks, Finance and Insurance sector in Sri Lanka. Therefore, further researches can be done by differentiating sectors.

The sample size is deemed to be small and it limits the generalizability of the findings to Sri Lanka. Therefore, anyone can take it to the next level by widening the number of firms included in the study. It is expected to be a positive association between each dimension of CSRD and Financial Performance. But, results are found to be contrary to that of intended. Hence, there is an enormous scope for more researches on how each dimension of CSR is associated with Financial Performance.

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