

**A STUDY ON THE RELATIONSHIP BETWEEN
CORPORATE FINANCIAL PERFORMANCE AND
CORPORATE SOCIAL RESPONSIBILITY**

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Abstract

As responsible corporate citizens, all businesses should contribute to social development of the country. However, from a business perspective, the shareholders of a company are interested in the return for their investment. They would prefer to have a quantifiable method to know the exact impact of the investment on CSR on company profitability. With no proper information on the benefits of CSR, it has been difficult to persuade the corporate to pump in scarce resources to CSR initiatives, which otherwise could have been used to generate definite benefits. This research attempted to fill this gap by developing a set of data on the financial benefits of CSR initiatives.

A questionnaire-based survey research was carried out and the questionnaire was posted to all the 235 listed companies under the Colombo Stock Exchange and 104 had responded. After screening for completeness and validity, 93 questionnaires were suitable for analysis, giving a response rate of 39.5%. The sample consisted of a wide array of businesses. Wholesale and retail (13), transport and logistics (11) and manufacturing (10) were the dominant trades in the sample. The median turnover was Rs. 505 million with a maximum of Rs. 21,079 million and a minimum of Rs. 62 million. In terms of years in existence, there are very young companies (age 3 years) as well as very old companies (age 100 years) with a median of 15 years. In terms of the number of employees, there were small companies (141 employees) and very big companies (23,000 employees) with a median of 380 employees.

On average the companies spend about 6.6% of their turnover on CSR related activities, including training, research and community work. However, there is an indication that expenses that do not show direct impact on the turnover do not attract much interest from the management. Only about one-third of the companies have an operational separate department for CSR activities. When it comes to CSR related policies, companies have shown only conventional thinking. While majority of them have, at least in place, policies

for human resource management and environment management, only a very few have policies for occupational health and safety, sexual harassment and bribery. However, most of the companies are paying attention on quality, customer satisfaction and customer complaints. All companies have monetary benefits in addition to salaries and wages and almost all of them have a trade union. Gratuity/pension schemes over and above statutory requirements are available in about half of the companies and about two-third of the companies have internal audit committees and remuneration committees. Slightly less than half of the companies have health insurance schemes. However, sustainability/CSR reporting, environmental auditing and community liaisons are weak, with less than one-fourth of the companies having community liaison committees, reporting sustainability/CSR and conducting environmental auditing.

CSR activities and financial performance show significant correlations only in some relationships. Only employee relations and customer/supplier relations show significant positive correlations with financial performance. In addition to these two, community relations also show a significant positive correlation with perceived benefits of CSR. When the three financial indices are considered separately, it is evident that return on sales has the strongest correlations with CSR activities and return on equity the weakest. When the five aspects of social performance is considered separately, customer/supplier relations show significant correlations with all three indices, employee relations with ROE and ROS and management systems with ROS. Community relations and environment is not significantly correlated with any of the financial indices.