

Impact of Level of Disclosures of Corporate Social Responsibility on Corporate Financial Performance: Evidence from Sri Lanka

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Abstract

Corporate social responsibility plays a main strategic role in today's business world. Similar to the other developing countries, Sri Lanka is also rapidly adapting to this well-known concept over the last few decades. However, whether corporate social responsibility disclosure shapes corporate financial performance is still questioning. Consequently, the purpose of this study was to examine the impact of corporate social responsibility disclosure on corporate financial performance in banks, diversified financials, and insurance sectors in the Colombo Stock Exchange in Sri Lanka. The entire population was selected as the sample and it was ended with 71 companies. The required data were extracted from the annual reports of the sample companies for the period from 2015 to 2019. Corporate social responsibility disclosure was used as the independent variable which was measured by using an index with the dichotomous method, developed by using 40 items of Global Reporting Initiative G4 Guidelines. A similar index was used by prior scholars for this research area. Corporate financial performance was measured both by return on assets and return on equity and was used as the dependent variable of the present study. Moreover, firm size and leverage were used as the control variables of the study. The study executed descriptive statistics, Pearson correlation analysis, and regression analysis on panel data. The results of the analyses affirmed that corporate social responsibility disclosure has a positive impact on corporate financial performance. Furthermore, firm size and leverage reported a positive impact on return on assets whereas an insignificant impact on return on equity. The current finding suggests that companies need to pay attention to make compliance with corporate social responsibility activities when configuring the strategic policy of the companies which assists in the financial success of the companies. It might be worthwhile to replicate the study using a larger sample so that the finding could be generalized.

Keywords: Corporate social responsibility, Global Reporting Initiative G4 Guidelines, return on assets, return on equity