DOES OWNERSHIP STRUCTURE MODERATE THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND FIRM FINANCIAL PERFORMANCE OF NON-FINANCIAL LISTED FIRMS IN SRI LANKA?

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INTRODUCTION

According to the Global Reporting Initiative (GRI) guidelines, CSR is "the way through which a company achieves a balance of economic, environmental and social imperatives at the same time addressing the expectation of shareholders" (Kengatharan et al., 2020). However, practicing CSR is not the primary goal of a firm to satisfy all parties, but it aims to create economic and social value for the organization. There is a growing tendency for institutions to shift from engaging in traditional business activities to fulfilling their social responsibility. A business entity has always been a profit entity, but it is changing a lot today. Businesses tend to be more CSR and successful in their business ventures. CSR is an integral part of the business to address social, and it has a significant direct and indirect impact on the trend of the business market. From a business point of view, it is an investment in business promotion. In the present business world, each company must have a good relationship with every party for the company's sustainable growth. Then CSR is the best way to achieve this aim. In previous studies, considering developed and developing countries can see the different impacts of CSR practices. Sri Lanka is a developing country category (Kengatharan et al., 2020). Considering CSR and firm financial performance can identify that the two affect each other. However, practicing CSR means companies have to expend money on CSR activities.

On the other hand, expending money on CSR activities can be considered investments in business promotion. As well as CSR activities help to create a good relationship with all stakeholders, and it gives indirect benefits to financial performance. Then this study was conducted to investigate the relationship between CSR and Firm Financial performance. Many previous studies have been done on this topic in the international context, resulting in mixed findings. Some studies found a positive relationship between CSR and financial performance (Cho et al., 2019; Hafez, 2016; Jallo & Mus, 2017). Some found a negative relationship (Babalola, 2012; Chetty et al., 2015; Mansaray et al., 2017). As well as a lack of studies done with moderate variables. Then this research touched on CSR firm financial performance with moderating variables. Here Ownership structure gets as a moderator variable. The ownership structure has the power to monitor CSR activities. It has a positive relationship between CSR and financial performance, ownership structure pressure to do CSR activities, and a negative relationship between CSR and financial performance and ownership structure pressure to avoid CSR activities. Thus, this study's main objective is to examine the moderation effect of ownership structure on the relationship between corporate social responsibility and firm financial performance of non-financial listed firms in Sri Lanka.

METHODOLOGY

This study used a quantitative method and then used secondary data. The study's independent variable is CSR (measured through an index with 26 items). The dependent variable is financial performance, and it is measured through ROA. The relationship between CSR and financial performance is moderated by the ownership structure, which is proxied by institutional ownership (as measured by a ratio of institutional ownership to the total number of shares) and managerial ownership (as measured by the ratio of managerial ownership to the total number of shares). Leverage and firm size are introduced as the control variables. The study sample is the non-financial firms listed on CSE from 2018 to 2021, which includes 159 firms and 636 firm-year observations. The required data was collected from annual reports. This study used panel data to analyze the three research models shown below. The researchers used descriptive statistics, correlation analysis, and regression analysis as analytical tools for the study.

$$CSR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 IO_{it} + \beta_3 SIZ_{it} + \beta_4 LEV_{it} + \beta_5 Year_i + \beta_6 Industry_i + \epsilon \ldots (1)$$

$$CSR_{it} = \beta_0 + \beta_1 ROA_{it} + \beta_2 MO_{it} + \beta_3 SIZ_{it} + \beta_4 LEV_{it} + \beta_5 Year_i + \beta_6 Industry_i + \epsilon \ldots (2)$$

Where,

CSR_{it}: Corporate Social Responsibility of the firm i for year t

ROA_{it}: Return on Assets for firm i in year t

SIZ_{it}: Firm Size i at the end of year t

LEV_{it}: Leverage of firm i for the year t

IO_{it}: Institution Ownership for firm i in year t

MO_{it}: Managerial Ownership for firm i in year t

RESULTS AND DISCUSSION

Before doing the analysis, researchers did data screening and cleaning. Under that identified, the normality of the data. The researcher checked the normality of the collected data from the annual report. After checking, outlier data was identified and removed from the analysis data sheet. Moreover, incomplete data were removed from the analysis data sheet and tested the multicollinearity of the variable. Under descriptive analysis, measures mean, minimum, maximum, standard deviation, skewness, and kurtosis of the variables. Table 01 shows the result of the descriptive statistic of the study.

CSRit is the independent variable of the study. According to the table, the mean value is 0.478 and 0.252 is the standard deviation value of the variable. ROA_{it} is the dependent variable of the study. ROA_{it} has a 0.047 mean value and 0.074 standard deviation value. IO_{it} and MO_{it} are the moderate variables of the study. IO_{it} mean value is 53.599 and 20.882 is the standard deviation of the variable. MOit the mean value is 3.827 and the standard deviation value is 3.121. LEV_{it} and SIZ_{it} are control variables of the study. LEV_{it} has 0.265 mean value and 0.222 standard deviation value. SIZ_{it} has 22.115 mean value and 1.313 standard deviation value.

Table 1 Descriptive Statistic

Variable	Mean	Minimum	Maximum	SD	Skewness	Kurtosis
CSR_{it}	0.478	0.000	0.960	0.252	0.075	-0.825
ROA_{it}	0.047	-0.190	0.290	0.074	0.385	1.362
IO_{it}	53.599	0.000	93.450	20.882	-0.410	-0.930
MO_{it}	3.827	0.000	12.150	3.121	0.206	-1.169
LEV_{it}	0.265	0.000	0.990	0.222	0.973	0.404
SIZ_{it}	22.115	18.600	25.420	1.313	-0.178	-0.223

Correlation Analysis also used to analyze and follow Table 2 shows the results of correlation analysis. This analysis reflected the relationship between each variable.

Table 2 Correlation Analysis

Variable	CSR_{it}	ROA_{it}	IO_{it}	MO_{it}	LEV_{it}	SIZ_{it}
CSR_{it}	1					
ROA_{it}	-0.042	1				
IO_{it}	0.247^{**}	-0.100^{*}	1			
MO_{it}	0.077	0.059	-0.134^{**}	1		
LEV_{it}	0.060	-0.147	0.002	-0.013	1	
SIZ_{it}	0.300^{**}	0.051	0.205^{**}	-0.002	0.193^{**}	1

$^{*}p<0.05$; $^{**}p<0.01$

CSR_{it} and ROA_{it} have not significant relationship (-0.042). CSR_{it} and IO_{it} have positive relationship as well as significant (0.247^{**}) and CSR_{it} and MO_{it} have not significant relationship (0.077). CSR_{it} and LEV_{it} have a positive relationship and CSR_{it} and LEV_{it} are not significant (0.060). CSR_{it} and SIZ_{it} have a positive relationship and this variables are significant(0.300^{**}). Regression analysis was performed to test the hypothesis and it is shown in Table 3 below.

Table 3 Regression Analysis of Model I and II

	Model I		Model II	
	Coefficient	Std. Error	Coefficient	Std. Error
CSR_{it}	-0.034	0.054	-0.019	0.029
CSR_{it}-IO_{it}	-.0.000	0.001	-	-
CSR_{it}-MO_{it}	-	-	0.007	0.005
LEV_{it}	-0.060^{***}	0.017	-0.062^{***}	0.017
SIZ_{it}	0.004	0.003	0.004	0.003
$Industry_{i}$	Included	Included	Included	Included
$Year_{i}$	Included	Included	Included	Included
Constant	-0.018		-0.050	
R-Squared	0.142		0.144	
F	48.65^{***}		49.40^{***}	
N	159		159	
Hausman Test	3.53		1.64	

$^{***}p<0.01$; $^{**}p<0.05$; $^{*}p<0.1$

Above Table 3 shows the model I results, according to which CSR and ROA are not significant and CSR-IO and ROA are not significant. IO does not moderate the relationship between CSR and Firm Financial Performance.

Further, the same Table 3 also shows model II results. Accordingly, CSR and ROA are insignificant, and CSR-MO and ROA are not significant. MO does not moderate the relationship between CSR and Firm Financial Performance.

According to the result, CSR and Financial Performance are not significant. Mosaid and Boutti (2012) found similar findings in this study. However, Salehi et al. (2018) disagree with the above findings, and the results suggest a significant relationship between CSR and Firm Financial performance. ROA and CSR-IO are not significant. Then IO does not moderate the relationship between CSR and Firm Financial Performance. Fadrul et al. (2021) argued that the IO significantly affects CSR and Financial Performance. ROA and CSR-MO are not significant. Then MO does not moderate the relationship between CSR and Firm Financial Performance (Fadrul et al., 2021). However, Jveed and Lefen (2019) argued that managerial ownership has a significant positive relationship with firm performance.

CONCLUSIONS AND IMPLICATIONS

The findings show that CSR and financial performance do not show a significant relationship. Moreover, according to the model I analysis results, CSR and Financial Performance (ROA) were insignificant, and IO was not significant in the relationship between CSR and Financial Performance (ROA). It means IO did not moderate the relationship between CSR and Financial Performance. Then the final model II analysis found that the relationship between CSR and Financial Performance (ROA) is insignificant. MO was insignificant in the relationship between CSR and Financial Performance (ROA). It means MO did not moderate the relationship between CSR and Financial Performance. This result can be because most previous studies were conducted in foreign countries, which were in the Sri Lankan context. Also, only non-financial company data were used for this study. Considering international and Sri Lankan CSR activities are different, these reasons can also affect this result. Considering CSR and Firm Financial Performance studies in the Sri Lankan context, there is a lack of studies. This will further enhance the existing Sri Lankan literature as this considers the moderate effect of ownership structure on the relationship between CSR and financial performance. According to the studies key findings, there was no significant relationship between CSR and Firm Financial Performance, and the moderating effect of ownership structure on this relationship was also found to be insignificant. Then these findings are mainly helpful to related parties such as investors, managers, directors, and shareholders when making financial and non-financial-financial information decisions. Also, policymakers can use this study finding in their policy-making initiations.

***Keywords**:* Corporate social responsibility, financial performance, institutional ownership, managerial ownership

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