

EXAMINING THE RELATIONSHIPS AMONG CSR, CORPORATE TAX, AND FIRM PERFORMANCE

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ABSTRACT

Corporate Social Responsibility (CSR) is a business model that encourages organizations to consider the societal impacts of their operations across economic, social, and environmental dimensions. Recognized increasingly as a strategic asset, CSR can enhance competitive advantages and foster sustainable growth. Corporate Tax Expense (CTE) reflects a corporation's tax obligations, while Corporate Financial Performance (CFP) measures asset-to-revenue efficiency. Prior research generally suggests a positive relationship between CSR and CFP, whereas CSR and CTE often show a negative association. However, empirical findings on the relationship between CTE and CFP are mixed, with studies typically indicating a positive, long-term connection. This study investigates short- and long-term relationships as well as the causality between CSR, CFP, and CTE. Following a positivist approach, it uses a quantitative analysis of voluntary disclosures from a sample of five firms listed on the Colombo Stock Exchange, covering quarterly data from 2010 to 2023. CSR expenses, CFP (measured by return on assets), and CTE are derived from financial reports. Descriptive analyses showed negative correlations between CSR and CFP (0.5 to 0.7) and CSR and CTE (0.4 to 0.6), while a positive correlation was observed between CTE and CFP (0.6 to 0.8) across all firms. The Augmented Dickey-Fuller test confirmed that all the variables were stationary at the first difference. The Johansen cointegration test revealed long-run relationships between CSR-CFP and CFP-CTE, although the CSR-CTE relationship remains inconclusive. Granger causality testing indicated bidirectional causality between CSR and CFP as well as between CFP and CTE. This study recommends policies that promote CSR as a long-term investment and advocate for improved tax efficiency through incentives and streamlined compliance for socially responsible firms. Further industry-specific research and promoting CSR as part of regulatory compliance could enhance transparency and align corporate practices with broader economic and social objectives.

Keywords: CSR; corporate financial performance, corporate tax expense, time series, granger causality