

## **The Impact of Corporate Social Responsibility on Financial Performance: With Special Reference to Listed Manufacturing Firms in Sri Lanka**

K.M.D.K Galagoda<sup>1\*</sup>, M.G.P.D Menike<sup>2</sup>

*<sup>1</sup>Postgraduate Unit, Faculty of Management, University of Peradeniya, Sri Lanka.*

*<sup>2</sup>Faculty of Management, University of Peradeniya, Peradeniya, 20400, Sri Lanka*

*\*dammigalagoda@gmail.com*

Corporate Social Responsibility (CSR), a management strategy, calls for incorporating social and environmental issues into daily operations and relationships with stakeholders. It is critical that CSR principles play a significant role in firm value and strategic planning for the effective use of such initiatives to enhance social wellness. There are many studies done on CSR and Financial Performance (FP) in Sri Lanka, but their findings are vague. The primary goal of the present research was to determine the relationship between CSR and the financial performance of the manufacturing firms listed on the Colombo Stock Exchange (CSE). The current study also aimed at determining the return on investment and/or advantages of funding CSR initiatives. Twenty-two manufacturing companies were selected from the total manufacturing firms listed on the CSE for the period from 2017 to 2021 using the convenience sampling method. Firms not engaged in CSR activities and newly registered firms in the population were excluded from the sample. The audited annual reports of companies were used to collect the required data. Financial performance was measured by using: return on assets, return on equity, return on sales, and return on investment. CSR initiatives, namely employee relations CSR, environment and consumer-related and community-related CSR, were measured using content analysis. Panel data regression analysis was used to test hypotheses and examine the impact of CSR on FP. The findings of the hypotheses state a negative impact of CSR on ROA, ROE, ROS, and a positive impact of CSR on ROI. According to the findings, CSR has a negative impact on the financial performance of the listed manufacturing companies. As an implication, it is highly advised to develop a CSR strategy that is focused on the long-term objectives of the company.

**Keywords:** Corporate social responsibility, Financial performance, Listed manufacturing firms

*Acknowledgment: The authors would like to thank the Undergraduate Research Grant, Faculty of Management, University of Peradeniya.*