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A STUDY ON THE RELATIONSHIP BETWEEN CORPORATE FINANCIAL PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

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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. If there are no proper information on the benefits of CSR, it is 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 was carried out among the listed companies in the Colombo Stock Exchange. On average the companies spend about 6.6% of their turnover on CSR related activities, including training, research and community work. In the case of relationships between CSR activities and financial performance, only in 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. Community relations and environment is not significantly correlated with any of the financial indices.

KEYWORDS
Corporate Social Responsibility, Return on equity, Return on assets, Return on sales.

INTRODUCTION
Ethics is fundamental to any business relationship, whether it is meeting consumer expectations with honesty and integrity or dealing with employees or suppliers. Even though there are laws governing some of these areas, it just makes business sense to be ethical. Philanthropy came about in the spirit of sharing wealth with the community with the intent of doing something for the greater good of humanity. Many organizations shaped their policies and practices for labour and welfare as well as how they supported the community in this manner. These were embedded in the way business was run and become a way of life.

Corporate Social Responsibility (CSR), as a business philosophy evolved out of this practice. As a result, CSR has come to be recognized as both a framework to enhance understanding of the role of business in society and as an area of practice in its own right. The philosophy of CSR has three supporting pillars: moral – doing the right thing, social – community integration and economic – long term survival. Becoming a socially responsible corporate requires a well balanced approach. It has to be embedded into the strategic direction of the business, but also business benefits, in the short or the long term. Ultimately, it has to strengthen society and benefits the environment, as that provides the bedrock for humanity's survival.

In the 19th century, Jamsetji Tata, the founder of the Tata Group in India pioneered the concept of ethical business model of corporate responsibility. Tata combined industrial innovation with worker welfare. In the early 1900s Tata cut the work day to eight hours, introduced health and safety measures, offered free medical services to its employees, launched a pension fund and stuck to this social contract even during hard times. Over the years, CSR evolved through different models based on the situation and the circumstances of the time. The evolution has happened through the ethical, state led and neo-liberal and stakeholder model, which is prevalent today.

Even though some of the social responsibility initiatives can be implemented with a low cost, most of them require substantial investment. The shareholders will be very much interested to know what the benefit they are getting in terms of return for capital with expenditure on CSR activities. Unless it generates some positive outcomes in terms of the profitability of the company, the shareholders would not want the expenses to be incurred. As a result, reporting on the CSR activities have become a part of the annual report of most of the companies. The companies are looking for better and more productive CSR projects and are moving towards having separate departments to coordinate CSR projects. According to Margolis and Walsh (2001), one hundred twenty-two published studies between 1971 and 2001 empirically examined the relationship between corporate social responsibility and financial performance. The first study was published by Narver in 1971. Empirical studies of the relationship between CSR and financial performance comprises essentially two types. The first uses the event study methodology to assess the *short-run* financial impact (abnormal returns) when firms engage in either socially responsible or irresponsible acts. The results of these studies have been mixed. Wright and Ferris (1997) discovered a negative relationship; Posnikoff (1997) reported a positive relationship, while Welch and Wazzan (1999) found no relationship between CSR and financial performance. Other studies, discussed in McWilliams and Siegel (1997), are similarly inconsistent concerning the relationship between CSR and short run financial returns. The second type of study examines the relationship between some measure of corporate social performance (CSP) and measures of *long term* financial performance, by using accounting or financial measures of profitability. The studies that explore the relationship between social responsibility and accounting-based performance measures have also produced mixed results. Cochran and Wood (1984) located a positive correlation between social responsibility and accounting performance after controlling for the age of assets. Aupperle, Carroll, and Hatfield (1985) detected no significant relation between CSP and a firm's risk adjusted return on assets. In contrast, Waddock and Graves (1997) found significant positive relationships between an index of CSP and performance measures, such as ROA in the following year.

Studies using measures of return based on the stock market also indicate diverse results. Vance (1975) refutes previous research by Moskowitz by extending the time period for analysis from 6 months to 3 years, thereby producing results which contradict Moskowitz and which indicate a negative CSP/CFP relationship. However, Alexander and Buchholz (1978) improved on Vance's analysis by evaluating stock market performance of an identical group of stocks on a risk adjusted basis, yielding an inconclusive result.

Griffin and Mahon (1997) provide a review of the empirical research performed between CSP / CEP and CFP for the time period, 1972 to 1994 and concluded that no definitive consensus exists on the empirical CSP/CEP-CFP link. However, they added that the largest number of researchers had found a positive relationship. This is in accordance with the findings of Ullmann (1985) and Pava. Roman, Hayibor and Agle (1999) reviewed the work of Griffin and Mahon (1997) and found that it had overstated the number of past studies that indicated a negative CSP-CFP link. This, because Griffin and Mahon (1997) had erroneously classified some results as negative results and because flawed investigations, which had found a negative CSP-CFP link, were included in the review. Wagner (2001) provides a review of the research performed concerning the link between CEP-CFP from year 1972 to 2000. He concluded that previous empirical research is inconclusive.

Shareholders 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. However, no proper information on the benefits of CSR is available, and is almost non-existent for the Sri Lankan context. Therefore, this research focuses on financial benefits to the organizations by investing on CSR activities. With the end of the decade-long civil war, the attention is shifting to post-war economic activities. Broadly, CSR can contribute to the positive impact of business on peace in two ways: in core business operations (through fair hiring practices, anti-corruption measures and ethical supply chains); and in their social investment activities (by addressing the root causes of conflict). It is unrealistic to expect companies to engage in something as sensitive as peace building if they have not already adopted socially responsible business practices: assuming responsibility for the impact of their operations and the wider challenges facing their communities brings trust among other stakeholders that any company involvement in an issue that is traditionally seen as falling outside its mandate has a clear value-added.

As highlighted above, not having sufficient information on the actual benefits of CSR on the financial performance of businesses hinders the investment on CSR initiatives. By providing substantial evidence that there is a positive relationship between social performance and financial performance, this research will be able to contribute to the expansion of CSR investments by corporate. Hence, the objective of this research is to ascertain the association between Corporate Social Responsibility and financial performance in Sri Lanka.

LITERATURE REVIEW

According to one of the most frequently cited definitions, CSR is *a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis* (Commission of European Communities, 2001). In reality, the distinction between companies' voluntary and mandatory action is sometimes blurred in the developing world. As Graham and Woods (2006) point out, voluntary initiatives may have mandatory aspects and national regulatory frameworks may incorporate the use of voluntary instruments.

It is not surprising that authors present contradicting pictures of what is CSR. After all, even if the same term, CSR, is used, it does not necessarily mean that the discussion is about the same concept. As an example, based on his review of nine empirical studies, Frooman (1994) concluded that the stock market penalizes firms' socially irresponsible behaviour. Five of these nine studies looked at the market's reaction following product recalls. Frooman assumed that product recall is a sign of social irresponsibility and in each case, the share-prices dropped after the recall. But it can also be argued that recalling products is an evidence of a socially responsible behaviour, because socially irresponsible firms will not recall their products. If this is the case, then Frooman's study actually proved that socially responsible action (i.e. product recall) are punished by the market! Another case reviewed by Frooman was market reaction towards an airplane crash. But how can an airplane crash become a sign of corporate irresponsibility? It may be an accident, or carelessness of the pilot or mechanical failure. But surely it is not corporate irresponsibility. Frooman has clearly missed the fact that CSR is exemplified by a company's reaction to an event or its actions in general, not by how the market react to actions taken by the company. Arguably, the lack of a consensus on what is CSR has led Frooman to measure the wrong indicators of social responsibility.

The confusion about what CSR really is has also contributed to cynicisms towards CSR itself. There were claims that some elements of CSR are actually socialism in disguise. Some neoclassical economists claim that CSR is a dangerous concept that threatens the foundations of market economy. In his book, Henderson (2004) repeatedly stressed that the primary role of business in the modern world is as an agent of economic progress and to pursue profitability. To Henderson, CSR is a 'radically new model of corporate behaviour' that seeks to change the way the market operates by forcing corporations to give unnecessary attention to public welfare.

In forming the conceptual framework and hypotheses, it is evident that there are two issues to address in the relationship between CSR and financial performance: (1) the sign of the relationship, and (2) the direction of causation. The sign of the relationship may indicate negative, neutral or positive linkages between CSR and financial performance. Separately, it is possible that changes in CSR influence financial performance, or the opposite, that change in financial performance influence CSR.

Those arguing for a negative relationship between social and financial performance believe that companies that perform responsibly incur a competitive disadvantage (Aupperle *at al*. 1985) because they are incurring costs that might otherwise be avoided or should be borne by others (e.g. individuals or government). An example of this kind of action would be the decision to invest in pollution control equipment when other competitors do not. According to this line of thinking, which is fundamental to Friedman's (1970) and other neoclassical economists' arguments, there are few readily measurable economic benefits to socially responsible behaviour while there are numerous costs. The costs, by this argument, fall directly to the bottom line, reducing profits and this shareholder wealth. These theorists expect the relationship between CSR and financial performance to be negative.

The empirical results to date lend themselves to a second possibility: that there is simply no relationship, positive or negative, between social and financial performance. Proponents of this line of reasoning (Ullman, 1985) argue that there are so many intervening variables between social and financial performance that there is no reason to expect a relationship to exist, except possibly by chance. On the other hand, the measurement problems that have plagued CSR research may mask any linkage that exists.

The third perspective, based on stakeholder analysis, proposes that a tension exists between the company's explicit costs (e.g. payments to suppliers) and its implicit costs to other stakeholders (e.g. product quality costs, environmental costs). This theory predicts that a company that attempts to lower its implicit costs by socially irresponsible actions will, as a result, incur higher explicit costs, resulting in competitive disadvantage. According to this argument, then, there is a positive relationship between CSR and financial performance.

Corporate Social Responsibility (CSR) is a concept whereby companies undertake certain responsibilities towards society independent of their business concerns. Although the activities are not directly related to their business, there is an indirect impact on the business which is a positive one. For example: there is a positive image of the company in the eye of the public and the employees' morale is boosted, which in turn has a positive effect on the productivity of the company.

The research showed various forms of CSR activities being performed by the private sector. Many companies have a social responsibility statement in their annual reports. In many instances CSR seems to be an integral component of business. Charitable activities by the business community in support of various social causes are not an entirely new concept. However, they are ad hoc and seen as purely optional initiatives. CSR can be seen as a concept which brings benefits to both business and to the community. It is a win-win situation. According to Rathnasiri (2003) on his exploratory study on "Corporate Social Responsibility Practices of Sri Lankan Private Sector" is to capture the current status of Corporate Social Responsibility (CSR) understanding, commitment and practices of Sri Lankan private sector firms. The study provides an overview of company practices as well as of employee and civil society experiences and perceptions of CSR. It attempts to register factors that influence the opinion of companies as well as those that shape expectations of corporate responsibility. The evidence on Corporate Responsibility in Sri Lanka suggests that it is a neo-liberal model of CSR that is mostly prevalent. However, this needs to be qualified and tempered against the reality that there is a lack of knowledge and understanding of the broader understanding of CSR.

According to Pirithiviraj J.C.D and K. Kajendra (2010) in their study on "Relationship between Market Orientation and Corporate Social Responsibility with special reference to Sri Lankan Financial Sector" it has been found that variables of market orientation; customer orientation, competitor orientation and inter-functional coordination are positively related to corporate social responsibility. Therefore it can be derived that there is a positive relationship between market orientation and corporate social responsibility.

The good intentions of Sri Lankan business and its interest in serving society contain the potential to transform informal practices into more structured and integrated initiatives. However, there is little or no engagement with civil society and government at present, no coordination of effort and little exposure to best practice to catalyze change. Engagement is required to help the private sector understand how its long-term interests are linked to the development of society around it. This engagement is essential to the definition and implementation of sustainable CSR efforts because individual businesses rarely have the experience to address challenges that lie outside the scope of their core business activities.

There is limited coordination of socially responsible practices in the private sector, although it enjoys a history of philanthropy. The latter has sparked a growing interest in CSR and led to some business organizations in Colombo actively building up their knowledge of its practice. These organizations have shown signs of moving towards a focus on more strategic CSR programmes and overall policy. However, a more cooperative approach is needed to strengthen CSR practice. The organizations at the forefront of CSR need to engage others in dialogue to provide opportunities for shared learning and the development of best practice. Anecdotally, the opposite appears to be happening. The short-term view of the benefits of CSR has created an insular and competitive approach which is healthy at one level— because there is a limited history of CSR in Sri Lanka— but which desperately requires shared learning if it is to evolve into best practice. There are some encouraging signs that this is changing but more formal interaction is needed. The private sector should consider cooperation on initiatives of mutual concern. Effectiveness, especially on national or regional issues, can be greatly improved through the pooling of resources and integration with government and other development objectives.

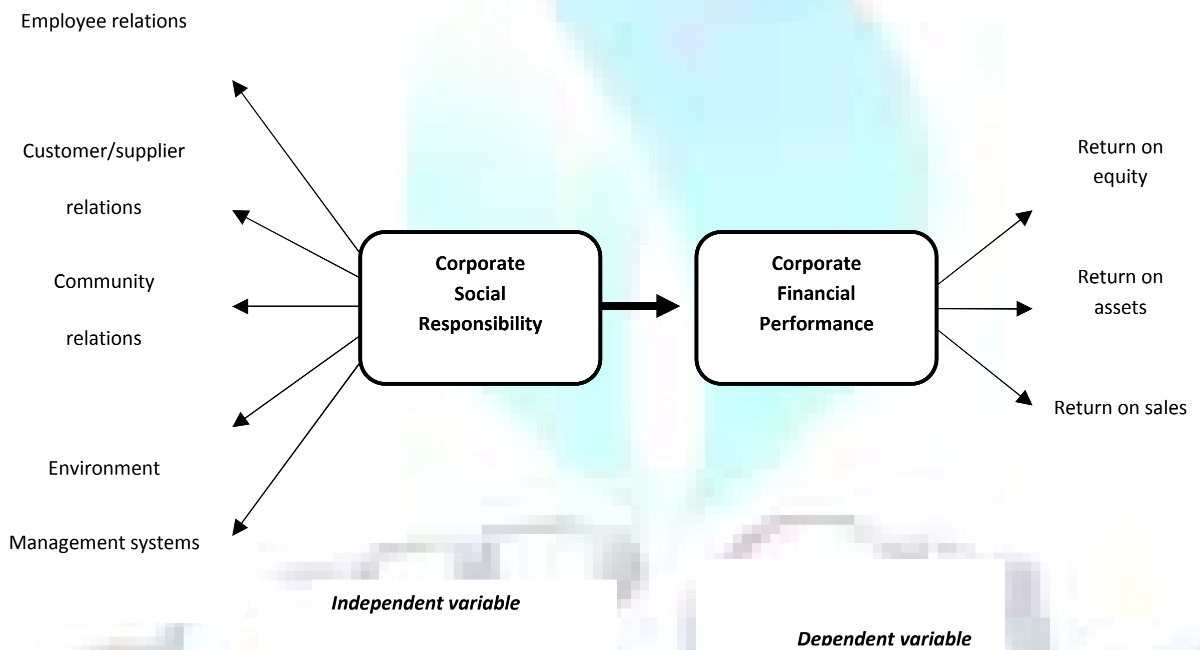
Regional businesses, most of which are SMEs, struggle to offer the same benefits as Colombo-based firms in areas such as job security, provident funds, notice periods for termination, minimum leave entitlements and overall working conditions. Exposure to, and understanding of CSR principles are not as advanced as in the capital. This is because Colombo-based businesses have greater capacity for human resource development, are in stiffer competition for skilled employees and face greater scrutiny by labour regulators. This has produced better working conditions leading to the migration of workers from the regions, especially by those with professional skills. Regional businesses—and regional development— have been severely damaged by this trend. The regions must develop ways to become more competitive on this issue and more needs to be understood about how CSR can be better applied to SMEs so as to strengthen core practice and improve worker retention (International Alert, 2005). Corporate Social Responsibility and Natural Disaster Reduction in Sri Lanka – May 2002 by Madhavi Malalgoda Ariyabandu & Preethi Hulangamuwa in their study found that the extent of the private sector's involvement in disaster reduction activities in Sri Lanka is extremely small. This sector's involvement in this sphere is largely seen in response to emergencies, in the form of relief.

That study also identified four main categories of non-business initiatives of the private sector: philanthropic and charitable activities, contributions towards environmental conservation, building public awareness on important issues, and corporate sponsorships. The engagement of the private sector in natural disaster related concerns falls within these categories.

RESEARCH METHODOLOGY

Figure 1 gives the conceptual model developed for this research, based on the literature review. The two variables that are considered are social performance (independent variable) and financial performance (dependent variable). The two variables have several indicators which are also shown in the model. As discussed above, the relationship is considered to be in a forward direction and the sign to be positive.

FIGURE 1: CONCEPTUAL MODEL OF CSR AND FINANCIAL PERFORMANCES



The following hypotheses are tested in this research:

H_0 There is no association between corporate financial performance and corporate social Responsibility.

H_1 Better corporate social Responsibility leads to better financial performance

The operationalization of the independent variables is given in table 1. The dependent variable is operationalized using direct financial data.

TABLE 1: OPERATIONALIZATION OF VARIABLES

Indicator	Measure
Employee relations	Amount of money spent on training and development
	Having monetary benefits in addition to salaries and wages
	Having gratuity/pension scheme over and above statutory requirements
	Having health insurance for employees
	Having a trade union
	Providing employee and family welfare facilities
	Providing training and development opportunities for employees
	Having equal opportunities for employees and discrimination
	Employing disabled people
Customer/supplier relations	Amount of money spent on research & development
	Having a quality management system
	Having systems to: Measure customer satisfaction Address customer and supplier complaints
	Purchasing from small farmers / industrialists
	Developing small farmers / industrialists who are supplying the company
	Ensuring the quality of products irrespective of profits
Community relations	Having a community liaison committee
	Carrying out philanthropic activities
	Carrying out infrastructure development projects for local communities
Environment	Conducting environmental audits
	Obtaining environmental compliance certification for all operations
	Taking action to reducing air, water and soil pollution
	Taking action to recycle waste
	Taking energy saving measures
Management systems	Amount of money spent on CSR activities
	Having a separate department fo r CSR activities
	Having policy statements for: Human resource management Occupational health & safety Gender and sexual harassment Refraining from bribery
	Having designated committees for: Internal audit Remuneration
	Producing annual sustainability/CSR reports

SAMPLE

The scope of the research is the public quoted businesses registered under the Colombo Stock Exchange (CSE). At present, there are 235 companies registered under the CSE and all of these companies form the scope of the research. Due to strict regulations on operations and reporting, the companies registered under the CSE have superior CSR practices compared to other companies and selecting only these companies might give a biased result. However, the difficulty in ascertaining the accuracy of the survey findings prompted the research to be restricted to companies registered under the CSE. Public quoted companies in the country formed the population for the research. The list of companies was obtained from the Colombo Stock Exchange and all 235 companies were contacted initially. This provided with a suitably sized sample allowing for non-respondents.

DATA COLLECTION

Primary data was collected through a mailed questionnaire to the CEO of the company, the designated CSR Manager, if available, and the HR Manager.

The questionnaire had five sections:

1. General information and financial data about the company
2. Availability and practice of CSR related procedures (scale of not in place – in place and fully in use)
3. Availability of CSR related facilities (yes / no)
4. Importance placed on CSR related activities (scale of very low – very high)
5. Outcome of the CSR initiatives taken by the company (scale of strongly disagree – strongly agree)

Secondary data from the Colombo Stock Exchange were used for verification of financial and other organizational information wherever possible.

DATA ANALYSIS

Data was analyzed using a computer-based statistical package. Descriptive statistics, comparison of means, correlation analysis and regression analysis were used for interpreting the data.

Regression analysis was used to measure the strength of determination of financial performance by the CSR activities.

The regression equation that was used in the analysis is:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \,.....\, + \beta_5 X_5$$

Y = Corporate financial performance

X_1 = Employee relations

X_2 = Customer / suppler relations

X_3 = Community relations

X_4 = Environment

X_5 = Management systems

The same equation was used for the three components of corporate financial performance, i.e. return on equity (Y_1), return on assets (Y_2) and return on sales (Y_3) in the following manner:

$$Y_1 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \,.....\, + \beta_5 X_5$$

$$Y_2 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \,.....\, + \beta_5 X_5$$

$$Y_3 = \beta_0 + \beta_1 X_1 + \beta_2 X_2 \ldots.. + \beta_5 X_5$$

CORRELATION ANALYSIS

The first method of testing the hypothesis is through analysis of Pearson's correlation. Table 2 present the zero-order correlations between all the variables.

TABLE 2: ZERO-ORDER CORRELATION BETWEEN THE VARIABLES

No	*Variable*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
1	Turnover	-										
2	Years in existence	**0.83**	-									
3	Number of employees	**0.90**	**0.79**	-								
4	Employee relations	**0.29**	**0.32**	**0.21**	-							
5	Customer/supplier relations	**0.30**	**0.30**	**0.25**	**0.76**	-						
6	Community relations	0.09	0.10	-0.01	**0.76**	**0.59**	-					
7	Environment management	0.05	0.05	-0.02	**0.77**	**0.80**	**0.60**	-				
8	Management system	**0.22**	**0.26**	0.12	**0.70**	**0.73**	**0.49**	**0.71**	-			
9	Return on equity	**0.32**	**0.44**	**0.40**	**0.23**	**0.35**	-0.02	0.08	0.11	-		
10	Return on assets	**0.35**	**0.50**	**0.40**	0.19	**0.25**	0.02	0.01	0.10	**0.93**	-	
11	Return on sales	**0.34**	**0.38**	**0.37**	**0.32**	**0.37**	0.10	0.16	**0.22**	**0.78**	**0.73**	-
12	Perceived benefits of CSR	0.12	0.08	0.10	**0.20**	**0.24**	**0.29**	0.20	0.18	0.11	0.18	0.15

Source: Research data; r above 0.26 significant at p<0.01; r above 0.20 significant at p<0.05

There is a highly significant positive correlation between turnover, profitability, years in existence and number of employees (r=0.32 to 0.90). The strongest correlations are between turnover and years in existence and number of employees. Bigger companies in terms of turnover and number of employees are also the older companies.

As far as the correlation between the control variables and independent variables are concerned, only employee relations, customer/supplier relations and management practices show significant positive correlations. Community relations and environment management show inconsistent correlations. Turnover and years in existence are significantly correlated with employee relations (r=0.29 and 0.32), customer/supplier relations (r=0.30 and 0.30) and management practices (r=0.22 and 0.26). Number of employees is significantly correlated with employee relations (r=0.21) and customer/supplier relations (r=0.25). Community relations and environment management is not correlated with any of the control variables. Out of the three control variables, years in existence show the strongest correlations with the independent variables.

As far as the correlation between the control variables and dependent variables are concerned, only financial performance show significant positive correlations with the control variables. Financial performance show a correlation of r=0.36 with turnover, r=0.46 with years in existence and r=0.41 with number of employees.

Independent variables and dependent variables show significant correlations only in some relationships. Only employee relations, customer/supplier relations and community relations show significant positive correlations with the dependent variables. Employee relations is significantly correlated with both financial performance (r=0.26) and perceived benefits of CSR (r=0.20). Customer/supplier relations also is correlated with both financial performance (r=0.36) and perceived benefits of CSR (r=0.24). Community relations is significantly correlated with perceived benefits of CSR (r=0.29).

The two dependent variables show a positive correlation, but it is not statistically significant. That means the actual financial performance, which is the result of many factors, and the perceived benefits of CSR is not correlated. Because perceived benefits show stronger correlations with the independent variables, it may be a better indicator for the study of outcomes of benefits of CSR activities than the actual financial performance. Another inference from this finding is that companies do not believe that CSR activities are bringing them financial benefits simply because the financial performance is better. They might attribute the financial success to other factors.

The Correlation between the three financial indices and independent variables are presented in Table 3.

TABLE 3: CORRELATION BETWEEN THE THREE FINANCIAL INDICES AND INDEPENDENT VARIABLES

No	*Variable*	*ROE*	*ROA*	*ROS*
1	Employee relations	**0.23**	0.19	**0.32**
2	Customer/supplier relations	**0.35**	**0.27**	**0.37**
3	Community relations	-0.02	0.02	0.10
4	Environment management	0.08	0.01	0.16
5	Management system	0.11	0.20	**0.22**

Source: Research data; r above 0.26 significant at p<0.01; r above 0.20 significant at p<0.05

Except for the relationship between community relations and ROE, all other show a correlation in the expected direction. The positive correlations range from 0.01 to 0.35. Out of the 14 relationships, six are statistically significant.

When the three financial indices are considered separately, it is evident that return on sales has the strongest correlations with independent variables and return on equity the weakest. Out of the five independent variables, return on sales is significantly correlated with employee relations (r=0.32), customer/supplier relations (r=0.37) and management system (r=0.22) Return on equity is significantly correlated with employee relations (r=0.23) and customer/supplier relations (r=0.35). Return on assets is significantly correlated only with customer/supplier relations (r=0.27). When the five aspects of social performance is considered separately, customer/suppler 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.

REGRESSION ANALYSIS

The second method of testing the hypothesis is regression analysis. Pearson's correlation gives the independent correlation between the variables. But in a real life situation all these variables co-exist and they have considerable influence on one another. To measure the influence of the different independent variables on the dependent variable, the beta coefficient needs to be calculated. In this method, all other variables are controlled except for the variable that is being measured. The beta coefficient value is an indication of the influence of the different independent variable when other variables are held constant.

TABLE 4: INFLUENCE OF CSR PERFORMANCE ON FINANCIAL INDICES

No	*Variable*	*Beta*	*SE*	*t-stat*	*p-value*
1	Employee relations	0.667	0.225	2.965	**0.004**
2	Customer/supplier relations	1.462	0.320	4.574	**0.000**
3	Community relations	-1.031	0.378	-2.727	**0.008**
4	Environment management	-1.036	0.335	-3.094	**0.003**
5	Management system	-0.169	0.108	-1.570	0.120

Source: Research data

Table 4 indicates that the beta coefficient values have pushed the indicators with lower Pearson's correlation values into the negative direction. Only employee relations and customer/supplier relations show significant regression with the dependent variable (β=0.667 and 1.462 respectively). All other independent variables show a negative regression.
To measure the prediction power of the proposed model, both aggregate impact and individual impact, a regression analysis needs to be carried out.

TABLE 5: AGGREGATE IMPACT OF CSR PERFORMANCE ON FINANCIAL INDICES

R	*R^2*	*R^2_{Adj}*	*SE*	*F-stat*	*p-value*
0.567	**0.321**	0.282	6.319	8.229	0.000

Source: Research data

According to Table 5, the R squared value in the multiple regression analysis is 0.321 with a significance of $p < 0.01$. This means that the proposed model predict 32.1% of the variance in financial performance. Considering all the possible factors that influence the financial performance of a company, this is a very high value.
A summary of the regression analysis considering the three financial indices in separate models is given in Table 6.

TABLE 6: REGRESSION ANALYSIS OF DIFFERENT FINANCIAL INDICES

Variable	*ROE*		*ROA*		*ROS*	
	Beta	*p-value*	*Beta*	*p-value*	*Beta*	*p-value*
Employee relations	0.989	**0.004**	0.381	**0.024**	0.630	**0.008**
Customer/supplier relations	2.317	**0.000**	0.901	**0.000**	1.168	**0.001**
Community relations	-1.807	**0.002**	-0.468	0.098	-0.819	0.039
Environment management	-1.408	**0.006**	-0.821	**0.001**	-0.881	**0.013**
Management system	-0.336	**0.038**	-0.082	0.305	-0.088	0.428
R^2	0.338		0.237		0.266	
SE	9.363		4.672		6.514	
F-stat	8.871		5.404		6.294	
p-value	0.000		0.000		0.000	

Source: Research data

The findings are similar to the model with combined financial indices. Only employee relations and customer/supplier relations show significant regression in the expected direction. Out of the three indices, the model best explains ROE (R^2=0.338) followed by ROS (R^2=0.266) and ROA (R^2=0.237).

HYPOTHESIS TESTING

Two methods were used to test the hypothesis, i.e. correlation analysis and regression analysis. The findings are summarized in Table 7. If hypothesis is supported, it is indicated with ✓ and if opposed it is indicated with ✗.

TABLE 7: SUMMARY OF CORRELATION AND REGRESSION ANALYSIS

Variable	*Correlation*	*Regression*
Employee relations	✓✓	✓
Customer/supplier relations	✓✓	✓
Community relations	✓	✗
Environment management		✗
Management system		

Source: Research data

When both the methods of analysis are considered, only employee relations and customer/supplier relations support the hypothesis. Community relations support the hypothesis only in the correlation analysis but is opposed in regression analysis. Management system is not supported in either of the analyses. Environment management is opposed in the regression analysis.
It can be concluded that some aspects of better social performance leads to better financial performance.

CONCLUSION

Business creates wealth in a society. With this wealth comes power that shapes the culture and the values of the society. This power and influence can be used positively to support the achievement of long-term development goals of the country. CSR has been defined as a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. It is an umbrella term for a variety of practices which include: (a) a responsibility for the organization's impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) a responsibility for the behavior of others with whom they do business (e.g. within supply chains); and that (c) management of its relationship with wider society, whether for reasons of commercial viability, or to add value to society.
As responsible corporate citizens, all businesses should contribute to the above wider course. 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 corporates 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.

Specifically the research was undertaken to fulfill four objectives: to conduct an in-depth literature review; ascertain the level of social performance; ascertain the association between social performance and financial performance; and to propose areas to focus in CSR that would yield best financial return.

Based on the findings of the research, the following recommendations can be drawn:

- By focusing the attention only on non-operational activities that yield immediate benefits, such as product development, companies are loosing the chance to improve the future operations. Therefore, companies need to look beyond the short-term benefits and invest for the future, especially on training & development.
- Companies need to look beyond the traditional management practices and focus on the some of the more recent developments such as sexual harassment and bribery
- There is a tendency to focus on external environment when looking for CSR initiatives to carry out. However, the higher impact on financial performance is not from these external initiatives, but from internal initiatives such as employee relations, customer relations and supplier relations. Companies need to appreciate the importance of internal environment when designing CSR projects.
- Overall there is a significant impact from CSR activities on the financial performance of a company, but the importance placed on such CSR activities is low. Companies need to establish a dedicated department, or at least a dedicated officer to coordinate CSR activities so that the full benefits can be obtained.

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