

Nexus between Corporate Social Responsibility, Innovation, and Firm Financial Performance of the Manufacturing Companies in Sri Lanka

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Abstract

This study aims to examine the relationship between corporate social responsibility (CSR), innovation, and financial performance (FP) of manufacturing companies in Sri Lanka. A questionnaire survey served as the primary data source for the content analysis. One hundred manufacturing companies, out of 284 registered companies on the Colombo Stock Exchange (CSE), were used as the population, from which 70 were sampled using simple random sampling. In this study, CSR and innovation are independent variables, FP is the dependent variable, and company age and size are control variables. CSR is constructed by Employee Relevant CSR (EMP), Customer Relevant CSR (CUS), Community-Related CSR (COM), and Environment-Relevant CSR (ENV). The data analysis revealed a significant positive relationship between CSR, innovation, and FP. However, the study results found that CSR has a significant positive effect on FP. Besides, the results confirm that CSR practices and innovations are beneficial for companies to adopt, as they help increase the FP. The results argued that for stakeholders who wish to achieve the best FP through improved CSR practices and Innovation in Sri Lanka's dynamic manufacturing industry, allocating budgets for EMP improvement has a significant impact, leading to real FP improvements in manufacturing companies, and emphasize that manufacturing companies should embrace innovation in line with organizational needs.

Keywords: Corporate Social Responsibility, Company Age, Company Size,

01. Introduction

The primary argument in examining the economic contribution of corporations to society is the claim made by Adam Smith and other scholars and practitioners that corporations derive benefits from the freedom to act according to their desires (Farcane & Bureana, 2015). Currently, Global guidelines and social accounting standards – including the Social Accountability (SA) Standards, GRI Guidelines, ISO certifications, and the Millennium Development Goals (MDGs) – encourage businesses to fulfil their social responsibilities. According to Bahta et al. (2021), CSR is a formal and informal way for companies to address issues that enhance social, Labour, moral, and environmental conditions, and governance in developing countries by being sensitive to historical, cultural, and religious settings. CSR refers to meeting shareholders' expectations by fulfilling their economic, environmental, and social needs (Kengatharan et al., 2020).

There has been a trend for many businesses to engage in and disclose their CSR operations. From surveys conducted over the past few decades on CSR in both developed and developing countries, it has become apparent that large companies have become practitioners of CSR in their operations. From surveys conducted over the past few decades on CSR in both developed and developing countries, it has become apparent that large companies have become practitioners of CSR in their operations. According to surveys conducted over the past few decades on CSR in both developed and developing countries, large companies have become increasingly involved in CSR practices (Fernando, 2013).

Gunday et al. (2011) defined innovation as a method for entering new markets while increasing current market share and enhancing a company's competitiveness in those markets. As cited by Rajapathirana and Hui (2018), Veugelers (2008) states that, in the production sector, a company can innovate by changing the products it offers, the way incoming products are developed and distributed, and the processes it uses. Although evidence indicates that both CSR and Innovation affect the firm's FP, empirical studies examining them together are limited (Martinez-Conesa et al., 2017). Additionally, company performance is crucial for both CSR and Innovation. In this study, CSR and Innovation are treated as independent variables, and FP is the dependent variable, ultimately to illustrate the correlation and impact of FP, CSR, and Innovation on manufacturing firms listed on the CSE.

Waddock and Bodwell (2004) found a specific link between FP and CSR using data from SME in Italy and concluded that CSR can give businesses a competitive advantage. Studies by Jorge et al. (2015) and Gallardo-Vazquez and Sanchez-Hernandez (2014) illustrate a positive correlation between FP and CSR. Accordingly, Bahta et al. (2021) indicate that some SMEs believe CSR positively impacts their FP, whereas others think it negatively affects it. CSR has been shown by Gunday et al. (2011) to improve resource use efficiency, thereby positively affecting FP. Moreover, in non-Western economies, some researchers have argued that there is no relationship between CSP and CFP (Ilhan-Nas et al., 2015). Some previous studies have illustrated that there is no link between FP and CSR, and that CSR is not sufficiently related to firm FP and EP in developing countries (Aras et al., 2010). However, the correlation between FP and CSR remains contentious, despite most research.

According to Bahta et al. (2021), there is mixed evidence on the association between Firm FP and Innovation. Keskin (2006) and Agyapong et al. (2017) argue that there is a positive relationship between FP and the Innovation of SMEs. Al-Ansari et al. (2013) showed a significant positive correlation between FP and Innovation in SMEs. Most research has demonstrated a positive relationship between FP and Innovation, while some studies have shown a negative or no association (Gunday et al., 2011). When discussing the results of the studies, researchers offer mixed interpretations of the relationship among these variables.

According to prior studies, the association among FP, innovation, and CSR has not yet been adequately investigated, especially in developing countries such as Sri Lanka. Moreover, there is a gap between the Sri Lankan economy and those of other countries (Bahta et al., 2021; Martinez-Conesa et al., 2017); however, due to the dearth of studies in developing countries like Sri Lanka (Lakshitha & Perera, 2016; Nimsith et al., 2017). There was no clear understanding of the association between CSR, innovation, and FP. (Fernando, 2013; Kengatharan et al., 2020). Consequently, the primary objective of the study is to investigate the association and effect between CSR, innovation, and FP.

Accordingly, this study will further solidify the conclusions based on social capital and stakeholder theory regarding the correlation between CSR, innovation, and FP (Agyapong et al., 2017; Martinez-Conesa et al., 2017). Based on previous research, a hypothesis can be formulated that there is a direct, beneficial association among CSR, innovation, and the company's FP (Bahta et al., 2021). However, the practical business world currently believes that CSR can enhance a company's financial performance. However, the practical business

world currently believes that CSR can enhance a company's financial progress and that innovation can aid in this process. While discussing the practical significance of this study, it is first necessary to make informed guesses about the possible association between CSR, innovation, and the FP. It will benefit investors, company stakeholders, and policymakers. This study can be used for academic purposes. The rest of the study proceeds as follows. Section 2 presents the literature review. In Section 3, the Research methodology is discussed, with empirical findings presented and discussed in Section 4. Section 5 offers conclusions and suggestions for future studies.

02. Literature review

2.1. Corporate Social Responsibility

The European Commission (2001) has stated that CSR refers to activities in which firms willingly integrate social and environmental aspects into business interactions and operations with external parties to sustain business processes and company culture. Moreover, the European Commission (2003) has described CSR as the responsible practices of a company that support social cohesion and equity, prosperity, environmental protection, and integrity—the three principles of sustainability. Through CSR, the company demonstrates its commitment to sustainable development by addressing economic, environmental, and social factors. To measure CSR, the triple bottom line is used, which has been described as an inescapable expansion of the environmental agenda that focuses not only on economic gain (Elkington, 2013). According to Bahta et al. (2021), CSR can be understood as the collection of formal and informal ways companies in developing countries use to improve moral, social, governance, and environmental conditions, grounded in current cultural, religious, and historical concepts. Holme and Watts (2001) introduced CSR as a long-term responsibility for companies to enhance the economic, ethical, and social well-being of citizens.

2.2. Innovation

Innovation is described as the introduction or embracement of a new service, product, policy, program, device, behavior, or system (Damanpour & Gopalakrishnan, 2001). Innovation can be defined as a tool used to increase market share, enter new markets, or increase competitiveness. Rapidly changing technology and increasing global competition have led companies to the importance of innovation in existing products as an essential part of their

corporate strategies to build a positive reputation with customers and gain a competitive advantage.

Furthermore, over the past 20 years, the practicality of innovation has made it an attractive field. According to Drucker (1985), Hitt et al. (2001), and Kuratko et al. (2005), innovation is a way to achieve sustainable economic competitiveness and overcome existing problems. Gunday et al. (2011) and Kotler et al. (2014) argue that innovation is not limited to products and processes, but also extends to marketing innovation in pricing, product design, promotion, and positioning to satisfy consumer interest and open up new markets. According to Schumpeter (1934), there are different types of innovation, including new methods, products, new business organization methods, and new sources of supply (Bahta et al., 2021).

2.3. Financial performance

Albertini and Elisabeth (2013), Vermeulen et al. (2005), and Geroski and Machin (1992) define FP, measured using return on equity (ROE), earnings per share (EPS), ROI, ROS, and ROA, as a three-part meta-structure of accounting returns, organizational measures, and investor returns that determine the profitability of companies. Some studies have used Tobin's Q to measure CFP (Aslam et al., 2021). Some other studies have used market-based indicators, such as the price per share, price-earnings ratios, or stock price growth, to measure FP (Albertini & Elisabeth, 2013).

2.4. Theories and Framework

2.4.1. Stakeholder theory

In 1960, the Stanford Research Institute introduced stakeholder theory, which holds that an organization's viability and development require the support of all stakeholders. Also, stakeholder theory can be constructed as a framework that encourages organizations to recognize and evaluate internal and external stakeholders, understand their needs and demands, involve stakeholders in decision-making processes, and maximize their value creation (Mahajan et al., 2023). Accordingly, organizations aim to generate multiple benefits for all stakeholders, including Freeman (2010), and many companies operate to satisfy their stakeholders and thereby gain long-term support and resourcefulness. According to Gil et al. (2001), all stakeholders have the right to demand an environment for the common good.

2.4.2. Social Capital Theory

The topic of social capital theory has been a subject of discussion and debate among scholars for many years. Sarracino and Mikucka (2017) define social capital as the structure and quality of social association that can benefit social groups, individuals, and society. According to Putnam (1996), the characteristics of social organization that facilitate cooperation and coordination for mutual benefit and social trust are referred to as social capital. Recently, policymakers, civil society organizations, and theorists have used social capital theory to examine social networks and collective action.

2.5. Empirical Evidence

2.5.1. Corporate Social Responsibility and Firm Performance

The relationship between CFP and CSR, which has attracted considerable attention in recent decades, remains a controversial issue (Hull & Rothenberg, 2008; Orlitzky et al., 2003; Chakroun et al., 2020). Many previous studies have shown that CSR improves organizational performance (Van Beurden & Gössling, 2008). This has been further confirmed by Stoian and Gilman (2017), who conducted a study using data from 211 companies in the United Kingdom. Waddock and Bodwell (2004) found in their study that businesses can achieve greater benefits by engaging in CSR and that there is a definite relationship between the two.

Furthermore, in studies of SME data in Italy, Battaglia et al. (2014), Jorge et al. (2015), and Gallardo-Vázquez and Sanchez-Hernandez (2014) have shown that there is a strong positive correlation between CSR and company performance. Sharabati (2018) and Flammer (2015) have confirmed this from research conducted in the pharmaceutical industry in Jordan. According to Freeman (2010) and Waddock and Graves (1997), stakeholder theory holds that stakeholders can be satisfied when business resources and interests align with their needs. Some studies have shown that CSR improves a business's reputation and image (Lewis, 2003), increases employee morale, and leads to better performance (Basu & Palazzo, 2008; Van der Laan et al., 2008).

Moreover, when considering non-Western economies, some researchers argue that there is no relationship between CSP and CFP (Ilhan-Nas et al., 2015). Some other studies show that there is no correlation between CFP and CSR, and that FP and CSR are not sufficiently related to economic performance in developing countries (Aras et al., 2010; Lima et al., 2011).

However, according to Feng et al. (2017), different types of CSR, depending on the industry or business sector, affect a company's financial performance differently.

2.5.2. Innovation and firm performance

Innovation is a significant enabler for achieving and sustaining gains in a rapidly changing environment (Gunday et al., 2011). There is uncertainty and conflicting evidence about the impact of innovation on FP (Li & Atuahene-Gima, 2001). Also, the relationship between firm innovation and FP has yielded mixed results (Freel, 2000; Geroski & Machin, 1992; Heunks, 1998). Innovation can affect organizational performance along four dimensions: production performance, innovation performance, FP, and market performance (Barringer & Bluedorn, 1999; Hornsby et al., 2002). According to Walker (2004), innovation can significantly improve organizational performance and provide a competitive advantage by improving market conditions.

Several studies on marketing innovations have demonstrated that modern company management techniques lead to improved performance (Guan & Ma, 2003; Han et al., 1998; Hult et al., 2003). Furthermore, John and Davies (2000) have shown that marketing innovations lead to increased product consumption and provide additional profit opportunities. Pett and Wolff (2009) and Walker (2004) have explored the relationship between FP and process innovation.

According to Gopalakrishnan (2000), who expanded on the topic of innovation, the pace and magnitude of innovation delivery also directly affect organizational performance. Innovation may result in short-term losses when using internal resources, but in the long term, it can positively impact the company's production, financial performance, and market development (Gunday et al., 2011). Despite the studies mentioned above, others have shown no connection between innovation and FP (Birley & Westhead, 1990; Heunks, 1998) or a negative relationship (McGee et al., 1995; Vermeulen et al., 2005). Furthermore, other studies support the idea that innovation can have a negative impact on CFP due to factors such as higher costs, employee dissatisfaction, exposure to market risks, and unnecessary changes and price-gouging (Simpson et al., 2006).

03. Methodology

3.1. Research Design

This study will be based on a positivist research paradigm, where researchers use their findings to interpret objective reality (Aliyu et al., 2014), employing a quantitative approach. A quantitative approach will be employed, as used in previous studies (Bahta et al., 2021). Studies have used primary rather than secondary data (Agyapong et al., 2017; Martinez-Conesa et al., 2017). However, this study initiates a follow-up deductive approach, utilizing theories and frameworks, and examines observations to determine whether they support these theories. The regression analysis will be used for data analysis, with a set of robustness checks.

3.2. Population and Sample

As of 2024, there is no clearly defined manufacturing sector among the 284 listed companies on the CSE; therefore, 100 listed manufacturing companies that engaged in any manufacturing activity are considered the population for this study. The sample frame for this study consisted of 70 manufacturing companies listed on the CSE, randomly selected using a simple random sampling technique, and primary data was used for the research.

3.3. Conceptual Framework

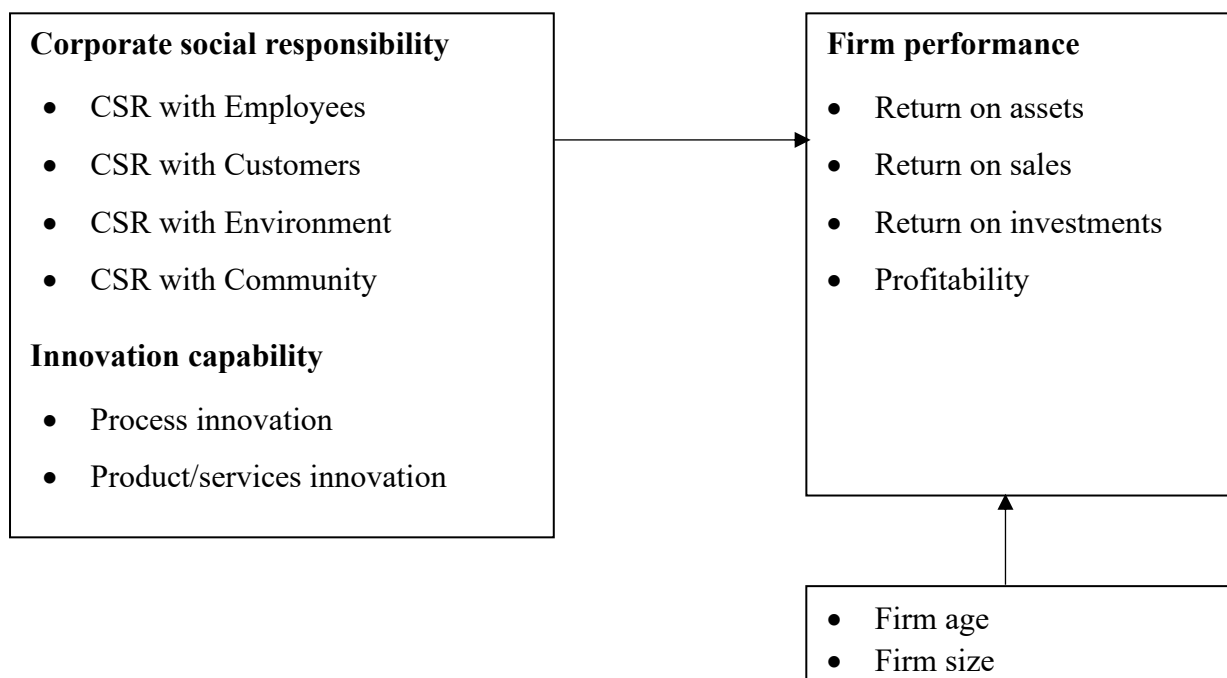


Figure 3.1: Conceptual Framework

3.4. Hypothesis Development

Hypotheses were formulated based on the conceptual framework developed in the above section. Here, the hypothesis is that companies can satisfy stakeholders and advance the common good by performing CSR activities and generating benefits for stakeholders. According to the stakeholder theory, in a context where there are different findings on the correlation between CSR and CFP, Guerrero-Villegas et al. (2018) illustrated a positive correlation between CSR and FP, while Kook and Kang (2011), Cho et al. (2019), and Sun (2012) also shared similar views. On the other hand, Wright and Ferris (1997) showed a negative correlation between CSR and firm FP, while Partalidou et al. (2020) supported this result. In this context, McWilliams and Siegel (2000) and Lima et al. (2011) confirmed that there is no link between these variables or a neutral correlation. Thus, H_1 was developed.

H_1 : There is a relationship between CSR and FP.

Previous studies have provided mixed views on the relationship between FP and innovation, with a range of findings suggesting both negative, positive, and mixed relationships. The hypothesis is developed here to investigate whether companies engage in CSR activities and innovation when social awareness is present. According to social capital theory, Agyapong et al. (2017) found that CFP and Innovation have a positive relationship, while Bigliardi (2013) also supports the result. Regardless of the above idea, Vermeulen et al. (2005) state that there is a negative relationship between FP and Innovation, while Heunks (1998) states that there is an entirely different idea. That is, there is no association between firm FP and Innovation. Therefore, the H_2 was developed.

H_2 : There is a relationship between Innovation and FP.

Several studies employing stakeholder theory have demonstrated that CSR has a positive impact on FP (Das & Bhunia, 2016; Wu et al., 2020). Coelho et al. (2023) also argue that CSR has a direct impact on FP. However, some other studies have shown that CSR has a limited positive impact on CFP (Lin et al., 2009). Thus, the following hypothesis was formulated. Besides, according to Elouidani and Zoubir (2015), CSR has a significantly negative impact on CFP.

H_3 : There is an impact of CSR on FP.

According to social capital theory, Agyapong et al. (2017) state that there is an impact between CFP and Innovation, and Saliba de Oliveira et al. (2018) state that innovation has the

potential to impact firm FP. Fischer and Sawczyn (2013) and Alam et al. (2013) have also shown that innovation can have a strong, substantial impact on CFP. Thus, H₄ was formulated.

H₄: There is an impact of Innovation on FP.

3.5. Operationalization of variables

3.5.1. Independent Variables

3.5.1.1. Corporate Social Responsibilities

Due to the complexity of theoretical constructs, there is limited knowledge of an organisation's performance in social and environmental domains, and the narrow perspective presented by single-dimensional measures. The narrow perspective of single-dimensional measures makes it challenging to develop a meaningful CSR metric (Martinez-Conesa et al., 2017). The items used in this study for CSR were Martinez-Conesa et al. (2017) and were validated by Lindgreen et al. (2009) and Guerrero-Villegas et al. (2018). These items have been proven to be standardised instruments used by managers or owners to assess CSR. According to Bahta et al. (2021), the CSR variable is categorised into four areas: employees, customers, society, and the environment. They are measured on a five-point scale, ranging from strongly disagree (1) to agree (5), indicating the extent of CSR.

3.5.1.2. Innovation

Innovativeness was assessed using an instrument improved by Bocquet et al. (2013) and Martinez-Conesa et al. (2017), which has two items representing the overall innovation dimensions of the company in terms of new or developed products and processes. A five-point scale was used to measure innovativeness, ranging from "strongly disagree" (1) to "strongly agree" (5) (Agyapong et al., 2017; Martinez-Conesa et al., 2017).

3.5.2. Dependent Variable

3.5.2.1. Financial Performance

The items used in prior research, such as Gunday et al. (2011) and Martinez-Conesa et al. (2017), were also used to measure FP across four indicators through a self-administered questionnaire. The FP of companies over the past three years is measured on a Likert scale, with 'extremely unsuccessful' rated one and 'extremely successful' rated 5 (Bahta et al., 2021). Perceptual indicators of FP have been previously used in the analysis literature because they are not legally required to provide objective data on FP to owners and managers (Lubatkin et

al., 2006). Moreover, this approach was adopted because managers and owners are generally assumed to have the most knowledge about their companies' FPs, and are significantly correlated with objective measures (Chang & Hughes, 2012).

3.5.3. Control variable

This study utilised firm size and firm age as control variables to rule out other explanatory variables for the relationships investigated. This is grounded on previous research, including studies of Bahta et al. (2021) and Gerged et al. (2024). The logarithm of the number of employees defines firm size, while firm age is measured by the period since the company was founded.

3.6. Data Collection and Analysis Technique

The primary data were gathered by administering a questionnaire to manufacturing companies listed on the CSE in Sri Lanka, enabling a large sample size and meaningful statistical analysis. The questionnaire survey was conducted among CFOs, CEOs, managers, and accountants of the participating companies. The surveys were distributed through emails, LinkedIn, and personal contacts. SPSS Statistics software was used to analyze data. The dataset was primarily evaluated using descriptive statistics, correlation analysis, and multiple linear regression analysis. The properties of the scales assessing validity and reliability were examined through SPSS Statistics, taking into account the guidelines of Hair et al. (2014), to ensure the consistency and accuracy of the data in the framework.

$$FP = \alpha + \beta_1 CSR + \beta_2 INN + \beta_3 FA + \beta_4 FS + \varepsilon$$

Equation 1: Regression Formula

The regression model FP illustrated financial performance. α represents the intercept, β represents the coefficient, and ε is the random error. Furthermore, the size of the firm is denoted by FS, and FA denotes the firm itself. FAFS and FA denote the firm's age.

04. Data analysis and discussion

4.1. Testing For Multivariate Assumption

4.1.1. Normality testing

A normality test is used to assess whether a data set follows a normal distribution. The skewness and kurtosis values should be in the range of -2 to +2 and -3 to +3, respectively, for a normally distributed data set to have a symmetrical bell-shaped curve. Otherwise, normality should be confirmed by the Q-Q plot. Normality can be assumed if the residuals are normally distributed. The skewness and kurtosis values of the dataset used as the dependent variable in this study are between +2 and -2 and between +3 and -3, respectively. As a result, the data set is made normal. Table 4.1 illustrates the skewness and kurtosis values of FP. Otherwise, normality is indicated by Figure 4.2.

Table 4.1: Normality Test

		Statistics	Std. Error
FP	Skewness	-.236	.343
	Kurtosis	-.695	.674
<i>Source:</i> Survey Data		Dependent Variable: FP	

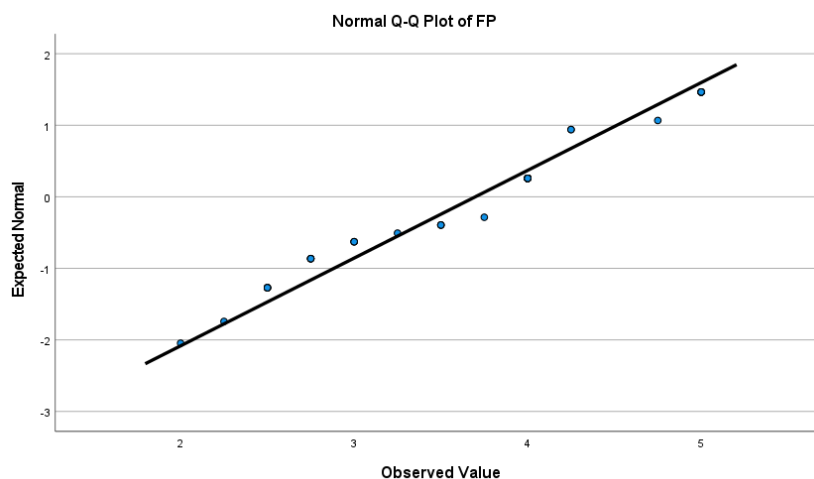


Figure 4.2: Normal Q-Q Plot of FP

4.1.2. Multicollinearity

Multicollinearity assesses the relationship between independent variables. If there is a significant correlation between the independent variables, it can distort the study's findings. In this analysis, multicollinearity is measured using the VIF, which indicates how much the

correlation among the predictor variables affects the variance of an estimated regression coefficient.

Table 4.2: Collinearity Statistics

Model	Collinearity Statistics	
	Tolerance	VIF
EMP	0.184	5.421
CUS	0.189	5.286
COM	0.171	5.850
ENV	0.227	4.403
INN	0.370	2.702
<i>Source:</i> Survey Data		Dependent Variable: FP

4.1.3. Reliability testing

To assess the reliability of the study's data, Cronbach's Alpha should exceed 0.7. For this, a reliability test was conducted using IBM SPSS software, including all the variables used for this study, and the Cronbach's Alpha value was 0.958. Accordingly, adopted the reliability assumption for the study's dataset.

Table 4.3: Reliability Test

Cronbach's Alpha	N of Items
0.958	10

Source: Survey Data

4.2. Descriptive Statistics

Table 4.1: Descriptive Statistics

Items	Observations	Minimum	Maximum	Mean	Std. Deviation
CSR	48	2.45	5.00	3.713	0.767
EMP	48	2.50	5.00	3.809	0.738
CUS	48	2.00	5.00	3.675	0.900
COM	48	2.00	5.00	3.630	0.813
ENV	48	2.25	5.00	3.739	0.816
INN	48	2.00	5.00	3.656	0.796

FP	48	2.00	5.00	3.697	0.815
FS	48	0.00	0.60	0.420	0.195
FA	48	7.00	159	48.69	32.12

Source: Survey Data

Dependent Variable: FP

The mean EMP score is 3.809, indicating that respondents' perceptions of EMP practices are positive. It has a significant SD of 0.738, indicating a significant difference in CSR for EMP practices among respondents. The minimum value of EMP is 2.50, and its maximum is 5.00. The mean value for CUS is 3.675, indicating that respondents' perceptions of CSR practices on CUS are positive. It has a significant SD of 0.9, indicating a significant difference in CSR on CUS practices among the respondents, and its minimum value ranges from 2.00 to 5.00. Similarly, conclusions can be drawn regarding the mean and SD values of ENV and COM.

The mean CSR score is 3.713, indicating that respondents' perceptions of CSR practices are positive. It has a significant SD of 0.767, indicating a significant difference in CSR practices among respondents. The minimum value of CSR is 2.45, and its maximum is 5.00. The mean innovation score is 3.656, indicating a positive perception of innovation, and the standard deviation of 0.796 indicates significant variation among respondents.

The dependent variable FP has a mean value of 3.697. It expresses a generally positive attitude towards CSR practices and innovation in evaluating financial performance. The high SD of 0.815 indicates a significant range of variation among respondents. This means that there are different levels of CSR practices and innovation across companies. It ranges from 2 to 5.

The mean value of 0.420 indicates that the company size logarithm is quite moderate. In this case, the standard deviation (0.195) also reflects relatively slight variation. Its values range from 0 to 0.60. Furthermore, the firm age, with a very high standard deviation (32.12), also shows relatively high variation, and its mean of 48.69 indicates that firm age is quite moderate.

4.2. Correlation Analysis

Table 4.2: Correlations

		CSR	EMP	CUS	COM	ENV	INN	FS	FA
FP	Pearson Correlation	.621**	.662**	.541**	.610**	.530**	.582**	.133	.208
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.368	.156

** . Correlation is significant at the 0.01 level (2-tailed).

The correlation results, as shown in Table 4.2, indicate a significant positive correlation between EMP ($r(48) = .662^{**}$, $p < 0.00$), CUS ($r(48) = .541^{**}$, $p < 0.00$), and FP. Similarly, COM ($r(48) = 0.610^{**}$, $p < 0.00$) and ENV ($r(48) = 0.530^{**}$, $p < 0.00$) also demonstrate a significant positive correlation with FP. The correlation results show a significantly positive correlation between CSR and FP ($r(48) = .621^{**}$, $p < 0.00$). Thus, a strong positive relationship exists between CSR and FP (Jorge et al., 2015). Moreover, in innovation ($r(48) = .582$, $p < 0.01$). Thus, innovation is positively related to FP (Pett & Wolff, 2009). Finally, the two variables FA [$r(48) = .208$, $p > 0.01$] and FS [$r(48) = .368$, $p > 0.01$] are also positively correlated with FP. However, it is not a significant relationship. Thus, there is a weak positive relationship between the company's age, size, and FP.

4.3. Multiple Regression Analysis

Regression analysis is used to assess the impact of CSR and innovation on FP in manufacturing companies. The impact of CSR and innovation on the FP variable was examined through four different regression models. The researcher used skewness and kurtosis to assess the normality assumption of the regression analysis.

Table 4.3: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
.667 ^a	.444	.393	.63547	1.705

Source: Survey Data

The model summary table showed that the independent variable, CSR, predicted the FP of Sri Lankan manufacturing companies (R-square = 0.444). Together, the predicted variables explained 44.4% of the variance in the dependent variable, FP. In contrast, the remaining 55.6%

of the variance in FP was attributed to external variables not considered in this study. Furthermore, the multiple correlation coefficient was 0.667, indicating that approximately 44.4% of the variance in FP can be accounted for by linear CSR practices. The Durbin-Watson value of 1.705, which is close to 2, indicates that no autocorrelation problem exists in this study. These results provide assurance of the reliability of the findings.

Table 4.4: Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
CSR	.431	.196	.405	2.202	.033
INN	.273	.189	.267	1.446	.156
FS	-.063	.487	-.015	-.130	.897
FA	.005	.003	.190	1.660	.104

Source: Survey Data

Dependent Variable: FP

Results showed that CSR practices in Sri Lankan manufacturing firms have a significant positive impact on FP ($\beta = .405$, $p < 0.05$). Accordingly, the regression results support Hypothesis 3: CSR has an impact on FP. Innovation showed an insignificant positive impact on firm FP ($\beta = 0.267$, $p > 0.05$). Accordingly, the regression results do not support hypothesis H4: Innovation has an impact on FP. Furthermore, the age of manufacturing firms (FA) in Sri Lanka ($\beta = 0.190$, $p > 0.05$) had a negligible effect, while firm size (FS) also showed a negligible negative effect on FP ($\beta = -0.015$, $p > 0.05$).

4.4. Discussion

4.4.1. Relationship Between CSR and FP

According to the Pearson correlation coefficient, a significant, moderate positive correlation is observed between CSR and FP. Accordingly, the overall results show that improving CSR practices enhances company performance and provides a significant boost. The results of the study are consistent with previous studies that have stated that CSR has a positive impact on the FP of companies (Battaglia et al., 2014; Gallardo-Vázquez & Sanchez-Hernandez, 2014; Jorge et al., 2015; Sharabati, 2018). Additionally, some studies suggest a negative relationship

between CSR and FP (Partalidou et al., 2020). Some studies report no relationship (Aras et al., 2010).

4.4.2. Relationship Between Innovation and FP

The findings here suggest that innovation capacity plays a crucial role in improving companies' FP. Similarly, a moderate and significant correlation between innovation and FP is confirmed by the Pearson correlation test. The observations of this study support previous studies that have found that innovation has a positive impact on the FP. The size and age of the firm have some impact on FP, so there is potential to provide some support for the effect of innovation on FP. The findings of this study are consistent with previous studies that have stated that innovation has a positive impact on the FP of manufacturing companies (Deshpandé et al., 1993; Guan & Ma, 2003; Han et al., 1998; Hult et al., 2003). In addition, some studies say that there is a negative relationship between Innovation and FP (Birley & Westhead, 1990; Heunks, 1998), while some studies say that there is no relationship (McGee et al., 1995; Vermeulen et al., 2005).

4.4.3. Impact of CSR on the Firm FP

The results have been used to achieve the objectives of 'Assessing the impact of CSR on the FP of manufacturing companies in Sri Lanka.' According to the regression analysis results, CSR practices of Sri Lankan companies have a significant impact on the FP of the companies. Similar to this study, studies conducted by Coelho et al. (2023) have stated that CSR practices have a significant impact on FP. Besides, Lin et al. (2009) showed that CSR practices do not have a significant impact on FP, and in addition, Elouidani and Zoubir (2015) have stated that CSR practices have a negative impact. However, the age and size of the company have an insignificant impact, so it can also affect the impact that CSR has on FP. These results confirm the third hypothesis and the third objective of this study.

4.4.4. Impact of Innovation on the Firm FP

The results have been used to achieve the objectives of 'Assessing the impact of innovation on the FP of listed manufacturing companies in Sri Lanka.' At the same time, the regression analysis results indicate that innovation has a negligible positive impact on the firm's financial performance. This is consistent with previous research by Fischer and Sawczyn (2013) and Agyapong et al. (2017), which reported a positive impact of innovation on the FP of firms. Furthermore, other studies support the idea that innovation can have a negative impact on FP

due to factors such as higher costs, employee dissatisfaction, exposure to market risks, and unnecessary changes and price-gouging (Simpson et al., 2006). These results confirm the fourth hypothesis and the fourth objective of this study.

05. Conclusion

5.1. Key Findings

In this regard, one of the main objectives of this research is to investigate the relationship between CSR, innovation, and FP in Sri Lankan manufacturing companies and to assess the impact of CSR practices and innovation on FP. For the study, data were collected from individuals with knowledge about CSR, innovation, and FP in manufacturing companies listed on the CSE. The results of this study's correlation analysis indicate a significant, positive relationship between CSR and FP. A clear causal relationship exists between CSR practices and FP in Sri Lankan manufacturing companies.

The results of the correlation analysis in this study also indicate a significant and positive relationship between innovation and FP, suggesting a clear causal relationship between innovation practices and FP in Sri Lankan manufacturing companies. In addition, the insignificant positive correlation between company size, company age, and company FP indicates that company size and age contribute to improvements in FP.

However, the regression analysis examines the impact of specific CSR components on the FP of manufacturing companies. Companies that engage in CSR practices have a significant positive impact on the company's FP. This confirms the benefits of engaging in CSR practices in achieving overall financial efficiency. The benefits of engaging in CSR practices are positively highlighted as lower operational barriers, higher CFP, and the ability to respond quickly to market dynamics in organisations that implement CSR. Engagement in all CSR dimensions generally appears to have a significant positive impact on a CFP.

Furthermore, the study's regression analysis examines the specific impact of innovation on the FP of manufacturing firms in Sri Lanka. It appears that companies engaging in innovation activities have an insignificant positive impact on the FP of the company. The benefits of innovation are highlighted, including faster production processes, the ability to respond quickly to market dynamics, and the implementation of CSR. Furthermore, engagement in innovation generally appears to have a significant positive impact on a CFP.

By carrying out CSR activities, companies can increase their FP level, thereby satisfying stakeholders and advancing the common good. Furthermore, when social capital is present, companies can engage in CSR and innovation activities, thereby increasing their FP level and further enhancing social capital. Accordingly, hypotheses built on stakeholder theory and social capital theory have been helpful.

5.2. Implication

This study is based on several key stakeholders, including the Sri Lankan manufacturing sector, employees, society, consumers, the environment, and the economy. The findings are relevant to corporate managers and employees who recognize that strategic decision-making is essential for implementing and tailoring CSR practices and innovation. Study results emphasize the need to implement CSR measures for the environment, as the impact is significant, and protecting the environment has become a crucial task in the implementation of companies' activities today.

Furthermore, the research results indicate that innovation, which is significantly correlated with FP, has a substantial impact on the company's financial performance. Consequently, focusing on innovation supports the company's financial performance and helps achieve company goals. Therefore, this study promotes a standard view of innovation implementation. However, since innovation contributes significantly to the economy and is strongly correlated with FP, this study emphasizes that manufacturing companies should embrace innovation in line with their economic contributions. This study emphasizes that manufacturing companies should embrace innovation in line with their organizational needs. This study can be considered a valuable model for stakeholders seeking to achieve optimal financial performance through enhanced CSR practices and innovation in Sri Lanka's dynamic manufacturing industry.

5.3. Limitations and Future Directions

Like existing research, this study is confined to a single geographical region, specifically CSE-listed companies in Sri Lanka. Therefore, researchers may be interested in a comparative analysis to determine the generalizability of the research findings to other industries and countries. Moreover, data for this study were collected through a questionnaire, and the use of quantitative and qualitative research methods, such as interviews and case studies, enabled more valid data and a deeper understanding of organizational dynamics while avoiding subjective bias.

Additionally, this study considers a set of variables and excludes other important factors that could influence the outcome, such as new technological developments, government regulations or laws, or global economic impact. Therefore, by incorporating such factors, researchers can investigate the relationship between CSR and innovation in more depth through new studies. Furthermore, the financial performance used as the independent variable in this study was the three-year behavior of ROA, ROI, ROS, and profitability. Instead, the results of this study can be further generalized by analyzing financial performance over more years using Tobin's Q or ROE ratios.

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