Corporate Social Responsibility and Corporate Performance: A Study of the Top 100 Performing Firms in Ghana

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ABSTRACT

Corporate social responsibility (CSR) is often viewed as a necessary ingredient for the survival of organizations in contemporary business world. However, much of the studies that examine its relevance have been carried out in the developed economies like the UK and USA. The major aim of this study was, therefore, to explore the nature and pattern of relationships between some indicators of financial performance and standing on CSR. The relationships between CSR and indicators of organizational performance (such as turnover, turnover growth rate, net profit, ROE, the number of employees, and composite performance) were examined. Using Ghana Investment Promotion Centre's data used for the 2005 Ghana Club 100 (GC100) ranking, a correlation matrix was constructed and a One-Way between-subjects analysis of variance (ANOVA) was carried out. Results of the analysis showed no significant correlation between any of the indicators of financial performance and standing on CSR. However, a nearly perfect correlation was found between composite corporate performance [made up of turnover, turnover growth rate and return on equity (ROE)] and turnover. The conclusion drawn from this study was that inactivity of the few institutional investors and absence of strong lobbyists in Ghana and other developing countries coupled limited listing on stock exchange markets make financial performance of such companies unaffected by their standing on CSR.

Background

Examining the survival of firms from the perspective of open systems theory, it can be said that organization has a duty to ensure that the environment within which it operates is supportive of its operations. As a result, corporate social responsibility (CSR) is considered as key for the survival of organizations. A plethora of terms have been used to describe CSR; these include sustainability, business ethics, stakeholder management, corporate responsibility, corporate social performance, corporate conscience, corporate citizenship, social performance, or sustainable responsible business (Carroll & Shabana, June 2011). CSR is the duty of a corporation to create wealth in ways that avoid harm to, protect, or enhance societal assets (Steiner & Steiner, 2006). The fundamental idea is that corporations have duties that go beyond carrying out their basic economic function in a lawful manner. This is often based on the reasoning of social contract; social contract dictates that the overall performance of an organization must benefit society. CSR is, therefore, thought of as the process by which

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businesses align their values and behaviour with the expectations and needs of stakeholders – not just customers and investors, but also employees, suppliers, communities, regulators, special interest groups and society as a whole. In this regard, CSR describes a company's commitment to be accountable to its stakeholders.

The classical economic theory holds that a business is socially responsible if it maximizes profits while operating within the law, because an "invisible hand" will direct economic activity to serve the good of the whole (Steiner & Steiner, 2006: 116). Though the classical view is still relevant today, the contemporary perspective on CSR has been broadened to give prominence to ethics as well. This is to say that today CSR is not thought of in terms of economic returns alone but also seen as an ethical responsibility for firms. It is this ethical perspective about CSR that has raised eyebrow among investors. Currently, the consensus is that CSR demands that organizations manage the economic, social and environmental impacts of their operations to maximize the benefits and minimize the downsides to stakeholders (CSRNetwork, 2011).

Should organizations commit to CSR because it is ethical to do so? To answer this question, researchers have examined the relationship between corporate social responsibility and different indicators of organizational performance. Researchers have found significant positive correlation between CSR and financial performance. For instance, using longitudinal data analysis, Saleh, Sulkily, and Muhamad (2011) found CSR to be positively related to financial performance among Malaysian firms. Besides, Frooman (1997), after a meta-analysis of 27 studies of socially irresponsible and illicit behaviour, found that this type of behaviour had a statistically significant negative effect on shareholder wealth. Bosch, Woodrow, and Lee (1998) investigated the effect of the US Environmental Protection Agency (EPA) pollution control enforcement activities and firm response strategies on shareholder wealth. Bosch et al (1998) found that the market reacted negatively upon learning that a firm had been targeted and that losing a contest with the EPA was very costly to shareholders. However, others have also found negative relationships between CSR and financial performance. For instance, extant theoretical and empirical research has supported both contradictory positions (Margolis &Walsh, 2003; Rowley & Berman, 2000; Mahon & Grifûn, 1999; Roman, Hayibor, & Agle, 1999; Grifûn & Mahon, 1997).

Despite the contradictory evidence on the relationship between CSR and financial performance, it is generally believed there is a positive relationship between CSR and financial performance (Solomon & Solomon, 2010). Various explanations have been provided to account for this positive relationship. First, McGrire, Sundgreen, and Schneeweis (1998) suggested that prior financial performance is a better predictor of corporate social responsibility than subsequent performance. Their argument is that it is not CSR that determines financial performance of corporations rather it is its financial standing that determines its CSR performance. This implies that rich companies are more likely to act in a socially responsible manner relative to poorer companies. Another explanation provided to account for the positive link between corporate social responsibility and financial performance is that companies that act in a socially responsible manner are more likely to have the skills required to run a company well, improving its financial performance and making it an attractive investment (Solomon & Solomon, 2010). Yet another explanation is that company management is more likely to concern itself with CSR in cases where neglect of CSR would have negative impact on its financial performance. Therefore, the principal objective of the current study was to explore the nature and pattern of relationships between the various indicators of financial performance used in this study and standing on CSR.

Literature Review

A number of researchers have examined the relationship between CSR and organizational performance, particularly financial performance. In a qualitative review of over 95 studies done over 30 years, Steiner and Steiner (2006) found that a majority (53%) of the studies reported a significant positive relationship between profit and CSR. However, 24% of the studies found no significant relationship, 19% found mixed relationship, and only 5% found significant negative relationships. This evidence suggests that CSR can contribute positively towards improvement in financial performance of organization. In other words, it pays to invest in CSR.

Another notable source of evidence about the impact of CSR on corporate financial performance is a meta-analysis, a quantitative literature, carried out by Orlitzky, Schmidt, and Rynes (2003), who integrated 30 years of research from 52 previous studies and used meta-analytical techniques to support the proposition that corporate social performance and corporate financial performance are positively correlated and statistically significant. Interestingly, the meta-analysis found a higher correlation between financial performance and a company's management of its social impact than between financial performance and a company's management of its environmental performance. In other words, both qualitative and quantitative literature review suggest that there is a significant positive correlation between CSR and financial performance.

Using extensive data over a period of five years, Tsoutsoura (2004) explored and tested the direction of the relationship between CSR and financial performance. The dataset used in the analysis included most of the Standard and Poor's (S&P) 500 firms and covers the years 1996-2000. The results indicated that the sign of the relationship is positive and statistically significant, supporting the view that socially responsible corporate performance can be associated with a series of bottom-line benefits.

Taking advantage of both modern portfolio and stakeholder theories, Barnett and Salomon (2006) also hypothesized that the financial loss borne by a socially responsible investing (SRI) fund due to poor diversification is offset as social screening intensifies because better-managed and more stable firms are selected into its portfolio. They found support for this hypothesis through an empirical test on a panel of 61 SRI funds from 1972 to 2000. Results of their study showed that as the number of social screens used by an SRI fund increases, financial returns decline at first, but then rebound as the number of screens reaches a maximum. That is, they found a curvilinear relationship, suggesting that two long competing viewpoints about the relationship between CSR and corporate financial performance may be complementary. Furthermore, we find that financial performance varies with the types of social screens used.

Similarly, Solomon and Solomon (2010: 191) have argued that "pursuing profit at the expense of damage to the environment, local communities, employees and other stakeholders is not a route many people support any longer." After a review of the literature on corporate social responsibility, Solomon and Solomon (2010) concluded that there is a growing perception that companies that perform well in the social, ethical, and environmental arena also perform well financially. For instance, research in the UK suggests that companies with superior social and environmental ratings also have the best performing shares (Pensions Week, 2003, reported in Solomon & Solomon, 2010). Moskowitz (1972) have found that share returns of a small sample of US listed companies which he deemed were socially responsible also increased at a higher rate on major market indices or indicators of performance. In an exploratory research of 42 Ghanaian top managers, Ofori (2007) reported that 61% of the respondents asserted that they derived benefits in the form of improved corporate image through CSR activities while only 15% thought that the benefits they derived from CSR is increase in sales of goods.

Much of the empirical studies that examine the relevance of CSR have been carried out in the developed economies like the UK and USA. As a result, the current study is an attempt to gain insight into the nature of the relationship between CSR and corporate financial performance in Ghana. Previous studies that have been reviewed so far used single indicators of financial performance in a given study. To examine the relationship between CSR and other indicators of financial performance, this study employed turnover, turnover growth rate, net profit, ROE, and the number of employees. In addition, a composite score for corporate financial performance was also computed using the weights assigned by Ghana Investment Promotion Centre in its new ranking system to turnover growth rate (30%), absolute turnover (15%), and ROE (20%). As a result of the above empirical evidence, the objective of the current study was to explore the nature and pattern of relationships between the various indicators of financial performance used in this study and standing on CSR.

Methodology

Research Design

This study was an archival research in which secondary data obtained and processed by Ghana Investment Promotion Center (GIPC) for its 2005 rankings of companies in Ghana were used. The Ghana Club 100 (GC100) was launched in 1998 by the Ghana Investment Promotion Center (GIPC) to recognize the best performing companies in Ghana. The GC100 is about corporate excellence. Companies making it into the GC100 are to serve as role models to businesses and provide a forum for corporate Ghana to interact with the government at high level. The 2005 ranking data were collected on the following:

- Turnover (Cedis)
- Turnover growth rate over a three-year period (%)
- Equity invested (owner's fund) [Cedis]
- Net profit [Cedis]
- Return on equity invested (ROE) [%]
- Number of employees
- CSR rating (%)

Data on the above variables were extracted from the 2005 GC100 ranking data for the purpose of statistical analyses. Turnover, turnover growth rate, net profit, ROE, and the number of employees were treated as different indicators of organizational performance. Again, a composite score was calculated based on the weights assigned by GIPC in its new ranking system to turnover growth rate (30%), absolute turnover (15%), and ROE (20%).

Data Collection

After the launch of the GC100 Awards, firms interested in being considered for these prestigious Awards are requested to submit the following at the GIPC Investment House Office in Accra:

- One set each of three years of audited accounts for three years prior to the year for the awards in hard copy

- Documentation from the Ghana Revenue Authority (then Internal Revenue Service), Value Added Tax Service (where applicable) and the Social Security and National Insurance Trust (SSNIT) stating that the business is in good standing for the same period.

However, only firms with the following characteristics were considered for GC100 Awards:

- Should have audited accounts for years three years prior to the year of the award.
- For companies with government interests, Government shares should be below 50%.
- Should be in good standing with all regulatory bodies relevant to their operations.

Data analysis

Initially, an inter-correlation matrix was constructed using Pearson's r by means of SPSS v.17. Further analyses were carried using One-Way between-subjects analysis of variance (ANOVA) in which CSR ranking was used as the independent variable as proposed by Solomon and Solomon (2010) that CSR leads to sound financial performance. To carry out the One-Way ANOVA, the 100 firms were categorized into three groups: top 25% (highly socially responsible), middle 50% (moderately socially responsible), and bottom 25% (least socially responsible) on their CSR ranking.

Results

Preliminary analysis

Results of this analysis revealed that CSR was not significantly related with any of the indicators of firm performance. It needs to be noted that except for turnover growth rate that showed non-significant positive correlation, all the indicators of firm performance showed non-significant negative relationships (see Table 1).

Table 1: Intercorrelations among Study Variables

No.	Variable	M	SD	1	2	3	4	5	6	7
1	CSR	2.1600	5.89000							
2	Turnover	234182.31	459905.36	-.088						
3	Turnover Growth Rate	44.39	40.97	.009	-.004					
4	Owner's Fund	85221.05	169790.81	-.025	**.38****	**.34****				
5	Net profit	30485.11	111186.97	-.028	**.62****	**.26****	**.74****			
6	Number of employees	284.11	447.76	-.060	**.53****	-.10	.17	**.22***		
7	Return on Equity	37.92	73.17	-.006	.06	**.58****	.05	.15	-.06	
8	Composite Corporate Performance	35475.60	69259.55	-.086	**0.99****	-.002	**.39****	.63**	**.53****	.06

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

* Correlation is significant at the 0.05 level (2-tailed).

Results of the analysis also showed significant positive correlation between turnover owner's fund for 2005 (n = 100, r = 0.38, p < 0.01), turnover growth rate and owner's fund (n = 100, r = 0.34, p < 0.01), turnover and net profit (n = 100, r = 0.62, p < 0.01), net profit and turnover growth rate (n = 100, r = 0.26, p < 0.01), net profit and equity invested (n = 100, r = 0.74, p < 0.01), number of employees and turnover (n = 100, r = 0.53, p < 0.01), number of employees and net profit (n = 100, r = 0.22, p < 0.05), and ROE and turnover growth rate (n = 100, r = 0.58, p < 0.01). The composite corporate performance was also found to be perfectly correlated with turnover (n = 100, r = 0.99, p < 0.01). The nearly perfect correlation between the composite corporate performance and turnover could imply that turnover can be used in future research as an important indicator of corporate financial performance.

Inferential Statistical Analysis

The One-Way ANOVA was carried out by categorizing the 100 firms on the GC100 ranking for 2005 into three groups: top 25% (highly socially responsible), middle 50% (moderately socially responsible), and bottom 25% (least socially responsible) on their CSR ranking. Means and standard deviations for the three groups of firms were computed for turnover, turnover growth rate, equity (owner fund), net profit, number of employees, net profit, return on equity, and composite corporate performance. Summary of the results is presented in Table 2.

Results of the One-Way ANOVA carried out are presented in Table 3. Results of the analysis showed that there was no significant difference between firms classified as highly socially responsible, moderately responsible, and least socially responsible in terms of turnover [F (2, 97) = 0.312, p = n.s], turnover growth rate [F (2, 97) = 2.87, p = n.s), equity [F(2, 97) = 1.90, p = n.s], net profit [F (0.92), p = n.s], number of employees [F (2, 97) = 0.22, p = n.s], ROE [F (2, 97) = 0.60, p = n.s], and composite corporate performance [F(2, 97) = 0.35, p = n.s]. This implies the various indicators of financial performance are not affected by a company's standing on CSR in the Ghanaian sample.

Table 2 : Means and Standard Deviation for the Various Indicators of Performance

Variable	CSR Classification	M	SD
Turnover	Highly socially responsible	231988.50	338087.72
	Moderately socially responsible	264777.32	515150.15
	Least socially responsible	175186.12	459118.75
Turnover Growth Rate (%)	Highly socially responsible	33.92	15.64
	Moderately socially responsible	54.00	54.88
	Least socially responsible	35.64	11.97
Owner Fund (equity)	Highly socially responsible	29170.60	34201.34
	Moderately socially responsible	108092.16	205852.25
	Least socially responsible	95529.28	163586.74
Net profit	Highly socially responsible	17674.16	27416.14
	Moderately socially responsible	45475.24	153936.81
	Least socially responsible	13315.80	30286.07
Number of employees	Highly socially responsible	315.76	530.80
	Moderately socially responsible	254.52	416.12
	Least socially responsible	311.64	433.71
Return on equity (ROE) (%)	Highly socially responsible	31.56	19.94
	Moderately socially responsible	45.98	100.96
	Least socially responsible	28.48	28.40
Composite Corporate Performance	Highly socially responsible	34814.76	50710.41
	Moderately socially responsible	40497.09	77887.94
	Least socially responsible	26294.31	68868.91

Table 3: Summary of Results of ANOVA carried out on Various Indicator of Performance

Variable	Source	Sum of Squares	df	Mean Squares	F-ratio	p
Turnover	Between Groups	133936812893.05	2	66968406446.52	.31	.733
	Within Groups	20805843986708.10	97	214493236976.37		
	Total	20939780799601.10	99			
Turnover Growth Rate	Between Groups	9272.19	2	4636.10	2.87	.062
	Within Groups	156895.60	97	1617.48		
	Total	166167.79	99			
Owner's Fund (equity)	Between Groups	107352197404.99	2	53676098702.50	1.90	.156
	Within Groups	2746710695871.76	97	28316605112.08		
	Total	2854062893276.75	99			
Net profit	Between Groups	22707841015.31	2	11353920507.66	.92	.403
	Within Groups	1201183878092.48	97	12383338949.41		
	Total	1223891719107.79	99			
Number of employees	Between Groups	87768.99	2	43884.50	.22	.807
	Within Groups	19760968.80	97	203721.33		
	Total	19848737.79	99			
Return on equity (ROE)	Between Groups	6421.97	2	3210.99	.60	.554
	Within Groups	518189.38	96	5397.81		
	Total	524611.35	98			
Composite Corporate Performance	Between Groups	3353873758.73	2	1676936879.36	.35	.709
	Within Groups	466740878157.97	96	4861884147.48		
	Total	470094751916.70	98			

Discussion

Results of the analysis showed that there was no significant difference among the three classes of companies based on their CSR standing in terms of all the indicators of financial performance among the Ghanaian firms. In accordance with Kerlinger's (1964: 200) suggestion that "relational fact is inferred from the significant differences between two, three, or more means", results imply that no significant relationship existed between SCR standing and the indicators of financial performance. In addition, the Pearson's r also indicated no significant relationships. This finding is inconsistent with findings of previous studies. Researchers such as Moskowitz (1972), Solomon and Solomon (2010), Tsoutsoura (2004), Orlitzky et al (2003), and Barnett and Salomon (2006) all reported significant correlations between CSR and financial performance. However, results of this study are consistent with the findings of Steiner and Steiner (2006) that 24% of the 95 studies they examined found no significant relationship between CSR and financial performance.

The inconsistency of this study with majority of previous studies may be as a result of the nature and extent of activities on Ghana Stock Exchange (GSE). Solomon and Solomon (2010) suggest that institutional investors and even individual investors have come to an understanding that CSR is important and as a result, different indicators of socially responsible investments have been developed to help such investors in screening investments. Unlike stock exchange in developed countries, there are only 35 companies currently trading on the floor of GSE and that not all of the companies which made to the GC100 list are listed on the stock. As a result, the pressure that institutional investors and environmental lobbyists bring to bear on firms to act socially responsibly in countries such as the UK and the USA is not felt in Ghana by the companies. Due to this situation, financial performance by these firms were unaffected by their performance with regards to CSR. Yet another explanation is that for a majority of senior managers in Ghana the main consideration for their companies' commitment to CSR is not improved financial performance but improved company reputation. As a result of this, it is unlikely that decisions about CSR will be affected by financial performance.

Another possible explanation is that there was a restriction of range due to the use of only the top 100 performing companies. Mitchell and Jolley (2007) suggested that one may fail to find a significant relationship due to restriction of range because to say that both variables vary together, you need both variables to vary. This means that if a larger sample consisting of both top performing firms and poorly performing firms were included in the study thereby giving room for variation, there was a possibility of finding a significant relationship between CSR and financial performance. If the restriction of range explanation is accepted, then the suggestion by McGrire et al (1998) that prior financial performance is a better predictor of corporate social responsibility than subsequent performance may be a sufficient explanation.

Conclusion and Recommendations

The conclusion that can be drawn from this study is that for underdeveloped stock exchange market such as GSE, CSR is less likely to be to a key driver of investment decisions and as a result, CSR will not affect financial performance of listed companies let alone unlisted ones. In addition, the nearly perfect positive correlation between the composite score for corporate performance and the turnover may imply that turnover alone could be a useful measure of corporate performance.

Practical implication of this study is that there is a need for GSE to attract more companies to be listed so as to ensure that such companies come under the necessary pressure to act socially responsibly. Again, there is also a need for the formation of lobbyist organizations in Ghana to ensure that pressure felt by companies in developed countries with respect to CSR is equally felt in the country. In this regard, formation of voluntary organizations after the model of Corporate Social Responsibility Movement (CSRM) in Tema (the industrial city of Ghana) is in order.

With regards to future research on the link between CSR and financial performance, it is recommended that view that prior financial performance is a better predictor of corporate social responsibility than subsequent performance should also be tested in a developing economy like that of Ghana's in which the stock exchange market is undeveloped.

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