UNIVERSITY OF CAPE COAST

CORPORATE SOCIAL RESPOSIBILITY AND PROFITABILITY OF

LISTED   COMPANIES IN GHANA

BY

JACOBSON APETSI GOTTOH

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature…………………………… Date ………………...

Gottoh Jacobson Apetsi

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of thesis laid down by the University of Cape Coast.

Signature……………………………….. Date…………………………..

Mr Akorsu Kwashie Patrick

ABSTRACT

With the increased concentration on the corporate social responsibility (CSR), companies are not only required to focus narrowly on generating profit for shareholders, but also asked to take responsibilities for firms' other stakeholders, e.g. customers, employees, society etc., from social, environment and economic perspectives. Hence, nowadays, having both a decent CSR performance and adding profitability are the significant aspects for the company to achieve the sustainable success in the long term. In terms of that, this dissertation aims to explore the CSR-profitability relationship, namely to explore, how CSR influences the firm's profitability. For this purpose, this study measured corporate social responsibility disclosure in terms of published CSR keywords on the annual reports of the 10 firms listed on the Ghana stock exchange over five years ranging from 2011 until 2015. The variables under consideration in the study include: return on assets, return on equity, corporate social responsibility, company size, leverage, inflation, and exchange rate. The study reveals that corporate social responsibility (CSR), company size (CS) had positive and statistically significant effect on return assets and return on equity in the domestic industrial sector of Ghana after controlling for leverage, inflation, and exchange rate. The result also concludes that there is positive relationship between Profitability and CSR practices together with Firm Size and Firm Revenue as control variable. As well as, this research will contribute to finance and accounting literature in identified investment in CSR will lead to firm financial performance or otherwise.

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DEDICATION

To my loving parents, wife and children

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LIST OF ABBREVIATIONS

CSR	Corporate Social Responsibility
SEC-G	Securities and Exchange Commission- Ghana
GSE	Ghana Stock Exchange
UK	United Kingdom
USA	United States of America
CFP	Corporate Financial Performance
ROA	Return on Assets
ROE	Return on Equity
SOE's	State Owned Enterprises
SME's	Small and Medium Scale Enterprise

CHAPTER ONE

INTRODUCTION

This chapter presents the overview of the study that includes the background of the study, statement of problem, purpose of the study, objectives of the study, significance of the study, delimitation of the study and the organization of the study.

Background of the Study

Over the years there is a debate as to what exactly firms are obliged to do; either to be responsible to the society or environment in which they are established or only to concentrate on their prime objective of shareholders' wealth maximization. Corporate social responsibility (CSR) as a concept obliges any firm, apart from its principal objective of maximizing shareholders wealth, to go beyond these tasks to cater for the society in which it is operating. McWilliams and Siegel (2001) describe corporate social responsibility as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law." An important aspect to notice is that corporate social responsibility is more than just following the laws governing the operation of businesses in a country.

Moreover, Frooman (1997) simply defined corporate social responsibility as "An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholders' welfare". Considering McWilliams and Siegel (2001) and Frooman's (1997) definitions together, one will realize that there is a common notion that relate

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to the welfare of the stakeholders and the working environment in the firm. A socially responsible corporation should take steps forward to adopt policies and business practices that go beyond the minimum legal requirements and contribute to the welfare of its key stakeholders. Corporate social responsibility is viewed as a comprehensive set of policies, practices and programs that are incorporated into business operations, supply chains, and decision-making processes throughout the company and usually include issues related to business ethics, community investment, environmental concerns, governance, human rights, the marketplace as well as the workplace. The implementation of corporate social responsibility, if any, differs from one company to the other. These differences may depend on factors such as the company's size, nature of the business, the firm's culture, stakeholder demands, and the historical progressive the company is engaging in corporate social responsibility (Ocran, 2011).

Nevertheless, there was an argument against corporate social responsibility by Friedman (1970) which states that "there is one and only one social responsibility of business:- to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud". Considering his argument, it appears that Friedman believes businesses should not adopt corporate social responsibility programs because they are outside the profit-making scope and are unnecessary expenditures. Progressing into his argument, it is revealed that Friedman supports the integration of corporate social responsibility programs into

business operations, but only if it positively affects profitability in the long-run.

Businesses should not implement corporate social responsibility if it will affect their operation either negatively or neutrally in the end. Simply, companies have found that corporate social responsibility has often had a positive impact on corporate profits. Companies are socially responsible because they anticipate a benefit from these actions. Examples of such benefits might include reputation enhancement, the ability to charge a premium price for its output or the use of corporate social responsibility to recruit and retain high quality Human resources. The companies' benefits derived from the implementation of the corporate social responsibility presumed to compensate the higher costs associated with the concept, since resources must be allocated to allow the firm to achieve corporate social responsibility status. According to (Nkanbra and Okorite (2007), the key indicator to determine the true worth and value of modern organizations is their ability to give back to the society part of their income through some mutually beneficial initiatives.

There is no doubt that, corporate social responsibility is becoming indispensable though involuntary, in the contemporary business world as societal needs are making imperative for the corporate organizations to be sensitive for happenings in their environment, which ensure more understanding and good relationship between the organization and the society in which they exist, since CSR contributes for the wellbeing of the citizenry (Osho, 2008).

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This study has lot of implications for managers and other beneficiaries of corporate social responsibility (CSR) programs (environment, community, consumers, employees, and stakeholders) and government. Over the past years, there has been an extreme increase in implementation of corporate social responsibility (CSR) programs by organizations of all sizes; the increase in expenditures to enhance the social responsibilities of corporations suggests managers are coming to terms with the numerous benefits in corporate social responsibility (CSR) implementation. Hence, this study attempts to provide information on the effect corporate social responsibility (CSR) implementation have on the profitability of companies with the aim of aiding managers to structure business strategies to maximize future returns. If managers are interested in investing in social responsibility initiatives, this study predicts how their organizations will be impacted financially and describes strategies managers can employ to satisfy their constituents.

According to Anku-Tsede1e and Deffor (2014), Ghana has a very varied corporate atmosphere. This is made up of limited liability companies; companies limited by guarantee; non-Ghanaian companies registered in Ghana as external companies; and state-owned corporations created by statute. Again, there are other business associations such as partnerships and co-operatives that have corporate personality and unincorporated businesses, like sole proprietorships. All these corporate and "quasi-corporate" forms are subject to different levels of principles of CSR. Unlike the international level there is a proliferation of initiatives to promote CSR in the face of public concerns about the political, economic, social and environmental effect of the

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activities of corporations in societies in which they operate, there is no readily available document on CSR in Ghana. What provides the CSR basis in Ghana are a diversity of policies, laws, practices and initiatives. That is to say, policies, legislation, and other forms of law regulate CSR in Ghana. Numerous government policies, such as the Ghana Land Policy document has direct influence on CSR. These policies are not identified as pro or anti CSR initiatives, they have the potential to promote or denigrate CSR. In addition, specific laws which have a bearing on CSR regulate particular industries and sectors of the economy such as banking, insurance, mining and commerce. Many global conventions that Ghana has approved are also applicable, and have a bearing on CSR.

Statement of Problem

A lot of argument is going on as to whether a company should go into corporate social responsibility or not (Rahim, 2013). Those who are saying companies shouldn't participate in corporate social responsibility argue that, the main objective of a business is maximise profit for their shareholders Crane, Matten and Spence (2008) while others argue that, corporate social responsibility enable a company to achieve its aim (profit maximisation) because people prefer buying from a company that contribute to the society (Henderson, 2005). Hence, it has necessitated that, a study is conducted on corporate social responsibility and profitability of companies to see whether it has any impact on the profit or not.

Globally, there are numerous literatures on the relationship between CSR and financial performance Wardock and Crave (1997); Coombs and

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Gilley (2005); McWilliams and Siegel (2000), Simpson and Kohers (2002); Bråtenius and Belin (2015). However, these researches have shown a lack of consistent evidence of CSR activities' impact on financial performance. Positive, negative and neutral relations have been presented, but till date there is no clear relation established. Thus, the relation between CSR and Profitability is controversial and need to open for further research.

However, few researchers looked at CSR in Ghana and within these few, most have concentrated more on philanthropic, ethical and corporate governance issues (Abor,2007); Kyereboah-Coleman and Biekpe (2007); Ofori (2007a), whereas others have studied wholesale CSR typology issues (Ofori, 2006, 2007b; Ofori and Hinson 2007).Thus, a limited studies on the impact of CSR on companies' financial performance were available (Ofori, Nyuur and Darko, 2014; Oppong, 2014; Marfo, Chen, Xuhua, Antwi and Yiranbon, 2015). The studies conducted in Ghana have given a mixed relationship as it was in other countries.

Therefore, there is the need to study whether corporate social responsibility disclosure has any significant effect with the profitability of companies listed on the Ghana Stock Exchange.

Purpose of the Research

The purpose of this research is to examine the effect corporate social responsibility (CSR) implementation has on profitability of listed companies on the Ghana Stock Exchange over the period (2011-2015). Specifically, the study seeks to:

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1. Examine the relationship between CSR disclosures and Returns on Assets (ROA) of listed companies on the Ghana Stock Exchange.

2. Examine the relationship between CSR disclosures and Returns on Equity (ROE) of listed companies on the Ghana Stock Exchange.

Research Question

In order to archive the research objective, the study seeks to answer the following questions:

1. What is the relationship between CSR disclosures and Returns on Assets of listed companies on the Ghana Stock Exchange.?

2. What is the relationship between CSR disclosures and Returns on Equity of listed companies on the Ghana Stock Exchange.?

Research Hypothesis

H 1: There is a relationship between CSR disclosures and the returns on Assets of listed firms on the Ghana stock exchange.

H 2: There is a relationship between CSR disclosures and the returns on Equity of listed firms on the Ghana stock exchange.

Significance of the Study

The findings of this study would be very important for policy formulation by the bodies that oversee corporate social responsibility activities in Ghana improve management practices in terms of implementation of corporate social responsibility. Furthermore, findings of this study would encourage companies and authorities to understand the effect of corporate social responsibility and set new reporting area of sustainability to be in line

with international standards and equalize the quality of reporting with globally accepted norms.

Limitation of the Study

The population for the study include listed companies on the stock market. However, the study was limited in scope to selected firms listed on the Ghana Stock Exchange because of the non-availability of data from non-listed firms. The study focuses mainly on corporate social responsibility disclosures and not the act of corporate social responsibility and as such only examines those CSR activities that have been disclosed in the annual reports. The study also focuses on listed companies on the Ghana stock exchange irrespective of their line of business. Another limitation of the study, like in all accounting studies, the results are interpreted in the context of the proxies used to measure the different variables, the sample and the duration of the study. The study also looks at CSR disclosure in total and did not break it down into voluntary and mandatory disclosures.

Moreover, corporate financial performance is measured by using only two profitability measures, ROA and ROE. This may have short form as management used only the data relating to the end of the year financial statement of firms in calculating ROA and ROE.

Delimitation of the Study

This study examines the effect corporate social responsibility implementation has on the profitability of listed companies in Ghana using panel model for the period 2011 to 2015.The study employs the following

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variables: corporate social responsibility, profitability such as Return on Assets(ROA) and Return on Equity (ROE) of the selected firms.

Organization of Study

The study is divided into five main chapters. Chapter one includes introduction, the background of the study, statement of the problem, purpose of the study, objectives, significance, scope and limitation. Chapter two discusses the literature review that covered theories on CSR and companies' financial performance. Chapter three discusses the methodology, which dwells on the research design, population and sampling, instrumentation, mode of data collection, method of data analysis and presentation of results, problems encountered and limitation of the study.

Furthermore, chapter four focuses on the discussion of findings with research questions in minds. Chapter five provides the summary and conclusion of the study as well as recommendations for further studies.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter presents previous research within the CSR and financial areas as well as theories within finance and valuation that are relevant for the study. The subjects covered are CSR, CSR motives, CSR benefits and costs, the financial market, as well as the relationship between CSR and financial performance. Lastly, a literature review is made on the existing research on the relationship between CSR and financial performance.

Corporate Social Responsibility

Different institutions (governments, companies, business associations, business consultants, non-governmental organisations, shareholders, employees, consumers and communities) have put forward different meaning to the concept of CSR in an effort to endorse, encourage or criticise its practical effects. These meanings are based on the different values and anticipation that each of these stakeholders bring to their relationship with corporations (Moon, 2007).The meaning of corporate social responsibility is not abstruse. McWilliams and Siegel (2001) describe Corporate Social Responsibility as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law."

An important aspect to notice is that Corporate Social Responsibility is more than just following the law governing the operation of business in the country. Alternatively, Frooman (1997) simply explains Corporate Social

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Responsibility as an activity by a company for which it chooses to take an action that substantially impact an identifiable social stakeholder's welfare.

CSR as defined by European Commission (2001) is a concept whereby firms integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis following increasingly aware that responsible behaviour leads to sustainable business success. CSR is about managing change at company level in a socially responsible manner that can be viewed in two different dimensions:

1. Internal – socially responsible practices that mainly deal with employees and related to issues such as investing in human capital, health and safety and management change, while environmentally responsible practices related mainly to the management of natural resources and its usage in production.

2. External – CSR beyond the company into the local community and involves a wide range of stakeholders such as business partners, suppliers, customers, public authorities and local communities as well as environment.

Carroll, (2011) views the total social responsibility of business as involving the simultaneous performance of four responsibilities—which, stated in pragmatic terms, that the corporation should strive to make a profit, obey the law, be ethical, and be a good corporate citizen.

Figure 1: Carroll pyramid structure

Source: Bakhsheshy, A. (2007), *Corporate Citizenship, Social Responsibility, Responsiveness, and Performance*.

Carroll's pyramid represents one of the earliest attempts to integrate the economic and social responsibilities of the corporation. An accumulated evidence proves that economic (tangible) and social (intangible) responsibilities; economic (profits) and social responsibilities (ethics) are not mutually exclusive. Whilst Lantos's model, considers ethical, altruistic and strategic variables (Lantos, 2001). Crane, Knight and Starkey (2008) also introduced a contemporary model, which groups CSR activities into four components: the Marketplace, Workplace, Environment and Community. According to Crane, Knight and Starkey (2008) the marketplace refers to where the goods and services are exchanged, the workplace is where production takes place whilst community and environment refers to the site of the company and surrounding areas respectively. Various observers (governments, companies, business associations, business consultants, non-governmental organisations, shareholders, employees, consumers and communities) have put forward different definitions to the concept of CSR in

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an effort to endorse, encourage or criticize its practical implications. These definitions are based on the different values and expectation that each of these stakeholders bring to their relationship with corporations (Moon, 2007).

The Need for CSR

Businesses are profit conscious. However, with evolving structure of the business environment, the role of organizations has changed dramatically. These days, businesses are an intrinsic part of social life. Sunder (1997) has proposed a broader definition on the role of businesses, describing them as being a "set of contracts" among employees, customers, managers, shareholders, suppliers, auditors etc. This definition directs business to be socially responsible. Hence, businesses are social agents contracting with other agents, as a part of chain; their goal goes beyond just profit-maximization. It implicit that organizations construct the business environment and agents are the members of social society. Therefore, individual or business either voluntarily or involuntarily plays the role of an agent.

CSR Related Documents in Ghana

In Ghana, according to Amponsah and Dartey (2011) the socialist orientation of her first president Dr Kwame Nkrumah gave the impression perhaps rightly or wrongly that State Owned Enterprises (SOEs) were able to solve societal problems. This, in a way limited corporate organisations to the social obligations of the payment of taxes that affected the implementation of the concept CSR in the country. However, in recent times there has been a serious call on companies to undertake social programs, as government

alone cannot handle the increasing societal problems. CSR activities in Ghana are mostly fronted by large scale multi-national companies.

The numerous economic problems of the country such as low per capita income, weak currency, capital flight, low productivity and low savings make it almost impossible for indigenous companies, most of which are engaged in the retail and in the production of primary commodities, to undertake social actions. Large scale manufacturing, telecommunication and mining companies such as MTN, Valco, Goldfields, and AngloGold have been instrumental in the social development of the country (Amponsah and Dartey, 2011). However, just as it is globally, extractive industries whose operations have direct impact on the environment and local communities are always in the news for obvious reasons they are either breaching some of the tenets of the CSR agenda or fulfilling them in earnest.

The need for firms to be responsible is relevant given the ongoing shift towards privatization and deregulation (Anku-Tsede1e and Deffor, 2014). This CSR enable the private sectors to complement the public sector efforts by creating new hopes and responsibilities for businesses (Husted, 2000). These events raises the legitimate question of whether corporations can of their own be responsible without the existence or enforcement of Law? McBarnet (2009) opines that engaging in CSR was no longer a voluntary act on the part of companies rather a legal pressure and enforcement.

According to Anku-Tsede1e and Deffor (2014), Ghana has a very varied corporate atmosphere. This is made up of limited liability companies; companies limited by guarantee; non-Ghanaian companies registered in Ghana as external companies; and state-owned corporations created by

statute. Again, there are a whole forms of business associations such as partnerships and co-operatives that have corporate personality and unincorporated businesses, like sole proprietorships. All these corporate and "quasi-corporate" forms are subject to different level to the principles of CSR. Unlike the international level, there is a proliferation of initiatives to promote CSR in the face of public that is concerns with the political, economic, social and environmental effect the activities of corporations in the societies in which they operate. There is inadequate document available on CSR in Ghana. What provides the CSR basis in Ghana are a diversity of policies, laws, practices and initiatives. That is to say, policies, legislation, and other forms of law regulate CSR in Ghana. Numerous government policies, such as the Ghana Land Policy document influence directly on CSR. These policies are not identified as pro or anti CSR initiatives they have the potential to promote or denigrate CSR.

In addition, specific laws which have a bearing on CSR regulate particular industries and sectors of the economy such as banking, insurance, mining and commerce. Many global conventions that Ghana has approved are also applicable, and have a bearing on CSR. Corporate Social Responsibility implementation mostly depends on the size and objectives of the companies. Some organisations operating in Ghana are Multinational Corporation and others are Small and medium Enterprises.

Multinational Corporations

Multinational corporations are companies or enterprises that operate in a number of countries and have production or service facilities outside the

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country of its origin. While still maintaining a domestic identity and a central office in a particular country, the prime objective of these companies is to maximize profits on a worldwide basis. As the world is becoming a global village, it is therefore the responsibility of these multinational corporations to take advantages of the situations and transact business in as many countries as possible. Greater portion of the multinational companies established in Ghana such as (MTN, Vodafone, Uniliver, Guinness etc) have interesting business policies on Corporate Social Responsibility.

Although corporations have different objectives and differ in nature of businesses, they have similar aim to recognise the need of business decisions that demonstrate economic, business partners, social and environmental responsibilities for the stakeholders, which consist of employees, community, customers, suppliers, government and shareholders. These companies bring the benefits accumulated back to society through wealth generation, employment, skill development and transfer and community initiatives. These works done by the companies are visible evidences that enhance the policies to bring about dynamic and innovative programs to better the lots of society through social, economic and environmental issues. There are various policies, strategies and programs which have been implemented by multinational companies that can be shared and useful as an acknowledgement of Corporate Social Responsibility practices in the business and thus, continuously contributing to the sustainable development.

Small and Medium- Sized Enterprise

Small and Medium- Sized Enterprise (SMEs) are a part of business entities populated in Ghana, their contributions towards society must be seriously be taken into considerations. SMEs may be prevented from implementing correctly Corporate Social obligation because of the limited capital and other resources available into their business operations. Social responsibility is usually done in an informal way and sometimes unconsciously by SMEs. Corporate Social Responsibility tools such as codes of conduct and supply chain standards are usually excluding SMEs in developing countries   (Fox 2005).

Therefore, there should be new methods of making Corporate Social Responsibility more relevant for SMEs. Jenkins (2004) found in his research that SMEs feel most pressure and influence on Corporate Social Responsibility matters from customers and employees and time and money are barriers to Corporate Social Responsibility. A recent study on social responsibility among SMEs in Ghana as commissioned by the ACCA concluded that ─SMEs are more concerned with profitability and less concerned with the impact of their operations on the community, customers and employees (Tay, 2006).

Analysing firms' motives for adopting CSR practices

Various authorities such as Lantos and Carroll have established that firms must perform CSR in fulfilment of business obligations and out of philanthropic reasons. This research will mainly focus on the main motivations that urged firms to perform the CSR. According to Muller and Kolk (2010) CSR is considered to be externally and internally driven. The researcher

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therefore, examine carefully these two factors; the External and internal motives for CSR.

External Motives

A lot of pressure comes from outside the firm's operation. This kind of pressure results into the obligation that urges the firms to go into CSR. The researcher identified four areas pressures emanate from outside the firm; government, employees, consumers and shareholders. The government holds the supreme laws that compel the firms to perform CSR. No firm would like to face the realities of winding up or closed down by the government of the country and so, this gives the impetus to extend a hand into the practice of CSR. Employees on the other hand will first be concerned with their salaries their conditions of service, job security, just to mention a few. If these requests are not met, they can resort to industrial actions such as strikes or boycotts.

Consumers of the firms' goods and services also exert a pressure compelling firms to be socially responsible. You may wonder how a common consumer can have so much power to compel a firm to perform CSR. They do so by demanding a standardized product of the firm; thus the quality and quantity of goods and services. Their demand for the goods and services will be largely influenced by the quality of the products hence determining the price of the goods. When all these are well taken by the consumer, they are said to derive satisfaction.

Shareholders are another factor that compels firms to perform CSR as mainly maximization of profit. The firms must, however, not fail to meet their

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demand since this also try to expand their market through advertisement and the performance.

Internal Motive

Just as external motives, there should be automatic internal motives to make it complementary; this study identified a couple of internal factors that serve as motivation to plunge firms into performing CSR. They include the firm's reputation enhancement, avoidance of costs stemming from litigation, firm's ability to attract investors, improvement of the firm's competitiveness and the capacity of the firm to enhance its operational efficiency. Every firm has it a major objective to curve an enviable reputation in order to command respect in the market. How this unique reputation achieved? To have a sellable trademark and be socially responsible. This is the motivation that compels firms not to pollute the environment during their production process. This public nuisance is not taken lightly by citizens.

In other to avoid community criticism and litigations and sometimes court cases, firms are obliged to perform CSR. The researcher can tell what happens to a firm that is to keep the business alive; there is the need to attract investor and Performance of the CSR, hence the business alive. Other factors that also serve as a motivation to firm to go into CSR are the willpower to improve their competitiveness and their operational efficiency. As the market becomes so competitive, every firm tries hard to maximize the need to sell one's brand, quality and to be recognized in the community and by so doing delve into the performance of CSR.

CSR Challenges

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As firms go into the performance of CSR, their activities do not run smoothly, they face few challenges. These hurdles however are manageable and firms handle them their own way in order to perpetuate their activities in the CSR and maximize profit. Companies face challenges and limitations they implement CSR.

These challenges usually relate to either political issues or organizational level concerns and are often embedded in the company's culture. The complexity of operating in a global society places new demands on organizations and their leadership. As the roles and responsibilities of government are redefined and the boundaries between business and government become less clear, the literature shows that business leaders are facing a daunting array of challenges. In the new age of CSR, the needs of the stakeholders, consumers, employees, national as well as international regulators, watchdogs, NGOs, and activist groups have to be satisfied (Hatcher 2002).

Theories on CSR and performance of Companies

Irrespective of the definition, being socially responsible in every sense means that the organization has entered into a social contract, which obliges it to think about the society at the time of taking decisions. This section discussed the Utilitarian theory and Stakeholder theory which are adopted in the theoretical framework. The discussion of each theory includes a general introduction linking the theory to CSR practices and its predictions about CSR motivation.

Utilitarian Theory

There is a long believe of laissez faire business offering approach to determinism, independence to public control, and individual moral responsibility to social responsibility. Utilitarian could equally be used to replace the instrumental theories in which the company is seen as just an instrument for generating wealth, and its social involvements are just means to achieve high profit (Garriga and Mele, 2004). The utilitarian theories are identified with systems of strategies for wining market competition.

The promoters of these theories are for example, Porter and Kramer (2011) who saw the theories as origins for conveying strategies in the dynamic application of natural assets of the company for market competition advantages. It also incorporates philanthropic strategies that are socially professed as instruments for marketing purposes.

Secchi (2007) further divided the utilitarian cluster of theories into two, which are the social cost of the firm and the thought of functionalism. The social cost theory has a premise for corporate social responsibility in which the financial framework in the host society is said to be affected by the corporate non-monetary powers. The theories of utilitarian, in this manner, endorse that the firm needs to acknowledge social obligations and rights to partake in social co-operation, (Harrison &Wicks, 2013). Inside of it, the theories of functionalist, particularly advocate that the firm is seen as a piece of the financial framework, with the main objective of making profits for the business. The organisation is seen as an investment portfolio, and ought to be profitable to all stakeholders including investors and partners (Marfo, Chen, Xuhua, Antwi amd Yiranbon, 2015).

Stakeholder Theory

Pirsch, Gupta and Grau (2007) attributed the emergence of CSR to Stakeholder Theory, which suggests that an organization's survival and success is recognized by the achievement of its economic (e.g. profit maximization) and non-economic (e.g. corporate social performance) objectives in the interest of their stakeholders. Freeman (1984) defined stakeholder in an organization as "any group or individual who can affect or is affected by the achievement of the organization's objectives." Primarily, a stakeholder group comprises of shareholders and investors, employees, customers, suppliers, public entities (e.g. government) and trade associations and environmental groups (Pirsch, Gupta and Grau 2007). Donaldson and Preston (1995) suggested that stakeholder theory inclines the companies to undertake CSR activities and then consider the impact on all of its constituents, namely various stakeholder groups (Bird Hall, Momentè, and Reggiani, 2007).

The theory argues that a firm's financial success is dependent on its ability to formulate and execute a corporate strategy which manages its relationships with stakeholders effectively (Brammer, Pavelin, and Porter, 2006). Stakeholder theory specifies the extent to which a corporation treats its stakeholders appropriately, and thus is linked to corporate social responsibility (Öberseder, Schlegelmilch, and Murphy, 2013). Ullmann (1985) in his study also indicated a link between stakeholder theory and CSR activities. He demonstrated that the connection between the firm's social and economic performances has three attributes: stakeholder power, the firm's strategic posture, and the firm's past and present economic performance.

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Measuring Corporate Social Responsibility

Scholars are unable to settle on a specific way of finding the value of CSR. Surroca and Tribó (2008) clarify that the concept of CSR is related to stakeholder theory because seeking maximization of CSR is linked to the objective of meeting the interests of the stakeholders. The measurement of CSR should consider how the demands of the various stakeholders of an organization are met, that is, CSR is conceptually an aggregate variable of an indirect observation, a proxy. There is an operational problem in the theoretical-empirical research that measures CSR, which has two central points: which stakeholders should be evaluated and how to evaluate the fulfilment of demands. Varied outcome from the analysis is mostly dependence on the CSR value. Dkhili and Ansi (2012) have outlined five different method of measuring CSR:

i) Performing content analysis by measure of speech, such as content analysis of annual reports, which are based on remarks made by companies to assess their CSR activities. Example of this content analysis is by counting number of lines or words dedicated to themes CSR in the annual report of the company.

ii) Indicators of pollution provided by some agencies to assess the pollution caused by businesses such as the Toxic Release Inventories in the U.S. For example, measurements of the diffusion of CO_2 by businesses.

iii) Measures of attitudes and values aimed at assessing the sensitivity of members of the organization. Example of this measurement is via questionnaires.

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iv)   Measures of reputation such as the indicator of reputation developed by Markowitz in the 1970s in the American Magazine Fortune which includes criteria related to CSR that are assessed by a panel of industry experts to which operates within the enterprise in question.

v)   The behavioural measure or audit developed by the agencies that specialize in the assessment of social behaviour and environmental responsibility such as the U.S. KLD.

Moreover, Karagiorgos (2010) also has indicated that it is important for the measurement of CSR to have a 'multiple-indicator, multiple-causes' (MIMIC) due to CSR involve multiple obligation. For example, measurement of CSR cannot be measure by contribution to community only but must also include contribution of the firm to community, environment.

Costs Associated with Corporate Social Responsibility

There are different types of costs related to CSR engagement. Weber (2008) suggests that one-time CSR costs should be seen as separate from continuous costs. One-time costs can for example include installation costs, one-time donations or other similar investment costs (Weber, 2008). Continuous costs could be fees such as for licenses or patents, recurring personnel or materials costs, and CSR promotion activities such as marketing and campaigns.

Another potential cost to consider comes from the risk of active CSR engagement leading to higher exposure and more scrutinization from the press and nongovernmental organizations (Weber, 2008). According to Yoon, Gürhan- Canli and Schwarz (2006), CSR may hurt the company image when

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motives behind the CSR engagement are perceived to be insincere, i.e. that the consumers suspect that the companies engage in CSR only in order to improve their images. Consequently, a single mistake leading to bad publicity will affect a company's reputation more negatively than for a company who does not engage in CSR at all, causing costs that are CSR risk-related (Yoon, Y., Gürhan- Canli, Z. and Schwarz, N. 2006, Bhattacharya and Sen, 2004; Weber, 2008). Moreover, trying to satisfy the specific needs of the customers will increase the likelihood of them approving the CSR engagement, and accordingly minimize the risk. Finally, constantly trying to align the company goals and stakeholder goals will also increase the likelihood of the CSR activities actually creating value, and for all parties involved (ibid).

A final remark to highlight is that, CSR costs are hard to measure and that conventional accounting systems do not distinguish between costs related to CSR and not related to CSR. There is also an inherent risk of cost distortion due to the overhead being assigned based on for example number of units (Weber,2008).

Corporate Financial Performance: Concept and Measurement.

The classical view of financial performance is maximizing the wealth of agents who are shareholders (Dkhili and Ansi 2012).Although the definition of CFP is not debated in the literature, there is disagreement with respect to the best way to measure CFP (Cochran and Wood, 1984). According to Orlitzky, Schmidt, and Rynes (2003), a survey of the literature reveals that CFP has been measured in three forms: market, accounting, and survey measurements. Orlitzky, Schmidt, and Rynes (2003) further explain that the

first approach reflects the degree of satisfaction of the shareholders; the second captures an idea of the internal efficiency of the company; and the last provides a subjective estimation of its financial performance.   It is worth indicating that, just as there is a relationship between CSP and stakeholder theory, there is also an association between CFP and the theory of the firm, given that seeking to maximize CFP is linked with the objective of the firm. In empirical studies of CSP and CFP, researchers, with the goal of measuring CFP, have resorted to the use of various types of variables. Examples of the variables employed for this purpose are the following: return on assets (ROA); Choi and Wang,(2009); return on equity (ROE) Preston and O'Bannon, (1997);   Agle, Mitchell,and Sonnenfeld, (1999); sales growth Mahoney, Lagore and Scazzero, (2008); Fauzi and Idris, (2009); return on sales (ROS) Graves and Waddock, (1999); Callan and Thomas, (2009); operating margin Ogden and Watson, (1999).

However, the Return on Assets (ROA) and Return on Equity (ROE) are the two most popular measurement tools used by researchers and the accounting ratios which show how effectively and efficiently management uses corporate asset and equity to enhance inventory turnover and sales to earn profit. In contrast to the variables that have been proposed to measure CSP, for which a precise definition by which to evaluate the fulfilment of the demand of each stakeholder is not available, the variables employed to measure CFP are supported in the literature by precise forms with which to measure them.

Relationship between Financial Performance and Social Performance

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Based on the theory of the firm and stakeholder theory, conceptual propositions derived a positive, negative, and neutral relationship between financial and social performance. The proposal of a positive association is usually founded on arguments from stakeholder theory, as (Bird Hall, Momente, and Reggiani, 2007) explain. An example of this type of argument is that of Alexander and Buchholz (1982), who argue that companies in which managers engage in activities that promote social performance will obtain better financial performance than other companies who do not promote the concept. There are also other arguments for the positive association, such as the presence of tension between the explicit costs of a company (such as payment of debentures) and their implicit costs (such as environmental costs). As a result, according to Cornell and Shapiro (1987), companies that seek to reduce their implicit costs by means of socially irresponsible actions will incur greater explicit costs, resulting in a competitive disadvantage. The proposition of a negative association is normally defined by researchers of the neo-classical economic school of thought (Bird, Hall, Momentè, and Reggiani, 2007)   The perspective of these researchers, such as Aupperle and Hatfield (1985) is that companies that engage in socially responsible behaviour are at a competitive disadvantage because they incur costs that could be avoided or transferred to other agents (e.g., customers or the government). In other words, according to this line of reasoning, there are few economic benefits for socially responsible behaviour and many costs associated with this behaviour; thus, this type of behaviour results in a decrease in the financial performance of the company (Friedman, 1970). The

proposition of a neutral association assumes that the relationship between CSP and CFP is either non-existent or non-linear.

The lack of existence of such a relationship is advocated by Ullmann (1985), who states that there are so many factors or variables that influence the relationship between CSP and CFP that even if a relationship existed, the relationship could not be detected due to the problems associated with measurement in empirical studies of the relationship between CSP and CFP. Furthermore, some have proposed a non-linear relationship between CSP and CFP. Barnett and Salomon (2006) find evidence of a curvilinear relationship between CSP and CFP, in which the greatest returns on CFP are associated with the smallest and largest investments in CSP.

Positive Relationship between Corporate Social Responsibility and Financial Performance

Anderson and Frankle (1980) used a firm's market value to measure financial performance relationship with Corporate Social Responsibility. It indicated that investors were investing more in firms who reported Corporate Social Responsibility than those who were not interested in implementing it. Cochran and Wood (1984) examined the relationship between Corporate Social Responsibility and corporate financial performance by using a statistical research tools to look at financial variables working as moderating variables and was found that asset age was highly positively Correlated to levels of Corporate Social Responsibility.

More recent research by Joyner and Payne (2002) also found a positive correlation between reporting Corporate Social Responsibility with

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performance and firm value. Joyner and Payne (2002) noted the difficulty of measuring the benefits of Corporate Social Responsibility. The authors also saw some indication of a time lag between when Corporate Social Responsibility was reported and the financial benefits seen. Parket and Eilbirt (2006) undertook some research that looked at a couple of directly related issues. The first was that managers perform a cost-benefit analysis of reporting Corporate Social Responsibility. The empirical research showed that there was no evidence to suggest that managers perform a cost-benefit analysis on Corporate Social Responsibility. One suggestion Packet made was that this would be a challenge as it is very difficult to quantify the benefits received from reporting Corporate Social Responsibility. A company may be more inclined to report Corporate Social Responsibility "when there is some fact in the company financial statement". That is a company that has spare money to invest in Corporate Social Responsibility is more likely to do so (Parket and Eilbirt, 2006).

This adds to the strength of the argument for companies being motivated by increased financial performance when reporting Corporate Social Responsibility, as the company could use this excess money to invest in other revenue earning investments such as bonds, share portfolios or even in the bank instead of putting these surpluses in corporate social responsibility. They concluded that CSR is the best mean to enhance the firm's financial performance. Therefore, it was concluded that there is positive relationship between Corporate Social Responsibility and firm's financial performance.

Negative relationship between Corporate Social Responsibility and Financial Performance

The first study to find a negative relationship between Corporate Social Responsibility and financial performance was carried out by (Vance, 1975). The study looked at share price and found that in building a portfolio an investor would be better off investing in companies who reported little or no Corporate Social Responsibility. In concluding comment, "companies have more reasons to be socially responsible than only how it affects the per share value of their common stock". The idea is that firms that have 'spare cash' available are more likely to invest in society and the environment (McGuire, Sundgren and Schneeweiss, 1988). This is because firms accept a responsibility to a range of different stakeholders. Firms take on the extra costs to benefit society as a whole and at the expense of their shareholders' personal wealth (McGuire et. al. 1988).

Riahi- Belkaoui (1992) found a negative relationship between external perceptions of a company's corporate social responsibility activities and executive compensation schemes, providing a new angle on the relationship. Riahi-Belkaoui's (1992) findings suggest that top management may be discouraged from undertaking Corporate Social Responsibility activities due to the fact that the shareholders do not appreciate their profits being spent on activities they do not consider beneficial to them.

No relationship between Corporate Social Responsibility and Financial Performance

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Fry and Hock (1976) loosely looked at members of the oil industry such as Texaco and concluded that the amount of Corporate Social Responsibility did not increase or decrease the profitability of the firm. Their concluding comments also suggest that the firm's size and public image management also determine the amount of Corporate Social Responsibility reporting undertaken. The important point raised in this research paper however, is a concern that has been raised by previous researchers as well (Aupperle, Carroll and Hatfield, 1985: Griffin and Mahon, 1997). .This is that, the industry a firm operates in may have a strong effect on the results that are found when examining the relationship between Corporate Social Responsibility and financial performance. Aupperle, Carroll. and Hatfield (1985) measured financial performance using both long-term and short-term return on assets. No relationship was found between the variables, Corporate Social Responsibility and financial performance.

Economic benefits of Corporate Social Responsibility for Companies

As McWilliams et al. (2006) suggest, CSR may be seen as a strategic investment. According to Burke and Logsdon (1996), corporate social responsibility is seen to be strategic when "...it yields substantial business benefits to the firm, in particular by supporting core business activities and thus contributing to the firm's effectiveness in accomplishing its mission". They pointed out five different dimensions of corporate strategy necessary for firm success namely centrality, specificity, pro-activity, voluntarism, and visibility, which are used to determine how CSR add value to a firm. They further argue that the different dimensions may lead to several benefits to the

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company, such as philanthropic contributions, employee benefits, and environmental management, which in turn may create value as they lead to customer loyalty, productivity gains, and new products and markets.

Greening and Turban (2000) backed the theories related to increased employee motivation, and claim that social performance is attractive to job applicants. In fact, they argue that employees have higher self-images when working for firms that are socially responsible compared to their less CSR focused counter parties. Weber (2008) proposes five areas of beneficial impacts of CSR activities, which are all presented below.

1. Company image and reputation: Both image and reputation can influence the competitiveness of a company and hence have a beneficial effect. Research has shown that CSR can have a positive impact on both, especially on reputation on a more long-term basis (Weber, 2008).

2. Employee motivation, retention and recruitment: These positive effects could be a result of enhanced reputation. However, CSR could also increase motivation for those employees who are motivated by a better working environment, by participating in voluntary activities, etc. Regardless, employee motivation and retention could result in increases productivity and cost savings. The company might also be more Epstein and Roy (2001) attractive to future employees (Weber, 2008).

3. Cost savings: He argues that implementing a sustainable strategy can improve materials efficiency, time savings, energy consumption, which could lead to cost savings. Moreover, this could generate a

positive customer reaction, who in turn might benefit from these cost savings or the improvements of the products. Finally, the authors argue that financial analysts or investors can see these improvements as a positive thing regarding the company's manufacturing performance.

4. Revenue increases from higher sales and market share: These benefits could be achieved indirectly through an improved brand image or directly through a CSR specific product or service, such as a hybrid car (Weber, 2008).

5. CSR-related risk reduction or management: CSR can reduce the risk of negative publicity or NGO-related pressure. Furthermore, there might be some direct financial effects from for example avoiding fines, etc. (Weber, 2008).

Summary

From the literature, it is evident that determinants of firms performance are varied both internally and externally and so also the measurement of performance (profitability). The findings in the literature guided the setting up of the empirical model for this study. Moreover, the finding gave mixed result. Again, based on the above studies, most of the study used secondary data and on the other hand, the frequently used proxy for profitability is ROA. The regular approach used by the largest part of these studies was to analyse the effect of CSR on any other variable suitable to the debate using regression analysis; the regression analysis measures the actual impact of CSR on profitability of firms.

Many studies, however, found strategic reasons to be the main motive behind firms' CSR activities (Kotler and Lee 2005). Knox, Maklan and French (2005) reveal that in some firms, business outcomes can be linked to a firm's participation in social initiatives. Several other studies have shown that companies develop a social portfolio because managers believe these activities can build competitive advantage, provide new business opportunities, insulate firms from costly regulation, or help them meet shareholder demands (Campbell, Moore and Metzger 2002; Fombrun and Shanley 1990; Galaskiewicz and Colman 2006; Gardberg and Fombrun 2006). From this perspective, CSR activities are considered strategic in nature, with the understanding that firms can do well in the long run by doing good (Vogel 2005). This is evidenced in the global move from single-bottom line (economic) to the triple-bottom line (economic, environmental and social) approach (Global Reporting Initiative 2002). This triple-bottom line introduces the demand for strategic focus and the inclusion of CSR as essential to all core management functions. Consequently, CSR is now perceived to be about satisfying the needs of both firms and stakeholders, that is, maximising profit whilst still meeting wider stakeholder demands.

CHAPTER THREE

RESEARCH METHODS

Introduction

This chapter presents the research methods to be used in the study. Precisely, it shows a detailed description of the study design, specification of the model, definition and measurement of variables in the model, estimation techniques, sources of the data in the study, and tools for data analysis.

Research Design

The study follows the positivist paradigm within the framework of classical and neoclassical economics. Hence, quantitative approach is used to research in support of positivist philosophy. Moreover, this philosophy is suitable for mathematical models which measures relationship between quantitative measurements. Thus, in order to use mathematical modelling and ensure objectivity, quantitative method will be employed. Since the study uses panel time-series data, it is imperative to consider whether to use fixed or random effects models for the analysis. For the purpose of the objective, both fixed and random effects models will be analysed. The fixed effects model explores the relationship between predictor and outcome variables within a firm, and each firm had its own individual characteristics that may or may not influence the predictor variables (Reyna,n.d).

Alternatively, Reyna (n.d) explain that random effects have the rationale that the variation across entities is assumed to be random and uncorrelated with the predictor or independent variables included in the model.

Population

The population of this study consists of all the companies listed on the Ghana Stock Exchange Market from the period between 2011 and 2015. At that moment there were 35 companies listed on the Ghana stock.

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Sample and Selection Criteria

The main purpose of this research is to find out whether there is significant relationship between CSR and Profitability among company listed in Ghana. To achieve this objective, the study had adopted the use of corporate annual reports of listed firms as the main source of data. This is because annual reports for selected corporate are readily available and accessible. Fu et al. (2012) also argue that financial statements filed with the Securities and Exchange Commission (SEC) are accorded a substantial degree of prominence and attention than other firm and hence the need to use listed companies. Now, there are 35 companies listed on the Ghana stock exchange. The selection criteria were based on firms listed on the Ghana stock exchange from the year 2008. This is because research has established that the adoption of IFRS leads to an increase in voluntary disclosures and all companies on the stock Exchange fully complied with the adoption by the end of 2008 (Kotler, P. and Lee, N. 2005 Fauzi and Idris 2009). Since social disclosures are also an aspect of voluntary disclosure, it is important to examine companies' social disclosures after the adoption of IFRS. In all, 10 firms made the sample selection criteria over a five year period from 2011 to 2015. This added up to 50 sample observations for the study.

Sources of Data

In this study, firm's performance is the dependent variable while all the other corporate, governance and macroeconomic variables discussed above are the independent variables. The study used annual series data from 2011 to 2015. The choice of this period is informed by the data availability

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and the current situation prevailing in the economy. The series on ROA and ROE (proxies for firm's performance) will be sourced from the Ghana Stock Exchange while the series on the social corporate responsibility, Firm size, and debt will be obtained from the financial statements of the firms under consideration. Finally, series on inflation rate and real effective exchange rate will be drawn.

Data Collection:

The data for this research are extracted from the annual financial reports of these companies. The research investigates the impact of corporate social responsibilities on the profitability of companies in Ghana. The researcher has chosen a period between 2011 to 2015 in order to have a very current work. Secondary data for this study are collected through content analysis of annual reports of these companies' audited annual reports and financial statements of the selected companies. These companies are selected on the basis of their enlistment on the Ghana Stock Exchange Market and also due to their involvement and contributions to social responsibilities activities.

Model Specification

The study employed the following econometric models to text the hypothesis formulated

Fixed effects model

$$ROA_{i,t} = \alpha + \beta_1 CSR_{i,t} + \beta_2 FSIZE_{i,t} + \beta_3 LEV_{i,t} +$$

$$\beta_4 REER_{i,t} + \beta_5 INF_{i,t} + \varepsilon_{i,t} \qquad (1)$$

$$ROE_{i,t} = \alpha + \beta_1 CSR_{i,t} + \beta_2 FSIZE_{i,t} + \beta_3 LEV +$$

$$\beta_4 REER_{i,t} + \beta_5 INF_{i,t} + \varepsilon_{i,t} \qquad (2)$$

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Random effects model

$$ROA_{i,t} = \alpha + \beta_1 CSR_{i,t} + \beta_2 FSIZE_{i,t} + \beta_3 LEV_{i,t} +$$

$$\beta_4 REER_{i,t} + \beta_5 INF_{i,t} + \mu_{i,t} + \varepsilon_{i,t} (3)$$

$$ROE_{i,t} = \alpha + \beta_1 CSR_{i,t} + \beta_2 FSIZE_{i,t} + \beta_3 LEV_{i,t} +$$

$$\beta_4 REER_{i,t} + \beta_5 INF_{i,t} + \mu_{i,t} + \varepsilon_{i,t} (4)$$

Assumption about the models:

Where $\varepsilon_{i,t} \sim iid(0, \sigma_\varepsilon^2)$ and $\mu_{i,} \sim iid(0, \sigma_\mu^2)$

$ROA_{i,t}$ = Return on asset for individual firm at time t

$ROE_{i,t}$ = Return on equity for individual firm at time t

$SCR_{i,t}$ = Social corporate responsibility for individual firm at time t

$FSIZE_{i,t}$ = Firm's size for individual firm at time

`LEV = Leverage at time t for individual firm

$REER_{i,t}$= Real effective exchange rate at time t for individual firm

$INF_{i,t}$= inflation rate at time t for each firm

α = Constant (the intercept, or point where the line cuts the Y axis when X= 0)

β = Regression coefficient (the slope, or the change in Y for any corresponding change in one unit of X)

ε = Within-Firm error

μ = Between-Firm error (due to the belief that there are differences across countries that may influence the dependent variable)

i = Firm

t = time

The aprioriry expected signs of the variables in two models are:

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$\beta_1 < 0$, $\beta_2 > 0$, $\beta_3 < 0$, $\beta_4 < 0$ and $\beta_5 < 0$

Estimation Procedure

The study will start by examining the time series properties of the data by using the Augmented Dickey-Fuller (ADF) and the Phillip-Perron (PP) tests. The unit root test will be used to check the stationary properties of the data. The fixed effects model will estimated using the Least Squared Dummy Variable (LSDV) estimator while the random effect model will be estimated using the Generalized Least Squares method (EGLS).

Tools for Data Analysis

This study will employ both descriptive and quantitative analysis. Charts such as graph: and tables will be presented to aid in the descriptive analysis. As indicated above, unit root test: will be carried out on all variables using Augmented Dickey-fuller (ADF) and Phillip-Perrot test to ascertain their order of integration in order to avoid the problem of spurious regression. Furthermore, the fixed effects models will be estimated using the Least Squared Dummy Variable (LSDV) estimator while the random effect models will be estimated using the Generalized Least Squares method (EGLS).All estimations will be carried out using STATA 13 and E views 9.0 software packages.

Definition and Measurement of Variables

For the purpose of this study, the following measurement and operational definitions will be used for the variables being examined.

Dependent variables (ROA and ROE)

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Return on assets (ROA)

Return on Asset is the ratio of net income and total resource (assets) of the company (Gizaw, Kebede and Selvaraj, 2015). It measures the efficiency of company's management in generating profit out of its scarce resource. The more the amount of return in assets the better the efficiency of the company's management, which is good for the company ROA, is given by:

ROA =   Net Income

              Total Asset

Return on equity (ROE)

Return on Equity is another variable used to measure profitability performance; it is a ratio of net income and total equity (Gizaw, Kebede and Selvaraj, 2015). It represents the rate of return generated by the owners' equity. ROE is also given by:

ROE =   Net Income

              Total owners' equity

Independent Variable

Firm size (FSIZE)

Firm size has been suggested in previous studies (Ullman, 1985; McWilliams and Siegel, 2000) to be a factor that affects firm's performance which is used as a control variable. Firm size is an important control variable, since larger firms seem to adopt the CSR principles more often. According to Burke (1986), as firms grow, they attract more attention from stakeholders. Firm's size is calculated as the natural log of the total asset of the company.

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The study expects a positive relationship between company's size and company's profitability. It is given by:

Long size = Log (Total Assets)

Leverage (LEV)

Leverage is the capital structure measure, calculated as the long-term debt to assets ratio. The study expects a positive relationship between firm size and firm's profitability. Leverage is also given by:

Leverage = <u>Long term debt</u>

Assets

Real Effective Exchange Rate (REER)

This shows the price of the domestic country's goods and services relative to the prices of goods and services of other countries. This is chosen because changes in the exchange rate affect the country's foreign direct investment. The real effective exchange rate is obtained by the product of the nominal effective exchange rate and effective relative price indexes or nominal exchange rate i.e. an index of tracking a country's "average" exchange rate divided by a price deflator (Nyugen and Haughton, 2002).The study expects negative relationship between the real effective exchange rate and ROA and ROE.

Inflation (INFL)

Inflation is defined as a sustained increase in the general level of prices for goods and services. It is measured as a percentage change in the cost to the average consumer of acquiring a fixed basket of goods and services at

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specified intervals, such as yearly, monthly, daily etc. In this study, the inflation is employed to control for the effect of high price on domestic goods and services. High price may result in a rise in the general price level and this may be detrimental to share price. Rapid increases in the general price level of the economy may result in uncertainty about the future profitability of investment projects. This is because, higher prices of consumer goods and services may dampen demand for goods and services in the economy and for this reason, investors may resort to more conservative investment strategies than would otherwise be the case, eventually leading to lower levels of investment and economic growth. The study expects a negative relationship with ROA and ROE.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

This chapter presents the results and discussion of the study. The results are presented in the form of tables and regression analysis showing the effects of independent variables on the dependent variable used in the study. The chapter is outlined as follows: Descriptive statistics is first presented followed by the dynamic panel regression analysis, discussion of results and conclusion.

Descriptive Statistics of Variables

The descriptive statistics of the relevant variables involved in the study are presented in Table 1. The mean measures the average values of a group of values. The standard deviation measures how the values are spread around the mean. The minimum and maximum values capture the range of variables. The total number of observation is 50. It can be seen from Table 1 that all the variables have positive average values (means). The dependent variable return on assets has of means (5.019) that is greater than its standard deviation (2.047) which means there is less variability around the mean. Also, the dependent variable return on equity has of means (4.443) that is also greater than its standard deviation (1.658) which means there is less variability around the mean. The mean value of the variable of interest, CSR is 1.119 and standard deviation of 0.049 over the sample period, with minimum of 0.028 and maximum of 1.459 indicating the range of the variables of interest.

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For the control variables company size (CS), leverage (LEV), inflation (INF) and real effective exchange rate (REER) have mean values of 0.168, 2.203, 13.447, 85.093 and that are greater than their standard deviation (0.030, 1.675, 6.239 and 5.665) which means there is less variability around the mean.

Table 1: Descriptive Statistics of Variables

Variable	Mean	S. D.	Min.	Max.	No. of Obs
ROA	5.019	2.047	1.032	6.550	50
ROE	4.443	1.658	1.111	5.080	50
CSR	1.119	0.049	0.028	1.459	50
CS	0.168	0.030	0.002	1.674	50
LEV	2.203	1.675	0.010	7.653	50
INF	13.447	6.239	7.070	18.930	50
RER	85.093	5.665	80.498	120.837	50

Note: SD=Standard Deviation, Min=Minimum, Max=Maximum,

 No. of Obs. =Number of Observations

Source: E-VIEWS output from GSE

Unit Root Tests

Here, it is vital to perform these tests to verify that the variables are not integrated of an order higher than one. The aim is to ascertain the absence or otherwise of I (2) variables to extricate the result from spurious regression. Thus, in order to ensure that some variables are not integrated at higher order, there is the need to complement the estimated process with unit root tests.

For this reason, before adopting the panel approach, unit root tests were conducted in order to investigate the stationary properties of the data. As a

result, all the variables were examined using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests to all variables in levels and in first difference in order to formally establish their order of integration. In order to be sure of the order of integration of the variables, the test was conducted with intercept and time in the models. The study used the P-values in the parenthesis to make the unit root decision, (that is, rejection or acceptance of the null hypothesis that the series contain unit root) which arrived at similar conclusion with the critical values.

The results of ADF test for unit root with intercept and trend in the model for all the variables are presented in Table 2. The null hypothesis is that the series is non-stationary, or contains a unit root. The rejection of the null hypothesis for the test is based on the MacKinnon (1991) critical values as well as the probability values.

Table 2: Results of Unit Root Test with constant and trend: ADF Test

Levels	First Difference

Variables	ADF-Statistic	Lag	Variables	ADF-Statistic	Lag	I(O)
ROA	-1.5442	1	ΔROA	-6.1225	0	*I*(1)
	[0.73303]			[0.0000]***		
ROE	-1.4335	1	ΔROE	-5.8087	0	*I*(1)
CSR	[0.4948]	1	ΔCSR	[0.000]***	0	*I*(1)
	-1.6870			-5.0867		
	[0.4487]			[0.000]***		
CS	-1.34566	1	ΔCS	-4.8654	0	*I*(1)
	[0.3564]			[0.0003]***		
LEV	-2.0296	1	ΔLEV	-4.4545	0	*I*(1)
	[0.2739]			[0.0005]***		
INF	-1.8564	5	ΔINF	-4.3540	3	*I*(1)
	[0.7974]			[0.0007]***		
LREER	-2.5104	3	ΔLREER	-6.1175	2	*I*(1)
	[0.1165]			[0.0000]***		

Note: *** indicate the rejection of the null hypothesis of non stationary at 1% level of significance, Δ denotes first difference, and *I(O)* is the order of integration. The values in parenthesis are the P-values.

Source: Computed by the author using Eviews 9.0 Package

From the unit root test results above, the null hypothesis of the presence of unit root for all the variables in their levels cannot be rejected since the P-values of the ADF statistic are not statistically significant at any of three conventional levels of significance. However, at first difference, all the variables are stationary. This is because the null hypothesis of the presence of

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unit root (non-stationary) is rejected because the P-values of the ADF statistic are statistically significant at 1 percent significant levels for all the estimates. The results of PP test for unit root with intercept and trend in the model for all the variables are also presented in Table 3.

Table 3: Results of Unit Root Test with intercept and trend: PP Test

Levels				First Difference		
Variables	PP-Statistic	Bwd	Variables	PP-Statistic	Bwd	*I(O)*
ROA	-1.5891	3	ΔROA	-6.1586	1	*I*(1)
	[0.6764]			[0.0000]***		
ROE	-1.5571	4	ΔROE	-5.8762	2	*I*(1)
CSR	[0.5003]	3	ΔCSR	[0.0001]***	1	I(1)
	-			-6.4458		
	1.6440[0.2290]			[0.0000]***		
CS	-1.3290	4	ΔCS	-4.1520	5	*I*(1)
	[0.7748]			[0.0075]***		
LEV	-2.6064	5	ΔLEV	-4.5643	2	*I*(1)
	[0.4752]			[0.0003]***		
INF	-1.2127	2	ΔINF	-6.4487	2	*I*(1)
	[0.6662]			[0.0000]***		
LREER	-2.5688	5	ΔLREER	-4.0208	1	*I*(1)
	[0.1032]			[0.0021]***		

Note: *** indicate the rejection of the null hypothesis of non stationary at 1% significance level, Δ denotes first difference, Bwd is the Band Width, and *I(O)* is the order of integration. The values in parenthesis are the P-values.

Source: Computed by the author using Eviews 9.0 Package

The unit root test results in Table 3 show that the series are non-stationary at levels. This is because the P-values of the PP statistic are not

statistically significant at any of the conventional levels of significance. However, at first difference, all the variables are stationary since the null hypothesis of the presence of unit root (non-stationary) is rejected at 1 percent significant levels for all the series. It can be seen that the PP unit root test results in Table 3 are in line with the results obtained from the ADF test in (Table 2), suggesting that all the variables are integrated of order one, I(1),when only intercept is in the model.

Correlation Analysis

The pair-wise correlation among the variables used in the study is presented in Table 4. Most of the results are consistent with theory. The correlation coefficient between ROA and CSR is positive and significant (0.583). This means that these two focus variables are related which means they are important in our analysis.

The correlation between company's size (CS), leverage (LEV), and the measure of return on assets (ROA) is positive and negative respectively and significant with coefficients 0.288 and 0.953 respectively. Further, the correlation between INF and REER and the measure of ROA is positive respectively but not significant with coefficients 0.039 and 0.059 respectively. While there is a significant correlation between CSR and CS, the correlation between CS and LEV is positive and significant.

The correlation between CS and (INF and REER) is negative and significant with coefficients -0.198 and -0.163 respectively. The correlation between INF and CSR is not significant and correlation between INF, REER and ROA is not significant respectively. It must be noted that the aim of the

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correlation analysis is to show the extent of degree of association among the variables used in the analysis and to prevent colinearity among the variables. The effect of the explanatory variables on ROA will be obtained from the regression.

Table 4: Pair-wise Correlation among Variables

Variable	ROA	CSR	CS	LEV	INF	REER
ROA	1.000					
CSR	0.583***	1.000				
CS	0.288***	0.261***	1.000			
LEV	-0.593***	-0.054	0.864***	1.000		
INF	0.039	-0.068	-0.198**	-0.102**	1.000	
REER	0.059	-0.077	-0.163**	-0.119**	0.287***	1.000

Note: *** and ** denote significance at 1%, and 5% level respectively.

Source: E-VIEWS output from GSE.

Results of the Fixed Effects and Random Effects Models

This section presents the results off the fixed and random effects models which achieved the study's main objectives as indicated in Table 5. The Table 5 presents the results of the fixed effects and random effects models. Based on the Hausman test conducted, only random effects results were interpreted. Thus, from Table 5, the coefficient of corporate social responsibility (CSR) is positive and statistically significant at 5 percent significance level with coefficient 2.865 implying that, one percentage point increase in the corporate social responsibility all other things being equal will increase the company's return on assets 0.865 percentage point. This means

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that internal audit function positively affect ROA. This is consistent with the results by Jensen's (1993), Lipton and Lorsch (1992) who suggested the suitable number of board members is good for a company's profitability. Also, Firsteberg and Malkiel (1994), Moncla and Gregory (2003), who explored the association between corporate social responsibility and firm performance (ROA) in light of growth opportunities in Malaysia confirm this. This implies that a company's corporate social responsibility potentially determine its profitability.

Table 5: Results of the Fixed Effects and Random Effects Models Dependent Variable: ROA

Independent Variables	FE	RE
D(CSR)	3.062*** (4.330)	2.865** (2.463)
D(CS)	0.072** (2.342)	0.562*** (4.314)
D(LEV)	-0.088** (-2.104)	-0.665** (-2.566)
D(INF)	-0.081*** (-3.394)	-0.092*** (-4.334)
D(REER)	-0.322*** (-4.016)	-0.616*** (-5.567)
No. of observations	50	50
No. of Companies	10	10
Hausman Test (Prob>chi2) =	1.0000	

Note: t statistics in parentheses ** *p* < 0.05, *** *p* < 0.01

Source: Author's Computation, Gottoh (2018).

With respect to the other variables, for company's size (CS), the coefficient is positive and it is statistically significant at 1 percent significance level which implies that one unit increase in the level company size leads to

0.562 percentage point increase in the return on assets (ROA at one percent significance level, all other things being equal. The result is consistent with that of (Besely, 2006) and Tuli, Nishi and Mittal (2001). In the case of leverage (LEV), the coefficient negative and it is statistically significant at 5 significance level which also implies that that one percentage point increase in the leverage leads to 2.566 percentage point increase in return on assets at five percent significance level, all other things being equal. This is consistent with the results of Ongore and Kusa (2013) and Kithinji (2010). This stresses the importance of the company's leverage in influencing its return on assets. For inflation rate, the coefficient is negative and statistically significant at 1 percent significance level. The coefficient implies that one percentage point increase in inflate rate leads to 0.092 percentage point decrease in return on assets at one percent significance level, other things being equal.

Also, this result is consistent with the study by (Mavhiki, Mapetere, and Mhonde, 2012; Fatma and Anis, 2013) who find a negative relationship between the two variables.

Finally, the coefficient of real effective exchange rate is also negative and statistically significant. This indicates that in the companies, one percentage point increase in the real effective exchange rate will lead to 0.616 percentage point decrease in return on assets, holding all other factors constant. This expected because, a fluctuations in the real effective exchange rates in the country is likely to influence profitability of companies, hence ROA a signal for many local and foreign investors. This result is consistent with theory and empirical studies such as Willet and Peare (2000), Kadri and Mohammed

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(2007). Hence, depreciation of the real effective exchange rate negatively affects changes in profitability of companies.

Results of the Fixed Effects and Random Effects Models

This section also presents the results of the fixed and random effects models which achieved the study's second objective as indicated in Table 6. The Table 6 below presents the results of the fixed effects and random effects models. Once again, based on the Hausman test conducted, only random effects results were interpreted. Thus, from Table 6, the coefficient of corporate social responsibility (CSR) is positive and statistically significant at 1 percent significance level with coefficient 3.669 implying that, one percentage point increase in the size of audit function all other things being equal will increase company's return on assets 3.669 percentage point. This means that corporate social responsibility by a company positively affects ROE. This is consistent with the results by Jensen's (1993), Lipton and Lorsch (1992) who suggested effective corporate social responsibility is good for a company to achieve its profitability. Also, Peursem (2004) and Hutchinson and Zain (2009) who explored the association between corporate social responsibility and firm performance (ROE) in Malaysia indicated the same results. This implies that a company's corporate social responsibility potentially determines its profitability.

Table 6: Results of the Fixed Effects and Random Effects Models Dependent Variable: ROE

Independent Variables	FE	RE

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D(CSR)	2.130*** (5.430)	3.669*** (6.334)
D(CS)	0.066** (2.443)	0.788*** (4.650)
D(LEV)	-0.136*** (3.610)	-0.880** (2.433)
D(INF)	-0.205*** (-3.554)	-0.407*** (-5.836)
D(REER)	-0.355*** (-4.033)	-0.644*** (-6.944)
No. of observations	50	50
No. of Companies	10	10
Hausman Test (Prob>chi2) =	1.0000	

Note: t statistics in parentheses ** *p* < 0.05, *** *p* < 0.01

Source: Author's Computation, Gottoh (2018).

With respect to company's size (CS), the coefficient is positive and it is statistically significant at 1 percent significance level which implies that one unit increase in the level company size leads to 0.788 percentage point increase in the return on assets (ROE) at one percent significance level, all other things being equal. This implies if a company decides to increase its size, it will achieve a higher return and vice versa. The result is consistent with that of (Besely, 2006) and Tuli, Nishi and Mittal (2001). In the case of leverage (LEV), the coefficient negative and it is still statistically significant at 5 significance level which also implies that that one percentage point increase

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in the leverage leads to 0.880 percentage point increase in return on equity (ROE) at five percent significance level, all other things being equal. This implies if a company decides to reduce its leverage, it will achieve a higher return on equity and vice versa. This is still consistent with the results of Ongore and Kusa (2013) and Kithinji (2010). This stresses the ability of a company's leverage in influencing its return on equity. For inflation rate, the coefficient is negative and statistically significant at 1 percent significance level. The coefficient implies that 1 percentage point increase in inflate rate leads to 0.407 percentage point decrease in return on equity at one percent significance level, other things being equal. Also, this result is consistent with the study by (Mavhiki, Mapetere, and Mhonde, 2012; Fatma and Anis, 2013) who find a negative relationship between the two variables.

Finally, the coefficient of real effective exchange rate is also negative and statistically significant. This indicates that in the companies, one percentage point increase in the real effective exchange rate will lead to 0.644 percentage point decrease in return on equity, holding all other factors constant. This expected because, a fluctuations in the real effective exchange rates in the country is likely to influence profitability of companies, hence ROE a signal for many local and foreign investors. This result is consistent with theory and empirical studies such as Willet and Peare (2000),Kadri and Mohammed (2007). Hence, depreciation of the real effective exchange rate negatively affects changes in profitability of companies.

Chapter Summary

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This chapter has focused on the presentation and the discussion of the results of the study. The chapter started with the descriptive statistics of the variables. Correlation analysis showed that there are both positive and negative relationships between explanatory variables and ROA, ROE respectively used in the study. However, the effects of the explanatory variables on ROA and ROE indicators cannot be known from the correlation analysis. Therefore, the panel regression analysis was estimated. Panel estimation techniques were adopted to examine the effects of explanatory variables on ROA and ROE with particular focus on corporate social responsibility. Fixed and Random Effects which account for heterogeneity across companies were applied to a panel data. The post estimation tests conducted indicate that the estimates are fit to be interpreted and be used to recommend policies.

The study finds a strong positive and significant relationship between corporate social responsibility, company size and ROA, ROE respectively. However, there was a negative relationship between leverage, inflation rate, real effective exchange rate and ROA, ROE respectively. Overall, by finding that explanatory variables can augment ROA and ROE by the sector of Ghana, this study highlights another channel through which the variables under consideration can have both positive and negative influence on profitability of most of the Ghanaian companies' development.

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CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter presents the summary, conclusions and recommendations of the study. The chapter is outlined as follows: The summary presents a brief overview of the study which encompasses the statement of the problem, objectives, methodology, results and discussion. The conclusions capture the overall outcomes regarding the results of the study in light of the hypotheses. Recommendations are made to inform policy regarding the effects of the explanatory variables on share price based on the tested hypotheses. The chapter also presents the limitations of the study and suggestions for future research.

Summary

Recent corporate accounting scandals and the resultant outcry for transparency and honesty in reporting have given rise to two disparate yet logical outcomes. First, Internal Auditing skills have become crucial in untangling the complicated accounting maneuvers that have obfuscated financial statements. Second, public demand for change and regulatory action has transformed corporate governance (Ondieki,2012). Increasingly, company officers and directors are under ethical and legal scrutiny. Both trends have the common goal of responsibly addressing investors'concerns about the financial reporting system. However there has been laxity in implementation of internal audit findings and recommendations. Even though several empirical works

have been done in the area of the significant impact of corporate social responsibility on the performance of companies, the direction of impact has still not being clarified and has cause continues poor financial performance. This has put most companies at risk despite investing in the internal audit department. Therefore, the main objective of this study was to examine the effect of corporate social responsibility on the profitability of listed companies on the Ghana Stock Exchange using a balance panel of ten (10) companies over five time periods, from 2011 to 2015.

The variables under consideration in the study include: return on assets, return on equity, corporate social responsibility, company size, leverage, inflation, and exchange rate. The study reveals that corporate social responsibility (CSR), company size (CS) had positive and statistically significant effect on return assets and return on equity in the domestic industrial sector of Ghana after controlling for leverage, inflation, and exchange rate. Further, the study reveals that leverage (LEV) had negative and statistically significant effect on return asset, return on equity respectively in the domestic industrial sector of Ghana after controlling for corporate social responsibility, company size, inflation, and exchange rate. Moreover, in testing the hypotheses that corporate social responsibility affect the return on assets, and return on equity by the domestic industrial sector of Ghana, this study validates the prediction of other studies that, corporate social responsibility in the companies tend to increase the profitability of these companies. Additionally, the study finds that there are other equally important macroeconomic factors such inflation and exchange rate had negative and statistically significant effect on return on assets respectively. Therefore, there

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is the need for formulating an appropriate macroeconomic policy for the growth of companies in Ghana.

Conclusions

This study empirically examines the effect of corporate social responsibility on the profitability of 10 companies listed on the Ghana Stock Exchange. While some studies argue that corporate social responsibility influences companies' performance, other studies argue otherwise. This study tested the hypotheses that corporate social responsibility (CSR) affects the profitability of companies in Ghana. The conclusion of this study validates the prediction of other studies, as far as companies' performance and development is concerned, in Ghana.

The study also concludes that traditional macroeconomic variables especially inflation rate and exchange rate affect the profitability (measured using ROA and ROE) by the industrial sector of Ghana.

This implies that in order to promote industrial sector development in Ghana; there is the need for policymakers within the industrial sector to improve conditions to increase the size, improve the quality of corporate social responsibility, reduce leverage to the companies as well as stabilising the traditional macroeconomic variables especially exchange rate and reducing inflation.

Recommendations

Based on the findings of the study, the following recommendations are proposed. Policies of the management of companies should be focused on increasing the size and quality of corporate social responsibility, increase the

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companies' size, reduce leverage since they affect companies' performance particularly those listed on the Ghana Stock Exchange. Specifically, management of companies as part of their strategic policies must establish more efficient and effective policy measures that will improve corporate social responsibility which is important in influencing profitability in the companies. Also investors must consider these variables when making their financial investment decisions. Also, governments of Ghana should also stabilize the foreign exchange rate.

Finally, efforts should be made by governments in Ghana to ensure that low inflationary rate is maintained in the country. Theory and the empirical literature explain that inflation reduces both financial institutions' return on assets, most likely because it reduces individuals incentive to save in financial assets (as opposed to real assets) and hence discourages financial intermediation.

Limitations of the Study

The main limitation of the study has to do with data for critical variables such as corporate social responsibility. Data unavailability for most of the variables hence years preceding 2011 could not be included in the study.

Suggestions for Future Research

The study only investigated the effects of corporate social responsibility on the performance of companies listed on the Ghana Stock Exchange. However, performance of companies is also affected by other variables therefore other studies must consider those variables.

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Finally, the possible determinants of company performance range from macroeconomic variables, legal and institutional variables, geographical variables, monetary and fiscal policy variables to others. This therefore means that future researchers could explore, in addition to corporate social responsibility and macroeconomic variables, the institutional and geographical factors if there are available data.

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APPENDIX A: CSRD disclosure index

Corporate social responsibility disclosure index

❖ Environment

- Environmental pollution control

- Compliance with pollution laws and regulations

- Prevention or repair of environmental damage

- Conservation of natural resources

- Using recycled materials

- Supporting anti-litter campaigns

- Receiving awards on environmental issues

- Preventing waste

- Designing products and facilities harmonious with the environment

- Contributions to beautify the beautify the environment

- Supporting and undertaking environmental studies

- Utilizing waste materials for energy production

- Other environmental disclosures

❖ Community development

- Donations for community development

- Internships or part-time employment for students

- Sponsoring public health projects

- Aiding medical research

- Sponsoring educational facilities and conference

- Funding scholarship programmes or activities

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- Supporting national pride/government sponsored campaigns

- Other specific community related activities

❖ Employees information

- Employees health and safety

- Employment of minorities or women

- Employee training

- Employee assistance/ benefits

- Employees remuneration

- Employees profiles

- Employee share purchase schemes

- Industrial relations

❖ Products

- Product development (research and development)

- Product safety

- Product quality

❖ Customers

- Quality customer service

- Customer satisfaction

- Other customer focused initiatives

❖ Ethical

- Code of conduct

❖ Health and safety

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- General health and safety information that are not specific to any other category

- Corporate policies on health and safety standards

- Report about the presence of corporate social responsibility or its equivalent on the board and its related members and activities

- Other health and safety disclosures

❖ Others

- Information about awards received by the company concerning corporate social responsibility

- Other corporate policies on sustainability issues not in the above categories