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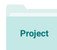

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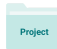

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Otuo Serebour Agyemang, Abraham Ansong,

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Corporate social responsibility and firm performance of Ghanaian SMEs

Mediating role of access to capital and firm reputation

Otuo Serebour Agyemang
School of Business, University of Cape Coast, Cape Coast, Ghana, and
Abraham Ansong
Department of Management Studies, School of Business, University of Cape Coast, Cape Coast, Ghana

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Abstract

Purpose – This paper aims to examine the influence of corporate social responsibility on financial performance of small and medium-sized enterprises (SMEs) in Ghana by using access to capital and firm reputation as mediating variables.

Design/methodology/approach – The authors collected primary data from 423 SMEs within the Accra Metropolis. Partial least squares estimation technique was used to analyze the data.

Findings – The authors documented evidence for a mechanism through which corporate social responsibility results in financial performance of firms: SMEs with improved corporate social responsibility practices are better positioned to achieve enhanced reputation, which translates into improved financial performance. Even though this study did not document a significant relationship between corporate social responsibility and access to finance by Ghanaian SMEs, the authors contend that looking at the positive relationship between them, SMEs can minimize their capital constraints by embarking on CSR practices, which can eventually translate into financial performance.

Practical implications – The authors recommend that for SMEs to enhance their reputation and increase their access to capital, which will eventually result in enhanced financial performance, corporate social responsibility practices should be a major part of their operations.

Originality/value – It contributes to our knowledge on how CSR practices lead to financial performance of SMEs in developing countries. In addition, this is the first of its kind to establish the relationship between CSR practices and financial performance of SMEs in Ghana by using access to capital and firm reputation as mediating factors.

Keywords Access to capital by SMEs, Corporate social responsibility practices by SMEs, Firm reputation, Ghanaian SMEs, SMEs in developing countries

Paper type Research paper

Introduction

The concept of corporate social responsibility (CSR) is concerned with balancing social, environmental and economic issues in the operations of firms (Branco and Rodriguez, 2006) and dealing or relating ethically with corporate stakeholders (Hopkins, 2003). This implies that businesses should be committed to social, economic and environmental practices as well as ethically relate with their stakeholders (Usman and Amran, 2015). With this, a nascent number of top corporate managers and academics have apportioned a significant amount of resources and time to CSR practices. A UN Global Compact-Accenture CEO study in 2010

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revealed that 93 per cent of 766 CEOs who participated in the study globally considered the concept of CSR as "important" or "very important" element for the sustainability of their corporations (UN, 2010). The argument is that the sustainability of firms is dependent on how effective firms respond to and manage their relationships with society. However, the success of this relationship is contingent on trust, and trust is shaped by attending and exceeding responsibilities to society (Stuebs and Sun, 2015).

While the concept of CSR is society-oriented, corporate financial performance is organization-oriented. However, the fundamental question that links these two courses of action is whether CSR enhances corporate financial performance, and if so, what means? A number of studies have examined the relationship between CSR and corporate financial performance, and their results are rather inconclusive (for extensive review on this relationship, Margolis and Walsh, 2003; Orlitzky *et al.*, 2003). McWilliams and Siegel (2000) contend that this inconclusiveness in relation to the outcomes of extant studies on this relationship could be because of a gamut of empirical and theoretical drawbacks associated with the works. Other studies have argued that the extant studies on this relationship are ill with "corporate stakeholder mismatching" (Wood and Jones, 1995), disregard for "contingency elements" (Ullmann, 1985), "omitted variable bias" (Cochran and Wood, 1984; Ullmann, 1985; Aupperle *et al.*, 1985) and "measurement errors" (Waddock and Graves, 1997).

We however, argue that the conflicting results in regards to the relationship between CSR and corporate financial performance could be due to the neglect of mediating roles of some relevant issues. Within stakeholder perspective (Freeman, 1984; Freeman *et al.*, 2007, 2010), CSR is akin to effective management of a firm's relationship with its key corporate stakeholders. Thus, the establishment of this relationship and effectiveness of its management can help firms to access external financial resources (Kapstein, 2001) and establish good reputation (Fomburn and Shanley, 1990; Fomburn, 2005; Freeman *et al.*, 2007), which eventually could translate into improved financial performance. This implies that CSR affects corporate financial performance of firms through other mediating factors.

While extant studies suggest a positive relationship between CSR and corporate financial performance, a related question is whether the relationship is direct or otherwise. Extending existing studies, we argue that CSR influences the financial performance of firms through certain mediating factors such as access to capital and corporate reputation. Arguably, in firms with higher CSR commitment, stakeholders such as community, customers and strategic partners (such as capital providers) are more responsive to their CSR efforts. This as a result will improve their reputation and help them get easy access to finance from their strategic partners. Hence, this may translate into higher financial performance. In contrast, in firms with lower CSR engagement, stakeholders are more likely to be indifferent toward firms' operations. This will therefore decrease their access to external finance and lower their reputation. In turn, financial performance may be adversely affected.

In this paper, we shed light on the relationship between CSR and corporate financial performance, by focusing on access to capital and firm reputation, as specific factors through which CSR activities may translate into improved financial performance. Particularly, we argue that better CSR performance leads to lower capital constraints and good corporate reputation, which in turn have a positive relationship with corporate financial performance.

Our study will limit itself to Ghanaian small and medium-sized enterprises (SMEs). In Ghana, the development of CSR activities has become relevant in recent years. Particularly, the private sector has come under colossal pressure to adopt CSR measures in their strategic decisions. This implies that CSR is not a new concept in Ghana *per se*; however, it is still in its infant stages relative to the advanced economies. This could possibly stem from low level of

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awareness among corporate managers and traditional mindsets of corporate equity capital holders. Therefore, engagement with CSR activities by Ghanaian firms is just an issue of meeting the minimum requirement of the laws pertaining to CSR. This failure to meeting the needs of other corporate stakeholders has created a lacuna for more studies on CSR activities to be conducted, and to augment the debate on how CSR activities influence corporate financial performance in the context of Ghana. Most studies on CSR activities in this setting have largely focused on firms listed on the Ghana Stock Exchange (Oppong, 2014; Ofori *et al.*, 2014), but the influence of CSR activities on the financial performance of Ghanaian SMEs has been neglected. Therefore, we examine the relationship between CSR activities and financial performance of Ghanaian SMEs, by concentrating on access to capital and firm reputation, as specific factors through wish CSR activities may in turn translate into enhanced financial performance.

The remainder of the paper is structured as follows. The next section presents the paper's literature review and hypotheses development. Ensuing is the methodology of the paper. Finally, the analyses, discussion and conclusions are presented.

Literature review and hypotheses development

Corporate social responsibility and financial performance

Research works underpinned by neoclassical economics have argued that CSR unnecessarily raises a firm's costs, putting the firm in a position of competitive disadvantage *vis-à-vis* its competitors (Friedman, 1970; Aupperle *et al.*, 1985; McWilliams and Siegel, 1997; Jensen, 2002). Based on agency theory, some studies have also argued that, expending valuable firm resources to engage in CSR only results in significant managerial benefits rather than financial benefits to the firm's shareholders (Brammer and Millington, 2008).

In contrast, other scholars have argued that undertaking CSR activities can have a positive effect on firm's performance by providing better access to valuable resources (Cochran and Wood, 1984), attracting and retaining higher quality employees (Turban and Greening, 1997; Greening and Turban, 2000), allowing for better marketing of products and services (Moskowitz, 1972; Fomburn, 1996), creating unforeseen opportunities (Fomburn *et al.*, 2000) and contributing toward gaining social legitimacy (Hawn *et al.*, 2011).

Furthermore, CSR may function in similar ways as advertising does, increasing demand for products and services and/or reducing consumer price sensitivity (Dorfman and Steiner, 1954; Navarro, 1988; Sen and Bhattacharya, 2001; Milgrom and Roberts, 1986) and even enabling firms to develop intangible assets such as goodwill (Gardberg and Fombrun, 2006; Hull and Rothenberg, 2008). Stakeholder theory perspective (Freeman, 1984; Freeman *et al.*, 2007; Freeman *et al.*, 2010) suggests that CSR includes managing multiple stakeholder ties concurrently. As a result, CSR can mitigate the likelihood of negative regulatory, legislative or fiscal action (Freeman, 1984; Berman *et al.*, 1999; Hillman and Keim, 2001). Based on the above discussions, we hypothesized that:

H1. There is a significant positive relationship between CSR and financial performance of SMEs.

Corporate social responsibility and access to capital

The stakeholder theory stipulates that firms take into account the interests of numerous and diverse internal and external stakeholders when developing strategies for the achievement of organizational goals (Rais and Goedegebuure, 2009). The challenge is that each of these stakeholder groups has a different set of expectations regarding what should be the main goals of a firm. While managers may address some of these expectations out of a sense of moral obligation, others must be met to ensure survival and profitability of an enterprise

because some stakeholder groups have influence over firms' resources (Jawahar and McLaughlin, 2000), while others deliver perceived strength to influence firm's success (Wood and Jones, 1995).

Because CSR serves as a possible channel for addressing the interests of several stakeholders, scholars have argued that it can mitigate financial losses associated with negative regulatory, legislative or fiscal action (Freeman, 1984; Berman *et al.*, 1999; Hillman and Keim, 2001), attract socially conscious consumers (Hillman and Keim, 2001) and also attract financial resources from socially responsible investors (Kapstein, 2001). Beiting *et al.* (2014) assigned two reasons why firms that undertake superior CSR activities could have more resources. First, they will face lower idiosyncratic capital constraints because of reduced agency costs. Second, they will enhance their revenue/profit generating potential resulting from more effective stakeholder engagement as well as reduced informational asymmetry because of extended and more credible CSR disclosure practices and transparency.

Empirically, Cochran and Wood (1984) found that CSR can have a positive impact by providing better access to valuable resources. Similarly, other authors postulate that CSR attracts socially conscious consumers and attract financial resources from socially responsible investors (Hillman and Keim, 2001; Kapstein, 2001). Hence, we hypothesized that:

H2. There is a positive relationship between CSR and access to capital of SMEs.

Corporate social responsibility and firm reputation

Fomburn (1996, p. 72) defined firm reputation as "a perceptual representation of a company's past actions and future prospects that describe the firm's overall appeal to all its key constituents when compared to other leading rivals". According to Fomburn and Shanley (1990), the term reputation denotes a summative representation of stakeholders' judgments of the firm over time. Similarly, Deephouse (2000) assert that reputation is the evaluation of a firm by its stakeholders in terms of their affect, esteem and knowledge. This is deemed critical to corporate success and an important "social approval asset" particularly in the present competitive market place (Pfarrer *et al.*, 2010). There is a prevailing consensus that CSR activities can enhance organizational reputation.

From the customer perspective, studies have established that customer perception of a firm's CSR activities is positively associated with their evaluation of its reputation (Lai *et al.*, 2010; Stanaland *et al.*, 2011). This can result in improved sales and profitability in the long run. From the employee perspective, employees' perception of their organizations' CSR activities is also connected to their level of organizational commitment, which enhances their assessments of their firms' reputation (Stawiski *et al.*, 2010). Hence, we hypothesized that:

H3. CSR is positively associated with firm reputation.

Access to capital and financial performance

Access to capital has been cited as a major determinant of SMEs' performance in both developed and developing economies (Abor and Adjasi, 2007; Kashyap *et al.*, 1996; Nakiyingi, 2010; Dube *et al.*, 2011). According to Castelli *et al.* (2006), SMEs normally borrow funds to meet their working capital needs. They acquire machines and equipment for their expansion needs by borrowing either from financial intermediaries like banking institutions or even individuals. Other studies suggested that the ability of several SMEs to exploit highly profitable opportunities would be enhanced if external financing were more accessible (Kashyap *et al.*, 1996; Kasekende and Opondo, 2003; Nakiyingi, 2012).

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Carter *et al.* (1997) studied retail firms to find a link between financial capital, human capital and failure rates. They found that firms that had access to outside financial resources and partners who could provide equity investments were significantly less likely to discontinue. Coleman (2007) used data from the Federal Reserve's 1998 survey of small business finances to find that both human capital in the form of prior business experience and financial capital in the form of loans were predictors of growth for firms. Hence, business owners who aspire to growth should be prepared to raise external sources of capital. Therefore, we hypothesized that:

H4. Access to capital is positively related to financial performance.

Firm reputation and financial performance

Firm reputation enhances the financial performance of the organizations. Iwu-Egwuonwu (2011) postulates that even accounting literature supports the notion that corporate reputation brings about enormous amount of wealth, usually summed up in what is called goodwill, while some conventional wisdom affirm that the reputation which firms earn for themselves do cause sustainable profits. In addition, the resource-based theory of the firm contends that the reputation of a firm can lead to a competitive advantage, as it signals to stakeholders about the attractiveness of the firm, who are then more willing to contract with it (Deephouse, 2000). Some researchers have also viewed reputation-enhancing practices as enabling organizations to retain the confidence of financiers (Abor and Adjasi, 2007; Jamali *et al.*, 2008).

Roberts (2003) advanced that a good reputation improves the value of everything an organization does and says, while a bad one devalues products and services and acts as a magnet that attracts further scorn. Empirically, a number of studies have established a positive relationship between firm reputation and performance. For instance, Chung *et al.* (1999) investigated how a company's reputation influences the value of its stock. The authors found that firms that are highly ranked in reputation outperformed firms that were ranked low on reputation.

Brammer and Millington (2005) established a positive relationship between a firm's reputation and financial performance. Finally, Tan (2007) found corporate reputation to be positively correlated with both superior total sales and superior earnings quality in Chinese public companies. Hence, we hypothesized that:

H5. Firm reputation is positively related to financial performance.

Hypothesized model

Based on the argument of this study and the five formulated hypotheses, the following hypothesized model was developed. This model depicts the relationship between CSR and firm performance by using access to capital and firm reputation as mediating factors. Essentially, the model depicts that CSR affects the performance of firms via certain mediating variables such as firm reputation and access to capital. Businesses that commit themselves immensely to CSR activities are more inclined to improve their reputation and access to capital. This we believe will translate into improved performance. In addition, the model also establishes a direct link between CSR and corporate performance to examine whether without the mediating factors, a significant relationship could be established between them. The next section thus presents the methodology of this paper (Figure 1).

Methodology

The thrust of this study is to establish the relationship between CSR and financial performance of SMEs using a correlation research design. The target population comprised

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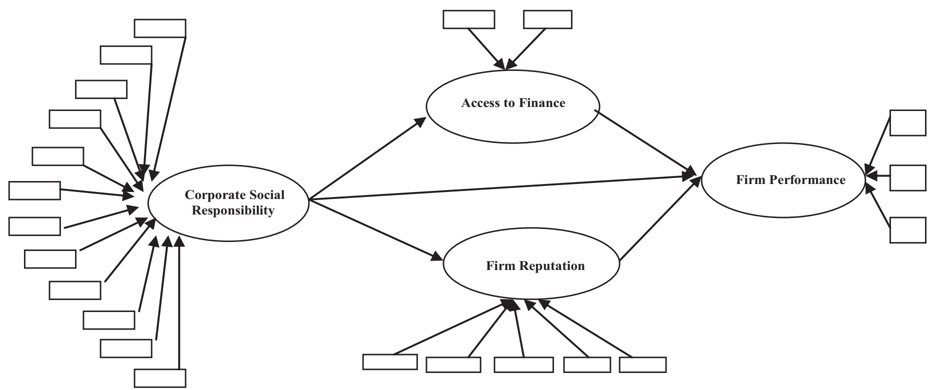

Source: Author's construct

Figure 1. Linking CSR to firm performance, through access to capital and firm reputation

all SMEs within the Accra Metropolis. The accessible population consists of owner-managers of all manufacturing and trading SMEs which had registered with the National Board for Small-Scale Industries (NBSSI) and the Association of Ghana Industries (AGI) in the Accra Metropolis as at September 2013. The total number of SMEs recorded in the NBSSI's and AGI's registers by location in the Metropolis was 2,083 as shown in Table I. The population was classified using the 11 sub-metropolis and the size of the firms. Following Krejcie and Morgan (1970), to ensure a 5 per cent margin error, 254 medium-sized and 302 small-sized firms were randomly selected from 750 medium-sized and 1,400 small-sized firms, respectively (Table II).

Measurement of variables

A questionnaire was developed in reflection of the extant literature in the area. It was also peer reviewed by academic colleagues who have undergone the process of survey development and analysis previously. This was carried out to ensure clarity and that no irrelevant questions were included in the survey. Following Sweeney (2009), Man (2011) and Burton and Goldsby (2009), the study adopted the subjective approach of measuring financial performance consisting of profit growth, sales growth and leverage. Several studies

Table I. Distribution of population by sub-metropolis and firm size

Sub-metropolis	Medium-sized	Small-sized	Total population
Ashiedu Keteke	73	137	210
Osu Klottey	70	127	197
Ayawaso East	23	48	71
Ayawaso Central	15	30	45
Ayawaso West	57	102	159
Ablekuma South	91	152	243
Ablekuma Central	22	59	81
Ablekuma North	85	150	235
Okai Koi North	92	179	271
Okai Koi South	121	232	353
La	78	140	218
Total	727	1,356	2,083

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Sub-metropolis	Medium-sized	Small-sized	Total
Ashiedu Keteke	26	31	57
Osu Klottey	24	28	52
Ayawaso East	8	11	19
Ayawaso Central	5	7	12
Ayawaso West	20	23	43
Ablekuma South	32	34	66
Ablekuma Central	8	13	21
Ablekuma North	30	33	63
Okai Koi North	32	39	71
Okai Koi South	42	52	94
La	27	31	58
Total	254	302	556

Table II. Distribution of the sample by sub-metropolis and firm size

Dawes (1999), Sweeney (2009), Man (2011) have adopted the subjective approaches to measuring the financial performance of SMEs. Some reasons have been advanced as to why subjective measure of firm performance is appropriate. According to Man (2011), the use of scales is a better alternative to measure SME performance than to use actual figures due to the unwillingness of SME owner/managers to disclose these sensitive figures.

In a similar vein, Dawes (1999) also provided some reasons why subjective measure of firm performance is appropriate. First, managers may be reluctant to disclose actual performance data if they consider it commercially sensitive or confidential (Man, 2011). Second, subjective measures may be more appropriate than objective measures for comparing profit performance in cross-industry studies. This is because profit levels can vary considerably across industries, obscuring any relationship between the independent variables and company performance. Subjective measures might be more appropriate in this situation because managers can take the relative performance of their industry into account when providing a response (i.e. rate the profit performance of your firm relative to others in your industry). Finally, there have been several studies that show a strong correlation between objective and subjective measures (Wall *et al.*, 2004). According to Richard *et al.* (2009), researchers should not view the choice of subjective measures as the second best alternative but should determine the most favorable measure under the particular circumstances of the research context. To measure financial performance, this study adapted the measurement used by Man (2011) which emphasized profit growth, sales growth and leverage.

Given that classical approaches to measuring corporate reputation such as the use of Fortune's America's Most Admired Companies or Britain's Most Admired Companies' data are neither available nor applicable to the SME sector, firm reputation and CSR were measured based on the items used by Sweeney (2009). Following the position of Sweeney (2009), this research did not seek to reinvent the wheel with regard the measurement of CSR, instead each question within the section relating to CSR has been taken from previous research on the area. Shareholders were not considered, as findings indicate they are not a major stakeholder with reference to CSR especially within the SMEs context (Sweeney, 2009). Thus, the dimensions of CSR in this paper include employees, customers, community and environment. Some of the CSR information involved energy conservation, supply of clear and accurate information and labeling of products and services, resolving of customer complaints in timely manner, quality assurance criteria adhered to in production, being

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committed to the health and safety of employees, recruitment policies that favor the local communities and donation to charity.

With respect to firm reputation, we originally intended to use 14 variables to gain insight into firm's reputation as held by customers, employees and other firms within the same industry. Factor analysis technique was then used to reduce this number. Finally, after conducting multicollinearity test, some variables were further eliminated, and firm reputation was measured based on ratings other firms in the same sector would award the firm on the basis of quality of products and services, quality of staff, environmental responsibility, community responsibility and quality of management (Table III). Specifically, it dealt with the owner-managers' opinion of how stakeholders would rate their firms on the quality of products and services, staff, environmental responsibility, community responsibility and the quality of management. Finally, we concentrated on formal sources of ascertaining capital, as such sources have strict application requirements that applicants must adhere to. Following Man (2011), we specifically sought to determine how easy respondents could access funds from banks, lending institutions and investors.

Analysis

We analyzed our data by using partial least squares (PLS) analytical approach. The application of this approach does not necessarily require the data collected to have multivariate normal distributions, and it is appropriate for testing theories that are in

Construct	Items (Continuous scale 1-5)	Sources
Corporate social responsibility	1. Energy conservation 2. Supply clear and accurate information and labeling about products and services 3. Resolve customer complains in timely manner 4. Committed to providing value to customer 5. Quality assurance criteria adhered to in production 6. Ensure adequate steps are taken against all forms of discrimination 7. Consult employee on important issues 8. Committed to the health and safety of employees 9. Donate to charity 10. Actively involved in projects with local community 11. Purchasing policies that favor the local communities in which it operates. 12. Recruitment policies that favor the local communities in which it operates	Sweeney (2009)
Access to finance	1. Easily obtains finance from banks and other institutions 2. Easily obtains finance from investors	Man (2011)
Firm reputation	1. Quality of products and services 2. Quality of staff 3. Environmental responsibility 4. Quality of management	Sweeney (2009)
Financial performance	1. Sales growth 2. Profit growth 3. Leverage (Total equity/total debts)	Man (2011), Burton and Goldsby (2009)

Table III. Measurement of constructs

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developmental stages (Fornell, 1982). In addition, this approach is apt when the goal is a causal predictive test instead of a test of entire theory (Chin, 1998).

Checking for reliability and validity of the model

We checked for reliability and validity by analyzing individual item reliability, internal consistency reliability, convergent validity and discriminant validity (Hulland, 1999; Bagozzi and Yi, 1988; Fornell and Larcker, 1981; Chin, 1998; Yoo and Alavi, 2001). To validate individual item reliability, a confirmatory factor analysis was carried out. For the loadings to be standardized, they must be greater than 0.7 for the shared variance between an individual item and its related construct to be greater than the error variance (Chin, 1998). However, Hulland (1999) argues that individual item reliability can be achieved if the factor loading is 0.4 or higher. All the individual items recorded individual indicator reliability loadings that are greater than the minimum acceptable level of 0.4 and close to the ideal level of 0.7.

Concerning construct validity, it was examined by analyzing the composite reliability and average variance extracted from the individual personal value structure. First, for construct validity to be achieved, all composite indexes should be 0.7 or higher (Bagozzi and Yi, 1988). In addition, Chin (1998) argues that for construct validity to be confirmed, the average variance extracted should be 0.5 or higher. In Table IV, the composite reliability values are shown to be greater than 0.7, signifying high levels of internal consistency reliability among the four reflective latent variables. Again from the same table, all of the average variance extracted greater than the acceptable threshold of 0.5 and thus convergent validity is confirmed.

To establish discriminant validity, we used PLS bootstrapping re-sampling approach with an iteration of 5,000 sub-samples taken out of our sample (423 SMEs). It is argued that the square root of average variance extracted in each latent variable can be used to confirm discriminant validity (Fornell and Larcker, 1981). This can be achieved if the value of the average variance extracted is greater than correlation values among the latent variables. As shown in Table V, the square roots of the average variance extracted are larger than correlation values among the latent variables. This implies that each variable in the model

Construct	Composite reliability	Average variance
Corporate social responsibility	0.91	0.54
Access to finance	0.90	0.83
Firm reputation	0.88	0.59
Financial performance	0.91	0.78

Table IV.
Construct validity

Construct	Corporate social responsibility	Access to finance	Firm reputation	Financial performance
Corporate social responsibility	*0.82*			
Access to finance	0.69	*0.86*		
Firm reputation	−0.31	−0.37	*0.77*	
Financial performance	0.26	0.38	−0.43	*0.74*

Note: [a] Italic figures in the diagonal of the correlation matrix denotes the square root of the average variance extracted (AVE). For appropriate discriminant validity, the italic figures in each row and column should be greater than the figures in that row or column

Table V.
Fornell–Larcker criterion analysis for checking discriminant validity[a]

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shares greater variance with its measurement items than it shares with other variables of the model (Karacapilidis, 2010).

Structural model

The number of SMEs in this study, 423, is ten times more than the exogenous constructs (CSR, access to finance and firm reputation). Therefore, we do not expect any problems concerning biased estimates of path coefficients and indicator loadings (Chin, 1998). Hypothesis testing can start, as correct measurement has been designed (Fritzsche and Oz, 2007). The R^2 value of the dependent variable, financial performance is 0.46, denoting that the structural model accounts for about 46 per cent of the variance in financial performance. This value is significantly high to make it possible for the interpretation of the path coefficients (Figure 2).

The entire sample was used to compute the path coefficients in the structural model. Following Fritzsche and Oz (2007), jackknife method was used to estimate the *t*-values. The hypotheses of this study were confirmed by examining the path coefficients and their related *t*-values. A critical value of 1.695 was required to meet a 0.05 significance level for a one-tailed test.

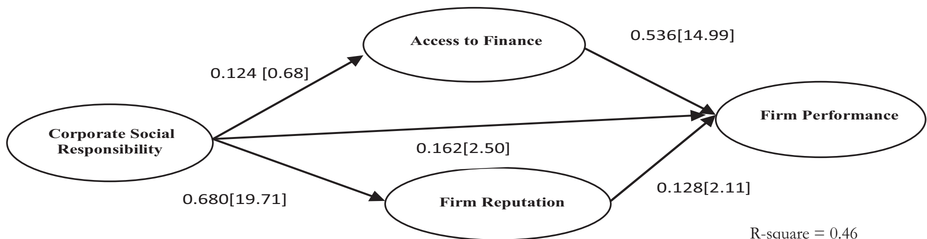
As demonstrated in Figure 2, the path coefficient of 0.680 with associated *t*-value of 19.71 in the PLS structural model reveal that the path from CSR to firm reputation is significant. This is consistent with our expectation that CSR practices of SMEs have a positive significant influence on their reputation. As a result, *H1* is supported. In addition, the figure shows that the path coefficient (0.124) and its related *t*-value (0.68) depict a positive but insignificant relationship between CSR and access to finance. This contradicts our expectation that the more SMEs engage in CSR practices, the easier they can access external finance. Thus, *H2* is not supported.

Further, in consistent with our expectation, the path coefficient of 0.536 with related *t*-value of 14.99 depicts a significant positive relationship between access to finance and financial performance. Hence, *H3* of this study is confirmed. Moreover, the results support *H4* because of the *t*-value of 2.11 and path coefficient of 0.128, signifying there is a significant positive relationship between firm reputation and financial performance of SMEs. This implies that SMEs with good reputation are characterized by improved financial performance.

Finally, the results support our argument that CSR practices engaged by SMEs improve their financial performance. The path coefficient (0.162) with its associated *t*-value (2.50) exhibits a significant positive relationship between CSR and financial performance of SMEs. Hence, the results are consistent with *H5* that CSR practices enhance financial performance of SMEs.

Discussion and conclusion

The purpose of the present study was to examine the relationship between CSR activities and financial performance of Ghanaian SMEs, by focusing on access to capital and firm



Note: The figures in parentheses are t-values

Figure 2.
Structural model with path coefficients

reputation as mediating factors. We argued that conflicting results in regards to the relationship between CSR and financial performance of firms could stem from the neglect of mediating roles of certain relevant issues such access to capital and firm reputation. The analysis confirms *H1* that CSR has a significant positive relationship with firm reputation. This implies that SMEs that engage in CSR activities are associated with good reputation. Thus, this finding is consistent with extant studies that the perception of corporate stakeholders of s firm's CSR activities is positively associated with their evaluation of the reputation of the firm (Lai *et al.*, 2010; Stanaland *et al.*, 2011; Stawiski *et al.*, 2010).

Our findings also indicate that firm reputation has significant positive relationship with the performance of Ghanaian SMEs. This is in line with the paper's hypothesis that connects firm reputation to financial performance. This clearly implies that corporate reputation brings about enormous wealth, usually summed up in what is called goodwill, while some traditional wisdom affirms that the reputation which firms earn for themselves do cause sustainable profits (Iwu-Egwuonwu, 2011). Therefore, this finding is consistent with the results of Chung *et al.* (1999) that firms that are highly ranked in reputation outperform firms that are ranked low on reputation.

In addition, even though it has been argued that firms with better CSR performance are faced with lower constraint in accessing capital (Kapstein, 2001; Hillman and Keim, 2001); here, we provide result that contradicts this argument. The reason could be that Ghanaian SMEs normally impose unnecessary costs on themselves by embarking on CSR activities (Navarro, 1988), and thus, capital providers do not see the need to inject capital into their operations. In addition, regardless of CSR activities of SMEs, capital providers in developing countries characterized by poor-functioning financial regime tend to channel their resources to larger firms where returns are higher. Thus smaller, newer and riskier firms encounter difficulties in accessing capital from capital providers.

Moreover, the findings highlight that Ghanaian SMEs that have easy access to capital are characterized by improved financial performance. This is in line with the assertion that having access to capital is relevant to the growth and survival of firms (Carter *et al.*, 1997). Hence, the ability of SMEs to exploit highly profitable opportunities would be enhanced if capital was easily accessible (Kashyap *et al.*, 1996; Kasekende and Opondo, 2003; Nakiyingi, 2012). This result is supported by the works of Abor and Adjasi (2007) and Dube *et al.* (2011) that a major determinant of financial performance of SMEs in both developed and developing countries is access to capital.

More so, the study established a significant positive relationship between CSR and financial performance of Ghanaian SMEs. This implies that even though there are some factors that serve as mediating role in relation to how CSR influences firm performance, CSR activities by Ghanaian SMEs lead to improved financial performance. This result is consistent with the findings of Oppong (2014) and Ofori *et al.* (2014) that CSR activities lead to enhanced performance of firms.

Our results have relevant implications for the present discussion on the relationship between CSR and firm performance among SMEs. We highlight evidence for a mechanism through which CSR can result in firm performance: SMEs with better CSR are better positioned to attain good reputation, which eventually lead to enhanced financial performance. Although we did not establish a significant relationship between CSR and access to capital among Ghanaian firms, we argue that looking at the positive relationship between them, SMEs can lower their capital constraint by engaging in CSR activities. Moreover, our inferences are reinforced by the application of PLS estimation technique.

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About the authors

Otuo Serebour Agyemang obtained a PhD in Economics with a specialization in Business Economics and Management from the University of Ferrara, Italy. He is currently a Lecturer at the School of Business, University of Cape Coast, Ghana. His research interests centre principally on corporate

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governance, business ethics, corporate social responsibility and healthcare management. Otuo's scholarly works have appeared in both national and international journals, in particular, *Corporate Governance*, *Society and Business Review*, *Corporate Ownership & Control*, *Management Research Review*, *Health Economics Review*, *Social Responsibility Journal*, *Population Health Management*, *International Business Research*, *EuroMed Journal of Management*, *Journal of Sustainable Development*, *Global Journal of Health Science*, among others.

Abraham Ansong holds a PhD in Development Studies with special concentration on small and medium scale enterprises. He is presently a Senior Lecturer at the School of Business, University of Cape Coast, Ghana. His research interests focus on corporate governance, entrepreneurship, corporate social responsibility and financial literacy. Abraham's works have appeared in both national and international journals such as *Journal of African Business*, *Management Research Review*, *Social Responsibility Journal*, *EuroMed Journal of Management*, *Developing Country Studies*, *African Journal of Business Management*, *Journal of Business Administration and Education*, *International Journal of Business and Management*, among others. He is currently the coordinator of University of Cape Coast's Business Incubator. Abraham Ansong is the corresponding author and can be contacted at: aansong@ucc.edu.gh

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