

The Effects of Corporate Social Responsibility on Bank Performance. Evidence from the Ghana Stock Exchange

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Abstract

In today's society, there is a growing interest in and desire for Corporate Social Responsibility (CSR). The global economic impact of multinational firms, as well as controversies revealing horrible working conditions in many industries, could be issues.

Our research sampled banks in Ghana using annual financial statement over the period of 2017-2020. We analysed the data with regression model and the statistical package for social science (SPSS). The study also discovered that CSR policies had a beneficial impact on bank performance. As a result, bank executives understand and embrace corporate social responsibility in order to increase shareholder and other stakeholder value. To support the findings, several policy implications were presented.

Keywords: Corporate Social Responsibilities, Age, financial performance, Health, Ghana.

Introduction

Corporate social responsibility has grown in the past decade both as a crucial field in academia and as an important phenomenon in practice. (Wang, Tong, Takeuchi, & George, 2016). CSR has become an increasing concern for managers as companies are assessed not only on financial performance but also on social performance (Rhou et al 2016). Over the last two decades, the concept of CSR has increasingly focused on corporate strategy (Blowfield & Murray, 2011), which is linked with financial and competitive performance. For several years, many studies have stated the importance of Banks in the economies of both developing and developed countries but banks have received less attention in the CSR area.

However, some theoretical perspectives have centered exclusively on the pursuit of economic and financial performance. Researchers have also attempted to prove a statistically significant connection between CSR and financial performance. Several studies looked at how recent quantitative studies have influenced the evolution of the CSR-financial performance concept (Boaventura et al., 2012).

A substantial number of researchers reported a positive, negative and mixed relationship between CSR and financial performance. The positive relationship justifying a corporate CSR investment profit-minded rationale (Boaventura et al., 2012; Tsoutsoura, 2004). Given these specific constructs, businesses view CSR as an integral part of their operational strategy (Rowe, Nowak, Quaddus, & Naude, 2014).

In the development of the financial system and the growth of the economy, the role banks play cannot be underestimated. It has become imperative lately that these banks should provide information on their commitments to the society, economy, and the environment in respect of their operations. In recent times banks have been involved in bridging the gap between themselves and the communities they serve, this they do through corporate social responsibility. CSR helps to improve the reputation of the bank and increase the customers' trust. (Shen, L., Govindan, K., & Shankar, 2015) Many prior studies have indicated that CSR practices are growing in developing countries as a result of pressures from external stakeholders. (Belal 2001; Kamal and Deegan 2013, Lika, Zhu and Osei Bonsu Mandella, 2018). Most of the previous studies in CSR from developing countries are mainly based on content analysis of secondary annual reports with a few exceptions (see Islam and Deegan, 2008; Belal and Owen, 2007). These studies largely ignored the possibility of banks hosted on stock exchanges. In fact, corporate social responsibility has become a fast and significantly emerging practice amongst financial institutions in Ghana. It is one of the newest strategies which is used by management as a means of creating a positive effect in society while business is ongoing. Therefore, our paper examines the impact of CSR on FP of banks hosted on the Ghana Stock Exchange.

Our paper makes contribution to that extant literature. First, our paper contributes to the existing knowledge of CSR and provides new insights gained from the analysis of the concept in Ghanaian financial institutions.

Second, the study contributes to the relevance of two theories stakeholder theory and agency, which are frequently applied for the analysis of social responsibility in business. Lastly, the findings are important for policymakers and executives in developing countries who are considering the adoption of CSR for improving their firm performance.

The rest of our paper is follows: The next section deals with the literature review, followed by the theoretical framework and hypothesis development. Research data and methods is present in section 2. Empirical results are provided in section 3 and the final section presents conclusions and provides policy recommendations.

Literature Review

Since the 1950s, corporate social responsibility has been a hot topic. In his early CSR papers, Carroll (1999) argues this. It's known as social responsibility (SR) rather than corporate social responsibility (CSR) (CSR). There are numerous definitions of CSR, but Carroll (1979) provides the most generally referenced definition, which states that "the social responsibility of business comprises the economic, legal, ethical, and social aspects of the organization. He claims that the firm's social duties are for the benefit of society as a whole as well as the firm itself. As a result, corporations are required to consider the interests of society when making decisions, because their decisions have a significant impact on society.

Ferrell et al., 1989; Brinkmann and Peattie, 2008) define corporate social responsibility as an organization's commitment to maximize its beneficial influence on stakeholders while minimizing its negative impact on society. The World Bank (2004) defines CSR as a "corporate commitment to contribute to sustainable economic development by working with employees, their families, the local community, and society at large to improve their lives in ways that are good for business and development. According to the Corporate Responsibility Index (2007), corporate social responsibility is achieved when a company "adapts all of its activities to ensure that it meets, or surpasses, the ethical, legal, commercial, and public standards that community has of business. Numerous policymakers and stakeholder representatives have taken steps to promote the concept of socially responsible behaviour. The European Communities Commission (2001) defines corporate social responsibility as "a concept in which businesses voluntarily incorporate social and environmental factors into their commercial activity. Several studies have been published that look at the link between a company's social involvement and its financial performance and profitability (e.g., Griffin and Mahon, 1997; Waddock and Graves, 1997; Jackson and Parsa, 2009; Kempf and Osthoff, 2007). However, empirical data show that the link between CSR and profitability is equivocal. Pava and Krausz (1996) examined 21 studies of corporate social and financial performance between 1972 and 1992. There was a positive correlation in twelve studies, no correlation in eight investigations, and just one study revealed a negative correlation. Aupperle et al. (1985) found a somewhat negative association between social responsibility and profitability in their early studies. This study backs up the idea that the costs of being socially responsible put a company in a disadvantageous financial position compared to companies that aren't. In the United Kingdom, Moore (2001) explores the relationship between a company's social and financial performance. In the grocery industry, the results demonstrate a negative association between current social and financial success, but a favourable relationship between prior-period financial achievement and subsequent social performance. Furthermore, Mc Williams and Siegel (2001) find no link between corporate social responsibility and financial performance.

Stanwick and Stanwick (1998), on the other hand, look at the relationship between a company's social performance and its financial performance between 1987 and 1992. For all six years of the study, the data demonstrate a significant positive association between CSP and profitability. This research backs up the idea that a company's prosperity allows and or encourages managers to develop programs that improve corporate social responsibility. Some CSR elements have favourable and significant effects on short-term profitability, according to Berman et al. (1999).

According to Berman et al. (1999), corporate action that improves employee relations has a favourable impact on firm efficiency. They claim that implementing advanced human resource strategies, including those in the legal and ethical realms, allows businesses to achieve low turnover, high productivity, and enhanced employee devotion. Furthermore, the findings suggest that failing to maintain excellent product quality as a result of unethical business behaviour results in decreasing patronage or higher lawsuits, potentially reducing firm profitability. Waddock and Graves (1997) employ three measures to analyse the profitability of company financial performance: ROA, ROE, and ROS, giving a variety of measurements used by the investing community to assess corporate financial performance.

Firms with good financial standing have the resources to invest in long-term strategic initiatives like improving local schools and improving community circumstances, but those in bad financial standing may have fewer financial means to invest in traditional CSR activities. Furthermore, the findings show a positive relationship between corporate social performance and financial performance. According to Luo and Battacharya (2006), corporate social responsibility contributes favourably to market value and financial performance, and that consumer happiness has influenced a company's success. They argue that by investing in corporate social responsibility, managers can gain competitive advantages and earn greater financial rewards. Many academics looked into the link between each aspect of CSR and business performance (Inoue and Seoki, 2011; Robert, 1992). A positive association exists between an aggregate score for CSR activities and corporate performance, according to Bird, Momente, and Reggiani (2007), however this finding does not apply to the relationship between each individual CSR activity and corporate performance. Pelozo and Papania (2008) point out that the financial effects of various CSR dimensions may be different for firms in different industries based on the level of importance assigned to each primary stakeholder for the industry. Inoue and Lee (2011) examine how different dimensions of CSR could affect financial performance among firms within four tourism-related industries. The findings reveal that each CSR dimension affects the two financial performance indicators in a different way, and that the financial impact varies among the four tourism-related industries. Furthermore, the link between CSR and company performance has been studied extensively, with several research controlling for three variables (firm size, and firm age) may have a substantial impact on market orientation and corporate social responsibility's implications on firm performance (Brik et al., 2011; Barone et al., 2007; Bhattacharya and Sen, 2004; Maignan et al., 1999). Moreover, many researchers provide evidence that the stakeholders expect more social initiatives from large companies than from small ones. For example, large corporations and publicly traded businesses are pressured to display an obligation to CSR (Windsor, 2001; Park, 2010; Brik et al., 2011). In their early study, Trotman and Bradlely (1981) discovered a strong link between social responsibility disclosure and firm size, as measured by total assets and sales volume. Furthermore, according to Stanwick and Stanwick (1998), larger companies recognize the need to be leaders in their commitment to corporate social performance. The rising impact of other stakeholders (e.g., government regulations, environmental groups) rather than a primary focus on stockholders may explain the firm's leading role. They discovered a substantial link between firm size and corporate social performance. Furthermore, small businesses are less able to adopt CSR ideas and relate their CSR efforts to external stakeholders than their larger counterparts (Margolis et al., 2009; Brik et al., 2010; Stanwick and Stanwick, 1998; Spicer, 1978). In a similar vein, Park (2010) claims that huge corporations have more resources at their disposal, and are able to engage in more CSR activities, resulting in strong financial performance. As a result, firm size is a key control variable that has a beneficial impact on the link between CSR and business performance (Stanwick and Stanwick, 1998; Mc Williams and Siegel, 2001; Park, 2010; Brik et al., 2011).

Theoretical Review and Hypothesis Development

Agency Theory

The concept of agency theory is a significant phenomenon that goes hand in hand with shareholder values. According to Pepper and Gore (2015), the notion of agency theory has acquired supremacy in academic cycles around the world during the last decade. According to this notion, business owners are regarded as principals, while managers in charge of day-to-day operations are seen as agents. As a result, the agents owe the principals a fiduciary commitment. The agents are driven to align their interests with the owners by

monetary and non-monetary incentives. This is done to ensure that the shareholders' value maximization goals are aligned.

The Stakeholders Theory

The stakeholder hypothesis is a core notion that claims that a higher level of CSR activities leads to greater market success (Freeman, 1984). The ability of an organization to sustain ties with its stakeholders, according to the stakeholder principle, determines its effectiveness. The term "stakeholder" first appeared in management literature in an internal memorandum at the statement at Stanford research institute (SRI) in 1963 (Freeman 1984). SRI defined stakeholders as "groups on which the organization is dependent for continued survival". This definition focuses solely on shareholders as owners, whose needs are the business's only aim. The word has been commonly used in management literature since its inception. Freeman did not define stakeholders until 1984, when he described them as "any group or individual who can affect or is affected by the firm's objectives." During the migrating period, it began to gain popularity. According to stakeholder theory, corporations are supposed to appropriately manage stakeholder interests beyond organizational boundaries and acknowledge caring for other quiet stakeholders (such as the environment, local communities). This necessitates the creation of unique activities to address the needs of specific primary or essential stakeholders. (C. Makanyeza, Tendai L. C. & Nicholas Z. K. 2017). This is the basic hypothesis that suggests that increasing CSR practices leads to increased corporate performance. Stakeholder theory establishes a relationship between relevant stakeholders like as customers, employees, and shareholders, with the goal of maximizing shareholder wealth.

Research Hypothesis and Framework

Corporate Social Responsibility and Firm Performance

The empirical evidence on the relationship between CSR and business performance (FP) is fairly broad. Despite varied outcomes provided by academics, the majority of studies demonstrate that CSR and FP have a beneficial association (Lu et al. 2014; Griffin and Mahon 1997). CSR activities, according to scholars, can assist businesses by attracting more customers (Gallardo-Vázquez and Sanchez-Hernandez 2014). Safer workplaces and the protection of employees' human rights result in higher production output, which boosts company performance (Dawkins and Lewis 2003; Saleh et al. 2011). Firms supply quality products and invest in community development initiatives as part of their CSR practices, which has consequences for long-term corporate performance (Waddock and Graves 1997; Mahoney and Roberts 2007). Furthermore, as a good employer, a company can reduce employee turnover and increase performance by giving training and employment opportunities. These efforts have a direct impact on the company's market return, sales growth, profitability, and overall financial performance (Orlitzky et al. 2003). CSR is, therefore, considered as a key financial performance tool for firms. Hence, we hypothesise:

H1: Corporate Social Responsibility has a positive impact on firm performance.

H1a: Health is positively related to Bank performance

H1b: Environment CSR is positively related to Bank performance

H1c: Education involvement is positively related to Bank performance

H1d: Economics CSR is positively related to Bank performance

H2: There is a significant relationship between firm size, firm age, and CSR-F links

Empirical Review on Corporate social responsibility and Firm performance.

Although CSR in SMEs has gained great attention in the academic and professional fields, the question is whether or not the involvement of CSR activities contributes to firm's performance in SME in developing countries, especially in the Cameroonian context. Thus far, studies on the relationship between CSR and firm's performance show positive, negative, mixed or non-significant results. Researchers and academics that found a negative relationship between CSR and business performance, have argued that implementation costs of CSR are too high compared with the results obtained (Oh and Park, 2015).

For example, empirical findings by researchers (e.g., Alafi & Hasoneh, 2012; Galbreath & Shum, 2012; Luo & Bhattacharya, 2006; Margolis et al., 2008; Shen & Chang, 2008) researchers showed a positive association between CSR and firm performance. Furthermore, a number of authors also found a positive

relationship between CSR and firm's performance (Saaeidi, S.A 2015, A.W.2014: TorHecker, R. 2012). In contrast, empirical findings by (Higgins, 1997). Other studies show there is a negative relationship between corporate social responsibility and firm performance Cordeiro & Sarkis, 1997; Crisóstomo, De Souza Freire, & De Vasconcellos, 2011; Manchiraju & Rajgopal, 2017 Babola 2012). Lastly, studies carried out by (Dobbs, Van Staden, Dobbs, & Van Staden, 2016; McWilliams & Siegel, 2000; Nollet, Filis, & Mitrokostas, 2016) gave neutral results. From the findings, the bulk of studies on the CSR-firm performance link are from developed countries. Thus far, there is limited number of studies on this relationship in emerging countries, especially in Africa. Thus, we cannot generalize the findings from developed countries to developing countries, especially Ghana without further research. Our paper admonished that, the structures of banks in developed countries often differ from those of developing countries.

Research Data and Methods

Due to the nature of the analysis, our paper involved hypothesis testing, so quantitative data approach was used in this research. We conducted correlational, and statistical research designs of the sampled financial institutions hosted on Ghana Stock exchange. In the paper, we obtained data using the annual financial statement of sampled banks over the period of 2018-2021. We gathered and analysed with the use of Statistical Package for Social Science (SPSS). The list of the companies is displayed on appendix.

Empirical Model

In this paper, we performed regression model to examine the effects of CSR on FP in Ghana. Our model-controlled variables including firm age and firm size. We further categorized CSR construct as health, environment, education and economics. Financial performance was proxied using banks ROA and ROE. We present our model as follows:

$$FP = \beta_0 + \beta_{1-4}CSR + CNT VR + \epsilon_{it} \dots \dots \dots (1)$$

After controlling variables including both dependents and explanatory variables, we obtained equation (2) as

$$FP = \beta_0 + \beta_1HLT + \beta_2ENV_2 + \beta_3EDUC + \beta_4ECONS_4 + \log Size + age + + + \epsilon_{it} \dots \dots \dots (2)$$

Where FP is firm performance, HLT represents health, ENV, environment, EDU is education, ECONS is economics respectively. $\beta_1 - \beta_4$ represents the coefficients of the model, and ϵ_{it} is the scholastic error term.

Measurements of Variables

CSR measurements

In measuring the content of banks CSR reporting's, content analysis was used. Content analysis is a frequently used method used in the literature. (Humanyu & Akinnusi, 2012; Krippendorff, Deengen (2017);

The content investigation is an exploration system for making replicable and substantial surmising from information as indicated by their specific circumstance. (Zou, Kaodui & Osei Bonsu Mandella et al.; 2018). In content analysis, distinguish methods are utilized in assessing reporting disclosures in so many studies on CSR reporting. For the purpose of this study, the used of content analysis were based on choosing the appropriate documents for the content analysis, determining the appropriate unit of measuring the content analysis and the appropriate unit of measuring the level of Corporate Social Responsibility is the number of words as it is been used in most literature. The identified the major categories of CSR reporting OF banks in Ghana are health, ENV, environment, EDU is education, ECONS is economics.

Financial Performance

In this paper, we used Banks return on assets as the measurement for financial performance. Banks return on assets is the total net income divides by the total assets. here net income can be seen on the Income statement, it can also be profit after tax on profit and loss account. Total Assets is made up non- current assets and current assets and can be found on the balance sheet.

Control Variables

The study used firm age and size as control variables. We measured firm size age as from the date the bank was established till the period the study was conducted. However, firm size was measured as the total log of total assets. Hence, our research model is displayed as below:

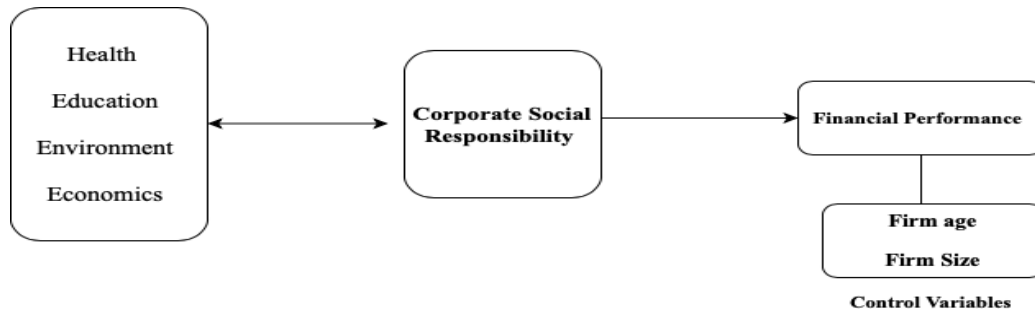


Figure 1. Research model

Results and Findings

Empirical Results

Multiple regression analysis was used to examine the impact of CSR on performance of banks in Ghana. The primary concern was to identify whether, consistent with significant results from the model, CSR effected financial performance. This relationship was tested by using banks in Ghana over the period from 2017-2020. ROA was the accounting measurement used as the dependent variable, and health, ENV, environment, EDU is education, ECONS is economics as measures or dimensions of corporate responsibilities of sampled banks.

Descriptive Summary

The descriptive summary is reported on the impact of CSR on performance of banks in Ghana. The outcome shows that, FP obtained the highest mean (4.371) and standard deviation (0.6551). This implies that, FP of banks is affected through corporate social responsibilities on an average of 43%. The positive signs between indicates the positive increase. However, the average mean of health involvement of banks is (3.251) with a minimum and maximum value of (1.06) and (3.879) respectively. On average, environment involvement effect banks performance with average percentage of 26 percent. Further, banks education responsibility impacted their performance with 25% having 2.713 as minimum, and 3.361 as maximum. Banks economic involvement was on average of 22 percent.

In addition, age and firm size obtained 36% impact of the performance of banks in Ghana. The positive signs of both minimum and maximum values signify the increasing performance regarding financial performance of banks in Ghana. The table (1) below shows the summary of the summary statistics.

Variable	Mean	Maximum	Minimum	Std. Deviation
ROE	4.371	4.454	4.31	0.6551
HEALT	3.251	3.879	1.609	0.5175
ENV	2.631	3.581	1.527	0.5596
EDU	2.512	3.631	2.713	0.5591
ECONS	2.241	4.501	3.331	0.7592

Log Size	2.521	4.461	3.412	0.5562
Age	1.121	3.354	2.355	0.6493

The table presents the descriptive summary of results. PF represents performance proxy as ROA, CSR represents Corporate Social Responsibility score, HELAT is health, ENV is environment, EDU is education, and ECONS is economics, respectively. This table embodies both models used in the study.

Correlation Coefficient

We present the empirical findings regarding the effects of CSR practices on performance of banks in Ghana. From the correlation table, there is positive relationship between CSR, age, size and performance of banks in Ghana. Our between coefficients variables shows that, the signs are consistent with the literature and the study since the magnitude coefficient is less than (0.5). Moreover, CSR are positively and highly linked which approves that, they are activities in CSR on which performance of banks increased. Empirically, the results show that all the discussed CSR effect performance implying that, it increases performance (ROA). From the findings, firm age is positively correlated with both ROA and CSR. This means that, management of organizations to realize the importance of corporate social responsibility. The results further show that, firm size is positively and highly linked on the CSR and performance relationship. The summary of the findings is provided below,

Table 2 Correlation for (ROA)

	1	2	3	4
FP	1			
CSR	.122**	1		
Age	.132**	0.251	1	
Size	.122**	0.126	0.036	1

The table presents the correlation of results. PF represents performance proxy as ROA, CSR represents Corporate Social Responsibility score, age is age of the banks, and size is the log total assets of banks respectively. This table embodies both models used in the study.

Regression Results

Table 3 regression Analysis

FP	Beta	Standard Err.	t-Value	Sig.
CSR	.281	0.305	-1.033	0.554
Age	.202	0.776	-3.151	0.038**
Size	.399	0.761	3.611	0.021**

The table presents the regression of results. PF represents performance proxy as ROA, CSR represents Corporate Social Responsibility score, age is age of the banks, and size is the log total assets of banks respectively. This table embodies both models used in the study.

Our regression of the study is tested as a significance value level of 5 percent on the analysis of the impact of CSR on performance with the inclusion of firm age and size. The findings show that, CSR measures were positive and insignificant as the ($p < 0.05$) thus describing that both had an insignificant effect on the company's financial performance. In other words, corporate social responsibility measures were not a significant factor in impacting banks financial performance either ROA ($p > 0.05$). In addition, both firm size and age has positive effects on financial performance and CSR link. It is evidence with ($p < 0.05$).

Besides, size specifies a significant facet in making clear the performance of the companies listed ($\beta = 0.399$; $p > 0.05$). This shows that total assets of companies increase, their performance is positively affected and

improves, making their performance positively affected. Additionally, the results also showed that age had a positive effect on the performance of firms, since ($\beta = -202$; $p < 0.05$). This means that, the longer the age of bank is more in corporate social responsibility, the more bank experience positive and improve performance in Ghana.

Meanwhile, the study further shown that CSR practices: health, environment, education, and economics represented by CSR score did not have any significant effect on the selected bank financial performance. ($\beta = 0.281$; $p > 0.05$). This signals that the sum of money disbursed on CSR practices does not significantly describe the banks performance in Ghana. These findings are consistent with Ahmed, (2014). However, Wambui (2012), Lika duo, Zhu, & Mandella (2018), had similar results indicating corporate financial performance and CSR had a strong relationship. Our results are different even though with similar results as we used financial institutions hosted on stock exchange and this makes contributes to the extant literature.

Summary and Conclusions

There is an increasing interest in and desire for Corporate Social Responsibility in today's society (CSR). Multinational corporations' the impact on the global economy, as well as controversies exposing appalling working conditions in various industries, may be factors. Despite the fact that demand for CSR is increasing, critics have always existed. The most powerful critic is Nobel Laureate Milton Friedman, who argues that CSR is a waste of money for stockholders. In contrast to Friedman, some articles suggest that CSR improves a company's long-term financial efficiency. These claims have made the research curious to examine on CSR related to a company's performance using banks in Ghana. The findings indicate that, corporate social responsibility is insignificant variable in impacting bank financial performance. This implies that, CSR positively impact performance but the effect is insignificant. However, the research finds age and firm size positively and significantly impact CSR performance relations, thus describing that both had a significant effect on the company's financial performance. The research stems from the conclusion that, the sum of money disbursed on CSR practices does not significantly describe the bank performance in Ghana. Therefore, managers in SMEs grasp and embrace CSR and disclosures. In view of this, companies should be socially responsible in order to enlarge the value for the shareholders and other stakeholders.

Managers now agree that any company should concentrate on CSR activities because they will not only help to boost the total assets but will also provide a valuable contribution to society. In general, according to the findings, recognizing banks by corporate social responsibility would have aided corporations in prioritizing their conscientious events as well as their responsibilities.

Theoretical and Policy Recommendations

There are a number of positive implications based on the findings of the studies mentioned above. There was clear evidence of a link between corporate social responsibility and bank financial performance. As a result, company executives understand and embrace corporate social responsibility. As a result, businesses should be socially responsible in order to increase shareholder and other stakeholder value. The study's findings also reveal that corporate social responsibility should be considered as mandatory rather than optional in all Ghanaian businesses. The government, the Ministry of Finance, regulatory organizations, and all stakeholders engaged should develop and implement rules to guarantee that businesses operate ethically and socially responsibly to all stakeholders.

Limitations and further research

There were some limitations in the research. First, the study looked at Ghanaian banks listed on the Ghana stock exchange. Because CSR methods are arduous and hard to define from one level of decision, the conclusion reached should not be applied to all industries or underdeveloped countries. As there are many significant corporations in other developing countries, future research should look into the influence of CSR

reporting concerns on all studies in those countries. This will increase the sample size, allowing for a more full knowledge and conclusive inference that corporate social responsibility has a financial impact.

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