

## Corporate Social Responsibility: Driving Dynamics on Firm's Profitability in Ghana

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**Abstract** This study analyzes the relationship between corporate social responsibility (CSR) and company's profitability (CP) in Ghana with the utilization of mixed data, obtained from sixteen (16) firms' audited annual report and financial statements between "2005-2014", filed with the Ghana stock Exchange (GSE) and Register General of companies. We use lagged data from the Ghana Investment Promotion Centre (GIPC) to establish the relationship between CP and CSR. In addition 850 questionnaires were administered to the public for CSR level of awareness data. The data collected are being analyzed by the use of Ordinary Least Square (OLS) for the study. Results from the analysis demonstrated that the selected companies have contributed below ten percent of their yearly profit to support social responsibility programmes. The co-efficient of determination of the findings demonstrates the extracts that the logical variable account for changes or varieties in chosen companies' profits after tax (PAT) are brought about by changes in corporate social responsibility (CSR) in Ghana. It is then prescribes that regulations and laws to commit companies' to be apparent, satisfactory consideration ought to be given to social accounting regarding social cost and to agree to the establishment of corporate social responsibility.

**Key words** CSR, profitability, performance, drivers, Ghana

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### 1. Introduction

Companies around the globe are battling with new role, which is to address the issues of the present generation without compromising off the capacity of the following generation to address their own particular needs. Corporations are being called upon to assume liability for the ways their activities sway communities and their indigenous ecosystem. They are likewise being solicited to show the incorporation from social and issues of ecosystems in business activities and in relationship with stakeholders (Pérez and del Bosque 2014). Companies have built up a mixture of strategies for managing this convergence of community's needs, the regular ecosystem, and likening business objectives as for how profoundly and how well they are incorporating corporate social responsibility methods into both strategy and every day operations around the world. An organisation cannot disregard the environmental problems of the communities in which it works. Thusly, there is a need to look at the effect of corporate social responsibility on company's profitability in Ghana. The idea of Corporate Social Responsibility (CSR) in its more grounded system, states that companies have a commitment to consider the concerns of clients, workers, shareholders, host communities and nations, and also the environmental impressions in all facets of their operational activities. Little (2006); Pérez and del Bosque (2014) kept up that corporate social responsibility activities can prompt developments through the utilization of social, ecosystems or sustainability drivers to make new social interventions.

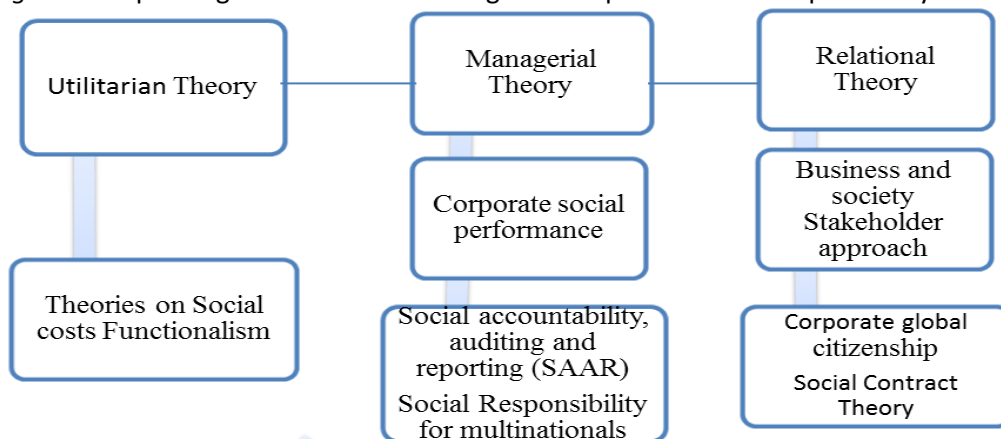
The subject of ecological and social responsibility shows up in various political and authoritative records and is picking up ever-more prominent significance at the global level (Henriques and Richardson, 2013; Higgins *et al.*, 2014). Today, corporate executives confront a dynamic and tough task in endeavoring to apply local community moral measures to liable business activities. Be that as it may, there is a lot of vagueness and instability about what corporate social responsibility truly means and what drives a business to seek after it. Whatever are the inspirations driving CSR hypotheses, it is likewise interpreted as the idea of triple bottom line ("People, Planet, Profit") which according to Henriques and Richardson, 2013 catches an extended range of qualities and criteria for measuring companies achievement; economic, ecological and social. Though business morals and corporate governance join to create the means to accomplish organizational superiority, the genuine test is the point at which this greatness is changed over into corporate sustainability and here, corporate social responsibility assumes a noteworthy role (Cohen and Bakker, 2014; Jušcius, and Snieška, 2015).

Different perspectives have been offered to clarify the significance or generally of corporate social responsibility (CSR) in business operations. As far as concerns them, neoclassical business analysts propel that the organizations ought to give their energies to providing products and services to their clients, they ought to minimize costs and increase profits; and this ought to, obviously, occur within the boundaries of the laws and standards/regulations of the domicile state (Blocker *et al.*, 2011; Marks, 2012; Carroll, 2013; Manuj, Omar & Pohlen, 2014; Martínez García de Leaniz, 2015). Surely, a few advocates of this perspective go similarly as to contend that CSR is not just an avoidance from the core business of creating wealth, subsequently serving to limit rivalry, but on the other hand is a financial (cost) burden on the company (Bai, and Chang, (2015). This research serves as an extra contribution to the current work of different authors that has talked about issues on corporate social responsibility, for example, Lima, *et al.*, (2011); Aguinis, and Glavas, (2012); Morgeson *et al.*, (2013); Homburg, *et al.*, (2013); Kim, *et al.*, (2014); Jušcius, and Snieška, (2015) and Jamali, *et al.*, (2015), as it goes further to analyze how different drivers that encompassing corporate social responsibility, how they influence companies' profitability and it will be helpful for administrators in settling on reasonable and budgetary decisions, business partners, governments' offices and some other intrigued bodies to grow their insight on the study subject. The central point of this study is to analyze the effect of corporate social responsibility on the profitability of companies in Ghana.

## 2. Literature Review

Since there is an incredible heterogeneity of theories and methodologies of corporate social responsibility, the paper discussion is taking into account a complete examination by Secchi (2007) and it is contrasted with analysis by Garriga and Mele (2004). Secchi has thought of a collection of theories in view of company's standard and host community. The theories are as per the following: The utilitarian theory, the managerial theory, and the relational theory.

Figure 1. Explaining the Theoretical Linkages of Corporate Social Responsibility Theories



Utilitarian, managerial and relational theories of CSR: Source: Secchi (2007:350)

### **2.1. Utilitarian Theory**

The old thought of *laissez faire* business offers approach to determinism, independence to public control, and individual moral responsibility to social responsibility. Utilitarian could likewise be brought synonymously with instrumental theories (Garriga and Mele, 2004; Harrison and Wicks, 2013) in which the firm is seen as just an instrument for creating wealth, and its social interventions are just the programmes to accomplish financial results. The utilitarian theories are identified with systems of strategies for winning market competition. The advocates of these theories are, for example, Porter and Kramer (2011) and Chiu *et al.*, (2014) who saw the theories as origins for conveying strategies in the dynamic utilization of natural assets of the company for winning market competition advantages. The systems additionally incorporate philanthropic strategies that are socially perceived as instruments for marketing purposes. Secchi (2007) further partitions the utilitarian cluster of theories into two, to be specific, 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. It is likewise called instrumental theories (Garriga and Mele, 2004) in light of the fact that it is comprehended that corporate social responsibility as a simple intends to the end, which prompts the way that the social force of the organisation is appeared particularly in its political correlation with the host community. The theories of utilitarian, in this manner, recommend that the firm needs to acknowledge social obligations and rights to partake in social co-operation (Harrison and Wicks, 2013). Inside of it, the theories of functionalist, particularly advocates that the firm is seen as a piece of the financial framework, which one of the objectives is to 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 (Chiu *et al.*, 2014).

### **2.2. Assumptions of the Theory**

The assumptions that oversee the theory are encompassed by moral proxy. Utilitarian accept that ethical operators dependably need to advance the best conceivable result seen from a fair-minded point of view (Harrison and Wicks, 2013; Chiu *et al.*, 2014). Accordingly, organizations are similarly committed to advance the joy of aggregate strangers, for instance poor Africans, and those firmly identified with the organization, for instance the workers. Utilitarian have by and large contended that helping the poor and hungry individuals, for instance, in Africa, as opposed to moderately well-off individuals, for instance, in Netherlands, appears to boost bliss as seen from an unprejudiced perspective, different things being equivalent (Sanderson, 2014).

### **2.3. Managerial Theory**

Secchi's (2007) examination further burdens the rationale of managerial theory that accentuates corporate administration in which corporate social responsibilities are drawn nearer by the corporate internal partners within the firm. This has the effect of difference in between utilitarian and managerial point of view of CSR. This recommends that everything outside to the firm is considered for hierarchical process of firm's choice of making decision. Managerial theories are likewise emphatically identified with political theories taking into account the conceptualization by Garriga and Mele (2004) and bolstered by Detomasi (2008) and additionally Hühn and Dierksmeier, (2015). They push that social responsibilities of organizations emerge from the measure of social power a company has and the firm is seen as being similar to a subject with certain inclusion in the society. The base of the political force of CSR is in light of Davis' (1960) thought who suggested that business is a social foundation and it must utilize control mindfully. It is additionally noticed that causes that produce the social force are from within and without of the firm.

### **2.4. Relational Theory**

Relational theory has the origin from the unpredictable company-environment relationships. The development of the theory was by Garriga and Mele's (2004) examination of stakeholder methodology which were then upheld by the work of Cuppen, Hisschemöller & Bergsma (2010), as the term infers, the two interrelations between them are the center of the investigation of corporate social responsibility. Results about the three gatherings of CSR theories are as per the following: Utilitarian is disentangled in its perspectives by the people and mechanical from the company viewpoint, managerial is exceptionally

hierarchical situated and quantifiable; and relational is qualities based and additionally associated between the company and host community (Chiu *et al.*, 2014; Sanderson, 2014).

This decision is further fortified by Hühn and Dierksmeier, (2015) not really far off conceptualization about CSR theories are clustered into instrumental, political, integrative and ethically based. Instrumental hypothesis is concentrating on accomplishing monetary goals through social performance; political concentrating on a liable utilization of business strategies in the political grounds; integrative focusing on drawing together administration issues, open responsibility, management of stakeholders and corporate social performance; and moral theory is underlining methodologies to accomplish a decent society. Then again Garriga and Mele investigated maps of corporate social responsibility into four sorts of areas. They are: Instrumental theories, Political theories, Integrative theories, and ethical theories. There is undoubtedly a few likenesses do exist in both conceptualizations of corporate social responsibility and the argument will be in light of accentuations and methodologies.

Table 1. Instrumental Theories – Focusing on achieving economic objectives through social activities

Approaches	Short description	Key references
Maximization of shareholder value Strategies for competitive advantages	Long-term value maximization Social investments in a competitive context	Friedman (1970), Jensen (2000) Porter and Kramer (2002)
Cause-related marketing	Strategies based on natural resource view of the firm and the dynamic capabilities of the firm Strategies of the bottom of the economic pyramid Altruistic activities socially recognized used as an instrument of marketing	Hart (1995), Litz (1996) Prahalad and Hammond (2002), Hart and Christensen (2002), Prahalad (2003) Varadarjan and Menon (1988), Murray and Montanari (1986)

Table 2. Political Theories – Focusing on a responsible use of business power in the political arena

Approaches	Short description	Key references
Corporate constitutionalism	Social responsibilities of businesses arise from the amount of social power that they have	Davis (1960,1967)
Integrative Social Contract Theory	Assumes that a social contract between business and society exists	Donaldson and Dunfee (1994,1999)
Corporate (or business) citizenship	The firm is understood as being like a citizen with certain involvement in the community	Wood and Logsdon (2002), Andriof and McIntosh (2001), Matten and Crane (2005)

Table 3. Integrative Theories – Focusing on the integration of social demands

Approaches	Short description	Key references
Issues management	Corporate processes of response to those social and political issues which may impact significantly upon it	Sethi (1975), Ackerman (1973), Jones (1980), Vogel (1986), Wartick and Mahon (1994)
Pubic responsibility	Law and the existing public policy process are taken as a reference for social performance	Preston and Post (1975 and 1981)
Stakeholder management	Balances the interests of the stakeholders of the firm	Mitchell et al. (1997), Agle and Mitchell (1999), Rowley (1997),
Corporate social performance	Searches for social legitimacy and processes to give appropriate responses to social issues	Carroll (1979), Wartick and Cochran (1985), Wood (1991), Swanson (1995)

Table 4. Ethical Theories – Focusing on the right thing to achieve a good society

Approaches	Short description	Key references
Stakeholder normative theory	Considers fiduciary duties towards stakeholders of the firm	Freeman (1984, 1994), Evan and Freeman (1988), Donaldson and Preston (1995), Freeman and Phillips (2002), Phillips et al. (2003)
Universal rights	Frameworks based on human rights, labor rights and respect for the environment	The Global Sullivan Principles (1999), UN Global Compact (1999)
Sustainable development	Aimed at achieving human development considering present and future generations	World Commission on Environment and Development (Brundtland Report) (1987), Gladwin and Kennelly (1995)
The common good	Oriented towards the common good of society	Alford and Naughton (2002), Melé (2002), Kaku (1997)

**Source:** Garriga and Mele (2004)

## 2.5. Corporate Social Responsibility

### 2.5.1. Conceptualization Issues

To complete corporate social responsibility, organizations reiterate their philosophies and values, both in their procedures and activities and in their communication with other social performers. Corporate social responsibility is by and large philanthropic in nature and alludes to practices that surpass a simple compliance with the governing law. The social and ecological responsibility of companies may mirror the changing desires of host communities (Pérez and del Bosque 2014). For instance, what companies consider advantageous practices today may get to be basic ones tomorrow? Furthermore, it is normal that diverse social performers intrigued in the operations of a certain companies will organize distinctive social and ecological demands, which may repudiate or contend each other at a particular time (Henriques and Richardson, 2013; Higgins, *et al.*, 2014). Corporate social responsibility carries some difficulties for companies, including the need to characterize their responsibilities concerning those of the general public division, focus the degree of their commitments in the supply network and resolve until what point later on they ought to envision and arrange for the results of their operations, particularly on account of natural asset utilization (Clay, 2005; Phillips and Caldwell, 2005). Logic in corporate social responsibility is crucial on the grounds that notwithstanding the numerous issues it can address, corporate social responsibility likewise has its cutoff points and cannot substitute for the part of government in authorizing laws and global labour standards. Corporate social responsibility as described by European Commission (2001) is an idea whereby organizations incorporate social and ecological concerns in their business activities and in their connection with their stakeholders in an altruistic manner, taking after progressively mindful that responsible conduct prompts sustainable business achievement. CSR- social interventions may incorporate voluntary commitments from foreign and local companies (Prakash and Potoski, 2011), for example, raising money, gifts and donations to communities where companies operate from and others like recovery of denied communities, recovery of neglected area and creating of new redevelopment for employment opportunities. Be that as it may, what cuts over various definitions that researchers have proposed on the idea of corporate social responsibility are the general convictions that, beyond the pursuit to maximize company profits, corporate institutions assume a critical part in tackling society's problems. In the study of (Pérez and del Bosque 2014). The principal thought of corporate social responsibility is that "it reflects both the social goals and the social effects of business achievement, and that responsibility as needs be falls upon the organization, however the exact appearance and direction of the obligation lies at the circumspection of the company. Such a description of corporate social responsibility makes it an obligatory practice in that, it accepts business that has an immediate responsibility to help in taking care of community's problems (Green and Pelozo, 2014).

We contend that, however the modalities of executing corporate social responsibility projects are at the decision of corporate institutions; it does not make CSR an uninhibitedly picked programme to

contribute towards social success. Hence, for Aristotle and succeeding advocates of the more extensive perspective of corporate social responsibility, for example, Byrne, (2014) the generally held tight perspective of corporate social responsibility that business is fundamentally concerned with profit making and amplification than social concern is doubtful. For Byrne, corporate institutions should have responsibility beyond just improving their profits on the grounds that they appreciate more prominent social and economic power in any community. The clear clash between corporate social responsibility and objectives of the company was seen ahead of schedule by the Nobel laureate Milton Friedman, who had proclaimed that any push to utilize corporate assets for simply philanthropic purposes would create socialism.

Truth is told; Friedman (2008) suggested that company law ought to be changed to dishearten corporate social responsibility. But over thirty years after Friedman made his statement, corporate social responsibility has turned into a business mode. Shockingly enough, experimental study has shown positive, unbiased and even negative effects of corporate social responsibility on economic performance. While corporate social responsibility cynics can clarify away the act of corporate social responsibility as an aftereffect of pressures from the communities, a clarification for the profit thought processes behind corporate social responsibility turns out to be much more important to clarify the origin of the community pressure.

#### *2.5.2. Firm's Profitability and Corporate Social Performance*

The link of the financial theories between the corporate social performance and company financial profitability are in light of equilibrium asset pricing models and on the efficient market hypothesis (Penman and Zhu, 2014). It forecasts three conceivable relations. One course of reasoning proposes an unbiased relation. It expects that the risk connected with compliance with Corporate Social Responsibility is not valued; accordingly all organizations that are for or against corporate social responsibility do comply with CSR, with similar expected returns for investors which serve as the cost on equity capital for the companies (Elbannan, 2014). This philosophy is in accordance with standard financial theory (risk return model) where just risk components are price by the market determinants.

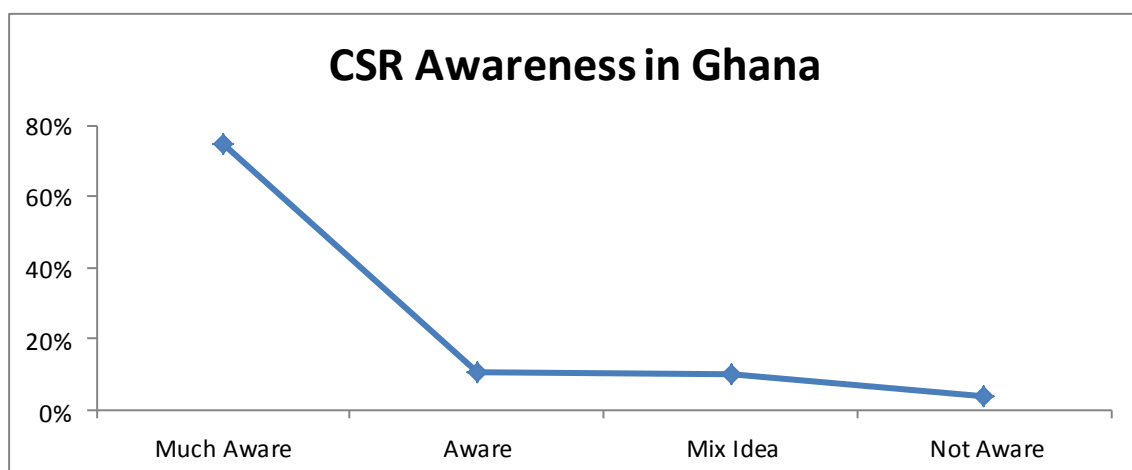
Then again, if the risk related to Corporate Social Responsibility compliance is (accurately) estimated by the market forces, the same risk return standard would suggest a negative connection between corporate social performance and financial performance. As set forward by Jia and Zhang, (2014), organizations which effectively represent the corporate social responsibility risk elements that are perceived as risk free ventures for investment - with respect to the organizations that overlook it. Thusly, on a risk-adjusted premise, their normal returns are anticipated to be lower. At last, the third view hypothesizes that the compliance with Corporate Social Responsibility standards is efficiently not priced by the participatory forces of market demand and supply. A positive connection takes after relying upon the indication of the inefficiency of the market. Case in point Arvidsson, (2014) contend that, if an adequately vast number of financial investors overestimate the likelihood that hostile occasions identified with corporate social responsibility issues may influence organizations not complying the corporate social responsibility standards, then their shares will give lower (higher) risk adjusted return than socially mindful organizations shares. Since the response to the inquiry whether the risk related to Corporate Social Responsibility issues is (accurately) valued by the market sector cannot be agreed on hypothetical grounds just, it is financial investors' view of the importance of the Corporate Social Responsibility rule that reckoning at last (Elbannan, 2014; Harjoto and Jo, 2015). On the off chance that investors accepted that organizations applying the Corporate Social Responsibility standards are waste of resources, they would focus a negative return premium for these organizations stocks. Actually, if corporate social responsibility conduct of organizations is in accordance with investors' convictions, they would focus a positive return premium for these organizations stocks (Harjoto and Jo, 2015). We turn now towards the observational statistical evidence. Envisioning, we can say that experimental analysis have fizzled so far to catch investors' convictions.

### 2.5.3. Development of CSR in Ghana

As to Ghana and its corporate social responsibility development, the country has been involved in several global human rights agreements. The Ghanaian government is one of the governments together with Kyrgyzstan, Azerbaijan and Nigeria, who have focused on the extractive sectors managed by UK standards (Ghana Chamber of Mines, 2009). Their Transparency Initiative, have focused on making their revenue from oil and gold mining known to the public. Stressing on the United Nations declarations to member countries, traditions and endeavors of constituents particularly the International Labor association, the ISO has proceeded with a procedure towards a blended method under the administration of both the Swedish Standard Institute and the Brazilian Association of Technical Standards (Ghana Chamber of Mines, 2012). This procedure has dynamic participation of Ghana where the National Chamber of commerce - committee on Social Responsibility is attempting to contribute towards the fulfillment of ISO26000 by 2014 (Ghana Chamber of Mines, 2012).

The main aim of objective is to make philanthropic commitments to social responsibility and will prompt basic direction on ideas, definition and routines for assessment. The Ghanaian government has likewise through its social interventional strategies set the connection by characterizing the private area as expressing that "the private segment will be required to end up more proactive in making gainful employment, upgrading profitability, and enhancing the personal satisfaction Julian and Ofori-Dankwa 2013. It is additionally anticipated that would be socially responsible, by putting resources into the corporate social responsibility investments in Ghana. Further a Global Compact system was authoritatively launched in Ghana- Accra where some Ghanaian firms have effectively marked on to the Global Compact. The Ghanaian gold mine companies are overwhelmed by multinational organizations (Atuguba and Dowuona-Hammond 2006). To make up for the states disappointments and to secure their own particular business conspiracies, the organizations regularly take part in corporate social responsibility. The historical backdrop of formalized corporate social responsibility in Ghana can be tailed back to the corporate social responsibility behaviors in the gold mine multinational companies with the concentrated on helping the impacts of their extraction operations on the society. The organizations provide social interventions to the host communities. In response to the lukewarm government interest in CSR and a shriller governmental prominence on fiscal development, Atuguba and Dowuona-Hammond (2006: 11) cautioned the GIPC that the conditions for determining Ghana Club 100 (the first 100 best performing companies for the year) must include, obviously, a detailed section on CSR (Julian and Ofori-Dankwa 2013). The question then is the companies as well as the host communities know their responsibilities in the society?

Figure 2. Corporate Social Responsibility levels of Awareness



Source: Field Survey, 2015

The researchers wanted to find out the awareness level of respondents to CSR activities. From the analysis, the researchers found out that, majority of the respondents, thus 73% were much aware of CSR activities; this was followed by 11% of the respondents who indicated that, they were aware of some

companies that embark on CSR activities. Surprisingly, 10% of the respondents were indecisive and could not take a stand as to whether Ghanaian companies are socially responsible for their activities as far as they are concerned, whilst 4% had no idea about the companies' strategies of giving back to society.

The study uncovered that there is more accentuation on societal inclusion Yiranbon *et al.* (2014b), less on socially responsible worker relations and none with respect to socially responsible service and procedures (Marfo *et al.*, 2014). Dissimilar to different countries, the Ghanaian service consumer is not as enabled and is simply starting to have the fundamental security of products certified by the Food and Drug Board (FDA), and the Standards Board (SB) to indicate corporate bodies responsible for producing the commodity for human consumption. In the case of Environmental protection, before oil, gold mining and produce from Cocoa was the economic backbone in Ghana. At the point when economic resource got to be accessible from oil and with no fair distribution of development from the oil and gold revenues, industrialization development centered in the big cities with neglect of the rural people led to the unguided urbanization which prompted degradation of cities environment. This unguided movement of people to the cities (Accra, Takoradi and Kumasi) of the central seat of government led these cities forcibly hold populations they do not have the capacity. The end result of disrespecting the environment was the recent national flood disaster in the country Capital-Accra killing 150 people as result of people sheltering themselves in water ways. At the other point when mistakenly dangerous wastes (from cyanide) occurred in Newmont Ghana, in 2013 found its way into a nearby river, killing some fishes, the Ghanaian Government through the Environmental Protection Agency (EPA) proclaimed the Harmful Wastes laws. This declaration gives a legitimate structure to control transfer of lethal and unsafe waste in any environment inside Ghana. After these two incidents that happened in Ghana, Accra Metropolitan Assembly (AMA) and Environmental Protection Agency (EPA) respectively were accused of being irresponsible for ensuring that Ghanaian environment are safe and respected (Atuguba and Dowuona-Hammond 2006).

The essential legislation concerning environmental laws of 1992 constitution which has Environmental Effect Assessments (EEA) obligatory for both private and public sectors for all projects meant for development. Despite the fact that progress is made, (Henriques and Richardson, 2013; Higgins, *et al.*, 2014), add that when inspecting the different statutes, the agenda for the EEA process, and the whole environmental controlling procedure, it uncovers that huge numbers of the statutes are not living up to expectations as indicated by goals. The researchers stipulate that there is a repetition of the capacities in the procedures which brings about genuine bottlenecks and bureaucratic perplexity in the environmental procedure in Ghana. From the above, the summary indicates that, there are certain patterns with various national activities in regards to corporate administration and environmental activities. In the meantime, regardless it is by all accounts bureaucratic and institutional deterrents for the powerful usage of a considerable lot of these activities.

## 2.6. Financial Performance

According to Margolis and Walsh (2001), from the 1971-2001 there were one hundred and twenty-two published studies made on the empirical examination of the relationship between CSR and financial performance. Never in the year had 1971 published the first empirical study on the relationships between financial performance and CSR basically in two types:

First and foremost, the *event study* methodology was used to analyze the short-run financial performance impact (abnormal returns) if companies are engaging in either CSR or not responsible for their actions. There have been mixed results from the above studies deduced by many scholars. Posnikoff (1997) testified a positive relationship; Wright and Ferris (1997) reported a negative relationship; while Welch and Wazzan (1999) bared no relationship between CSR and financial performance. Moreover, the argument in McWilliams and Siegel (2000); Cai *et al.*, (2015), do not clearly exhibit an impact concerning the relationship between short run financial returns and CSR.

The second type of the study also scans relationship between some corporate social responsibility and the long term financial performance measures by the use financial or accounting analysis of profits. Mixed results have also been produced from the study of the relationship between CSR and the measurement of accounting based performance. A positive correlation was reported by Cochran and Wood (1984), between social responsibility and accounting performance after adjusting the assets of the firm



ages into the analysis. There was no significant relationship between firms risk adjusted return on assets and its CSR as was discovered in the study of (Aupperle, Carroll, and Hatfield 1985). In contrast, it was then found in the work of Waddock and Graves (1997) a strong positive relationship between the performance measures and the index of CSR with a test case of applying return on assets (ROA) in the following year's analysis. There are also symptoms of diverse results for measures of returns if stock market information is applied for the study. Vance in his 1975 research refuted Moskowitz earlier results of indicating a negative CSR/CFP relationship by extending his time frame of the study from six months to three years which yielded a contradictory result to Moskowitz's. However, Alexander and Buchholz (1978) also worked on Vance's research by analyzing and evaluating similar companies through their stock performance in the market on the basis of risk adjustments to spring in an inconclusive result.

### **2.7. Measures of Financial Performance**

Although it appears financial performance measurement is painstaking as a simple task, but also has its own complications. In this situation, there are also a little consensus build up about which instrument desirable to be applied for the measurement. Market measures are what many scholars use (Cheng, Ioannou and Serafeim, (2014); Xu, Liu & Huang, (2015), others also adapt to accounting measures Luo *et al.*, (2015); Cheng, Ioannou and Serafeim, (2014) and some put up for both of these (Sahut *et al.*, (2014). There are two measures, representing different perspectives for firm's financial performance evaluation; which also have diverse theoretical implication (Hillman and Keim, 2001), and each of the two subjects is to particular biases (Inoue and Lee, 2011). The different measures that are often used create unnecessary complications in the comparison of different studies outcomes.

On the other hand, the aspects of company performance that deals with accounting measures only deals with historical information (Inoue and Lee, 2011; Luo *et al.*, 2015). In this accounting measure, in addition are prone to managerial manipulation bias and changes in accounting procedure (Kim, Park and Wier, 2012; Inoue and Lee, 2011; Elliott *et al.*, (2013). Market measures look into future and therefore focus on the market performance trend. The effects of different accounting procedures make these accounting measures represent the investors' ability to evaluate the firms future economic earnings generations (Jayachandran, Kalaignanam and Eilert, 2013; Kim *et al.*, (2014). In other words, the performance that is assessed by the stock-market-based measures also produced obstacles in the process (Cheng, Ioannou and Serafeim, 2014; Luo *et al.*, 2015). According to Ullmann (1985), once an investor can use the market measures to evaluate the firm's performance to make informed decisions, then it presupposes that the firm performance is proper (Jayachandran, Kalaignanam and Eilert, 2013).

## **3. Methodology of research**

### **3.1. Sources of Data**

This study depends basically on primary and secondary data, (Yiranbon *et al.*, 2014a) which was gotten from the sixteen (16) chosen profitable companies, some on the Ghanaian Stock Exchange (GSE) and the companies' websites. These companies are chosen for the study because they are adjudged the leading practitioners of CSR for the year 2014. Their yearly reports and consolidated financial statements for the period of "2005-2014" thus ten (10) years period are used to extract data. The chosen companies for this year CSR awardees are; "MTN Ghana, Huawei Technologies, Stanbic Ghana, Fan Milk Ghana, Nestle Ghana, McDan Shipping, Melcom Group, Wire Weaving Industries, All Pure Nature, Latex Foam, New Crystal Hospital, Golden Sunbeam Schools, Mohinani Group, Olam Ghana, Interplast, Tech Need Girls (an ICT project for underprivileged female teenagers)" ([www.modernghana.com](http://www.modernghana.com)).

### **3.2. Measures of Corporate Social Responsibility**

The lack of consensus of measurement methodology for connecting the determinants of how social and financial performance relate to the corporate social responsibility bring about a further complications to the study. In many cases of surveying business students, subjective indicators are employed for the study (Dawkins *et al.*, (2014), or Fortune rankings (Smith and Alexander, (2013); Bhattacharya and Managi, (2013); Singhapakdi *et al.*, (2015), or even the business faculty members (Murphy, Sharma and Moon, 2012). These indicators are not significantly clear as to exactly what it measures. In most often, academics

and the users of such data employ official corporate disclosures such as corporate annual reports to shareholders and CSR reports which has become mandatory requirement by the stock market (Hahn and Kühnen, 2013; Ioannou and Serafeim, 2014). In spite of the reputation of the source of this information, it is still arguable to depend on this for empirical analysis as data on the social responsibility report from these companies may either be over or under stated. For reliability purposes some companies verify their CSR report in external institutions beyond their control.

The corporate social responsibility information did generate the platform to question issues about impression management and subjective bias. Some other studies still use survey instrument Baumgartner, (2014) or perceptual and behavioral measures (Men and Tsai, 2014). The Kinder Lydenberg Domini (KLD) rating system was used to rate the S&P500 companies by CSR attributes considered to be relevant (Griffin, Bryant and Koerber, 2014). KLD uses surveys combinations such as: articles on companies in the popular press, academic journals (especially Business ethics and environment journals), financial statements and government reports in order to assess CSR alongside eleven dimensions. Based on this information, the Domini 400 Social Index (DSI 400) was constructed by KLD, the equivalent function of the Standard and Poors 500 Index, for companies that are performing CSR (de Souza Cunha and Samanez, 2013). Sources of information from these institutions can therefore be classified as reliable due to their corporate reputational standard set for global researchers (Pérez and Del Bosque, 2013).

### 3.3. Model Design

This study reviews the driving dynamics of Corporate Social Responsibility on the Profitability of some listed companies in Ghana; the study uses econometric methods in figuring a regression model which would be investigated through the utilization of the ordinary least square regression (OLS). From the study of Chin-Huang, Ho-Li, and Dian-Yan, (2009) titled *“The impact of corporate social responsibility on financial performance: Evidence from business in Taiwan”*. The researchers’ methodology for this study was to examine the selected companies’ cases between 2002 and 2004, they examined 1000 Taiwanese cases in which organisations include their R&D expenditures as one of their systems strategies for sustainable development; In addition, they also identify their altruistic expenditures as contributions to CSR. Taking into account hypothetical empirical and exact proof in the writing, they recognized a positive relationship between CSR and financial related performances. At the point when the model is legitimately indicated, they found that while CSR does not have much positive effect on the short-term economic related performance, it does offer a wonderful long-term fiscal favorable position. In our panel of firms, we utilize a pooled OLS from Chin-Huang, Ho-Li, and Dian-Yan, (2009) studies to regress our assessments through the accompanying mathematical equation below:

$$R_{i,t} = a_i + \beta_1 Rm + \varepsilon_{i,t} \quad (1)$$

The researchers make utilization of regression, correlation, and analysis of variance (ANOVA) to dissect the relationship between the two variables. The above model would be embraced and adjusted for this study. Hence, this study introduces the model below;

$$P = f(X_1) \quad (2)$$

$$P = \beta_0 + \beta_1 x_1 \quad (3)$$

$$PAT = \beta_0 + \beta_1 CSR + r \quad (4)$$

Where:

*PAT* Profit after Tax to proxy profitability as dependent variable;

*CSR* Corporate Social Responsibility of the selected organization;

$\beta_0 + \beta_1$  Parameter of the Estimate;

*r* Error proportion.

### 3.4. Method of Data Analysis

For the resolution of this research ordinary least square (OLS) methodology is adopted, this is on account of the parameter estimate acquired by the OLS is engaged in light of the fact that its computational methodology is genuinely straightforward and the data prerequisite are not very concessive. Criteria for decision making will be the validity of this investigation accompanying the study. Standard error test will demonstrate that the evaluations are exact just on the off chance that they are less than half (50%) of the coefficient. The  $t$  test is done in other to determine the significant of the parameters. The understudy  $t$  distribution will test the invalid theory (null hypothesis)  $H_0 = \beta_1 = 0$  as against the other alternative hypothesis of the result,  $H_0 = \beta_1 \neq 0$ . Accordingly, we can determine the outcome whether the figured  $t$  value,  $t$  ( $n-k$ ) level of freedom at 50% level of critical (significant) is less or more than the significant  $t$  value from the table 6. In the event that the computed  $t$  is more noteworthy than the significant  $t$ , we dismiss the  $H_0$  and accept the other hypothesis that beta assessment is critically not the same as zero. The  $R^2$  coefficient of determination uncovers the rate/extent variable in the reliant variable that is clarified by the independent variable(s). From the analysis the greatest value is either 1 or 100%. Moreover, the  $f$  test uncovers the significant of the general regression equation for further expectation. This test, at  $(k-1)$  ( $n-k$ ) degree and  $n$  is the quantity of perception and at 5% level of significant will demonstrate regardless of whether the normal variable(s) is prone to have happened by chance or not. The decision tenet is that if figured  $f$  is more than rudimentary  $f$  (from the table) acknowledge the question as significant and reliable for forecast policy formulation purposes i.e.  $H_0 = 1 = 0$ . On the off chance, If the critical  $f$  is more than the figured  $f$ , acknowledge the equation as significant but not reliable i.e.  $H_0 = \neq 0$  Durbin Watson's presence of the autocorrelation is confidently tested by the empowerment of this theory in the distributed terms.

The hypotheses are:

$H_0: \beta_1 = 0$  No correlation

$H_0: \beta_1 \neq 0$  auto correlation

### 3.5. Regression Co-Efficient

These give the value and hint appended to each of the parameters. The signs are significant, on the grounds that they permit us to see whether our outcome affirms to the hypothesis or not. On the off chance that a positive relationship is normal between a dependent variable, and then the indication of the regression coefficient is relied upon to be positive, the same scenario is applicable to the negative relationship.

Table 5. Showing Average of Profit After Tax and Investment in Corporate Social Responsibility of Sixteen Selected Firms in Ghana

Year	Profit After Tax (GH¢)	Investment in CSR (GH¢)
2014	493, 607,431.77	10,859,363.50
2013	427, 102,311.63	10, 250,455.48
2012	510, 651,000.23	11,744,973.01
2011	483, 983,170.74	9,679,663.42
2010	364, 554,118.18	9,113,852.96
2009	348, 770,342.14	13,253,273.13
2008	321,643,441.34	9, 327,659.80
2007	335,567,990.55	10,402,607.71
2006	284,786,992.45	9, 967,544.74
2005	219,567,897.73	9,221,851.71

Source: Researcher Computation(2015)

Table 6. Data Analysis

**Dependent Variable: PAT**  
**Method: Least Squares**  
**Included observations: 16**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	-0.167324	0.78534	-0.2167567	0.8186
C	14943116	4946862.	3.049637	0.0147

**R-squared = 0.619018 (62%) Adjusted R-squared = 0.585163**  
**Durbin-Watson stat = 0.636759 F-statistic = 23.903375**

**Source:** E-View Output Analysis

#### 4. Discussion of Results

From the analysis indicated above clarifies the link between corporate social responsibility and companies' profitability in Ghana. The table 6 uncovered that the financial commitments focused on social responsibility shift from one firm to the next. The data further disclosed that all the sample companies contributed below ten percent of their yearly profit after tax to their social responsibility investment portfolio. Nonetheless, the analysis of the E-view results shown above portrays that, the negative relationship of (-0.167324) exists between companies' performance standards with profit after tax (PAT) and corporate social responsibility investments (CSRI) by the companies. The determination co-efficient of the outcome gives 0.619018 (61.9%), this portrays that the illustrative variable record for around 61.9% progressions or varieties in the chosen companies performance, thus profit after tax (PAT) are created by different behaviour in corporate social responsibility (CSR) in Ghana. The test of autocorrelation demonstrates that there is no sequential regressed model for autocorrelation under the study in light of the fact that the value attained gives 0.636759 (63.7%) which falls beneath the scope of autocorrelation. This infers that, the gradient of the estimate is as from the earlier expectations, which demonstrates that there is opposite relationship between the two variables (PAT and CSR). This suggests that, the more the profit earned by the companies in Ghana, the less they contribute resources into corporate social responsibility programmes.

This proposes that, these companies survival and capacity to make profit over the long haul could be undermined as different stakeholders especially the host society could undermine their presence. This outcome acclimates with confirmation from Lopez, Garcia, and Rodriguez, (2007), did their study in light of the Dow Jones Sustainability Index. The study utilizes aggregate cases of 110 organizations from the time of 1998 to 2004 and dissected their significant accounting indicators. The published accounting information for the selected companies was compiled for their study. They found out that there was a negative link between the financial performance indicators and the corporate social responsibilities. This also strengthened by the study of Julian and Ofori-Dankwa (2013); '*Financial Resource Availability And corporate Social Responsibility Expenditures in a Sub-Saharan Economy: The Institutional Difference Hypothesis*'. They found out with regarding to return on sales, all three regression coefficients are negative and significant, all at  $p=0.01$  level or better and two at the  $p=0.001$  level. Companies with higher return on sales evidently committed a lower amount to CSR investments, in spite of their readier access to financial resources. This provides strong support for their hypothesis that availability of greater financial resource leads to less CSR in sub-Saharan firms.

#### 5. Concluding Remarks and Policy Recommendations

The results from the above stated analysis demonstrates that the sum of money invested on social responsibility fluctuate from one organization to the next. The information further uncovered that all the selected companies contributed below ten percent of their yearly profit to social responsibility. Notwithstanding, the statistical analysis above portrays that negative relationship exists between profit

after tax for the company's performance measure for the years under the study with companies investments in social responsibility thus (PAT/CSRI), Which demonstrates that the two variables (PAT and CSR) are inversely related. The determinant co-efficient of the obtained outcome indicate = 0.619018 (61.9%), this portrays that the informative variable record for around 61.9% progressions or varieties in chosen companies performances (PAT) are brought on by differences in corporate social responsibility (CSR) in Ghana. Autocorrelation test demonstrates that there is no sequential autocorrelation for the regressed model under this research on the grounds that the value gotten gives = 0.636759 which falls underneath the scope of autocorrelation.

### **5.1. Concluding Remarks**

Organizations face difficulties and limitations as they actualize CSR. These normally relate either to political issues or to individual firms' level concerns and are frequently connected in organizational cultures. The intricacy of working in a worldwide (in different States) puts different demands on the companies' managers and their initiative programmes. This research posits that profitable firms in Ghana do not contribute much in corporate social responsibility and this has predisposition to hamper their long term existence in the host communities.

### **5.2. Policy Recommendations**

However, in Ghana social responsibility is empowered in accomplishing more greater company's performance, yet firms in the country have not by any stretch of the imagination occupied with CSR which have suggestions for the survival of these companies. This paper subsequently offers the accompanying policy recommendations on how companies can enhance their CSR to guarantee more and better sustainable financial performance. In Ghana there are neither 'hardly any laws that directly require corporations to be socially responsible' nor until 2006 did a complete CSR document exist (Atuguba and Dowuona-Hammond 2006: 10). Prior to the 2006 launch of the Ghana Business Code, there existed no official setting of standards, norms and opportunities for organisations social involvement, and even then signing up for CSR was strictly voluntary.

A framework for policy formulation ought to be outline for corporate social responsibility in Ghana by the CSR policy maker's agencies and guarantee compliance by establishing mechanisms for CSR implementations. Companies in Ghana especially the profitable ones ought to give more prominent need to CSR. This tends to help them to survive and keep up their profitability. There should be much consideration to embrace the practice of social accounting and firms' social costs in Ghanaian business environment. As far as administration in CSR, more community investment ought to be joined by going beyond compliance perspectives. In the endeavor by the Ghana Stock Exchange to tell the entire host communities of its members' commitment to corporate social responsibility, it must do well not add on expense components which are not for the most part acknowledged as corporate social responsibility. There ought to be an arrangement for the MNCs to get their supply of products and administrations from the societies within which they work if accessible. Without the accessibility, then the law permits them to fall back on outside supply from different parts of the nation before going for international source.

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