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Investigating Corporate Social Responsibility on Financial Performance in the Telecommunication Industry: MTN - Ghana Perspective

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Abstract

The study examined the impact of corporate social responsibility on financial performance (FP), using the experience of MTN Ghana Limited, in the telecommunications industry. This study was particularly used to enable managers in MTN Ghana's telecommunications industry to achieve their social responsibility. A quantitative research approach was adopted. The study considered the Graphic Road branch of MTN Ghana which has a population size of 715 employees with a sample size of one hundred and forty-three (143) employees was used for the study. Both primary and secondary data were used. The data was collected from the company's annual report. The sample of five years' data (2015 to 2019) of MTN Ghana were used. Statistical Product and Service Solutions (SPSS Version, 21) was used to code and analysed the questionnaires and secondary data that were obtain. Descriptive statistics such as frequency distribution tables, means, and standard deviation for descriptive studies, percentages, pie charts and bar charts were used to present the responds obtained from the respondents. Finding from the data analysed indicated a positive effect of corporate social responsibility on Return on Equity (ROE). It was further observed that corporate social responsibility (CSR) had a statistically significant effect on Return on Assets (ROA).

Keywords

Corporate Social Responsibility, Financial Performance, MTN Ghana, Telecommunication Industry, Return on Assets (ROA), Return on Equity (ROE)

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1. Introduction

Corporate Social Responsibility (CSR) has become an integral part of the nation's development as well as the business agenda in developing economies such as Ghana. CSRM in Ghana has argued that profit maximization should not be the only objective organizations but also put the communities in which they operate into consideration. The government of Ghana has been supportive in creating favourable business climate for the growing volume of investments. CSR complements the overall functions of organizations in Ghana in building corporate image as well as promoting socio-economic development [38].

While previous studies were conducted on the impact of CSR on Financial Performance, not much have been done in the telecommunication industry [26, 21]. Most researches are being focused on the developed countries and this have created a research gap. MTN Ghana is one of the best and fastest-growing telecommunication companies in Ghana. According to Fuzi, Habidin, & Ong, Jensen, [14, 23], since the period of digitalization, the growing number of users could be vital factor in CSR and financial performance.

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Therefore, this research seeks to address the impact of CSR on financial performance in other to improve upon empirical literature in the telecommunication industry.

In Ghana, the Telecommunication industry is key to the development of the nation and their performance can have a positive or negative effect on the country. The players in the industry are becoming aware to the fact that competition is the guarantee of the contemporary business environment and therefore there is a demand to provide benefits to the community in the short and long run [36]. CSR is an engagement of a business to eliminating or minimizing any harmful influence and as well as maximizing its long-term beneficial impact on community [16].

According to Adu, Muah, Asiedu, Pobbi, and Gidisu [1], "Airtel-Tigo Ghana Limited, Vodafone Ghana and Scancom Ghana Limited (Ghana Limited), has become a leading telecommunications company in Ghana with a general tendency to increase CSR commitments." (p.2). The matter in which companies involve themselves in corporate social responsibility have an impact on their financial performance. This has raises views on the effect of corporate social responsibility CSR on financial performance of firms in the telecommunication industry.

Mensah, Agyapong and Nuertey [30] ascertained the impact of corporate social responsibility on the engagement of rural and community banking employees in Ghana. Although the study was done in Ghana, the focus was on the banking industry as compared to the current study. This paper therefore seeks to find the relationship between the corporate social responsibility (CSR) and financial performance and a well as give recommendations on the way forward.

2. Literature

2.1. Conceptual Definitions

2.1.1. Corporate Social Responsibility

Matten and Moon [29] claims that the idea of corporate social responsibility is one of the most controversial concepts; in terms of literature, there was no consensus. As a result, different definitions of the same concept in the literature are uncommon [37]. Carroll [4] described corporate social responsibility as "the economic, legal, ethical, and discretionary expectations that society has on organizations at any given time."

The European Commission [11], on the contrary, defined corporate social responsibility as a "concept whereby companies integrate social and environmental concerns in their business operations and in their voluntary interaction with their stakeholders" (p. 366). Mujahid and Abdullah [34] defined CSR as "the evolving organizational commitment to work for the betterment of the organization's workforce in order to attain ethical values as well as to improve the overall performance of the organization, which can also contribute to the country's economic development" (p.181). As a result, firm operations must be conducted in an ethical, environmentally friendly, customer-oriented, and legally acceptable manner [37]. Based on the performance of these practices, businesses not only make a favorable impression on interested parties, but also on the economy as a whole [35]. This means that these practices must have an impact on stakeholders such as suppliers, banks, lenders, the general public, and all other affiliated parties, as well as create a positive image of the company.

2.1.2. Dimension for Corporate Social Responsibility

According to Dablsrud, Mumtaz and Pirzada [8, 35] there are five distinct dimensions of CSR. There are stakeholders, including social, economic, voluntary and environmental aspects.

2.1.3. Stakeholder Dimension

Stakeholder dimension is very vital as perspective of socially responsible corporations (Mumtaz & Pirzada, 2014). Firms must interact with their stakeholders, protect their interest and give them both monetary and non-monetary benefit.

2.1.4. Social Dimension

Organizations must participate in activities that support the community or the environment in which they work or in the best interest of the community.

2.1.5. Economic Dimension

Organizations should carry out activities that enhance economic growth and stable nations. It is the responsibility of organizations to make good use or the effective use of state resources as well as the rules established by the state function accordingly.

2.1.6. Voluntariness Dimension

Organizations are to partake in activities which are not enforceable by law. Such activities comprise ethical practices for the wellbeing of the society and rehabilitation of disaster victims which are above the legal obligations.

2.1.7. Environment Dimension

Organizations working in remote areas far from population are included in the environment dimension. Organizations must establish industries and factories waste disposal plants in order to manage waste, control noise, and prevent people from reacting.

2.2. Financial Performance (FP)

According to Hashim, Ries and Huai [19], FP is defined as a "positive representation of business and economic success of a corporate" (p.896). They further explained FP to be a "complex measurement" which is affected by various financial activities such as economy landscape, accounting standard, audit and even the marketing a new product. In overall, the performance of a business is mostly measured from two perspectives which are financial and non-financial, and majority of scholars tried to measure performance based on both standpoints [39]. Prieto and Revilla [39] in their study indicated that it is ambiguous to use financial performance to measure in an organization since it is easily affected by other factors, hence a quantitative approach such as return of assets (ROA), cost of goods sold, profitability and other several parameters were used by researchers along with employee and customer satisfaction, reputability of operation and quality of product evaluated from a non-financial point of view. Solakoglu and Demir [43] also they further conducted their analysis by using ROE and ROA as parameters in determining the financial position of the company. Simply put, ROA and ROE are widely used as indicators for FP, and hence, this study will use such indicators in determining the FP of the company.

2.2.1. Return on Assets

According to Gunadi & Kesuma, [17], Putra & Kindangen, [40], the higher the company's earnings, the more investment it will draw. Negative asset returns cannot raise share returns because the lower the asset returns, the lower the amount held by the shareholder will take advantage so that the profit of the company cannot increase. Firli and Akbar,[12], were of the view that Return on Asset "measures overall effectiveness of management of generating profits with its available assets" (p.108). Formula for calculating Return on Asset is earning after tax divided by total assets [22].

$$ROA = Earning\ After\ Tax \div \text{Total Asset}$$

If the ROA score is high, it indicates that management is generating higher profits with the firm's total assets [12]. According to them, research showed that many variables have a positive relationship with ROA, and one of these variables is CSR. In Chetty's [3] and Hirigoyen and Rehm's [20] studies, there was a negative relationship between Corporate Social Relationship and Return On Asset.

2.2.2. CSR and Firm Performance Relationship

According to Nyeadi, Ibrahim, and Sare [37], the "theoretical linkage between CSR and financial performance of firms is mixed" (p.304). According to them, while many argue that CSR improves the FP of organizations, others disagree, believing that CSR actually decreases the FP of organizations. Organizations can include CSR as a strategic investment as well as a management tool in their overall corporate strategy [13]. According to Barnett and Choongo [2, 7], it is perceived that when stakeholders' interests are satisfied and organizations are held accountable to them, it has a positive impact on the organization's FP. Carroll and Shabana [5] cite a number of explanations for the positive effect of CSR on FP, including increased competitive advantage, development of reputation and legitimacy, cost and risk reduction, and the ability to achieve win-win results by means of synergistic value creation.

According to the studies of Longo, Mura, and Bonoli [28] and Torugsa, O'Donohue, and Hecker [46], SMEs can make proactive progress toward CSR initiatives while improving their FP. CSR has a negative impact on FP in emerging economies, according to Lee and Jung [27] and Choongo [7], due to low stakeholder engagement. Studies by Elouidani and Zoubir [10] and Gatsi, *et al* [15], on the other hand, show that organizations that perform better in terms of CSR perform poorly or poorly in financial aspects, indicating an inverse relationship between CSR and FP of organizations.

2.3. Theoretical Framework

Hashim, Ries, and Huia [19] previous researchers employed a number of methods that are inconsistent in some respects to correlate with CSR theories and so it is not ideal in any one case. The four key reasons for the relationship between CSR and FP include Ethic theory, shareholder/stakeholder theory, signalling theory and legitimacy theory.

2.3.1. Stakeholder Theory

Since the early 1970s, the theory of stakeholders, also known as the philosophy of CSR, is characterized as the set of activities, policies, legal standards, principles, environmental awards as well as the commitment of an entity to contribute to sustainable development [24]. According to Kusumadilaga [25], the stakeholder theory is predicated on the assumption that value is explicitly incorporated into organizational activities. Any organization that engages in CSR must first and foremost satisfy its stakeholders. When CSR is done correctly, the performance of the organization improves [24]. This is due to the trust that stakeholders have in such a CSR organization, as well as the fact that it is an organization that genuinely cares about the environmental and social problems that exist. According to Nyeadi, Ibrahim, and Sare [37], proponents of the stakeholder theory "believe that for any firm to thrive well and be profitable, it must balance its attention to all of its stakeholders, which are the shareholders, employees, consumers, community, and suppliers" (p.302). This implies that the organization will be able to retain and attract the best workforce. According to Mishra and Suar [33] in Nyeadi, Ibrahim and Sare [37], positive perception and image is created by the investors, community and the employees for the company's products.

According to Ejlersen [9], businesses have four levels of responsibilities to achieve excellence in corporate stewardship. The four levels are as follows.

Economic Responsibility (Be Profitable): Every business exists to maximize profit and shareholder wealth, or to maximize returns to shareholders. Businesses that are profitable give back to society by providing jobs for employees and producing goods and services that satisfy customers.

Legal Responsibility (Obey the law): As a business moves to the next level of Corporate Social Responsibility, it has to comply with the legislation to fulfil the law. There is a legal framework that governs and regulates business operations all over the world. In Ghana, the company code and other parliamentary enactments govern the conduct of businesses in the country.

Ethical Responsibility (*Be ethical):* Next in the tier, a business not only required to follow the law, but also to do what is ethically and morally right, which is referred to as ethical responsibility. Business decision makers should apply fairness, equality, and respect to achieve desired organizational goals.

Philanthropic/Discretionary Responsibility (*Be a good corporate citizen):* At the highest level of the CSR Pyramid, a company returns to society through philanthropic donations, called philanthropic accountability. Discretionary duties are voluntary and are not necessary in terms of funding, law or morality

2.3.2. Signalling Theory

Organizations undertake activities which do affect stakeholders, such activities to the stakeholders' attention and interest, particularly investors and future investors. Therefore, the organizations are obligated to provide information (report) to its stakeholders [24]. The report to be disclosed by the organization consists of its financial statements. However, organizations are allowed to disclose their additional reports such as annual reports, awards received and the organization's CSR activities.

2.3.3. Theory of Legitimacy

Legitimacy was defined by Qureshi et al [41], Kamatra and Kartikaningdyah [24] as the presumption or interpretation of the desired, suitable or socially established set of values, norms, beliefs, and meanings for an organization.

2.4. Empirical Studies

Kamatra and Kartikaningdyah [24] investigated the impact of CSR on financial performance. During the period 2009-2012, the population size was made up of mining companies and basic chemical industries that were listed on the Indonesia stock exchange. In this study, the sample size was 24 companies, and the purposive sampling technique was used. According to the findings of this study, CSR has no significant impact on ROE or earnings per share. Although the financial performance variables (ROA and ROE) were used in the study, the industry was not the telecommunications industry. In addition, the study was conducted in Indonesia, as opposed to the current study, which is being conducted in Ghana. This has resulted in a contextual gap, which the current study aims to fill.

Mujahid and Abdullah [34] conducted another study on the effect of corporate social responsibility on shareholder wealth and firm financial performance. Secondary data was gathered by analyzing financial data from 2011 for firms. A sample size of 20 was used, with 10 corporate social responsibility firms and 10 non-corporate social responsibility firms participating. The results show a significant positive relationship between Corporate Social Responsibility and ROA. Although the financial performance variables (ROA and ROE) were used in the study, it was also conducted in Pakistan, as opposed to the current study in Ghana.

Nyeadi, Ibrahim, and Sare [37] used panel corrected standard errors to estimate the effect of CSR on firm financial performance in their study to investigate empirically the impact of CSR on financial performance in South African listed firms. The sample size for this study was 56 businesses. According to the findings, CSR has a strong positive impact on firm financial performance in South Africa, with the positive impact being greater in large firms. The previous study was conducted in South Africa; however, the current study is being conducted in Ghana, which will provide a different environmental condition than South Africa.

In a related study Chebet and Muturi[6] studied the effect of CSR on corporate performance. This study's sample size was 132 people, drawn from a target population of 200 people. Descriptive statistics were used in the study, and a multiple regression analysis was performed as well. According to the findings of the study, CSR activities in businesses cannot exist in isolation from other aspects of the business. Although the study used the same CSR variables (philanthropic, ethical, economic, and legal), it also focused on Sony and Chemelil sugar factories (production industry) in Kenya, which differs from the telecommunications industry.

Mensah, Agyapong, and Nuertey [30] conducted additional study on the effect of corporate social responsibility on customer behaviour. The primary data were collected using a self-reported questionnaire. A total of 145 employees from 50 Rural and Community Banks (RCBs) in Ghana were interviewed. The findings indicate a strong positive relationship between corporate social responsibility participation and employee commitment. The research was carried out in the banking sector, rather than the telecommunications industry, as is the case with this current study. Despite taking into account the Ghanaian context, the study only considered one of the three theories: the stakeholders' theory (stakeholder, signaling and legitimacy). Furthermore, Škare, M., & Golja, [44] discovered that a greater proportion of socially responsible firms in an economy is associated with higher economic growth. As a result, corporate CSR is a significant determinant of economic growth at the macroeconomic level.

3. Methods and Materials

The descriptive quantitative approach was used in this study because it aimed to describe the impact of CSR on the financial performance of firms in the telecommunications industry. Descriptive research, according to Saunders, Lewis, and Thornhill [42], seeks to establish the existence of a relationship between variables. The data used were primary and secondary data. In exchange, these variables, usually on instruments, can be calculated so that numerated data can be analyzed with statistical procedures.

3.1. Population Sampling Procedure

All the elements that comprise the unit of analysis are included in the population (Terre-Blanche, Durheim, & Painter, 2006). The study focused on MTN Ghana's Graphic Road branch, which employs 715 people. An appropriate sample size, according to Mugenda and Mugenda (2003), should be between 10 and 30 percent of the population. Because of the size of the sampling frame, a sample size of 20% (20%) was chosen for the purposes of this study. As a result, a sample size of one hundred forty-three (143) employees was used in the study. The branch is divided into eleven (11) departments, and each department is entitled to thirteen (13) questionnaires.

3.2. Analysis of Data

Financial statement data was thoroughly analysed using the Microsoft Excel application and the SPSS statistical software. Inference statistics were used to determine the association between CSR activities and MTN Ghana's financial performance.

4. Results

This section focuses on data collection statistics and interpretation of collected data. (In relation to the objectives of the research and variables used. Owing to the size of the sampling frame, a twenty percent (20%) sample size was selected for purpose of this study. The sample of five years' data (2015 to 2019) of MTN Ghana were used.

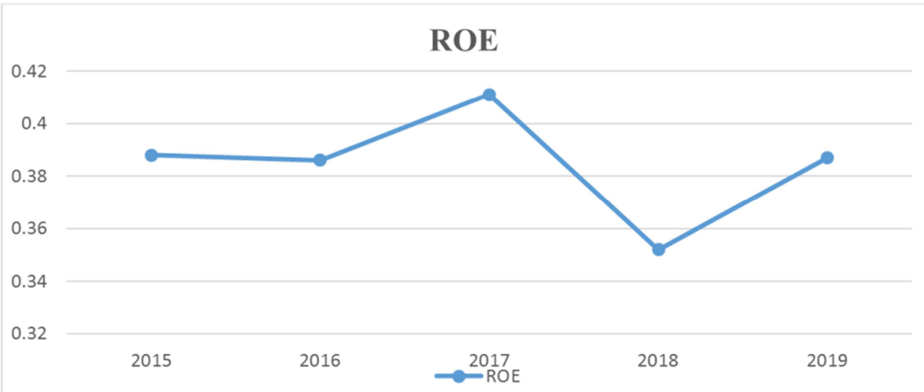

Figure 1. CSR on ROE in MTN Ghana Limited.

The purpose of this analysis was to investigate the general trend characteristics of MTN Ghana's financial performance (ROE). Figure 1 depicts a largely upward and downward trend in MTN Ghana's return on equity from 2015 to 2019. Data analysis shows that the effect of the CSR on return on equity is positive (ROE). Moser and Martin [31] discovered a positive relationship between CSR and FP, indicating that being socially responsible boosts profitability. If CSR has a positive effect on FP, it is likely that socially responsible investments have a positive rather than a negative effect on shareholder value, indicating that CSR is also beneficial to shareholders. Furthermore, the findings of this study contradict the findings of Hichem Dkhili and Ansi [18], who investigated the relationship between Corporate Social Responsibility and Financial Performance in the case of Tunisian companies. The study discovered a link between CSR and ROE.

On the contrary, the result further contradicts the study of Kamatra and Kartikaningdyah [24] on the effect of Corporate Social Responsibility on Financial Performance. The study results indicated that there is no significant effect of CSR on ROE.

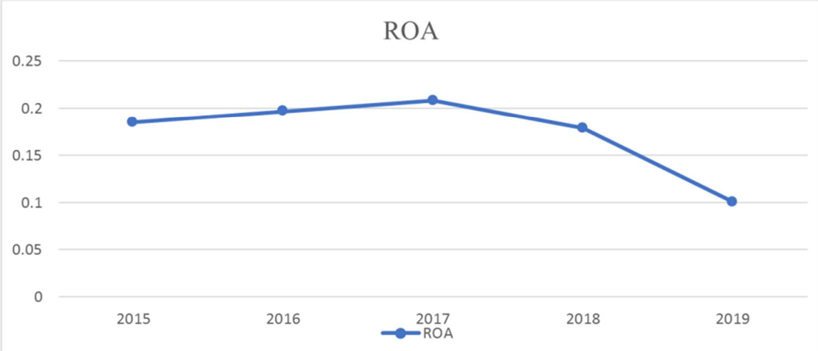

Figure 2. CSR on ROA in MTN Ghana Limited.

Figure 2 investigated the overall trend characteristics of MTN Ghana's financial performance (ROA). From 2015 to 2019, MTN Ghana's return on assets exhibited a general upward and downward trend. CSR had a statistically important outcome on Return on Assets, according to the data analysis (ROA). The findings contradict the findings of Firli and Akbar [12], who investigated Corporate Social Responsibility and its impact on the ROA problem in the Indonesian telecommunications industry. The study found a positive association between CSR and ROA, implying that CSR can help solve the ROA problem in the Indonesian telecommunications industry. The findings are also consistent with the findings of Kamatra and Kartikaningdyah [24], studied the effect of Corporate Social Responsibility on Financial Performance. The conclusion of their analysis indicated that CSR had a slightly important impact on ROA.

Table 1. Correlation Analysis.

		Performance	Total Philanthropic activities	Total Ethical Activities	Total Economic Activities	Total Legal Activities
Pearson Correlation	Performance	1				
	Total Philanthropic activities	.937	1			
	Total Ethical Activities	.916	.881	1		
	Total Economic Activities	.964	.918	.879	1	
	Total Legal Activities	.964	.909	.889	.940	1

Correlation Analysis of CSR and Financial Performance

The result indicates the association between the independent variables and the dependent variable. Coefficients from -/+ 0.50 to -/+ 0.99 is determined as strong negative or positive relationship among the variables, while coefficients that are below -/+ 0.50 shows a weak positive or negative relationship. These findings lend support to the widely held belief that the higher the level of philanthropic activity, the improved the performance. The positive coefficient means a 1unit increase in philanthropic activities leads to a 0.104 increase in performance and the high t-statistic value indicates that the impact is statistically significant at 5% test level. Donations, employee volunteerism sponsorships for individual and groups, charity events and contributes resources to support culture, arts and sports were having a positive relationship on performance of MTN Ghana Limited. This affirms that study of Mumtaz and Pirzada [35] which in their study indivated that "organizations must partake in those activities which are in the benefit or the best interest of the community or society in which they operate. Boundaries of activities such as job creation, the provision of high-quality goods and services, and the protection of minority and majority rights".

There is a weak positive relationship between economic activities and performance as the coefficient of correlation is 0.298. This means increase in economic activities by 1unit leads to an increase in performance by 0.298 units. This positive impact is significant at 5% test level. Investment, profit maximization, sales and payment of debt did have a positive effect on performance of MTN Ghana Limited. According to Mumtaz and Pirzada [35], the stakeholder dimension is extremely important because socially responsible corporations and firms must interact with their stakeholders, protect their interests, and provide them with both monetary and non-monetary benefits. This is consistent with the stakeholder theory and the study of Kusumadilaga [25]. The stakeholder theory assumes that value is explicitly part of organizational activities and that the primary goal of organizations participating in CSR is to satisfy their stakeholders.

Table 2. Coefficient and t-statistic Table.

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.277	.210		1.321	.189
Philanthropic activities	.104	.035	.132	2.938	.004
Economic activities	.298	.045	.290	6.654	.000
Legal Activities	.182	.041	.197	4.445	.000
Ethical Activities	.513	.066	.390	7.728	.000

The table 2 above shows the regression model, and it is derived as:

$$\text{Performance} = \alpha+\beta_1X_1+ \beta_2X_2+ \beta_3X_3 +\beta_4X_4+ \beta_5X_5$$

$$\textit{Performance} = 0.277 + 0.104\ \text{PA} + -0.298\ \text{ECA} + 0.182\ \text{ETA} + 0.513\ \text{ETA}$$

The form of association between variables is indicated in the design of the regression coefficients. The reverse relationship between dependent and independent variables is shown by negative regression coefficients and the independent, positive coefficients have a direct relationship with the dependent vary. Constant = 0,277 from the regression pattern reveals that, when all of the independent variables are rated zero, MTN Ghana's financial output is at 27,7 per cent. The level of confidence for the analysis was set at 95%. Therefore, the P- value less than 0.05 imply that the independent variables are significant. The regression results show that the financial performance of MTN Ghana is significantly influenced by philanthropic, ethical, legal and economic activities at P-values of (0.000), (0.000), (0.000), (0.000), and (0.000) respectively. This research is directly related to Chebet and Muturi's [6] work on the impact of Corporate Social Responsibility on organizational performance. The study used descriptive statistics and multiple regression analysis. The results found that CSR operations in companies could not be isolated from other parts of the company.

5. Conclusion

According to the results of the research, there is a substantial association between CSR and financial performance. In conclusion, the coefficients of determination clearly show that philanthropic, ethical, legal, and economic activities influenced the financial performance of MTN Ghana. Finally, the results indicate that, the independent variables of philanthropic, ethical, legal, and economic activities had a positive effect on financial performance. The findings also revealed that, philanthropic, ethical, legal, and economic activities are related to financial performance in a positive way.

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