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Impact of Corporate Social Responsibility on Firm's Financial Performance: The Tanzanian Perspective

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Abstract: There has been a significant growth of interest in the field of corporate social responsibility and the debate is still hot. There are however very few studies done in the least developed countries on the subject matter.The main objective of the study was to investigate the impact of CSR on Firm Financial Performance in the least developed countries, Tanzania being the country in question. The aim of this paper is to find out if there is a significant difference in financial performance of firms that engage in CSR relative to those that do not practice CSR. Independent sample t-test was used to test hypotheses. The data set included randomly selected 101 firms operating in Tanzania using accounting based measures of financial performance namely Return on Asset, Return on Equity.The findings presented revealed that there is a significance difference in financial performance favoring those firms that do Corporate Social Responsibility, implying that CSR has a positive influence on firm financial performance. Firms should then engage in corporate social responsibility so as to improve their financial performance and managers should not underestimate the contribution they make by committing their time and resources to make sure their CSR programs are effective in order to achieve the competitive advantage.
Key words: Corporate Social Responsibility (CSR); ROA; ROE; Tanzania

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INTRODUCTION

EAs stakeholders become more aware of what is going on with regards to their favorite businesses' operations and the contribution the firms can make to the development of the communities around them. Pressures have increased on businesses to act more socially responsible. This has forced firms to evolve from their primary goal of profit maximization to the new goal of shareholder's wealth maximization which requires firm to take into consideration the demands of the different stakeholders as they go about their daily operations and inclusion of social and environmental factors in their decision making (Karaibrahimoglu, 2010).

CSR is seen as a duty the firm has to minimize unethical behavior such as waste reduction and emission, to maximize efficiency and protect the environmental for future generations (Mushi, 2007). In Africa businesses have a major role to play to speed up the transformation process and the best way to contribute is through CSR though there is still a need for improved corporate governance, poverty eradication programs, fairer trade practices and capacity building (Visser, 2005).

When firm's engage in CSR they demonstrate the change in behavior that benefits both the firm and the society resulting in a multiple effect, a firm is said to be socially responsible when it becomes a leader in improving the well being of the community and environment around it. The firm accepts the role to balance the expectations of different stakeholders as they are crucial for its survival (Tsoutsoura, 2004).

CSR evolved after the problems that rose when firms turned their backs on the society and ignored their moral/ethical responsibilities.

Many companies were caught off guard by social responsibility controversies such as food companies when they denied obesity as not their problem, Nike and Gap sweatshops issues said the workers were not hired by them directly, the giant de beers denied causing unrest over diamonds in Liberia and Angola (Zadek, et al. 2009). After their brand reputation and licenses were at stake they learnt their lessons and slowly started to acknowledge their responsibility to the community and environment around them. These experiences have opened their eyes to know that CSR goes beyond the law and concerns responding to the environment, social and economical issues that affect the long term performance of the firm.

In the mining sector when environmental pollution occurs and the surrounding communities get affected when they drink polluted water from the toxics that come from the industry waste and the vegetation and the law suits that are expensive arise when people demand to be compensated (Heal, 2008). The reputation of the firm is tarnished as the news spread and people around become aware of the irresponsibility of the firm. This may render the firm to lose its important stakeholders, be sanctioned from operating in some countries, confiscation of the plants and products and loose a reputation that it has built through hard work and commitment for so many years.

Jody, et al (2012) reported that Anglo Gold Ashanti allegedly took some plot of the school near by the mining premises still the school had no water, toilets and the areas where the water pipe passes people were prohibited to use water for irrigation nor livestock drinking. Furthermore compensation was never paid for the surroundings villagers whose live stocks died from drinking polluted water near the mines. Collapsing of 52 houses nearby from the blasts in Nyakabale mine in 2000 and increasing miscarriages of the women in nearby villages because they use water from the springs which were contaminated from the spills of nearby mines.

In November 1995 Ken Sarowiwa and 8 Ogoni people were brutally murdered by hanging in Nigeria in the protest of their right to clean air, water and land from the environmental degradation which was caused by Dutch British Shell's oil drilling in the Niger Delta (Green Peace International, 1995).

Conservatives have the notion that CSR comes at an extra cost that will wear down the firms' profitability and eventually its overall competitive advantage, but there is new evidence from developed markets showing that the two are not necessarily mutually exclusive (Berns, et al 2009).

A few studies have been conducted by researchers (Tsousoura (2004), Fauzi (2007), Ntoi (2010), Bolanle (2012) to understand the relationship between CSR and FFP in African countries but the results are still inconclusive, with researchers getting mixed results and fewer studies which have been done here in Tanzania with regards to the subject matter which were purely qualitative. Corporate Social Responsibility can play a great role in economic, social and environmental development of the country. This has motivated the researcher to carry out a similar study in Tanzania. The research seeks to assess the impact of Social Responsibility on Financial Performance by showing whether or not there is a significant difference in financial performance of firms practicing corporate social responsibility relative to those that do not practice CSR.

LITERATURE REVIEW

Corporate Social Responsibility (CSR) is the action in which the firm takes into account their involvement in the social activities as well as mitigating the effects of their business on the community and natural environment. Initially CSR was only limited to what the company does to its workers and their families but now it extends further to reach out to many people who are called stakeholders (Fauzi, 2007).

Firm's Financial Performance is a subjective evaluation of how well a firm can use assets from its primary mode of business and generate revenues. The term is also used as a general measure of a firm's general financial health over a given period of time, and can be used to compare similar firms within the same industry or to compare industries or sectors in aggregate (Fauzi, 2007).

The study results on the CSR and FFP link have never been in accord, as some studies determined negative correlation, some determined positive correlation, while others determined no correlation at all.

The perspective for positive correlation between CSR and FFP suggests a company's explicit costs are opposite of the concealed costs of stakeholders, therefore, this viewpoint is anticipated from the perspectives of avoiding cost to major stakeholders and bearing in mind their satisfaction. The proponents of positive relationship like Sweeney, (2009) found that there is a positive relationship between CSR and financial performance and it's because it affects the company's reputation, employee attraction and loyalty. It is also said that the stakeholders are indispensable since the very existence of the company depends on them. These are the people without their support the firm would definitely collapse. The researcher viewed CSR as those responsibilities extending beyond the law, a pursuit of policies that add value to the firm.

1. Overview of CSR in Tanzania

In Tanzania social responsibility came about with increasing competition as many companies flooded the country from various countries it gained momentum because now consumers have many options to choose from (Mushi, 2007). Now days CSR is used as a marketing tool for creating competitive advantage, ever since the number of firms doing CSR in the country has been on the rise. Recently a CSR award has been introduced which seeks to reward firms that make a greater contribution in the community through their CSR practices and also encourage other firms that are yet to incorporate CSR in their strategies to do so. Recently Tigo has partnered with a Swedish NGO on a pro child reach for change initiative that is aimed at improving the welfare of children (Daily News, 2012). This is a very interesting move because some of the challenges seen on CSR implementation were proper identification of the community needs and pooling of resources which will be correctly addressed by entering into joint partnerships like this.

Mushi further stated that the Tanzanian community is characterized by problems of unemployment, diseases, poor infrastructure and the businesses depend on these people to support their operations by buying their products and services. This means the prosperity of the firm solely depends on the community, then what ever can be done to alleviate the community problems will be rewarded by the loyalty and reciprocity of the community.

2. Studies in other countries

Markets in developing countries face different challenges as to those in the first world. Firms find themselves in countries run by post war governments with significant budget deficit, heavy burdens of diseases and major skills shortage Ntoi, (2010). While there is so much evidence in support of positive impact of CSR on FFP, very little is published on its execution and impact on emerging markets. Ntoi, (2010) examined the difference in financial performance between SRI and Non SRI of companies listed on the Johannesburg stock exchange market. Using market based measures to assess the impact of investor behavior on social responsibility and its importance on financial performance. The findings revealed there is a difference in performance and further supports the positive link of CSR and FFP. The results show that Corporate Social Responsibility is rewarded by the stock market as their shares fetch higher price. Sustainability is a fairly new concept in Africa viewed most commonly in the context of charity which supports the bottom line (People, planet and profit).

Bolanle et al; (2012) carried out a study in Nigerian banks using Regression Model and found that there is a significant positive relationship between CSR and Firms Profitability because CSR reduces tax paid thus improving the overall firm's profitability. The researcher recommended that CSR commitment should not be underestimated despite some bad managers misusing the funds and claiming they have done CSR which can mislead the findings and eliminate the benefits that can be seen if you carry out the study under such a situation.

Uadiale and Fagbemi,(2011) using a Pearson correlation analysis carried out the study on a sample of Nigerian listed Company's and found that there is a significant relationship between CSR and Financial Performance and recommended that firms should commit their resources on CSR activities to enhance their image/reputation thereby increasing their returns. The researcher originates the driving force of CSR to the entry of multinational companies in the country.

Zadek et al, (2009) found that there is a need to view CSR more strategically by producing high quality products, environmental protection and minimizing its negative impact of the firms' activities on the environment and community. Corruption remains to be the biggest impediment in Africa as far as CSR implementation is concerned. Public services are unequally distributed and people are poorly paid making it hard to control corruption although the media is playing a major role in exposing the malpractices and corrupted businesses. Corruption hinders the social and economical development that is needed for sustainable development. Social investment also needs to be emphasized especially on areas like construction of schools and hospitals.

Tsoutsoura, (2004) pointed out that some shareholders regard CSR as a symbolic management skill, CSR is a symbol of status and the company reputation is improved by actions to sustain the community, resulting in positive influence on sales. Thus, when a company increases its costs by improving CSR in order to increase competitive advantages, such CSR activities can enhance company status and in the long run FFP can be enhanced, by sacrificing the short term FFP. The study stresses the importance of integrating CSR into the business culture and strategy for successful implementation, goes further to show that reputation and brand image as benefits of doing CSR it helps attract capital and trading partners, reduce costs from low employee turnover, recruitment and training costs.

Wanderly, et.al (2008) critically showed that the lack of academic literature on the impact of CSR on FFP in developing countries could be a reason why there is little disclosure and engagement of local firms. Practicing CSR may increase the company's avenues for capital access and entry into markets that take CSR as of paramount importance. The identified drivers of CSR in his paper include pressures from stakeholders, government and dependency on foreign business partners.

The proponents for negative correlation between CSR and FFP such as (Rapti and Medda, 2009) suggested that the fulfillment of CSR will bring competitive disadvantages to the company as need to bear other costs arise when firms are carrying out CSR activities. The increased costs will result in little gain if considered in economic interests. While when neglecting some stakeholders, such as employees or the environment, this results in a lower CSR for the enterprise, then FFP may be enhanced.

DATA AND METHODOLOGIES

Audited financial statements were used to obtain data of variables used in the study of financial year 2010 to 2012. 101Companies were picked at random, some listed and others not listed in the stock market form different industries. Content analysis of annual reports was done to separate companies into two groups, those doing CSR and those that do not as used by Karaibrahimoglu, (2010) and Ntoi, (2010). Independent sample t test was used to check the significant of mean differences between CSR and non CSR companies. The test was under the following null hypothesis

Ho1: There is no significant difference of ROA between CSR and Non CSR firms

Ho2: There is no significant difference of ROE between CSR and Non CSR firms

RESULTS AND DISCUSSION

According to the criteria we applied 50 companies were practicing CSR and 51 companies were not, we called them non CSR. As it can be seen from table 1a the group statistics mean of CSR Return on Asset 0.093 is greater than that of Non CSR -0.0022.

Table 1 Group Statistics of ROA

	Group	N	Mean	Std. Deviation	Std. Error Mean
ROA	CSR	50	.092980	.0835012	.0118089
	Non CSR	51	-.002215	.0683699	.0095737

From table 2 levene’s test for equality of variances has a significance of 0.076 which is greater than 0.05 level of significance this means the null hypothesis holds that the variances are the same, but the mean difference in profitability performance between the two groups is different since the significance of 0.000 of the t-test is less than 0.05 level of significance. Hence the null hypothesis is rejected and alternative accepted. This means there is a statistically significant difference on ROA between CSR and Non CSR firms.

Table 2 Independent Samples Test of Return on Asset

		Levene’s Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
ROA	Equal variances assumed	3.216	.076	6.274	99	.000	.0951952	.0151722	.0650904	.1253001
	Equal variances not assumed			6.262	94.551	.000	.0951952	.0152021	.0650133	.1253771

As it can be seen from table 2a the group statistics mean of CSR Return on Equity 0.226 is greater than that of Non CSR 0.017. This means that CSR firm’s perform better than Non CSR firms.

Table 3 Group Statistics of ROE

	group	N	Mean	Std. Deviation	Std. Error Mean
ROE	CSR	50	.22614	.142037	.020087
	Non CSR	51	.01706	.160626	.022492

From table 2levene’s test for equality of variances has a significance of 0.252 which is greater than 0.05 level of significance this means the null hypothesis holds that the variances are the same, but the mean difference in profitability performance between the two groups is different since the significance of 0.000 of the t-test is less than 0.05 level of significance.

Hence the null hypothesis is rejected and alternative accepted. This means there is a statistically significant difference on ROE between CSR and Non CSR firms.

Table 4 Independent Samples Test of Return on Equity

		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
ROE	Equal variances assumed	1.327	.252	6.925	99	.000	.209079	.030193	.149170	.268989
	Equal variances not assumed			6.933	9.797E1	.000	.209079	.030156	.149235	.268923

Hypothesis 1: *The findings revealed that there is a significant difference between ROA of firms that do CSR in comparison to those that do not practice CSR which lead to the rejection of the null hypothesis.*

The findings conforms with Poddi and Vergalli, (2008) also found that there is a positive relationship between social responsibility and financial performance stressing on the importance of reputation and risk reduction as factors that lead to a better financial performance of firms that are socially responsible. Ching, et al, (2009) also found a positive impact on the Return on Assets for the next period. Arguing that when a company is in good terms with its stakeholders, it will promote its own image and build brand awareness. Consumers will believe that the company has a better reputation, which improves the competitive edge of the company, as customers would become loyal and willing to purchase company's products. It also promotes the morale of its employees in turn reducing costs associated with labor turnovers and improving productivity.

Hassan et al, (2012) also found similar results. Through globalization companies pursue growth, and active involvement in community beneficial programs which provide competitive advantage to the company as they pursue such goals. Companies operating in several nations are often required to play a substantial role in community issues of the particular nations, otherwise government regulations, environmental restrictions, labor exploitation issues and can cost companies millions of cash. Under such circumstances, Corporate Social Responsibility will increase both long term profitability and sustainability of the company while enhancing the reputation of the organization.

Hypothesis 2: *The findings revealed that there is a significant difference between ROE of firms that do CSR in comparison to those that do not practice CSR which lead to the rejection of the null hypothesis.*

Chen and Wang, (2011) found that there is a positive relationship between social responsibility and financial performance because shareholders feel guaranteed that their interests are being protected and their funds are also used to improve the well being of their societies by donations made on different CSR projects and environmental protection. This in turn reduces the transaction costs of obtaining external funding since the shareholders have no fear of adding more assets to the company.

Uadiale and Fagbemi, (2011) also found similar results, CSR have the potential to make positive developments in the society and businesses. Organizations are beginning to see the paybacks from setting up strategic CSR programs. The increasing attention to CSR is based on its proficiency to influence firms' performance.

All findings are in favor of companies that practice social responsibility confirming that indeed CSR has an impact on financial performance and it is a positive one since companies practicing CSR perform better than that do not practice CSR.

CONCLUSION

The aim of the study was to test if there is a significant difference in financial performance of companies that engage in CSR relative to those that do not. The results showed that there is a significant difference in performance supporting the existing body of knowledge for the positive impact of CSR on financial performance.

Corporate social responsibility increases the firm's brand awareness, leads to tax relief because of the deductibility of CSR expenditures before taxes are charged. Corporate social responsibility builds a good relationship with the stakeholders through full optimization of the supply chain that leads to efficient use of resources and increased operational efficiency. Social Responsibility improves customer loyalty, leads to reduced risks that normally stem from expensive lawsuits and compensations and also lowers the firms cost of capital. Corporations have become more powerful since the largest global economies are dominated by them; therefore it's only sensible for them to have an increased role in addressing social problems. If you look at the issues of environmental degradation, employees' welfare and poverty state of the communities around them, they are best positioned to address and alleviate these challenges faced by the communities.

Policy implications also arise from practicing CSR; it is recommended that companies should be ranked in terms of Social Responsible performance and publishes even a list of those not qualifying as socially responsible to make consumers aware of the firms they deal with. The practice will revolutionize and the efforts will transform the community that is guaranteed.

Underdeveloped countries have been offering less stringent regulations, investment incentives, subsidies to increase FDI and growth of MNCs but this has added adverse effects on the states' ability to enforce laws and regulations which protect employees, environment and communities as a result developing countries have failed to encourage responsible business practices. Furthermore the government lacks the financial, legal and administrative resources to enforce strong regulations and their actions are further diluted by the lobbying and sponsorship of prominent politicians and trade associations by the corporations.

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