International Journal of Social Science and Economics Invention(IJESSI)
Volume 02 Issue 04 June 2016, page no. 9 to 16
Available Online at - www.isij.in

Peer Reivew Article | e-ISSN 2455-6289 | Open Access

The Impact of Corporate Social Responsibility on Company Profitability in Zimbabwe: A Case of a Listed Telecommunication Company

Banele Dlamini

Lecturer, Department of Accounting and Finance, Lupane State University, Zimbabwe
Email id -dlabukhosi@gmail.com

Abstract

The research aims to explore and examines the relationship between corporate social responsibility (CRS) and company profitability in the context of Zimbabwe. CSR is conceived as a vital component in strategic planning, and the concept of sustainable development stress out that organization should put emphasis on economic, business outcomes and pay attention also towards the environment, society, and community were they transact business. It could lead to enhanced company profitability. The study used Vector Auto Regression (VAR) model of regression analysis and Stata as the statistical tool, in order assess the impact of CSR on profitability. Secondary data was collected from annual reports of EconetWireless Zimbabwe Limited, correlation and regression analysis was used and the formulated hypothesis was tested. The company is the only listed mobile telecommunication company in Zimbabwe out of three companies which fall under the Ministry of Information Communication Technology, Postal and Courier Services *(MICTPCS)for period 2010 to 2015*. *MICTPCS* ***as the regulatory body encourages mobile telecommunication companies to be involved in CSR as the customer-oriented factors in their business operation. The findings of the study indicated that there is no causal relationship between Corporate Social Responsibility and profitability and CSR has no significant impact on profitability. Zimbabwe has no Corporate Social Responsibility policy; entities are involved on a voluntary basis as a marketing strategy and there is a need for a policy to be formulated and enforced to ensure that entities operate ethically.***

Keywords: *Corporate Social Responsibility, Telecommunication Industry of Zimbabwe and Profitability*.

Introduction

Corporate Social responsibility (CSR) is a major topic especially in this decade, as result mounting pressure from both the stakeholders at large and the public sphere (ISO 26000). Milton Friedman argues that ‘the business of business is business’, meaning that managers are employed in order to earn owners of the business a return on their investment (CIMA, 2014), his argument was you can only increase profits by taking other stakeholders into account. Maximising the wealth of the business owners is social responsibility in itself, hence you increase the returns you increase your tax obligations, which is passed on to worthy causes. Providing value and incentive to its shareholders is the ultimate business goal for corporations. Therefore, profit-oriented corporations or organizations are not charity service providers although sometimes it is in their direct interest to support charitable activities (Mohamed, 2003). Concurrently a firm cannot ignore the problems of the environment in which it operates. CRS is the total commitment of a corporation in contributing to the development of the economy at the same time improving employees and their families and the community at large (Mohamed, *et al*, 2008). In its stronger form, the concept of Corporate Social Responsibility asserts that it is an entity’s obligation to consider the interests of customers, employees, shareholders, communities, and the ecological ”footprint” in all aspects of their operations (Abiodun, 2012). In Zimbabwe, the telecommunications industry plays a vital role in the success and ongoing viability of a corporate and it is at the forefront of the information age. The major challenge in the country is that many companies expose their marketing activities as CSR programmes. For example, a company might introduce a marketing strategy, where you buy US$1 airtime you get ten (10) free Short Message Service (SMS) and mistake that as CSR. Therefore, there is a need to examine the impact of CSR on company profitability.

Objectives

- To determine the relationship between Corporate Social Responsibility and profitability in telecommunication companies in Zimbabwe.
- To determine the impact Corporate Social Responsibility has on company profitability

Corporate Social Responsibility: Definition

CSR is defined in different ways and we do not have universally accepted definition according to (Carroll, 2008**)** it is the responsibility of entities to encompass the economic, legal, ethical and discretionary expectations that a society has of corporation at a given point in time. Hopkins (2011) states that CSR is all about taking care of all stakeholders of the company ethically or in a responsible manner and it is a process to achieve sustainable development in societies. Baker (2005), defined CSR is about how companies manage the business processes to produce an overall positive impact on society. CIMA (2014) refers to CRS as the firm’s obligation to minimise the negative effects upon stakeholders by maximising its positive impacts. CSR integrates a number of factors; it emphasizes on treating the environment with respect, implementing policies to respect human rights, being ethical and adhering to good corporate governance. The level to which the corporation meets the economic, legal, ethical and charitable responsibility placed on it by its stakeholders indicates the level of good CRS it possesses.According to Kwang-Ho Kim et al., 2015; Li, Zhou, & Shao, 2009; Porter, 1980) organizations engaged in corporate social responsibility to enhance its competitive advantage enjoy a better financial performance.

Three dimensions of CSR

Corporate social responsibility holds that there are a number of aspects which affect a corporation’s actions. Dahlsrud, (2006) and Rasoulzadeh *et al*., (2013) identified five dimensions of corporate social responsibility, namely; social, environmental, economic, stakeholder and voluntariness. Their analysis showed that these aspects are linked to a larger extent and they impact on designing strategic CSR for achieving goals. Dahlsrud, (2005), (2006) further stated that the main categories with major impact on business are environmental, social and economic dimensions. Mohamed, *et al*, (2008) agree with Dahlsrud that the purpose of corporate social responsibility is to make corporate business activity and corporate culture sustainable in three dimensions:

- Economic dimension.
- Social dimension.
- Environmental dimension.

The economic dimension:

The term of economic dimension in respective to CSR is not simply a matter of companies being financially accountable or profitability as one of the commercial operations' aspects. It refers to a commitment to ethical practices inside entities, like corporate governance, preventing bribery and corruption, protecting consumers and ethical investment (Mohamed, *et al*, 2008; http://www.ssif.go). Before an entity considers being a good corporate citizen, it should be financially viable and profitable since the reason for its existence is to earn the owners a return. There are economic outcomes in being socially responsible; they might be negative in the sense that the investment made by the business might be enjoyed all stakeholders, competitors included, or they might be positive in the short run, contributing to an increase also in the business returns (Slack *et al*, 2010). Corporate social responsibility has an impact on the operations of the business, by preserving the profitability of the business will lead to the contribution to economic development.

The social dimension:

Society is a combination of different stakeholders; that is the organizations, individuals and various groups, the organization have a general obligation for the well being of the local community. Scilly, (2015), cited that social dimension involves the relationship between the business and society at large; it should be the aim of the business to benefit the society. Social responsibility, confines to matters affecting the external environment, internal environment, the well-being of workers and their working conditions (Chaneta, 2013). Cronje et al (1999) cited by Chaneta is also of the opinion that the support of such services by an organisation fosters good morale and allows for a higher standard of living for its staff which can also lead to higher productivity. When it becomes known that an organisation has the welfare of its employees at heart, this creates a spirit of goodwill and commitment, hence, there is no need to scrape the labour market barrel to get and keep good workers. The principal factor behind the social aspect of corporate social responsibility is not about expressing the relationship that exists between businesses and the society since the connection is self-explanatory. But it is that businesses balance the external societal consequences of their operations with their profit generation, as a result of the impact they have on the society they should be socially responsible. Slack*et al*, (2010), also said, businesses as part of the large community should avoid disadvantaging individuals in its operations but should strive to strike a balance in making a profit not at the expense of individuals.

The environmental dimension:

Corporate activities have a number of effects on the environment. The environmental dimension of CRS is all about the impact the business has on the environment, hence, the ultimate goal of a socially responsible business is to engage in operations that have a benefit to the environment. Environmental impact are the negative effects which occur immediately in the natural environment surrounding the business operations, such as the misuse of natural, climate change, deforestation, de-generation of biodiversity and air pollution etc and also those with the potential of more damaging issues around global warming (Mohamed, *et al*,2008 and Slack *et al*, 2010).According to Crowther and Aras, (2008), these activities of the business impose costs and benefits on the external environment, these are not included in the traditional accounting and such costs and benefits are externalized.Mohamed, *et al*, (2008), added that the company must operate towards a more environmentally oriented ways, such as increased resource productivity, a cleaner environment, environmental stewardship, environmental concerns in business operations and active dialogue with the company's stakeholders. It is of importance to establish an environmental management system as a business, and in the system, issues to do with quality, health and safety should also be integrated.

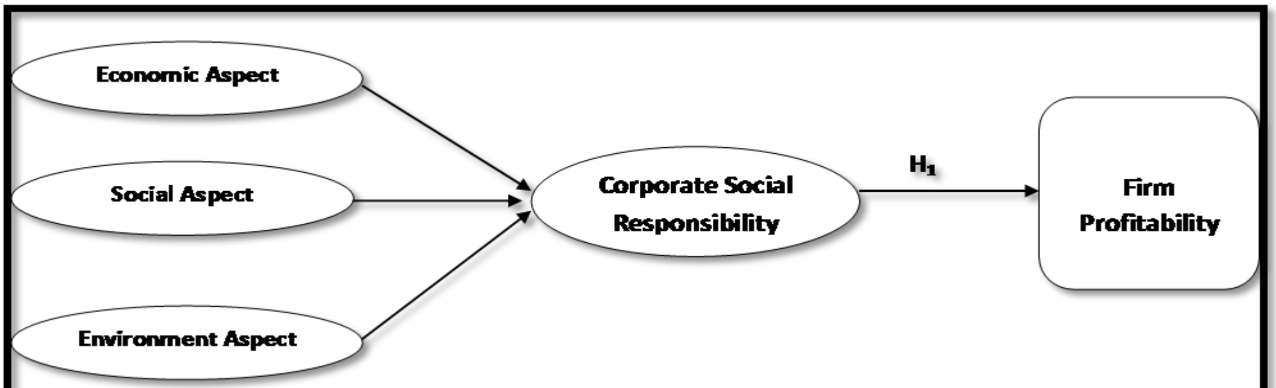

Figure 1: Conceptual framework

Hypothesis

H_0: There is no causal relationship between CSR and company profitability

CSR and Profitability

CSR is a tool which can be used by businesses to help differentiate themselves from their competitors (Hull & Rothenberg, 2008; Jones, 1995) through obtaining support from different stakeholders and by erecting reputation thus improve profitability. Corporate should implement CSR activities so as to improve their profitability; related studies have articulated that involvement in CSR increases profitability (Hopkins, 2003; Parket & Eilbirt 2006; Renneboog, et al 2008). The link between CSR and profitability is the dominating question at hand. The relationship that exist between profitability and CSR have been studied at length by various researchers and they fail to agree on the relationship some say there is a strong positive correlation (Orlitzky, et al 2003), no noticeable correlation (Bauer, et al, 2005)and others say there is a negative correlation (Brammer, et al, 2006).Corporations with sound corporate governance practices and good ethics are rewarded more by financial market, whilst those without are punished for that (Bolanle, et al, 2012; Neal, Cochran, 2008).

Summary of Empirical Findings

Author	Year	Scope	Methods	Findings and Conclusions
Babalola, YisauAbiodun	2012	Sample of ten (10) randomly selected firms on the Nigerian Stock Exchange	Ordinary least square regression (OLS).	This study concluded that profitable firms do not invest much in CSR and this has tendency to threaten their long run existence
Majid Khan and Abdul Majid	2013	29 cement manufacturing organizations in Pakistan	Multiple regression analysis	There is a strong relationship between CSR and profitability; operations of firms have a direct impact on the society and the environment.

Amole BilqisBolanle, Adebiyi, SulaimonOlanrewaju, AwolajaAyodejiMuyideen	2012	Annual reports of First bank of Nigeria Plc, a period of 2001-2010.	Correlation and regression analysis.	The results of the regression analysis as showed the impact of CSR expenditure on profitability which revealed (Beta= 0.945, p<.01), meaning the unit change increment in the CSR expenditure will lead to.945 or 95% increase in the profit after tax of the company.
Kwang-Ho Kim, et al.	2015	113 publicly listed U.S. Firms	Ordinary least squares (OLS)	Positive CSR enhance business financial performance when the business level of competitive action is high, whereas negative CSR actually increase business profitability when the competitive-action level is low, hence there is a need to first consider the competitive –action of the firm before incurring a higher expenditure or CSR.
GuensterNadja, et al.	2005	sample of listed companies for the period 1996 to 2002 in the US	Average Analysis	This study revealed that a strategy of acquiring inventories with high socially responsible ratings and disposing of those with low socially responsible
Sadok El Ghoula , OmraneGuedhamib , Chuck C. Y. Kwokb, Dev R. Mishrac		sample of 12,915 U.S. firm-year observations from 1992 to 2007	Several approaches to estimate firms' ex ante cost of equity we used; regression analysis	Their result showed that companies which are socially responsible scores exhibit cheaper equity financing and investment in improving environmental policies and responsible employee relations substantially reduce business cost of equity.
Aupperle, Carroll, and Hatfield	1985	An Overall Firm-Level Index of CSR	Regression Analysis	There is a neutral relation between CSR and profitability

Methods

This study used secondary data, which was obtained from the annual reports of the Econet Wireless Zimbabwe Limited for five (5) years period, "2011-2015." This time span is selected because of this reason: This period is the recovery period from the financial crisis that hit the country and it was when the multi-currency regime was introduced. Data used cost incurred on corporate social responsibility activities and profit for the year (profit after tax), this data was used to construct Vector Auto Regression (VAR) model of regression to which was analyzed using Stata in order assess the impact of CSR on profitability. A model on the causal relationship between the two variables was adopted; it employed regression analysis (Vance, 1975; McWilliams et al., 2000; Hull et al., 2008; Bolanle et al., 2012) as the main statistical method where CSR is an independent variable and profit after Tax is a dependent variable.

Results and Discussions

The following results were causality relationship model were obtained.
Causality Relationships
H0: There is no causal relationship between CSR and company profitability

Table 1: causal relationship between CSR and profitability

Null Hypothesis	R-square	Chi2	P>chi2	Result
CSR does not cause profitability	0.5049	4.079606	0.1301	CSR does not cause profitability
Profitability does not cause CSR	0.6040	6.100639	0.0473	profitability has a causal CSR

Table 2: Impact of CSR on profitability

Variable	Coefficient	Standard Error	z	P-value
CSR	-24.87437	41.07234	-0.61	0.545
Previous Profit	1.64733	0.8207214	2.01	0.045

The results indicated that CSR has no impact on profitability since it has a p-value of 0.545 which is greater than 0.05. Profitability was found to be determined by previous profitability. To increase the profitability companies should no focus on CSR which is insignificant and carriers a negative coefficient. The model with a p- value of less than 0.05 indicates the presence of a causal relation. The first null hypothesis that CSR does not cause profitability was accepted since the p-value of 0.1301 is greater than 0.05 and it was concluded that CSR does not cause company profitability. It has no effect on profitability. The second null hypothesis that profitability does not cause CSR was rejected since p-value of 0.0473 was less 0.05 and there it was concluded that the previous profitability has an effect on this year's CSR. The results are consistent with studies that found that there are no linkages between CSR and profitability (Aupperle, et al., 1985; McWilliams and Siegel 2000; Bauer, et al, 2005; Saleha, 2008; Hirigoyen1 and Poulain-Rehm, 2015). The economic development level of the country is still low and Econet Wireless Zimbabwe Limited as the only listed company and first player in the mobile telecommunication industry is dominating in the industry. The formulated hypothesis was tested and the result shows that CSR has no impact on profitability.

Conclusions and Recommendations

The study concludes that Corporate Social Responsibility has no impact on profitability in the telecommunication industry in Zimbabwe, but previous year profits improve the CSR expenditure. The study recommends that CSR be compulsory for all companies and there is a need for entities to disclose the corporate social responsibility involvement cost. CSR should not be viewed as voluntary undertaking but to be compulsory for all entities and formulation and enforce a policy to ensure that firms act in ethical and socially responsible manner to all stakeholders. Future studies should continue to explore an understanding of the motivation behind being involved on CSR and the impact of such initiatives on financial performance in the telecommunication industry and other sectors.

Acknowledgement

Gratitude goes to my wife Prisca Dlamini for the support and my colleague Mr Wilford Mawanza for the support they gave me conducting this study. I am indebted to my workmate Mr. Lubani Nondo who assisted me in the analysis of data.

References

1) Aupperle, K., Carroll, A., and Hatfield, J., 1985. An empirical examination of the relationship between corporate social responsibility and profitability, Academy of Management Journal, 28: 446-463.

2) Chaneta Isaac, (2013). “Organisations' social responsibility” Faculty of Commerce, University of Zimbabwe.

3) Chartered Institute of Management Accountant, (2014), Official Study Text Strategic Management, Paper E3, Kaplan Publishing UK.

4) Cronje et al (1999) Re-Assessing Human Resource Management, London, Sage 1-15. Denzin and Lincoln (1994) Corporate Social Responsibility, Perspective Firms, journal of Business Review, 26 pg7-40.

5) Crowther David and Guler Aras, 2008, Corporate Social Responsibility, www.bookboon.com
6) Dahlsrud Alexander 2005. A comparative study of CSR-strategies in the oil and gas industry. Paper presented at *Navigating Globalization: Stability, Fluidity, and Friction*, Trondheim, Norway, 2005.

7) Dahlsrud, Alexander (2006), How Corporate Social Responsibility is defined: an Analysis of 37 Definitions, Published online in Wiley Inter Science available on http://www.csrnorway.no/papers/2007_dahlsrud_CSR.pdf , on 26 April 2010.

8) Gérard Hirigoyen1, Thierry Poulain-Rehm, (2015). Relationships between Corporate Social Responsibility and Financial Performance: What is the Causality?

9) Hull CE, Rothenberg S (2008). “Firm performance: The interactions of corporate social performance with innovation and industry differentiation.” *Strategic Manage. J*. 29: pp 781-789.

10) Jeff Buckstein CGA, 2013, Corporate Social Responsibility (CSR) – The Fundamentals.

11) Kenneth E. Aupperle,Archie B. Carroll and John D. Hatfield, (1985). An Empirical Examination of the Relationship between Corporate Social Responsibility and Profitability.

12) Kwang-Ho Kim, MinChung Kim, Cuili Qian, 2015, Effects of Corporate Social Responsibility on Corporate Financial Performance: A Competitive-Action Perspective page 2.

13) Li, J. J., Zhou, K. Z., & Shao, A. T. 2009. Competitive position, managerial ties, and profitability of foreign firms in China: An interactive perspective. Journal of International Business Studies, 40: 339-352.

14) M. Scilly, 2015, Demand Media, Five Dimensions of Corporate Social Responsibility,http://www.chron.com/.

15) Majid Khan and Abdul Majid, 2013, The Effect of Corporate Social Responsibility on Profitability and Market Share: A Case of Cement Industry of Pakistan.

16) McWilliams A and Siegel. D, (2000). "Corporate social responsibility and financial performance: correlation or misspecification?"*Strategic Manage. J.* 21(5): pp 603–609.

17) Mohammed Belal Uddin, Md. Riad Hassan, Kazi Md. Tarique, (2008) "Three Dimensional Aspects of Corporate Social Responsibility", Daffodil International University Journal of Business and Economics, Vol. 3, No. 1, January.

18) Mudzamir Bin Mohamed,NorfaiezahBintiSawandi,(2003),Corporate Social Responsibility (csr) activities in mobile telecommunication industry: Case study of Malaysia.

19) MustaruddinSaleha, NorhayahZulkiflib and RusnahMuhamadc, (2008) An Empirical Examination of the Relationship between Corporate Social Responsibility Disclosure and Financial Performance in an Emerging Market.

20) Nigel Slack, Stuart Chambers, Robert Johnston, Sixth Edition, 2010, Operations Management.

21) Orlitzky, Marc; Frank L. Schmidt, Sara L. Rynes (2003). "Corporate social and Financial Performance a Meta-analysis". Organization Studies *24 (3): pp 403–441. London: SAGE Publication.*

22) Porter, M. E. 1980. Competitive strategy. New York: Free Press.

23) Sadok El Ghoula , OmraneGuedhamib , Chuck C. Y. Kwokb, Dev R. Mishrac, 2011, Does corporate social responsibility affect the cost of capital?, Journal of Banking & Finance.

24) "The Economic Value of Corporate Eco-Efficiency." Working Paper, Erasmus University, July 25, 2005.