Journal of Business & Economic Management 3(3): 000-000, February 2018
DOI: 10.15413/jbem.2018.0XXX
ISSN 2315-7755

Author should please provide year to the colored References cited in the work.

Research Paper

The effect of corporate social responsibility on shareholder value

Accepted 12th April, 2018

Fosu Adarkwah* and Ahudey Eric

Christian Service University College, School of Business, Ghana.

*Corresponding author. E-mail: fadarkwah@csu.edu.gh.

ABSTRACT

This paper discusses the effects of Corporate Social Responsibility (CSR) on shareholder's value. Most organizations all over the world are usually considered more valuable if they are able to pay all their expenses as well as, their stakeholders without deficits. The more an organization is able to do this without having to take out loans as well as, selling anymore of their stock increases, the higher their value and hence, the stakeholders value. However, consumers are much interested in getting their products from organizations and institutions that have corporate social responsibility strategies that functions in giving back to the community and their environment of location. That is helping take care of these factors which are socially and environmentally. This paper thus seeks to find out if there are any effects that corporate social responsibility has on shareholder value. Since increasing shareholder value is still the number one priority for most companies. The paper refers to a case study done on MTN Ghana and how the company's CRS is affecting their financial performance.

Key words: Corporate social responsibility, effects, company.

INTRODUCTION

Most companies all over the world have a common belief that the shareholder comes first. This belief was especially made popular in the 1970s after it was introduced by a number of free market scholars and soon it became a basic principle in the corporate world. This proves that in a company one of the main priorities of the senior management of the said company is to ensure that the shareholders are taken care of as they are their main employers which is stated in a paper written by economists, Michael and William (1976), which states that shareholders are "principals who hired executives and board members as agents" (Jia, 2013). Hence, the fact is that the value of shareholder becomes easier for management. For shareholder value to be increased, a company needs to create a return capital that is more than its cost of capital which means it should be making more money than it is spending, thus, making it more valuable (Terry, 2015).

Companies all over the world are always looking for new ways to increase their shareholder value. Some have proven to work throughout the years but others have proven to be epic fails. With more companies all over the world becoming more cautious of their effects to their surrounding environment, many of them are taking measures in corporate social responsibility.

The purpose of this paper is to look at how corporate social responsibility is affecting shareholders' value. The report will look to effects of corporate social responsibility affecting shareholder value. It will look at whether the effects are positive or negative. The report also uses MTN Ghana as its main case study.

THE CONCEPTS OF CSR

Corporate social responsibility (CSR), which is also known as corporate conscience, corporate citizenship or responsible business has different meanings for different corporations. According to a publication, "Making Good Business Sense" written by Lord Holme and Richard Watts by the World Business Council for Sustainable Development, they define corporate responsibility as "the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as, of the local community and society at large" (Mallen, 2014). Thus, we can establish that corporate social responsibility is when a company becomes conscious of the impact it has on its surrounding environment and stakeholders, that is, customers, employees and investors.

Corporate social responsibility is mainly dependant on the organization and the community it affects. Its main aim is to provide sustainability to ensure that the organization is able to survive for as long as possible. It also helps to provide accountability. Corporate social responsibility ensures that the organization is made accountable for each decision it makes and the consequences that those decisions lead to. Moreover, it helps promotes transparency. Thousands of people all over the world are currently writing up corporate responsibility reports. This enables many users to study the activities of organizations. With so many consumers becoming more interested with organization that are responsible, CRS is helping them have the transparency they require enabling them to be knowledgeable about the firms work (David and Guler, 2008).

During the 1960s, corporate social responsibility was mainly a term that was used to cover matters that mainly covered matters that entailed legal terms or economic matters; however in 1991, it was extended to not only cover matters that involved legal responsibility but also ethical responsibility. This was mainly after people became alarmed with the rising ethical issues that were in businesses (Carroll, 1999). This brought up a new form of corporate social responsibility that catered for four responsibilities which included economic, legal, ethical and philanthropic. These factors are connected and a company cannot be considered to be socially responsible if it does cater for all these factors. Some of the ways that companies achieve corporate social responsibility include: creating adequate returns on their cost capital resources, contributing to educational and social programs and reducing the pollution that any waste from the company may cause (De George, 2011). An example of a company with an excellent corporate social responsibility strategy includes, Unilever.

Unilever is a multinational corporation in the food and beverage sector that has been ranked Food Industry Leader in the Dow Jones Sustainability World Indexes for eleven consecutive years and was ranked seventh in the Global 100 most Sustainable Corporations in the World. Their CRS strategy enables them to be socially, economically and environmentally sustainable.

How public feels about corporate social responsibility

According to 2015 Cone Communications or ubiquity, global corporate social responsibility came out with finding that nine in ten customers would like organization not only to just make monetary gains but also for them to work responsibly to look into social and environmental issues. Eighty four percent of customers all over the globe state that they look for responsible products, however, eighty one percent state that the availability of these products is the main hindrance for them being unable to purchase the products. Moreover, the study shows that eight in ten customers usually take into account the corporate social responsibility of a company when trying to make a decision on where to shop. This study is in conjunction with the opinions of ten thousand citizens belonging to nine of the earth's biggest countries by GDP: that is, the United States, the United Kingdom, Germany, France, China, India and Japan (Sustainable Brands, 2015).

Most people however are still pegging the question as to whether corporate social responsibility is viable in a competitive environment. Milton Friedman was one of such person who completely doubted the prowess of corporate social responsibility. He disagreed that CRS was socially desirable and maintained that the only social responsibility of any corporation was to ensure that there was maximum profit. In a statement by Friedman, it was stated that "there is one and only one social responsibility of business, which is to use its resources and engage in activities designed to increase its profile as long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud" (David and Guler, 2008). He claimed that the corporate executive is an agent of the shareholders, that is, the owners of the company; hence, the executive spends money that in actuality is not theirs. He further insisted that the shareholders, employees and customers could spend their own money on social activities if they so wished. Friedman however explained that a corporation could spend its money on social activities in some instances as long as it worked to serve the corporation's owners interests as well as, an indirect positive effect on the community. Examples of such exploits included: making donations to charity organizations which would allow corporation to take advantage of tax deductions, investing in the community perhaps in the education system which then contributes to improving the quality of employees that the companies get. Friedman states that these actions are justified since they help promote corporations self-interest but as a by-product end up spreading a little goodness (Ruben, 2009).

Friedman's observation brought a lot of curiosity as many more economists tried to figure out how corporate social responsibility could be economically justified. The economists, Bryan Husted and Jose de Jesus Salazar tried to come up with cases where it was possible for investment of corporate social responsibility to be incorporating in a profit maximizing corporations. These economists came up with three motivations that companies look into before investing social activities (Ruben, 2009). They include:

- Altruistic: With altruistic as a motivation the corporation is more interested in creating a form of corporate social responsibility that is not connected with maximizing profits. This motivation enables the corporation to watch the impacts they have socially and environmentally without being overly concerned with maximizing the profits they make from the endeavors.

- Egoistic: This motivation is usually reluctant. Here, the corporation is usually forced in taking up corporate social responsibility by an outsider who is looking thoroughly into the impacts they have socially in order for these corporations to get involved with corporate social responsibility to avoid scrutiny.

- Strategic: This motivation is usually the most widely used. A corporation is motivated into corporation responsibility by first finding out the social activities that their customer, investors and employees hold in high regard and thereafter, incorporate these activities into their profit maximizing objectives. As was seen by Friedman, strategic corporate social responsibility is the most beneficial of all cases for both the social and corporation's benefit.

Strategic corporate social responsibility promotes better environment for both parties and helps increase shareholder's value. More people are usually motivated to use products from responsible corporations. According to the study:

1) Eighty percent of customers would inform their family and friends about a company that has great corporation social responsibility strategy;
2) Seventy six percent of consumer would contribute to a charity that is supported by a company they have confidence in;
3) Seventy two percent of them would willingly offer to work for free for a cause that is supported by the company they have faith in;
4) Seventy two percent would willingly give their opinions directly to companies about their corporate social responsibility efforts;
5) Ninety three percent of citizens all over the world will have a better image of the corporation if the corporation has an excellent CSR that helps benefit social and the environment;
6) Ninety percent will be more inclined to trust the company, while eighty-eight percent will likely be more loyal and as a result will lead them to buying more products from the company as well as, sticking to their company for their products (Sustainable Brands, 2015).

Figure 1 shows some of the strengths in social issues of three thousand largest publicly traded firms in United States.

MTN AND CSR

MTN is a multinational mobile telecommunications program that functions in many countries mainly African, European and Asian countries. One of the countries that this company is found in is Ghana. MTN Ghana is very concerned with CSR and has taken huge measures to ensure that appropriate strategies have been taken to properly integrate corporate social responsibility. MTN as an organization due to their interest in CSR has set up a department for CSR activities which is the MTN Ghana Foundation. The foundation was set up in November 2007 and has helped several communities since its inception. Statistics show that the company has invested about thirteen million Ghana cedis (GHc13000000) in community development.

Effect of CRS on the financial performance of MTN Ghana Limited

The empirical study of corporate social responsibility has been going on for over three decades in western countries. Griffin and Mahon who were some of the front people researchers looked into the effect of corporate social responsibility on financial performance. They were in most occasions interested in one dimension of social performance. They reviewed and summarized the findings of various studies that analyzed the effects of corporate social responsibility for the lengths of 1970s where they analyzed sixteen studies; in the 1980s, they analyzed twenty seven studies and 1990s where there were just eight studies. This was along with a total of fifty one articles. After their study and conclusions these two researchers concluded that there was no actual definitive consensus that existed showing an empirical effect of corporate social responsibility on financial perfomance (Alex, 2014).

McWilliam and Siegel (year) were also other researchers in this field who studied extant literature. They argued that they had been mixed effects of corporate social responsibility on both long term and short profitability of the MTN Ghana limited. According to a study by Maragolis and Walsh (year) on metal analysis they found that fifty five percent of the one hundred and sixty studies conducted showed positive effect on financial performance; twenty two percent of these studies showed no change in effect at all, while eighteen percent of these studies showed mixed results indicating both negative and positive results while the last four percent showed negative effects. This was able to prove that corporate social responsibility of MTN Ghana Limited do have positive effects in increasing the shareholders' value of the company (Alex, 2014).

Another researcher, Fauzi (year) used a survey data from over two hundred and eighty companies which operated in Dubai, Belaid, Anis and Kamel. He analyzed the effect of corporate social responsibility activities on the operational performance of these companies. Fauzi's final results were able to show that corporate social responsibility did have a

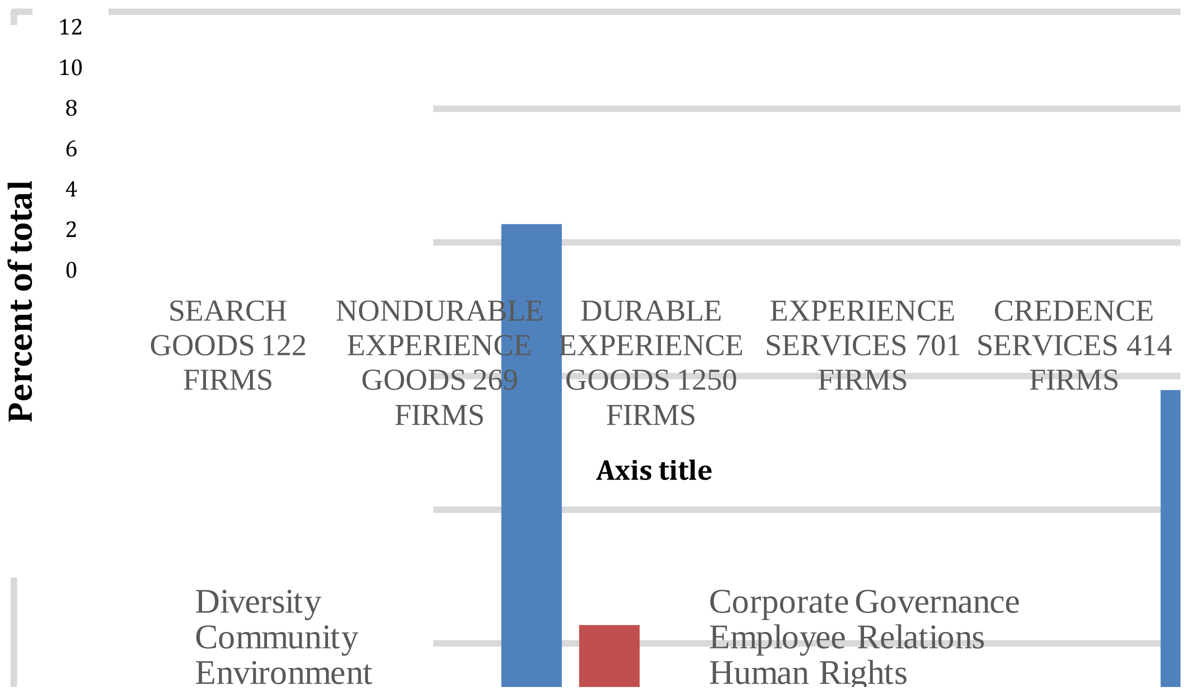

Figure 1: The strength of social issues of three thousand publicly traded companies in the United States.

positive effect on the organisational perfomance of the company which in turn created increase on the financial performance of these companies. Moreover, researchers like Simpson and Kohers (year) also looked into how corporate social responsibility affected the stakeholder value of MTN Ghana Limited. They used the Community Reinvestment Act (CRA) ratings as a basis to weigh the social performance of the company. The results from their study further proved that the corporate social responsibility did positively affect the shareholders' value.

In conclusion with all the research taken, it can be easily concluded that corporate social responsibility increases shareholders' value more than it causes negative effects. This proves that strategically investing in the community even if it is not on matters that directly benefit the company due benefit it in the long run. More people are more likely to feel a sense of loyalty to companies that help build their community and ensure that they positively affect them.

REFERENCES

Alex A (2014). The effect of corporate social responsibility on financial performance of MTN Ghana Limited. Int. J. Thesis Projects Diss. 2(5): 62-69.

Carroll AB (1999). The pyramid of corporate social responsibility: toward moral management of organizational stakeholders. Bus. Horiz. 34(5): 39-48.

David C, Guler A (2008).Corporate Social Responsibility. Ventus Publishing.

De George RT (2011). Business ethics. Dorling Kindersley licenses of Pearson Education in Southern Asia.

Jia LY (2013). Maximizing shareholder value: the goal that changed America. Washington Post.

Mallen B (2014). Corporate social responsibility- What is CSF?. Mallen Baker's respectful business blog.

MTN Ghana (2014). MTN Ghana Foundation. Retrieved from https://www.mtn.com.gh/about-mtn/community/mtn-ghana-foundation

Ruben Hernandez-Murillo, (2009). Corporate Social Responsibility can be profitable. Federal Reserve Bank of St. Louis.

Social News (2013). MTN is committed to its corporate social responsibility. Retrieved from https://www.modernghana.com/news/509212/mtn-is-committed-to-its-corporate-social-responsibility.html.

Sustainable Brands (2015). Study: 81% of Consumers Say They Will Make Personal Sacrifices to Address Social, Environmental Issues. Retrieved from http://www.sustainablebrands.com/news_and_views/stakeholder_trends_insights/sustainable_brands/study_81_consumers_say_they_will_make_personal_sacrifices_to_address_social_environmental_issues/

Terry S (2015). What exactly do we mean by shareholder value. Financial times.